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Similarities and Differences

A comparison of IFRS and US GAAP

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

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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. See inside back cover for further details of IFRS products and services.

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Preface

One day we may not need to produce this publication because IFRS and US GAAP will be sufficiently converged that there will be no need for a comparison between the two sets of standards. However, there is much to do before this could become the reality, and most observers are unwilling to choose a date when that level of convergence will be achieved.

The International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) have been committed to converging IFRS and US GAAP since the Norwalk Accord of 2002. Preparers and others, including regulators, have called for convergence to simplify financial reporting and reduce the compliance burden for listed companies, especially those with a capital stock market listing in more than one jurisdiction. The SEC, in its more recent 'roadmap' towards removing the US GAAP reconciliation requirement for foreign private issuers using IFRS, has cited the continuing convergence of IFRS and US GAAP as a key building block, and in the last few months the European Commission has thrown its weight behind convergence as part of its strategy to better protect domestic investors who invest in non-European companies.

The two Boards have three major types of convergence projects underway: 1) joint projects where the standards are expected to be the same word-for-word (Business Combinations Phase 2 is the first example of this approach); 2) short-term projects where convergence on the answer in either US GAAP or IFRS seems possible on a fast-track basis (deferred tax accounting is an example); and 3) developing a consensus approach on long-term projects that are more conceptual in nature (revenue recognition and the conceptual framework are examples).

While all of these initiatives are in play, we are starting to see some resistance from a range of commentators. The joint proposals on business combinations have proved controversial. The early experience of standards that are converged in broad principles only, such as share-based payments, is that convergence at a high level removes only the broad conceptual differences but replaces them with detailed application differences that are hard to discern by the investor community and mean that the preparer community must track and explain differences arising from detailed technicalities.

A further increasing concern is that the potential benefit of standards produced with the same text could be short-lived. We have two official interpretative bodies (IFRIC and the EITF). The FASB seems prolific in producing guidance in the form of staff position papers, while numerous national guidance groups and regulators charged with enforcing IFRS for their listed companies are starting to add to the literature. If all of these interpretive and regulatory bodies cannot work in harmony and avoid adding multiple rules and varying interpretations to the principles, the end goal of worldwide harmonised accounting standards may not be reached.

This might all seem quite pessimistic, but let's look on the bright side. PricewaterhouseCoopers remains committed to supporting convergence on a single set of reporting standards for companies in the capital markets, and I believe that collectively the capital market constituencies can achieve this goal. Until we arrive at convergence, you may find this publication useful in helping you identify key differences between IFRS and US GAAP. This latest version has been updated to include all standards and interpretations published by 31 October 2005.

Gobal IFRS Leader
PricewaterhouseCoopers

How to use this publication

This PricewaterhouseCoopers publication is for those who wish to gain a broad understanding of the key similarities and differences between **IFRS** and **US GAAP**. The first part of this document provides a summary of the similarities and differences between **IFRS** and **US GAAP**. It refers to subsequent sections of the document where key differences are highlighted and explained in more detail.

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. This publication focuses on the measurement similarities and differences most commonly found in practice. When applying the individual accounting frameworks, readers should consult all the relevant accounting standards and, where applicable, their national law. Listed companies should 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 and including 31 October 2005 and is based on the most recent version of those pronouncements, should an earlier version of a pronouncement still be effective at the date of this publication. We have noted certain developments within the detailed text; however, not all recent developments or exposure drafts have been included.

Summary of similarities and differences

SUBJECT	IFRS	US GAAP	PAGE
Accounting framework			
Historical cost	Generally uses historical cost, but intangible assets, property plant and equipment (PPE) and investment property may be revalued to fair value. Derivatives, biological assets and certain securities are revalued to fair value.	No revaluations except for certain types of securities and derivatives to fair value.	13
Fair presentation override	Entities may, in rare cases, override the standards where essential to give a fair presentation.	Similar to **IFRS**; rarely used in practice.	14
First-time adoption of accounting frameworks	Full retrospective application of all **IFRSs** effective at the reporting date for an entity's first **IFRS** financial statements, with some optional exemptions and limited mandatory exceptions.	First-time adoption of **US GAAP** requires retrospective application.	14
Financial statements			
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 SEC registrants (public companies) for all statements except balance sheet. Specific accommodations in certain circumstances for foreign private issuers that may offer relief from the three-year requirement.	15
Balance sheet	Does not prescribe a particular format. A liquidity presentation of assets and liabilities is used, instead of a current/non-current presentation, only when a liquidity presentation provides more relevant and reliable information. Certain items are presented on the face of the balance sheet.	Entities may present either a classified or non-classified balance sheet. Items on the face of the balance sheet are generally presented in decreasing order of liquidity. Public companies should follow SEC regulations.	16
Income statement	Does not prescribe a standard format, although expenditure is presented in one of two formats (function or nature). Certain items are presented on the face of the income statement.	Present as either a single-step or multiple-step format. Expenditures are presented by function. Public companies should follow SEC regulations.	17
Exceptional items	Does not use the term, but requires separate disclosure of items that are of such size, incidence or nature that their separate disclosure is necessary to explain the performance of the entity.	Similar to **IFRS**, but individually significant items are presented on the face of the income statement and disclosed in the notes.	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 income and expense (SoRIE)/Other comprehensive income and Statement of accumulated other comprehensive income	A SoRIE can be presented as a primary statement, in which case a statement of changes in shareholders' equity is not presented. Alternatively it may be disclosed separately in the primary statement of changes in shareholders' equity.	Total comprehensive income and accumulated other comprehensive income are disclosed, presented either as a separate primary statement or combined with the income statement or with the statement of changes in stockholders' equity.	18

SUBJECT	IFRS	US GAAP	PAGE
Statement of changes in share (stock) holders' equity	Statement shows capital transactions with owners, the movement in accumulated profit and a reconciliation of all other components of equity. The Statement is presented as a primary statement except when a SoRIE is presented; in this case, only disclosure applies.	Similar to **IFRS** except statement is presented as a primary statement; SEC rules allow certain information to be included in the notes and not in the primary statement.	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 for items included in each category. Direct or indirect method used; SEC encourages the direct method.	19
Cash flow statements – exemptions	No exemptions.	Limited exemptions for certain investment entities.	19
Cash flow statements – definition of cash and cash equivalents	Cash includes cash equivalents with short-term maturities (typically less than three months) and may include cash overdrafts.	Similar to **IFRS**, except that bank overdrafts are excluded.	20
Changes in accounting policy	Comparatives and prior-year are restated against opening retained earnings.	Similar to **IFRS**.	21
Correction of errors	Comparatives are restated and, if the error occurred before the earliest prior period presented, the opening balances of assets, liabilities and equity for the earliest prior period presented are restated.	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. Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than one half of an entity's voting power. The existence of currently exercisable potential voting rights is also taken into consideration. A parent could have control over an entity in circumstances where it holds less than 50% of the voting rights of an entity and no legal or contractual rights by which to control the majority of the entity's voting power or board of directors.	Similar to **IFRS**. However, bipolar consolidation model is used which distinguishes between a variable interest model and a voting interest model. Control can be direct or indirect and may exist with a lesser percentage of ownership (voting interest model).	22
Special purposes entity (SPE)	Consolidated where the substance of the relationship indicates control.	Variable interest entities (VIEs) are consolidated when the entity has a variable interest that will absorb the majority of the expected losses, receive a majority of the expected returns, or both. A voting interest entity in which the entity holds a controlling financial interest is consolidated. If a SPE meets the definition of a qualified SPE (QSPE), the transferor does not consolidate the QSPE.	22

SUBJECT	IFRS	US GAAP	PAGE
Non-consolidation of subsidiaries	If control, as defined under 'definition of a subsidiary' above, does not rest with the entity, the entity does not consolidate the subsidiary.	Similar to **IFRS**, but also if the owner is not the primary beneficiary of a VIE.	23
Definition of associate	Based on significant influence; presumed if 20% or greater interest or participation in entity's affairs.	Similar to **IFRS**, although the term 'equity investment' is used instead of 'associate'.	23
Presentation of associate results	Equity method is used. Share of post-tax results is shown.	Similar to **IFRS**.	23
Disclosures about significant associates	Detailed information on significant associates' assets, liabilities and results is required.	Similar to **IFRS**.	23
Presentation of jointly controlled entities (joint ventures)	Both proportional consolidation and equity method permitted.	Equity method required except in specific circumstances.	25
Employee share (stock) trusts	Consolidated where substance of relationship indicates control (SIC-12 model). Entity's own shares held by an employee share trust are accounted for as treasury shares.	Similar to **IFRS** except where specific guidance applies for Employee Stock Ownership Plans (ESOPs) in SOP 93-6.	26
Business combinations			
Types	All business combinations are acquisitions.	Similar to **IFRS**.	27
Purchase method – fair values on acquisition	Assets, liabilities and contingent liabilities of acquired entity are fair valued. If control is obtained in a partial acquisition of a subsidiary, the full fair value of assets, liabilities and contingent liabilities, including portion attributable to the minority (non-controlling) interest, is recorded on consolidated balance sheet. Goodwill is recognised as the residual between the consideration paid and the percentage of the business acquired. Liabilities for restructuring activities are recognised only when acquiree has an existing liability at acquisition date. Liabilities for future losses or other costs expected to be incurred as a result of the business combination cannot be recognised.	Similar to **IFRS**, except minority interest is stated at pre-acquisition carrying value of net assets, and contingent liabilities of the acquiree are not recognised at the date of acquisition. Specific rules exist for acquired in-process research and development (generally expensed) and contingent liabilities. Some restructuring liabilities relating solely to the acquired entity may be recognised if specific criteria about restructuring plans are met.	27
Purchase method – contingent consideration	Included in cost of combination at acquisition date if adjustment is probable and can be measured reliably.	Not recognised until contingency is resolved or amount is determinable.	27
Purchase method – minority interests at acquisition	Stated at minority's share of the fair value of acquired identifiable assets, liabilities and contingent liabilities.	Stated at minority's share of pre-acquisition carrying value of net assets.	29
Purchase method – goodwill and intangible assets with indefinite useful lives	Capitalised but not amortised. Goodwill and indefinite-lived intangible assets are reviewed for impairment at least annually at either the cash-generating unit (CGU) level or groups of CGUs, as applicable.	Similar to **IFRS**, although the level of impairment testing and the impairment test itself are different.	29
Purchase method – negative goodwill	The identification and measurement of acquiree's identifiable assets, liabilities and contingent liabilities are re-assessed. Any excess remaining after reassessment is recognised in income statement immediately.	Any excess after reassessment is used to reduce proportionately the fair values assigned to non-current assets (with certain exceptions). Any remaining excess is recognised in the income statement immediately as an extraordinary gain.	30

SUBJECT	IFRS	US GAAP	PAGE
Purchase method – subsequent adjustments to fair values	Fair values determined on a provisional basis can be adjusted against goodwill within 12 months of the acquisition date. Subsequent adjustments are recorded in income statement unless they are to correct an error.	Similar to **IFRS**. Once fair value allocation is finalised, no further changes are permitted except for the resolution of known pre-acquisition contingencies. The adjustments made during the allocation period relating to data for which management was waiting to complete the allocation are recorded against goodwill.	30
Purchase method – disclosure	Disclosures include names and descriptions of combining entities, date of acquisition, cost of combination, summary of fair values and pre-acquisition **IFRS** values of assets and liabilities acquired, and impact on results and financial position of acquirer.	Similar to **IFRS**, with additional disclosures regarding the reasons for the acquisition and details of allocations.	31
Uniting of interests method	Prohibited.	Same as **IFRS**.	32
Business combinations involving entities under common control	Not specifically addressed. Entities elect and consistently apply either purchase or pooling-of-interest accounting for all such transactions.	Generally recorded at predecessor cost; the use of predecessor cost or fair value depends on a number of criteria.	32
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.	Similar to **IFRS** in principle, based on four key criteria. Extensive detailed guidance exists for specific types of transactions.	34
Multiple-element contracts	No detailed guidance for multiple-element transactions exists.	Arrangements with multiple deliverables are divided into separate units of accounting if deliverables in arrangement meet specified criteria outlined in EITF 00-21. Specific guidance exists for software vendors with multiple-element revenue arrangements.	36
Construction contracts	Accounted for using percentage-of-completion method. Completed contract method is prohibited.	Similar to **IFRS**; however, completed contract method is permitted in rare circumstances.	36
Expense recognition			
Interest expense	Recognised on an accrual basis. Effective yield method is used to amortise non-cash finance charges.	Similar to **IFRS**.	38
Employee benefits: pension costs – defined benefit plans	Projected unit credit method is used to determine benefit obligation and record plan assets at fair value. Actuarial gains and losses can be deferred.	Similar to **IFRS** but with several areas of differences in the detailed application.	38
Employee share compensation	Expense for services purchased is recognised. Corresponding amount is recorded either as a liability or an increase in equity, depending on whether transaction is determined to be cash- or equity-settled. Amount to be recorded is measured at fair value of shares or share options granted.	Similar model to **IFRS**. Compensation expense is generally recognised based on fair value of awards at grant date. Several areas of difference exist in application.	42
Termination benefits	Termination benefits arising from redundancies are accounted for similarly to restructuring provisions. Termination indemnity schemes are accounted for based on actuarial present value of benefits.	Four types of termination benefits with three different timing methods for recognition. Termination indemnity schemes are accounted for as pension plans; related is liability calculated as either vested benefit obligation or actuarial present value of benefits.	43

SUBJECT	IFRS	US GAAP	PAGE
Assets			
Acquired intangible assets	Capitalised if recognition criteria are met; amortised over useful life. Intangibles assigned an indefinite useful life are not amortised but reviewed at least annually for impairment. Revaluations are permitted in rare circumstances.	Similar to **IFRS**, except revaluations are not permitted.	45
Internally generated intangible assets	Research costs are expensed as incurred. Development cost is capitalised and amortised only when specific criteria are met.	Research and development costs are expensed as incurred. Some software and website development costs are capitalised.	45
Property, plant and equipment	Historical cost or revalued amounts are used. Regular valuations of entire classes of assets are required when revaluation option is chosen.	Historical cost is used; revaluations are not permitted.	46
Non-current assets held for sale or disposal group	Non-current asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. A non-current asset classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell. Comparative balance sheet is not restated.	Similar to **IFRS**.	48
Leases – classification	A lease is a finance lease if substantially all risks and rewards of ownership are transferred. Substance rather than form is important.	Similar to **IFRS**, but with more extensive form-driven requirements.	49
Leases – lessor accounting	Amounts due under finance leases are recorded as a receivable. Gross earnings allocated to give constant rate of return based on (pre-tax) net investment method.	Similar to **IFRS**, but with specific rules for leveraged leases.	49
Impairment of assets	If impairment is indicated, assets are written down to higher of fair value less costs to sell and value in use based on discounted cash flows. Reversal of impairment losses is required in certain circumstances.	Impairment is assessed on undiscounted cash flows for assets to be held and used. If less than carrying amount, impairment loss is measured using market value or discounted cash flows. Reversals of losses is prohibited.	50
Capitalisation of borrowing costs	Permitted as a policy choice for all qualifying assets, but not required.	Required.	51
Investment property	Measured at depreciated cost or fair value, with changes in fair value recognised in the income statement.	Treated the same as for other properties (depreciated cost). Industry-specific guidance applies to investor entities (for example, investment entities).	52
Inventories	Carried at lower of cost and net realisable value. FIFO or weighted average method is used to determine cost. LIFO prohibited. Reversal is required for subsequent increase in value of previous write-downs.	Similar to **IFRS**; however, use of LIFO is permitted. Reversal of write-down is prohibited.	53
Biological assets	Measured at fair value less estimated point-of-sale costs.	Not specified. Generally historical cost used.	53
Financial assets – measurement	Depends on classification of investment – if held to maturity or loans and receivables, they are carried at amortised cost; otherwise at fair value. Unrealised gains/losses on fair value through profit or loss classification (including trading securities) is recognised in income statement. Unrealised gains and losses on available-for-sale investments are recognised in equity.	Similar accounting model to **IFRS**, with numerous detailed differences in application; for example, no ability to designate financial assets at fair value through profit or loss.	55
Derecognition of financial assets	Financial assets derecognised are based on risks and rewards first; control is secondary test.	Derecognised based on control. Requires legal isolation of assets even in bankruptcy.	57

