



PROGRAM MATERIALS

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Accounting Principles: Types, GAAP and IFRS Explained

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**EBITDA vs GAAP vs IFRS:
What Your Business Needs
to Know**

**Speaker: Justin Muscolino
High Risk Education**



Justin Muscolino

Justin brings over 20 years of wide-arranging experience in compliance training and regulations. He previously led the compliance training function for JPMorgan Chase Macquarie Group, UBS, Bank of China, and GRC Solutions. Justin also runs his own compliance training company focusing on US & International regulations providing real-life training.

Justin also worked for FINRA, a US regulator, where he created Examiner University to train examiners on how to perform their function. He also serves as an advisor for the Global Compliance Institute (GCI) and instructs at the Barret School of Business and various compliance training providers.



Agenda

- Overview of EBITDA, GAAP, and IFRS
- Why financial frameworks differ
- Key differences and limitations
- Business and legal implications
- Practical takeaways and best practices



Why This Topic Matters

- Financial terms are often misunderstood
- Misuse creates risk and confusion
- Investors rely on consistent reporting
- Regulators expect accurate financial representation
- Decisions depend on reliable financial data

What Is EBITDA?

- Earnings before interest, taxes, depreciation, amortization
- Commonly used performance measurement metric
- Focuses on operational profitability
- Excludes financing and accounting effects
- Not governed by formal accounting rules



Why Businesses Use EBITDA

- Simplifies operating performance comparisons
- Removes non-operational financial noise
- Common in valuations and transactions
- Used frequently in lending discussions
- Highlights cash-generating ability



Limitations of EBITDA

- Ignores capital structure realities
- Excludes capital expenditure requirements
- Can overstate true financial health
- Not standardized or regulated
- Easily manipulated without context



What Is GAAP?

- Generally Accepted Accounting Principles
- U.S. standard for financial reporting
- Governed by FASB
- Required for public companies
- Emphasizes consistency and transparency



Key Features of GAAP

- Accrual-based accounting framework
- Standardized revenue recognition rules
- Defined expense matching requirements
- Detailed disclosure obligations
- Strong audit and compliance focus



Benefits of GAAP Reporting

- Ensures financial statement consistency
- Enhances investor and regulator trust
- Supports audits and examinations
- Enables comparability across companies
- Reduces financial reporting ambiguity



What Is IFRS?

- International Financial Reporting Standards
- Used in over 140 countries
- Issued by IASB
- Principles-based accounting framework
- Common in global organizations



Key Differences: GAAP vs IFRS

- Rules-based versus principles-based approach
- Different revenue recognition nuances
- Inventory valuation differences
- Asset valuation treatment varies
- Disclosure requirements differ

EBITDA vs GAAP vs IFRS

- EBITDA measures performance, not compliance
- GAAP ensures U.S. reporting consistency
- IFRS supports global comparability
- Each serves different business purposes
- Misuse creates financial misunderstanding



Common Misconceptions

- EBITDA equals cash flow
- GAAP guarantees profitability
- IFRS less rigorous than GAAP
- One metric fits all situations
- Financial statements tell full story



Legal and Compliance Considerations

- Misstated metrics can mislead stakeholders
- Regulators scrutinize financial representations
- Inconsistent reporting increases liability
- Disclosure accuracy is critical
- Documentation supports defensibility



Risk Areas for Organizations

- Overreliance on EBITDA reporting
- Inconsistent accounting practices
- Weak financial controls
- Poor documentation standards
- Inadequate oversight or review



EBITDA in Contracts and Deals

- Common in loan covenants
- Used in valuations and M&A
- Must be clearly defined
- Adjustments require transparency
- Misinterpretation creates disputes

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Financial Reporting Best Practices

- Use consistent accounting standards
- Document assumptions and adjustments
- Align reporting with business purpose
- Review metrics for accuracy
- Maintain audit-ready documentation



Role of Finance and Legal Teams

- Ensure proper metric usage
- Validate financial representations
- Support compliance obligations
- Review disclosures and contracts
- Reduce organizational risk exposure



How Regulators View Financial Metrics

- Expect clarity and consistency
- Scrutinize non-GAAP presentations
- Focus on transparency and accuracy
- Penalize misleading disclosures
- Require documented methodologies



Practical Business Implications

- Impacts investor confidence
- Affects lending and credit decisions
- Influences strategic planning
- Drives compliance expectations
- Shapes long-term business credibility



Key Takeaways

- EBITDA is not standardized accounting
- GAAP ensures structured reporting
- IFRS supports global consistency
- Misuse creates legal and financial risk
- Understanding differences improves decision-making

THANK YOU

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