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Similarities and Differences

A comparison of IFRS and US GAAP

February 2004

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Illustrative Corporate Financial Statements

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Illustrative Investment Property Financial Statements[2]

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[1] *Comperio IFRS* can be purchased from the website – www.pwc.com/ifrs

[2] Only available as a pdf on our website

Contacting PricewaterhouseCoopers

Please contact your local PricewaterhouseCoopers office to discuss how we can help you make the change to International Financial Reporting Standards or with technical queries. E-mail us at **corporatereporting@uk.pwc.com**

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This publication will be updated following the release of the final standards that will be mandatory from 1 January 2005. This edition is up to date as at 31 December 2003.

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Preface

International Financial Reporting Standards (IFRS) will be adopted for the first time in 2005 in many countries around the world including, for listed companies initially, in the EU. The International Accounting Standards Board (IASB) has been busy putting in place a stable platform of IFRS for first-time adopters. Since 2002 the IASB and the US Financial Accounting Standards Board (FASB) have been committed to working towards converging the two frameworks. Despite convergence initiatives, there are many differences between the two frameworks, which this publication seeks to highlight.

There have been many changes in IFRS and US GAAP since the 2001 version of this publication. This revised edition of the publication provides a means by which companies can quickly identify key similarities and differences between IFRS and US GAAP.

Developments under both frameworks are ongoing, and this publication will be updated in the second quarter of 2004, when it will fully reflect the final standards required for 2005.

To assist you in keeping pace with the changes, I hope you find this latest version of the publication useful in identifying the similarities and differences that exist between IFRS and US GAAP.

Ian Wright

Global Corporate Reporting Leader
PricewaterhouseCoopers

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Introduction

This publication by PricewaterhouseCoopers is for those who wish to gain a broad understanding of the key similarities and differences between **IFRS** and **US GAAP**. The first section provides details of convergence initiatives between the two frameworks. The next section provides a summary of the similarities and differences between **IFRS** and **US GAAP** and then refers to individual sections where key divergences are highlighted and the likely impact of recent proposals explained.

No summary publication can do justice to the many differences of detail that exist between **IFRS** and **US GAAP**. Even if the guidance is similar there can be differences in the detailed application, which could have a material impact on the financial statements. In this publication we have focused on the measurement similarities and differences most commonly found in practice. When applying the individual accounting frameworks, readers must consult all the relevant accounting standards and, where applicable, their national law. Listed companies must also follow relevant securities regulations, for example the US Securities and Exchange Commission requirements and local stock exchange listing rules.

This publication takes account of authoritative pronouncements issued under **IFRS** and **US GAAP** up to 31 December 2003 and is based on the most recent version of those pronouncements, should an earlier version of a pronouncement still be operative at the date of this publication.

PLEASE NOTE: This publication does not take account of developments that have not yet been made into authoritative pronouncements as of 31 December 2003. A further iteration of this publication is expected to be made in the second quarter of 2004, by which time, under **IFRS,** new/revised standards arising from the following exposure drafts are expected to have been released by the IASB:

- ED 2, Share-based Payment
- ED 3, Business Combinations
- ED 4, Disposal of Non-current Assets and Presentation of Discontinued Operations
- ED 5, Insurance Contracts
- ED 6, Exploration for and Evaluation of Mineral Resources
- Exposure Draft of Proposed Amendments to IAS 39, Financial Instruments: Recognition and Measurement “Fair Value Hedge Accounting for a Portfolio of Interest Rate Risk”.

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Convergence

The following key initiatives aim to further the goal of convergence between **IFRS** and **US GAAP** in addition to the IASB and the FASB's monitoring of the activities of the other boards and their explicit consideration of the other board's agenda decisions:

Joint projects. Joint projects are the projects that both boards have agreed to conduct simultaneously in a co-ordinated manner. Joint projects involve sharing staff resources, and every effort is made to keep joint projects to a similar time schedule. Currently, the IASB and the FASB are conducting joint projects to address revenue recognition and business combinations.

The short-term convergence project. The short-term convergence project is an active agenda project that is being conducted jointly between the IASB and the FASB. The scope of the short-term convergence project is limited to those differences between **IFRS** and **US GAAP** in which convergence around a high-quality solution appears achievable in the short-term. Because of the nature of the differences, it is expected that a high-quality solution can usually be achieved by selecting either existing **IFRS** or **US GAAP**.

The convergence research project. The FASB staff are currently working on a research project related to convergence. The project seeks to identify all of the substantive differences between US GAAP and IFRS and to catalogue those differences. The project scope includes differences in standards addressing recognition, measurement, presentation and disclosure. Any topic in which a specific accounting treatment would be permissible under one basis of accounting but would not be permissible under the other basis of accounting is included in the project scope.

While significant progress towards international convergence is expected to be made in the next few years, the volume of differences and the complex nature of some issues means that many differences between **IFRS** and **US GAAP** will persist well beyond 2005.

Short-term convergence

In September 2002, the IASB and the FASB agreed to add a short-term convergence project to their active agendas. The objective of the project is to remove a variety of differences between IFRS and US GAAP. The project's scope is limited to those differences in which convergence around a high-quality solution can be achieved in the short term, usually by selecting between existing IFRS and US GAAP. The Boards intend to analyse each of the differences within the scope and either amend applicable IFRS or US GAAP literature to reduce or eliminate the difference, or communicate to each other its rationale for not electing to change current standards.

Summary of Exposure Drafts to date

The IASB issued ED 4, Disposal of Non-current Assets and Presentation of Discontinued Operations, in July 2003. It incorporates presentation requirements of FAS 144 for discontinued operations and specifies that non-current assets that an entity intends to dispose of are classified as held for sale and measured at the lower of carrying amount and fair value, less costs to sell.

The FASB issued four exposure drafts in December 2003, as follows:

- **Proposed FAS, Accounting Changes and Error Corrections – a replacement of APB 20 and FAS 3**, which would require retrospective application for changes in accounting principle, unless it is impracticable to determine either the cumulative effect or the period-specific effects of the change. This proposed Statement would require a change in depreciation method to be accounted for as a change in accounting estimate and not as a change in accounting principle.
- **Proposed FAS, Earnings per Share – an amendment of FAS 128**, which would require the number of incremental shares included in year-to-date diluted EPS to be computed using the average market price of common shares for the year-to-date period. It also would eliminate the provisions of Statement 128 that allow an entity to rebut the

presumption that contracts with the option of settling in either cash or stock will be settled in stock. Also, it would require that shares to be issued upon conversion of a mandatorily convertible security be included in the computation of basic EPS from the date that conversion becomes mandatory.

- **Proposed FAS, Exchanges of Productive Assets – an amendment of APB 29**, which would eliminate the exception to the general principle that exchanges of nonmonetary assets should be recorded at the fair value of the assets exchanged. It would require exchanges of productive assets to be accounted for based on the fair values of the assets involved, unless the exchange transaction does not have commercial substance. Commercial substance would be assessed by comparing the expected cash flows of the entity immediately before and immediately after the exchange.
- **Proposed FAS, Inventory Costs – an amendment of ARB No. 43, Chapter 4**, which would require that items such as idle facility expense, excessive spoilage, double freight and rehandling costs to be classified as current-period charges.

Summary of tentative decisions	
Classification of liabilities on refinancing	A long-term financial liability due to be settled within 12 months of the balance sheet date should be classified as a current liability, unless an agreement to refinance the liability on a long-term basis is completed on or before the balance sheet date.
Classification of liabilities due on demand because of violation of debt covenants	A long-term financial liability payable on demand at the balance sheet date because the entity breached a condition of its loan agreement should be classified as current, unless: 1. a grace period was agreed on and effected before the balance sheet date and that the grace period must expire within 12 months (or operating cycle, if longer) of the balance sheet date, and/or 2. (a) the lender has agreed on or before the balance sheet date to provide a period of grace within which an entity can rectify the breach, (b) the obligation is not callable during the period, and (c) either the entity rectifies the breach within the period of grace or at the time that the financial statements are issued, it is probable that the breach will be rectified within the period of grace.
Provisions for restructuring costs	The definition of constructive obligation is revised to clarify that the actions of an entity must result in other parties being able to "reasonably rely" on the entity discharging its responsibilities. The existence and announcement of a restructuring plan does not by itself create an obligation. Costs that are often incurred in a restructuring are treated as follows: • The cost of terminating a contract before the end of its term should be recognised when the entity terminates the contract • The liability for costs that will continue to be incurred under a contract for its remaining term without economic benefit to the entity should be recognised in accordance with the requirements for onerous contracts • The recognition of involuntary termination benefits requires the communication of those benefits to the employees • When employees are required to render services beyond any notification period to be entitled to the termination benefits and those benefits are not paid pursuant to any pre-existing benefit arrangement (i.e. they are one time benefits), those benefits should be recognised over the future service period • Voluntary termination benefits are recognised when employees accept the offer of voluntary termination.

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Remaining issues to be discussed	
Pensions accounting	This project will consider issues arising on: recognition of actuarial gains and losses, the asset ceiling, impact of asset ceiling on components recognised in income, expected return on plan assets, definition of defined benefit plans, defined contribution plans and plan assets, the allocation of cost to accounting periods, net presentation in the balance sheet of plan assets and plan liabilities, additional disclosures related to plan assets, and a review of FAS 106 and FAS 112 to see if these requirements should be incorporated into IAS 19.
Interim financial reporting	**IFRS** requires interim financial reports to be prepared as if they covered a discrete period, with certain exceptions. **US GAAP** treats the interim period as an integral part of the annual report. The distinction has implications for the recognition of revenue and costs.
Research and development	**US GAAP** requires research and development costs to be expensed when incurred, except for certain software development costs, which are captialised if certain criteria are met. **IFRS** requires a distinction to be made between research and development, and requires development costs to be capitalised under certain circumstances.
Government grants	The IASB is aware that IAS 20 is out of date and should be reviewed in the light of FAS 116 and the joint revenue project.

Long-term convergence

Long-term convergence projects	
Revenue recognition	The primary objective is to develop a comprehensive set of principles for revenue recognition that will eliminate inconsistencies in the existing authoritative literature and accepted practices.
Business combinations (Phase II)	Within the scope of the application of the purchase method project are: • Issues relating to minority interest including the full goodwill model • Treatment of a business combination achieved through successive share purchases • Issues relating to the measurement of consideration: measurement date for equity instruments, date of acquisition, adjustments for the value of a block of securities issued, treatment of direct costs and contingent consideration • Issues relating to the recognition and measurement of the identifiable net assets acquired, including restructuring provisions, acquired deferred tax assets, fair values of liabilities, assets expected to be disposed of and contingencies of the acquiree.
Joint ventures	Proportionate consolidation is permitted under **IFRS.** Except in very limited circumstances such as industry-specific situations, proportionate consolidation is not permitted. The equity method is required under **US GAAP**.

Summary of similarities and differences

SUBJECT	IFRS	US GAAP	PAGE
Accounting framework			
Historical cost	Uses historical cost, but intangible assets, property plant and equipment (PPE) and investment property may be revalued. Derivatives, biological assets and most securities must be revalued.	No revaluations except some securities and derivatives at fair value.	13
Fair presentation override	In extremely rare cases, entities should override the standards where essential to give a fair presentation.	Conceptually similar to **IFRS,** but not used in practice.	13
First-time adoption of accounting frameworks	Requires full retrospective application of all IFRSs effective at the reporting date for an entity's first IFRS financial statements.	First-time adoption of **US GAAP** requires retrospective application. In addition, particular standards specify treatment for first-time adoption of those standards.	14
Financial statements			
Reporting currency	Requires the measurement of profit using the functional currency; however, entities may present financial statements in a different currency.	Similar to **IFRS.** SEC rules allow non-US registrants to choose a reporting currency.	15
Components of financial statements	Two years' balance sheets, income statements, cash flow statements, changes in equity and accounting policies and notes.	Similar to **IFRS,** except three years required for public companies for all statements except balance sheet.	16
Balance sheet	Does not prescribe a particular format; an entity uses a liquidity presentation of assets and liabilities, instead of a current/non-current presentation, only when a liquidity presentation provides more relevant and reliable information. Certain items must be presented on the face of the balance sheet.	Entities may present either a classified or non-classified balance sheet. Items presented on the face of the balance sheet are generally presented in decreasing order of liquidity. Public companies must follow SEC guidelines regarding minimum disclosure requirements.	17
Income statement format	Does not prescribe a standard format, although expenditure must be presented in one of two formats (function or nature). Certain items must be presented on the face of the income statement.	Present as either a single-step or multiple-step format. Expenditure must be presented by function.	18
Exceptional items	Does not use the term, but requires separate disclosure of items that are of such size, incidence or nature that require separate disclosure to explain the performance of the entity.	Disclose on the face of the income statement or in the notes. Similar to **IFRS,** but individually significant items should be presented on the face of the income statement.	18
Extraordinary items	Prohibited.	Defined as being both infrequent and unusual, and are rare. Negative goodwill is presented as an extraordinary item.	18
Statement of recognised gains and losses/other comprehensive income	Separate the statement of recognised gains and losses as either in notes or separately highlighted in primary statement of changes in shareholder equity.	Disclose total comprehensive income and accumulated other comprehensive income, either as a separate primary statement or combined with income statement, or with statement of changes in stockholders' equity.	19

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SUBJECT	IFRS	US GAAP	PAGE
Financial statements			
Statement of changes in shareholders' equity	Statement showing capital transactions with owners, the movement in accumulated profit and a reconciliation of all other components of equity. The statement must be presented as a primary statement.	Similar to **IFRS.**	19
Cash flow statements – format and method	Standard headings, but limited flexibility of contents. Use direct or indirect method.	Similar headings to **IFRS,** but more specific guidance given for items included in each category. Use direct or indirect method.	20
Cash flow statements – definition of cash and cash equivalents	Cash includes overdrafts and cash equivalents with short-term maturities (less than 3 months).	Cash excludes overdrafts but includes cash equivalents with short-term maturities.	20
Cash flow statements – exemptions	No exemptions.	Limited exemptions for certain investment entities.	20
Changes in accounting policies	Restate comparatives and prior-year opening retained earnings.	Generally include effect in current-year income statement. Disclose pro-forma comparatives. Retrospective adjustments for specific items.	21
Correction of errors	Restate comparatives.	Similar to **IFRS.**	21
Changes in accounting estimates	Reported in income statement in the current period.	Similar to **IFRS.**	21
Consolidated financial statements			
Definition of subsidiary	Based on voting control or power to govern. The existence of currently exercisable potential voting rights also needs to be taken into consideration.	Controlling interest through majority ownership of voting shares or by contract. Also, variable interest entities (VIEs) in which a parent does not have voting control but absorbs the majority of losses or returns must also be consolidated.	22
Special purposes entities (SPEs)	Consolidate where the substance of the relationship indicates control.	SPEs must be consolidated if consolidation requirements for VIEs are met. To avoid consolidation, the SPE must be a qualifying SPE.	22
Non-consolidation of subsidiaries	Only if the subsidiary is acquired and held for re-sale within one year of use. Dissimilar activities are not a justification.	Only if control does not rest with the majority owner.	23
Definition of associate	Based on significant influence: presumed if 20% interest or participation in entity's affairs.	Similar to **IFRS.**	24
Presentation of associate results	Use equity method. Show share of post-tax result.	Similar to **IFRS.**	24
Disclosures about significant associates	Give detailed information on significant associates' assets, liabilities, revenue and results.	Similar to **IFRS.**	24

SUBJECT	IFRS	US GAAP	PAGE
Consolidated financial statements (continued)			
Presentation of joint ventures	Both proportional consolidation and equity method permitted.	Equity method is required except in specific circumstances.	25
Foreign currency translation – individual companies	Translate transactions at rate on date of transaction; monetary assets/liabilities at balance sheet rate; non-monetary items at historical rate.	Similar to **IFRS.**	27
Foreign entities within consolidated financial statements	Use closing rate for balance sheets; average rate for income statements. Take exchange differences to equity. Include in gain or loss on disposal of a subsidiary.	Similar to **IFRS.**	27
Hyperinflation – foreign entity	Adjust local statements of foreign entity to current price levels prior to translation.	Remeasure local currency statements using the reporting currency as the functional currency.	28
Business combinations			
Types	Virtually all are acquisitions. Uniting of interests/pooling severely restricted.	All business combinations are acquisitions.	29
Purchase method – fair values on acquisition	Fair value the assets and liabilities of acquired entity. Some restructuring liabilities relating solely to the acquired entity may be recognised in fair value exercise if specific criteria about restructuring plans are met.	Similar to **IFRS,** but specific rules for acquired in-process research and development (generally expensed). Similar to **IFRS,** but less stringent recognition criteria regarding timing of finalisation of the plan.	29
Purchase method – contingent consideration	Estimated at acquisition then subsequently corrected against goodwill.	Not recognised until the contingency is resolved or the amount is determinable.	29
Purchase method – minority interests at acquisition	State at share of fair value of net assets or at share of pre-acquisition carrying value of net assets.	Generally state at share of pre-acquisition carrying value of net assets.	30
Purchase method – goodwill and intangible assets	Capitalise and amortise over useful life, normally not longer than 20 years.	Capitalise but do not amortise. Certain contractual and/or separable intangible assets with finite lives are required to be amortised. Goodwill and indefinite-lived intangible assets should be reviewed for impairment at least annually at the reporting unit level.	30
Purchase method – subsequent adjustments to fair values	Fair values can be corrected against goodwill up to the end of the year after acquisition, if additional evidence of values becomes available. Record subsequent adjustments in income statement. Reversals of acquisition provisions always adjust goodwill.	Similar to **IFRS.** However, allocation period is up to one year following the date of the acquisition. Once the fair value allocation is finalised, no further changes are permitted except for the resolution of known pre-acquisition contingencies. Adjustments made during the allocation period relating to data for which management was waiting to complete the allocation are recorded against goodwill Similar to **IFRS** with specific exceptions.	31

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SUBJECT	IFRS	US GAAP	PAGE
Business combinations (continued)			
Purchase method – negative goodwill	If it relates to expected future losses/costs, recognise in the income statement when it occurs. Otherwise record as negative asset and recognise over useful lives of identifiable, non-monetary assets. Any excess over the fair value of such assets is recognised in the income statement immediately.	Reduce proportionately the fair values assigned to non-current assets (with certain exceptions). Any excess is recognised in the income statement immediately as an extraordinary gain.	31
Purchase method – disclosure	Disclosures include names and descriptions of combining entities, method of accounting for acquisition, date of acquisition, summary of fair values of assets and liabilities acquired, and impact on results and financial position of acquirer.	Similar to **IFRS,** plus additional disclosures regarding the reasons for the acquisition, and details of allocations. Public companies must also present pro-forma income statement information as if acquisition occurred at start of comparative period.	32
Uniting of interests method	Virtually all business combinations are acquisitions. Entities are required to explore all avenues to identify an acquiror.	Prohibited.	34
Revenue recognition			
Revenue recognition	Based on several criteria, which require the recognition of revenue when risks and rewards have been transferred and the revenue can be measured reliably.	Four key criteria. In principle, similar to **IFRS.** Extensive detailed guidance exists for specific transactions.	35
Construction contracts	Accounted for using the percentage of completion method. Completed contract method prohibited.	Percentage of completion method is preferable; however, completed contract method permitted in rare circumstances.	37
Expense recognition			
Interest expense	Interest expense recognised on an accrual basis. Effective yield method used to amortise non-cash finance charges.	Similar to **IFRS**.	39
Employee benefits – pension costs – defined benefit plans	Must use projected unit credit method to determine benefit obligation.	Similar to **IFRS** conceptually, although several differences in detail.	39
Employee share compensation	Disclosures required but no guidance on recognition and measurement.	Two alternative methods for determining cost: intrinsic value (market price at measurement date less any employee contribution or exercise price) or fair value at issue using option pricing model. Recognise cost of share awards or options over period of employee's performance.	41
Employee benefits – other	Account for post-retirement benefits as pensions. Rules also given for termination benefits arising from redundancies and other post-employment and long-term employee benefits. Account for termination indemnity plans as pensions.	Similar to **IFRS** for post-retirement benefits. More detailed guidance given for termination benefits. Termination indemnity accounted for as pension plans and calculated as either the vested benefit obligation or the actuarial present value of the vested benefits.	42