SUBJECT	IFRS	US GAAP	PAGE
Liabilities			
Provisions – general	Provisions relating to present obligations from past events are recorded if outflow of resources is probable and can be reliably estimated.	Similar to **IFRS**, with rules for specific situations such as environmental liabilities, loss contingencies, etc.	59
Provisions – restructuring	Restructuring provisions are recognised if detailed formal plan announced or implementation effectively begun.	Recognition of liability is based solely on commitment to plan is prohibited. In order to recognise, restructuring plan has to meet the definition of a liability, including certain criteria regarding likelihood that no changes will be made to plan or that plan will be withdrawn.	59
Contingencies	Unrecognised possible losses and probable gains are recognised.	Similar to **IFRS**.	61
Deferred income taxes – general approach	Full provision method is used (some exceptions) driven by balance sheet temporary differences. Deferred tax assets are recognised if recovery is probable (more likely than not).	Similar to **IFRS** but with specific differences in application.	62
Government grants	Recognised as deferred income and amortised. Entities may offset capital grants against asset values.	Similar to **IFRS**, except when conditions are attached to grant. In this case, revenue recognition is delayed until such conditions are met. Long-lived asset contributions recorded as revenue in the period received.	64
Leases – lessee accounting	Finance leases are recorded as asset and obligation for future rentals. Depreciated over useful life of asset. Rental payments are apportioned to give constant interest rate on outstanding obligation. Operating lease rentals are charged on straight-line basis.	Similar to **IFRS**. Specific rules should be met to record operating or capital lease.	65
Leases – lessee accounting: sale and leaseback transactions	For finance leases, profit arising on sale and finance leaseback is deferred and amortised. If an operating lease arises, profit recognition depends on whether the transaction is at fair value. Substance/linkage of transactions is considered.	Timing of profit and loss recognition depends on whether seller relinquishes substantially all or a minor part of the use of the asset. Losses are immediately recognised. Specific strict criteria is considered if the transaction involves real estate.	65
Financial liabilities – classification	Capital instruments are classified, depending on substance of issuer's obligations, as either liability or equity. Mandatorily redeemable preference shares are classified as liabilities.	Similar to **IFRS** but certain redeemable instruments are permitted to be classified as 'mezzanine equity' (ie, outside of permanent equity). Mandatorily redeemable instruments with a date or event certain redemption are classified as a liability.	66
Convertible debt	Convertible debt (fixed number of shares for a fixed amount of cash) accounted for on split basis, with proceeds allocated between equity and debt.	Conventional convertible debt is usually recognised entirely as liability, unless there is beneficial conversion feature.	67
Derecognition of financial liabilities	Liabilities are derecognised when extinguished. Difference between carrying amount and amount paid is recognised in income statement.	Similar to **IFRS**.	68

SUBJECT	IFRS	US GAAP	PAGE
Equity instruments			
Capital instruments – purchase of own shares	Show as deduction from equity.	Similar to **IFRS**.	69
Derivatives and hedging			
Derivatives and other financial instruments – cash flow and fair value hedges	Derivatives and hedge instruments are measured at fair value; changes in fair value are recognised in income statement except for effective portion of cash flow hedges, where the changes are deferred in equity until effect of underlying transaction is recognised in 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.	70
Derivatives and other financial instruments – net investment hedges	Effective portion of gains/losses on hedges of net investments is recognised in equity; ineffective portion is recorded in income statement. Gains/losses held in equity are transferred to income statement on disposal or partial disposal of investment.	Similar to **IFRS**. Gains/losses are transferred to income statement upon sale or complete or substantially complete liquidation of investment.	72
Other accounting and reporting topics			
Functional currency definition	Currency of primary economic environment in which entity operates.	Similar to **IFRS**.	74
Functional currency – determination	If indicators are mixed and functional currency is not obvious, judgement is used to determine functional currency that most faithfully represents economic results of entity's operations by focusing on currency of primary economic environment in which entity operates.	Similar to **IFRS**; however, no specific hierarchy of factors to consider. In practice, currency in which cash flows are settled is often key consideration.	74
Presentation currency	When financial statements are presented in the currency other than the functional currency, assets and liabilities are translated at exchange rate at balance sheet date. Income statement items are translated at exchange rate at dates of transactions, or average rates if rates do not fluctuate significantly.	Similar to **IFRS**.	75
Hyperinflationary economy – definition	Hyperinflation is indicated by characteristics of economic environment of country, which include: population's attitude towards local currency and prices linked to price index; and if cumulative inflation rate over three years is approaching, or exceeds, 100%.	Hyperinflation is generally indicated by cumulative three-year inflation rate of approximately 100% or more.	75
Hyperinflationary economy – measurement	Entities that have as functional currency the currency of hyperinflationary economy restate financial statements using a measurement unit current at balance sheet date.	Generally does not permit inflation-adjusted financial statements; instead requires use of reporting currency (US dollar) as functional currency. Foreign issuers that use **IFRS** are permitted to omit quantification of any differences that would have resulted from application of FAS 52.	75

SUBJECT	IFRS	US GAAP	PAGE
Earnings per share – diluted	Weighted average potential dilutive shares are used as denominator for diluted EPS. 'Treasury share' method is used for share options/warrants.	Similar to **IFRS**.	76
Related-party transactions – definition	Determined by level of direct or indirect control, joint control and significant influence of one party over another or common control by another entity.	Similar to **IFRS**.	77
Related-party transactions – disclosures	Name of the parent entity is disclosed and, if different, the ultimate controlling party, regardless of whether transactions occur. For related-party transactions, nature of relationship (seven categories), amount of transactions, outstanding balances, terms and types of transactions are disclosed. Exemption is given only to intragroup transactions in consolidated accounts.	Similar to **IFRS**. Exemptions are narrower than under **IFRS**.	77
Segment reporting – scope and basis of formats	Public entities: primary and secondary (business and geographic) segments are reported based on risks and returns and internal reporting structure.	Public entities (SEC registrants): reported based on operating segments, which are based on manner in which chief operating decision-maker evaluates financial information for purposes of allocating resources and assessing performance.	78
Segment reporting – accounting policies	Group accounting policies apply.	Internal financial reporting policies apply (even if accounting policies differ from group accounting policy).	78
Segment reporting – disclosures	Disclosures for primary segment include revenues, results, capital expenditures (capex), total assets, total liabilities and other items. For secondary segment, revenues, total assets and capex are reported.	Similar disclosures to **IFRS** (primary segment) except liabilities and geographical capex are not required. Depreciation, amortisation, tax, interest and exceptional/ extraordinary items are disclosed if reported internally. Disclosure of factors used to identify segments is required.	79
Discontinued operations – definition	Operations and cash flows that can be clearly distinguished for financial reporting and represent a separate major line of business or geographical area of operations, or a subsidiary acquired exclusively with a view to resale.	Wider definition than **IFRS**: component that is clearly distinguishable operationally and for financial reporting can be: reporting segment, operating segment, reporting unit, subsidiary or asset grouping.	80
Discontinued operations – measurement	Measured at lower of carrying amount and fair value less costs to sell.	Similar to **IFRS**.	80
Discontinued operations – presentation and main disclosures	At a minimum, a single amount is disclosed on face of income statement, and further analysis disclosed in notes for current and prior periods. Assets and liabilities of discontinued operations are presented separately from other assets and liabilities on balance sheet. No restatement of comparative balance sheet.	Similar to **IFRS**. Discontinued and held-for-sale operations are reported as separate line items on face of income statement before extraordinary items.	80
Post-balance-sheet events	Financial statements are adjusted for subsequent events, providing evidence of conditions at balance sheet date and materially affecting amounts in financial statements (adjusting events). Non-adjusting events are disclosed.	Similar to **IFRS**.	81

SUBJECT	IFRS	US GAAP	PAGE
Interim financial reporting	Contents are prescribed and basis should be consistent with full-year statements. Frequency of reporting (eg, quarterly, half-year) is imposed by local regulator or at discretion of entity.	Similar to **IFRS**. Additional quarterly reporting requirements apply for SEC registrants (domestic US entities only) and half-year reporting requirements for certain foreign private issuers.	81
Insurance	Entity chooses accounting policies under one of two methods: the Framework or entity's existing policy if management consider it relevant and reliable.	**US GAAP** has specific guidance in most accounting areas.	82
Oil and gas and mining	Entity may choose to capitalise exploration and evaluation activities under one of two methods: the Framework, or entity's existing policy if management consider it relevant and reliable.	Entity may choose to capitalise exploration and evaluation activities under one of two methods: successful efforts or full cost method.	85
Recognition of regulatory assets and liabilities	Not permitted to be recognised during normal course of business; regulatory asset can only be recognised as a 'customer-related' intangible in a business combination.	Requires regulatory assets and liabilities to be recognised.	86

Accounting framework

Conceptual framework

IFRS and **US GAAP** each have 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 should possess certain characteristics for it to be useful. The **IFRS** Framework requires financial information to 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 There are 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 to or from the entity, and those benefits are reliably measurable.

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, property, plant and equipment (PPE) and investment property. **IFRS** also requires certain categories of financial instruments and certain biological assets to be reported at fair value.

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

Fair presentation override

IFRS Extremely rare in practice, although entities may depart from a standard or interpretation if management concludes that compliance with a requirement in a standard or interpretation would be so misleading that it would not provide a 'true and fair view' of the entity's financial statements and if this concern cannot be addressed through additional disclosure. If this occurs the entity should depart from that requirement of the standard or interpretation only if the regulatory framework requires, or does not otherwise prohibit, such a departure. **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**; the **IFRS** requirements are applied in such a situation.

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

First-time adoption of accounting framework

IFRS The **IFRS** framework includes a specific standard on how to apply **IFRS** for the first time. It introduces certain reliefs and imposes certain requirements and disclosures. First-time adoption of **IFRS** as the primary accounting basis requires full retrospective application of **IFRS** effective at the reporting date for an entity's first **IFRS** financial statements, with optional exemptions primarily for PPE and other assets, business combinations and pension plan accounting and limited mandatory exceptions. Comparative information is prepared and presented on the basis of **IFRS**. Almost all adjustments arising from the first-time application of **IFRS** are 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 should be consistent for financial information presented in comparative financial statements. **US GAAP** does not give specific guidance on first-time adoption of its accounting principles. However, first-time adoption of **US GAAP** requires full retrospective application. Some 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, FAS 115, FAS 130, FAS 133, FAS 154.

Financial statements

General requirements

Compliance

IFRS Entities should make an explicit statement that financial statements comply with **IFRS**. Compliance cannot be claimed unless the financial statements comply with all the requirements of each applicable standard and each applicable interpretation.

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

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	16	Required	Required
Income statement	17	Required	Required
Statement of recognised income and expense (SoRIE)	18	Required[1]	Other comprehensive income and accumulated other comprehensive income[2]
Statement of changes in share (stock) holders' equity	19	Required[1]	Required
Cash flow statement	19	Required	Required[3]
Accounting policies	–	Required	Required
Notes to financial statements	–	Required	Required

[1] **IFRS:** A statement of changes in shareholders' equity is not presented as a primary statement if a SoRIE is presented as a primary statement. Supplemental equity information is displayed in the notes. Recognised income and expense can be separately highlighted in the statement of changes in shareholders' equity if a SoRIE is not presented as a primary statement.

[2] **US GAAP:** the statements of other comprehensive income and accumulated other comprehensive income may be combined with the income statement or the statement of changes in stockholders' equity.

[3] Except for certain investment companies and benefit plans.

Comparatives

IFRS One year of comparatives is required for all numerical information in the financial statements, with limited exceptions in disclosures.

US GAAP SEC requirements specify that all registrants should 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 principles are used in the primary financial statements.

Only one year of comparatives is required for companies that adopt **IFRS** prior to their fiscal year starting on or after 1 January 2007. This one-off accommodation was designed to allow **IFRS** adopters to avoid recasting the earliest year presented (ie, third year back) under **IFRS**. A third year of comparatives will be available in the second year of presenting **IFRS** financial statements and should be presented.

The general requirement for non-public entities is one year of comparatives for all numerical information in the financial statements.

Balance sheet

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

Format

IFRS There is no prescribed balance sheet format, but a separate presentation of total assets and total liabilities is required. 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 sheets except when a liquidity presentation provides more relevant and reliable information. All assets and liabilities are presented broadly in order of liquidity in such cases. 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 parent shareholders' equity, financial liabilities, provisions, tax liabilities, trade and other payables, and minority interests (presented within equity).

US GAAP Generally presented as total assets balancing to total liabilities and shareholders' equity. 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 should be sufficient to enable identification of material components. Public entities should follow specific SEC guidance.

Current/non-current distinction (general)

IFRS The current/non-current distinction is required (except when a liquidity presentation is used). Where the distinction is made, assets are classified as current assets if they are: held for sale or consumption in the normal course of the entity's operating cycle; or cash or cash equivalents. 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 realised or settled within 12 months of the balance sheet date, even if the original term was for a period of more than 12 months. An agreement to refinance or reschedule payments on a long-term basis that is completed after the balance sheet date does not result in non-current classification of the financial liabilities even if executed before the financial statements are issued.

US GAAP Management may choose to present either a classified or non-classified balance sheet. The requirements are similar to **IFRS** if a classified balance sheet is presented. The SEC provides guidelines for the minimum information to be included by public companies. Liabilities may be classified as non-current as of the balance sheet date provided that agreements to refinance or to reschedule payments on a long-term basis (including waivers for certain debt covenants) are completed before the financial statements are issued.

Offsetting assets and liabilities

IFRS Assets and liabilities cannot 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 offset the recognised amounts and intends to settle transactions on a net basis or to realise the asset and settle the liability simultaneously.

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

Other balance sheet classification

IFRS Minority interests are presented as a component of equity.

US GAAP Minority interests cannot be presented as equity.

Income statement

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

Format

IFRS There is no prescribed format for the income statement. The entity should select a method of presenting its expenses by either function or nature. The portion of profit and loss attributable to the minority interest and to the parent entity is separately disclosed on the face of the income statement. Disclosure of expenses by nature is required in the footnotes if functional presentation is used on the income statement. **IFRS** requires, as a minimum, 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;
- post-tax gain or loss attributable to the results and remeasurement of discontinued operations; and
- net profit or loss for the period.

The portion of the net income attributable to the minority interest is disclosed separately in the income statement.

US GAAP Presentation 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
- a multiple-step format where cost of sales is deducted from sales to show gross profit, and other income and expense are then presented to give income before tax.

SEC regulations require public companies to categorise expenses by their function. Amounts attributable to the minority interest are presented as a component of net income or loss.

Exceptional (significant) items

IFRS The separate disclosure is required 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. **IFRS** does not use or define the term 'exceptional items'.

US GAAP The term 'exceptional items' is not used, but significant items are disclosed separately on the face of the income statement when arriving at income from operations, as well as being described in the notes.

Extraordinary items

IFRS Prohibited.

US GAAP These 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 income and expense/other comprehensive income and statement of accumulated other comprehensive income

Presentation

IFRS Entities that present a statement of recognised income and expense (SoRIE) are prohibited from presenting a statement of changes in shareholder's equity as a primary statement; supplemental equity information is provided in a note. Recognised income and expense can be separately highlighted in the statement of changes in shareholders' equity if a SoRIE is not presented as a primary statement.

US GAAP One of three possible formats may be used:

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

The cumulative amounts are disclosed for each item of comprehensive income (accumulated other comprehensive income). The SEC will accept the statement prepared in accordance with **IFRS** without any additional disclosures.

Format

IFRS The total of income and expense recognised in the period comprises net income. The following income and expense items are recognised directly in equity:

- fair value gains/(losses) on land and buildings, intangible assets, available-for-sale investments and certain financial instruments;
- foreign exchange translation differences;
- the cumulative effect of changes in accounting policy;
- 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; and
- actuarial gains and losses on defined benefit plans recognised directly in equity (if the entity elects the option available under amended IAS 19, Actuarial gains and losses, effective from 1 January 2006, with earlier adoption encouraged).

