An Analysis of the Impact of Conversion from National Accounting Standards to International Financial Reporting Standards: The Case of Israel

Ariel Markelevich
Suffolk University

Lewis Shaw
Suffolk University

Hagit Weihs
Brandeis University

December 2010

An Analysis of the Impact of Conversion from National Accounting Standards to International Financial Reporting Standards: The Case of Israel

Beginning in 2008, most Israeli public companies were required to adopt International Financial Reporting Standards (IFRS), a set of highly principles-based standards, for financial reporting. Previously Israel followed its own set of financial reporting standards, Israeli GAAP (Generally Accepted Accounting Principles), which was highly rules-based. Israel is a highly industrialized country with vibrant public company presence in the high-tech, biomedical and health care, pharmaceutical, and defense technology industries. It is home to over 4,000 high-tech companies and over 70 Israeli companies are traded on the US's NASDAQ stock exchange.

This paper analyzes the content of the footnote prepared in compliance with IFRS #1 to determine the extent and nature of differences between Israeli GAAP and IFRS that impact financial results. We examine financial reports for 2008 of over six hundred Israeli public companies. We document a significant change to different line items in the companies' financial statements. The impact of the adoption varies across firms and across sectors. In addition, we document a significant change in company rankings that are based on Israeli GAAP figures vs. ones based on IFRS figures. Our results suggest that the adoption of IFRS was not neutral and created some differences between companies' financial results. Results of this study have potential implications for other countries currently undergoing or planning to undergo conversion from legacy GAAP to IFRS (including the US).

An Analysis of the Impact of Conversion from National Accounting Standards to International Financial Reporting Standards: The Case of Israel

Introduction

Beginning in 2008, most Israeli public companies were required to begin reporting financial results using International Financial Reporting Standards (IFRS). Previously Israeli companies prepared financial statements in conformity with Israeli Generally Accepted Accounting Principles (Israeli GAAP) as issued by the Institute of Certified Public Accountants in Israel and the Israeli Accounting Standards Board (IASB), with further guidance from the Israeli Securities Authority under the Israel Securities Laws and Regulations.

The decision to convert to IFRS was made in a short period of time with relatively little public discussion. Whereas many previous adopting countries made regional modifications to IFRS to accommodate local business environment and economic and political climates, Israel adopted IFRS "as is". The Israeli Tax Authority has not yet adopted IFRS, still requires all companies to provide Israeli GAAP-based financial statements for tax purposes, and is currently evaluating the impact and possible changes to tax reporting by public companies.

Israel is a small country in the Middle East with a population of approximately 7.5 million people. It was established a little over 60 years ago and has rapidly developed into a highly industrialized nation with more NASDQ-listed companies than any other country outside of the United States (over 70) (Senor and Singer, 2009). Israeli firms are noted for innovation in the areas of computers, security, communications, biotechnology, and green technologies. Further, government policies in the past ten years have made it highly appealing for venture capital and foreign investment. Thus, one can understand the motivation to prepare financial statements in conformity with standards that would attract more foreign capital.

This paper examines the financial results of more than six hundred publicly traded Israeli firms reporting under IFRS in 2008 (the first required year). By examining the footnote required by IFRS #1, we compare what results would have been reported under legacy Israeli GAAP versus IFRS for 2007. We believe that the differences, both in overall results and in individual line accounts, as well as in key financial ratios, may be compared and contrasted to those in countries that have already undergone conversion to IFRS as well as those anticipating conversion in the near future.

The paper is organized as follows; the first section reviews literature concerning other countries' conversion process and results. The next section discusses research questions and key differences between IFRS and Israeli GAAP. The third section describes the methodology we use in our analysis and our samle, followed by a description of the results. We conclude with a summary and implications for other IFRS filers and potential filers.

Literature Review

Several studies have examined European and other countries' IFRS conversion experiences, financial and market implications, and processes. European Union (EU) members were required to prepare their financial statements in accordance with IFRS beginning on January 1, 2005 (Regulation, 2002). Sucher and Jindrichovska (2004) examine the Czech Republic's IFRS implementation process. When the Czech Republic was admitted to the European Union in 2004, conversion was mandated. This study looks at particular issues with enforcement of compliance with conversion guidelines, auditing, the relationship between financial statement reporting and income tax reporting, and problems with education and training of practitioners. They draw implications for practitioners, legislators, and users.

Jermakowicz (2004) in a similar analysis of the benefits and challenges of IFRS adoption examines perceived quality of IFRS-prepared financial results of BEL-20 (Belgian publicly traded) companies and the impact of adoption on balance sheet and income statement accounts. In a survey of preparers, regulators and users, they solicit responses concerning the benefits and challenges of IFRS conversion. Among the respondents, increased comparability, greater transparency, and harmonization of internal and external reporting are noted as benefits. The challenges identified include increased volatility of earnings, the high cost of conversion, the complexity of IFRS (vs. Belgian GAAP), lack of guidance during conversion, and discrepancies with tax regulations.

Callao, Jarne, and Laínez (2007) examine the IFRS adoption experience in Spain, another EU country. Their study examines IBEX-35 companies mandated to convert from Spanish accounting standards to IFRS. They find that the perception of comparability was worse after conversion. They note that book and market values were wider when IFRS was applied and that there has been minimal gain in terms of usefulness of financial reporting, at least in the short run.

Hung and Subramanyam (2004) examine the differences between reporting under IFRS and under German accounting rules (HGB) from 1998-2002. Findings indicate that total assets and book value of equity, as well as variability of book value and net income, are significantly higher under IAS than under HGB. They also note that book value (balance sheet) is more highly impacted by IFRS reporting than net income.

Lantto and Sahlström (2009) examine the economic consequences of IFRS adoption in the UK and its impact on key financial ratios. Their findings indicate that the magnitude of key accounting ratios changes, especially profitability ratios. This is primarily due to fair value measurement used in IFRS. They further comment that the conversion process proves

burdensome and costly, but there is a perceived increase in transparency and comparability of financial statements between European firms.

Henry et al. (2009) examine the reconciliation between US GAAP and IFRS required by EU cross-listed firms from 2004 to 2006. Their findings concerning differences in net income and shareholders' equity vary between industries and by firm home country. Overall, most firms report higher net income and lower shareholders' equity under IFRS versus US GAAP.

Similar studies have looked at experiences in the United Kingdom (Ormrod and Taylor, 2004), Germany (Van Tendeloo and Vanstraelen, 2005), China (Lin and Chen, 2005), and others. Results describe both a conversion process that is problematic and financial results that may not achieve gains in transparency or comparability of results.