SUBJECT	IFRS	US GAAP	PAGE
Assets			
Acquired intangible assets	Capitalise if recognition criteria are met; intangible assets must be amortised over useful life, normally no longer than 20 years. Revaluations are permitted in rare circumstances.	Capitalise purchased intangible assets, amortise over useful life and review for impairment. Intangibles assigned an indefinite useful life must be not be amortised but reviewed for impairment annually. Revaluations are not permitted.	43
Internally generated intangible assets	Expense research costs as incurred. Capitalise and amortise development costs only if stringent criteria are met.	Expense both research and development costs as incurred. Some software and website development costs must be capitalised.	44
Property, plant and equipment	Use historical cost or revalued amounts. Frequent valuations of entire classes of assets are required when revaluation option is chosen.	Revaluations not permitted.	45
Leases – classification	It is a finance lease if substantially all risks and rewards of ownership transferred. Substance rather than form is important.	Similar to **IFRS,** but considerably more extensive form-driven requirements.	47
Leases – lessor accounting	Record amounts due under finance leases as a receivable. Allocate gross earnings to give constant rate of return based on (pre-tax) net investment method.	Similar to **IFRS,** but specific rules for leveraged leases.	47
Impairment of assets	If impairment indicated, write down assets to higher of net selling price and value in use based on discounted cash flows. If no loss arises, reconsider useful lives of those assets. Reversals of losses permitted in certain circumstances.	For assets to be held and used, impairment is assessed on undiscounted cash flows. If less than carrying amount, measure impairment loss using market value or discounted cash flows. Reversals of losses prohibited. For assets held for disposal, impairment is based on lower of carrying amount and fair value less cost to sell. Assets held for disposal are not depreciated or amortised during selling period.	48
Capitalisation of borrowing costs	Permitted, but not required, for qualifying assets.	Required.	49
Investment property	Measure at depreciated cost or fair value and recognise changes in fair value in the income statement.	Treat the same as for other properties (depreciated cost).	49
Inventories	Carry at lower of cost and net realisable value. Use FIFO or weighted average method to determine cost. LIFO prohibited. Reversal is required for subsequent increase in value of previous write-downs.	Similar to **IFRS;** however, use of LIFO permitted. Reversal of write-down is prohibited.	50
Biological assets	Measured at fair value less estimated point-of-sale costs.	Not specified. Generally historical cost used.	51

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SUBJECT	IFRS	US GAAP	PAGE
Assets (continued)			
Financial assets – measurement	Depends on classification of investment – if held to maturity or originated by the entity, then carry at amortised cost, otherwise at fair value. Unrealised gains/losses on trading securities recognised in the income statement and on available-for-sale investments recognised in equity.	Similar to **IFRS.**	51
Derecognition of financial assets	Derecognise financial assets based on risks and rewards first; control is secondary test.	Derecognise based on control. Legal isolation of assets even in bankruptcy is necessary for derecognition.	54
Liabilities			
Provisions – general	Record the provisions relating to present obligations from past events if outflow of resources is probable and can be reliably estimated.	Similar to **IFRS,** with rules for specific situations (employee termination costs, environmental liabilities, loss contingencies, etc).	55
Provisions – restructuring	Recognise restructuring provisions if detailed formal plan announced or implementation effectively begun.	Recognition of a liability based solely on commitment to a plan is prohibited. Must meet the definition of a liability, including certain criteria regarding the likelihood that no changes will be made to the plan or that the plan will be withdrawn.	55
Contingencies	Disclose unrecognised possible losses and probable gains.	Similar to **IFRS.**	56
Deferred income taxes – general approach	Use full provision method (some exceptions) driven by balance sheet temporary differences. Recognise deferred tax assets if recovery is probable.	Similar to **IFRS,** but recognise all deferred tax assets and then provide valuation allowance if recovery is less than 50% likely. A number of specific differences in application.	57
Deferred income taxes – main exceptions	Non-deductible goodwill and temporary differences on initial recognition of assets and liabilities that do not impact on accounting or taxable profit.	Similar to **IFRS** regarding non-deductible goodwill. Initial recognition exemption does not exist in **US GAAP.**	57
Government grants	Recognise as deferred income and amortise. Entities may offset capital grants against asset values.	Similar to **IFRS** except long-lived asset contributions recorded as revenue.	59
Leases – lessee accounting	Record finance leases as asset and obligation for future rentals. Normally depreciate over useful life of asset. Apportion rental payments to give constant interest rate on outstanding obligation. Generally charge operating lease rentals on straight-line basis.	Similar to **IFRS**. Specific rules must be met to record a finance or capital lease.	59

SUBJECT	IFRS	US GAAP	PAGE
Liabilities (continued)			
Leases – lessee accounting – sale and leaseback transactions	For a finance lease, defer and amortise profit arising on sale and finance leaseback. If an operating lease arises then profit recognition depends on sale proceeds compared to fair value of the asset. Also need to consider substance/linkage of the transactions.	Timing of profit and loss recognition depends on whether seller relinquishes substantially all or a minor part of the use of the asset. Immediately recognise losses. Consider specific strict criteria if a property transaction.	60
Financial liabilities – classification	Classify capital instruments depending on substance of the issuer's obligations. Mandatorily redeemable preference shares are classified as liabilities.	Generally where an instrument is not a share, classify as liability when obligation to transfer economic benefit exists. Similar to **IFRS.**	61
Convertible debt	Account for convertible debt on split basis, allocating proceeds between equity and debt.	Convertible debt is usually recognised as a liability.	62
Derecognition of financial liabilities	Derecognise liabilities when extinguished. The difference between the carrying amount and the amount paid is recognised in the income statement.	Similar to **IFRS.**	62
Equity instruments			
Capital instruments – purchase of own shares	Show as deduction from equity.	Similar to **IFRS.**	63
Derivatives and hedging			
Derivatives and other financial instruments – measurement of financial instruments and hedging activities	Measure derivatives and hedge instruments at fair value; recognise changes in fair value in income statement except for effective cash flow hedges, where the changes are deferred in equity until effect of the underlying transaction is recognised in the income statement. Gains/losses from hedge instruments that are used to hedge forecast transaction may be included in cost of non-financial asset/liability (basis adjustment).	Similar to **IFRS,** except no "basis adjustment" on cash flow hedges of forecast transactions.	64
Derivatives and other financial instruments – measurement of hedges of foreign entity investments	Gains/losses on hedges of foreign entity investments are recognised in equity, including hedge ineffectiveness on non-derivatives. For derivatives, record hedge ineffectiveness in the income statement. Gains/losses held in equity must be transferred to the income statement on disposal of investment.	Similar to **IFRS,** except all hedge ineffectiveness is recognised in the income statement.	66

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SUBJECT	IFRS	US GAAP	PAGE
Other accounting and reporting topics			
Earnings per share – diluted	Use weighted average potential dilutive shares as denominator for diluted EPS. Use "treasury stock" method for share options/warrants.	Similar to I**FRS.**	67
Related party transactions – definition	Determine by level of direct or indirect control, joint control and significant influence of one party over another or common control of both parties.	Similar to **IFRS.**	68
Related party transactions – disclosures	Disclose name of related party and nature of relationship and types of transaction. For control relationships, give disclosures regardless of whether transactions occur. Some exemptions available for separate financial statements of subsidiaries.	Similar to **IFRS.** Exemptions are narrower than under **IFRS.**	68
Segment reporting – scope and basis of formats	Public entities: report primary and secondary (business and geographic) segments based on risks and returns and internal reporting structure.	Public entities: report based on operating segments and the way the chief operating decision-maker evaluates financial information for purposes of allocating resources and assessing performance.	69
Segment reporting – accounting policies	Use group accounting policies.	Use internal financial reporting policies (even if accounting policies differ from group accounting policy).	69
Segment reporting – disclosures	Disclosures for primary segment include revenues, results, capex, total assets and liabilities, and other items. For secondary segment, report revenues, total assets and capex.	Similar disclosures to **IFRS** (primary segment) except liabilities and geographical capex not required. Depreciation, amortisation, tax, interest and exceptional/extraordinary items disclosed if reported internally. Disclosure of factors used to identify segments is required.	70
Discontinuing operations – definition	Separate major component.	Component that is clearly distinguishable operationally and for financial reporting: reportable segment, operating segment, reporting unit, subsidiary or asset grouping.	71
Discontinuing/discontinued operations – measurement	Make provisions for some costs when criteria for recognising a restructuring provision are met. Write down assets to higher of net selling price and value in use based on discounted cash flows.	Results of operations of a discontinued or held-for-sale component and any gain/loss are reported in discontinued operations in the periods they occur; not accrued in advance. Carry assets at lower of carrying amount or fair value less cost to sell.	71
Discontinuing/discontinued operations – presentation and main disclosures	Give details of discontinuing operation. Disclose (on face of the income statement) pre-tax gain or loss from discontinuance.	Report discontinued and held-for-sale operations as a separate line item on face of the income statement before extraordinary items and cumulative effect of accounting changes. Assets and liabilities of held-for-sale disposal groups segregated on balance sheet.	72

SUBJECT	IFRS	US GAAP	PAGE
Other accounting and reporting topics (continued)			
Post balance sheet events	Adjust financial statements for subsequent events, providing evidence of conditions at balance sheet date and materially affecting amounts in financial statements (adjusting events). Disclose non-adjusting events.	Similar to **IFRS.**	72
Interim financial reporting	Not mandatory to prepare interim statements but must use the standard if do prepare. Basis should be consistent with full year statements and include comparatives.	If issued, the contents of interim statements are prescribed and the basis must be consistent with full year statements. Quarterly reporting is required for SEC registrants (domestic US entities only).	73

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Accounting framework

Conceptual framework

IFRS and **US GAAP** each include a conceptual framework. The principles set out in the two frameworks provide a basis for setting accounting standards, and a point of reference for the preparation of financial information where no specific guidance exists.

Qualitative characteristics of financial information

IFRS Financial information must possess certain characteristics for it to be useful. The **IFRS** Framework requires that financial information must be understandable, relevant, reliable and comparable.

US GAAP A series of concept statements set out similar characteristics to **IFRS**, with greater emphasis placed on the consistency of financial information.

Reporting elements

IFRS The **IFRS** Framework presents five reporting elements: assets, liabilities, equity, income (includes revenues and gains) and expenses (includes losses).

Assets are resources controlled from a past event. Liabilities are present obligations arising from a past event. Assets and liabilities are recognised on the balance sheet when it is "probable" that economic benefits will flow in to or out from the entity, and those benefits must be able to be measured reliably.

Equity is the residual interest in the assets after deducting the entity's liabilities.

Income is increases in economic benefits that result in increases in equity other than those relating to contributions from equity participants. Expenses are decreases in economic benefits that result in decreases in equity other than those relating to distributions to equity participants.

US GAAP Reporting elements and the definition and recognition criteria are similar to **IFRS. US GAAP** concept statements contain additional elements: investments by and distributions to owners, comprehensive income and fair value measurements used in accounting. Other comprehensive income includes all changes in equity during a period, except those resulting from investments by and distributions to owners.

Historical cost

IFRS Historical cost is the main accounting convention. However, **IFRS** permits the revaluation of intangible assets, PPE and investment property. IFRS also requires fair valuation of certain categories of financial instruments and certain biological assets.

US GAAP Prohibits revaluations except for certain categories of financial instrument, which have to be carried at fair value.

Fair presentation override

IFRS Entities may depart from a standard in extremely rare circumstances in which management concludes that compliance with a requirement in an **IFRS** or an Interpretation of a Standard would be so misleading that it would conflict with the objective of financial statements set out in the Framework for the Preparation and Presentation of Financial Statements. **IFRS** requires disclosure of the nature of and the reason for the departure and the financial impact of the departure. The override does not apply where there is a conflict between local company law and **IFRS**; in such a situation, the **IFRS** requirements must be applied.

US GAAP Extremely rare in practice. SEC will generally not accept such an override.

Conceptual framework (continued)

First-time adoption of accounting framework

IFRS First-time adoption of **IFRS**, as the primary accounting basis, requires full retrospective application of all IFRSs effective at the reporting date for an entity's first IFRS financial statements, with exemptions primarily for property, plant and equipment and other assets, business combinations and pension plan accounting. Comparative information must be prepared and presented on the basis of **IFRS**. Almost all adjustments arising from the first-time application of **IFRS** must be adjusted against opening retained earnings of the first period presented on an **IFRS** basis. Some adjustments are made against goodwill or against other classes of equity.

US GAAP Accounting principles must be consistent for financial information presented in comparative financial statements. **US GAAP** does not give any specific guidance on first-time adoption of its accounting framework. However, first-time adoption of **US GAAP** requires full retrospective application. Particular standards specify the transitional treatment upon first-time application of a standard. Specific rules apply for carve-out entities and first-time preparation of financial statements for the public.

REFERENCES: **IFRS**: Framework, IAS 1, IAS 8, IAS 16, IAS 38, IAS 39, IAS 40, IAS 41, IFRS 1.
US GAAP: CON 1-7,APB 20, FAS 115, FAS 130, FAS 133.

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Financial statements

General requirements

Compliance

IFRS Entities must disclose that financial statements comply with **IFRS**. Financial statements must not disclose compliance with **IFRS**, unless they comply with all the requirements of each applicable standard and each applicable interpretation.

US GAAP US companies with registered securities must comply with **US GAAP** and the SEC's rules and regulations and financial interpretations. Non-US companies with registered securities in the US may issue financial statements under **US GAAP** or another comprehensive basis of accounting principles (such as **IFRS**), provided that a reconciliation of net income and equity to **US GAAP** is given in the notes, together with **US GAAP** and SEC disclosures.

There is no regulatory reporting requirement for non-public US companies. However, certain regulated entities are subject to statutory reporting.

Reporting currency for presentation of financial statements

IFRS **IFRS** specifies the functional currency as the currency of the primary economic environment in which the entity operates.

An entity may choose to present its financial statements in a different currency from the functional currency. The method of translating from the functional currency to presentation currency is all balance sheet items except retained earnings at closing rate. Retained earnings and all income statement items at actual rates on date of transactions or average rates for practical purposes.

US GAAP Similar to **IFRS** for functional currency. SEC rules allow non-US registrants to file financial statements prepared in any currency that management believes is appropriate.

Reporting in a hyperinflationary economy

IFRS Where the reporting entity itself reports in the currency of a hyperinflationary economy, it must prepare financial statements based on the measuring unit current at the balance sheet date. Comparative amounts for prior periods are also restated into the measuring unit at the current balance sheet date. Any gain or loss on the net monetary position arising from the restatement of amounts into the measuring unit current at the balance sheet date must be included in net income and separately disclosed.

US GAAP Similar to **IFRS** however, inflation-adjusted financial statements are only permitted to be presented as primary financial statements if expressed in a currency of a country that is considered to be a hyperinflationary economy. Current cost financial statements are not acceptable under **US GAAP**, but if used in the primary financial statements prepared under **IFRS**, a company that files with the SEC is not required to eliminate the effects in the reconciliation to **US GAAP**.

General requirements (continued)

Components of financial statements

A set of financial statements under **IFRS** and **US GAAP** comprises the following components.

COMPONENT	PAGE	IFRS	US GAAP
Balance sheet	17	Required	Required
Income statement	18	Required	Required
Statement of recognised gains and losses	19	Required(a)	Other comprehensive income (b)
Statement of changes in shareholders' equity	19	Required(a)	Statement of changes in stockholders' equity
Cash flow statement	20	Required	Required
Accounting policies	–	Required	Required
Notes to financial statements	–	Required	Required

(a) Under **IFRS** recognised gains and losses can be presented in a statement of recognised gains and losses with the changes in equity displayed in a note. Alternatively, the other recognised gains and losses can be separately highlighted in the statement of changes in equity, which is presented as a primary statement.

(b) Under **US GAAP** other comprehensive income may also be presented as a separate component of either the income statement or the statement of changes in stockholders' equity.

Comparatives

IFRS Requires one year of comparatives for all numerical information in the financial statements, with small exceptions.

US GAAP SEC requirements specify that all registrants must give two years of comparatives (to the current year) for all statements except for the balance sheet, which requires one comparative year. This rule applies whichever accounting framework is used in the primary financial statements.

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Balance sheet

Each framework requires prominent presentation of a balance sheet as a primary statement.

Format

IFRS Does not prescribe a particular balance sheet format, except that **IFRS** requires separate presentation of total assets and total liabilities. Management may use judgement regarding the form of presentation in many areas. Entities present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of their balance sheet except when a liquidity presentation provides more relevant and reliable information. In such cases, all assets and liabilities shall be presented broadly in order of liquidity. However, as a minimum, **IFRS** requires presentation of the following items on the face of the balance sheet:

Assets: PPE, investment property, intangible assets, financial assets, investments accounted for using the equity method, biological assets, inventories, trade and other receivables, tax assets and cash and cash equivalents; and

Equity and liabilities: issued share capital and other components of shareholders' equity, financial liabilities, provisions, tax liabilities and trade and other payables, and minority interests.

US GAAP Generally presented as total assets balancing to total liabilities and shareholders' funds. Items presented on the face of the balance sheet are similar to **IFRS,** but are generally presented in decreasing order of liquidity. The balance sheet detail must be sufficient to enable identification of material components. Public entities must follow specific SEC guidance.

Current/non-current distinction

IFRS The current/non-current distinction is not optional (except when a liquidity presentation is used). Where the distinction is made, assets must be classified as current assets where they are held for sale or consumption in the normal course of the operating cycle. Both assets and liabilities are classified as current where they are held for trading, or expected to be realised within 12 months of the balance sheet date. Interest-bearing liabilities are classified as current when they are due to be settled within 12 months of the balance sheet date, even if the original term was for a period of more than 12 months; and an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the balance sheet date and before the financial statements are authorised for issue.

US GAAP Management may choose to present either a classified or non-classified balance sheet. If a classified balance sheet is presented, the requirements are similar to **IFRS**. The SEC provides guidelines for the minimum information to be included by public companies.

Offsetting assets and liabilities

IFRS Assets and liabilities must not be offset, except where specifically permitted by a standard. Financial assets and financial liabilities may be offset where an entity has a legally enforceable right to set off the recognised amounts and intends to settle transactions on a net basis.

US GAAP Offset permitted where the parties owe each other determinable amounts, where there is an intention of offset, and where the offset is enforceable by law.

Income statement

Each framework requires prominent presentation of an income statement as a primary statement.

Format

IFRS **IFRS** does not prescribe a standard format for the income statement. The entity must analyse its expenditure by function or nature.

As a minimum, **IFRS** requires presentation of the following items on the face of the income statement: revenue; finance costs; share of after-tax results of associates and joint ventures accounted for using the equity method; tax expense; pre-tax gain or loss from disposal of assets or discontinuing operations; and net profit or loss for the period. A portion of the net income attributable to the minority interest should be disclosed in the income statement.