US GAAP Similar to **IFRS**, except that revaluations of land and buildings and intangible assets are prohibited under **US GAAP**. Actuarial gains and losses (when recorded) are recognised through the income statement.

Statement of changes in share (stock) holders' equity

IFRS Presented as a primary statement unless a SoRIE is presented as a primary statement. Supplemental equity information is presented in the notes when a SoRIE is presented (see discussion under 'Presentation' above). It should show capital transactions with owners, the movement in accumulated profit and a reconciliation of all other components of equity. Certain items are permitted to be disclosed in the notes rather than in the primary statement.

US GAAP Similar to **IFRS**, except that **US GAAP** does not have a SoRIE, and SEC rules require further disclosure of certain items in the notes.

Cash flow statement

Exemptions

IFRS No exemptions.

US GAAP Limited exemptions for certain investment entities.

Direct/indirect method

IFRS Inflows and outflows of 'cash and cash equivalents' are reported in the cash flow statement. 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 indirect method is more common.

US GAAP The cash flow statement provides relevant information about 'cash receipts' and 'cash payments'. The SEC encourages the direct method; however, the indirect method is permitted and more common in practice. A reconciliation of net income to cash flows from operating activities is disclosed if the direct method is used. Significant non-cash transactions are disclosed.

Definition of cash and cash equivalents

IFRS Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and 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. Cash may also include bank overdrafts repayable on demand but not short-term bank borrowings; these are considered to be financing cash flows.

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

Format

IFRS Cash flows from operating, investing and financing activities are classified separately.

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[1]
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[1, 2]

[1] **US GAAP** has additional disclosure rules regarding supplemental disclosure of certain non-cash and cash transactions at the bottom of the cash flow statement.

[2] **US GAAP** has specific rules regarding the classification of the tax benefit associated with share-based compensation arrangements.

Changes in accounting policy and other accounting changes

Changes in accounting policy

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

Policy changes made on the adoption of a new standard are accounted for in accordance with that standard's transition provisions. The method described above is used if transition provisions are not specified.

US GAAP Similar to **IFRS** with the adoption of FAS 154, effective for fiscal years beginning after 15 December 2005.

Correction of errors

IFRS The same method as for changes in accounting policy applies.

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.

US GAAP Similar to **IFRS**.

REFERENCES: **IFRS:** IAS 1, IAS 7, IAS 8, IAS 21, IAS 29, SIC-30.
US GAAP: CON 1-7, FAS 16, FAS 52, FAS 95, FAS 130, FAS 141, FAS 154, APB 28, APB 30, ARB 43, SEC Regulation S-X.

Consolidated financial statements

Preparation

IFRS Parent entities prepare consolidated financial statements that include all subsidiaries. An exemption applies to a parent that is itself wholly owned or if:

- the owners of the minority interests have been informed about and do not object to the parent not presenting consolidated financial statements, and the parent's 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 There is no exemption for general purpose financial statements. Consolidated financial statements are presumed to be more meaningful and are required for public companies. Specific rules apply for certain industries.

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. Entities acquired (disposed of) are included in (excluded from) consolidation from the date on which control passes. Currently exercisable potential voting rights should also be considered.

US GAAP Uses a bipolar consolidation model. All consolidation decisions are evaluated first under the variable interest entity (VIE) model. If the entity is a VIE, management should follow the guidance below, under 'Special purpose entities'. Entities controlled by voting rights are consolidated as subsidiaries.

Special purpose entities

IFRS Special purpose entities (SPEs) are consolidated 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;
- the entity has the decision-making power to obtain the majority of the benefits of the SPE;
- 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 its assets.

Post-employment benefit plans or other long-term employee benefit plans to which IAS 19, Employee Benefits, applies are excluded from this rule.

US GAAP The consolidation of an SPE is required by its primary beneficiary when the SPE meets the definition of a VIE and the primary beneficiary has a variable interest in the entity that will cause it to absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both. There are several scope exceptions to this rule (such as pension, post-retirement or post-employment plans). Specific criteria also permit the transfer of financial assets to an SPE that is not consolidated by

the transferor. The SPE should be a qualifying SPE (QSPE as defined), and the assets should be financial assets (as defined).

Subsidiaries excluded from consolidation

IFRS All subsidiaries are consolidated except those for which control does not rest with the majority owner. A subsidiary that meets, on acquisition, the criteria to be classified as held for sale in accordance with IFRS 5 applies the presentation for assets held for sale (ie, separate presentation of assets and liabilities to be disposed of), rather than normal line-by-line consolidation presentation.

US GAAP Similar to **IFRS**. Unconsolidated subsidiaries are generally accounted for using the equity method unless the presumption of significant influence can be overcome.

Uniform accounting policies

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

US GAAP Similar to **IFRS**, with certain exceptions. Consolidated financial statements are prepared using uniform accounting policies for all of the entities in a group except when a subsidiary has specialised industry accounting principles. Retention of the specialised accounting policy on consolidation is permitted in such cases.

Reporting periods

IFRS The consolidated financial statements of the parent and the subsidiary are usually drawn up at the same reporting date. However, the consolidation of subsidiary accounts can be drawn up at a different reporting date provided the difference between the reporting dates is no more than three months. Adjustments are made for significant transactions that occur in the gap period.

US GAAP Similar to **IFRS**, except that note disclosure is only permitted for certain transactions that occur during the gap period.

REFERENCES: **IFRS:** IAS 27, SIC-12, IFRS 5.
US GAAP: ARB 51, FAS 94, FAS 144, 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 definition of an associate's financial and operating policies. Participation in the entity's financial and operating policies via representation on the entity's board demonstrates 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**, although the term 'equity investment' rather than 'associate' is used. **US GAAP** does not include unincorporated entities, although these would generally be accounted for in a similar way.

Equity method

IFRS An investor accounts 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. This is shown at a post-tax level. The investor recognises in equity its share of changes in the associate's equity that have not been recognised in the associate's profit or loss. The investor, on acquisition of the investment, accounts for the difference between the cost of the acquisition and investor's share of fair value of the net identifiable assets as goodwill. The goodwill is included in the carrying amount of the investment.

The investor's investment in the associate is stated at cost, plus its share of post-acquisition profits or losses, plus its share of post-acquisition movements in reserves, less dividends received. Losses that reduce the investment to 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 loans. 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 to make 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**.

Uniform accounting policies

IFRS An investor's financial statements are prepared using uniform accounting policies for like transactions and events; adjustments are made to the associate's policies to conform to that of the investor.

US GAAP While acceptable, the investor's financial statements do not have to be adjusted if the associate follows an acceptable alternative **US GAAP** treatment.

Impairment

IFRS Impairment is tested as prescribed under IAS 36 (IAS 28.33) if the investment has objective evidence of one of the indicators set out in IAS 39.59 (IAS 28.31). In the estimation of future cash flows for the impairment test, the investor may use its share of future net cash flows in the investment, or the cash flows expected to arise from dividends. The investee's goodwill is not subject to direct impairment testing by the investor.

US GAAP Equity investments are considered impaired if the decline in value is considered to be other than temporary. The investee's goodwill is not subject to direct impairment testing by the investor, similar to **IFRS**. If an other-than-temporary impairment is determined to exist, the investment is written down to fair value.

Investments in joint ventures

Definition

IFRS A joint venture is defined 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 A corporate joint venture is defined 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 – the arrangement is carried on through a separate entity (company or partnership);
- jointly controlled operations – 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 Either the proportionate consolidation method or the equity method is allowed. 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 Proportionate consolidation is not permitted for corporate joint ventures. Venturers apply the equity method to recognise the investment in a jointly controlled entity.

Contributions to a jointly controlled entity

IFRS A venturer that 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 recognises 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;
- the gain or loss on the assets contributed cannot be measured reliably; or
- the asset is similar to those contributed by other venturers.

US GAAP Little guidance exists regarding what basis to use in recording contributions to a jointly controlled entity. Joint ventures whose financial statements are filed with the SEC (or when one or more venturers are SEC registrants) may only use step-up to fair value when certain strict criteria are met.

Jointly controlled operations

IFRS Requirements are similar to jointly controlled entities without an incorporated structure. A venturer recognises 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 Equity accounting is appropriate for investments in unincorporated joint ventures. The investor's pro-rata share of assets, liabilities, revenues and expenses are included in their financial statements in specific cases where the investor owns an undivided interest in each asset of a non-corporate joint venture. Oil and gas joint ventures generally apply this treatment.

Jointly controlled assets

IFRS A venturer accounts 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 trusts (including employee share ownership plans)

The guidance in this section is based on the introduction of IAS 19 (revised 2004), effective 1 January 2006, and FAS 123 Revised, effective for public entities for interim filings after 15 June 2005 and non-public entities for fiscal years beginning after 15 December 2005, with earlier adoption encouraged for both standards. Refer to the October 2004 version of this publication for pre-adoption guidance.

Employee share-based payments are often combined with separate trusts that buy shares to be given or sold to employees.

Accounting

IFRS The assets and liabilities of an employee share-based trust are consolidated by the sponsor if the SIC-12 criteria are met. An entity accounts for its own shares held under an employee share ownership plan (ESOP) as treasury shares under IAS 32.

US GAAP For employee share trusts other than ESOPs, the treatment is generally consistent with **IFRS**. Specific guidance applies for ESOPs, under SOP 93-6.

REFERENCES: **IFRS:** IAS 32, SIC-12.
US GAAP: FAS 123-R, SOP 93-6.

Business combinations

Types

A business combination involves the bringing together of separate entities or businesses into one reporting entity. **IFRS** and **US GAAP** require the use of the purchase method of accounting for most business combination transactions. The most common type of combination is where one of the combining entities obtains control over the other. Other types of business combinations include:

- a joint venture-where the shareholders of the combining entities join in substantially equal arrangements to share control; and
- group reorganisation, which generally arises from transactions among entities that operate under common control.

IFRS Business combinations within the scope of IFRS 3 are accounted for as acquisitions. The purchase method of accounting applies. IFRS 3 excludes from its scope business combinations involving entities under common control, formation of joint ventures, business combinations involving mutual entities and business combinations by contract alone.

US GAAP The use of the purchase method of accounting is required for most 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 or business.

US GAAP The date on which assets are received or securities are issued (ie, the date the transaction closes).

Cost of acquisition

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

IFRS Shares issued as consideration are recorded at their fair value as at the date of the exchange – the date on which the acquirer obtains control over the acquiree's net assets and operations. The published price of a share at the date of exchange is the best evidence of fair value in an active market.

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 is not 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 if it is probable that the amount be paid and can be reliably measured. Any revision to the estimate is adjusted against goodwill. Additional consideration to be paid for the continued employment of a former owner/manager is evaluated based on facts and circumstances as to which part, if any, should be included in the cost of the acquisition and which part should be recognised as compensation expense over the service period.

US GAAP The additional cost is not generally 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 for the continued employment of a former owner/manager is accounted for similarly to **IFRS**.

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, liabilities and contingent liabilities that existed at the date of acquisition. These assets and liabilities are recognised at fair value at the date of acquisition.

The two frameworks apply different criteria to the recognition of acquisition restructuring provisions.

Restructuring provisions

IFRS The acquirer may recognise restructuring provisions as part of the acquired liabilities only if the acquiree has an existing liability at the acquisition date for a restructuring recognised in accordance with IAS 37.

US GAAP The acquirer may recognise a restructuring provision at the acquisition date if specific criteria are met. Management begins to assess and formulate a plan to exit an activity of the acquired entity as of the acquisition date. The plan should be completed in detail as soon as possible, but no more than one year after the date of the business combination. Management should communicate the termination or relocation arrangements to the employees of the acquired company. The restructuring provision should meet the definition of a liability in order to be recorded.

Intangible assets

IFRS An intangible asset is 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. Acquired in-process research and development (R&D) is recognised as a separate intangible asset if it meets the definition of an intangible asset and its fair value can be measured reliably. Non-identifiable intangible assets are subsumed within goodwill

US GAAP Similar intangible assets may be recognised under both **IFRS** and **US GAAP**. **US GAAP** similarly requires acquired in-process R&D to be valued at fair value. However, the acquired in-process R&D is expensed immediately unless it has an alternative future use.

Contingent liabilities

IFRS The acquiree's contingent liabilities are recognised separately at the acquisition date as part of allocating the cost, provided their fair values can be measured reliably.

US GAAP The acquiree's contingent liabilities are recognised at the acquisition date only if probable and management can make a reasonable estimate of settlement amounts.

Deferred tax recognised after initial purchase accounting

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 also adjusts goodwill 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.

Minority interests at acquisition

IFRS Where an investor acquires less than 100% of a subsidiary, the minority (non-controlling) interest is stated on the investor's balance sheet at the minority's proportion of the net fair value of acquired assets, liabilities and contingent liabilities assumed.

US GAAP The minority interest is valued at its historical book value. Fair values are assigned only to the parent company's share of the net assets acquired.

Goodwill

Goodwill arises as the difference between the cost of the acquisition and the acquirer's share of fair value of identifiable assets, liabilities and contingent liabilities acquired. Purchased goodwill is capitalised as an intangible asset.

IFRS Goodwill is not amortised but reviewed for impairment annually, and when indicators of impairment arise, at the cash-generating-unit (CGU) level, or group of CGUs, as applicable. A CGU is typically at a lower level than a reporting unit, as defined under **US GAAP**. CGUs may be aggregated for purposes of allocating goodwill and testing for impairment. Groupings of CGUs for goodwill impairment testing cannot be larger than a segment.

US GAAP Similar to **IFRS**. Goodwill is not amortised but reviewed for impairment at least annually at the reporting unit level. Goodwill is assigned to an entity's reporting unit (ie, an operating segment) or one level below (ie, a component).

Impairment

IFRS An impairment review of CGUs with allocated goodwill is required annually or whenever an indication of impairment exists. The impairment review does not need to take place at the balance sheet date. If newly acquired goodwill is allocated to a CGU that has already been tested for impairment during the period, a further impairment test is required before the balance sheet date.

A one-step impairment test is performed. The recoverable amount of the CGU (ie, the higher of its fair value less costs to sell and its value in use) is compared to its carrying amount. The impairment loss is recognised in operating results as the excess of the carrying amount over the recoverable amount. Impairment is allocated first to goodwill. Allocation is made on a pro rata basis to the CGU's assets if the impairment loss exceeds the book value of goodwill.

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 should be assessed.

A two-step impairment test is required:

1) The fair value and the carrying amount of the reporting unit including goodwill is compared. Goodwill is considered to be impaired if the fair value of the reporting unit is less than the book value; and

2) The goodwill impairment is measured as the excess of the carrying amount of goodwill over its implied fair value. The implied fair value of goodwill is determined by calculating the fair value of the various assets and liabilities included in the reporting unit in the same manner as goodwill is determined in a business combination. The impairment charge is included in operating income.

Negative goodwill

IFRS If any excess of fair value over the purchase price arises, the acquirer reassesses the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination. Any excess remaining after reassessment is recognised immediately in the income statement.

US GAAP Any excess over the purchase price after reassessment is used to reduce proportionately the fair values assigned and 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.

Subsequent adjustments to assets and liabilities

IFRS Adjustments against goodwill to the provisional fair values recognised at acquisition are permitted provided those adjustments are made within 12 months of the acquisition date. Adjustments made after 12 months are recognised in the income statement.

US GAAP Similar to **IFRS**. However, favourable adjustments to restructuring provisions if made are 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 are recognised in the income statement.