Research Questions

The purpose of our study is to analyze the impact of the adoption of IFRS on the financial position and financial results of publicly traded Israeli companies. The research questions are:

RQ1: Were the financial statements changed as a result of the conversion to IFRS?

Assuming we find that the different line items in the financial statements have changed, we would like to study patterns in the changes, both overall and by sector. The impact of the adoption of IFRS may differ by sector.

RQ2: Is there an identifiable pattern to the changes?

We may find that there were significant changes to the financial statements and yet it is unclear what the impact is from those changes. Particularly, we are interested in whether investors or investments were affected by the adoption of IFRS.

RQ3: Did the adoption of IFRS have an impact on within-industry company rankings for investments purposes?

To study the impact of adopting IFRS on the companies in Israel, we first need to study the differences between Israeli GAAP and IFRS and develop expected effects on the different line items.

Differences between Israeli GAAP and IFRS

The differences between Israeli GAAP and IFRS are numerous and different line items are affected differently. We analyze the differences between Israeli GAAP and IFRS by examining three levels of differences. In the first level, we focus on differences that relate to differences in general presentation of financial statements. We then focus on the entire population of firms and examine first the differences in balance sheet items and then the differences in income statement items. Lastly, we focus on the real estate sector; both because of its uniqueness compared to the rest of the population and because of its homogeneity, and analyze differences that are unique to the real estate sector.

A discussion on the major general differences between Israeli GAAP and IFRS is presented in a table form in Appendix 1. We discuss specific differences that were evident from our analysis of companies listed on the Tel Aviv Stock Exchange.

Entire population

The adoption of IFRS may have not impacted all companies in the same way. Some companies were extremely affected whereas others had little to no impact. As a result our findings for the entire population are the net aggregated effect. For example, in one company we may observe an increase in the Property, Plant, and Equipment account (PPE) due to consolidation required by IFRS, while another company may show a decrease in PPE resulting from reclassification of leasing rights from the Israel Land Administration (ILA) into non-current

prepayments. It is hence very difficult in some cases to predict and explain our findings for the entire population, and trace the differences back to specific accounting standard differences.

Consolidation

Israeli GAAP's treatment of consolidations is quite rigid. A company only reports consolidated results if ownership is at least 50%. However, under IFRS, if there is an option to purchase additional shares by a large stockholder that would bring ownership up to that amount, consolidation is required. As a result, some companies which have ownership close to 50% may combine subsidiaries in their consolidated reports prepared according to IFRS. This has an impact on both balance sheet and income statement amounts.

In the reverse, under Israeli GAAP subsidiaries in which a company has combined control must be consolidated. Under IFRS this is optional. Companies are allowed to either consolidate or present the investment in the subsidiary as an asset (Investment in Equity Securities).

Long-term Assets

Under Israeli GAAP long-term property leases are classified as capital leases. The leased property is shown as an asset and depreciated. Per IFRS, these leases currently are accounted for as operating leases and any lease payments (including prepayments) are expensed.

Tax

Under Israeli GAAP income taxes payable and receivable and deferred tax assets and liabilities are aggregated into one account, Other Current Assets/Liabilities. In IFRS, each of these items is listed separately, potentially increasing current and long-term assets and liabilities. This has the potential to impact liquidity ratios and other performance measures.

Post-employment Benefits and Obligations

Israeli GAAP requires that post-employment benefit obligations be estimated using the "shutdown method", which means that post-employment benefit calculations are based on the most recent year's salary information. IFRS requires that actuarial calculations of projected benefit obligation be based on estimates assuming increases in salary during the remaining service life of current employees. As a result of the change we expect an increase in assets and an increase in liabilities for post-retirement.

Research and Development

Under Israeli GAAP all research and development costs are shown net of grants routinely given by the Office of the Chief Scientist of the Ministry of Industry. This is recorded as soon as the company is eligible to receive the grant. Subsequently, if the related research and development costs yield a successful effort and generate revenues, money is returned to the Ministry of Industry and is adjusted through cost of goods sold. Under IFRS, the portion expected to be paid back is classified as a liability, and only the portion not expected to be refunded is listed as R&D expense. Hence, we expect R&D expenses to decrease.

Real-Estate and Construction Sector

Revenue Recognition

The treatment of long-term construction projects is very different in IFRS than it is under Israeli GAAP. Israeli GAAP uses percentage-of-completion method, whereas IFRS mandates the completed-contract method. As a result, projects not yet completed are expected to show a decrease in revenue and cost of goods sold, and an increase in deferred income and inventory. Also, accounts receivable will decrease under IFRS. For projects completed in 2008, the

opposite will occur; revenues and cost of goods sold decrease while retained earnings (prior-period adjustment) will increase.

Interest Expense

Under Israeli GAAP capitalization of interest expense to inventory is only allowed if the construction period is more than three years or if costs are higher than typical. Under IFRS capitalization of interest expense to inventory occurs in all construction projects with a significant period in construction. As a result finance costs (interest expenses) are expected to decrease and inventory will increase under IFRS.

Marketing Costs

Marketing costs for long-term projects can be capitalized under Israeli GAAP. However in IFRS, one can only capitalize the marketing expenses directly linked to specific units sold (for example, brokerage fees). Therefore, marketing costs are expected to increase and inventory would decrease under IFRS.

Methodology and Sample Selection

To examine the impact of the adoption of IFRS we focus on two main measures. The first is the change in the different line items within the financial statements and the second is change in selected financial ratios.

To analyze the change in the different line items we calculate the deflated change the following way:

$$\text{Change in item} = \frac{\text{Item as reported under IFRS} - \text{Item as reported under Israeli GAAP}}{\text{Item as reported under Israeli GAAP}} \qquad (1)$$

Since ratios are already deflated value, we calculate the change in ratios the following way:

Change in ratio=Ratio as reported under IFRS – Ratio as reported under Israeli GAAP (2)

To analyze the impact of the adoption of IFRS on the companies' financial statements we examine the conversion required by IFRS #1 for all companies adopting IFRS for the first time. IFRS #1 requires all companies to adjust the beginning balances of their accounts from the local GAAP to IFRS and disclose the adjustments made to the different accounts. Since Israel adopted IFRS in 2008, the balances that are adjusted are those for the beginning of 2008, i.e. end of 2007. We examine all Israeli public companies who adopted IFRS in 2008.