US GAAP Presented in one of two formats. Either:

- a single-step format where all expenses are classified by function and are deducted from total income to give income before tax; or
- in a multiple-step format where cost of sales is deducted from sales to show gross profit, then other income and expense are presented to give income before tax.

SEC regulations specify further line items.

Exceptional items

IFRS Does not use the term exceptional items but requires the separate disclosure of items of income and expense that are of such size, nature or incidence that their separate disclosure is necessary to explain the performance of the entity for the period. Disclosure may be on the face of the income statement or in the notes.

US GAAP As under **IFRS**, the term exceptional items is not used, but significant material items must be disclosed separately on the face of the income statement in arriving at income from operations.

Extraordinary items

IFRS Prohibited.

US GAAP Are defined as being both infrequent and unusual. Extraordinary items are rare. Negative goodwill arising in a business combination is written off to earnings as an extraordinary gain. Presented separately on the face of the income statement net of taxes. Disclosure of the tax impact is either on the face of the income statement or in the notes to the financial statements.

Statement of recognised gains and losses/Other comprehensive income

Presentation

IFRS Recognised gains and losses can be presented either in the notes or separately highlighted within the primary statement of changes in shareholders' equity.

US GAAP One of three possible formats may be used:

- a single primary statement of income and comprehensive income containing both net income and other comprehensive income; or
- a two-statement approach (as under **IFRS**); or
- a separate category highlighted within the primary statement of changes in equity (as under **IFRS**).

In addition, requires the cumulative amounts for each item of comprehensive income. SEC will accept the statement prepared in accordance with **IFRS** without any additional disclosures.

Format

IFRS The total of gains and losses recognised in the period comprises net income and the following gains and losses recognised directly in equity:

- fair value gains (losses) on land and buildings, available-for-sale investments and certain financial instruments;
- foreign exchange translation differences;
- the cumulative effect of changes in accounting policy; and
- changes in fair values on certain financial instruments if designated as cash flow hedges, net of tax, and cash flow hedges reclassified to income and/or the relevant hedged asset/liability.

US GAAP Similar to **IFRS,** revaluations of land and buildings are prohibited under **US GAAP** and thus would be excluded.

Statements of changes in shareholders' equity

IFRS The statement must be presented as a primary statement. The statement shows capital transactions with owners, the movement in accumulated profit and a reconciliation of all other components of equity.

US GAAP Similar to **IFRS**. SEC rules allow such information to be included in the notes.

Cash flow statement

Exemptions

IFRS No exemptions.

US GAAP Limited exemptions for certain investment entities.

Direct/indirect method

IFRS Requires that the cash flow statement reports inflows and outflows of "cash and cash equivalents". The cash flow statement may be prepared using either the direct method (cash flows derived from aggregating cash receipts and payments associated with operating activities) or the indirect method (cash flows derived from adjusting net income for transactions of a non-cash nature such as depreciation). The latter is more common in practice.

US GAAP Purpose is to provide relevant information about "cash receipts" and "cash payments". The direct method is encouraged; however, the indirect method is permitted. If the direct method is used, a reconciliation of net income to cash flows from operating activities must be disclosed. The indirect method is more common in practice.

Definition of cash and cash equivalents

IFRS Cash includes overdrafts repayable on demand but not short-term bank borrowings, which are considered to be financing flows. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. An investment normally qualifies as a cash equivalent only when it has a maturity of three months or less from its acquisition date.

US GAAP The definition of cash equivalents is similar to that in **IFRS**, except that bank overdrafts are not included in cash and cash equivalents; accordingly, changes in the balances of overdrafts are classified as financing cash flows, rather than being included within cash and cash equivalents.

Format

IFRS Requires separate classification of cash flows from operating, investing and financing activities.

US GAAP Same as **IFRS**.

Classification of specific items

IFRS and **US GAAP** require the classification of interest, dividends and tax within specific categories of the cash flow statement. These are set out below.

ITEM	IFRS	US GAAP
Interest paid	Operating or financing	Operating
Interest received	Operating or investing	Operating
Dividends paid	Operating or financing	Financing
Dividends received	Operating or investing	Operating
Taxes paid	Operating – unless specific identification with financing or investing	Operating

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Changes in accounting policy and other accounting changes

Changes in accounting policy

IFRS Changes in accounting policy should be accounted for retrospectively with comparative information restated and the amount of the adjustment relating to prior periods adjusted against the opening balance of retained earnings of the earliest year presented. An exemption applies when changing comparative information is impracticable.

Policy changes made on the adoption of a new standard must be accounted for in accordance with that standard's transitional provisions. If transitional provisions are not specified then the method described above must be used.

US GAAP Requires recognition and disclosure of the cumulative amount of the change in the income statement for the period of the change. The entity discloses pro-forma comparatives as if the change had been applied to those periods. However, retrospective adjustments are required in certain cases: changes in the method of accounting for inventory valuation; depreciation in the rail industry; construction contracts and adoption of the full-cost method in the extractive industry. Unlike **IFRS**, **US GAAP** treats a change in the depreciation method for previously recorded assets as a change in accounting principle. A component of the IASB/FASB convergence project includes proposals by the FASB that would require retrospective application for all voluntary accounting policy changes and changes resulting from the adoption of a new pronouncement, except when impracticable or when allowed under the transition provision of a new pronouncement.

Correction of errors

IFRS Requires same method as for policy changes. An entity must restate comparatives.

US GAAP Reported as a prior-period adjustment; restatement of comparatives is mandatory.

Changes in accounting estimates

IFRS Changes in accounting estimates are accounted for in the income statement when identified. **IFRS** treats changes in depreciation method and revised asset life as a change in accounting estimate.

US GAAP Similar to **IFRS**, but treats change in depreciation method for previously recorded assets as a change in accounting principle. However, a change in the estimated useful lives of depreciable assets is a change in estimate, which is accounted for prospectively in the period of change and future periods.

REFERENCES: **IFRS**: IAS 1, IAS 7, IAS 8, IAS 21, IAS 29 SIC-30.
US GAAP: CON 1-7, FAS 3, FAS 16, FAS 52, FAS 95,, FAS 130, FAS 141, APB 20, APB 28, APB 30, ARB 43, SEC Regulation S-X.

Consolidated financial statements

Preparation

IFRS Requires the preparation of consolidated financial statements by a parent entity that includes all subsidiaries. An exemption applies to a parent that is wholly owned or the owners of the minority interests have been informed about and do not object to the parent not presenting consolidated financial statements and its securities are not publicly traded; it is not in the process of issuing securities in public securities markets; and the immediate or ultimate parent publishes consolidated financial statements that comply with **IFRS.**

US GAAP No exemption for general purpose financial statements. Consolidated financial statements are presumed to be more meaningful and are required for public companies.

Subsidiaries

Definition

The definition of a subsidiary, for the purpose of consolidation, is an important distinction between the two frameworks.

IFRS Focuses on the concept of the power to control in determining whether a parent/subsidiary relationship exists. Control is the parent's ability to govern the financial and operating policies of a subsidiary to obtain benefits. Companies acquired (disposed of) are included in (excluded from) consolidation from the date control passes. Also need to consider presently exercisable potential voting rights.

US GAAP A dual consolidation decision model is required. All consolidation decisions should be evaluated under variable interest and traditional consolidation models. Variable interest entities (VIEs) in which a parent does not have a controlling voting interest but the parent absorbs the majority of the VIE's expected losses or returns also must be consolidated.

Special purpose entities

IFRS Requires the consolidation of special purpose entities (SPEs) where the substance of the relationship indicates that an entity controls the SPE. Indicators of control arise where:

- the SPE conducts its activities on behalf of the entity; or
- the entity has the decision-making power; or
- the entity has other rights to obtain the majority of the benefits of the SPE; or
- the entity has the majority of the residual or ownership risks of the SPE, or of its assets.

US GAAP The consolidation of SPEs requires the determination of the primary beneficiary of that entity. An enterprise consolidates an entity if that enterprise has a variable interest in the entity that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both.

Specific criteria exist for the transfer of financial assets to an SPE that is not consolidated. The SPE must be a qualifying SPE (as defined) and the assets must be financial assets (as defined). The assets must not arise from a structured transaction.

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Subsidiaries (continued)

Subsidiaries excluded from consolidation

IFRS Subsidiaries should be excluded from consolidation if the parent acquires the subsidiary and holds it exclusively for subsequent re-sale within one year. Dissimilar activities between a parent and subsidiary are not grounds for excluding the subsidiary from consolidation. Requires entities excluded from consolidation to be classified as either available-for-sale or held-for-trading financial assets and measured at fair value.

US GAAP Subsidiaries excluded from the consolidation are those for which control does not rest with the majority owner. There is no longer an exclusion based on temporary control under **US GAAP**. Unconsolidated subsidiaries are generally accounted for using the equity method unless overcoming the presumption of significant influence.

Reduction of an interest in a subsidiary

IFRS The gain or loss on a partial disposal must be calculated by comparing the reduction in the group's interest in the carrying amount of the subsidiary's net assets before and after the sale, with the proceeds received.

US GAAP Similar to **IFRS**, but for a public offering, a gain may be recognised only if the transaction is not part of a group reorganisation.

Uniform accounting policies

IFRS Consolidated financial statements must be prepared using uniform accounting policies for all of the entities in a group.

US GAAP Similar to **IFRS**. However, specialised industry accounting principles applied by a subsidiary can be retained if they are not applicable to the parent.

Reporting periods

IFRS The consolidated financial statements of the parent and the subsidiary are usually drawn up at the same reporting date. However, **IFRS** does permit the consolidation of subsidiary accounts, drawn up at a different reporting date provided the difference between the reporting dates is not more than three months. Adjustments must be made for significant transactions that occur in the gap period.

US GAAP Similar to **IFRS**.

Recent proposals – IFRS

The IASB issued an exposure draft, ED 4, Disposal of Non-current Assets and Presentation of Discontinued Operations in July 2003, which proposes to align **IFRS** more closely with **US GAAP** and will also remove the exemption from consolidation for subsidiaries acquired and held exclusively with a view to resale.

REFERENCES: **IFRS**: IAS 27, SIC-12.
US GAAP: ARB 51, FAS 94, SAB 51, SAB 84, EITF 96-16, FIN 46.

Investments in associates

Definition

IFRS An associate is an entity over which the investor has significant influence – that is, the power to participate in, but not control, the associate's financial and operating policies. Participation in the entity's financial and operating policies and/or representation on the entity's board may demonstrate significant influence. A 20% or more interest by an investor in an entity's voting rights leads to a presumption of significant influence.

US GAAP Similar to **IFRS**. Does not include unincorporated entities, although these would be generally accounted for in a similar way.

Equity method

IFRS An investor must account for an investment in an associate using the equity method. The investor presents its share of the associate's profits and losses in the income statement. **IFRS** specifies that this must be shown at a post-tax level. The investor recognises in equity its share of changes in the assets' equity that have not been recognised in the associate's profit or loss. The investor must account for the difference, on acquisition of the investment, between the cost of the acquisition and investor's share of fair value of the net identifiable assets, as goodwill.

The investor's investment in the associate is stated at cost, less goodwill amortisation, plus share of post-acquisition profits or losses, plus share of post-acquisition movements in reserves, less dividends received. Losses that reduce the investment below zero are applied against any long-term interests that, in substance, form part of the investor's net investment in the associate; for example, preference shares and long-term receivables and losses. Losses recognised in excess of the investor's investment in ordinary shares are applied to the other components in reverse order of seniority. Further losses are provided for as a liability only to the extent that the investor has incurred legal or constructive obligations or made payments on behalf of the associate.

Disclosure of information is required about the results, assets and liabilities of significant associates.

US GAAP Similar to **IFRS**, except goodwill is not amortised.

Impairment

IFRS Apply the general impairment requirements of **IFRS**. In estimating future cash flows the investor may use its share of the future net cash flows from the underlying entity, or the cash flows expected to arise from dividends.

US GAAP Similar to **IFRS**, except that the methodology of determining impairment is different. A loss in the value of an investment that is other than a temporary decline should be recognised. Many factors must be considered to determine whether an decline is other than temporary, including the significance and duration of the decline.

REFERENCES: See 'Investments in joint ventures', page 25.

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Investments in joint ventures

Definition

IFRS Defines a joint venture as a contractual agreement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control of an economic activity.

US GAAP Defines a corporate joint venture as a corporation owned and operated by a small group of businesses as a separate and specific business or project for the mutual benefit of the members of the group.

Types of joint venture

IFRS Distinguishes between three types of joint venture:

- jointly controlled entities, where the arrangement is carried on through a separate entity (company or partnership);
- jointly controlled operations, in which each venturer uses its own assets for a specific project; and
- jointly controlled assets, a project carried on with assets that are jointly owned.

US GAAP Only refers to jointly controlled entities, where the arrangement is carried on through a separate corporate entity.

Jointly controlled entities

IFRS For jointly controlled entities, use either the proportionate consolidation method or the equity method. Proportionate consolidation requires the venturer's share of the assets, liabilities, income and expenses to be combined on a line-by-line basis with similar items in the venturer's financial statements, or reported as a separate line item in the venturer's financial statements.

US GAAP Does not permit proportionate consolidation for corporate joint ventures. Venturers apply the equity method to recognise the investment in a jointly controlled entity. Equity accounting is also appropriate for investments in unincorporated joint ventures.

Contributions to a jointly controlled entity

IFRS Where a venturer contributes non-monetary assets, such as shares or fixed assets, to a jointly controlled entity in exchange for an equity interest in the jointly controlled entity, the venturer must recognise in the income statement the portion of the gain or loss attributable to the equity interests of the other venturers, except when:

- the significant risks and rewards of the contributed assets have not been transferred to the jointly controlled entity; or
- the gain or loss on the assets contributed cannot be measured reliably; or
- the asset is similar to those contributed by other venturers.

In addition, where a venturer receives assets dissimilar to those it contributed, the venturer must recognise an appropriate proportion of the gain in the income statement.

US GAAP Little authoritative guidance exists regarding what basis to use in recording contributions to a jointly controlled entity. Practice has moved over time from a primarily step-up basis to a primarily predecessor basis. For joint ventures whose financial statements are filed with the SEC (or when one or more venturers are SEC registrants), step-up to fair value is only allowed when certain strict criteria are met. The formation of an entity that does not meet the definition of a joint venture should be accounted for as a business combination and not as the formation of a joint venture.

Investments in joint ventures (continued)

Jointly controlled operations

IFRS Similar to jointly controlled entities without a specific incorporated structure. A venturer must recognise in its financial statements: the assets that it controls; the liabilities it incurs; the expenses it incurs; and its share of income from the sale of goods or services by the joint venture.

US GAAP Not specified. However, certain industry practice would permit a venturer to account for its proportionate share of the assets, liabilities, revenues and expenses in its financial statements.

Jointly controlled assets

IFRS Venturer must account for its share of the jointly controlled assets and any liabilities it has incurred.

US GAAP Not specified. However, proportionate consolidation is used in certain industries to recognise investments in jointly controlled assets.

REFERENCES: **IFRS**: IAS 1, IAS 28, IAS 31, SIC-13.
US GAAP: APB 18, FIN 35.

Employee share ownership plans

Employee share ownership plans (ESOPs), are designed to facilitate employee shareholdings. Often they are combined with separate trusts that buy shares to be given or sold to employees.

Accounting

IFRS No specific guidance for such plans as they are excluded from scope of SIC-12. However, the guidance given for **US GAAP** would apply in practice.

US GAAP An ESOP trust's assets and liabilities are included in the balance sheet of the sponsoring entity where the arrangements are such that the sponsoring entity has de facto control and bears the benefits and risks of the shares held by the ESOP trust.

Loans to ESOPs from outside lenders, often guaranteed by the sponsoring entity, are reported as liabilities in the sponsoring entity's balance sheet, with related interest costs recognised in the sponsoring entity's income statement. The entity charges the finance costs and administrative expenses of the trust as they accrue and not as funding payments are made to the ESOP trust.

Recent proposals – IFRS

The IASB issued an exposure draft, ED2, Share-based Payments, in November 2002. The ED requires that share-based payment to employees result in compensation expense to reflect the receipt and consumption of employee services and issue of equity instruments. The ED also requires recognition of a charge over the employees' service period to vesting date, measured on the basis of the fair value of the option at the grant date. This will be similar to **US GAAP.**

REFERENCES: **US GAAP**: SOP 76-3, SOP 93-6.

Foreign currency translation

Translations – the individual entity

IFRS and **US GAAP** have similar requirements regarding the translation of transactions by an individual entity.

- Translation of transactions denominated in foreign currency is at the exchange rate in operation on the date of the transaction.
- Monetary assets and liabilities denominated in a foreign currency are translated at the closing (year-end) rate.
- Non-monetary foreign currency assets and liabilities are translated at the appropriate historical rate.
- Income statement amounts are translated using historical rates of exchange at the date of transactions or a weighted average rate as a practical alternative.
- Non-monetary items denominated in a foreign currency and carried at fair value are reported using the exchange rate that existed when the fair value was determined (**IFRS** only).
- Exchange gains and losses arising on an entity's own foreign currency transactions are reported as part of the profit or loss for the year from ordinary activities. This includes long-term loans, which in substance form part of an entity's net investment in a foreign operation. Refer to the section "Derivatives and hedging" (p64) for the hedge of a net investment.

Translation – consolidated financial statements

IFRS and **US GAAP** require that where the operations of a foreign operation are largely independent of the investing entity's reporting currency, amounts in the foreign operations's balance sheet are translated using the closing (year end) rate, with the exception of equity balances, for which the historical rate is used. Amounts in the income statement are usually translated using the average rate for the accounting period. The translation differences arising are reported in equity (other comprehensive income).

Where a foreign operation is integral to the reporting entity, its accounts are translated as if all the transactions had been carried out by the reporting entity itself.

Tracking of translation differences in equity

IFRS These must be separately tracked and the cumulative amounts disclosed. On disposal of a foreign operation, the appropriate amount of cumulative translation difference relating to the entity is transferred to the income statement and included in the gain or loss on sale. Under **IFRS**, the cumulative translation difference relating to a foreign operation and deferred in equity may be released through the income statement in its entirety upon a complete disposal of that foreign operation or for a partial disposal on a pro rata basis relative to the proportion disposed. The proportionate share of the related cumulative translation difference is included in the gain or loss. The payment of a dividend out of pre-acquisition profits constitutes a return on the investment and is regarded as a partial disposal.

US GAAP Similar to **IFRS**, except the release through the income statement of the cumulative translation difference relating to a foreign operation and deferred in equity is limited to a complete or substantially complete liquidation of that foreign operation.

Translation of goodwill and fair value adjustments on acquisition of foreign entity

IFRS Translate at closing rates.

US GAAP Similar to **IFRS**.

Foreign entity in hyperinflationary economy

IFRS Restate to current purchasing power prior to translation into the reporting currency of the reporting entity.

US GAAP Re-measure using the reporting currency as the functional currency.

Foreign currency translation (continued)

Reporting entity in a hyperinflationary economy

IFRS Where the reporting entity itself reports in the currency of a hyperinflationary economy, the financial statements must be stated in terms of the measuring unit current at the balance sheet date.

US GAAP Similar to **IFRS**, but inflation-adjusted financial statements are only permitted to be presented as primary financial statements if expressed in the currency of a country that is considered to be a hyperinflationary economy. Current cost financial statements are not acceptable under **US GAAP**, but if used in the primary financial statements prepared under **IFRS**, a company that files with the SEC is not required to eliminate the effects in the reconciliation to **US GAAP**.