Disclosure

ITEM	IFRS	US GAAP
General		
Names and descriptions of the combining entities	Required.	Required. Reasons for the business combination are also disclosed.
The effective date of the combination for accounting purposes (ie, acquisition date)	Required.	Required.
The cost of acquisition and the form of the consideration given, including any deferred and contingent consideration	Required.	Required. Basis for determining the value of shares given as consideration, and accounting treatment to be followed should contingent consideration be realised is also disclosed.
Operations to be disposed of	Required.	Required.
The percentage of voting shares acquired	Required.	Required.
Goodwill		
Goodwill – impairment charge	Required.	Required.
Total amount of goodwill, the amount expected to be tax deductible and the amount of goodwill by reportable segment	Not specified.	Required.
Reconciliation of the goodwill between opening and closing amount	Required.	Required.
Factors giving rise to goodwill and a list of unrecognised intangible assets	Required.	Only description of factors giving rise to goodwill is required.
Other financial disclosures		
Summary of fair value and pre-acquisition IFRS amounts of assets and liabilities acquired with separate disclosure of cash equivalents	Required unless impracticable.	Condensed balance sheet is provided disclosing amounts assigned to each balance sheet caption of the acquired entity.
Provisions for terminating or reducing activities of acquiree	Required, subject to meeting IAS 37 recognition criteria.	Required.
Effect of acquisition on the financial position at the balance sheet date and on the results since the acquisition	Required unless impracticable.	Not required, but pro-forma income statement information is presented instead (see below).
Amount of purchased research and development assets acquired and written off in the period	Not applicable.	Required.

ITEM	IFRS	US GAAP
Other financial disclosures (continued)		
Initial purchase accounting not yet finalised. If the purchase price had not been finalised at the date of issue of the financial statements, this and the reasons are disclosed. Adjustments made to initial allocations in subsequent periods are also to be disclosed.	Required.	Required.
Details of amounts allocated to intangible assets including total amounts, amortisable/non-amortisable, residual values and amortisation period by assets	Required.	Required.
Pro-forma income statement including comparatives	Not required; however, the revenue and profit or loss for the period is disclosed as though the acquisition date had been the beginning of that period, unless impracticable.	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 equity instruments issued or issuable and value; and • the aggregate amount of any contingent payments options or commitments.	Required.	Required.

Pooling (uniting) of interests method

IFRS and **US GAAP** prohibit the use of this method of accounting if the business combination meets the definition of a business combination under the relevant standards.

Business combinations involving entities under common control

IFRS Does not specifically address such transactions. Entities should develop and apply consistently an accounting policy; management can elect to apply purchase accounting or the pooling-of-interests method to a business combination involving entities under common control. The accounting policy can be changed only when the criteria in IAS 8 are met. Related-party disclosures are used to explain the impact of transactions with related parties on the financial statements.

US GAAP Specific rules exist for accounting for combinations of entities under common control. Such transactions are generally recorded at predecessor cost, reflecting the transferor's carrying amount of the assets and liabilities transferred. The use of predecessor values or fair values depends on a number of individual criteria.

Partial disposals of subsidiaries with control retained

IFRS Does not specifically address such transactions. Entities should develop and consistently apply an accounting policy based either on the economic entity or parent company model.

US GAAP A gain or loss from the reduction of an interest in a subsidiary may be recognised in the income statement only if certain conditions are met (for example, if the transaction is not part of a group reorganisation).

Step acquisitions (investor obtaining control through more than one purchase)

IFRS The acquiree's identifiable assets, liabilities and contingent liabilities are remeasured to fair value at the date of the business combination. Each significant transaction is treated separately for the purpose of determining the cost of the acquisition and the amount of goodwill. Any existing goodwill is not remeasured. The adjustment to any previously held interests of the acquirer in the acquiree's identifiable assets, liabilities and contingent liabilities is treated as a revaluation.

US GAAP Similar to **IFRS**, each significant transaction is treated separately for the purposes of determining the cost of the acquisition and the amount of the related goodwill. Any previous interest in the acquirer's net assets is not restated, resulting in the accumulation of portions of fair values at different dates.

Recent proposals – IFRS and US GAAP

The IASB and the FASB issued exposure drafts of proposed amendments to IFRS 3 and FAS 141 in June 2005, with comment periods ending in October 2005. Both EDs propose a number of changes to the financial reporting for business combinations. Significant proposed changes are:

- The purchase method is applied to more business combinations, including those involving only mutual entities and those achieved by contract alone;
- The definition of a business combination is 'a transaction or other event in which an acquirer obtains control of one or more businesses';
- An acquired business is recognised at its fair value at the acquisition date, regardless of the percentage of equity interests held in the acquiree at the acquisition date;
- Changes in the fair value of contingent consideration arrangements are recognised in the income statement each reporting date after the acquisition date;
- In business combinations in which the acquirer holds less than 100% of the equity interests in the acquiree at the acquisition date, the acquirer recognises the identifiable assets and liabilities at the full amount of their fair values, with limited exceptions. It also recognises goodwill as the difference between the fair value of the acquiree, as a whole, and the fair value of the identifiable assets acquired and liabilities assumed (full goodwill method);
- Acquisitions of additional non-controlling equity interests after the business combination are accounted for as equity transactions;
- Acquisition-related costs such as investment banking and attorney fees are recognised in the income statement; and
- Gains and losses remeasured within the first year are recorded in the income statement.

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

Revenue recognition

Revenue

Definition

IFRS Income is defined in the Framework as including revenues and gains. The 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 major ongoing 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. Discounting to present value is required under **IFRS** where the inflow of cash or cash equivalents is deferred, and in limited situations under **US GAAP**.

Revenue recognition

IFRS There is a standard on revenue recognition. The standard describes specific criteria for the sale of goods, 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 the seller to have transferred the significant risks and rewards of ownership to the buyer and retained neither management involvement in, nor control over, the goods. Revenue from the rendering of services is recognised by reference to the state of completion of the transaction at the balance sheet date. Interest revenue is recognised on a basis that takes into account the asset's effective yield. Royalties are recognised on an accrual basis; dividends are recognised when the shareholder's right to receive payment is established.

US GAAP The guidance is extensive. There are a number of different sources of revenue recognition guidance, such as FAS, SABs, 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 – ie, there should be no revenue recognition unless and until an exchange has taken place. Additional guidance for SEC registrants sets out criteria that an entity should meet before revenue is realised and earned (compared to **IFRS** in the table below). SEC pronouncements also provide guidance related to specific revenue recognition situations.

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. Collectibility 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 that 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 collectibility 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 Warranty servicing is deferred and recognised over the warranty period where a product's selling price includes an identifiable component for subsequent warranty servicing.

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

Sales of services

IFRS Service transactions are accounted for under the percentage-of-completion method. Revenue may be recognised on a straight-line basis if the services are performed by an indeterminate number of acts over a specified period of time. Revenue may be recognised only to the extent of expenses recognised that are recoverable when the outcome of a service transaction cannot be measured reliably.

US GAAP Service transactions are accounted for under the appropriate specified guidance or, if none, when collectibility is reasonably assured, delivery has occurred or services have been rendered, persuasive evidence of an arrangement exists, and there is a fixed or determinable sales price. Revenue is not recognised where the outcome of a service transaction cannot be measured reliably.

Barter transactions

A barter arrangement exists when two companies enter into a non-cash transaction to exchange goods or services.

IFRS Revenue may be recognised on the exchange of dissimilar goods and services if the amount of revenue can be measured reliably. The transaction is measured at the fair value of goods or services received. The fair value of the goods and services given up is used where the fair value of goods or services received cannot be measured reliably. Exchanges of similar goods and services do not generate revenue.

US GAAP Non-monetary transactions are measured based on the fair value of the goods or services given up unless the fair value of the assets received is more clearly evident than the fair value of the assets given up. The transaction is measured at the cost of the asset given up if the fair value of both the asset received and the asset surrendered is not determinable or the exchange transaction is to facilitate sales to customers.

Barter transactions – advertising

An advertising barter arrangement exists when two companies enter into a non-cash transaction to exchange advertising services.

IFRS Revenue may be recognised on the exchange of dissimilar advertising services if the amount of revenue can be measured reliably. The transaction is measured at the fair value of advertising services provided. The fair value of advertising provided in a barter transaction is measured by reference to equivalent non-barter transactions that occur frequently, involve advertising similar to that in the barter transaction and do not involve the same counterparty as the barter transaction.

US GAAP Revenue and expense is recognised at the fair value of the advertising given. Fair value is 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 should not be older than six months prior to the date of the barter transaction. The carrying amount of the advertising surrendered, which is likely to be zero, is used if the fair value of the advertising given cannot be determined within these criteria.

Multiple-element arrangements

IFRS No detailed guidance for multiple-element revenue recognition arrangements exists. The recognition criteria are usually applied to the separately identifiable components of a transaction in order to reflect the substance of the 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 are divided into separate units of accounting if the deliverables in the arrangement meet specified criteria outlined in EITF 00-21. The arrangement's consideration is allocated among the separate units of accounting based on their relative fair values. Applicable revenue recognition criteria is 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 are recognised as revenue by reference to the stage of completion of the development, including completion of services provided for post-delivery customer support service.

US GAAP Specific guidance on software revenue recognition for software vendors is provided, in particular for multiple-element arrangements. A value is established for each element of a multiple-element arrangement, 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; revenue is recognised as each unit is delivered.

Construction contracts

Scope

IFRS Guidance 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 The percentage-of-completion method is required for recognising revenue and expenses if the outcome can be measured reliably. The criteria necessary for a cost-plus contract to be reliably measurable is less restrictive than for a fixed-price contract. The zero-profit method is used when the final outcome cannot be estimated reliably. This recognises revenue only to the extent of contract costs incurred that are expected to be recovered. **IFRS** provides limited guidance on the use of estimates. The completed contract method is not permitted.

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

Percentage-of-completion method

IFRS When the outcome of the contract can be estimated reliably, revenue and costs are 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 is recognised as an expense immediately.

US GAAP Two different approaches are allowed:

- The revenue 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 costs 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.

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

Completed contract method

IFRS Prohibited.

US GAAP The percentage-of-completion method is preferred. However, the completed contract method is allowed in rare circumstances where estimates of costs to completion and the extent of progress towards completion cannot be determined with enough certainty. Revenue is recognised only when the contract is completed or substantially so. Losses are recognised when incurred or when the expected contract costs exceed the expected contract revenue, regardless of which accounting method is used.

Combining contracts and segmenting a contract

IFRS Contracts are 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 104, SOP 81-1, SOP 97-2, EITF 99-17, EITF 00-21, FTB 90-1.

Expense recognition

Expenses

Definition

IFRS Expenses are defined in the 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 as actual or expected cash outflows, or the equivalent, that have occurred or will result from the entity's ongoing major operations.

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 instrument to the carrying amount of the debt instrument.

US GAAP Similar to **IFRS**; however, the contractual life of the debt instrument is generally used in practice.

Employee benefits – pensions

The **IFRS** guidance in this section is based on the introduction of IAS 19 (revised 2004), effective 1 January 2006, with earlier adoption encouraged; refer to the October 2004 version of this publication for pre-adoption guidance.

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.

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. Exposure risks attributable to the plan assets rest with the employee. Both frameworks require pension cost to be 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 based on similar principles; however, detailed differences exist in application. The key features are outlined below.

ITEM	IFRS	US GAAP
Determination of pension and post-retirement expense	Projected unit credit actuarial method used.	Similar to **IFRS**.
Discount rate for obligations	Based on market yields for high-quality corporate bonds. Government bond yields used where there is no deep market in high-quality corporate bonds.	Similar to **IFRS**, except that reference to government bonds is not required.
Valuation of plan assets	Measured at fair value or using discounted cash flows if market prices unavailable. Insurance contracts measured at fair value. Where plan assets include qualifying insurance policies that exactly match the amount and timing of some or all of the benefits payable under the plan, the fair value of those insurance policies is deemed to be the present value of the related obligations.	Similar to **IFRS**, except for differences resulting from the expected long-term rate of return applied to market related value of plan assets (see expected return on plan assets below). Contracts (other than purchases of annuities) are measured at fair value. If the contract has a determinable cash surrender value or conversion value, that value is used.
Recognition of actuarial gains and losses	Recognised immediately or amortised over expected remaining working lives of participating employees. At a minimum, a net gain/loss in excess of 10% of the greater of the defined benefit obligation or the fair value of plan assets at the beginning of the year is recognised. An entity can adopt a policy of recognising actuarial gains and losses in full in the period in which they occur and recognition may be outside of the income statement; a statement of recognised income and expense is presented (the SoRIE option) if this option is chosen.	Similar to **IFRS**, except that actuarial gains and losses are amortised over the remaining life expectancy of the plan participants if all or almost all plan participants are inactive. The SoRIE option under **IFRS** is not permitted.
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 of plan assets.	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 value or a calculated value (which incorporates asset-related gains and losses over a period of no more than five years).

ITEM	IFRS	US GAAP
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 required when the accumulated benefit obligation exceeds the fair value of the plan assets. It is increased by any prepaid pension asset and decreased by any accrued pension liability previously recognised.
Past-service cost	Positive and negative past-service cost recognised over remaining vesting period. Where benefits have already vested, past-service cost is recognised immediately.	Positive prior-service costs for current and former employees are recognised over the period during which the employer expects to receive an economic benefit from the increased pension benefit, which is typically the remaining service periods of active employees. Negative prior-service costs first offset previous positive prior-service costs, with the excess recognised in the same manner as positive prior-service cost. If all or almost all plan participants are inactive, prior-service cost is amortised over the remaining life expectancy of the plan participants.
Multi-employer plans	Defined benefit accounting used unless sufficient information is not available. If there is a contractual agreement between the multi-employer plan and its participants, and the plan is accounted for as a defined contribution plan, the asset or liability that arises from the contractual agreement and the resulting income or expense in profit or loss are recognised.	Defined contribution accounting used.
Subsidiary's defined benefit pension plan forming part of a group plan	Plans with participating entities under common control are not multi-employer plans. If there is a contractual arrangement between the subsidiary and the parent, the subsidiary accounts for the benefit costs on that basis; otherwise the contribution payable for the period is recognised as an expense, except for the sponsoring employer, which must apply defined benefit accounting for the plan as a whole.	The subsidiary should account for its participation in an overall group plan as a participant in a defined contribution (multi-employer) plan.

ITEM	IFRS	US GAAP
Curtailment definition	A curtailment occurs either when an entity is demonstrably committed to making a material reduction in the number of employees covered by the plan or when it amends the terms of the plan such that a material element of future service by current employees will no longer qualify for benefits, or will qualify only for reduced benefits.	A curtailment eliminates, rather than reduces, the accrual of benefits for some or all of employees' future services.
Settlement definition	A settlement occurs when an entity enters into a transaction that eliminates all further legal or constructive obligation for part or all the benefits under the plan.	Similar to **IFRS** and evidenced by the employer meeting three conditions.
Curtailment/settlement (timing of recognition)	Gains and losses are recognised when curtailments/settlements occur.	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 settlement occurs.
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 (including any remaining transition obligation) 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 transition asset.

REFERENCES: **IFRS:** IAS 19, IAS 39, IAS 37.
US GAAP: APB 21, FAS 87, FAS 88, FAS 106.

Employee share compensation

The guidance in this section is based on the introduction of IAS 19 (revised 2004), effective 1 January 2006, and FAS 123 Revised, effective for public entities for interim filings after 15 June 2005 and non-public entities for fiscal years beginning after 15 December 2005, with earlier adoption encouraged for both standards; refer to the October 2004 version of this publication for pre-adoption guidance.

Recognition

IFRS The fair value of shares and options awarded to employees is recognised over the period to which the employees' services relate. The award is presumed to be for past services if it is unconditional without any performance criteria.

US GAAP Similar to **IFRS**.

Measurement

IFRS Shares and share options are often granted to employees as part of their remuneration package, in addition to salary and other employment benefits. The goods or services received or acquired in a share-based payment transaction are recognised. For equity-settled share-based payments transactions, the goods or services received and the corresponding increase in equity at the fair value of the goods or services received are measured. If the entity cannot estimate reliably the fair value of the goods or services received, as will be the case with employee services, it should measure their value and the corresponding increase in equity by reference to the fair value of the equity instruments granted. For cash-settled share-based payment transactions, the goods or services acquired and the liability incurred at the fair value of the liability are measured. Extensive disclosures are also required.

US GAAP Similar conceptual model. The use of the 'fair-value-based method' for measuring the value of share-based compensation is required. The fair value is determined at the grant date, assuming that employees fulfill the award's vesting conditions and are entitled to retain the award.

Several detailed application differences exist, such as the definition of grant date, the classification of awards between equity-settled awards and cash-settled awards and the attribution of expense with graded vesting.

