A comparison of IFRS and US GAAP

October 2007

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Measurement Checklist 2006
Outlines the measurement bases required by all IFRSs published up to September 2006.

Disclosure Checklist 2007
Outlines the disclosures required by all IFRSs published up to September 2006.

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High-level summary of the revised financial instruments standards issued in December 2003, updated to reflect IFRS 7 in September 2006. For existing IFRS preparers and first-time adopters.

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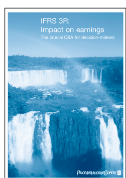
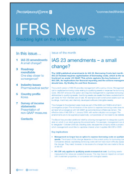
2006 update (reflecting impact of IFRIC 7) of a guide for entities applying IAS 29. Provides an overview of the standard's concepts, descriptions of the procedures and an illustrative example of its application.



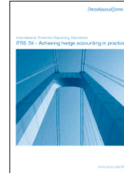
IFRS 3R: Impact on earnings – the crucial Q&A for decision-makers
Guide aimed at finance directors, financial controllers and deal-makers, providing background to the standard, impact on the financial statements and controls, and summary differences with US GAAP.

IFRS for SMEs (proposals) – Pocket Guide 2007
Provides a summary of the recognition and measurement requirements in the proposed 'IFRS for Small and Medium-Sized Entities' published by the International Accounting Standards Board in February 2007.

IFRS Pocket Guide 2006
Provides a summary of the IFRS recognition and measurement requirements. Including currencies, assets, liabilities, equity, income, expenses, business combinations and interim financial statements.

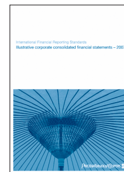


IFRS News
Monthly newsletter focusing on the business implications of the IASB's proposals and new standards.



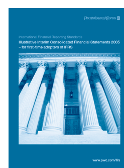
IAS 39 – Achieving hedge accounting in practice
Covers in detail the practical issues in achieving hedge accounting under IAS 39. It provides answers to frequently asked questions and step-by-step illustrations of how to apply common hedging strategies.

Illustrative condensed consolidated interim information – for existing preparers
Illustrative information, prepared in accordance with IAS 34, for a fictional existing IFRS preparer.
Includes a disclosure checklist and IAS 34 application guidance. Reflects standards issued up to 31 May 2006.

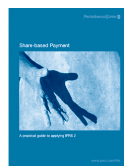


Illustrative Consolidated Financial Statements
- Banking, 2006
- Corporate, 2007
- Insurance, 2006
- Investment funds, 2004
- Investment property, 2004

Realistic sets of financial statements – for existing IFRS preparers in the above sectors – illustrating the required disclosure and presentation.

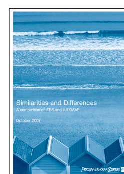


Illustrative Interim Consolidated Financial Statements for First-time Adopters – 2005
Realistic set of interim IFRS financial statements for first-time adopters. The financial statements for the six months ended June 2005 illustrate the disclosure and presentation required by all IFRSs published up to and including December 2004.



Share-based Payment – a practical guide to applying IFRS 2
Assesses the impact of the new standard, looking at the requirements and providing a step-by-step illustration of how to account for share-based payment transactions.

SIC-12 and FIN 46R – The Substance of Control
Helps those working with special purpose entities to identify the differences between US GAAP and IFRS in this area, including examples of transactions and structures that may be impacted by the guidance.



Similarities and Differences – a comparison of IFRS and US GAAP
Presents the key similarities and differences between IFRS and US GAAP, focusing on the differences commonly found in practice. It takes into account all standards published up to August 2007.

Understanding financial instruments – A guide to IAS 32, IAS 39 and IFRS 7
Comprehensive guidance on all aspects of the requirements for financial instruments accounting. Detailed explanations illustrated through worked examples and extracts from company reports.

Contents

	Page
Preface	2
How to use this publication	3
Summary of similarities and differences	4
Accounting framework	12
Financial statements	13
Consolidated financial statements	20
Business combinations	25
Revenue recognition	30
Expense recognition	34
Assets	39
Liabilities	50
Equity	58
Derivatives and hedging	59
Other accounting and reporting topics	62
Foreign currency translation	62
Earnings per share	63
Related-party disclosures	64
Segment reporting	65
Discontinued operations	67
Post-balance-sheet events	67
Interim financial reporting	68
Index	69

Preface

One day we may not need to produce this publication because the world's capital markets will be using one accounting framework, and there will be no need for a comparison between two sets of standards. However, there is much to do before this can become reality.

The International Accounting Standards Board and the US Financial Accounting Standards Board have been committed to converging IFRS and US GAAP since the Norwalk Accord of 2002. Many commentators have called for convergence to simplify financial reporting and reduce the compliance burden for listed companies, especially those with stock market listings in more than one jurisdiction and those who participate in cross-border, capital-market transactions.

A major step in the movement to one set of global accounting standards is the Securities and Exchange Commission's 2007 proposal to drop the requirement for a US GAAP reconciliation by foreign private issuers that prepare their primary financial statements under full IFRS. Another significant step is the 2007 SEC Concepts Release on allowing domestic US registrants to use IFRS as an alternative to US GAAP.

These potential changes, if they come to fruition, will significantly alter the international landscape of accounting. US capital-market participants have already started to show a much greater interest in IFRS, realising that it may replace US GAAP as the accounting language underlying future financial reporting and capital-market activity. This will not happen immediately. In the meantime, we hope that you will find this publication useful in helping you identify the key differences between IFRS and US GAAP. It needs to be stressed that this slim book deals with the main differences only. Many hundreds of pages would be needed in order to be comprehensive, but that was not our objective with this publication. This latest version has been updated to include all standards and interpretations published up to August 2007.

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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 a little more detail.

No summary publication can do justice to the many differences of detail that exist between IFRS and US GAAP. Even if the overall approach taken in 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 31 August 2007. It is based on the most recent version of those pronouncements even where an earlier version of a pronouncement is still 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 or valuation	Generally uses historical cost, but intangible assets, property, plant and equipment (PPE) and investment property may be revalued to fair value. Derivatives, certain other financial instruments and biological assets are revalued to fair value.	No revaluations except for certain types of financial instrument.	12, 39
First-time adoption of accounting framework	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. Reconciliations of profit or loss in respect of the last period reported under previous GAAP, of equity at the end of that period and of equity at the start of the earliest period presented in comparatives must be included in an entity's first IFRS financial statements.	First-time adoption of US GAAP requires retrospective application. There is no requirement to present reconciliations of equity or profit or loss on first-time adoption of US GAAP.	12
Financial statements[1]			
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 for all statements except balance sheet. Specific accommodations in certain circumstances for foreign private issuers that may offer relief from the three-year requirement.	13
Balance sheet	Does not prescribe a particular format. A current/non-current presentation of assets and liabilities is used unless a liquidity presentation provides more relevant and reliable information. Certain minimum 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. SEC registrants should follow SEC regulations.	14
Income statement	Does not prescribe a standard format, although expenditure is presented in one of two formats (function or nature). Certain minimum 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. SEC registrants should follow SEC regulations.	15
Exceptional (significant) 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.	16
Extraordinary items	Prohibited.	Defined as being both infrequent and unusual, and are rare. Negative goodwill is presented as an extraordinary item.	16
Statement of recognised income and expense (SoRIE)/Other comprehensive income and statement of accumulated other comprehensive income 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 within 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.	16

[1] Mid-2007, the IASB voted to approve the issuance of a revised version of IAS 1, Presentation of Financial Statements. See page 13.