REFERENCES: **IFRS**: Framework, IAS 21, IAS 29.
US GAAP: FAS 52, FAS 95, APB Statement 3.

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Business combinations

Types

A business combination involves the bringing together of separate entities into one economic entity. Three types of business combination occur in practice. An acquisition is where one of the combining entities obtains control over the other, enabling an acquirer to be identified; this is the most common type of combination. A uniting of interests (pooling) occurs where it is not possible to identify an acquirer; instead, the shareholders of the combining entities join in substantially equal arrangements to share control. A group reorganisation can arise from transactions among entities that operate under common control.

IFRS Business combinations are almost always accounted for as acquisitions. **IFRS** requires that the purchase method of accounting is used to portray the financial effect of an acquisition. **IFRS** severely restricts the circumstances in which transactions can be recognised as a uniting of interests. Specific **IFRS** guidance about business combinations excludes from its scope transactions among entities under common control.

US GAAP Requires the use of the purchase method of accounting for all business combinations. Transfers of net assets or shares of entities under common control are accounted for at predecessor book basis.

Acquisitions

Date of acquisition

IFRS The date on which the acquirer obtains control over the acquired entity.

US GAAP The date on which assets are received or securities are issued.

Cost of acquisition

The cost of acquisition is the amount of cash or cash equivalents paid, (or fair value of non-monetary assets exchanged). Where consideration comprises an exchange of shares, specific guidance applies under each framework.

IFRS Shares issued as consideration are recorded at their fair value as at the date of the exchange – the date when the acquirer obtains control over the acquiree's net assets and operations. When the acquisition occurs in stages, the fair value of the shares issued as purchase consideration is determined at each exchange date.

In an active market, the published price of a share at the date of exchange is the best evidence of fair value.

US GAAP Shares issued as consideration are measured at their market price over a reasonable period of time (interpreted to be a few days) before and after the parties reach an agreement on the purchase price and the proposed transaction is announced. The date for measuring the value of marketable securities must not be influenced by the need to obtain shareholder or regulatory approval.

Contingent consideration

IFRS If part of the purchase consideration is contingent on a future event, such as achieving certain profit levels, **IFRS** requires an estimate of the amount to be included as part of the cost at the date of the acquisition where it is probable that it will be paid. Any revision to the estimate is subsequently adjusted against goodwill.

US GAAP The additional cost is not recognised until the contingency is resolved or the amount is determinable. Any additional revision to the estimate is recognised as an adjustment to goodwill. Additional consideration to be paid on the condition of continued employment by former owner/manager is generally not included in the cost of the acquisition, but is recognised as compensation expense.

Acquisitions (continued)

Recognition and measurement of identifiable assets and liabilities acquired

IFRS and **US GAAP** require separate recognition, by the acquirer, of the acquiree's identifiable assets and liabilities that existed at the date of acquisition. These assets and liabilities must be recognised at fair value at the date of acquisition. However, the two frameworks apply different criteria to the recognition of acquisition restructuring provisions and intangible assets.

Restructuring provisions

IFRS The acquirer must satisfy the following criteria to recognise a restructuring provision:

- at or before the acquisition date, the acquirer must have developed the main features of a plan that involves terminating or reducing the activities of the acquiree;
- at or before the acquisition date, the acquirer must raise an expectation in those affected by the plan (constructive obligation) by announcing its main features to those affected; and
- by the earlier of three months after the acquisition date or the date on which the first annual financial statements are authorised for issue, the acquirer must have developed the main features of the plan into a detailed formal plan.

US GAAP As of the acquisition's consummation date, management, having the appropriate level of authority, must begin to assess and formulate a plan to exit an activity of the acquired entity. As soon as possible, but no more than one year after the consummation date, the plan must be completed in detail, and management must communicate the termination or relocation arrangements to the employees of the acquired company. To be recorded, the restructuring provision must meet the definition of a liability.

Intangible assets

IFRS Only record separate intangible assets if they meet the definition of and recognition criteria for an intangible asset (see p43). Otherwise, intangible assets must be subsumed within goodwill and amortised accordingly. Acquired in-process research and development is recognised as an intangible asset provided it meets the IAS 38 recognition criteria.

US GAAP An intangible asset must be recognised separately from goodwill if it represents contractual or legal rights or is capable of being separated or divided and sold, transferred, licensed, rented or exchanged. This sometimes leads to the recognition of more intangibles than **IFRS**; for example, franchises and customer and supplier relationships. **US GAAP** requires the fair value exercise to include acquired in-process research and development (R&D). However, the acquired in-process R&D must be expensed immediately unless it has an alternative future use.

Minority interests at acquisition

IFRS Where an investor acquires less than 100% of a subsidiary, **IFRS** requires the minority interest to be stated at either: its share of the pre-acquisition carrying value of net assets; or its share of the fair value of the net assets. Whichever method is followed, no goodwill is attributed to the minority interest.

US GAAP Generally follows the first method as for **IFRS**.

Goodwill

Arises as the difference between the cost of the acquisition and the fair value of identifiable assets and liabilities acquired. It may be positive or negative. Purchased goodwill is capitalised as an intangible asset.

Goodwill (continued)

Useful life

IFRS There is a rebuttable presumption that the useful life of goodwill does not exceed 20 years. In very rare cases, goodwill may be demonstrated to have a useful life in excess of 20 years. If the useful life exceeds 20 years, amortisation is still mandatory and the reasons for rebutting the presumption must be disclosed.

US GAAP Goodwill should not be amortised but must be reviewed for impairment at least annually at the reporting unit level. A reporting unit can be an operating segment as defined in guidance on the disclosure of segments (see p70), if it meets the definition of a reporting unit, or one level below an operating segment.

Impairment

IFRS Requires an impairment review of goodwill whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, and annually if the estimated useful life exceeds 20 years. On subsequent disposal of the acquired entity, any attributable goodwill not yet amortised, or recognised in equity reserves prior to the adoption of IAS 22, must be transferred to the income statement and included in the gain or loss on sale.

US GAAP Goodwill is reviewed for impairment, at the reporting unit level, at least annually or whenever events or changes in circumstances indicate that the recoverability of the carrying amount must be assessed. A two-step impairment test is required:

- the fair value and the carrying amount of the reporting unit including goodwill should be compared. If the fair value of the reporting unit is less than the book value, goodwill would be considered to be impaired; then
- the goodwill impairment should be measured as the excess of the carrying amount of goodwill over its implied fair value. The implied fair value of goodwill should determined in the same manner as goodwill is determined in a business combination. The impairment charge should be included in operating income.

Negative goodwill

IFRS Negative goodwill relating to expected future losses or expenses identified in the acquirer's plan for the acquisition must be recognised in the income statement when those losses/expenses occur. Otherwise negative goodwill not exceeding the fair value of acquired identifiable non-monetary assets must be recognised in the income statement on a systematic basis over the useful lives of such assets. Where negative goodwill exceeds the fair value of non-monetary assets, it must be immediately recognised in the income statement.

Negative goodwill is presented as a "negative" asset, alongside positive goodwill.

US GAAP Any excess of fair value over the purchase price must be allocated on a pro-rata basis to all assets other than: current assets; financial assets (other than equity method investments); assets to be sold; prepaid pension assets and deferred taxes. Any negative goodwill remaining is recognised as an extraordinary gain. If the business combination includes contingent consideration, the lesser of the maximum contingent consideration or the negative goodwill remaining is recorded as if it was a liability.

Subsequent adjustments to assets and liabilities

IFRS Permits adjustments to fair values recognised at acquisition as additional evidence becomes available to estimate those values. Adjustments are recognised as changes to goodwill, provided they are made before the end of the first full accounting period beginning after the acquisition. Subsequent adjustments must be recognised in the income statement.

The reversal of restructuring provisions made on acquisition should be recognised as changes to goodwill.

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Goodwill (continued)

US GAAP Similar to **IFRS**. However, favourable adjustments to restructuring provisions if made are always recognised as changes to goodwill, with unfavourable adjustments recognised as changes to goodwill if made during the allocation period, or charged to expense if made after the allocation period. The allocation period, which cannot extend beyond one year following the date of the acquisition, is for adjustments relating to information that management has been waiting for to complete its purchase price allocation. Adjustments related to pre-acquisition contingencies that are finalised after the allocation period or events occurring after the acquisition date must be recognised in the income statement.

Subsequent adjustments to deferred tax

IFRS If a deferred tax asset relating to the acquiree is identified but not recognised at the time of the acquisition and is subsequently recognised in the acquirer's consolidated financial statements, the deferred tax income is recognised in the income statement. The acquirer must also adjust goodwill and accumulated amortisation, as if the deferred tax asset had been recognised at the acquisition date. The subsequent reduction in the net carrying amount of goodwill is recognised in the income statement as an expense.

US GAAP Subsequent recognition of a deferred tax asset for which a valuation allowance was established on the acquisition date reduces goodwill, then reduces intangible assets, and finally reduces tax expense. Subsequent establishment of a valuation allowance (after the allocation period) related to a deferred tax asset recognised on an acquisition is recorded as expense.

Disclosure

ITEM	IFRS	US GAAP
General		
Names and descriptions of the combining entities	Required	Required. Also disclose the reasons for the business combination
Method of accounting for the business combination	Required	Required
The effective date of the combination for accounting purposes	Required	Required
The cost of acquisition and the form of the consideration given, including any deferred and contingent consideration	Required	Required. Also disclose the basis for determining the value of shares given as consideration. Disclose accounting treatment to be followed should contingent consideration be realised
Operations to be disposed of	Required	Required
The % of voting shares acquired	Required	Required
Goodwill		
Goodwill – method & amortisation period	Required	Not applicable
Goodwill – impairment charge	Required	Required
Total amount of goodwill – amount expected to be tax deductible – the amount of goodwill by reportable segment	Not specified	Required
Reconciliation of the goodwill between opening and closing amount	Required	Required

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Disclosure (continued)

ITEM	IFRS	US GAAP
Other financial disclosures		
Summary of fair value of assets and liabilities acquired with separate disclosure of cash equivalents	Required	Provide condensed balance sheet disclosing amounts assigned to each balance sheet caption of the acquired entity
Provisions for terminating or reducing activities of acquiree	Required	Required
Effect of acquisition on the financial position at the balance sheet date and on the results since the acquisition	Required	Not required, but instead pro-forma income statement information is presented (see below)
Amount of purchased research and development assets acquired and written off in the period	Not applicable	Required
If the purchase price had not been finalised, disclose that fact and the reasons. In subsequent periods, adjustments made to the initial allocations must be disclosed	Not specified	Required
Details of amounts allocated to intangible assets including total amounts, amortisable/non-amortisable, residual values and amortisation period by assets	Not specified	Required
Pro-forma income statement including comparatives	Not required	Required only for public entities
For a series of individually immaterial business combinations that are material in the aggregate: – the number of entities and brief description – the aggregate cost, the number of entity interests issued or issuable and value – aggregate amount of any contingent payments options or commitments	Required.	Required

Recent proposals – IFRS

In 2003, the IASB issued an exposure draft, ED 3, Business Combinations, which proposes to align IFRS more closely with **US GAAP**. Goodwill will no longer be amortised but will be subject to annual impairment reviews. Pooling (uniting of interests, see p34) will be prohibited. Recording of restructuring liabilities in the purchase accounting will be prohibited. Contingent liabilities should be recognised at fair value. Negative goodwill should be expensed immediately, and minority interest should be measured at fair value. Recognition of intangible assets will be closely aligned with **US GAAP;** however, impairment will diverge.

Uniting of interests

Under **IFRS** it is very rare to account for a business combination as a uniting of interests. **US GAAP** prohibits the use of this method.

The criteria under **IFRS** focus on the substance of the transaction. A uniting of interests only applies where an acquirer cannot be identified. Control must not pass from one entity to another; the parties must come together in substance to create a new reporting entity and to share in its future risks and benefits.

Accounting for uniting of interests

Under **IFRS**, the uniting of interests does not involve an acquisition but a continuation of the business that existed before the transaction. The financial statements of the combining parties are simply added together. The combined assets, liabilities and reserves are recognised at their existing carrying amounts (after adjustments necessary to conform the accounting policies and practices). The results are combined from the earliest year reported and comparatives are restated. No goodwill is recognised on the transaction; any difference arising is adjusted against equity. Expenses relating to a uniting of interests are recognised in the income statement in the period incurred.

Recent proposals – IFRS

ED 3 also proposes to eliminate the uniting of interests method of business combinations.

Common control transactions

IFRS Does not specifically address such transactions. In practice, such combinations are generally accounted for at predecessor cost (with the choice of using fair value), reflecting the carrying amount of the assets and liabilities transferred, including any goodwill relating to the transferred entity previously recognised in the transferor's financial statements.

US GAAP Has specific rules for accounting for combinations of entities under common control. The use of predecessor values or fair values depends on a number of individual criteria.

REFERENCES: **IFRS**: IAS 12, IAS 22, SIC-9.
US GAAP: FAS 38, FAS 121, FAS 141, FAS 142, EITF 95-3.

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Revenue recognition

Revenue

Definition

IFRS Income is defined in the **IFRS** Framework to include revenues and gains. A specific standard on revenue recognition defines revenue as the gross inflow of economic benefits during the period arising from the ordinary activities of an enterprise when the inflows result in an increase in equity, other than increases relating to contributions from equity participants.

US GAAP Revenue is defined by the Concept Statement to represent actual or expected cash inflows (or the equivalent) that have occurred or will result from the entity's ongoing major operations.

Measurement

Both frameworks require measurement of revenues at the fair value of the consideration received or receivable. This is usually the amount of cash or cash equivalents received or receivable. Where the inflow of cash or cash equivalents is deferred, discounting to a present value is required under **IFRS** and, in limited situations, under **US GAAP**.

Revenue Recognition

IFRS **IFRS** is the only one of the two frameworks to contain a specific standard on revenue recognition. The standard describes specific revenue recognition criteria for the sale of goods and for the rendering of services and interest, royalties and dividends. The revenue recognition criteria common to each of these are: the probability that the economic benefits associated with the transaction will flow to the entity, and that the revenue and costs can be measured reliably.

Additional recognition criteria apply to revenue arising from the sale of goods. **IFRS** requires that the seller has transferred the significant risks and rewards of ownership to the buyer and retains neither management involvement in, nor control over, the goods. Revenue from the rendering of services must be recognised by reference to the state of completion of the transaction at the balance sheet date. Interest revenue must be recognised on a basis that takes into account the asset's effective yield. Royalties are recognised on an accrual basis, and dividends are recognised when the shareholder's right to receive payment is established.

US GAAP The guidance under **US GAAP** is extensive. There are a number of different sources of revenue recognition guidance, such as SFAS, SOPs, EITFs and AAERs. **US GAAP** focuses more on revenues being realised (either converted into cash or cash equivalents or the likelihood of its receipt being reasonably certain) and earned (no material transaction pending and the related performance has occurred). Revenue recognition involves an exchange transaction, i.e., there should generally be no revenue recognition unless and until an exchange has taken place. Additional guidance for SEC registrants sets out criteria, which an entity must meet before revenue is realised and earned (compared to **IFRS** in the table opposite). In addition, SEC pronouncements provide guidance related to specific revenue recognition situations.

Revenue recognition (continued)

Revenue recognition criteria

IFRS	US GAAP
It is probable that economic benefits will flow to the entity.	Vendor's price to the buyer is fixed or determinable. Collectability is reasonably assured.
The amount of revenue can be measured reliably.	Vendor's price to the buyer is fixed or determinable.
The entity has transferred to the buyer the significant risks and rewards of ownership of the goods.	Persuasive evidence of an arrangement exists, and delivery has occurred or services have been rendered.
The entity retains neither continuing managerial involvement nor effective control over the goods.	Delivery has occurred or services have been rendered.
The costs incurred or to be incurred in respect of the transaction can be measured reliably.	Vendor's price to the buyer is fixed or determinable, and collectability is reasonably assured.
The stage of completion of the transaction can be measured reliably.	Vendor's price to the buyer is fixed or determinable.

Specific revenue recognition issues

Warranty and product maintenance contracts

IFRS When a product's selling price includes an identifiable component for subsequent servicing, the latter is deferred and recognised over the warranty period.

US GAAP Similar to **IFRS**, revenue must be recognised on a straight-line basis unless the pattern of costs indicates otherwise. Consistent with **IFRS**, a loss must be recognised immediately if the expected cost to provide services during the warranty period exceeds unearned revenue.

Barter transactions – advertising

IFRS An advertising barter arrangement exists when two companies enter into a non-cash transaction to exchange advertising services. Under **IFRS**, revenue may generally be recognised on the exchange of dissimilar goods and services if the amount of revenue can be measured reliably. The transaction must be measured at the fair value of goods or services received; however, where the fair value of goods or services received cannot be measured reliably, the fair value of the goods and services given up is used. The fair value of advertising received or provided in a barter transaction is generally measured by reference to equivalent non-barter transactions.

US GAAP Revenue and expense must be recognised at the fair value of the advertising given. Fair value must be based on the entity's own historical practice of receiving cash for similar advertising from unrelated entities. Similar transactions used as a guide to fair value must not be older than six months prior to the date of the barter transaction. If the fair value of the advertising given cannot be determined within these criteria, then the carrying amount of the advertising surrendered, which likely will be zero, must be used.

Specific revenue recognition issues (continued)

Multiple-element arrangements

IFRS No detailed guidance for multiple-element revenue recognition arrangements exits. The recognition criteria are usually applied separately to each transaction. However, they are applied to two or more transactions together when they are linked in such a way that the whole commercial effect cannot be understood without reference to the series of transactions as a whole.

US GAAP Revenue arrangements with multiple deliverables should be divided into separate units of accounting if the deliverables in the arrangement meet specified criteria outlined in EITF 00-21. The arrangement's consideration should be allocated among the separate units of accounting based on their relative fair values. Applicable revenue recognition criteria should be considered separately for separate units of accounting.

Multiple-element arrangements – software revenue recognition

IFRS No specific software revenue recognition guidance exists. Fees from the development of customised software would usually be recognised by reference to a project's stage of completion.

US GAAP Provides specific guidance on software revenue recognition for software vendors, and in particular for multiple-element arrangements. For these arrangements, a value is established for each element based on vendor-specific objective evidence (VSOE) or other evidence of fair value. VSOE is generally limited to the price charged when elements are sold separately. Consideration is allocated to separate units based on their relative fair values, and revenue is recognised as each unit is delivered.

Construction contracts

Scope

IFRS Applies to fixed-price and cost-plus construction contracts of contractors (not defined), for the construction of a single asset or combination of assets.

US GAAP Guidance is defined from the perspective of the contractor rather than the contract, as in **IFRS**. Scope is not limited to construction-type contracts, guidance is also applicable to unit-price and time-and-materials contracts.

Recognition method

IFRS Requires the percentage of completion method to recognise revenue and expenses if the outcome can be measured reliably. The criteria necessary for a cost-plus contract to satisfy reliable measurement is less restrictive than for a fixed-price contract. When final outcome cannot be estimated reliably, **IFRS** requires the use of the zero-profit method, which recognises revenue only to the extent of contract costs incurred that are expected to be recovered. Provides limited guidance on the use of estimates.

US GAAP The percentage of completion method is preferred. However, in rare circumstances, when the extent of progress towards completion is not reasonably measurable, the completed contract method is used. Provides detailed guidance on the use of estimates.