Insert Table 1 Here

As presented in Table 1 Panel A, as of December 31, 2008, there were 623 companies listed in the Tel-Aviv Stock Exchange (TASE). Out of these, 45 companies adopted IFRS early and were not included in our study. Finally, 42 companies had no data, potentially because they did not adopt IFRS in 2008. This resulted with 536 companies included in our study.

Panel B of Table 1 presents the distribution of companies by sectors. As shown in the Panel, the majority of companies are in the industry sector, followed by commerce, real-estate, and construction.[1] It is interesting to note the large percentage of investment and holding companies (16.04 percent) which results from a concentrated ownership structure in Israel which has several large holding companies owning several other public companies. Since financial institutions were not required to adopt IFRS in 2008, the banking and insurance sectors are underrepresented in our sample (although some of the aforementioned holding companies contain financial institutions).

[1] Sector classification is per the Tel Aviv Stock Exchange (TASE)

Results

We analyze the impact of the adoption of IFRS in two different ways. We first analyze the impact on the individual line items as reported under IFRS vs. how they were reported under Israeli GAAP. This analysis is followed by trying to assess the significance of these results on investors.

Changes to Line Items

Table 2 presents results of statistically significant changes in different line items for the entire population in the balance sheet and in the income statement.

Insert Table 2 Here

As discussed previously, different rules affect these items and the results shown on the Table present the net effect. For example, revenues may increase resulting from additional consolidations under IFRS, whereas revenues specifically in the real-estate sector, may decrease because of different revenue recognition rules. Since the changes to the different line items are not distributed normally we used a Wilcoxon ranked sum test to examine the statistical significance of the changes in this and all other tables.

For the entire sample, we observe increases to main accounts (assets, liabilities, equity, and revenues) likely resulting from the new consolidations. We note increases of Total Assets in almost all companies in the sample (mean change of 3.66%), Total Liabilities (22.75% mean change), Equity (9.62% mean change), and Revenues (0.44% mean change). As observed in

other countries' experience with conversion, balance sheet changes are greater than income statement changes.

We observe dramatic increases in deferred tax assets (1212.67% mean change) and liabilities (6366.21% mean change). This is likely resulting from disaggregation of tax accounts, where Israeli GAAP lumps all deferrals into one liability account and IFRS lists current and long term, assets and liabilities separately.

Increase in post-employment obligations consistent with new calculation under IFRS. We observe a mean change of over 127%, effecting 321 companies. This is the result of using projected salary increases of current employees in the calculation of projected benefit obligations, rather than current salary calculations.

Increase in "other" accounts likely resulting from use as "bucket" accounts to absorb any residual changes. None of these appear to be either significant or directly related to any specific accounting standards differences.

Table 3 presents results of statistically significant changes in different line items for the different sectors.

Insert Table 3 Here

As shown in the table (Panel A), for the commerce sector, Post-Employment Benefit Obligation, Non-Current decreased here and increased in the entire sample, due to the different nature of accounting for this item as previously discussed. PPE decreased possibly because of the change in accounting for leased property from capital to operating leases. Panel B of Table 3 presents the results for the industry sector. As shown in the Table, PPE decreases due to the

change in lease accounting. Panel C presents the results for the oil and gas sector, and Panel D presents the statistically significant changes in different line items for the real estate sector. As shown in Panel D, we can see increases in total assets and liabilities may result from more consolidations under IFRS. Decrease in revenue consistent with changes in revenue recognition between Israeli GAAP, which uses percentage of completion method, and IFRS, which uses completed contract. As expected this results in an increase in various accruals and deferrals (1907.94% mean increase in Deferred Assets, for example) and a decrease in revenue and cost of goods sold (5.73% mean decrease in Revenue and a 4.43% mean decrease in Cost of Sales). In addition, consistent with the changes in revenue recognition, we observe an increase in Inventories (mean increase of 29.54%).

Decrease in finance costs (interest expense) is likely since interest can be capitalized in all projects in IFRS (73.94% mean decrease in finance costs). We also find an increase in marketing costs resulting from not being able to capitalize as much (72.74% mean increase in Marketing and Distribution and 79.75% in Marketing Costs).

Changes in Financial Ratios

Table 4 presents the results for the changes in financial ratios for the entire population (Panel A) and for the sectors (Panel B).

Insert Table 4 Here

As can be seen in the Table, differences in the Current Ratio and the Quick Ratio are mainly the result of inventory that increased under IFRS.[2] Total Liabilities increased more than

[2] Other potential causes were changes in financial liabilities, tax receivables/payables, or changes in accounts receivable in the real-estate sector.

Equity which explains the increase in the Total Liability to Equity ratio. As further corroboration for the different impact of the adoption of IFRS on different sectors, Panel B of Table 4 shows a decrease in ROA in the commerce and industry sectors, whereas it had increased, on average, for the entire sample. The observed increase for the entire sample likely results from the large increase in the investment sector, which potentially stemmed from differences in financial statement consolidations that affected this sector.

Significance to Investors

An important component of our analysis is to try and assess what significance, if any, the adoption of IFRS had on investors. In the previous section we analyze the impact of the adoption on the individual line items. Though we show some significant changes to many important line items, it is unclear whether investors should care about these changes or whether they would be impacted by these changes.

It is possible, for example, for us to find an average reduction of 15% in net income. However, if the impact on all companies is similar, then investors would simply become used to lower levels of net income under IFRS. This change may impact investors in the first year of adoption, but as expectations adjust to the IFRS levels the importance of the changes we documented would diminish substantially.

To attempt to assess the significance of the changes we documented in the previous section we examine the companies' within-industry rankings under Israeli GAAP and under IFRS (similar to Patel and Schnader, 2009). We calculate the company ranking as compared to the company's sector. We rank the companies, within each sector, based on three different measures: Return on Assets (ROA), Return on Equity (ROE), and Assets to Liabilities ratio. To

assess the significance of our previously reported results, we examine the changes in the companies' ranking.

Insert Table 5 Here

As can be seen in Table 5, Panel A, the correlation between the rankings is only in the 0.7 to 0.8 range, suggesting the rankings are different. We further calculate the mean and median change in ranking and find that there was a statistically significant change in the ranking (significant at less than 1 percent).

These results suggest that if an investor were to employ an investment strategy that picks investments based on the above ratios, the companies that would be picked under Israeli GAAP would be different than the ones picked under IFRS.