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

IFRS Employers' social security liability arising from share-based payment transactions is recognised over the same period or periods as the share-based payment charge.

US GAAP Employer payroll taxes due on the exercise of share options are recognised as an expense at the option's exercise date.

Non-employee share-based payment transactions

IFRS IFRS 2 requires the fair value of the goods or services acquired by an entity to be determined and used as the value of an equity-settled share-based payment transaction. There is a rebuttable presumption that the fair value of the goods and services can be reliably estimated. Goods or services acquired in a share-based payment transaction are recognised when they are received. The credit side of the entry will be a liability if the entity has an obligation to settle the transaction in cash. However, the credit entry is an increase in equity if there is no obligation to settle in cash; the consideration for goods and services will therefore be achieved through the issuance of equity instruments.

US GAAP All non-employee transactions in which goods or services are received in exchange for equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. The fair value of the equity instruments is used in most cases because a direct measurement based on the fair value of the goods and services is not generally considered reliable. The measurement date of an equity award is fixed on the earlier of (a) the date on which a performance commitment is reached, and (b) the date on which performance is complete.

Recent proposals – IFRS

IFRIC issued draft interpretation D11 on IFRS 2 in December 2004. It addresses how to apply IFRS 2 to account for an employee who ceases to contribute to an employee share purchase plan (ESPP) (ie, is not able to buy shares under the plan) or if the employee starts to contribute to another ESPP (ie, changes from one ESPP to another). IFRS 2 will be amended to address this issue.

IFRIC issued draft interpretation D16 on IFRS 2 in May 2005. It addresses issues in situations where it might be difficult to identify some or all of the goods or services received as consideration for equity instruments of the entity. This draft interpretation was issued in January 2006 as IFRIC 8, *Scope of IFRS 2*.

IFRIC issued draft interpretation D17 on IFRS 2 in May 2005. It applies to some share-based payment transactions (for example, involving treasury shares, or two or more entities within the same group of entities) and questions whether those transactions should be accounted for as equity-settled or cash-settled.

REFERENCES: **IFRS:** IAS 19, IAS 37, IFRS 2.
US GAAP: FAS 123-R, FIN 44, EITF D-83, EITF 00-16.

Compensated absences

This includes long-term compensated absences such as long-term disability, long service and sabbaticals. These benefits may accumulate over the employee's service period. For a benefit that is attributable to an accumulating right, both frameworks generally 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. A liability is recorded when the entity is demonstrably committed to the reduction in workforce.

If an offer is made to encourage voluntary redundancy, the measurement of termination benefits is 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. Termination indemnities are accounted for consistently with pension obligations (ie, including a salary progression element and discounting).

US GAAP Specific guidance is provided on post-employment benefits - for example, salary continuation, termination benefits, training and counselling. **US GAAP** distinguishes between four types of termination benefits with three timing methods for recognition:

1) Special termination benefits – generally additional benefits offered for a short period of time to certain employees electing to accept an offer of voluntary termination, recognised at the date on which the employees accept the offer and the amount can be reasonably estimated;

2) Contractual termination benefits – benefits provided to employees when employment is terminated due to the occurrence of a specified event under an existing plan, recognised at the date when it is probable that employees will be entitled to the benefits and the amount can be reasonably estimated;

3) Termination benefits that are paid for normal severances pursuant to an ongoing termination benefit plan. Costs are recognised for probable and reasonably estimable payments as employee services are rendered, if the benefit accumulates or vests, or when the obligating event occurs; and

4) One-time termination benefits – benefits provided to current employees that are involuntarily terminated and will receive a termination benefit under the terms of a one-time benefit arrangement.

A one-time benefit arrangement 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). The liability is recognised ratably over the future service period if employees are required to render future service in order to receive the one-time benefits.

Termination indemnity plans are considered defined benefit plans under **US GAAP**. Entities may choose whether to calculate the vested benefit obligation 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 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.

Assets

Intangible assets

Definition

IFRS An intangible asset is an identifiable non-monetary asset without physical substance controlled by the entity. It may be acquired or internally generated.

US GAAP Similar to **IFRS**.

Recognition – separately acquired intangibles[1]

IFRS General **IFRS** asset recognition criteria apply. The acquired intangible is recognised 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**.

[1] See p28 for accounting for intangible assets acquired in a business combination.

Recognition – additional criteria for internally generated intangibles

IFRS The costs associated with the creation of intangible assets are classified between the research phase and development phase. Costs in the research phase are always 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 should 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 Research and development costs are 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; 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 are expensed. Costs incurred for activities during the website's application and infrastructure development stages are capitalised, and costs incurred during the operation stage are expensed as incurred.

US GAAP Similar to **IFRS**.

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 expenditures 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 Costs that are not specifically identifiable and that have indeterminable lives, or that are inherent in a continuing business and related to an entity as a whole, are recognised as an expense when incurred.

Subsequent measurement – acquired and internally generated intangibles

IFRS Intangible assets subject to amortisation are carried at historical cost less accumulated amortisation/impairment, or at fair value less subsequent amortisation/impairment. Intangible assets not subject to amortisation are carried at historical cost unless impaired. Subsequent revaluation of intangible assets to their fair value is based on prices in an active market. Evaluations are performed regularly and at the same time if an entity adopts this treatment (extremely rare in practice).

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

Amortisation – acquired and internally generated intangibles

IFRS Amortised if the asset has a finite life; not amortised if the asset has an indefinite life, but should be tested at least annually for impairment. There is no presumed maximum life.

US GAAP Similar to **IFRS**.

Impairment – acquired and internally generated intangibles

IFRS Impairment reviews are required whenever changes in events or circumstances indicate that an intangible asset's carrying amount may not be recoverable. Annual reviews are required for intangible assets with indefinite useful lives and for assets not yet ready for use. Indefinite-lived assets are usually reviewed for impairment as part of a CGU. Reversals of impairment losses are allowed under specific circumstances.

US GAAP Similar to **IFRS**, except reversals of impairment losses are prohibited and indefinite-lived intangible assets are tested for impairment separately from the reporting unit.

REFERENCES: **IFRS:** IAS 36, IAS 38, SIC-32.
US GAAP: FAS 86, FAS 142, APB 17, SOP 98-1.

Property, plant and equipment

Definition

IFRS Property, plant and equipment (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. PPE is recognised 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 PPE, at initial measurement, 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 are not 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 p72); and
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which PPE is located.

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 offset against the cost (see p64).

US GAAP Similar to **IFRS**, except that hedge gains/losses on qualifying cash flow hedges are not included. Relevant borrowing costs are included if certain criteria are met. Consistent with **IFRS**, the fair value of a liability for an asset retirement obligation is 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.

Decommissioning, restoration and similar liabilities (asset retirement obligations)

See 'Decommissioning, restoration and similar liabilities (asset retirement obligations)' on page 60.

Subsequent expenditure

IFRS Subsequent maintenance expenditure is expensed as incurred. Replacement of parts may 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. The net book value of any replaced component would be expensed at the time of overhaul.

US GAAP Similar to **IFRS**.

Depreciation

IFRS The depreciable amount of an item of PPE is 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 a change in accounting estimate reflected in the depreciation charge for the current and prospective periods. The depreciation methods are reviewed periodically; residual values are reviewed at each balance sheet date.

US GAAP Similar to **IFRS**, FAS 154 requires that a change in depreciation method be accounted for as a change in accounting estimate affected by a change in accounting principle. Regarding periodic reviews of depreciation methods and residual values, the appropriateness of depreciation methods and periods used should be assessed at each reporting date.

Subsequent measurement

IFRS The cost model 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 model should be applied to an entire class of assets.

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

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

US GAAP PPE is carried at cost less accumulated depreciation and impairment losses. Revaluations are not permitted. 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 Revaluations have to 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 in the relevant class when the revaluation policy is adopted. Management should 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 is recorded to the income statement.

US GAAP All impairments are recognised in the income statement.

REFERENCES: **IFRS:** IAS 16, IAS 23, IAS 36.
US GAAP: FAS 34, FAS 143, FAS 144, FAS 154, ARB 43, APB 6.

Non-current assets held for sale

IFRS A non-current asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The asset should be available for immediate sale in its present condition, and its sale should be highly probable. For the sale to be highly probable, the appropriate level of management should be committed to a plan to sell the asset,

and an active programme to locate a buyer and complete the plan should have been initiated. The asset should be actively marketed for sale at a price that is reasonable in relation to its current fair value. The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. Once classified as held for sale, the asset is measured at the lower of its carrying amount and fair value less costs to sell.

US GAAP Similar to **IFRS**. 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. These assets are not depreciated or amortised during the selling period.

REFERENCES: **IFRS:** IFRS 5.
US GAAP: FAS 144.

Leases – lessor accounting

Classification

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

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 guidance on determining when an arrangement contains a lease. 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 such that only the lessee can use them 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. This will comprise, at any point in time, the total of the future minimum lease payments less gross earnings allocated to future periods. Minimum lease payments for a lessor under **IFRS** include guarantees from the lessee or a party related to the lessee or a third party unrelated to the lessor. **US GAAP** excludes certain third party residual value guarantees. The interest rate implicit in the lease would, under **IFRS** and **US GAAP**, generally be used to calculate the present value of minimum lease payments. If not practicable, the lessor's incremental borrowing rate can be used.

The gross earnings are allocated between receipt of the capital amount and receipt of finance income to provide a constant rate of return. Initial direct costs are amortised over the lease term. **IFRS** and **US GAAP** require use of the net investment method to allocate gross earnings; this 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.

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

IFRS and **US GAAP** require the lessor to 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, IFRIC 4
US GAAP: FAS 13, FAS 66, FAS 98, FTB 88-1, EITF 01-08.

Impairment of assets

Recognition

IFRS An entity should assess annually whether there are any indications that an asset may be impaired. The asset is tested for impairment if there is any such indication. An impairment loss is recognised in the income statement when an asset's carrying amount exceeds its recoverable amount. Assets classified as held for sale are measured at the lower of the carrying amount and fair value less selling costs.

US GAAP Management should consider, in 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. Any impairment is measured by comparing the asset's carrying value to its fair value. No further action is required if there is no impairment by reference to undiscounted cash flows, but the useful life of the asset should be reconsidered. Assets classified as held for disposal are 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 fair value less costs to sell 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 measured as the excess of the carrying amount over 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.

Reversal of impairment loss

IFRS Impairment losses are reversed when there has been a change in economic conditions or in the expected use of the asset.

US GAAP Impairment losses cannot be reversed for assets to be held and used, as the impairment loss results in a new cost basis for the asset. Subsequent revisions to the carrying amount of an asset to be disposed of are reported as adjustments to the asset's carrying amount, but limited by the carrying amount at the date on which 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 make a policy choice to capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The policy is applied consistently to all qualifying assets. A qualifying asset is one that necessarily takes a substantial period of time to get it ready for its intended use or sale.

US GAAP Borrowing costs are capitalised, including the amortisation of discount premium and issue costs on debt, if applicable. A qualifying asset is defined similarly 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 and the interest capitalised. Capitalisation of interest ceases once the asset is ready for its intended use or sale. The amount of borrowing costs capitalised during a period may not exceed the amount of borrowing costs incurred during that period.

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, except for certain governmental or private entities that finance qualifying assets through tax-exempt borrowings. In these cases, interest costs to be capitalised are required to be reduced by related interest income.

REFERENCES: **IFRS:** IAS 23.
US GAAP: FAS 34, FAS 58, FAS 62.

Investment property

Definition

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

US GAAP No specific definition.

Initial measurement

IFRS The same cost-based measurement is used for 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 is 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 The historical cost model is used for most real-estate companies and operating companies. Investor entities such as many investment companies, insurance companies separate accounts, bank-sponsored real-estate trusts and employee benefit plans that invest in real estate carry their investments at fair value.

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. The carrying amount is not depreciated.

US GAAP The depreciated cost model is applied for real estate companies and operating companies. Investor entities measure their investments at fair value.

Transfers to/from investment property

IFRS There is detailed guidance for subsequent classification where there is a change in use of the investment property. Investment property to be sold is re-classified as inventories; 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 reflects the market conditions and circumstances as of the balance sheet date. The standard does not require the use of an independent and qualified appraiser, but the use is encouraged. Revaluations should be made with sufficient regularity that the carrying amount does not differ materially from fair value.

US GAAP Specific rules apply to determine the fair value of investment entities.

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 Inventories are 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, agricultural produce after harvest, and minerals and mineral products are 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 (ie, 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. The treatment is 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

Consistency of the cost formula for similar inventories

IFRS The same cost formula is used 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 Similar to **IFRS**.

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

REFERENCES: **IFRS:** IAS 2.
US GAAP: ARB 43, FAS 151.

Biological assets

IFRS Biological assets are measured on initial recognition and at each balance sheet date at their fair value less estimated point-of-sale costs. All changes in fair value are recognised in the income statement in the period in which they arise.

US GAAP Not specified – historical cost is generally used.

REFERENCES: **IFRS:** IAS 41.

The following table outlines the classification requirements of various financial assets.

CLASSIFICATION	IFRS	US GAAP
Financial assets at fair value through profit or loss		
Two sub-categories: financial assets held for trading (see below), and those designated to the category at inception. Any financial asset may, on initial recognition, be classified as fair value through profit or loss provided it meets certain criteria.	An irrevocable decision to classify a financial asset at fair value, with changes in fair value recognised in the income statement, provided it results in more relevant information because either: a) it eliminates or significantly reduces a measurement or recognition inconsistency; b) a group of financial assets, financial liabilities or both is managed and performance is evaluated on a fair value basis; or c) the contract contains one or more substantive embedded derivatives.	No option to designate financial assets at fair value with changes in fair value recognised in the income statement.
Held-for-trading financial assets		
Debt and equity securities held for sale in the short term. Includes derivatives.	The intention should 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. Guidance applies to all financial assets. Subsequent measurement at fair value. Changes in fair value are recognised in the income statement.	Similar to **IFRS**. Frequent buying and selling usually indicates a trading instrument. Guidance applies to equity securities that have a readily determinable fair value and all debt securities. Similar to **IFRS**.
Held-to-maturity investments		
Financial assets held with a positive intent and ability to hold to maturity. Includes assets with fixed or determinable payments and maturities. Does not include equity securities, as they have an indefinite life.	An entity should 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 (other than in limited circumstances), 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 should also reclassify all its held-to-maturity assets as available-for-sale assets. Measured at amortised cost using the effective-yield method.	Similar to **IFRS**, although **US GAAP** is silent about when assets cease to be tainted. For listed companies, the SEC states that the taint period for sales or transfers of held-to-maturity securities should be two years.
Loans and receivables		
Financial assets with fixed or determinable payments not quoted in an active market. May include loans and receivables purchased, provided their intention is similar, but not interests in pools of assets (for example, mutual funds).	Measured at amortised cost.	Does not define a loan and receivable category. Focuses on the definition of a security. Industry-specific guidance may also apply.

CLASSIFICATION	IFRS	US GAAP
Available-for-sale financial assets		
Includes debt and equity securities designated as available for sale, except those equity securities classified as held for trading, and those not covered by any of the above categories.	Measured at fair value. Changes in fair value are recognised net of tax effects in equity (ie, presented in a statement of changes in shareholders' equity or in a SoRIE) and recycled to the income statement when sold, impaired or collected. Foreign exchange gains and losses on debt securities are recognised in the income statement.	Similar to **IFRS**, except unlisted equity securities are generally carried at cost. Exceptions apply for specific industries. Changes in fair value are reported in other comprehensive income. Foreign exchange gains and losses on debt securities are recognised in equity.

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). See p70 for accounting for derivatives.

Recognition and initial measurement

IFRS and **US GAAP** require an entity to recognise a financial asset when and only when the entity becomes a party to the contractual provisions of a financial instrument. A financial asset is recognised initially at its fair value (which is normally the transaction price), plus, in the case of a financial asset that is not recognised at fair value with changes in fair value recognised in the income statement, transaction costs that are directly attributable to the acquisition of that asset.