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Construction contracts (continued)

Applying the percentage of completion method

IFRS When the outcome of the contract can be estimated reliably, revenue and costs must be recognised by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss must be recognised as an expense immediately.

US GAAP Permits two different approaches:

- the revenue cost approach (similar to **IFRS**) multiplies the estimated percentage of completion by the estimated total revenues to determine earned revenue, and multiplies the estimated percentage of completion by the estimated total contract cost to determine the cost of earned revenue; and
- the gross-profit approach (different from **IFRS**) multiplies the estimated percentage of completion by the estimated gross profit to determine the estimated gross profit earned to date.

Regardless of which accounting method is used, losses are recognised when incurred or when the expected contract costs exceed the expected contract revenue.

Completed contract method

IFRS Prohibited.

US GAAP Percentage of completion method is preferred. However, completed contract method is allowed in rare circumstances when estimates of costs to completion and the extent of progress towards completion are not determined with enough certainty. Revenue is recognised only when the contract is completed or substantially so. Regardless of which accounting method is used, losses are recognised when incurred or when the expected contract costs exceed the expected contract revenue.

Combining contracts and segmenting a contract

IFRS Requires contracts to be combined when part of a package, or segregated when each contract is part of a separate proposal and when revenues and costs can be clearly identified.

US GAAP Combining contracts is permitted but not required.

REFERENCES: **IFRS**: IAS 11, IAS 18.
US GAAP: CON 5, SAB 101, SOP 81-1, SOP 97-2, EITF 99-17, EITF 00-21, FTB 90-1.

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Expense recognition

Expenses

Definition

IFRS Expenses are defined in the **IFRS** Framework to include losses. Expenses are decreases in economic benefits that result in a decrease in equity.

US GAAP Expenses are defined by the Concept Statement to represent actual or expected cash outflows, or the equivalent, that have occurred or will result from the entity's ongoing major operations.

Specific expense recognition issues

Interest expense

IFRS Interest expense is recognised on an accrual basis. Where interest expense includes a discount or premium arising on the issue of a debt instrument, the discount or premium is amortised using the effective interest rate method. The effective interest rate is the rate that discounts the estimated future cash payments through the expected life of the debt intrument to the carrying amount of the debt instrument.

US GAAP Similar to **IFRS**.

Employee benefits – pensions

Both frameworks require the cost of providing these benefits to be recognised on a systematic and rational basis over the period during which employees provide services to the entity. Both frameworks separate pension plans into defined contribution plans and defined benefit plans and define them in similar ways.

Defined contribution plans

Defined contribution plans are post-employment benefit plans that require the entity to pay fixed contributions into a fund. The entity is under no legal or constructive obligation to make further contributions to the fund even if losses are sustained. Under these plans it is the employee who is exposed to the risk attributable to the plan assets. Both frameworks require that pension cost is measured as the contribution payable to the fund on a periodic basis.

Defined benefit plans

Defined benefit plans oblige the employer to provide defined post employment benefits of set amounts to employees. The risks associated with plan assets rest with the employer.

The methodology for accounting for defined benefit plans is similar under both frameworks. The key features are:

ITEM	IFRS	US GAAP
Determination of pension and post-retirement expense	Use projected unit credit actuarial method.	Similar to **IFRS**.
Discount rate for obligations	Based on market yields for high quality corporate bonds. Government bond yields should be used when there is no deep market in high quality corporate bonds.	Similar to **IFRS**, except that government bonds are not used.
Valuation of plan assets	Measure at fair value or using discounted cash flows if market prices unavailable.	Similar to **IFRS**.

Employee benefits – pensions (continued)

ITEM	IFRS	US GAAP
Recognition of actuarial gains and losses	Immediate recognition or amortise over expected remaining working lives of participating employees. At a minimum, a net gain/loss in excess of 10% of greater of defined benefit obligation or fair value of plan assets at beginning of year must be recognised.	Similar to **IFRS**, except that if all or almost all plan participants are retired, actuarial gains and losses are amortised over the remaining life expectancy of the plan participants.
Expected return on plan assets	Based on market expectations at the beginning of the period for returns over the entire life of the related obligation. Reflects changes in the fair value of plan assets as a result of actual contributions and benefits paid. The rate is applied to the fair value.	Based on market conditions and nature of the assets. Includes changes in plan assets due to contributions and benefit payments. The rate is applied to the market-related value of the plan assets, which is either the fair or a calculated value (which incorporates asset-related gains and losses over a period of no more than five years).
Balance sheet asset limitation	Asset limited to the lower of: a) the asset resulting from applying the standard, and b) the net total of any unrecognised actuarial losses and past service cost and the present value of any available refunds from the plan or reduction in future contributions to the plan.	No similar requirement.
Recognition of minimum pension liability	Not required.	Additional minimum liability is required when the accumulated benefit obligation exceeds the fair value of the plan assets and the amount of the accrued liability.
Past-service cost	Positive and negative past-service cost recognised over remaining vesting period. Where benefits have already vested, recognise past-service cost immediately.	Positive prior-service cost for current and former employees recognised over remaining service lives of active employees. Negative prior-service costs are deferred and used first to offset previous positive prior-service costs. Recognise excess as for positive prior-service cost.
Past service cost	Past-service cost recognised over remaining vesting period. Where benefits have already vested, recognise past-service cost immediately.	Prior-service cost for current and former employees generally recognised over remaining service lives of active employees. Negative plan amendments are deferred and used first to offset previous positive prior service costs. Recognise excess as for prior service cost.
Multi-employer plans	Use defined benefit accounting unless sufficient information not available.	Use defined contribution accounting.
Subsidiary's defined benefit pension plan forming part of a group plan	No exemption. The plan is accounted for as a defined benefit plan.	If a subsidiary is unable to determine its share of pension assets and liabilities, then the subsidiary may account for pension obligations as for a defined contribution plan.
Curtailment/ settlement (timing of recognition)	Gains and losses on curtailments are recognised when curtailments/settlements occurs.	Curtailment losses are recognised when it is probable that a curtailment will occur and the effect of the curtailment is reasonably estimable. Curtailment gains are deferred until realised and are recognised in earnings, either when the related employees terminate or the plan suspension or amendment is adopted. Settlement gains or losses are recognised when the event of settlement occurs.

Employee benefits – pensions (continued)

ITEM	IFRS	US GAAP
Curtailment/ settlement (calculation of gains and losses)	Gains and losses on curtailments / settlements include changes in the present value of the defined benefit obligation, any resulting changes in the fair value of the plan assets and any related actuarial gains and losses and past service cost that had not previously been recognised.	Gains and losses on curtailments include unrecognised prior service cost for which services are no longer expected to be rendered and changes in the projected benefit obligation (net of any unrecognised gains or losses and remaining transition asset). The maximum gain or loss on settlements to be recognised in profit or loss is equal to unrecognised net gain or loss plus any unrecognised transitional asset.

REFERENCES: **IFRS**: IAS 19, IAS 39.
US GAAP: APB 21, FAS 87, FAS 88.

Employee share compensation

There are no current requirements in **IFRS** for recognising and measuring employee share compensation, although specific disclosure rules apply. **US GAAP** requires that the "cost" of providing shares or rights to shares to an employee under share schemes is recognised in the income statement over the relevant service period.

Recognition

IFRS Not required.

US GAAP Requires recognition of the cost of shares/options awarded to employees, whether conditional on performance criteria or not, over the period to which the employee's service relates.

Measurement

IFRS Not applicable, as recognition is not currently required.

US GAAP Entities have a choice of accounting methods for determining the costs of benefits arising from employee share compensation plans. They may either follow an intrinsic value method or a fair value method.

Under the intrinsic value method, the compensation cost is the difference between the market price of the share at the measurement date and the price to be contributed by the employee (exercise price). Usually the measurement date is the date of grant. This method is widely used in practice.

The fair value method is based on the fair value of the option at the date of grant. This is estimated using an option-pricing model. If an entity chooses to follow the intrinsic value method, it must make, with comparable prominence and clarity, pro-forma disclosures of net income and earnings per share as if the fair value method had been applied.

Employer's payroll tax payable on exercise of share options by employees

IFRS No specific guidance regarding the recognition and measurement of payroll tax payable by entities in connection with the benefit accruing to employees from the award of share options. In practice, employers' social security liability arising from the payment of share options must be accrued based on the latest enacted national insurance rate and the current market value of the gain to the employee. This charge is spread over the performance period.

US GAAP Provides that employer payroll taxes due on the exercise of share options must be recognised as an expense at the option's exercise date.

Recent proposals – IFRS

The IASB issued an exposure draft, ED2, Share-based Payments, in November 2002. The ED requires share-based payment to employees to result in compensation expense to reflect the receipt and consumption of employee services and issue of equity instruments. The ED also requires recognition of a charge over the employees' service period to vesting date, measured on the basis of the fair value of the option at the grant date. This will be similar to the fair value model under **US GAAP.**

REFERENCES: **IFRS**: IAS 19, IAS 37.
US GAAP: APB 25, FAS 123, FAS 148, FIN 44, EITF D-83, EITF 00-16.

Compensated absences

Includes long-term compensated absences such as long-term disability, long service and sabbatical. These benefits typically accumulate over the employee's service period. Both frameworks recognise the liability as the employee provides the service that gives rise to the right to the benefit.

Termination benefits

IFRS Termination benefits arising from redundancies are accounted for similarly to restructuring provisions. In case of an offer made to encourage voluntary redundancy, the measurement of termination benefits should be based on the number of employees expected to accept the offer.

Termination indemnities are generally payable regardless of the reason for the employee's departure. The payment of such benefits is certain (subject to any vesting or minimum service requirements) but the timing of their payment is uncertain. **IFRS** requires that termination indemnities be accounted for consistently with pension obligations (i.e., including a salary progression element).

US GAAP Sets out specific guidance addressing post-employment benefits, for example salary continuation, termination benefits, training and counselling. **US GAAP** distinguishes between three types of termination benefits with three different timing methods for recognition.

Firstly, special termination benefits, generally additional benefits offered for a short period of time to certain employees electing for voluntary termination, which are recognised at the date when the employees accept the offer and the amount can be reasonably estimated.

Second, contractual termination benefits – which are benefits provided to employees when employment is terminated due to a specified event under an existing plan – are recognised at the date when it is probable that employees will be entitled to the benefits and the amount can be reasonably estimated.

Third, one-time termination benefits, which are benefits provided to current employees that are involuntarily terminated under the terms of a one-time benefit arrangement.

A one-time benefit arrangement is one that is established by a termination plan that applies for a specified termination event or for a specified future period. These one-time benefits are recognised as a liability when the termination plan meets certain criteria and has been communicated to employees (the communication date). If employees are required to render future service in order to receive the one-time benefits, the liability is recognised rateably over the future service period.

Termination indemnity plans are considered to be defined benefit plans under **US GAAP**. Entities may choose whether to calculate the vested benefit obligation (VBO) as the actuarial present value of the vested benefits to which the employee is entitled if the employee separates immediately, or as the actuarial present value of the vested benefits to which the employee is currently entitled, based on the employee's expected date of separation or retirement.

REFERENCES: **IFRS**: IAS 19.
US GAAP: FAS 43, FAS 88, FAS 112, FAS 146, EITF 88-1.

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Assets

Intangible assets

Definition

IFRS An identifiable non-monetary asset without physical substance controlled by the entity and held for use in the production or supply of goods or services, for rental to others, or for administration purposes. May be acquired or internally generated.

US GAAP Similar to **IFRS**.

Recognition – acquired intangibles [i]

IFRS General **IFRS** asset recognition criteria apply. Recognise if future economic benefits attributable to the asset are probable and the cost of the asset can be measured reliably.

US GAAP Similar to **IFRS**.

[i] For accounting for intangible assets acquired in a business combination see p30.

Recognition – additional criteria for internally generated intangibles

IFRS Requires classification of the costs associated with the creation of intangible assets by research phase and development phase. Costs in the research phase must always be expensed. Costs in the development phase are expensed unless the entity can demonstrate all of the following:

- the technical feasibility of completing the intangible asset;
- the intention to complete the intangible asset;
- the ability to use or sell it;
- how the intangible asset will generate future economic benefits. The entity must demonstrate the existence of a market or, if for internal use, the usefulness of the intangible asset;
- the availability of adequate resources to complete the development; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Development costs initially recognised as an expense cannot be capitalised in a subsequent period.

US GAAP Applies stricter recognition criteria than **IFRS**. **US GAAP** requires research and development costs to be expensed as incurred, making the recognition of internally generated intangible assets rare. However, separate rules apply to development costs for computer software that is to be sold. Here capitalisation (and amortisation) applies once technological feasibility is established. Capitalisation ceases when the product is available for general release to customers. Similar rules apply to certain elements of development costs for computer software developed for internal use.

Recognition – website development costs

IFRS Costs incurred during the planning stage must be expensed. Costs incurred for activities during the website's application and infrastructure development stages must be capitalised, and costs incurred during the operation stage must be expensed as incurred.

US GAAP Similar to **IFRS**.

Intangible assets (continued)

Measurement – acquired intangibles

IFRS The cost of a separately acquired intangible asset at the date of acquisition is usually self-evident, being the fair value of the consideration paid.

US GAAP Similar to **IFRS**.

Measurement – internally generated intangibles

IFRS The cost comprises all expenditure that can be directly attributed or allocated to creating, producing and preparing the asset from the date when the recognition criteria are met.

US GAAP Similar to **IFRS**.

Subsequent measurement – acquired and internally generated intangibles

IFRS Intangible assets are initially recognised at cost less accumulated amortisation/impairment, or at fair value less subsequent amortisation/impairment. Subsequent revaluation of intangible assets to their fair value must be based on prices in an active market. Where an entity adopts this treatment (extremely rare in practice), the revaluations must be regularly performed and the revaluation of the entire class of intangible assets must take place at the same time.

US GAAP Initial recognition is similar to **IFRS**. Revaluation is not allowed. Intangible assets subject to amortisation are carried at amortised cost unless impaired. Intangible assets not subject to amortisation are carried at historical cost unless impaired.

Amortisation – acquired and internally generated intangibles

IFRS **IFRS** has a rebuttable presumption that the useful life does not exceed 20 years from the date on which the asset is available for use. In very rare cases an entity may demonstrate that an intangible asset has a finite useful life in excess of 20 years, but an indefinite useful life is not permitted. The amortisation method must reflect the pattern in which the asset's benefits are consumed.

US GAAP Amortised if asset has a finite life. Do not amortise if the asset has an indefinite life, but test at least annually for impairment. There is no presumed maximum life under **US GAAP**.

Impairment – acquired and internally generated intangibles

IFRS Requires impairment reviews whenever changes in events or circumstances indicate that an intangible asset's carrying amount may not be recoverable. Annual reviews required, if the 20-year useful life presumption is rebutted or if the intangible asset is not yet ready for use.

US GAAP Requires impairment reviews annually and whenever changes in events or circumstances indicate that an intangible asset's carrying amount exceeds its fair value.

REFERENCES: **IFRS**: IAS 36, IAS 38, SIC-32.
US GAAP: FAS 86, APB 17, SOP 98-1.

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Property, plant and equipment

Definition

IFRS PPE are tangible assets that are held by an entity: for use in the production or supply of goods or services; for rental to others; or for administrative purposes. They are expected to be used during more than one period.

US GAAP Similar to **IFRS**.

Recognition

IFRS General **IFRS** asset recognition criteria apply. Recognise if future economic benefits attributable to the asset are probable and the cost of the asset can be measured reliably.

US GAAP Similar to **IFRS**.

Initial measurement

IFRS Comprises the costs directly attributable to bringing the asset to the location and working condition necessary for it to be capable of operating in the way management intends, including costs of testing whether the asset is functioning properly. Start-up and pre-production costs must not be capitalised unless they are a necessary part of bringing the asset to its working condition. The following are also included in the initial measurement of the asset:

- the costs of site preparation;
- initial delivery and handling costs;
- installation and assembly costs;
- costs of employee benefits arising from construction or acquisition of the asset;
- costs of testing whether the asset is functioning properly;
- professional fees;
- fair value gains/losses on qualifying cash flow hedges relating to the purchase of PPE in a foreign currency (see p65); and

The entity has the policy option to include the borrowing costs incurred during the period of acquiring, constructing or producing the asset for use (see p51);

Government grants received in connection with acquisition of PPE may be set off against the cost (see p59).

US GAAP Similar to **IFRS**, except that hedge gains/losses on qualifying cash flow hedges are not included. Relevant borrowing costs must be included if certain criteria are met. Consistent with **IFRS**, the fair value of a liability for an asset retirement obligation must be recognised in the period incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalised as part of the asset's carrying amount.

Subsequent expenditure

IFRS Subsequent maintenance expenditure is expensed as incurred. Replacement of parts can be capitalised when new criteria are met. The cost of a major inspection or overhaul occurring at regular intervals is capitalised where the recognition criteria are satisfied.

US GAAP Costs are capitalised to the extent that they represent additions or replacements. For example, in some specific industries such as airlines, overhaul costs on aircraft would be capitalised to the extent that the costs represented a replacement of existing components. At the time of overhaul, the net book value of any replaced component would be expensed.

Property, plant and equipment (continued)

Depreciation

IFRS The depreciable amount of an item of PPE must be allocated on a systematic basis over its useful life, reflecting the pattern in which the entity consumes the asset's benefits. Any change in the depreciation method used is treated as change in accounting estimate reflected in the depreciation charge for the current and prospective periods.

US GAAP Similar to **IFRS**, except that **US GAAP** classifies a change in the depreciation method for previously recorded assets as a change in accounting principle. The cumulative effect of the change is then reflected in the current year's income statement. However, a change in the estimated useful lives of depreciable assets is a change in estimate, which is accounted for prospectively in the period of change and future periods.

Subsequent measurement

IFRS The benchmark treatment requires an asset to be carried at cost less accumulated depreciation and impairment. However, revaluation of PPE at fair value is permitted under the alternative treatment. The revaluation choice must be applied to an entire class of assets.

The increase of an asset's carrying amount as a result of a revaluation must be credited directly to equity under the heading "revaluation surplus", unless it reverses a revaluation decrease for the same asset, previously recognised as an expense; then it must be recognised in the income statement. A revaluation decrease must be charged directly against any related revaluation surplus for the same asset, with any excess being recognised as an expense.

Disclosures of the historical cost equivalent (cost and accumulated depreciation) of assets carried at revalued amounts are required.

US GAAP Cost less accumulated depreciation and impairment losses. Consistent with **IFRS**, impairment testing is performed whenever events or changes in circumstances suggest the carrying value of an asset is not recoverable.

Frequency of revaluations

IFRS The revaluations must be kept sufficiently up to date so that the carrying amount does not differ materially from the fair value. This requires regular revaluations of all PPE when the revaluation policy is adopted. Management must consider at each year end whether fair value is materially different from carrying value.

US GAAP Not applicable.

Impairment of revalued PPE

IFRS An impairment loss (downward revaluation) may be offset against revaluation surpluses to the extent that it relates to the same asset; any uncovered deficit must be accounted for in the income statement.

US GAAP All impairments recognised in the income statement.

REFERENCES: **IFRS**: IAS 16, IAS 23, IAS 36.
US GAAP: FAS 34, FAS 143, FAS 144, ARB 43, APB 6.

Leases – lessor accounting

Classification

The concepts behind lease classification are similar in both frameworks. However, while extensive form-driven requirements are present in **US GAAP**, substance rather than legal form is applied under **IFRS**.

A finance (capital) lease exists if the agreement transfers substantially all the risks and rewards associated with ownership of the asset to the lessee. Both frameworks provide indicators for determining the classification of a lease. These are presented in the table below.