The results confirm that the impact of the adoption of IFRS was different between companies and more pronounced in some industry sectors than in others. Meaning, when evaluating companies based on ROA, for example, the impact of the adoption was such that companies changed their relative ranking and hence appear better or worse than their competitors after the adoption of IFRS.[3]

Conclusions and Implications

In this paper we examine the impact of the adoption of IFRS on publicly traded Israeli companies on the different line items in the companies' financial statements. Consistent with research in other countries, the conversion from local GAAP to IFRS results in significant changes on balance sheet and income statement items as well as key financial ratios. Not all

[3] For more about the use of ratios in financial statement analysis see Amir et al. (2010)

firms or industry sectors were equally affected by the adoption of IFRS. Some were not affected at all, while others present significant changes to the financial statements. We examine company rankings which are based on Israeli GAAP figures and IFRS figures and document a significant change in the rankings.

Our results suggest that the differences between Israeli GAAP and IFRS do not represent a simple shift in the values for the population of firms but rather a significant change in the underlying distribution of firm values. In addition, we note significant differences in the affect on sectors. Some sectors were affected more than others. In addition, some sectors are more homogenous than others hence exhibit clearer evidence of the impact of the IFRS adoption. For example, the Real Estate sector, which is more homogenous, seemed to be affected more than other sectors. This is most likely the result of a change from percentage-of-completion to completed-contract accounting. Also, some sectors were affected in some line items and other sectors were affected in other line items. These differences in the impact of the adoption created some confusion in the analyst community (Markelevich et al., 2009).

The main implication of our research is that the adoption of IFRS was not neutral. This research has implications for any country considering the adoption of IFRS, especially in the initial year of adoption.

Further research can extend these findings and examine whether the changes in rankings exhibited differences in stock returns for the different companies that are caused or associated with the changes in their rankings. In addition, this analysis can examine whether some portfolio strategies can be constructed based on the differences in the way sectors or companies were affected. Further research could also examine the impact of future IFRS adoption in Israel by financial institutions and insurance companies.

Preliminary Bibliography

Aisbitt, Sally (2006) Assessing the Effect of the Transition to IFRS on Equity: The Case of the FTSE 100, *Accounting in Europe*, Vol. 3, pp. 117-133.

Amir, E., T.S. Harris, and E.K.Venuti (1993) A Comparison of the Value-Relevance of U.S. versus Non-U.S. GAAP Accounting Measures Using Form 20-F Reconciliations, *Journal of Accounting Research* 31 (3):230-264

Amir, E., I. Kama, and J. Livnat (2010) Conditional versus unconditional persistence of RNOA components: implications for valuation, *Review of Accounting Studies*, forthcoming.

Armstrong, Christopher S., Mary, E . Barth, Alan D. Jagolinzer, and Edward J. Riedl (2010) Market Reaction to the Adoption of IFRS in Europe, *The Accounting Review*, Vol. 85, No. 1, pp. 31-61.

Barniv, Ran ron, Mark Myring (2009) The Impact of Differences in US GAAP and IFRS on Disseminating Accounting Information, Working Paper.

Barth, Mary E., Greg Clinch (Spring 1996) International Accounting Differences and Their Relation to Share prices: Evidence from UK, Australian, and Canadian Firms, *Contemporary Accounting Research*, Vol. 13, N0. 1, pp. 135-170.

Beuren, Ilse Maria, Nelson Hein, and Roberto Carlos Klann (2008), Impact of the IFRS and US-GAAP on Economic-Financial Indicators, *Managerial Auditing Journal*, Vol. 23, No. 7, pp. 632-649.

Bae, K.-H., H. Tan, and M. Welker. 2008a. International GAAP Differences: The Impact on Foreign Analysts, *The Accounting Review* 83:593-628.

Callao, Susana, Jose I. Jarne, Jose A. Lainez (2007) Adoption of IFRS in Spain: Effect on the Comparability and Relevance of Financial Reporting, *Journal of International Accounting, Auditing and Taxation*, Vol. 16, pp. 148-178.

Henry, Elaine, Stephen line, and Ya-wen Yang (2009) The European-U.S. GAAP Gap: IFRS to US GAAP Form 20-F Reconciliation, *Accounting Horizons*, Vol. 23, No. 2, pp. 121–150.

Hung, Mingyi and K.R. Subramanyam (2004) Financial Statement Effects of Adopting International Accounting Standards: The Case for Germany, working paper.

Jermaklowicz, Eva K. (2004) Effects of Adoption of International Financial Reporting Standards in Belgium: The Evidences from the BEL-20 Companies, *Accounting in Europe*, Vol. 1, pp. 52-69.

Lantto, Anna-Maija, Petri Sahlstrom (2009) Impact of International Financial Reporting Standard Adoption on Key Financial Ratios, *Accounting and Finance*, Vol. 49, pp. 341-361.

Markelevich A., L. Shaw and H. Weihs (2009) Conversion from National to International Financial Reporting Standards: The Case of Israel, working paper.

Patel J. and A. L. Schnader (2009) Adoption of International Financial Reporting Standards (IFRS) in the United States: Impact of Financial Analysis, working paper.

Senor, D. and S. Singer, (2009), *Start-Up Nation: The Story of Israel's Economic Miracle*, Hachette Book Group, New York.

Sucher, P., & Jindrichovska, I. (2004). Implementing the IFRS: A Case Study of the Czech Republic. *Accounting in Europe* , 109-141.

Van Tendeloo, Brenda and Ann Vanstraelen (2005) Earnings Mangement under German GAAP versus IFRS, *European Accounting Review*, Vol. 14, No. 1, pp. 155-180.

Table 1 – Sample
Panel A: Sample Selection

Companies trading in TASE as of 12/31/08	623
Companies which adopted earlier than 2008	45
Companies which did not adopt/had no data	42
Companies included in our study	536

Panel B: Distribution by Sector

Sector	Frequency	Percent of Sample
BANKS	3	0.56
COMMERCE & SERVICES	129	24.07
INDUSTRY	175	32.65
INSURANCE	1	0.19
INVESTMENT & HOLDINGS	86	16.04
OIL & GAS EXPLORATION	11	2.05
REAL-ESTATE & CONSTRUCTION	131	24.44
Total	536	100.00

