J. of Acc. Ed. 32 (2014) 288–304

Contents lists available at ScienceDirect

J. of Acc. Ed.

journal homepage: www.elsevier.com/locate/jaccedu

Educational Case

IFRS framework-based case study: DaimlerChrysler – Adopting IFRS accounting policies

Eva K. Jermakowicz [a,1], Alan Reinstein [b,2], Natalie Tatiana Churyk [c,*]

[a] *Department of Accounting, College of Business, Tennessee State University, 330 10th Avenue North, Nashville, TN 37203, United States*
[b] *School of Business, Wayne State University, Detroit, MI 48202, United States*
[c] *Department of Accountancy, College of Business, Northern Illinois University, DeKalb, IL 60115, United States*

ARTICLE INFO

Article history:
Available online 9 July 2014

Keywords:
Conceptual framework for financial reporting
IFRS accounting policies

ABSTRACT

This instructional case applies a framework-based approach to explore the concept of comparability in financial reporting and retrospective application of new accounting policies. The DaimlerChrysler (DC) case provides an opportunity for you to research key financial reporting concepts, analyze accounting policy differences between U.S. GAAP and IFRS, determine adjustments necessary to convert financial statements from U.S. GAAP to IFRS, and compute and discuss key ratio impacts following financial statement conversion. This case demonstrates that transitioning to IFRS is more than an accounting issue; it provides opportunities for financial restructuring (e.g., Daimler's amendments to pension plans and its 2007 sale of Chrysler). It also illustrates the importance of professional judgment when initially adopting IFRS accounting policies. Also, despite FASB and IASB convergence efforts, you learn that most of the key differences between U.S. GAAP and IFRS identified in DC's reconciliations continue today. This case helps you to: (1) develop skills to interpret and apply the requirements on first-time adoption of IFRS to a real-world setting; (2) research key differences between U.S. GAAP and IFRS and their effects on the financial statements and ratios; and

* Corresponding author. Tel.: +1 (815) 753 6210.
E-mail addresses: ejermakowicz@tnstate.edu (E.K. Jermakowicz), a.reinstein@wayne.edu (A. Reinstein), nchuryk@niu.edu (N.T. Churyk).
[1] Tel.: +1 (615) 963 7052.
[2] Tel.: +1 (313) 577 4530, +1 (248) 368 8841.

http://dx.doi.org/10.1016/j.jaccedu.2014.06.002

(3) understand significant impacts of the transition to IFRS on businesses and financial statements. Completing the case develops your critical thinking and research/technological skills.

1. The case

1.1. Introduction

The concept of comparability in financial reporting is the primary force driving efforts toward a single set of global accounting standards. This instructional case focuses on the comparability of financial statements after DaimlerChrysler (DC) adopts new accounting policies under International Financial Reporting Standards (IFRS).[3] The financial statement effects of adopting IFRS are analyzed and global accounting convergence issues are discussed. The case illustrates that adopting IFRS, reaches far beyond a simple change of accounting rules.

The case seeks to enhance students' understanding of the objective, concepts and principles that underlie financial reporting under IFRS. Using DC's transition to IFRS, the concept of comparability is explored when retrospectively adjusting the financial statements for the effects of key differences between IFRS and U.S. GAAP. The impact of those differences between IFRS and U.S. GAAP on key financial statement figures and ratios is analyzed—emphasizing professional judgment's role when examining accounting policy choices on first-time adoption of IFRS. Moreover, the DC case links accounting issues to strategic decisions of the company. As discussed in the teaching notes, students believe they have achieved the case objectives.

On November 28, 1890, Gottlieb Daimler incorporated Daimler-Motoren-Gesellschaft AG, a German stock corporation in Cannstatt, Germany, to produce internal combustion engine vehicles (see Fig. 1). The company is now one of Germany's largest industrial companies. For the year ending December 31, 2012, Daimler had revenues of €114.3 billion; net income of €6.5 billion; 275,087 employees; and production facilities on five continents (Daimler.com).

In the mid-1980s, Daimler began a diversification strategy and sought to expand into the areas of space technology, aviation, and electronics (Radebough, Gebhardt, & Gray, 1995). Mercedes Car Group continues today as the largest corporate unit (segment) within the Daimler Group. To support internationalization of business and promote and facilitate trade relations between Germany, other European countries, and overseas markets, Daimler also expanded from a global producer of premium passenger cars and trucks to a global provider of financial services, including vehicle financing, leasing, insurance, and fleet management.

In a so-called "merger of equals," Daimler-Benz AG and Chrysler Corporation merged in 1998 in the largest trans-Atlantic deal ever (an exchange of shares valued at USD37 billion) and formed DaimlerChrysler AG. Chrysler, founded in 1925 from the Maxwell Motor Company, acquired and merged with several other automotive companies before Daimler. For instance, it acquired Fargo and the Dodge Brothers Company in 1928 and American Motors Corporation 1987. But Chrysler had no access to European markets and the merger with Daimler provided that access. In return, Daimler had hoped that the merger with Chrysler would dramatically increase its auto sales in North America. The newly merged company, with 442 employees and a market capitalization about USD100 billion, expected to take advantage of synergy savings in retail sales, purchasing distribution, product design and research and development (Finkelstein, 2002).

[3] IFRS are Standards and Interpretations adopted by the International Accounting Standards Board (IASB). They comprise IFRS, International Accounting Standards (IAS), and Interpretations developed by the IFRS Interpretations Committee (IFRICs) or the former Standing Interpretations Committee (SICs).