INDICATOR	IFRS	US GAAP
Normally leads to a finance lease		
Ownership is transferred to the lessee at the end of the lease term	Indicator of a finance lease.	Indicator of a finance lease.
A bargain purchase option exists	Indicator of a finance lease.	Indicator of a finance lease.
The lease term is for the majority of the leased asset's economic life	Indicator of a finance lease.	Specified as equal to or greater than 75% of the asset's life.
The present value of minimum lease payments is equal to substantially all the fair value of the leased asset	Indicator of a finance lease.	Specified as 90% of the fair value of the property less any investment tax credit retained by the lessor.
The leased assets are of a specialised nature that only the lessee can use without major modification	Indicator of a finance lease.	Not specified.
Could lead to a finance lease		
On cancellation, the lessor's losses are borne by the lessee	Indicator of a finance lease.	Not specified.
Gains and losses from the fluctuation in the fair value of the residual fall to the lessee	Indicator of a finance lease.	Not specified.
The lessee has the ability to continue the lease for a secondary period at below market rental	Indicator of a finance lease.	Not specified.

Recognition of the investment in the lease

Both frameworks require the amount due from a lessee under a finance lease to be recognised as a receivable at the amount of the net investment in the lease. At any point in time, this will comprise the total of the future minimum lease payments less gross earnings allocated to future periods. Minimum lease payments for a lessor include guarantees from a third party related to the leased assets under **IFRS**. **US GAAP** excludes these guarantees. The present value of minimum lease payments would generally use the implicit rate in the lease for discounting under **IFRS**. **US GAAP** would generally use the incremental borrowing rate.

The gross earnings are allocated between receipt of the capital amount and receipt of finance income on a basis so as to provide a constant rate of return. Initial direct costs are to be amortised over the lease term. **IFRS** and **US GAAP** require use of the net investment method to allocate gross earnings, which excludes the effect of cash flows arising from taxes and financing relating to a lease transaction. An exception to this is for leveraged leases under **US GAAP** where tax cash flows are included.

Leases – lessor accounting (continued)

Operating leases

Both frameworks require an asset leased under an operating lease to be recognised by a lessor as PPE and depreciated over its useful life. Rental income is generally recognised on a straight-line basis over the lease term.

Incentives

Both IFRS and US GAAP require that the lessor must recognise the aggregate cost of incentives given as a reduction of rental income over the lease term on a straight-line basis, unless another systematic basis is more representative of the time pattern over which the benefit of the leased asset is diminished.

REFERENCES: **IFRS**: IAS 17.
US GAAP: FAS 13, FAS 66, FAS 98, FTB 88-1.

Impairment of assets

Recognition

IFRS An entity must assess annually whether there are any indications that an asset may be impaired. If there is any such indication, the assets must be tested for impairment. An impairment loss must be recognised in the income statement when an asset's carrying amount exceeds its recoverable amount.

US GAAP Management must consider each period whether there is reason to suspect that long-lived assets (asset groups) might not be recoverable. Several impairment indicators exist for making this assessment. For assets to be held and used, impairment is first measured by reference to undiscounted cash flows. If impairment exists, the entity must measure impairment by comparing the asset's carrying value to its fair value. If there is no impairment by reference to undiscounted cash flows, no further action is required but the useful life of the asset must be reconsidered. Assets classified as held for disposal must be measured at the lower of the carrying amount or fair value less selling costs.

Measurement

IFRS The impairment loss is the difference between the asset's carrying amount and its recoverable amount. The recoverable amount is the higher of the asset's net selling price and its value in use. Value in use is the future cash flows to be derived from the particular asset, discounted to present value using a pre-tax market-determined rate that reflects the current assessment of the time value of money and the risks specific to the asset.

US GAAP The impairment loss is based on the asset's fair value, being either market value (if an active market for the asset exists), the best information available in the circumstances including the price for similar assets, or the sum of discounted future cash flows or other valuation techniques, using market assumptions. For assets to be disposed of, the loss recognised is the excess of the asset's carrying amount over its fair value less cost to sell. Costs to sell include incremental direct costs to transact the sale that would not have been incurred except for the decision to sell. Such assets are not depreciated or amortised during the selling period.

Reversal of impairment loss

IFRS Requires reversal of impairment losses when there has been a change in economic conditions or in the expected use of the asset.

US GAAP Prohibits reversals of impairment losses for assets to be held and used, as the impairment loss results in a new cost basis for the asset. Subsequent revisions, both increases and decreases, to the carrying amount of an asset to be disposed must be reported as adjustments to the asset's carrying amount, but limited by the carrying amount at the date the decision to dispose of the asset is made.

REFERENCES: **IFRS**: IAS 16, IAS 36.
US GAAP: FAS 143, 144.

Capitalisation of borrowing costs

Recognition

IFRS An entity can choose to capitalise borrowing costs where they are directly attributable to the acquisition, construction or production of a qualifying asset. The choice must be applied consistently. A qualifying asset is one that necessarily takes a substantial period of time to get ready for its intended use or sale.

US GAAP Requires capitalisation of borrowing costs, including the amortisation of discount premium and issue costs on debt, if applicable. **US GAAP** defines a qualifying asset in a similar manner to **IFRS**, except that investments accounted for using the equity method meet the criteria for a qualifying asset while the investee is actively preparing for its planned principal operations, provided that the investee's activities include the use of funds to acquire qualifying assets for its operations.

Measurement

IFRS The amount of interest eligible for capitalisation is either the actual costs incurred on a specific borrowing or an amount calculated using the weighted average method, considering all the general borrowings outstanding during the period for that entity. Interest can include foreign exchange differences, but under tightly defined conditions. Any interest earned on temporary investment of funds borrowed to finance the asset's production is netted with the interest to be capitalised. Capitalisation of interest must cease once the asset is ready for its intended use or sale.

US GAAP Similar to **IFRS**, except that foreign exchange differences and interest earned on funds borrowed to finance the production of the asset cannot be netted against interest as appropriate for **IFRS,** except for certain governmental or private enterprises that finance qualifying assets through tax-exempt borrowings. In these cases, the interest costs to be capitalised are required to be reduced by the interest income.

REFERENCES: **IFRS**: IAS 23
US GAAP: FAS 34, FAS 62.

Investment property

Definition

IFRS Property (land and buildings) held in order to earn rentals and/or for capital appreciation. Does not include owner-occupied property or property held for sale.

US GAAP No specific guidance for investment property, other than specific rules relating to entities qualifying as investment companies under the Investment Companies Act of 1940. For entities that are not investment companies, such property is accounted for in the same way as PPE.

Initial measurement

IFRS Requires the same cost-based measurement for both acquired and self-constructed investment property. The cost of a purchased investment property comprises its purchase price and any directly attributable costs such as professional fees for legal services, property transfer taxes and other transaction costs. Self-constructed property must be accounted for as PPE until construction is complete when it becomes an investment property. Property under finance or operating lease can also be classified as investment property.

US GAAP No specific rules for investment property. Such property is accounted for in the same way as PPE.

Subsequent measurement

IFRS The entity can choose between the fair value model or depreciated cost for all investment property. When fair value is applied, the gain or loss arising from a change in the fair value is recognised in the income statement and the carrying amount is not depreciated.

Investment property (continued)

US GAAP The depreciated cost model must be applied.

Transfers to/from investment property

IFRS When there is a change in use of the investment property, the standard provides detailed guidance for subsequent classification. Investment property to be sold is re-classified as inventories, and investment property to be owner-occupied is reclassified as PPE.

US GAAP Not applicable.

Frequency and basis of revaluations

IFRS The fair value of investment property must reflect the actual market conditions and circumstances as of the balance sheet date. The standard does not require an independent and qualified valuer, but it is encouraged. Revaluations must be made with sufficient regularity that the carrying amount does not differ materially from fair value.

US GAAP Not applicable.

REFERENCES: **IFRS**: IAS 40.
US GAAP: ARB 43, APB 6.

Inventories

Definition

Both frameworks define inventories as assets that are: held for sale in the ordinary course of business; in the process of production or for sale in the form of materials; or supplies to be consumed in the production process or in rendering services.

Measurement

IFRS Carried at the lower of cost or net realisable value (sale proceeds less all further costs to bring the inventories to completion). Reversal (limited to the amount of the original write-down) is required for a subsequent increase in value of inventory previously written down. Inventories of producers and dealers of agricultural and forest products and mineral ores allowed at net realisable value even if above cost.

US GAAP Broadly consistent with **IFRS**, in that the lower of cost and market value is used to value inventories. Market value is defined as being current replacement cost subject to an upper limit of net realisable value (i.e., estimated selling price in the ordinary course of business less reasonably predictable costs of completion and disposal) and a lower limit of net realisable value less a normal profit margin. Reversal of a write-down is prohibited, as a write-down creates a new cost basis. Similar for inventories of agricultural and forest products and mineral ores. Mark-to-market inventory accounting is allowed for refined bullion of precious metals.

Formula for determining cost

METHOD	IFRS	US GAAP
LIFO	Prohibited	Permitted
FIFO	Permitted	Permitted
Weighted average cost	Permitted	Permitted

Inventories (continued)

Consistency of the cost formula for similar inventories

IFRS Requires that an entity must use the same cost formula for all inventories that have a similar nature and use to the entity.

US GAAP Similar to **IFRS**.

Allocation of fixed overheads

IFRS Any allocation of fixed production overheads is based on normal capacity levels, with unallocated overheads expensed as incurred.

US GAAP In limited circumstances, idle capacity costs may also be absorbed into inventory costs.

REFERENCES: **IFRS**: IAS 2.
US GAAP: ARB 43.

Biological assets

IFRS A biological asset should be measured on initial recognition and at each balance sheet date at its fair value less estimated point-of-sale costs. All changes in fair value should be recognised in the income statement in the period in which they arise.

US GAAP Not specified, generally historical cost used.

REFERENCES: **IFRS**: IAS 41

Financial assets

IFRS outlines the recognition and measurement criteria for all financial assets, defined to include derivatives. The guidance in **IFRS** is broadly consistent with **US GAAP**.

Definition

IFRS and **US GAAP** define a financial asset in a similar way to include: cash; a contractual right to receive cash or another financial asset from another entity or to exchange financial instruments with another entity under conditions that are potentially favourable; and an equity instrument of another entity. Financial assets include derivatives (under **IFRS**, these include many contracts that will or may be settled in the entity's own equity instruments). Accounting for derivatives is dealt with on page 64.

Recognition and initial measurement

IFRS and **US GAAP** require that an entity recognise a financial asset when and only when the entity becomes a party to the contractual provisions of a financial instrument. The initial cost of the financial asset is the fair value of the consideration given, including directly related transaction costs.

Financial assets (continued)

CLASSIFICATION	IFRS	US GAAP
Financial assets at fair value through profit or loss		
This category has two sub-categories: financial assets held for trading, and those designated to the category at inception. Any financial asset may, on initial recognition, be classified as fair value through profit or loss.	An irrevocable decision to classify a financial asset as fair value through profit or loss.	No such option.
Held-for-trading financial assets		
Debt and equity securities held for sale in the short-term. Includes derivatives.	The intention must be to hold the financial asset for a relatively short period, or as part of a portfolio for the purpose of short-term profit-taking. Subsequent measurement at fair value. Unrealised and realised gains and losses recognised in the income statement.	Similar to **IFRS,** and frequent buying and selling usually indicates a trading instrument. Similar to **IFRS.**
Held-to-maturity investments		
Financial assets held with a positive intent and ability to hold to maturity. Includes assets with fixed and determinable payments and maturities. Does not include equity securities because they have an indefinite life.	Entity must have the "positive intent and ability" to hold a financial asset to maturity not simply a present intention. When an entity sells more than an insignificant amount of assets, classified as held-to-maturity, it is prohibited from using the held-to-maturity classification for two full annual reporting periods (known as tainting). The entity must also reclassify all its held-to-maturity assets as available-for-sale assets. Recognised at amortised cost using the effective yield method	Similar to **IFRS.** Similar to **IFRS;** however, **US GAAP** is silent about whether assets cease to be tainted. For listed companies, the SEC staff generally believes that the taint period for sales or transfers of held-to-maturity securities should be two years. Similar to **IFRS.**
Loans and receivables		
Financial assets created by providing money, goods and services directly to the borrower e.g., bonds, customer loans and trade receivables. May include loans and receivables purchased, provided their intention is similar.	Reported at amortised cost.	All debts receivable that are not securities are recognised at amortised cost.
Available-for-sale financial assets		
All debt/equity financial assets not covered by above categories. Includes equity securities, except those classified as held-for-trading.	Reported at fair value. Changes in fair value are recognised net of tax effects in equity and recycled to the income statement when sold, impaired or collected.	As for **IFRS,** includes debt/equity securities not covered by above categories, but excludes unlisted equity securities that are carried at cost. Changes in fair value reported in other comprehensive income.

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Financial assets (continued)

Reclassification of assets between categories

IFRS Reclassifications between categories are relatively uncommon under **IFRS** and are prohibited into and out of the fair value through profit or loss category.

Reclassifications from the held-to-maturity category as a result of a change of intent or ability are treated as sales and, other than in exceptional circumstances, result in the whole category being "tainted". The most common reason for a reclassification out of the category, therefore, is when the whole category is tainted and has to be reclassified as available-for-sale for two years. In such circumstances, the assets are remeasured to fair value, with any difference recognised in equity.

An instrument may be reclassified into the category where the tainted held-to-maturity portfolio has been "cleansed". In this case, the financial asset's carrying value at the date of reclassification is recharacterised as amortised cost. Any unrealised gains and losses already recognised remain in equity until the asset is impaired or derecognised.

US GAAP The following rules apply under **US GAAP** to the transfer of financial assets between categories:

- Held-to-maturity investments

  An entity must reclassify a financial asset from the held-to-maturity category when there has been a change of intent or ability, or there has been evidence of short-term profit taking. Where the reclassification is to held-for-trading, the asset must be re-measured to fair value with the difference recognised in the income statement. Where the financial asset is reclassified from held-to-maturity to available-for-sale, the asset must be re-measured to fair value with the difference recognised in equity. Such a transfer may trigger tainting provisions.

  If an entity transfers an asset into the held-to-maturity category, the asset's fair value at the date of reclassification becomes its amortised cost. Any previous gain or loss recognised in equity must be amortised over the remaining life of the held-to-maturity investment. Any difference between the new amortised cost and the amount due at maturity must be treated as an adjustment of yield.

- Available-for-sale financial assets

  Transfers from available-for-sale into trading only arise if an asset is subsequently included in a portfolio with a pattern of short-term profit-taking. The financial asset will already be carried at fair value, and any previous fair value gain or loss that has been recognised in equity must only be recognised in the income statement immediately.

Impairment

Both **IFRS** and **US GAAP** have similar requirements for the impairment of financial assets. **IFRS** requires an entity to consider impairment when there is an indicator of impairment, such as: the deterioration in the creditworthiness of a counterparty; an actual breach of contract; a high probability of bankruptcy; or the disappearance of an active market for an asset.

US GAAP requires the write-down of financial assets when an entity considers a decline in fair value to be "other than temporary". Indicators of impairment are: the financial health of the counterparty; whether the investor intends to hold the security for a sufficient period to permit recovery in value, the duration and extent that the market value has been below cost and the prospects of a forecasted market price recovery.

Financial assets (continued)

Both **IFRS** and **US GAAP** require that, for financial assets carried at amortised cost, the impairment loss is the difference between the asset's carrying amount and its estimated recoverable amount (present value of expected future cash flows discounted at the instrument's original effective interest rate). For financial assets carried at fair value, the recoverable amount is usually based on quoted market prices, or if unavailable, the present value of the expected future cash flows discounted at the current market rate. If a loss has been deferred in equity, it must be recycled to the income statement on impairment.

US GAAP prohibits the reversal of an impairment charge on available-for-sale securities. **IFRS** requires changes in value of available-for-sale debt securities, identified as reversals of previous impairment, to be recognised in the income statement. Similar to **US GAAP**, **IFRS** prohibits reversals of impairment on available-for-sale equity securities.

Derecognition

IFRS A financial asset (or part) is derecognised when:

- the rights to the asset's cash flows expire;
- the rights to the asset's cash flows and substantially all risks and rewards of ownership are transferred;
- an obligation to transfer the asset's cash flows is assumed, substantially all risks and rewards are transferred and the following conditions are met:
  - no obligation to pay cash flows unless equivalent cash flows from the transferred asset collected,
  - prohibition from selling or pledging the asset other than as security to the eventual recipients for the obligation to pass through cash flows,
  - obligation to remit any cash flows without material delay; or
- substantially all the risks and rewards are neither transferred nor retained but control of the asset is transferred.

If an entity transfers substantially all the risks and rewards of ownership of the asset (e.g., an unconditional sale of a financial asset), the entity derecognises the asset. If an entity retains substantially all the risks and rewards of ownership of the asset, the entity continues to recognise the asset (the transaction is accounted for as a collateralised borrowing). If an entity neither transfers nor retains substantially all the risks and rewards of ownership of the asset, the entity has to determine whether it has retained control of the asset. Control is based on the transferee's practical ability to sell the asset. If the entity has lost control the asset is derecognised. If the entity has retained control, it continues to recognise the asset to the extent of its continuing involvement.

If the asset is derecognised on sale to a special purpose entity (SPE), there may nevertheless be a requirement to consolidate that SPE.

On derecognition, the difference between the amount received and the carrying amount of the asset is recognised in the income statement. Any fair value adjustments on the assets formerly reported in equity are recycled to the income statement. Any new assets or liabilities arising from the transaction are recognised at fair value.

US GAAP Similar to **IFRS**, where an entity surrenders control over all or a portion of a financial asset sold, the asset may be derecognised. Otherwise, the transfer is accounted for as a borrowing secured by the asset "sold". Further, in certain circumstances **US GAAP** requires legal isolation of financial assets from the transferor (even in bankruptcy or receivership) as a necessary condition for derecognition.

REFERENCES: **IFRS**: IAS 39, SIC-12.
US GAAP: FAS 115, FAS 133, FAS 140

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Liabilities

Provisions

IFRS has a specific standard on accounting for provisions generally, while **US GAAP** has several standards addressing specific provisions, e.g., environmental liabilities and restructuring costs. Both frameworks prohibit recognition of provisions for future costs, including costs associated with compliance with proposed but not yet effective legislation.

Recognition

IFRS Requires recognition of a provision only when:

- the entity has a present obligation to transfer economic benefits as a result of past events;
- it is probable that such a transfer will be required to settle the obligation; and
- a reliable estimate of the amount of the obligation can be made.

A present obligation arises from an obligating event and may take the form of either a legal obligation or a constructive obligation. An obligating event leaves the entity no realistic alternative to settle the obligation created by the event. If the entity can avoid the future expenditure by its future actions, it has no present obligation and a provision is not recognised.

US GAAP Similar to **IFRS**.

Measurement

IFRS The amount recognised as a provision must be the best estimate of the minimum expenditure required to settle the present obligation at the balance sheet date. The entity must discount the anticipated cash flows using a pre-tax discount rate (or rates) that reflect(s) current market assessments of the time value of money and those risks specific to the liability if the effect is material. If a range of estimates is predicted and no amount in the range is more likely than any other amount in the range, the “mid-point” of the range must be used to measure the liability.

US GAAP Similar to **IFRS**; however, if a range of estimates is present and no amount in the range is more likely than any other amount in the range, the “minimum” (rather than the mid-point) amount must be used to measure the liability. A provision must only be discounted when the timing of the cash flows is fixed. (Differences may arise in the selection of the discount rate, particularly in the area of asset retirement obligations.)