Table 2 – Significant changes in line items – Entire Sample

Variable Name	N	Mean	Signed Rank Pr >= |S|
Trade and Other Receivables, Net, Current	507	3.75%	<.0001
Inventories	344	10.01%	<.0001
Other Assets, Current	138	-6.07%	<.0001
Assets, Current, Total	520	6.55%	0.0012
Trade and Other Receivables, Net, Non-Current	130	17.58%	0.0809
Other Financial Assets, Non-Current	184	71.63%	<.0001
Deferred Tax Assets	222	1212.67%	<.0001
Investments in Subsidiaries, at Cost	18	-8.43%	0.0938
Property, Plant and Equipment, Net	491	93.57%	<.0001
Intangible Assets, Net	282	288.54%	<.0001
Other Assets, Non-Current	264	270.33%	<.0001
Assets, Non-Current, Total	511	8.96%	<.0001
Assets, Total	520	3.66%	<.0001
Trade and Other Payables, Current	513	1.31%	<.0001
Deferred Income, Current	37	44.10%	0.0638
Liabilities, Current, Total	519	15.43%	<.0001
Deferred Tax Liabilities	265	6366.21%	0.0004
Post-Employment Benefit Obligation, Non-Current	326	127.41%	0.0001
Interest-Bearing Borrowings, Non-Current	335	-0.38%	<.0001
Other Liabilities, Non-Current	183	8112.65%	0.0202
Liabilities, Non-Current, Total	484	2152.08%	0.0622
Liabilities, Total	520	22.75%	<.0001
Equity, Total	521	9.62%	0.0005
Equity and Liabilities, Total	520	3.74%	<.0001
Revenue, Total	418	0.44%	0.0085
Cost of Sales	404	-1.60%	0.0004
Interest Income	31	219.21%	0.0898
Research and Development	113	2.73%	0.0057
Miscellaneous Other Operating Expenses	156	105.57%	0.0831
Profit (Loss) Before Tax	475	10.74%	0.0009
Profit (Loss) After Tax from Continuing Operations	475	-13.37%	0.0004
Basic Earnings (Loss) Per Share	469	-1.33%	0.0113
Basic Earnings (Loss) Per Share from Discont. Operations	62	-43.59%	<.0001
Basic Earnings (Loss) Per Share from Cont. Operations	463	-1.06%	0.0313
Diluted Earnings (Loss) Per Share	370	-1.15%	0.0450
Diluted Earnings (Loss) Per Share from Discont. Oper.	46	-43.14%	<.0001
Diluted Earnings (Loss) Per Share from Cont. Operations	365	-0.76%	0.0584

Table 3 – Significant changes in line items – Sectors
Panel A – Commerce

Variable Name	Mean	Signed Rank Pr >= |S|
Trade and Other Receivables, Net, Current	21.81%	0.0000
Other Assets, Current	-5.27%	0.0714
Assets, Current, Total	20.95%	0.0006
Other Financial Assets, Non-Current	43.46%	0.0001
Deferred Tax Assets	1872.98%	0.0000
Property, Plant and Equipment, Net	-3.70%	0.0000
Intangible Assets, Net	3.70%	0.0031
Other Assets, Non-Current	679.71%	0.0012
Assets, Non-Current, Total	5.63%	0.0000
Assets, Total	1.34%	0.0000
Trade and Other Payables, Current	-2.10%	0.0001
Liabilities, Current, Total	38.21%	0.0205
Deferred Tax Liabilities	35.17%	0.0879
Other Financial Liabilities, Non-Current	42.10%	0.0803
Post-Employment Benefit Obligation, Non-Current	-29.17%	0.0000
Issued Capital	-0.11%	0.0313
Equity, Total	-7.33%	0.0001
Equity and Liabilities, Total	1.38%	0.0000
Cost of Sales	-0.41%	0.0696
Miscellaneous Other Operating Income	-38.72%	0.0938
Profit (Loss) from Operations	-0.56%	0.0661
Other Non-Operating Income	72.19%	0.0000
Other Non-Operating Expenses	-50.27%	0.0117
Share of Profit (Loss) from Equity-Accounted Associates	-100.00%	0.0039

Table 3 – Significant changes in line items – Sectors
Panel B – Industry

Variable Name	Mean	Signed Rank Pr >= |S|
Trade and Other Receivables, Net, Current	-3.66%	0.0000
Current Tax Receivables	-9.36%	0.0625
Other Assets, Current	-18.50%	0.0000
Assets, Current, Total	0.26%	0.0000
Deferred Tax Assets	450.05%	0.0000
Property, Plant and Equipment, Net	-2.30%	0.0000
Intangible Assets, Net	96.08%	0.0539
Other Assets, Non-Current	245.92%	0.0000
Assets, Non-Current, Total	9.58%	0.0000
Trade and Other Payables, Current	-1.01%	0.0000
Liabilities, Current, Total	8.08%	0.0013
Post-Employment Benefit Obligation, Non-Current	10.79%	0.0000
Interest-Bearing Borrowings, Non-Current	0.27%	0.0042
Liabilities, Total	25.00%	0.0036
Other Reserves	-6.54%	0.0079
Marketing and Distribution Costs	-1.65%	0.0316
Marketing Costs	-0.24%	0.0911
Research and Development	4.58%	0.0033
Profit (Loss) from Operations	0.83%	0.0200
Share of Profit (Loss) from Equity-Accounted Associates	-21.62%	0.0663
Other Non-Operating Income	-61.06%	0.0000
Other Non-Operating Expenses	34.09%	0.0059
Share of Profit (Loss) from Equity-Accounted Associates	-100.00%	0.0313

Table 3 – Significant changes in line items – Sectors
Panel C – Real Estate

Variable Name	Mean	Signed Rank Pr >= |S|
Cash and Cash Equivalents	-0.77%	0.0398
Trade and Other Receivables, Net, Current	-11.40%	0.0000
Inventories	29.54%	0.0000
Other Assets, Current	-13.90%	0.0195
Assets, Current, Total	4.25%	0.0067
Other Financial Assets, Non-Current	91.03%	0.0135
Deferred Tax Assets	1907.94%	0.0007
Property, Plant and Equipment, Net	1.76%	0.0347
Assets, Non-Current, Total	7.93%	0.0019
Assets, Total	4.32%	0.0001
Trade and Other Payables, Current	8.22%	0.0030
Other Liabilities, Current	166.90%	0.0041
Liabilities, Current, Total	9.54%	0.0000
Interest-Bearing Borrowings, Non-Current	-2.37%	0.0015
Liabilities, Non-Current, Total	31.22%	0.0415
Liabilities, Total	6.98%	0.0000
Equity Attributable to Equity Holders of Parent	-3.24%	0.0204
Equity and Liabilities, Total	4.32%	0.0001
Revenue, Total	-5.73%	0.0035
Cost of Sales	-4.43%	0.0234
Gross Profit	-5.12%	0.0014
Marketing and Distribution Costs	72.74%	0.0448
Marketing Costs	79.75%	0.0125
Operating Expenses, Total	0.98%	0.0212
Finance Costs (for Non-Financial Activities)	-73.94%	0.0040
Share of Profit (Loss) from Equity-Accounted Associates	-111.31%	0.0637
Other Non-Operating Income	-32.69%	0.0239
Other Non-Operating Expenses	-50.58%	0.0039
Profit (Loss) Before Tax	-123.15%	0.0166
Income Tax Expense (Income	-17.65%	0.0094
Profit (Loss) After Tax from Continuing Operations	-42.97%	0.0039
Share of Profit (Loss) from Equity-Accounted Associates	-84.21%	0.0313