Subject	IFRS	US GAAP	Page
Statement of changes in share (stock) holders' equity	Statement shows capital transactions with owners, the movement in accumulated profit/loss 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 in the notes applies.	Similar to IFRS except that US GAAP does not have a SoRIE, and SEC rules permit the statement to be presented either as a primary statement or in the notes.	17
Cash flow statements – format and method	Standard headings but limited guidance on 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.	17
Cash flow statements – definition of cash and cash equivalents	Cash includes cash equivalents with maturities of three months or less from the date of acquisition and may include bank overdrafts.	Similar to IFRS, except that bank overdrafts are excluded.	18
Cash flow statements – exemptions	No exemptions.	Limited exemptions for certain investment entities and defined benefit plans.	17
Changes in accounting policy	Comparatives and prior year are restated against opening retained earnings, unless specifically exempted.	Similar to IFRS.	19
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.	19
Changes in accounting estimates	Reported in income statement in the current period and future, if applicable.	Similar to IFRS.	19
Consolidated financial statements			
Consolidation model	Based on control, which is the power to govern the financial, and operating policies. Control is presumed to exist when parent owns, directly or indirectly through subsidiaries, more than one half of an entity's voting power. Control also exists when the parent owns half or less of the voting power but has legal or contractual rights to control, or de facto control (rare circumstances). The existence of currently exercisable potential voting rights is also taken into consideration.	A bipolar consolidation model is used, which distinguishes between a variable interest model and a voting interest model. The variable interest model is discussed below. Under the voting interest model, control can be direct or indirect and may exist with less than 50% ownership. 'Effective control', which is a similar notion to de facto control under IFRS, is very rare if ever employed in practice.	20
Special purpose entities (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 an SPE meets the definition of a qualifying SPE (QSPE), the transfer or does not consolidate the QSPE.	21
Definition of associate	Based on significant influence, which is the power to participate in the financial and operating policy decisions; presumed if 20% or greater interest.	Similar to IFRS, although the term 'equity investment' is used instead of 'associate'.	21
Presentation of associate results	Equity method is used. Share of post-tax results is shown.	Similar to IFRS.	22
Disclosures about associates	Detailed information on associates' assets, liabilities, revenue and profit/loss is required.	Similar to IFRS.	22

Subject	IFRS	US GAAP	Page
Accounting policies of associate	Adjustments are made for consolidation purposes to the associate's policies to conform to those of the investor.	No adjustment to accounting policies is required if the associate follows an acceptable alternative US GAAP treatment.	22
Presentation of jointly controlled entities (joint ventures)	Both proportional consolidation and equity method permitted.	Equity method required except in specific circumstances.	23
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.	24
Business combinations[2]			
Types: acquisitions or mergers	All business combinations are acquisitions, thus the purchase method is the only method of accounting that is allowed.	Similar to IFRS.	25
Purchase method – fair values on acquisition	Assets, liabilities and contingent liabilities of acquired entity are fair valued. Goodwill is recognised as the residual between the consideration paid and the percentage of the fair value of the business acquired. In-process research and development is generally capitalised. 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.	There are specific differences to IFRS. Contingent liabilities of the acquiree are recognised if, by the end of the allocation period: • their fair value can be determined, or • they are probable and can be reasonably estimated. Specific rules exist for acquired in-process research and development (generally expensed). Some restructuring liabilities relating solely to the acquired entity may be recognised if specific criteria about restructuring plans are met.	26
Purchase method – contingent consideration	Included in cost of combination at acquisition date if adjustment is probable and can be measured reliably.	Generally, not recognised until contingency is resolved and the amount is determinable.	26
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.	27
Purchase method – intangible assets with indefinite useful lives and goodwill	Capitalised but not amortised. Goodwill and indefinite-lived intangible assets are tested 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.	26
Purchase method – negative goodwill	The identification and measurement of acquiree's identifiable assets, liabilities and contingent liabilities are reassessed. Any excess remaining after reassessment is recognised in income statement immediately.	Any remaining excess after reassessment is used to reduce proportionately the fair values assigned to non-current assets (with certain exceptions). Any excess is recognised in the income statement immediately as an extraordinary gain.	28
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.	29
Revenue recognition			
Revenue recognition	Based on several criteria, which require the recognition of revenue when risks and rewards and control have been transferred and the revenue can be measured reliably.	Similar to IFRS in principle, although there is extensive detailed guidance for specific types of transactions that may lead to differences in practice.	30

[2] In June 2007, the IASB and FASB voted to approve the issuance of a joint standard on business combinations that will replace the current versions of IFRS 3 and FAS 141. See page 25.

Subject	IFRS	US GAAP	Page
Multiple-element arrangements	Revenue recognition criteria are applied to each separately identifiable component of a transaction to reflect the substance of the transaction – eg, to divide one transaction into the sale of goods and to the subsequent servicing of those goods. No further detailed guidance 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.	31
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.	32
Expense recognition			
Interest expense	Recognised on an accruals basis using the effective interest method.	Similar to IFRS.	34
	Interest incurred on borrowings to construct an asset over a substantial period of time are capitalised as part of the cost of the asset.	Similar to IFRS with some differences in the detailed application.	44
Employee benefits: pension costs – defined benefit plans	Projected unit credit method is used to determine benefit obligation and plan assets are recorded at fair value. Actuarial gains and losses can be deferred. If actuarial gains and losses are recognised immediately, they can be recognised outside the income statement.	Similar to IFRS but with several areas of differences in the detailed application. Actuarial gains and losses cannot be deferred and are recognised in accumulated other comprehensive income with subsequent amortisation to the income statement.	34
Employee share-based payment transactions	Expense for services purchased is recognised based on the fair value of the equity awarded or the liability incurred.	Similar model to IFRS, although many areas of difference exist in application.	36
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 liability is calculated as either vested benefit obligation or actuarial present value of benefits.	37
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.	39
Internally generated intangible assets	Research costs are expensed as incurred. Development costs are capitalised and amortised only when specific criteria are met.	Unlike IFRS, both research and development costs are expensed as incurred, with the exception of some software and website development costs that are capitalised.	40
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.	40
Non-current assets held for sale or disposal group	Non-current assets are classified as held for sale if their 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.	42

Subject	IFRS	US GAAP	Page
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.	42
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.	42
Impairment of long-lived assets held for use	Impairment is a one-step approach under IFRS and is assessed on the basis of discounted cash flows. If impairment is indicated, assets are written down to higher of fair value less costs to sell and value in use. Reversal of impairment losses is required in certain circumstances, except for goodwill.	Impairment is a two-step approach under US GAAP. Firstly, impairment is assessed on the basis of undiscounted cash flows. If less than carrying amount, the impairment loss is measured as the amount by which the carrying amount exceeds fair value. Reversal of losses is prohibited.	44
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).	45
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.	45
Biological assets	Measured at fair value less estimated point-of-sale costs, with changes in valuation recognised in the income statement.	Not specified. Generally historical cost used.	46
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. Gains/losses on fair value through profit or loss classification (including trading instruments) is recognised in income statement. Gains and losses on available-for-sale investments, whilst the investments are still held, are recognised in equity.	Similar accounting model to IFRS, with some detailed differences in application.	46
Derecognition of financial assets	Financial assets are derecognised based on risks and rewards first; control is secondary test.	Significantly different model to IFRS and derecognition is based on control. Requires legal isolation of assets even in bankruptcy.	48
Liabilities			
Provisions – general	Liabilities relating to present obligations from past events recorded if outflow of resources is probable (defined as more likely than not) and can be reliably estimated.	Similar to IFRS. However, probable is a higher threshold than 'more likely than not'.	50
Provisions – restructuring	Restructuring provisions recognised if detailed formal plan (identifying specified information) announced or implementation effectively begun.	Recognition of liability based solely on commitment to plan is prohibited. In order to recognise, restructuring plan has to meet definition of a liability, including certain criteria regarding likelihood that no changes will be made to plan or that plan will be withdrawn.	50
Contingencies	Disclose unrecognised possible losses and probable gains.	Similar to IFRS.	51
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 many differences in application.	52

Subject	IFRS	US GAAP	Page
Government grants	Recognised as deferred income and amortised when there is reasonable assurance that the entity will comply with the conditions attached to them and the grants will be received. 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 are recorded as revenue in the period received.	54
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.	54
Leases – lessee accounting: sale and leaseback transactions	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 should be considered if the transaction involves real estate.	54
Financial liabilities versus equity classification	Capital instruments are classified, depending on substance of issuer's contractual obligations, as either liability or equity. Mandatorily redeemable preference shares are classified as liabilities.	Application of the US GAAP guidance may result in significant differences to IFRS, for example, certain redeemable instruments are permitted to be classified as 'mezzanine equity' (ie, outside of permanent equity but also separate from debt).	55
Convertible debt	Convertible debt (fixed number of shares for a fixed amount of cash) is 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.	56
Derecognition of financial liabilities	Liabilities are derecognised when extinguished. Difference between carrying amount and amount paid is recognised in income statement.	Similar to IFRS.	57
Equity instruments			
Capital instruments – purchase of own shares	Show as deduction from equity.	Similar to IFRS.	58
Derivatives and hedging			
Derivatives	Derivatives not qualifying for hedge accounting are measured at fair value with changes in fair value recognised in the income statement. Hedge accounting is permitted provided that certain stringent qualifying criteria are met.	Similar to IFRS. However, differences can arise in the detailed application.	59
Other accounting and reporting topics			
Functional currency definition	Currency of primary economic environment in which entity operates.	Similar to IFRS.	62
Functional currency – determination	If indicators are mixed and functional currency is not obvious, judgment is used to determine functional currency that most faithfully represents economic results of entity's operations by giving priority to currency that mainly influences sales prices and currency that mainly influences direct costs of providing the goods and services before considering the other factors.	Similar to IFRS. However, no specific hierarchy of factors to consider. In practice, currency in which cash flows are settled is often key consideration.	62