Restructuring provisions

IFRS In the case of a restructuring, a present obligation exists only when the entity is “demonstrably committed” to the restructuring. An entity is usually demonstrably committed when there is a binding sale agreement (legal obligation), or when the entity has a detailed formal plan for the restructuring and is unable to withdraw because it has started to implement the plan or announced its main features to those affected (constructive obligation). However, if there will be a delay before the restructuring begins, or the restructuring will take an unreasonably long time to complete, then a provision is unlikely to be justified.

US GAAP Similar to **IFRS**; however, under **US GAAP** management would not be allowed to update or withdraw from the plan. **US GAAP** prohibits the recognition of a liability based solely on an entity’s commitment to a plan. Initial liabilities for restructurings, which meet the definition of a liability, are measured at fair value and must be evaluated each reporting period, with subsequent changes in fair value measured using an interest allocation approach.

Provisions (continued)

Onerous contracts

IFRS Prohibits provisions for future operating losses. However, if an entity is party to a contract that is onerous (the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under the contract), the present obligation under the contract must be recognised and measured as a provision. One of the most common examples relates to leasehold property that has been left vacant.

US GAAP A liability for costs to terminate a contract before the end of its term should be recognised and measured at its fair value when the entity terminates the contract in accordance with the contract terms (for example, when the entity gives written notice to the counterparty within the notification period specified by the contract or has otherwise negotiated a termination with the counterparty). A liability for costs that will continue to be incurred under a contract for its remaining term without economic benefit to the entity should be recognised and measured at its fair value when the entity ceases, using the right conveyed by the contract. A common example relates to leasehold property that is no longer being used. Under **US GAAP**, the liability must be reduced by estimated sub-lease rentals that could reasonably be obtained for the property (consistent with **IFRS**).

REFERENCES: **IFRS**: IAS 37.
US GAAP: FAS 5, EITF 88-10, FAS 146, SOP 96-1.

Contingencies

Contingent asset

IFRS Is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events, not wholly within the entity's control. When the realisation of the associated benefit, such as an insurance recovery, is virtually certain, the item is recognised as an asset.

US GAAP Similar to **IFRS**, but the threshold for recognising insurance recoveries is lower than **IFRS**. The recovery is required to be probable (the future event or events are likely to occur) rather than virtually certain as for **IFRS**.

Contingent liability

IFRS Is a possible obligation whose outcome will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the entity's control. A contingent liability can also be a present obligation that is not recognised because it is not probable that there will be an outflow of economic benefits, or the amount of the outflow cannot be reliably measured. Contingent liabilities are disclosed unless the probability of outflows is remote.

US GAAP Similar to **IFRS**, requiring an accrual for a loss contingency if it is probable (defined as likely) that there is a present obligation resulting from a past event and an outflow of economic resources is reasonably estimable.

REFERENCES: **IFRS**: IAS 37.
US GAAP: FAS 5, SOP 96-1.

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Deferred tax

Although both frameworks require full provision for deferred tax, there are differences in the methodology as set out in the table below.

ISSUE	IFRS	US GAAP
General considerations		
General approach.	Full provision.	Similar to **IFRS**.
Basis for deferred tax assets and liabilities	Temporary differences, i.e., the difference between carrying amount and tax base of assets and liabilities (see exceptions below).	Similar to **IFRS**.
Exceptions (i.e., deferred tax is not provided on the temporary difference)	Goodwill, which is not deductible for tax purposes, does not give rise to a taxable temporary difference. Similarly, negative goodwill does not give rise to a deductible temporary difference. Initial recognition of an asset or liability in a transaction that (i) is not a business combination and (ii) at the time of the transaction affects neither accounting profit nor taxable profit.	Similar to **IFRS**. Since negative goodwill is not carried on the balance sheet, it does not create a book/tax difference. No initial recognition exemption Special requirements apply in computing deferred tax on leveraged leases.
Specific applications		
Unrealised intra-group profits, e.g., on inventory	Deferred tax recognised at the buyer's tax rate.	The buyer is prohibited from recognising deferred taxes. The seller's tax rate is used.
Revaluation of PPE and intangible assets	Deferred tax recognised in equity.	Not applicable, as revaluation is prohibited.
Revaluation of financial assets	Deferred tax is recognised in the income statement unless changes in the carrying amount of available-for-sale assets are taken to equity, in which case deferred tax is taken to equity.	All changes in the carrying amount of available-for-sale assets are taken to equity; therefore, deferred tax is taken to equity.
Foreign non-monetary assets/liabilities when the reporting currency is the funtional currency	Deferred tax is recognised on the difference between the carrying amount determined using the historical rate of exchange and the tax base determined using the balance sheet date exchange rate.	No deferred tax is recognised for differences related to assets and liabilities that are remeasured from local currency into the functional currency resulting from changes in exchange rates or indexing for tax purposes.
Investments in subsidiaries: treatment of undistributed profit	Deferred tax is recognised except when the parent is able to control the distribution of profit and if it is probable that the temporary difference will not reverse in the foreseeable future.	Deferred tax is required on temporary differences arising after 1992 relating to investments in domestic subsidiaries. No deferred taxes are recognised on undistributed profits of foreign subsidiaries that are essentially permanent in duration.
Investments in joint ventures: treatment of undistributed profit	Deferred tax is recognised except when the venturer can control the sharing of profits and if it is probable that the temporary difference will not reverse in the foreseeable future.	Deferred tax is required on temporary differences arising after 1992 relating to investment in domestic corporate joint ventures. No deferred taxes are recognised on undistributed profits of foreign corporate joint ventures that are essentially permanent in duration.
Investments in associates: treatment of undistributed profit	Deferred tax is recognised except when the investor can control the sharing of profits and if it is probable that the temporary difference will not reverse in the foreseeable future.	Deferred tax is always recognised on temporary differences relating to investment in associates (whether domestic or foreign).

Deferred tax (continued)

ISSUE	IFRS	US GAAP
Measurement of deferred tax		
Tax rates	Tax rates and tax laws that have been enacted or substantively enacted.	Use of substantive enacted rates not permitted. Tax rate and tax laws must have been enacted.
Recognition of deferred tax asset	Deferred tax asset must be recognised if it is probable that sufficient taxable profit will be available against which the temporary difference can be utilised.	A different approach is used. Deferred tax asset recognised in full but is then reduced by a valuation allowance if it is more likely than not that some portion, or all, of the deferred tax asset will not be realised.
Discounting	Prohibited.	Prohibited.
Business combinations – acquisitions		
Step-up of acquired assets/liabilities to fair value	Deferred tax provided unless tax base of asset is also stepped up.	Similar to **IFRS.**
Previously unrecognised tax losses of the acquirer	Deferred tax asset recognised if, as a result of the acquisition, the recognition criteria for the deferred tax asset is met.	Similar to **IFRS.**
Tax losses of the acquiree	Similar requirements as for the acquirer.	Similar to **IFRS.**
Post-acquisition recognition of acquiree's tax losses that existed at the date of acquisition	Recognition of deferred tax asset that reduces goodwill and then reduces tax expense. No time limit for recognition of this deferred tax asset.	Recognition of deferred tax asset reduces goodwill, then reduces non-current intangible assets and then reduces tax expense. No time limit for recognition of this deferred tax asset.
Presentation of deferred tax		
Offset of deferred tax assets and liabilities	Permitted only when the entity has a legally enforceable right to set off, and the balance relates to tax levied by the same authority.	Similar to **IFRS.**
Current/non current	The deferred tax assets and liabilities must only be classified as current.	Deferred tax assets and liabilities must either be classified as current or non current based on the classification of the related non-tax asset or liability for financial reporting.
Reconciliation of actual and expected tax expense	Required. Computed by applying the applicable tax rates to accounting profit, disclosing also the basis on which the applicable tax rates are computed.	Required for public companies only. Computed by applying the domestic federal statutory tax rates to pre-tax income from continuing operations.

REFERENCES: **IFRS**: IAS 12.
US GAAP: FAS 109.

Government grants

IFRS Government grants (or contributions) received as compensation for expenses already incurred are recognised in the income statement once the conditions for their receipt have been met and there is reasonable assurance that the grant will be received. Revenue-based grants are deferred in the balance sheet and released to the income statement to match the related expenditure that they are intended to compensate. Capital-based grants must be deferred and matched with the depreciation on the asset for which the grant arises.

Grants that relate to recognised assets must be presented in the balance sheet either as deferred income, or by deducting the grant in arriving at the asset's carrying amount, in which case the grant is recognised as a reduction of depreciation. Specific rules apply for agricultural assets.

US GAAP Similar to **IFRS**, except recognition of government grants as revenue when there are conditions attached to the grant. Revenue recognition is delayed until such conditions are actually met under **US GAAP**. Contributions of long-lived assets or for the purchase of long-lived assets are reported in the period received.

Grants – agricultural assets

IFRS An unconditional government grant related to a biological asset measured at its fair value must be recognised in income statement, when the grant becomes receivable. If a government grant relating to a biological asset measured at its fair value is conditional, the grant must be recognised when the conditions are met. If a grant relates to a biological asset measured at cost, then the accounting treatment specified for government grants generally is applied.

US GAAP Not specified.

REFERENCES: **IFRS**: IAS 20, IAS 41.
US GAAP: FAS 116.

Leases – lessee accounting

Finance leases

IFRS Requires recognition of an asset held under a finance lease (see classification criteria on p47) with a corresponding obligation to pay future rentals, at an amount equal to the lower of the fair value of the asset and the present value of the minimum lease payments (MLPs) at the inception of the lease. The asset is depreciated over its useful life or the lease term if shorter. However, under **IFRS** the latter is only permitted if there is no reasonable certainty of the lessee obtaining ownership of the asset. The interest rate implicit in the lease must normally be used to calculate the present value of the MLPs. If the implicit rate is unknown, the lessee's borrowing rate may be used.

US GAAP Similar to **IFRS**, the lessee's incremental borrowing rate must be used to calculate the present value of the MLPs, excluding the portion of payments representing executory costs unless it is practicable to determine the rate implicit in the lease and the implicit rate is lower than the incremental borrowing rate. If the incremental borrowing rate is used, the amount recorded as the asset and obligation is limited to the fair value of the leased asset. Asset amortisation is consistent with **IFRS**.

Operating leases

Under **IFRS** and **US GAAP,** the rental expense under an operating lease must generally be recognised on a straight-line basis over the lease term.

Leases – lessee accounting (continued)

Incentives

A lessor often provides lease incentives to encourage the lessee to renew a lease arrangement. Under both frameworks the lessee must recognise the aggregate benefit of incentives as a reduction of rental expense over the lease term. The incentive must be amortised on a straight-line basis unless another systematic basis is representative of the pattern of the lessee's benefit from the use of the leased asset.

Sale and leaseback transactions

In a sale and leaseback transaction, the seller-lessee sells an asset to the buyer-lessor and leases the asset back. There are certain differences in the rules on dealing with profits and losses arising on sale and leaseback transactions across both frameworks. These are highlighted in the table below:

ISSUE	IFRS	US GAAP
Finance lease		
Profit or loss on sale	Deferred and amortised over the lease term.	Timing of profit or loss recognition depends on whether seller relinquishes substantially all or a minor part of the use of the asset. If substantially all, then profit/loss is generally recognised at date of sale. If seller retains more than a minor part, any profit in excess of either the present value of MLPs (for operating leases) or the recorded amount of the leased asset (for finance leases) is recognised at date of sale. A loss on a sale-leaseback must be recognised immediately by the seller-lessee to the extent that net book value exceeds fair value. Special rules apply for sale-leasebacks involving property relating to continuing involvement and transfer of risks and rewards of ownership.
Operating lease		
Sale at fair value	Immediate recognition.	See above.
Sale at less than fair value	Immediate recognition unless the difference is compensated by lower future rentals, then defer the difference over the period over which the asset is expected to be used.	See above.
Sale at more than fair value	Defer the difference over the period for which the asset is expected to be used.	See above.

REFERENCES: **IFRS**: IAS 17, SIC-15.
US GAAP: FAS 13, FAS 66, FAS 98.

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Financial liabilities

Definition

IFRS and **US GAAP** define a financial liability in a similar manner to include a contractual obligation to deliver cash or a financial asset to another entity, or to exchange financial instruments with another entity under conditions that are potentially unfavourable. Financial liabilities include derivatives (under **IFRS,** these include many contracts that will or may be settled in the entity's own equity instruments). Derivatives are dealt with on p64.

Classification

IFRS Where there is a contractual obligation (or economic compulsion) on the issuer of an instrument to deliver either cash or another financial asset to the holder, that instrument meets the definition of a financial liability, regardless of the manner in which the contractual obligation will be settled.

Preferred shares that are not redeemable, or that are redeemable solely at the option of the issuer and where distributions are at the discretion of the issuer, are classified as equity. However, preferred shares requiring the issuer to redeem for a fixed or determinable amount at a fixed or determinable future date, or where the holder has the option of redemption, are classified as liabilities.

Where the settlement of a financial instrument such as a preferred share is contingent on uncertain future events beyond the control of both the issuer and the holder, the issuer must classify the financial instrument as a liability.

However, an instrument that is settled using an entity's own equity shares is classified as a liability if the number of shares varies in such a way that the fair value of the shares issued equals the obligation.

Puttable instruments (financial instruments that give the holder the right to put the instrument back to the issuer for cash or another asset) are liabilities.

Split accounting is applied to convertible debt – see below.

US GAAP Generally, where an instrument is not a share of the entity and includes a conditional or unconditional obligation to transfer economic benefits (assets or issuance of equity shares), the instrument is classified as a liability. Examples include:

- A financial instrument issued in the form of shares that is mandatorily redeemable i.e., that embodies an unconditional obligation requiring the issuer to redeem it by transferring its assets at a specified or determinable date (or dates) or on an event that is certain to occur.
- A financial instrument that, at inception, embodies an obligation to repurchase the issuer's equity shares, or is indexed to such an obligation, and that requires or may require the issuer to settle the obligation by transferring assets (for example, a forward purchase contract or written put option on the issuer's equity shares that is to be physically settled or net cash settled).
- A financial instrument that embodies an unconditional obligation or a financial instrument other than an outstanding share that embodies a conditional obligation that the issuer must or may settle by issuing a variable number of its equity shares.

US GAAP does not make specific reference to classification of instruments where contingent settlement provisions exist.

Financial liabilities (continued)

Convertible debt

IFRS "Split accounting" is used whereby the proceeds of issuing debt are allocated between the two components: the equity conversion rights (recognised in equity); and the liability, recognised at fair value calculated by discounting at a market rate for a non-convertible debt (recognised in liabilities).

US GAAP Recognised as a liability, although a few instruments such as those with detachable warrants require split accounting. Unlike **IFRS**, detachable warrants that are issued with mandatorily redeemable preferred stock will now have to be recorded at the residual amount (i.e., the amount left over after the preferred stock has been valued at fair value). However, detachable warrants issued with debt are still recorded using a relative fair value approach.

Measurement

IFRS Initial measurement is at cost, being the fair value of a consideration received, less transaction costs. There are only two categories of financial liabilities: those at fair value through profit or loss (includes trading) and other. All derivatives that are liabilities (except qualifying hedging instruments) are trading liabilities. Other trading liabilities may include a short position in securities. Financial liabilities at fair value through profit or loss (including trading) liabilities are measured at fair value (the change is recognised in the income statement for the period). All other (non-trading) liabilities are carried at amortised cost.

US GAAP Generally similar to **IFRS**: however, there are certain specific measurement criteria for financial instruments.

Derecognition of financial liabilities

IFRS A financial liability must be derecognised when: the obligation specified in the contract is discharged; cancelled or expires; or the primary responsibility for the liability is legally transferred to another party. The difference between the carrying amount of a liability (or a portion thereof) extinguished or transferred and the amount paid for it must be recognised in net profit or loss for the period.

REFERENCES: **IFRS**: IAS 32, IAS 39, SIC-16.
US GAAP: CON 6, ASR 268(SEC), APB 6, APB 14, FAS 140, FAS 150.

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Equity

Equity instruments

Recognition and classification

IFRS An instrument is classified as equity when it does not contain an obligation to transfer economic resources. Preference shares, which are not redeemable, or redeemable solely at the option of the issuer, and where distributions are at the issuer's discretion, are classified as equity. Only derivative contracts that result in the delivery of a fixed amount of cash, or other financial asset for a fixed number of an entity's own equity instruments, are classified as equity instruments. All other derivatives on own equity are treated as derivatives.

US GAAP Similar to **IFRS.** Shareholders' equity is analysed between capital stock (showing separate categories for non-redeemable preferred stock and common stock) and other categories of shareholders' equity. Mandatorily redeemable financial instruments, obligations to repurchase own shares by transferring assets, and certain obligations to issue a variable number of shares are not classified as equity, but are considered to be liabilities.

Purchase of own shares

IFRS When an entity's own shares are repurchased, the shares are shown as a deduction from shareholders' equity. Any profit or loss on the subsequent sale of the shares is shown as a change in equity.

US GAAP When treasury stock is acquired with the intention of retiring the stock, an entity has the option to: charge the excess of the cost of treasury stock over its par value entirely to retained earnings; allocate the excess between retained earnings and additional paid-in-capital (APIC); or charge the excess entirely to APIC. When treasury stock is acquired for purposes other than retirement, the cost of the acquired stock may be shown separately as a deduction from equity or may be treated the same as retired stock.

Dividends on ordinary equity shares

IFRS Presented as a deduction in the statement of changes in shareholders' equity.

US GAAP Similar to **IFRS**.

REFERENCES: **IFRS:** IAS 32, IAS 39, SIC-16.
US GAAP: CON 6, APB 6, APB 14, FAS 150

Derivatives and hedging

Derivatives

IFRS and **US GAAP** both specify rules for the recognition and measurement of derivatives.

Definition

IFRS defines a derivative as a financial instrument: whose value changes in response to a specified index; requires no or little net investment; and is settled at a future date. **US GAAP** sets out similar requirements, except that the terms of the derivative contract must require or permit net settlement. Therefore, there are some derivatives, such as option and forward agreements to buy unlisted equity investments, that fall within the definition under **IFRS**, and not **US GAAP**.

Initial measurement

Under **IFRS** and **US GAAP,** all derivatives are recognised on the balance sheet as either financial assets or liabilities. They are initially measured at cost defined as the fair value on the acquisition date, and include directly related transaction costs, but not internal allocations of cost.

Subsequent measurement

IFRS and **US GAAP** require subsequent measurement of all derivatives at their fair value, regardless of any hedge relationship that might exist. Changes in a derivative's value are recognised in the income statement as they arise, unless they satisfy the criteria for hedge accounting outlined below. Under **IFRS**, a derivative whose fair value cannot be measured reliably is carried at cost less impairment or amortisation until settlement.

Hedge accounting

Under **IFRS** and **US GAAP**, detailed guidance is set out in the respective standards dealing with hedge accounting.

Criteria for hedge accounting

Under both **IFRS** and **US GAAP**, hedge accounting is permitted provided that an entity meets stringent qualifying criteria in relation to documentation and hedge effectiveness. Both frameworks require documentation of the entity's risk management objectives and how the effectiveness of the hedge will be assessed. Under both frameworks, hedge instruments must be highly effective in offsetting the exposure of the hedged item to changes in the fair value or cash flows, and the effectiveness of the hedge must be measured reliably on a continuing basis.