Table 3 – Significant changes in line items – Sectors
Panel D – Oil and Gas

Variable Name	Mean	Signed Rank Pr >= |S|
Liabilities, Non-Current, Total	13.80%	0.0313
Liabilities, Total	35.50%	0.0156
Retained Earnings (Accumulated Losses)	53.59%	0.0078
Profit (Loss) from Operations	-19.90%	0.0781

Table 4 – Changes in Financial Ratios
Panel A - Entire Sample

Variable	Mean	Median	N	Pr >= |S|
Current Ratio	3.12%	-0.41%	519	<.0001
Quick Ratio	-3.63%	0.00%	518	<.0001
Cash to CL	-1.21%	0.00%	518	<.0001
TA to TL	10.59%	0.00%	520	0.1514
TL to Equity	35.16%	0.00%	521	0.0862
LTL to Equity	-26.42%	0.00%	521	0.0691
LTL to TA	0.62%	0.00%	520	0.7729
ROA	0.29%	0.02%	517	<.0001
ROE	-1.39%	0.00%	518	0.0005
Operating Profit Margin	7.95%	0.02%	418	<.0001
Inventory TO	-34.82%	0.00%	344	0.0003
Inventory to TA	0.54%	0.00%	520	0.0277

Table 4 – Changes in Financial Ratios
Panel B - Sectors

	Commerce			Industry			Investment			Oil & Gas			Real Estate		
Variable	Mean	Median	Pr >= |S|	Mean	Median	Pr >= |S|	Mean	Median	Pr >= |S|	Mean	Median	Pr >= |S|	Mean	Median	Pr >= |S|
Current Ratio	-3.75%	-0.70%	0.0000	-18.88%	-1.42%	0.0000	84.22%	0.00%	0.8505	-2.87%	0.00%	0.4688	-6.38%	0.00%	0.0008
Quick Ratio	-1.80%	0.00%	0.1950	-33.18%	0.00%	0.0006	59.20%	0.00%	0.7072	1.54%	0.00%	1	-7.25%	0.00%	0.0000
Cash to CL	-0.60%	0.00%	0.1950	-11.06%	0.00%	0.0006	19.73%	0.00%	0.7072	0.51%	0.00%	1	-2.42%	0.00%	0.0000
TA to TL	-4.13%	0.02%	0.3790	-25.34%	0.00%	0.1242	204.64%	0.00%	0.1642	-85.75%	-2.76%	0.4258	29.85%	-0.04%	0.0072
TL to Equity	72.98%	-1.26%	0.0091	81.48%	0.00%	0.4608	-46.56%	0.00%	0.0034	218.76%	0.00%	0.1289	-26.90%	0.00%	0.1199
LTL to Equity	19.13%	-0.23%	0.0587	-5.54%	-0.28%	0.3336	-28.51%	0.00%	0.0087	174.10%	0.22%	0.0391	-118.12%	0.00%	0.8047
LTL to TA	-0.59%	-0.03%	0.5549	2.44%	0.00%	0.0989	-0.31%	0.00%	0.5189	3.53%	0.48%	0.0781	-0.46%	0.00%	0.2175
ROA	-0.08%	0.11%	0.0274	0.49%	0.03%	0.0146	0.69%	0.01%	0.039	-1.32%	0.00%	0.6953	0.42%	0.00%	0.0674
ROE	2.42%	0.34%	0.0038	-3.67%	0.02%	0.2351	3.99%	0.00%	0.0603	11.31%	0.00%	0.9219	-6.96%	0.00%	0.1844
Operating Profit Margin	-4.46%	0.04%	0.1012	5.74%	0.10%	0.0003	46.79%	0.00%	0.0935	-2.17%	-1.00%	0.2500	4.47%	0.00%	0.3429
Inventory TO	146.81%	0.00%	0.1918	-9.20%	0.00%	0.6469	27.55%	0.00%	0.5038	11.45%	0.00%	0.5000	-325.56%	0.34%	0.0000
Inventory to TA	-0.03%	0.00%	0.0136	-0.11%	0.00%	0.6663	0.80%	0.00%	0.375	0.85%	0.00%	0.5625	1.86%	0.00%	0.0000
N	129			176			86			11			132		

Table 5 – Changes in Company Rankings

Panel A- The entire sample

This table presents the correlation and changes in percentile ranks for the entire population based on Return on Assets (ROA) Return on Equity (ROE) and Assets to Liabilities ratio calculated under ISRAELI GAAP and IFRS. The ranks are calculated by sector. All values are significant at the one percent level ($p<0.0001$).

	Spearman correlation coefficient	Mean change in percentile rank	Median change in percentile rank
ROA	0.79635	-15.1155	-13.2081
ROE	0.72581	-15.1192	-12.7052
Assets to Liabilities	0.79149	-15.3813	-13.1617

Table 5 – Changes in Company Rankings
Panel B- Sectors
This table presents the correlation and changes in percentile ranks for different sectors based on Return on Assets (ROA) Return on Equity (ROE) and Assets to Liabilities ratio calculated under ISRAELI GAAP and IFRS. The ranks are calculated by sector. All values are significant at the one percent level ($p<0.0001$).