Subject	IFRS	US GAAP	Page
Presentation currency	When financial statements are presented in a 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.	63
Earnings per share – diluted	IAS 33 is prescriptive about the procedure and methods used to determine whether potential shares are dilutive. 'Treasury share' method is used for share options/warrants.	Similar in principle to IFRS, although there are differences in application.	63
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 with another entity.	Similar to IFRS.	64
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. Disclosure of compensation of key management personnel is required within the financial statements.	Similar to IFRS except that disclosure of compensation of key management personnel is not required within the financial statements.	64
Segment reporting – scope and basis of disclosures	Applies to public entities and entities that file, or are in the process of filing, financial statements with a regulator for the purposes of issuing any instrument in a public market. Reporting of operating segments is based on those segments reported internally to entity's chief operating decision-maker for purposes of allocating resources and assessing performance.	Applies to SEC registrants. Basis of reporting is similar to IFRS.	65
Segment reporting – disclosures	Disclosures for operating segments are profit or loss, total assets and, if regularly reported internally, liabilities. Other items, such as external revenues, intra-segment revenues, depreciation and amortisation, tax, interest income, interest expense and various material items, are disclosed by segment where such items are included in the segment profit/loss or are reported internally. For geographical areas in which the entity operates, revenues and non-current assets are reported. Disclosure of factors used to identify segments and about major customers is required.	Similar disclosures to IFRS.	65
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 a reportable segment, operating segment, reporting unit, subsidiary or asset group.	66
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.	Similar to IFRS. Discontinued operations are reported as separate line items on face of income statement before extraordinary items.	67
Post-balance-sheet events	Financial statements are adjusted for subsequent events providing evidence of conditions that existed at the balance sheet date and materially affecting amounts in financial statements (adjusting events). Non-adjusting events are disclosed.	Similar to IFRS.	67

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 is at discretion of entity.	Similar to IFRS. Additional quarterly reporting requirements apply for SEC registrants (domestic US entities only). Interim reporting requirements for foreign private issuers are based on local law and stock exchange requirements.	67

Accounting framework

Historical cost or valuation

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 Similar to IFRS but prohibits revaluations except for certain categories of financial instruments which are carried at fair value.

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, share-based payments 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. Further, in an entity's first IFRS financial statements, it must present reconciliations of profit or loss in respect of the last period reported under previous GAAP, of equity at the end of that period and of equity at the start of the earliest period presented in comparatives in those first IFRS financial statements.

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. There is no requirement to present reconciliations of equity or profit or loss on first-time adoption of US GAAP.

Recent proposals – IFRS

In February 2007, the IASB published an exposure draft of an IFRS for small and medium-sized entities (IFRS for SMEs).

The aim of the proposed standard is to provide a simplified, self-contained set of accounting principles that are appropriate for companies that are not publicly accountable (for example, unlisted) and are based on full IFRSs. By removing choices for accounting treatment, eliminating topics that are not generally relevant to SMEs, simplifying methods for recognition and measurement and reducing disclosure requirements, the resulting draft standard reduces the volume of accounting guidance applicable to SMEs by more than 85% when compared to the full set of IFRSs. Once issued in final form, it may be available for use by subsidiaries in preparing their single entity accounts even though they are part of a large listed group. The final authority for the standard when issued will come from national regulatory authorities and standard-setters.

REFERENCES: **IFRS:** Framework, IAS 1, IAS 8, IAS 16, IAS 38, IAS 39, IAS 40, IAS 41, IFRS 1.
US GAAP: CON 1-7, SAB 107, FAS 115, FAS 130, FAS 133, FAS 154.

Financial statements

Imminent changes – IFRS

In mid 2007, the IASB voted to approve the issuance of a revised version of IAS 1, Presentation of Financial Statements.

The publication of IAS 1 Revised marks the completion of the first phase of the IASB's joint initiative with the FASB to review and harmonise the presentation of financial statements.

The changes made to IAS 1 include the introduction of a statement of comprehensive income. The revised standard will give preparers of financial statements the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income).

The revisions include changes in the titles of some of the financial statements, for example, the balance sheet is renamed a statement of financial position. The new titles will be used in accounting standards, but are not mandatory for use in 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 SEC registrants should comply with US GAAP, and the SEC's rules and regulations and financial interpretations.

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	14	Required	Required
Income statement	15	Required	Required
Statement of recognised income and expense (SoRIE)	16	Required[1]	Other comprehensive income and accumulated other comprehensive income[2]
Statement of changes in share (stock) holders' equity	17	Required[1]	Required
Cash flow statement	17	Required	Required[3]
Accounting policies	19	Required	Required
Notes to financial statements	–	Required	Required

[1] **IFRS:** either a statement of changes in shareholders' equity or a SoRIE is presented as a primary statement. For certain pensions accounting, it is mandatory to present a SoRIE as a primary statement. Where 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, the statement of changes in stockholders' equity, or presented as a separate primary statement.

[3] Except for certain entities, such as investment companies and defined benefit plans.

Comparatives

IFRS One year of comparatives is required for all numerical information in the financial statements, with limited exceptions in disclosures. In limited note disclosures, more than one year of comparative information is required.

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.

Balance sheet

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

Format

IFRS 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. Otherwise there is no prescribed balance sheet format, and management may use judgment regarding the form of presentation in many areas. 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, current tax assets, deferred tax assets, cash and cash equivalents, and the total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with IFRS 5; and
- Equity and liabilities: issued share capital and other components of shareholders' equity, minority interests (presented within equity), financial liabilities, provisions, current tax liabilities, deferred tax liabilities, trade and other payables, and liabilities included in disposal groups classified as held for sale in accordance with IFRS 5.

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 more relevant). Where the distinction is made, assets are classified as current assets if they are: held for sale or consumed 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 registrants. 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 are 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. A master netting agreement, in the absence of the intention to settle net or realise the asset and liability simultaneously, is not sufficient to permit net presentation of derivative financial instruments even if it creates a legally enforceable right of offset. Generally, however, an entity's right of offset under a master netting agreement is conditional and enforceable only on the occurrence of some future event and to offset a financial asset and a financial liability an entity must have a currently enforceable legal right to offset the recognised amounts. Thus, master netting arrangements generally do not meet the conditions of offsetting.

US GAAP Offsetting is permitted where the parties owe each other determinable amounts, where there is an intention to offset and where the offsetting is enforceable by law. An exemption to these requirements applies to derivative financial instruments under master netting arrangements where a net presentation is permitted.

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; this can either be, as is encouraged, on the face of the income statement, or in the notes. Additional disclosure of expenses by nature is required if functional presentation is used. IFRS requires, as a minimum, presentation of the following items on the face of the income statement:

- revenue;
- finance costs;
- share of post-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 to remeasurement of discontinued operations; and
- profit or loss for the period.

The portion of profit or loss attributable to the minority interest and to the parent entity is separately disclosed on the face of the income statement as allocations of profit or loss for the period.

An entity that discloses an operating result should include all items of an operating nature, including those that occur irregularly or infrequently or are unusual in amount.

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 registrants 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. Entities that choose to recognise actuarial gains and losses from post-employment benefit plans in full in equity in the period in which they occur are required to present a SoRIE. A SoRIE should show: (a) profit or loss for the period; (b) each item of income and expense for the period recognised directly in equity, and the total of these items; (c) total income and expense for the period (calculated as the sum of (a) and (b)), showing separately the total amounts attributable to equity holders of the parent and to minority interest; and (d) for each component of equity, the effects of changes in accounting policies and corrections of errors recognised in accordance with IAS 8, Accounting Policies,Changes in Accounting Estimates and Errors.