Under **IFRS,** a hedge qualifies for hedge accounting if the expectation is that changes in fair values or cash flows of the hedged item are almost fully offset (i.e., nearly 100%) by the changes in the fair value or cash flows of the hedging instrument ("prospective" test) and "actual" results are within a range of 80% to 125% ("retrospective" test). **US GAAP** requires 80% to 125% for both prospective and retrospective tests.

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Hedge accounting (continued)

Hedged items

In addition to the general criteria for hedge accounting, **IFRS** and **US GAAP** outline rules for the designation of specific financial assets and liabilities as hedged items. These are outlined in the table below.

IFRS	US GAAP
Held-to-maturity investments cannot be designated as a hedged item with respect to interest-rate risk, because changes in interest rates are not recognised for held-to-maturity investments.	Similar to **IFRS**.
If the hedged item is a financial asset or liability, it may be designated as a hedged item only in relation to those risks where effectiveness can be measured.	The designated risk must be the risk of changes in: the overall fair value or cash flow; market interest rates; foreign currency exchange rates; or the "obligor's" creditworthiness.
If the hedged item is a non-financial asset or liability, it may be designated as a hedged item only for foreign currency risk, or in its entirety because of the difficulty of isolating other risks.	Similar to **IFRS**, but the designated risk must hedge changes in fair value or cash flow for the entire hedged item. That is, the price risk of a similar asset in a different location or the price risk of a major ingredient may not be the hedged risk.
If similar assets or similar liabilities are aggregated and hedged as a group, the change in fair value attributable to the hedged risk for individual items must be proportionate to the change in fair value for the group.	Similar to **IFRS**.
Not specified.	An asset or liability that is re-measured to fair value with changes recognised in earnings e.g., debt security classified as trading is not permitted as a hedged item.
Not specified.	The hedged item cannot be related to: a business combination; the acquisition or disposition of subsidiaries; a minority interest in one or more consolidated subsidiaries; or investments accounted for using the equity method.

Hedging instruments

In most cases only a derivative instrument can qualify as a hedging instrument. However, **IFRS** permits a non-derivative (such as a foreign currency borrowing) to be used as a hedging instrument for foreign currency risk. **US GAAP** provides that a non-derivative can hedge currency risk only for a net investment in a foreign entity, or a firm commitment.

Under **IFRS** a written option cannot be designated as a hedging instrument unless it is combined with a purchase option and a net premium is paid. **US GAAP** provides a broadly similar restriction, and in most cases written options will not qualify for hedge accounting.

Hedge relationships

Exposure to risk can arise from: changes in the fair value of an existing asset or liability; changes in the future cash flows arising from an existing asset or liability; or changes in future cash flows from a transaction that is not yet recognised.

IFRS Recognises several types of hedge relationships. A fair value hedge where the risk being hedged is a change in the fair value of a recognised asset or liability. A cash flow hedge where the risk being hedged is the potential volatility in future cash flows. A hedge of a net investment in a foreign entity, where a hedge instrument is used to hedge the currency risk of a net investment in a foreign entity. A forecasted transaction must be highly probable to qualify as a hedged item.

US GAAP Similar to **IFRS**, excepted forecasted transactions only need to be probable.

Hedge accounting (continued)

Fair value hedges

IFRS Hedging instruments are measured at fair value. The hedged item is adjusted for changes in its fair value, but only due to the risks being hedged. Gains and losses on fair value hedges, for both the hedging instrument and the item being hedged, are recognised in the income statement.

US GAAP Similar to **IFRS**.

Cash flow hedges

IFRS Hedging instruments are measured at fair value, with gains and losses on the hedging instrument, where they are effective, initially deferred in equity and subsequently released to the income statement concurrent with the earnings recognition pattern of the hedged item. Gains and losses on financial instruments used to hedge forecasted asset and liability acquisitions may be included in the cost of the non-financial asset or liability – so-called "basis adjustment" – but this is not permitted for financial assets or liabilities.

US GAAP The basis adjustment approach is not permitted. Instead, all gains and losses are subsequently released to the income statement concurrent with the deferred recognition of the hedged item.

Hedges of net investments in foreign operations

IFRS Similar treatment to cash flow hedges; the hedging instrument is measured at fair value with gains/losses deferred in equity, to the extent that the hedge is effective, together with exchange differences arising on the entity's investment in the foreign operation. These gains/losses are transferred to the income statement on disposal of the foreign operation. **IFRS** allows the full gains and losses on hedges of a net investment in a foreign operation to be deferred in equity (including any hedge ineffectiveness), provided the hedging instrument is a non-derivative (e.g., a borrowing).

US GAAP Similar to **IFRS**. However, hedge ineffectiveness is recognised in the income statement in all cases.

Disclosure

The extensive disclosure requirements in **IFRS** and **US GAAP** apply to all entities except that under **US GAAP,** fair value disclosures are not required for certain small non-public entities. The disclosures under both frameworks are broadly similar and include general information about the entity's use of financial instruments, fair value information, details of hedging activities and liquidity information. However, there are numerous differences in the detailed requirements (such as those for disclosures of interest-rate risk, credit risk and market risk), as well as industry-specific disclosures, which are outside the scope of this publication. **IFRS** requires further disclosures on fair values including the extent to which fair values are determined by reference to published price quotations, or are estimated using valuation techniques. If a fair value is estimated using valuation technique and is sensitive to valuation assumptions that are not supported by observable market prices, a statement of this fact and the effect on the fair value of using a range of reasonably possible alternative assumptions may need to be disclosed.

Recent proposals – IFRS

The IASB is proposing to allow some form of fair value hedge accounting for a portfolio hedge of interest-rate risk. Further details can be found in the ED that the IASB issued in August 2003.

REFERENCES: **IFRS**: IAS 39.
US GAAP: FAS 133, FAS 137, FAS 138, FAS 149.

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Other accounting and reporting topics

Earnings per share

Earnings per share (EPS) must be disclosed for entities whose ordinary shares are publicly traded, and entities in the process of issuing such shares under both frameworks. **IFRS** and **US GAAP** are substantially the same in their methods of calculating EPS amounts.

Basic EPS

IFRS Basic EPS is calculated as profit available to common shareholders, divided by the weighted average number of shares in issue during the period. Shares issued as a result of a bonus issue are treated as if in issue for the whole year. Bonus issues occurring after the year-end must be incorporated into the calculations. For rights issues, a theoretical ex-rights formula is used to calculate the bonus element. Comparative EPS is adjusted for bonus issues and rights issues.

US GAAP Similar to **IFRS**.

Diluted EPS – basis

IFRS There is no "de minimis" dilution threshold below which diluted EPS need not be disclosed. For diluted EPS, earnings are adjusted for the after-tax amount of dividends and interest is recognised in the period in respect of the dilutive potential ordinary shares and for any other changes in the income statement or expense that would result from the conversion of the dilutive potential ordinary shares. The conversion is deemed to have occurred at the beginning of the period or, if later, the date of the issue of potential dilutive ordinary shares.

US GAAP Similar to **IFRS**.

Diluted EPS – share option

IFRS The "treasury stock" method is used to determine the effect of share options and warrants. The assumed proceeds from the issue of the dilutive potential ordinary shares are considered to have been used to repurchase shares at fair value. The difference between the number of shares issued and the number of shares that would have been issued at fair value is treated as an issue of ordinary shares for no consideration (i.e., a bonus issue) and is factored into the denominator used to calculate the diluted EPS. The earnings figure is not adjusted for the effect of share options/warrants.

US GAAP Similar to **IFRS**.

REFERENCES: **IFRS**: IAS 33.
US GAAP: FAS 128.

Related party transactions

The objective of the disclosures required by **IFRS** and **US GAAP** in respect of related party relationships and transactions is to ensure that users of financial statements are made aware of the extent to which those statements might be influenced by the existence of related parties.

Related party relationships are generally determined by reference to the control or indirect control of one party by another or by the existence of joint control or significant influence by one party over another. Both accounting frameworks are broadly similar as to which parties would be included within the definition of related parties, including subsidiaries, joint ventures, associates, directors and shareholders.

If the relationship is one based on control, certain disclosures are always required (regardless of whether transactions between the parties have taken place); these include the existence of the related party relationship, the name of the related party and the name of the ultimate controlling party.

There are some exemptions from disclosure available for certain subsidiaries and transactions.

Disclosures and exemptions

IFRS There is no specific requirement in **IFRS** to disclose the name of the related party (other than the ultimate parent entity). There is a requirement to disclose the amounts involved in a transaction, as well as the balances for each major category of related parties. However, these disclosures would appear to be needed in order to present meaningfully the "elements" of the transaction, which is a disclosure requirement.

IFRS also requires disclosure of the compensation of key management personnel in total and by category of compensation.

Exemptions from disclosures about related party transactions in the financial statements of subsidiaries are limited: the subsidiary must be wholly owned and the parent must be incorporated in the same country and provide consolidated financial statements.

State-controlled entities are required to disclose related party transactions under **IFRS**.

US GAAP The nature and extent of any transactions with all related parties and the nature of the relationship must be disclosed, together with the amounts involved. Unlike **IFRS**, all material related party transactions (other than compensation arrangements, expense allowances and similar items) must be disclosed in the separate financial statements of wholly-owned subsidiaries, unless these are presented in the same financial report that includes the parent's consolidated financial statements (including those subsidiaries).

REFERENCES: **IFRS**: IAS 24.
US GAAP: FAS 57.

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Segment reporting

Both frameworks have specific requirements about the identification, measurement and disclosure of segment information. The similarities and differences are reflected in the table below.

ISSUE	IFRS	US GAAP
General requirements		
Scope	Listed entities and entities in the process of listing. Non-listed entities may choose full compliance.	Listed entities, Non-listed entities are encouraged but not required to comply.
Format	Business and geographical, one as primary format other as secondary. Choice will depend on impact on business risks and returns. Secondary format requires less disclosure.	Based on operating segments and the way the chief operating decision-maker evaluates financial information for purposes of allocating resources and assessing performance.
Identification of segment		
General approach	Based on profile of risks and returns and internal reporting structure.	Based on the internally reported operating segments.
Aggregation of similar business/operating segments	Five factors given to determine whether products and services are similar.	The same criteria apply for aggregation of similar operating segments.
Aggregation of similar geographical segments	As for business/operating segments: six factors given, focusing on economic and political conditions, special risks, exchange control regulations and currency risks.	Not specified; certain disclosures (revenues and assets) required on consolidated GAAP basis of domestic operations, foreign countries in total and each material country.
Threshold for reportable segments	Revenue, result or assets are 10% or more of all segments. If revenue of reported segments are below 75% of total, report additional segments until 75% threshold is reached.	Similar to **IFRS**.
Segments not reported	Segments not identified as above included as unallocated items.	Included in "all other" category with sources of revenue disclosed.
Maximum number of reported segments	No limits.	Practical limit suggested at no greater than ten segments.
Measurement		
Accounting policies for segments	Those adopted for consolidated financial statements. May disclose additional segment data based on internal accounting policies.	Those adopted for internal reporting to the chief operating decision-maker for purposes of allocating resources and assessing performance.
Symmetry of allocation of assets/liabilities, revenues/ expenses	Symmetry required.	Not required but asymmetrical allocations must be disclosed.

Segment reporting (continued)

ISSUE	IFRS	US GAAP
Main disclosures		
Factors used to identify reportable segments	No specific disclosure required.	Required, including basis of organisation (e.g., products and services, geographic areas, regulatory environments) and types of products and services from which each segment derives its revenues.
Composition of segments	Disclose types of products and services included in each reported business segment and composition of each geographical segment.	Same as **IFRS**.
Profit	Required.	Required.
Assets and liabilities	Assets required. Liabilities for primary segment format only.	Assets required. Liabilities not required.
External and inter-segment revenue	External revenue required. Inter-segment revenue primary segment format only.	Required on a consolidated GAAP basis, and on a segment GAAP basis but only if included in the measurement of segment profit/loss for internal reporting.
Depreciation and amortisation expense and other significant non-cash expense	Required only for primary segment format.	Required for reportable segments on segment GAAP basis, but only if included in the measurement of segment profit/loss in internal reporting or otherwise regularly reported to chief operating decision-maker.
Exceptional item	Encouraged but not required for primary segment format only.	
Interest revenue and interest expense	Not required.	
Income tax	Not required.	
Capital expenditure on an accrual basis	Required.	
Profit/loss from investments in equity method investees, and amount of investment in equity method investees	Required if operations of associate are substantially all within a single segment.	
Major customers	Not required.	For each external customer > 10% of consolidated revenue, disclose total revenue and the relevant segment that reported the revenues.
Reconciliation of total segment revenue, total segment measures of profit or loss, total segment assets, total segment liabilities and any other significant segment totals to the corresponding totals of the entity	Required.	Required, except for segment liabilities.

REFERENCES: **IFRS**: IAS 14.
US GAAP: FAS 131.

Discontinuing/discontinued operations

US GAAP contains requirements for the measurement and disclosures of "discontinued" operations. **IFRS** only includes requirements for disclosures of "discontinuing operations", stating that the measurement rules contained in other standards, for example on impairment and provisions, must be followed.

ISSUE	IFRS	US GAAP
Definition	Separate major component.	A component that can be clearly distinguished operationally and for financial reporting. May be a reportable segment, operating segment, reporting unit, subsidiary or an asset grouping.
How discontinued	Either substantially in its entirety or piecemeal or through abandonment.	Operations and cash flows have been or will be eliminated, and entity will not have significant continuing involvement.
Envisaged timescale	Over several months or longer but pursuant to a single plan.	Completed within a year, with limited exceptions.
Starting date for disclosure	From the date on which a formal plan of disposal has been announced.	From the date on which a component has been disposed of or is classified as held for sale.
Measurement	Follow other standards, e.g., on provisions and impairment.	Results of operations of the component, including any gain or loss recognised for initial or subsequent write-downs to fair value less cost to sell, are reported in discontinued operations. The results of operations of a component classified as held for sale are reported in discontinued operations in the period(s) they occur, not accrued in advance.
Presentation	Continue to consolidate as normal until discontinuance completed, with additional disclosures on face of the income statement or in notes – see below.	From measurement date, present result from operations of discontinued component (and gain or loss on disposal) as separate lines in the income statement, net of tax, after income from continuing operations. Balance sheet consolidation as normal, if discontinuance not completed by period end.
Ending date of disclosure	Until completion of the discontinuance.	Similar to **IFRS**.
Disclosures – where	Face of the income statement or in notes.	From date component is disposed of or classified as held for sale, results of operations are reported as discontinued operations in a separate component of income before extraordinary items and cumulative effect of accounting changes. Assets and liabilities of related disposal groups classified as held for sale are segregated on the balance sheet.

Discontinuing/discontinued operations (continued)

ISSUE	IFRS	US GAAP
Disclosures – what	• Description of component and segment of which the operation is part • Date and nature of initial disclosure event • Expected timescale for completion of discontinuance • Carrying value of total assets/liabilities to be disposed of • Revenue, expenses, pre-tax result, tax and cash flows for current period.	• Description of component • Expected date and manner of discontinuance • Facts and circumstances leading to disposal • Amounts of major classes of assets and liabilities of the disposal group • Amount of gain or loss recognised on classification as held for sale • Revenue and pre-tax profit or loss in discontinued operations.
Disclosures once completed	Pre-tax gain or loss (face of the income statement).	Disclosures made for all periods in which component has been disposed or is classified as held for sale.
Comparatives	Restate for effects of discontinuing operations.	Similar to **IFRS**.

REFERENCES: **IFRS**: IAS 35, IAS 36, IAS 37.
US GAAP: FAS 144.

Post balance sheet events

Both frameworks have similar standards on post balance sheet events.

Adjusting events after the balance sheet date

IFRS Adjusting events that occur after the balance sheet date are defined as events that provide additional evidence of conditions that existed at the balance sheet date and materially affect the amounts included. The amounts recognised in the financial statements must be adjusted to reflect adjusting events after the balance sheet date.

US GAAP Similar to **IFRS**.

Non-adjusting events after the balance sheet date

IFRS Non-adjusting events that occurred after the balance sheet date are defined as events that are indicative of conditions that arose after the balance sheet date. The nature and estimated financial effects of such events are disclosed to prevent the financial statements being misleading.

US GAAP Similar to **IFRS**.

The announcement of a dividend relating to the financial year just ended

IFRS This event is a non-adjusting event.

US GAAP The declaration of a cash dividend is a non-adjusting event but a stock dividend is an adjusting event.

REFERENCES: **IFRS**: IAS 10.
US GAAP: AU Section 560.

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Interim financial reporting

Stock exchange requirements

IFRS The IASB does not mandate that public entities produce interim statements, but does encourage interim reporting – see additional guidance below.

US GAAP As well as following APB 28, domestic US SEC registrants must also comply with the specific financial reporting requirements in Regulation S-X applicable to quarterly reporting, including publication within 45 days (phasing to 35) of the quarter end. SEC registrants must also include an abbreviated management discussion and analysis of financial condition and results of operations.

Additional guidance

Additional guidance under both frameworks is similar and includes the following:

- consistent and similar basis of preparation of interim statements with previously reported annual data and from one period to the next;
- use of accounting policies consistent with the previous annual financial statements, together with adoption of any changes to accounting policies that it is known will be made in the year-end financial statements (for example, application of a new standard);
- preparation of the interim statements using a "discrete approach" to revenue and expenditure recognition; that is, viewing the interim period as a distinct accounting period, rather than part of the annual cycle. Hence incomplete transactions must be treated in the same way as at the year end, although **US GAAP** allows allocation between interim periods of certain costs benefiting more than one of those periods, and deferral of certain cost variances expected to be absorbed by year end. The tax charge in both frameworks is based on an estimate of the annual effective tax rate applied to the interim results;
- summarised income statement (including segment revenue/profit), balance sheet, cash flow statement, selected notes and statement of recognised gains and losses; and
- a narrative commentary.

Under both frameworks, comparatives for the balance sheet are taken from the last annual financial statements. Under **IFRS** and **US GAAP**, quarterly interim reports must contain comparatives (other than for the balance sheet) for the cumulative period to date and the corresponding period of the preceding year.

REFERENCES: **IFRS**: IAS 34.
US GAAP: APB 28, FAS 130, FAS 131.

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PricewaterhouseCoopers has a range of tools and publications to help companies make the change to IFRS and apply the standards (see also the inside front cover)

Making the change to IFRS

For many companies the change to IFRS will mean fundamental changes – changes that can ripple right across the business operations.

This publication explains PwC's comprehensive approach to transition, including our proven accounts conversion methodology and e-platform that enables companies to work collaboratively with PwC throughout the transition period.

IFRS News

IFRS News is a monthly newsletter focusing on the business implications of IASB proposals and new standards. It provides information on and interpretation of IASB activity, highlighting problems encountered and solutions found by PricewaterhouseCoopers IFRS teams.

P2P IAS – from principle to practice

P2P IAS is PwC's interactive, electronic learning solution. It is user friendly and builds a solid foundation in IFRS within a practical business context. Users build their knowledge easily and conveniently with 21 hours of learning in 34 interactive modules.

World Watch

Governance and Corporate Reporting

World Watch, the global newsletter published twice a year, is increasingly relevant in the current business environment. It includes news and comment on IFRS hot topics, corporate governance and key audit issues.

Comperio ®IFRS

Comperio IFRS is a one-stop instant access point to a comprehensive collection of technical financial reporting and assurance literature. It provides a fast and effective way of finding the answers to your IFRS questions.

Comperio IFRS will appeal to anyone using International Financial Reporting Standards – whether they are new to IFRS or already have a good understanding.

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