	Spearman correlation coefficient	Mean change in percentile rank	Median change in percentile rank
	Commerce		
ROA	0. 97884	-11.750	-10.778
ROE	0. 95596	-11.930	-12.073
Assets to Liabilities	0. 94353	-12.955	-13.354
	Industry		
ROA	0.95895	-37.063	-37.549
ROE	0.80584	-37.040	-37.618
Assets to Liabilities	0.87625	-39.994	-39.757
	Investment		
ROA	0.85890	8.095	10.238
ROE	0.82912	8.095	6.642
Assets to Liabilities	0.99395	8.602	9.578
	Oil & Gas		
ROA	0.93636	48.545	50.545
ROE	0.86364	48.545	49.545
Assets to Liabilities	0.98182	48.545	48.545
	Real Estate		
ROA	0.87144	-11.950	-13.281
ROE	0.79081	-11.843	-11.454
Assets to Liabilities	0.94987	-12.211	-12.292

Appendix 1 – Differences Between Israeli GAAP and IFRS

Accounting Item	IFRS Treatment	Israeli GAAP Treatment	Expected impact of IFRS adoption
Differences in general presentation of financial statements:			
Switch from Equity Method to consolidation method	Consolidate if ownership % >=50% **or** if there is an option to purchase additional shares to gain control	Consolidate only if ownership % >=50%	Some subsidiaries in which % ownership is close to but lower than 50% will become consolidated. Various assets/liabilities and revenues/expenses will increase and investment in affiliated company will decrease
Switch from Consolidation Method to Equity Method	Subsidiaries in which company has combined control can be either consolidated or presented as investment using the equity method (IAS 31)	Subsidiaries in which company has combined control are consolidated	Companies will cancel consolidation of some subsidiaries. Various balance sheet and income statement items will decrease while equity investments will increase
Inclusion of a significantly different segment's results	Results of operations, as well as assets and liabilities, included in the group's financial statements even when a segment or a subsidiary has significantly different operations (examples: insurance operations, oil and gas exploration)	Results of operations, as well as assets and liabilities, presented separately from the rest of group when a segment or a subsidiary has significantly different operations	Assets, Liabilities, revenues and expenses will increase
Currency of Operation	Each company in the group is required to determine the currency based on the economic environment it operates in (IAS 21)	The parent company and all affiliated companies use local currency	Some affiliated companies will switch to report in U.S.$ or other currencies, and translation effects will be classified in 'other reserves' in the stockholders' equity

Discontinued Operations	Conditions to report discontinued operations are less easily met, hence assets/liabilities and revenues/expenses may be included in regular operations (IFRS 5)	Conditions to report discontinued operations are more easily met, so assets/liabilities and revenues/expenses are presented in a separate line, in current assets/liabilities.	Assets/liabilities and revenue/expense from regular operations will increase
Balance Sheet Items - Classification and/or Measurement Differences:			
Tax Receivables	Classified in a separate line as tax receivable	Classified within 'other current assets'	Current tax receivable will increase, and 'other current assets' will decrease
Deferred Tax Assets	All deferred tax assets are considered non-current (IAS 12)	Current portion is classified within current receivables	Long-term deferred tax assets will increase and receivables will decrease
Investment in Equity Securities of Non-Tradable Shares	Classified as 'financial assets held for sale' at fair value (IAS 39).	Classified as non-current equity investment at cost	Equity investments at cost will decrease and 'other financial assets, non-current' will increase
Equity Investment in Affiliated Companies	Affiliated companies adopt IFRS, and their stockholders' equity changes accordingly	Affiliated companies do not comply with IFRS	Equity investment in affiliated companies will change; direction of change is indeterminable
Real-Estate Held for Investment	Presented at fair value (IAS 40)	Presented at cost	Real-Estate Held for Investment will increase[4], retained earnings will increase (to adjust beginning balance fair value), and other misc. operating income will increase for current year adjustments (or other misc. operating expenses will decrease)
Property, Plant and Equipment	Leasing rights from the ILA[5] for 49 or 98 years is classified as operating	Leasing rights from the ILA for 49 or 98 years is classified as PPE at	PPE will decrease, prepayments, non-current will increase, and

[4] Due to increase in real estate prices in Israel
[5] Israel Land Administration

	lease prepayments[6], undiscounted, and expensed over the life of the lease (IAS 17)	the discounted amount paid. Some firms depreciate at 2% a year while others don't depreciate.	G&A expense will increase for depreciation. The difference between discounted and undiscounted amounts will flow to either RE or to G&A expense
Intangibles: Access Rights to Communication Lines for Company's Use	Treated as an intangible asset, amortized over the contract life (IAS 38)	Treated as a capital lease, with asset classified as PPE and liability to the line providers in non-current liabilities	Intangibles will increase, PPE will decrease, trade and non-current liabilities will decrease
Intangibles: Access Rights to Communication Lines Sold to a Third Party	Advanced payments from customers are initially classified as deferred income and recognized as revenues over the contract life.	Revenue is recognized immediately and A/R (both current and non-current) is recognized	A/R will decrease, revenue and RE (for past revenues) will decrease, deferred income will increase and intangibles will increase
Intangibles: Business Combinations	A merger is treated using the purchase method, with assets and liabilities measured at fair value. Excess of purchase price is classified as either goodwill or other intangibles with definite lives to be amortized over their useful lives. (IFRS 3)	A merger is treated using the pooling of interest method, with assets and liabilities measured at book values, and excess of purchase price recognized as goodwill and isn't amortized. Previous statements are restated to reflect 'as if combined' according to % ownership	Goodwill and other intangibles will increase, and amortization of intangible assets will increase
Intangibles: Impairment of Goodwill	The trigger for recognizing impairment is more easily pulled (IAS 36)	The trigger for recognizing impairment is less easily pulled	Impairment of goodwill will increase
Tax payables	Classified in a separate line as tax payable	Classified within 'other current liabilities'	Current tax payable will increase, and 'other current liabilities' will decrease
Convertible Bonds	Considered a non-current financial	Considered a complex financial	Financial liabilities and retained

[6] Some companies classified leasing rights pre-paid to the ILA as 'prepayments, non-current', while others included the amounts in 'other assets, non-current'.

with Exercise Price Pegged to the CPI	liability[7], with the convertible component measured at fair value (IAS 32 and IAS 39).	security with a financial liability component and an equity component measured at cost. The cost is allocated to the two components according to their relative value	earnings will change in opposite directions due to impact on beginning balance; Financial liabilities mark up or down will impact financial income or expense; direction of change is indeterminable
Stock Options with exercise price pegged to the CPI	Considered a non-current financial liability[8] (IAS 32 and IAS 39) measured at fair value (IAS 39).	Considered a component of stockholders equity measured at original amount received	Financial liabilities will increase and stockholders equity will decrease
Exercise of Stock Options	Financial liability is removed from the balance sheet and 'other reserves' within stockholders equity increases	No change in stockholders' equity	Financial liabilities will decrease and stockholders' equity will increase
Post-Employment Benefit Obligation:	Gross obligation is based on an actuarial estimate, fund is measured at fair value (IAS 19)	Gross obligation is measured using the shut-down method (last salary times # of years employed), fund is measured at its cash surrender value at each balance sheet date.	Net obligation will likely change; direction of change is indeterminable. The change in net obligation will also impact retained earnings for beginning balance, as well as wage expense and finance costs for current year's adjustment
Post-Employment Benefit Obligation: Components of the Fund	Policies owned by the employer[9] are presented as an asset on the balance sheet, and are not deducted from the obligation (IAS 19)	Policies owned by the employer are deducted from the obligation	Net obligation will increase, other non-current assets will increase, and deferred tax assets will increase
Post-Employment Benefit Obligation: Short-	Classified in a separate line or within 'other current liabilities'	Classified within accounts payable	A/P will decrease and 'post-employment benefit obligation – current portion' or 'other current