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 presentation 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 of 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 IAS 19, Employee Benefits, relating to actuarial gains and losses).

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 amortised out of accumulated other comprehensive income) 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). In addition to the items required to be in a SoRIE, 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 permit the statement to be presented either as a primary statement or in the notes.

Cash flow statement

Exemptions

IFRS No exemptions.

US GAAP Limited exemptions for certain investment entities and defined benefit plans.

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 in practice. Non-cash investing and financing transactions are to be disclosed.

US GAAP The cash flow statement provides relevant information about 'cash receipts' and 'cash payments'. Similar to IFRS, either the direct method or indirect method may be used. The latter is 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 is cash on hand, and demand deposits 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 Whilst the headings are the same as IFRS, there is more specific guidance on items that are included in each category as illustrated in the below table.

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. Effect of retrospective adjustments on equity items is presented separately in this SoRIE and SoCIE (Statements of Changes in Equity) (see 'Statements of recognised income'). 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.

Correction of errors

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

US GAAP Similar to IFRS, 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.

Recent proposals – US GAAP

In July 2007, the SEC issued a proposed rule that would allow foreign private issuers that prepare financial statements in accordance with the English-language version of IFRS as published by the IASB to file those financial statements with the SEC without reconciling them to US GAAP. The proposed amendments state that such financial statements would need to include an explicit statement asserting that they are in compliance with IFRS as published by the IASB. The proposed amendment would not apply to issuers that use a jurisdictional or other variation of IFRS in which the financial statements would be different compared to financial statements prepared under IFRS as published by the IASB. The comment period on the proposed rule ended on 24 September 2007.

Recent proposals – US GAAP

In August 2007, the SEC issued a concepts release to gauge the extent and nature of the public's interest on allowing US issuers the option to prepare their financial statements in accordance with IFRS. The concepts release poses specific questions around the impact on the US capital markets, standard setting, education and training as well as encouraging constituents to raise any other relevant issues. The comment period on the concepts release ends on 13 November 2007.

REFERENCES: **IFRS:** IAS 1, IAS 7, IAS 8, IAS 21, IAS 29, IAS 32, 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, FIN 39.

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;
- the parent's securities are not publicly traded nor is it 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 SEC registrants. Specific rules apply for certain industries.

Consolidation model and subsidiaries

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

IFRS Focuses on the concept of 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. Control is presumed to exist when a parent owns, directly or indirectly through subsidiaries, more than one half of an entity's voting power. Control also exists when a parent owns half or less of the voting power but has legal or contractual rights to control the majority of the entity's voting power or board of directors. 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 (de facto control). Currently exercisable potential voting rights should also be considered to determine whether control exists.

Entities acquired (disposed of) are included in (excluded from) consolidation from the date on which control passes.

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 US GAAP guidance below, under 'Special purpose entities'.

The second model looks to voting interest. Under this model, control can be direct or indirect and may exist with less than 50% ownership. 'Effective control', which is a similar notion to de facto control under IFRS, is very rare if ever employed in practice under US GAAP.

Accordingly, there could be situations in which an entity is consolidated under IFRS based on the notion of de facto control. However, it would not be consolidated under US GAAP under the concept of effective control.

Special purpose entities

IFRS Special purpose entities (SPEs) are consolidated where the substance of the relationship indicates that an entity controls the SPE. Control may arise through the predetermination of the activities of the SPE (operating on 'autopilot') or otherwise. 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 requirement.

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).

Uniform accounting policies

IFRS Consolidated financial statements are prepared using uniform accounting policies for like transactions and events in similar circumstances 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 in 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 adjustments are generally not made for transactions that occur in 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, an associate's financial and operating policies. Participation by an investor 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 post-tax profits and losses in the income statement. 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 priority in a winding up. 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 revenues, profits or losses, assets and liabilities of associates.

Investments in associates held by venture capital organisations, mutual funds, unit trusts and similar entities including investment-linked insurance funds can be carried at fair value through profit or loss.

US GAAP Similar to IFRS if the equity method is applied. In addition, an entity can elect to adopt the fair value option for any of its equity method investments. If elected, equity method investments are presented at fair value at each reporting period, with changes in fair value being reflected in the income statement.

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 The investor's financial statements do not have to be adjusted if the associate follows an acceptable alternative US GAAP treatment, although it would be acceptable to do so.

Impairment

IFRS If the investor has objective evidence of one of the indicators of impairment set out in IAS 39.59 – for example, significant financial difficulty – impairment is tested as prescribed under IAS 36, Impairment of Assets. The entire carrying amount of the investment is tested by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. In the estimation of future cash flows for value in use, the investor may use either: its share of future net cash flows expected to be generated by the investment (including the cash flows from its operations) together with the proceeds on ultimate disposal of the investment; or the cash flows expected to arise from dividends to be received from the associate together with the proceeds on ultimate disposal of the investment.

US GAAP The impairment test under US GAAP is different to IFRS. Equity investments are considered impaired if the decline in value is considered to be other than temporary. As such, it is possible for the fair value of the equity method investment to be below its carrying amount, as long as that decline is temporary. 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. Unanimous consent of the parties sharing control is required.

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 either combined on a line-by-line basis with similar items in the venturer's financial statements, or reported as separate line items in the venturer's financial statements.

US GAAP Prior to determining the accounting model, an entity first assesses whether the joint venture is a VIE. If the joint venture is a VIE, the accounting model discussed in the above section, 'Special purpose entities', is applied. If the joint venture is not a VIE, venturers apply the equity method to recognise the investment in a jointly controlled entity. Proportionate consolidation is generally not permitted except for unincorporated entities operating in certain industries.

Contributions to a jointly controlled entity

IFRS A venturer that contributes non-monetary assets, such as shares or non-current assets, to a jointly controlled entity in exchange for an equity interest in the jointly controlled entity recognises in its consolidated 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 contribution transaction lacks commercial substance.

US GAAP As a general rule, an investor (venturer) records its contributions to a joint venture at cost (ie, the amount of cash contributed and the book value of other nonmonetary assets contributed). Sometimes, appreciated non-cash assets are contributed to a newly formed joint venture in exchange for an equity interest when others have invested cash or other 'hard assets'. It is sometimes argued that the investor contributing appreciated non-cash assets has effectively realised part of the appreciation as a result of its interest in the venture to which others have contributed cash and that immediate recognition of a gain would be appropriate. Practice and existing literature vary in this area. As a result, the specific facts and circumstances affect gain recognition and require careful analysis.

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.

Jointly controlled assets

IFRS A venturer accounts for its share of the jointly controlled assets, liabilities, income and expenses, and any liabilities and expenses 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, IAS 36, IAS 39..
US GAAP: APB 18, FAS 153, FIN 35.

Employee share trusts (including employee share ownership plans)

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 trust are consolidated by the sponsor if the SIC-12 criteria are met. An entity accounts for its own shares held by such a trust as treasury shares under IAS 32, Financial Instruments: Presentation.

US GAAP For employee share trusts other than Employee Stock Ownership Plans (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, FAS 159.

Business combinations

Recent changes – IFRS and US GAAP

In June 2007, the IASB and FASB voted to approve the issuance of a joint standard on business combinations that will replace the current versions of IFRS 3 and FAS 141. Publication of the new standard is expected in Quarter 4 2007. The joint standard will result in significant changes to the accounting for business combinations under both IFRS and US GAAP and will eliminate many, but not all, of the differences between the two frameworks. IFRS 3R will be effective for annual periods beginning on or after 1 January 2009. FAS 141R will be effective for annual periods beginning on or after 15 December 2008. Early adoption is expected to be permitted under IFRS but prohibited under US GAAP.

One of the controversial proposals for this project related to goodwill. Where a majority stake in a subsidiary is acquired, the exposure drafts proposed that the goodwill recognised in the consolidated financial statements would be that relating to the entire subsidiary, rather than that relating to the percentage acquired. It is expected that in the revised standards the US GAAP treatment will be as proposed in the exposure drafts, but that the IFRS will permit a choice between the two treatments.