Reclassification of assets between categories

IFRS Reclassifications between categories are uncommon under **IFRS**. They 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 is when the whole category is tainted and has to be reclassified as available for sale for two years. The assets are remeasured to fair value in these circumstances, 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 re-characterised and becomes its amortised cost. For financial assets that do not have a fixed maturity,

any gains and losses already recognised in equity remain in equity until the asset is impaired or derecognised. For financial assets with a fixed maturity, the gain or loss is amortised to profit or loss over the remaining life of the instrument using the effective yield method.

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

- Held-to-maturity investments: a financial asset is reclassified 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 is remeasured 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 is remeasured at fair value with the difference recognised in equity. Such a transfer may trigger tainting provisions, similar to **IFRS**.

  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 is amortised over the remaining life of the held-to-maturity investment. Any difference between the new amortised cost and the amount due at maturity is treated as an adjustment of yield.

- Available-for-sale financial assets: transfers from (to) available for sale into (or out of) trading should be rare.

Impairment

IFRS and **US GAAP** have similar requirements for the impairment of financial assets.

IFRS Entities should 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; the disappearance of an active market for an asset, or in the case of an investment in an equity instrument, whether there has been a significant or prolonged decline in the fair value of that investment below its cost. A decline in the fair value of a financial asset below its cost that results from the increase in the risk-free interest rate is not necessarily evidence of impairment. An impairment of a security does not establish a new cost basis.

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. A new cost basis is established after a security is impaired.

IFRS and **US GAAP** generally 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. Any loss that has been deferred in equity is recycled to the income statement on impairment.

US GAAP prohibits the reversal of an impairment charge on available-for-sale debt and equity 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. **IFRS**, similar to **US GAAP**, 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; and
  - 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.

The entity derecognises the asset if an entity transfers substantially all the risks and rewards of ownership of the asset (for example, an unconditional sale of a financial asset). It continues to recognise the asset (the transaction is accounted for as a collateralised borrowing) if it retains substantially all the risks and rewards of ownership of the asset. If an entity neither transfers nor retains substantially all the risks and rewards of ownership of the asset, it has to determine whether it has retained control of the asset. Control is based on the transferee's practical ability to sell the asset. The asset is derecognised if the entity has lost control. 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 be a requirement to consolidate that SPE.

The difference between the amount received and the carrying amount of the asset is recognised in the income statement on derecognition. Any fair value adjustments of 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 The derecognition model is different from the **IFRS** model and governed by three key tests:

1) legal isolation of the transferred asset from the transferor – assets have to be isolated from the transferor and beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership;
2) the ability of the transferee to pledge or sell the asset – the transferee has to be able to pledge or exchange the transferred asset free from constraint; and
3) no right or obligation of the transferor to repurchase – the transferor cannot maintain effective control through a right or obligation to repurchase or redeem assets or a right to purchase or redeem 'not readily obtainable' assets (except for 'clean-up' call).

Recent proposals – US GAAP

The FASB issued an exposure draft on fair value measurements in June 2004. The ED enhances the current guidance on fair value measurements by establishing a measurement framework for financial and non-financial assets and liabilities that are measured at fair value under other authoritative pronouncements.

The FASB issued an exposure draft to amend FAS 133 and FAS 140 to provide a fair value option for hybrid financial instruments. It permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that would otherwise require bifurcation.

The FASB issued FSP FAS 115-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, in November 2005. The proposed FSP provides guidance for the determination as to when an investment is considered impaired, whether that impairment is other than temporary and the measurement of an impairment loss.

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

Liabilities

Provisions

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

Recognition

IFRS A provision is recognised 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. It 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 is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. The anticipated cash flows are discounted 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 is 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 is used to measure the liability. A provision is only 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 A present obligation exists only when the entity is 'demonstrably committed' to the restructuring. An entity is usually demonstrably committed when there is legal obligation or when the entity has a detailed formal plan for the restructuring. The entity must be unable to withdraw because it has started to implement the plan or announced its main features to those affected (constructive obligation). A current provision is unlikely to be justified if there will be a delay before the restructuring begins, or the restructuring will take an unreasonably long time to complete.

US GAAP Similar to **IFRS**. However, **US GAAP** prohibits the recognition of a liability based solely on an entity's commitment to a plan. Recognition of a provision for one-time termination benefits requires communication of the details of the plan to the affected employees. Initial liabilities for restructurings that meet the definition of a liability are measured at fair value and are evaluated each reporting period, with subsequent changes in fair value measured using an interest allocation approach.

Onerous contracts

IFRS Provisions for future operating losses are prohibited. 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 is recognised and measured as a provision. One of the most common examples relates to leasehold property that has been left vacant. The liability is reduced by estimated sub-lease rentals if management has the ability to sublease and sublease income is probable (more likely than not) of being obtained.

US GAAP A liability for costs to terminate a contract before the end of its term is recognised and measured at 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 is recognised and measured at its fair value when the entity ceases to use the right conveyed by the contract. A common example relates to leasehold property that is no longer being used. The liability is 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 143, FAS 146, SOP 96-1.

Decommissioning, restoration and similar liabilities (asset retirement obligations)

IFRS A liability for the present value of the costs of dismantling, removal or restoration as a result of a legal or constructive obligation is recognised and the corresponding cost included as part of the related property, plant or equipment (PPE). An entity incurs this obligation as a consequence of installing the item or using the item during a particular period for purposes other than to produce inventories during that period.

Changes in the measurement of the liability relating to changes in the estimate of the timing or amount of the future cash flows or changes in the discount rate are recognised immediately with a corresponding adjustment to the total cost of the PPE asset. If the PPE asset is measured using the cost model, a decrease in the liability is deducted from the cost of the asset until the full carrying amount of the asset is reduced to zero. The discount rate applied is adjusted at each reporting date. Changes in the measurement of the liability due to the passage of time (accretion of the discount) are included in the income statement.

US GAAP The decommissioning liability is referred to as an 'asset retirement obligation' (ARO). The cost of the ARO cannot be included as part of the PPE asset; it is classified as a separate asset within PPE. The criteria for accrual and capitalisation of an ARO are more stringent under **US GAAP** than under **IFRS** – for example, there has to be an existing legal obligation and the ARO is recorded only if a reasonable estimate of fair value can be made. **IFRS** has no similar requirement regarding an entity's ability to estimate fair value.

Changes in the measurement of the liability relating to changes in the estimate of the timing or amount of the future cash flows are recognised as a decrease or increase in the carrying amount of the liability, with a corresponding increase or decrease to the related capitalised ARO asset. The discount rate applied upon initial recognition of the liability is used for changes in estimates that decrease the ARO. For changes in estimates that increase the amount of the ARO, the discount rate applied to the change is the current rate. Similar to **IFRS**, changes in the measurement of the liability due to the passage of time (accretion of the discount) are included in the income statement.

REFERENCES: **IFRS:** IAS 16, IAS 37, IFRIC 1.
US GAAP: FAS 143, FIN 47.

Liability arising from participating in a specific market – waste electrical and electronic equipment

IFRS A producer recognises a liability for the waste management cost for household equipment sold to private households before 13 August 2005 ('historical waste') when it participates in the market during the measurement period. The same principle can be applied to new waste from private households if the national legislation treats the new waste in a similar manner to historical waste from private households.

US GAAP Similar to **IFRS**, commercial-user entities apply the provisions of FAS 143 and FIN 47 to the obligation associated with historical waste, as this type of obligation is an asset retirement obligation. The accounting for the initial recognition and measurement of the liability and asset retirement cost should be consistent with FAS 143 paragraphs 3-12. The ability or intent of the commercial user to replace the asset and transfer the obligation does not relieve the user of its present duty or responsibility to settle the obligation.

REFERENCES: **IFRS:** IAS 37, IFRIC 6.
US GAAP: FAS 143, FIN 47, FSP No. FAS 143-1.

Contingencies

Contingent asset

IFRS A contingent asset 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. An asset is recognised when the realisation of the associated benefit, such as an insurance recovery, is virtually certain.

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

Contingent liability

IFRS A contingent liability is a possible obligation whose outcome will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events outside the entity's control. It 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**, an accrual for a loss contingency is required if it is probable (defined as likely to occur) 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.

Deferred tax

Both frameworks require a provision for deferred taxes, but there are differences in the methodologies, 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 – ie, the difference between carrying amount and tax base of assets and liabilities (see exceptions below).	Similar to **IFRS**.
Exceptions (ie, deferred tax is not provided on the temporary difference)	Non-deductible goodwill (that which is not deductible for tax purposes) does not give rise to taxable temporary differences. Initial recognition of an asset or liability in a transaction that: (a) is not a business combination, and (b) affects neither accounting profit nor taxable profit at the time of the transaction. Other amounts that do not have a tax consequence (commonly referred to as permanent differences) exist and depend on the tax rules and jurisdiction of the entity.	Similar to **IFRS**, except no initial recognition exemption and special requirements apply in computing deferred tax on leveraged leases.
Specific applications		
Unrealised intra-group profits – for example, on inventory	Deferred tax recognised at the buyer's tax rate.	The buyer is prohibited from recognising deferred taxes. Any income tax effects to the seller (including taxes paid and tax effects of any reversal of temporary differences) as a result of the inter-company sale are deferred and recognised upon sale to a third party.
Revaluation of PPE and intangible assets	Deferred tax recognised in equity.	Not applicable, as revaluation is prohibited.
Intra-period tax allocation (backwards tracing)	Deferred tax is recognised in the income statement unless changes in the carrying amount of the assets are taken to equity. In this case, deferred tax is taken to equity (the 'follow-up principle').	Similar to **IFRS** for initial recognition, but certain subsequent changes (rate changes and valuation allowance) are recognised in the income statement.
Foreign non-monetary assets/liabilities when the tax reporting currency is not the functional 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 that relate to investments in domestic subsidiaries, unless such amounts can be recovered tax-free and the entity expects to use that method. No deferred taxes are recognised on undistributed profits of foreign subsidiaries that meet the indefinite reversal criterion.

ISSUE	IFRS	US GAAP
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 that relate to investment in domestic corporate joint ventures. No deferred taxes are recognised on undistributed profits of foreign corporate joint ventures that meet the indefinite reversal criterion.
Investments in associates – treatment of undistributed profit	Deferred tax is recognised except when the investor can control the sharing of profits and it is probable that the temporary difference will not reverse in the foreseeable future.	Deferred tax is recognised on temporary differences relating to investment in investees.
Share-based compensation	If a tax deduction exceeds cumulative share-based compensation expense, deferred tax calculations based on the excess deduction are recorded directly in equity. If the tax deduction is less than or equal to cumulative share-based compensation expense, deferred taxes arising are recorded in income. The unit of accounting is an individual award. If changes in the stock price impact the future tax deduction, the estimate of the tax deduction is based on the current stock price.	If the tax benefit available to the issuer exceeds the deferred tax asset recorded, the excess benefit (known as a 'windfall' tax benefit) is credited directly to shareholders' equity. If the tax benefit is less than the deferred tax asset, the shortfall is recorded as a direct charge to shareholders' equity to the extent of prior windfall tax benefits, and as a charge to tax expense thereafter. Changes in the stock price do not impact the deferred tax asset or result in any adjustments prior to settlement or expiration. Although they do not impact deferred tax assets, future changes in the stock price will affect the actual future tax deduction (if any).
Measurement of deferred tax		
Tax rates	Tax rates and tax laws that have been enacted or substantively enacted.	Use of substantively enacted rates is not permitted. Tax rate and tax laws used must have been enacted.
Recognition of deferred tax assets	A deferred tax asset is recognised if it is probable (more likely than not) that sufficient taxable profit will be available against which the temporary difference can be utilised.	A deferred tax asset is recognised in full but is then reduced by a valuation allowance if it is more likely than not that some 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 is recorded unless the tax base of the asset is also stepped up.	Similar to **IFRS**.
Previously unrecognised tax losses of the acquirer	A deferred tax asset is recognised if the recognition criteria for the deferred tax asset are met as a result of the acquisition. Offsetting credit is recorded in income.	Similar to **IFRS**, except the offsetting credit is recorded against goodwill.
Tax losses of the acquiree (initial recognition)	Similar requirements as for the acquirer except the offsetting credit is recorded against goodwill.	Similar to **IFRS**.
Subsequent resolution of income tax uncertainties in a business combination	If the resolution is more than one year after the year in which the business combination occurred, the result is recognised in the income statement.	The subsequent resolution of any tax uncertainty relating to a business combination is recorded against goodwill.

ISSUE	IFRS	US GAAP
Subsequent recognition of deferred tax assets that were not 'probable' at the time of the business combination	A deferred tax asset that was not considered probable at the time of the business combination but later becomes probable is recognised. The adjustment is to goodwill and then income tax expense. The income statement shows a debit to goodwill expense and a credit to income tax expense. There is no time limit for recognition of this deferred tax asset.	The subsequent resolution of any tax uncertainty relating to a business combination is recorded first against goodwill, then non-current intangibles and then income tax expense. There is 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 offset and the balance relates to tax levied by the same authority.	Similar to **IFRS**.
Current/non-current	Deferred tax assets and liabilities are classified net as non-current on the balance sheet, with supplemental note disclosure for: (1) the components of the temporary differences, and (2) amounts expected to be recovered within 12 months and more than 12 months of the balance sheet date.	Deferred tax assets and liabilities are either classified as current or non-current, based on the classification of the related non-tax asset or liability for financial reporting. Tax assets not associated with an underlying asset or liability are classified based on the expected reversal period.
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 calculated.	Required for public companies only. Calculated by applying the domestic federal statutory tax rates to pre-tax income from continuing operations.

REFERENCES: **IFRS:** IAS 1, IAS 12, IFRS 3.
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 are deferred and matched with the depreciation on the asset for which the grant arises.

Grants that relate to recognised assets are presented in the balance sheet as either 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 when there are conditions attached to the grant. Revenue recognition is delayed until such conditions are 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 is recognised in the 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 is recognised when the conditions are met. The accounting treatment specified for government grants generally is applied if a grant relates to a biological asset measured at cost.

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 p49) with a corresponding obligation for future rentals, at an amount equal to the lower of the fair value of the asset and the present value of the future 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, this is only permitted if there is no reasonable certainty of the lessee obtaining ownership of the asset. The interest rate implicit in the lease is normally used to calculate the present value of the MLPs. The lessee's incremental borrowing rate may be used if the implicit rate is unknown.

US GAAP Similar to **IFRS**, except that the lessee's incremental borrowing rate is 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

The rental expense under an operating lease is generally recognised on a straight-line basis over the lease term under **IFRS** and **US GAAP**.

Incentives

A lessor often provides lease incentives to encourage the lessee to renew a lease arrangement. The lessee, under both frameworks, recognises the aggregate benefit of incentives as a reduction of rental expense over the lease term. The incentive is 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

The seller-lessee sells an asset to the buyer-lessor and leases the asset back in a sale and leaseback transaction. There are differences between the frameworks in the accounting for profits and losses arising on sale and leaseback transactions. These are highlighted in the following table.

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 the seller relinquishes substantially all or a minor part of the use of the asset. If substantially all, profit/loss is generally recognised at date of sale. If seller retains more than a minor part, but not substantially all of the use of the asset, 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 is recognised immediately by the seller-lessee to the extent that net book value exceeds fair value. Specific rules apply for sale-leasebacks 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. In such cases, the difference is deferred over the period over which the asset is expected to be used.	See above.
Sale at more than fair value	The difference is deferred 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 28, FAS 66, FAS 98.

Financial liabilities

Definition

IFRS and **US GAAP** define a financial liability in a similar way, 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 using the entity's own equity instruments). See also 'Derivatives' on p70.

Classification

IFRS Where there is a contractual obligation (either explicit or indirectly through its terms and conditions) 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 for which distributions are at the discretion of the issuer, are classified as equity. 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.

The issuer classifies the financial instrument as a liability if 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. 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. Specific guidance exists for when the holder's right to redemption is subject to specific limits.

Split accounting is applied to convertible debt – see 'Convertible debt' below.

US GAAP SEC guidance provides for the classification of certain redeemable instruments that are outside the scope of FAS 150 as mezzanine equity (ie, outside of permanent equity). The following types of instrument are classified as liabilities under FAS 150:

- a financial instrument issued in the form of shares that is mandatorily redeemable - ie, that embodies an unconditional obligation requiring the issuer to redeem it by transferring its assets at a specified or determinable date (or dates) or upon the occurrence of 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); and
- 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 should or may settle by issuing a variable number of its equity shares.