[7] Because the exercise isn't fixed but pegged to the CPI

[8] Because the exercise isn't fixed but pegged to the CPI

[9] Life insurance policies with a retirement saving component may be owned by either the employee or the employer. In case of employee voluntary resignation, the employee is not eligible to receive the employer-matched amounts that have been paid to the plan over the years.

Term Portion			liabilities' will increase
Provision for Warranty Liability	Classified in a 'provisions' line	Classified within 'trade and other payables'	Accounts payable will decrease and 'provisions' will increase
Contingent Liabilities	Recognized when 'more likely than not' and measured at present value of expected payment (discounted) (IAS 37)	Recognized when probable and measured at the full amount expected to be paid (undiscounted)	Contingent liabilities will likely change; direction is undeterminable (some companies may recognize more, others less)
Minority Interest	Measured at % from fair value of the net assets of the investee and classified as a contra equity account (IFRS 3)	Measured at the net book value of the investee and classified as a mezzanine account between liabilities and SE	Stockholders Equity will decrease and the mezzanine line of minority interest will disappear
Amounts received for options issued by consolidated investee	Classified in the stockholders' equity	Classified as a mezzanine account, between Liabilities and SE	
Dividend Declared After Balance Sheet Date	Requires a disclosure only	Deducted from retained earnings	Retained Earnings will increase and dividend declared will decrease
Income Statement Items – Classification and/or Measurement Differences:			
R&D Expense: Government Sponsored Support in R&D	Support grants from the Office of the Chief Scientist of the Ministry of Industry are classified by the probability to be paid back: the portion that is expected to be paid back is classified as a liability, and the portion that is not expected to be paid back is deducted from R&D expense (IAS 20 and IAS 37)	Support grants from the Office of the Chief Scientist of the Ministry of Industry are deducted from R&D expense once received or once the company is eligible to receive it. If the company is later profitable and pays back some or all of the grant to the Office of the Chief Scientist, the amount will be added to the COGS	R&D expense will increase, income tax expense will decrease and liabilities will increase
Marketing Costs: Bad Debt Expense	Allowance for Doubtful Accounts is estimated by identifying specific balances, and in addition recording a	Allowance for Doubtful Accounts is estimated by either identifying specific balances or creating a	Marketing costs will increase, income tax expense will decrease, Allowance for

	general allowance	general allowance or a combination of the two	Doubtful Accounts will increase and deferred tax assets will increase
Marketing Costs: Wage Expense Related to Post-Employment Benefit Obligation			Any change in the Post-Employment Benefit Obligation will impact the wage expense in the same direction and will impact the income tax expense in the opposite direction
Other Misc. Operating Income	Adjustments to Real-Estate held for Investment which is measured at fair value increase other misc. operating income (IFRS 40)	Real-Estate held for Investment is measured at cost, no adjustments to fair value	Other misc. operating income will increase[10] (or other misc. operating expense will decrease) and income tax expense will increase
Finance Costs: marking stock options to fair value	Adjustment to fair value of financial liabilities increase either finance income or finance costs	No change in value of stock options is recorded, since they are measured at the amount received	Either finance income or finance cost will increase, and income tax expense will change in the opposite direction
Other Revenue/Expense	Classified before the line of operating income (IAS 1)	Classified below the line of operating income, at net	Operating income will change; direction of change is indeterminable; income tax expense will change in the opposite direction
Interest Revenue and Interest Expense	Presented separately in two different lines	Presented at the net interest income (expense)	Interest income and interest expense will be presented in two separate lines
Minority Interest in affiliated companies' earnings	Does not reduce net income; presented later as 'attributable to minority interest' (IAS 1)	Considered an expense for the purpose of determining net income	Net income will increase; an additional line 'attributable to minority interest' will appear on the income statement
Differences Unique to the Real-Estate Sector			

[10] Due to increase in real estate prices

Timing of Revenue Recognition in construction projects[11]	Revenue recognized only once apartment is completed and title is transferred to customer	Revenue recognized on the basis of % of completion method, conditional on % completion > 25% and collection from project >= 50% of total project revenues	**For unfinished projects**: revenue and COGS will decrease and income tax expense will decrease. On the balance sheet deferred income will increase, accounts receivable will decrease, inventory will increase and deferred tax assets will increase. **For projects <u>completed</u> in 2008**: the opposite will occur: revenues and COGS will increase, income tax expense will increase and retained earnings will decrease.
Timing of Revenue Recognition in construction pre-sold contracts[12]	Revenue recognized on the basis of % of completion method (IAS 11)	Revenue recognized on the basis of % of completion method, only once it reaches 25% completion	Revenue will increase and A/R will increase
Costs of Projects in Combination Contracts[13]	Inventory measured at estimated fair value at the time of exchanging the project. If the company commits to paying cash at % of the price at which apartments built on the land will be sold, the liability to the seller is measured at the estimated discounted cash flows	Inventory measured at estimated cost of construction services	Inventory of projects in construction will increase and liability to the land sellers will increase
Marketing Costs Capitalization to	Capitalize to inventory only marketing expenditures that are	Capitalize to inventory all marketing expenditures related to	Marketing costs will increase, income tax expense will

[11] Projects which the company constructs and sells

[12] חוזה ביצוע

[13] עסקאות קומבינציה-Should we explain?

Inventory	directly linked to specific apartments sold[14]. Expense all other marketing expenditures	the project	decrease, and inventory will decrease
Capitalization of Interest Expense on Projects under Construction	Capitalize interest expense in all projects with significant period of construction (IAS 23)	Capitalize interest expense only when construction period > 3 years or if construction period or costs are much higher than typical in industry	Inventory will increase and interest expense will decrease

[14] Essentially only the fee of the salesperson who sold the specific apartment