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. A business is defined in IFRS 3 as an integrated set of activities and assets conducted and managed for the purpose of providing a return to investors or lower costs or other economic benefits directly and proportionately to policyholders or participants. A business generally consists of inputs, processes applied to those inputs, and resulting outputs that are, or will be, used to generate revenues. If goodwill is present in a transferred set of activities and assets, the transferred set is presumed to be a business. The US GAAP definition is very similar. The most common type of combination is where one of the combining entities purchases the equity of another entity. Another example is where one entity purchases all the net assets of another entity.

IFRS Business combinations within the scope of IFRS 3 are accounted for as acquisitions. The purchase method of accounting applies. A development stage entity might often include significant resources in the nature of goodwill; under IFRS 3, the acquisition of such an entity is accounted for as a business combination, and any goodwill is recognised as a separate asset, rather than being subsumed within the carrying amounts of the other assets in the transferred set.

US GAAP The use of the purchase method of accounting is required for most business combinations if the acquired entity meets the definition of a business. The definition of a business under US GAAP is similar to IFRS. However, if the acquired entity is a development stage entity and has not commenced planned principal operations, it is presumed not to be a business. Similar to IFRS, if the acquired operations are not a business, the individual assets and liabilities are recognised at their relative fair values and no goodwill is recognised.

Acquisitions

Date of acquisition

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

US GAAP Similar to IFRS.

Cost of acquisition

The cost of acquisition is the amount of cash or cash equivalents paid and/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 – where control is achieved in a single transaction the date of exchange will be 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 date 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 will be paid and can be reliably measured. Any revision to the estimate is adjusted against goodwill. Additional consideration to be paid contingent on 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. If the contingent consideration is based on earnings, any additional revision to the estimate is recognised as an adjustment to goodwill. If the contingent consideration is based on security prices, the issuance of additional securities or distribution of other consideration generally does not change the recorded cost of an acquired entity. 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 generally recognised at fair value at the date of acquisition. However, both IFRS and US GAAP have exceptions to the fair value measurement principle for certain assets and liabilities.

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 (IPR&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 The requirements for recognising intangible assets separately from goodwill are similar to IFRS. However, under US GAAP, the acquired IPR&D is expensed immediately unless it has an alternative future use.

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, Provisions, Contingent Liabilities and Contingent Assets.

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.

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.

Minority interests at acquisition

IFRS Where an investor acquires less than 100% of a subsidiary, the minority (non-controlling) interests are 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 interests are valued at their 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. 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). The level of testing may be higher than under IFRS.

Impairment

IFRS 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 other assets if the impairment loss exceeds the book value of goodwill.

US GAAP 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 carrying amount; and

2) If goodwill is determined to be impaired based on step one, then 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. The loss recognised cannot exceed the carrying amount of goodwill.

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. See below for an exception to this requirement.

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.

Pooling (uniting) of interests method

Both IFRS and US GAAP prohibit the use of this method of accounting if the transaction meets the definition of a business combination and the combination is within the scope of 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, Accounting Policies, Changes in Accounting Estimates and Errors, 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.

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 transaction giving rise to control. 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. However, any previous interest in the acquirer's net assets is not restated, resulting in the accumulation of portions of fair values at different dates.

REFERENCES: **IFRS:** IAS 12, IFRS 3, SIC-9.
US GAAP: FAS 38, FAS 121, FAS 141, FAS 142, EITF 90-5, EITF 95-3, EITF 95-8.

Revenue recognition

Revenue

Definition

IFRS Income is defined in the IASB's Framework as including revenues and gains. The standard IAS 18, Revenue, defines revenue as the gross inflow of economic benefits during the period arising from the ordinary activities of an entity 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 Specific criteria for the sale of goods, the rendering of services, and interest, royalties and dividends need to be met in order to recognise revenue. 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 as shown in the table below. 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 and this may lead to significant differences in practice. 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 for the sale of goods

IFRS	US GAAP
It is probable that economic benefits will flow to the entity.	Vendor's price to the buyer is fixed or determinable, and 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.
The entity retains neither continuing managerial involvement nor effective control over the goods.	Delivery has occurred.
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.

Specific revenue recognition issues

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 incurred 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.

Multiple-element arrangements

IFRS The recognition criteria are usually applied to the separately identifiable components of a transaction in order to reflect the substance of the transaction. However, the recognition criteria 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. Beyond this, there is no further detailed guidance within IFRS other than for customer loyalty programmes.

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 are 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 Unlike IFRS, US GAAP provides specific guidance on software revenue recognition for software vendors, 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.

Multiple-element arrangements – customer loyalty programmes

IFRS Specific guidance exists on the accounting for customer loyalty programmes (IFRIC 13). Transactions where customers earn award credits in a loyalty programme on purchase of goods or services are accounted for as multiple-element arrangements. Hence, revenue is allocated to the separate elements of the transaction; the amount allocated to the award credits is measured by reference to their fair value – ie, the amount for which the award credits could be sold separately.

US GAAP Due to the lack of consensus in EITF 00-22, there still is a divergence in practice in US GAAP for the accounting for loyalty programmes. It is acceptable for companies to account for loyalty programmes as multiple-element arrangements using an analogy to EITF 00-21 or guidance in IFRS. In certain circumstances, when the costs of fulfilling liabilities arising from loyalty programmes are inconsequential or perfunctory, the incremental cost model may be appropriate under US GAAP.

Construction contracts

Scope

IFRS Guidance applies to fixed-price and cost-plus construction contracts of contractors for the construction of a single asset or combination of assets.

US GAAP Scope is not limited to construction-type contracts. Guidance also applies to unit-price and time-and-materials contracts.

Recognition method

Percentage-of-completion method

IFRS When the outcome of the contract can be measured reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. The criteria necessary for a cost-plus contract to be reliably measurable are 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. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. IFRS provides limited guidance on the use of estimates.

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 revenues; 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. US GAAP provides detailed guidance on the use of estimates.

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 completed. Losses are recognised when incurred or when the expected contract costs exceed the expected contract revenue.

Combining contracts and segmenting a contract

IFRS A group of contracts is combined and treated as a single contract when they are negotiated as part of a package and other specified conditions are met. Where a contract relates to the construction of more than one asset, the construction of each asset is treated as a separate construction contract if it is part of a separate proposal that could be accepted or rejected separately and revenues and costs for that asset can be clearly identified.

US GAAP Combining contracts is permitted but not required.

REFERENCES: **IFRS:** IAS 11, IAS 18, IFRIC 13.
US GAAP: CON 5, SAB 104, SOP 81-1, SOP 97-2, EITF 99-17, EITF 00-21, FTB 90-1.

Expense recognition

Expenses

Specific expense recognition issues

Interest expense

IFRS Interest expense is recognised on an accrual basis using the effective interest method. Directly attributable transaction costs and any discount or premium arising on the issue of a debt instrument is amortised using the effective interest 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 initial 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

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. 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. Unlike IFRS, if a plan does not have individual participant accounts, for US GAAP purposes it is not a defined contribution plan. Under IAS 19, Employee Benefits, a careful analysis of all terms and conditions of the plan, including its legal standing, is performed to determine whether the substance of the plan is that of a defined contribution plan or a defined benefit plan.

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 other post-retirement obligation and expense	Projected unit credit 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.
Recognition of asset or liability in respect of a defined benefit plan	The amount recognised as a defined benefit asset (or liability) is the present value of the defined benefit obligation less the fair value of plan assets, plus or minus actuarial gains and losses not yet recognised as a result of the application of the 'corridor' approach (see below) and unrecognised past service cost.	The funded status of the defined benefit plan (that is, present value of the defined benefit obligation less the fair value of plan assets) is recognised in the balance sheet. All actuarial gains and losses and past service costs are recognised on the balance sheet, with a corresponding entry to accumulated other comprehensive income (AOCI).