Convertible debt

IFRS 'Split accounting' is used for convertible instruments where the conversion is a fixed amount of cash for a fixed number of shares. The proceeds are allocated between the two components; the equity conversion rights are recognised in equity and the liability recognised in liabilities at fair value calculated by discounting at a market rate for a non-convertible debt. Certain embedded derivatives may have to be bifurcated.

US GAAP For conventional convertible debt, the instrument is treated as one unit and recorded as a liability in its entirety (no recognition is given to the equity component), unless the instrument contains a beneficial conversion feature that requires separation. Similar to **IFRS**, certain embedded derivatives may have to be bifurcated.

Measurement

IFRS Convertible debt is measured at fair value on initial recognition, which is usually the consideration received plus incremental and directly attributable costs of issuing the debt.

There are two categories of financial liabilities: those that are recognised at fair value through profit or loss (includes trading), and all others. 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) are measured at fair value (the change is recognised in the income statement for the period). Financial liabilities aside from those that are trading can only be designated at fair value through profit or loss provided they meet certain criteria). All other (non-trading) liabilities are carried at amortised cost using the effective interest method.

US GAAP Similar to **IFRS**. Incremental and directly attributable costs of issuing debt are deferred as an asset and amortised using the effective interest method. There are also specific measurement criteria for certain financial instruments. Entities cannot use the fair value option to designate at initial recognition a financial liability at fair value through profit or loss.

Derecognition of financial liabilities

IFRS A financial liability is 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. A liability is also considered extinguished if there is a substantial modification in the terms of the instrument such that the discounted present value of new cash flows is different from the old cash flows by at least 10%.

The difference between the carrying amount of a liability (or a portion thereof) extinguished or transferred and the amount paid for it should be recognised in net profit or loss for the period.

US GAAP Similar to **IFRS**, a financial liability is derecognised only if it has been extinguished. Extinguished means paying the creditor and being relieved of the obligation or being legally released from the liability either judicially or by the creditor, or as a result of a substantial modification in terms (10% or greater change in discounted present value of cash flows).

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

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 that are not redeemable, or that are redeemable solely at the option of the issuer, and for which 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 the entity's own equity are treated as derivatives.

US GAAP 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 (date or event certain redemption), 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. Unlike **IFRS**, certain derivatives of an entity's own shares that are or may be net share-settled can be classified as equity.

Purchase of own shares

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

US GAAP Similar to **IFRS**, except 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.

Dividends on ordinary equity shares

IFRS Presented as a deduction in the statement of changes in shareholders' equity in the period when authorised by shareholders.

US GAAP Similar to **IFRS**.

REFERENCES: **IFRS:** IAS 32, IAS 39, SIC-16, IFRS 7.
US GAAP: CON 6, APB 6, APB 14, FAS 150.

Derivatives and hedging

Derivatives

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

Definition

IFRS A derivative is a financial instrument:

- whose value changes in response to a specified variable or underlying rate (for example, interest rate);
- that requires no or little net investment; and
- that is settled at a future date.

US GAAP Sets out similar requirements, except that the terms of the derivative contract should require or permit net settlement and have a notional amount (ie, a specified number of currency units, shares, bushels or other units). There are therefore some derivatives, such as option and forward agreements to buy unlisted equity investments, that fall within the **IFRS** definition, not the **US GAAP** definition, because of the absence of net settlement. A contract can be a derivative, even though a notional amount is not specified under **IFRS**.

Initial measurement

All derivatives are recognised on the balance sheet as either financial assets or liabilities under **IFRS** and **US GAAP**. They are initially measured at fair value on the acquisition date.

Subsequent measurement

IFRS and **US GAAP** require subsequent measurement of all derivatives at their fair values, regardless of any hedging 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 that is linked to and should be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured is carried at cost less impairment until settlement.

Hedge accounting

Detailed guidance is set out in the respective standards under **IFRS** and **US GAAP** dealing with hedge accounting.

Criteria for hedge accounting

Hedge accounting is permitted under **IFRS** and **US GAAP** 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. Hedge instruments should 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 is measured reliably on a continuing basis under both frameworks.

A hedge qualifies for hedge accounting under **IFRS** and **US GAAP** if changes in fair values or cash flows of the hedged item are expected to be highly effective in offsetting 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**, unlike **IFRS**, also allows, assuming stringent conditions are met, a 'short-cut' method that assumes perfect effectiveness for certain hedging relationships involving interest-rate swaps.

Hedged items

IFRS and **US GAAP** contain additional requirements 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 or prepayment risk, because held-to-maturity investments require an intention to hold to maturity without regard to changes in fair value or cash flows due to changes in interest rates.	Similar to **IFRS**.
If the hedged item is a financial asset or liability, it may be a hedged item with respect to the risks associated with only a portion of its cash flows or fair value provided that effectiveness can be measured.	The designated risk is the risk of changes in: the overall fair value or cash flow; market interest rates; foreign currency exchange rates; or the creditworthiness of the 'obligor'. Portions of risk cannot be designated as the hedged risk.
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**.
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 should be proportionate to the change in fair value for the group.	Similar to **IFRS**.
The foreign currency risk of a highly probable forecast intragroup transaction may qualify as a hedged item in consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss.	Similar to **IFRS**. In addition, the foreign currency risk arising from a forecasted royalty of a foreign subsidiary is permitted to be a hedged item if certain conditions are met.
Not specified; however, practice is similar to **US GAAP**.	An asset or liability that is remeasured to fair value with changes recognised in earnings – for example, a debt security classified as trading – is not permitted as a hedged item.
A firm commitment to acquire a business cannot be a hedged item, except for foreign exchange risk, because the other risks that are hedged cannot be specifically identified and measured.	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. The foreign exchange risk in a firm commitment to acquire a business cannot be a hedged item.

Hedging instruments

Only a derivative instrument can qualify as a hedging instrument in most cases. **IFRS**, however, 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 fair value hedge of an unrecognised firm commitment.

Under **IFRS**, only instruments that involve a party external to the reporting entity can be designated as hedging instruments. Under **US GAAP**, certain internal derivatives (ie, derivatives entered into with another group entity such as a treasury centre) can qualify as a hedging instrument for cash flow hedges of foreign currency risk if specific conditions are met.

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. Under **US GAAP**, a written option can be designated as a hedging instrument only if stringent criteria are met. Written options will not qualify for hedge accounting in most cases.

IFRS permits a single hedging instrument to hedge more than one risk in two or more hedged items under certain circumstances. Under **US GAAP**, an entity is generally prohibited from separating a derivative into components representing different risks and designating any such component as the hedging instrument.

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 the following 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; and
- a hedge of a net investment in a foreign entity, where a hedging instrument is used to hedge the currency risk of a net investment in a foreign entity.

A forecasted transaction should be highly probable to qualify as a hedged item.

US GAAP Similar to **IFRS**.

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 – a 'basis adjustment'. This is not permitted for financial assets or liabilities.

US GAAP Similar to **IFRS**; however, the basis adjustment approach is not permitted. 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 or partial disposal of the foreign operation.

US GAAP Similar to **IFRS**. Gains and losses are transferred to the income statement upon sale or complete or substantially complete liquidation of the investment.

Fair value hedge accounting for a portfolio hedge of interest rate risk

IFRS An entity may designate an amount of assets or liabilities in a given 'time bucket', scheduled based on expected repricing dates of a portfolio. The changes in the fair value of this hedged item are reflected in a single separate line item within assets or liabilities. The carrying amounts of the individual assets or liabilities in the portfolio are not adjusted.

US GAAP Prohibited.

Disclosure

The disclosures are similar under the two frameworks 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 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. Disclosures in **IFRS** are presented in the notes to the financial statements, while many similar disclosures in **US GAAP** are presented in the management discussion and analysis (MD&A) for SEC registrants.

REFERENCES: **IFRS:** IAS 39, IFRS 7.
US GAAP: FAS 133, FAS 137, FAS 138, FAS 149, EITF D-102, FIN 37.

Other accounting and reporting topics

Foreign currency translation

Functional currency – definition and determination

IFRS Functional currency is defined as the currency of the primary economic environment in which an entity operates. If the indicators are mixed and the functional currency is not obvious, management should use its judgement to determine the functional currency that most faithfully represents the economic results of the entity's operations by focusing on the currency of the economy that determines the pricing of transactions (not the currency in which transactions are denominated).

Additional evidence (secondary in priority) may be provided from the currency in which funds from financing activities are generated, or receipts from operating activities are usually retained, as well as the nature of activities and extent of transactions between the foreign operation and the reporting entity.

In determining the functional currency of a foreign operation (ie, whether its functional currency is the same as that of the reporting entity), management should establish the degree of autonomy and the foreign operation's ability to operate as a separate unit.

US GAAP Similarly emphasises the primary economic environment in determining an entity's functional currency. However, **US GAAP** has no hierarchy of indicators. In practice, there is a greater focus on the cash flows rather than the currency that influences the pricing.

Translations – the individual entity

IFRS and **US GAAP** have similar requirements regarding the translation of transactions by an individual entity, as follows:

- 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;
- 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);
- Income statement amounts are translated using historical rates of exchange at the date of transaction or an average rate as a practical alternative, provided the exchange rate does not fluctuate significantly; and
- Exchange gains and losses arising from an entity's own foreign currency transactions are reported as part of the profit or loss for the year. This includes foreign currency gains and losses on available-for-sale debt securities (**IFRS** only) as well as long-term loans, which in substance form part of an entity's net investment in a foreign operation. See 'Derivatives and hedging' section for the hedge of a net investment (page 72).

Translation – consolidated financial statements

When translating financial statements into a different presentation currency (for example, for consolidation purposes), **IFRS** and **US GAAP** require the assets and liabilities to be translated using the closing (year-end) rate. Amounts in the income statement are translated using the average rate for the accounting period if the exchange rates do not fluctuate significantly. **IFRS** is silent on the translation of equity accounts; historical rates are used under **US GAAP**. The translation differences arising are reported in equity (other comprehensive income).

Tracking of translation differences in equity

IFRS Translation differences in equity are separately tracked and the cumulative amounts disclosed. The appropriate amount of cumulative translation difference relating to the entity is transferred to the income statement on disposal of a foreign operation and included in the gain or loss on sale. The cumulative translation difference may be released through the income statement, for a partial disposal on a pro rata basis relative to the portion 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**; however, gains and losses are transferred to the income statement only upon sale or complete or substantially complete liquidation of the investment.

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

IFRS Translated at closing rates.

US GAAP Similar to **IFRS**; historical rates are used in equity.

Presentation currency

IFRS Assets and liabilities are translated at the exchange rate at the balance sheet date when financial statements are presented in a currency other than the functional currency. Income statement items are translated at the exchange rate at the date of the transaction or are permitted to use average rates if the exchange rates do not fluctuate significantly.

US GAAP Similar to **IFRS**; historical rates are used in equity.

Foreign currency translation – hyperinflationary economy

Definition

IFRS Hyperinflation is indicated by characteristics of the economic environment of a country. These characteristics include: the general population's attitude towards the local currency; prices linked to a price index; and the cumulative inflation rate over three years is approaching or exceeds 100%.

US GAAP Similar to **IFRS**; however, the prescribed test for a highly inflationary economy is cumulative inflation of approximately 100% or more over a three-year period. Historical inflation rate trends and other pertinent economic factors are also considered if the cumulative inflation rate is high but less than 100%.

Functional currency – hyperinflationary economy

IFRS Entities that have the currency of a hyperinflationary economy as the functional currency uses that currency for measurement of transactions. The financial statements for current and prior periods is then remeasured at the measurement unit current at the balance sheet date in order to present current purchasing power.

US GAAP Does not generally permit inflation-adjusted financial statements; the use of the reporting currency (US dollar) as the functional currency is required. However, SEC rules provide an accommodation allowing foreign issuers that use **IFRS** to omit quantification of any differences that would have resulted from the application of FAS 52.

Presentation currency – hyperinflationary economy

IFRS The results and financial position of an entity whose functional currency is the currency of a hyperinflationary economy are translated into a different presentation currency using the following procedure:

- all items, including comparatives, are translated at the closing rate at the date of the most recent balance sheet; except,
- when amounts are translated into the currency of a non-hyperinflationary economy, comparative amounts are those that were presented as current year amounts in the relevant prior-year financial statements.

US GAAP Not applicable, because the currency of a hyperinflationary economy is not used for measuring its transactions in the hyperinflationary economy.

REFERENCES: **IFRS:** Framework, IAS 21, IAS 29.
US GAAP: FAS 52, FIN 37.

Earnings per share

Earnings per share (EPS) is disclosed by entities whose ordinary shares are publicly traded, and by entities in the process of issuing such shares under both frameworks. **IFRS** and **US GAAP** use similar methods of calculating EPS, although there are detailed application differences.

Basic EPS

IFRS Basic EPS is calculated as profit available to common shareholders, divided by the weighted average number of outstanding shares during the period. Shares issued as a result of a bonus issue are treated as outstanding for the whole year. Bonus issues occurring after the year-end are also incorporated into the calculation. 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

IFRS For diluted EPS, earnings are adjusted for the after-tax amount of dividends and the impact resulting from the assumed conversion of dilutive potential ordinary shares; diluted shares are also adjusted accordingly for any assumed conversions. A conversion is deemed to have occurred at the beginning of the period or the date of the issue of potential dilutive ordinary shares, if later. There is no 'de minimis' dilution threshold below which diluted EPS need not be disclosed.

US GAAP Similar to **IFRS**.

Diluted EPS – share options

IFRS The 'treasury share' 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 (ie, 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**; however, when applying the treasury stock (share) method in year-to-date computations, the number of incremental shares to be included in the denominator is determined by computing a year-to-date weighted average of the number of incremental shares included in each quarterly diluted EPS computation.

Recent proposals – US GAAP

The FASB issued an ED in December 2003 proposing revisions to FAS 128, Earnings per Share, designed to converge the computations of basic and diluted EPS with **IFRS**. The ED proposed changes to the treasury stock method to eliminate the averaging of quarterly computations, and new computational guidance covering mandatorily convertible instruments, contracts that may be settled in cash or shares and contingently issuable shares. The FASB issued a revised ED for FAS 128 in September 2005, proposing further changes to the treasury stock method to include in assumed proceeds the carrying amount of certain instruments classified as liabilities that may be settled in shares.

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 the financial position and results of operations may have been 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. The 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.

Certain disclosures are required if the relationship is one based on control, 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.

Disclosures and exemptions

IFRS The nature and extent of any transactions with all related parties and the nature of the relationship is disclosed, together with the amounts involved. There is no specific requirement to disclose the name of the related party (other than the ultimate parent entity, immediate parent entity and ultimate controlling party). There is a requirement to disclose the amounts involved in a transaction, the amount, terms and nature of the outstanding balances, any doubtful amounts related to those outstanding balances and balances for each major category of related parties.

The compensation of key management personnel is disclosed in total and by category of compensation.

US GAAP Similar to **IFRS**, except that disclosure of compensation of key management personnel is not required. SEC regulations, however, require disclosure of compensation of key management personnel as well as other specific disclosures.

REFERENCES: **IFRS:** IAS 1, IAS 24.
US GAAP: FAS 57.

Segment reporting

Both frameworks have specific requirements about the identification, measurement and disclosure of segment information. The similarities and differences are shown 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 reporting – one as primary format, the other as secondary. The choice will depend on the impact on business risks and returns. The secondary format requires less disclosure.	Based on operating segments and the way the chief operating decision-maker evaluates financial information for the 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	Specific factors are given to determine whether products and services are similar.	Similar criteria apply for the aggregation of similar operating segments.
Aggregation of similar geographical segments	As for business/operating segments: six factors as given, focusing on economic and political conditions, special risks, exchange control regulations and currency risks.	Not specified. Certain disclosures (revenues and assets) are required, on a consolidated basis, of domestic operations, foreign countries in total and each material country.
Threshold for reportable segments	Revenue, results or assets are 10% or more of all segments. If revenue of reported segments is below 75% of the total, additional segments are reported until the 75% threshold is reached.	Similar to **IFRS**.
Segments not reported	Segments not identified as above are included as unallocated items.	Included in 'all other' category, with sources of revenue disclosed.
Maximum number of reported segments	No limits.	Same as **IFRS**.
Measurement		
Accounting policies for segments	Those adopted for consolidated financial statements. Entities may disclose additional segment data based on internal accounting policies.	Those adopted for internal reporting to the chief operating decision-maker for the purposes of allocating resources and assessing performance.
Symmetry of allocation of assets/ liabilities, revenues/ expenses	Symmetry required.	Not required, but asymmetrical allocations are disclosed.