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 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.
Valuation of plan assets	Measured at fair value or using discounted cash flows if market prices unavailable.	Measured at fair value in accordance with FAS 157. Hence, plan assets should reflect an exit price, representing the price at which an asset could be sold to another party in a hypothetical transaction.
Recognition of actuarial gains and losses	Recognised immediately or amortised into profit or loss 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 amortised over expected remaining working lives (the 'corridor' method). 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. Amounts recognised in the SoRIE are not subsequently recognised in the income statement.	Amounts recognised within AOCI in order to reflect the funded status of defined benefit plan on the balance sheet are amortised out of AOCI into the income statement on a basis that is similar to IFRS, except that 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 under US GAAP.
Bases of charge to income statement	The expense will be made up of service cost, interest cost, expected return on assets, recognised actuarial gains/losses, recognised past service costs, curtailment or settlement impacts and any impact of the asset ceiling. Actuarial gains/losses and the impact of the asset ceiling will be recognised either in the SoRIE or the income statement depending on the chosen policy for actuarial gains/losses. IFRS does not prescribe where in the income statement each element of pension expense is recognised but requires disclosure of the line item in which each component is recorded	Similar to IFRS except that in general the net expense is recognised as a single component in employee costs.
Past-service cost	Positive and negative past-service cost recognised in the income statement 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 out of AOCI and into income 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 income in the same manner as positive prior-service cost.

Item	IFRS	US GAAP
Multi-employer plans	If it is a defined benefit plan, it is accounted for as such, 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 accounts for its participation in an overall group plan as a participant in a defined contribution (multi-employer) plan.
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.

REFERENCES: **IFRS:** IAS 19, IAS 39, IAS 37, IFRIC 14.
US GAAP: APB 12, APB 21, FAS 87, FAS 88, FAS 106, FAS 157, FAS 158.

Share-based payment transactions

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 and vests immediately. Where shares or options are awarded to non-employees in exchange for goods or services, the fair value of those goods or services is recognised when the goods are obtained or as the services are received.

US GAAP The fair value of the share-based compensation is recognised over the requisite service period, which may be explicit, implicit or derived depending on the terms of the awards (service condition, market condition, performance condition or a combination of conditions). 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. In general, under both US GAAP and IFRS, compensation cost would be recognised over a similar period.

Employee share-based payment transactions

IFRS For equity-settled share-based payment transactions involving employees, the fair value of employee services received is measured by reference to the fair value of the equity instruments granted with a corresponding increase in equity. If the equity-settled share-based payment does not vest because a non-market condition is not met, there is no charge. For cash-settled share-based payment transactions, the services received and the liability incurred are measured at the fair value of the liability.

US GAAP Similar conceptual model. Nevertheless, many 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.

Non-employee share-based payment transactions

IFRS IFRS 2 requires an equity-settled share-based payment transaction with a non-employee to be determined by reference to the fair value of the goods or services acquired by the entity. In rare cases, if the entity cannot estimate reliably the fair value of the goods or services received, it should measure the goods or services received by reference to the fair value of the equity instruments granted. Where the identifiable fair value of the goods or services received is less than the fair value of the equity instruments issued, there is a presumption that unidentifiable goods or services have also been received. Identifiable goods or services acquired in a share-based payment transaction are recognised when they are received. Unidentifiable goods or services are measured at grant date fair value.

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 generally considered unreliable. 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.

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 expense.

US GAAP Employer payroll taxes due on employee stock-based compensation are recognised as an expense on the date of the event triggering the measurement and payment of the tax to the taxing authority (generally the exercise date and vesting date for options and restricted stock respectively).

REFERENCES: **IFRS:** IAS 19, IAS 37, IFRS 2, IFRIC 11.
US GAAP: FAS 123-R, FIN 44, EITF D-83, EITF 96-18, EITF 00-16.

Termination benefits

IFRS Termination benefits are recorded when the entity is demonstrably committed to the reduction in workforce.

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. As a result of US GAAP distinguishing between four types of termination benefits (with three timing methods for recognition), this could lead to differences when compared to IFRS:

- 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;

- 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;
- 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
- One-time benefit arrangement established by a termination plan that applies for a specified termination event or for a specified future period – recognised as a liability when the termination plan meets certain criteria and has been communicated to employees.

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[1]

Historical cost or valuation

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 Similar to IFRS but prohibits revaluations except for certain categories of financial instruments which are carried at fair value.

Intangible assets

Recognition – separately acquired intangibles

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 p26 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 capitalised if, and only if, all of the following are demonstrated:

- 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 Unlike IFRS, both 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 Recognised initially at cost. 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 of internally developing, maintaining or restoring intangible assets 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. 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. Revaluations are performed regularly and at the same time for all assets in the same class if an entity adopts this treatment. Revaluations are extremely rare in practice.

US GAAP Similar to the cost method under IFRS, 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. Revaluation of intangible assets is not allowed under US GAAP.

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. Reversals of impairment losses are allowed under specific circumstances.

US GAAP Similar to IFRS, except reversals of impairment losses are prohibited.

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

Property, plant and equipment

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 purchase price plus 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. 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; and
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which PPE is located.

Further, the entity must include borrowing costs incurred during the period of acquiring, constructing or producing the asset for use (see p44).

Government grants received in connection with acquisition of PPE may be offset against the cost (see p54).

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.

Subsequent expenditure

IFRS Subsequent maintenance expenditure is expensed as incurred. Replacement of parts may be capitalised when general recognition 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 (cost or valuation less residual value) is allocated on a systematic basis over its useful life, reflecting the pattern in which the entity consumes the asset's benefits. Additionally, an entity is required to depreciate separately the significant parts of PPE if they have different useful lives. For example, it may be appropriate to depreciate separately the airframe and engines of an aircraft. 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 and useful lives are reviewed at each balance sheet date.

US GAAP Similar to IFRS; however, US GAAP generally does not require a component approach for depreciation. Like IFRS, FAS 154 requires that a change in depreciation method be accounted for as a change in accounting estimate effected by a change in accounting principle. Regarding periodic reviews of depreciation methods, residual values and useful lives, the appropriateness of these decisions is assessed at each reporting date.

Subsequent measurement

IFRS PPE is accounted for under either the cost model or the revaluation model. Under the cost model, PPE is carried at cost less accumulated depreciation and impairment.

Under the revaluation model, PPE is carried at fair value at the date of revaluation less depreciation and impairment. The revaluation model should be applied to an entire class of assets. Revaluations have to be kept sufficiently up-to-date to ensure that the carrying amount does not differ materially from fair value.

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.

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.

REFERENCES: **IFRS:** IAS 16, IAS 23, IAS 36.
US GAAP: FAS 34, FAS 143, FAS 144, FAS 154, ARB 43, APB 6, FIN 47.

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. Specific criteria must be met to demonstrate that the sale is highly probable. Once classified as held for sale, the asset is measured at the lower of its carrying amount and fair value less costs to sell with any loss being recognised in the income statement. These assets are not depreciated or amortised during the selling period. They are presented separately from other assets in the balance sheet.

US GAAP Similar to IFRS.

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.	Finance lease accounting required.
A bargain purchase option exists	Indicator of a finance lease.	Finance lease accounting required.
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; finance lease accounting required.
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; finance lease accounting required.
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 and the unguaranteed residual value less 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 third-party residual value guarantees that provide residual value guarantees on a portfolio basis. 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.

The rentals 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 the use of the net investment method to allocate 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 according to its nature – for example, as PPE – and depreciated over its useful life. Rental income is generally recognised on a straight-line basis over the lease term.

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.

REFERENCES: **IFRS:** IAS 17, IFRIC 4
US GAAP: FAS 13, FAS 66, FAS 98, FTB 88-1, EITF 01-08.

Impairment of long-lived assets held for use

Recognition and measurement

IFRS An entity should assess at each reporting date 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 a non-revalued asset's carrying amount exceeds its recoverable amount. Where the asset is carried at valuation the impairment loss is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset and any excess is recognised in the income statement. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. Value in use represents 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 for which the cash flow estimates have not been adjusted. Fair value less cost to sell represents the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

US GAAP Like IFRS, long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. However, unlike IFRS, US GAAP requires a two-step impairment test. The carrying amount is first compared to the undiscounted cash flows that are expected to result from the use and eventual disposal of the asset. If the carrying amount is lower than the undiscounted cash flows, no impairment loss is recognised, although it may be necessary to review depreciation estimates and methods or amortisation periods for the related assets. If the carrying amount is higher, the impairment loss (if any) is measured as the difference between the carrying amount and fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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.

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

Capitalisation of borrowing costs

Recognition

IFRS Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are required to be capitalised as part of the cost of that asset. A qualifying asset is one that necessarily takes a substantial period of time to get ready for its intended use or sale.

US GAAP Treatment of borrowing costs is similar to IFRS. A qualifying asset is also defined similarly to IFRS, except that investments accounted for using the equity method meet the criteria for a qualifying asset while the investee has activities in progress necessary to commence its planned principal operations, provided that the investee's activities include the use of funds to acquire qualifying assets for its operations.

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

Investment property

Definition

IFRS Property (land and/or buildings) held in order to earn rentals and/or for capital appreciation. The definition does not include owner-occupied property, property held for sale in the ordinary course of business or property being constructed or developed.

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; then it becomes an investment property. Property acquired 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 and depreciated cost models 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.

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.

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.

Formulae for determining cost

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.

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.

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 the 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.

The following table outlines the classification requirements for 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.	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: • it eliminates or significantly reduces a measurement or recognition inconsistency; • a group of financial assets, financial liabilities or both is managed and performance is evaluated on a fair value basis; or • the contract contains one or more 'substantive' embedded derivatives.	Irrevocable decision to designate financial assets at fair value with changes in fair value recognised in the income statement. Unlike IFRS, this decision is not restricted to specific circumstances.
Held-for-trading financial assets		
Debt and equity securities held for sale in the short term. Includes non-qualifying hedging 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. 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. Similar to IFRS.
Held-for-trading financial assets		
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 interest rate 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. Industry-specific guidance may also apply.
Available-for-sale financial assets		
Includes debt and equity securities designated as available for sale, except those 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.

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. 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 available-for-sale or held-to-maturity securities when an entity considers a decline in fair value to be 'other than temporary'. A new cost basis is established after a security is impaired. Loans are considered impaired when it is probable that amounts will not be collected.

IFRS generally requires 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.

Under US GAAP, the impairment loss for loans is generally measured on the basis of the present value of expected future cash flows discounted at the loan's effective interest rate. The impairment loss for available-for-sale and held to maturity securities is based on fair value.

Derecognition

IFRS An entity consolidates any subsidiaries including SPEs before applying the derecognition tests to the consolidated entity. The entity then considers whether it has transferred the contractual rights to the cash flows or entered into a so-called 'pass-through arrangement'. In such cases, an analysis of the risks and rewards of the asset is required. 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 needs 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.

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 transfer or and beyond the reach of the transfer or 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).

REFERENCES: **IFRS:** IAS 39, SIC-12.
US GAAP: FAS 114, FAS 115, FAS 133, FAS 140, FAS 155, FAS 157, FAS 159.

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 (more likely than not) 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, although 'probable' is a higher threshold than 'more likely than not'.

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 the risks specific to the liability (for which the cash flow estimates have not been adjusted) 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 or reliably determinable.

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 when, among other conditions, 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.

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.

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 only 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. Probable is defined as more likely than not.

US GAAP Similar to IFRS, an accrual for a loss contingency is required if it is probable that there is a present obligation resulting from a past event and an outflow of economic resources is reasonably estimable. Probable is defined as likely to occur rather than more likely than not as under IFRS.

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.
Measurement of deferred tax		
Tax rates	Tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Rate used is the applicable rate for expected manner of recovery – eg, dependent on whether asset is to be used or sold – or a combination of these.	Use of substantively enacted rates is not permitted. Tax rate and tax laws used must have been enacted. Similar to IFRS.
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.
Presentation of deferred tax		
Current/non-current	Deferred tax assets and liabilities are classified net as non-current on the balance sheet, with supplemental note disclosure for: (a) the components of the temporary differences, and (b) 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.
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 on 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.

Issue	IFRS	US GAAP
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 re-measured 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 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.
Uncertain tax positions	While not specifically addressed within IFRS, an entity reflects the tax consequences that follow from the manner in which it expects, at the balance sheet date, to be paid to (recovered from) the taxation authorities. The tax position is measured using either an expected value approach or a single best estimate of the most likely outcome. The cumulative probability model is not permitted under IFRS.	A tax benefit from an uncertain tax position may be recognised only if it is more likely than not that the tax position is sustainable based on its technical merits. The tax position is measured, using the cumulative probability model, as the largest amount of tax benefit that is greater than 50% likely of being realised upon ultimate settlement.
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 measurement of the deferred tax asset 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. They will, however, affect the actual future tax deduction (if any).
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, not goodwill.	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.

REFERENCES: **IFRS:** IAS 1, IAS 12, IFRS 3.
US GAAP: FAS 109, FIN 48.

Government grants

IFRS Grants are recognised once there is reasonable assurance that both the conditions for their receipt will be met and 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.

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.

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

Leases – lessee accounting

Classification

See 'Classification' section under 'Leases – lessor accounting'.

Finance leases

IFRS Requires recognition of an asset held under a finance lease (see classification criteria on p42) 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. Rental payments are allocated between repayment of capital and interest expense. Interest is calculated to give a constant periodic rate of interest on the remaining balance of the liability.

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 (net of any incentives received) under an operating lease is generally recognised on a straight-line basis over the lease term under IFRS and US GAAP.

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 table below.

Issue	IFRS	US GAAP
Finance lease		
Profit or loss on sale	Deferred and amortised over the lease term.	Timing of profit or loss recognition depends on whether 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.

Classification

IFRS Where there is a contractual obligation (either explicit or indirectly through its terms and conditions) on the issuer of an instrument whereby the issuer may be required 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 may otherwise be settled.

The issuer also classifies the financial instrument as a liability if the settlement 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 also 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 when the holder's right to redemption is subject to specific limits.

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 and for which distributions are not at the discretion of the issuer, are classified as liabilities. However, if dividends are discretionary, the instrument is treated as a compound

instrument with a debt and equity component. Preferred shares where the holder has the option of redemption and for which distributions are not at the discretion of the issuer are also classified as liabilities; in addition there is an embedded put option that may have to be accounted for separately.

US GAAP Differences in classification occur in practice as a result of the different models.

Under US GAAP, 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 (other than an outstanding share) 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.

Specific 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). However, IFRS does not provide for the classification of an instrument as mezzanine equity.

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 also have to be bifurcated.

US GAAP For conventional convertible debt, the instrument is treated as one unit of accounting 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 There are two categories of financial liabilities: those that are recognised at fair value through profit or loss (includes trading), and all others. 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.

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.

US GAAP Similar to IFRS. However, 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 can generally use the fair value option to designate at initial recognition a financial liability at fair value through profit or loss, except for certain specific financial instruments such as demand deposits.

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 – for example, where the discounted present value of new cash flows differs from the previous 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 is 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. Extinguishment 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).

Recent proposals – IFRS

The IASB issued an exposure draft in June 2006 on financial instruments puttable at fair value and obligations arising on liquidation in June 2006. The ED proposes a limited-scope short-term solution to improve financial reporting regarding those instruments that have characteristics similar to ordinary shares.

REFERENCES: **IFRS:** IAS 32, IAS 39, IFRIC 2.
US GAAP: CON 6, ASR 268(SEC), APB 6, APB 14, FAS 140, FAS 150, FAS 155, FAS 159.

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 accounted for as derivatives.

US GAAP Unlike IFRS, certain derivatives on 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.
US GAAP: CON 6, APB 6, APB 14, FAS 150.

Derivatives and hedging

Derivatives

IFRS and US GAAP specify requirements 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. 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.

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 with changes recognised in the income statement, except for derivatives used in cash flow or net investment hedges. However, 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.

Embedded derivatives

IFRS and US GAAP require separation of derivatives embedded in hybrid contracts when the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the hybrid instrument is not measured at fair value through profit or loss. IFRS and US GAAP provide an option to value certain hybrid instruments to fair value instead of bifurcating the embedded derivative.

There are some detailed differences between IFRS and US GAAP for certain types of embedded derivatives on what is meant by ‘closely related’. Under IFRS, reassessment of whether an embedded derivative needs to be separated is permitted only when there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract. Under US GAAP, if a hybrid instrument contains an embedded derivative that is not clearly and closely related to the host contract at inception, but is not required to be bifurcated, the embedded derivative is continuously reassessed for bifurcation.

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. Additional detailed application differences may arise.

IFRS	US GAAP
Held-to-maturity investments cannot be designated as a hedged item with respect to interest-rate risk or prepayment risk.	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 for all risks 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.
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. However, IFRS permits the basis of a non-financial asset or liability to be adjusted in a cash flow hedge that results in the recognition of a non-financial asset or liability.