ISSUE	IFRS	US GAAP
Main disclosures		
Factors used to identify reportable segments	No specific disclosure required.	Required, including basis of organisation (for example, based on products and services, geographic areas, regulatory environments) and types of product and service from which each segment derives its revenues.
Composition of segments	Types of products and services included in each reported business segment and composition of each geographical segment are disclosed.	Same as **IFRS**.
Profit	Required. The results of continuing operations are disclosed separately from the results of discontinued operations.	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 in primary segment format only.	Required on a consolidated basis, and on a segment basis 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 if included in the measurement of segment profit/loss in internal reporting or otherwise regularly reported to chief operating decision-maker.
Exceptional (significant) items	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.	Total revenue is disclosed, as well as the relevant segment that reported the revenues for each external customer greater than or equal to 10% of consolidated revenue.
Reconciliation of total segment revenue, total segment measures of profit or loss (for continuing and discontinued operations), 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.

Discontinued operations

IFRS and **US GAAP** have requirements for the measurement and disclosures of 'discontinued' operations.

ISSUE	IFRS	US GAAP
Definition	Operations and cash flows that can be clearly distinguished operationally and for financial reporting and represent a separate major line of business or geographical area of operations, or are subsidiaries acquired exclusively with a view to resale.	A component is considered a discontinued operation if the operations and cash flows have been or will be eliminated, and if the entity will not have significant continuing involvement. A component that can be clearly distinguished operationally and for financial reporting. It may be a reportable segment, operating segment, reporting unit, subsidiary or an asset grouping.
Envisaged timescale	Completed within a year, with limited exceptions.	Similar to **IFRS**.
Starting date for disclosure	From the date on which a component has been disposed of or, if earlier, is classified as held for sale.	Similar to **IFRS**.
Measurement	Lower of carrying value or fair value less costs to sell.	Similar to **IFRS**.
Presentation	A single amount is presented on the face of the income statement comprising the post-tax profit or loss of discontinued operations and an analysis of this amount either on the face of the income statement or in the notes for both current and prior periods. Separate classification on the balance sheet for assets and liabilities for the current period only.	Similar to **IFRS**. From measurement date, results of operations of discontinued component (and gain or loss on disposal) are presented as separate line items in the income statement, net of tax, after income from continuing operations. There is no change in balance sheet presentation if discontinuance is not completed by period end, but assets and liabilities (current and non-current) related to the disposal groups are segregated and classified as held for sale.
Ending date of disclosure	Until completion of the discontinuance.	Similar to **IFRS**.
Disclosures – where	On the face of the income statement or in the notes. Assets and liabilities of related disposal groups classified as held for sale are disclosed separately on the balance sheet.	Similar to **IFRS**.
Disclosures	• Description of disposal group; • Expected manner and timing of disposal; • Facts and circumstances leading to sale or disposal; • Gain or loss recognised on classification as held for sale; • Revenue, expenses, pre-tax result, tax and cash flows for current and prior periods; and • Segment of disposal group.	Similar to **IFRS**.
Comparatives	Income statement re-presented for effects of discontinued operations but not balance sheet.	Similar to **IFRS**.

REFERENCES: **IFRS:** IFRS 5.
US GAAP: FAS 144.

Post-balance-sheet events

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

US GAAP Similar to **IFRS**, referred to as 'Type 2' subsequent events. However, see refinancing and rescheduling of debt payments on page 16.

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 from being misleading.

US GAAP Similar to **IFRS**.

Announcement of a dividend relating to the financial year just ended

IFRS This 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.

Interim financial reporting

Stock exchange requirements

IFRS IFRS does not require public entities to produce interim statements but encourages interim reporting – see 'Additional guidance' below.

US GAAP Similar to **IFRS**, the FASB does not mandate interim statements. However, if required by the SEC, domestic US SEC registrants should follow APB 28 and comply with the specific financial reporting requirements in Regulation S-X applicable to quarterly reporting.

Additional guidance

Additional guidance under the frameworks is similar. They include 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. Incomplete transactions are therefore treated in the same way as at the year-end. However, **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, changes in equity, selected notes and (under **IFRS**) a statement of recognised income and expense; and
- A narrative commentary.

Comparatives for the balance sheet are taken from the last annual financial statements under both frameworks. Quarterly interim reports contain comparatives (other than for the balance sheet) under both frameworks 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.

Insurance

Accounting practice for insurance contracts has been diverse and has differed from practice in other non-insurance sectors. The IASB therefore published IFRS 4, which places definition boundaries on insurance contracts and requires increased disclosures. It largely grandfathers historic practices except for the following requirements:

- Liabilities for possible claims under contracts that are not in existence at the reporting date (such as catastrophe and equalisation provisions) are prohibited;
- Insurance liabilities are tested for adequacy;
- Reinsurance assets are tested for impairment;
- Insurance liabilities can be de-recognised only when they are discharged or cancelled or expire; and
- Insurance liabilities and income are offset against related reinsurance assets and expenses.

Key differences between **IFRS** and **US GAAP** are highlighted below.

SUBJECT	IFRS	US GAAP
Insurance and reinsurance contracts		
Insurance and reinsurance contract – definition	Definition of an insurance contract is based on the concept of insured event and significant insurance risk transfer. This applies to both insurance contracts issued and reinsurance contracts held. Both timing and underwriting risk are not required; timing risk alone is sufficient. The risk transferred with insurance contracts should have commercial substance.	Definition of insurance and reinsurance is similar in concept to **IFRS** (indemnification against loss or liability from specified events other than a change in price). Explicit guidance on significant risk transfer is provided for reinsurance contracts in FAS 113. It requires both significant underwriting and timing risk and the reasonable possibility of significant loss.
Investment contract	A contract that does not meet the definition of an insurance contract is usually accounted for as a financial instrument (derivative or non-derivative) or service contract. Investment contracts may be measured at fair value through income, or amortised cost. If measured at fair value, the amount cannot be less than the amount payable on demand (the 'deposit floor').	Similar to **IFRS**. Investment contracts are measured in accordance with guidance for similar financial instruments.

SUBJECT	IFRS	US GAAP
Insurance and reinsurance contract – measurement – loss recognition – income statement presentation	An entity may retain the accounting policy under previous GAAP (ie, national GAAP), subject to minimum requirements. Requires a liability adequacy test. Guaranteed options are considered in liability adequacy test. 'Shadow' adjustments resulting from assumed realisation of unrealised gains or losses on investments recorded in equity are reflected in equity, if such accounting is elected. Otherwise, any deficiency resulting from the assumed realisation of unrealised gains or losses is reflected through the income statement. Insurance revenues and costs may not be offset by the effects of reinsurance transactions.	Detailed measurement guidance exists for different types of insurance and reinsurance contracts. Similar test is required (referred to as the 'premium deficiency' test) Explicit guidance exists for accruing liabilities for guaranteed life insurance and annuity options; they are also considered in premium deficiency test. 'Shadow' adjustments (including 'shadow' premium deficiency adjustments) resulting from assumed realisation of unrealised gains or losses on investments recorded in equity are reflected in equity. Insurance revenues and costs are offset by the effects of reinsurance transactions.
Insurance and reinsurance contracts – deposit accounting and deposit components	Unbundling and separate measurement ('deposit accounting') of the deposit component bundled in an insurance contract is required if the deposit can be reliably measured and rights and obligations arising from it are not reflected in the balance sheet. Unbundling of deposit components is permitted on a voluntary basis if the deposit component can be reliably measured and the insurer's accounting policies require all rights and obligations from the deposit component to be recognised regardless of the basis used to reflect those rights and obligations in the balance sheet. Deposit components may be recognised as revenue if unbundling is not required.	Specific guidance exists for deposit accounting for various types of contracts and contract components, including certain life insurance contracts and the experience account component of insurance and reinsurance contracts.
Insurance and reinsurance contracts – embedded derivatives	Embedded derivatives are separated if they are not clearly and closely related to the host contract. Certain exceptions apply. Persistency bonuses are considered embedded derivatives.	Similar to **IFRS**; however, application differences can arise in the treatment of exceptions. Fixed dollar persistency bonuses are not considered embedded derivatives but are amortised over the life of the contract.
Insurance and reinsurance contracts – disclosures	Extensive disclosure requirements focus on accounting policies adopted, material amounts reported and factors that affect uncertainty of amounts and timing of insurance and reinsurance cash flows. Claims development tables are required.	Disclosure requirements are less onerous. However, a number of disclosure items are covered in the MD&A and other non-audited sections of annual report. Claims development tables are disclosed outside financial statements.
Separate accounts	Single-line presentation is not permitted.	Single-line presentation is permitted on the balance sheet, and offsetting of investment results with changes in policyholder liabilities in the income statement for contracts meeting specific criteria.

SUBJECT	IFRS	US GAAP
Financial guarantees[1]		
Financial guarantees – definition	A contract that requires the issuer to make specific payments to reimburse the holder for a loss it incurred because a specified debtor failed to make payment when due in accordance with the original or modified terms of the debt instrument.	Similar to **IFRS** but distinguishes financial guarantee insurance from credit derivatives.
Financial guarantees – authoritative guidance	Certain financial guarantees may be accounted for as insurance contracts if certain conditions are met. Otherwise, the guidance in IAS 39 applies.	Financial guarantee contracts issued by insurance companies meeting financial guarantee criteria are accounted for as insurance in practice. Insurance guidance does not specifically address the unique attributes of financial guarantee contracts; a FASB project is in progress to address revenue and claim expense recognition. Financial guarantee contracts not meeting specific financial guarantee criteria outlined in FAS 133 derivatives standard are accounted for as credit derivatives.
Financial guarantees – recognition and measurement (IAS 39)	Record guarantee contracts at fair value upon initial recognition. Subsequent measurement of the higher of the amount of expenditure needed to settle the obligation (measured under IAS 37) and the amount initially recognised less cumulative amortisation, when appropriate, under IAS 18. IAS 37 liability measurement is expected value approach with minimum threshold of 50% or more probability (ie, the event is more likely than not to occur), and discounting is required.	Similar to **IFRS**. No specific authoritative guidance exists; a FASB project is in progress. In practice, premium revenue is typically recognised over the life of the contract based on coverage provided. Claim expense is measured under various methods in practice.
Discretionary participation feature (DPF)	DPF is a new term relating to the right of holders of certain insurance contracts and/or financial instruments to receive a supplemental return (in addition to guaranteed benefits) arising from certain components of the residual interest of the entity that issued contracts with a DPF. Permits the separation of the DPF equity component. Use of hybrid categories classified between equity and liabilities is prohibited. Liability adequacy test is required to be performed for financial instruments with a DPF.	DPF is not covered, other than implicitly for insurance contracts only. Referred to as 'policyholder dividends'. Insurance contracts and financial instruments with DPF are measured under existing GAAP, and the resulting equity component is not separately disclosed.

[1] Refer to the amendment to IAS 39 effective 1 January 2006.

Recent proposals – US GAAP

Insurance – risk transfer: a project was added to the FASB agenda in April 2005 to clarify what constitutes transfer of significant insurance risk in insurance and reinsurance contracts. The project will define insurance contracts and related terms and explore simple approaches to bifurcation of insurance contracts that include both insurance and financing elements.

Financial guarantee insurance: a project was added to FASB agenda in June 2005 to determine the appropriate accounting model for financial guarantee contracts, specifically for financial guarantee contracts issued by insurance companies that are not accounted for as derivative contracts. The project will consider claims liability recognition, premium recognition and the related amortisation of deferred policy acquisition costs.

REFERENCES: **IFRS:** IFRS 4, IAS 39.
US GAAP: FAS 60, 97, 120, 113 and 133, SOP 03-1 and SOP 95-1 for insurance contracts, FAS 91 for financial instruments, EITF 93-6 and 93-14.

Oil and gas and mining

The task of interpreting and applying **IFRS** for these industries is especially demanding; however, IFRS 6 provides some relief for the exploration and evaluation (E&E) phase. Some of the key differences between **IFRS** and **US GAAP** are highlighted below. They relate not only to IFRS 6 but other notable areas for entities within these industries; this list is not comprehensive.

SUBJECT	IFRS	US GAAP
Capitalisation of exploration and evaluation activities	Entity may choose either: (a) to develop an accounting policy in accordance with the **IFRS** Framework; or (b) continue with its existing policy (previous GAAP or **IFRS**) provided management considers it to be relevant and reliable. The continuation of a previous policy is a suspension of the requirement to comply with the Framework. An entity that chooses to apply a policy that complies with the Framework will expense all costs until it has established probable future economic benefits from the E&E activities. Only costs incurred after this date can be capitalised. An entity that chooses to apply its previous accounting policy may make changes to that policy, but only if those changes move it closer to compliance with the **IFRS** Framework.	Two acceptable methods: (a) capitalised pending a determination as to whether proved reserves have been found under the successful efforts method; ultimately expensed or reclassified to proved properties based on whether proved reserves have been found; and (b) capitalised to the full cost pool under the full cost method.
Classification of E&E assets as tangible or intangible	Classified separately on face of balance sheet as a tangible or intangible E&E asset. Classification will affect the subsequent accounting if the revaluation model is used (see 'Revaluation of E&E Assets').	Required. Balance sheet classification may show combined balance, amount of tangible and intangible E&E assets is disclosed in the notes. No difference in the accounting treatment between tangible and intangible E&E assets.

SUBJECT	IFRS	US GAAP
Revaluation of E&E assets	Permitted. Where revaluation is chosen, the revaluation model in IAS 16 is applied to E&E assets classified as tangible. The revaluation model in IAS 38 is applied to E&E assets classified as intangible.	Prohibited.
Reclassification out of E&E assets	Required when technical feasibility and commercial viability are demonstrable.	Required when proved reserves are discovered on or otherwise attributed to the property.
Impairment testing of E&E assets	E&E assets assessed for impairment when either facts and circumstances indicate possible impairment or costs are to be reclassified out of E&E assets. E&E assets may be grouped with producing assets for impairment testing provided the group is not larger than a segment. Impairments can be reversed in certain instances, as specified in IAS 36.	Unproven properties assessed periodically for impairment as prescribed by the successful efforts method. Full cost companies apply a 'ceiling test' at each period-end.
Amortisation of E&E assets	E&E assets are not amortised.	Similar to **IFRS**.
Capitalisation of development expenditures	Capitalised if expenditure meets requirements of IAS 38.57.	Capitalised.
Amortization of producing assets	Amortised over the units-of-production method under IAS 16 or IAS 38.	Amortised over the units-of-production method.

REFERENCES: **IFRS:** IFRS 6, IAS 1, IAS 38, IFRIC 4.
US GAAP: FAS 19, FAS 144.

Regulatory assets and liabilities

Certain utilities operate in regulated markets governed by the local or federal government. Terms vary, but entities may be entitled to achieve a certain rate of return or gross margin percentage for a stated period, as approved by the governmental authority. If a stated approved rate of return is not achieved in the stated period, the entity typically has a right to adjust future prices to recover the shortfall or overage through the providing of the subsequent services. The accounting issue is how to account for this revenue differential.

IFRS A regulatory asset or liability is not recognised if incurred during the normal course of business, as the earnings or obligation is based on the entity providing future services to its customers. A regulatory asset should only be recognised at fair value as a 'customer-related' intangible in the context of a business combination.

US GAAP Specifically requires regulatory assets and liabilities to be recognised.

REFERENCES: **IFRS:** IAS 1, IAS 16, IAS 38.
US GAAP: FAS 71.

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