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.

REFERENCES: **IFRS:** IAS 39, IFRS 7, IFRIC 9.
US GAAP: FAS 133, FAS 137, FAS 138, FAS 149, FAS 155, 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 judgment 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.

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 foreign currency are re-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.

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 under US GAAP).

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 an entity is transferred to the income statement on disposal of that foreign operation and included in the gain or loss on sale. For a partial disposal, 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 of 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.

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, if the exchange rates do not fluctuate significantly, at average rates.

US GAAP Historical rates are used for equity with the translation of other items being similar to IFRS.

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

Earnings per share

Earnings per share (EPS) is disclosed by entities whose ordinary shares or potential ordinary shares are publicly traded, and by entities in the process of issuing such securities 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, interest and any other impact resulting from the assumed conversion of dilutive potential ordinary shares; diluted shares are also adjusted 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 in principle to IFRS, however, differences arise in the detailed calculation of diluted EPS.

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 options and warrants are regarded as having been received from issuing shares at fair value. The difference between the number of shares to be issued on exercise of options 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 Differences to IFRS may arise 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.

Diluted EPS – contingently issuable shares

IFRS Balance sheet date is regarded as end of contingency period for contingently issuable shares.

US GAAP Similar to IFRS.

Recent proposals – US GAAP

The FASB issued an exposure draft in December 2003 proposing revisions to FAS 128, Share-based Payment, 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. As the IASB and the FASB reached different conclusions in redeliberating the revised ED, the FASB expects to issue a third ED in the latter half of 2007 containing a converged solution.

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

Related-party disclosures

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

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

The compensation of key management personnel is disclosed within the financial statements in total and by category of compensation.

US GAAP Similar to IFRS, except that disclosure of compensation of key management personnel is not required within the financial statements.

Recent proposals – IFRS

The IASB issued an exposure draft in February 2007 proposing revisions to IAS 24, Related Party Disclosures. It proposes to amend the definition of a related party in a number of respects; for example, the definition is being extended so that subsidiaries of a group and associates of that same group are related parties of each other. The exposure draft also proposes to reduce the disclosure requirements for some entities that are related only because they are each state-controlled or significantly influenced by the state. This proposed exemption is limited to situations where there are no indicators that the related entities have influenced each other.

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

Segment reporting

Following the issue of IFRS 8, Operating Segments, the requirements under IFRS and US GAAP are very similar. Set out below is a summary of the IFRS requirements. The requirements of US GAAP are identical in many areas and similar in the others.

General requirements

Scope

Entities whose debt or equity instruments are traded in a public market and entities that file, or are in the process of filing, financial statements with a securities or other regulator for the purposes of issuing any class of instrument in a public market.

Format

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 the internally reported operating segments.
- **Aggregation of similar operating segments:** specific aggregation criteria are given to determine whether two or more operating segments are similar
- **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.

Measurement

- **Accounting policies for segments:** those adopted for internal reporting to the chief operating decision-maker for the purposes of allocating resources and assessing performance.

Main disclosures

- **Factors used to identify reportable segments:** disclosure required includes basis of organisation (for example, based on products and services, geographical areas, regulatory environments) and types of product and service from which each segment derives its revenues.
- **Profit and assets for each reportable segment:** required.
- **Components of profit of each reportable segment:** required if included in the measure of segment profit or loss reviewed by the chief operating decision-maker, or are otherwise regularly provided to the chief operating decision-maker, even if not included in that measure of segment profit or loss:

- third party revenues;
- inter-segment revenues;
- interest income;
- interest expense;
- depreciation and amortisation;
- material items of income and expense disclosed in accordance with IAS 1;
- share of results from equity accounting;
- income tax expense;
- material non-cash items other than depreciation and amortisation.

- **Liabilities of reportable segment:** required if regularly reported to chief operating decision-maker.
- **Other items to be disclosed by reportable segment:** investments accounted for by equity method and additions to certain non-current assets (principally PPE and intangible assets) where included in the assets reported to the chief operating decision-maker or are otherwise regularly reported to the chief operating decision-maker.
- **Major customers:** 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.
- **Geographical information:** third-party revenues from and certain non-current assets (principally PPE and intangible assets) located in country of domicile and all foreign countries (in total and, if material, by country) are disclosed.
- **Third-party revenues:** also disclosed for each product and service if this has not already been disclosed.
- **Reconciliations of segment to the corresponding totals of the entity:** reconciliations of total segment revenue, total segment measures of profit or loss, total segment assets, total segment liabilities and any other significant segment totals is required.

REFERENCES: **IFRS:** IFRS 8.
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	A component of an entity (operations and cash flows that can be clearly distinguished operationally and for financial reporting) that has either been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operations, or is a subsidiary 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 from the ongoing operations of the entity, and if the entity will not have significant continuing involvement in the operations of the component after the disposal transaction. A component comprises operations and cash flows that can be clearly distinguished operationally and for financial reporting. It may be a reportable segment, operating segment, reporting unit, subsidiary or an asset group.
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, 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 the post-tax profit or loss recognised in the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation. An analysis of this amount is required either on the face of the income statement or in the notes for both current and prior periods.	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.
Ending date of disclosure	Until completion of the discontinuance.	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, FAS 95, EITF 03-13.

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 occurred 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 1' events. However, see refinancing and rescheduling of debt payments on p57.

Non-adjusting events after the balance sheet date

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

US GAAP Similar to IFRS, referred to as 'Type 2' events.

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. Impairment losses recognised in interim periods in respect of goodwill, or an investment in either an equity instrument or a financial asset carried at cost, are not reversed.
- 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, IFRIC 10.
US GAAP: APB 28, FAS 130, FAS 131.

Index

Subject	Page
Accounting estimates, changes in	19
Accounting policies, changes in	19
Acquisitions	25
Associates	21
Balance sheet	14
Biological assets	46
Business combinations	25
Business combinations – subsequent adjustments	28
Capitalisation of borrowing costs	44
Cash equivalents	18
Cash flow statements	17
Common control transactions	29
Components of financial statements	13
Comparatives	14
Comprehensive income	16
Computer software	31
Consolidation of subsidiaries	20
Construction contracts	32
Contingencies	51
Contingent consideration	26
Convertible debt	56
Debt securities	47
Deferred tax	52
Depreciation	41
Derecognition of financial assets/liabilities	48, 57
Derivatives	59
Discontinued operations	66
Dividends	58
Earnings per share	63
Employee benefits – pensions	34
Employee benefits – termination benefits	37
Employee share compensation	36
Employee share ownership plans (ESOPs)	24
Equity instruments	58
Equity method of accounting	22
Exceptional items	16
Expenses	34
Extraordinary items	16

Subject	Page
Financial assets	46
Financial instruments	15, 17, 39, 55
Financial liabilities	55
Financial statements – contents and presentation	13
First-time adoption of accounting framework	12
Foreign currency translation	62
Functional currency	62
Goodwill	27
Government grants	54
Hedge accounting	59
Historical cost	12, 39
Impairment	22, 26, 27, 40, 44, 48
Income statement	15
Intangible assets	39
Intangible assets – website development costs	39
Interest expense	34
Interim financial reporting	67
Inventories	45
Investment property	45
Joint ventures	23
Leases – classification	42
Leases – lessee accounting	54
Leases – lessor accounting	42
Minority interests	27
Multiple element arrangements	31
Negative goodwill	28
Non-current assets held for sale	42
Post balance sheet events	67
Preference shares	9, 22, 58
Presentation currency	63
Property, plant and equipment	40
Proportionate consolidation	23
Provisions	50
Purchase method	26

Subject	Page
Purchase of own shares	58
Related-party transactions	64
Research and development costs	26, 29
Restructuring provisions	27
Revenue recognition	30
Segment reporting	65
Software	31
Special purpose entities	21
Statement of changes in shareholders’ equity	13, 16
Statement of changes in share (stock) holders’ equity	17
Subsidiaries	20
Treasury shares	24
Uniting of interests	28

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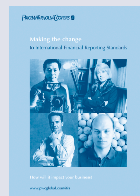

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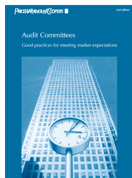

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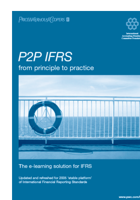

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