Comparison between U.S. GAAP and International Financial Reporting Standards

EDITION 1.2 — June 30, 2008

Contents

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Preface

Approximately one hundred countries require or permit the use of International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). For many years in the United States, the Securities and Exchange Commission (SEC) required all foreign private issuer (FPI) companies to provide a reconciliation between their home-country required generally accepted accounting principles and U.S. GAAP. A number of parties had expressed interest in both the removal of the reconciliation requirement for FPIs using IFRS and in the acceptance of IFRS as a set of high-quality, transparent global accounting standards.

In September 2002, the Financial Accounting Standards Board (FASB) and the IASB issued a memorandum of understanding (the Norwalk Agreement) wherein they "acknowledged their commitment to high-quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting." The memorandum notes that the Boards have "pledged to use their best efforts (a) to make their existing financial reporting standards fully compatible as soon as is practicable and (b) to coordinate their future work programs to ensure that once achieved, compatibility is maintained." In February 2006, the Boards issued *A Roadmap for Convergence between IFRSs and US GAAP – 2006 - 2008; Memorandum of Understanding between the FASB and the IASB* and reaffirmed their commitment to the convergence of U.S. GAAP and IFRS.

In December 2007, the SEC adopted rules allowing FPIs whose financial statements are prepared using IFRS as issued by the IASB to file their financial statements without reconciliation to U.S. GAAP. The rules provide a temporary transition accommodation for European Union (EU) registrants that use the carve-out to International Accounting Standard 39, *Financial Instruments: Recognition and Measurement*, regarding hedge accounting.

In August 2007, the SEC issued a concept release on allowing U.S. issuers to prepare financial statements in accordance with IFRS. The comment period closed on November 13, 2007. Public roundtables were held at the SEC in December 2007. Recent comments to the press suggest that the SEC will issue a rule proposal in the third or fourth quarter of 2008. Given all of these developments many observers believe that in as little as three to five years the U.S. capital markets will have adopted IFRS. In the meantime, a number of differences still exist between IFRS and U.S. GAAP, so it is incumbent on preparers, auditors, and regulators to be aware of differences between these two sets of standards.

We have prepared the *Comparison between U.S. GAAP and International Financial Reporting Standards* (this document) to help readers identify similarities and differences between IFRS and U.S. GAAP. More emphasis is placed on recognition, measurement, and presentation guidelines and less emphasis is placed on disclosure requirements. As more fully explained in Section 1, "Introduction," this document covers only those differences that we believe are more commonly encountered in practice. It includes standards issued up to June 30, 2008.

The following guidance has been updated from the previous Edition 1.1: (**Note**: The updated guidance has been shaded in each Section to alert readers – page numbers are indicated below.)

- Revised IAS 1, *Presentation of Financial Statements* (see page 8)
- SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements* (see page 10)

- 2008 Annual Improvements amends IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* (see page 15)

- SFAS 162, *The Hierarchy of Generally Accepted Accounting Principles* (see page 20)

- 2008 Annual Improvements amends IAS 40, *Investment Property* (see page 25)

- FASB Exposure Draft, *Disclosure of Certain Loss Contingencies* (see page 37)

- Amendment to IFRS 2, *Share-based Payment* entitled *Vesting Conditions and Cancellations* (see page 50)

- Revised IAS 32, *Financial Instruments: Presentation* (see page 57)

- FASB Staff Position (FSP) APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" (see page 59)

- IFRS 3 (revised 2008), *Business Combinations* and IAS 27 (revised 2008), *Consolidated and Separate Financial Statements* (see page 64)

- SFAS 141 (revised 2007), *Business Combinations* and SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements* (see page 64)

- 2008 Annual Improvements amends IAS 27 (revised 2008), *Consolidated and Separate Financial Statements* (see page 65)

- Amended IAS 28, *Investments in Associates*, as a result of IFRS 3 (revised 2008) and IAS 27 (revised 2008) (see page 75)

- IASB Exposure Draft 9, *Joint Arrangements* (see page 78)

- 2008 Annual Improvements amends IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* (see page 83)

- IASB/FASB joint project on earnings per share (see page 86)

We wish to extend our appreciation to Richard C. Jones, Ph.D., CPA and associate professor at Hofstra University in New York, for his contribution to the development of this document.

1. Introduction

International standards and the IASB

The International Accounting Standards Board (IASB) is responsible for the preparation and issuance of International Financial Reporting Standards (IFRS). Upon its inception in 2001, the IASB adopted the body of International Accounting Standards (IAS) issued by its predecessor, the International Accounting Standards Committee (IASC).

The International Financial Reporting Interpretations Committee (IFRIC) assists the IASB in establishing and improving standards of financial accounting and reporting for the benefit of users, preparers, and auditors of financial statements. IFRIC was established in 2002 when it replaced the previous interpretations committee, the Standing Interpretations Committee (SIC).

Under IFRS, when a standard or interpretation specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item is determined by applying the standard or interpretation and considering any relevant implementation guidance issued by the IASB. In this document, IFRS refers collectively to International Financial Reporting Standards, IASs issued by the IASC, and Interpretations originated by the IFRIC and the SIC.

Financial accounting and reporting in the United States

The Financial Accounting Standards Board (FASB) is the designated body in the private sector responsible for establishing and improving standards of financial accounting and reporting in the United States for non-governmental public and private enterprises, including small businesses. Those standards, which govern the preparation of financial reports, are provided for the guidance and education of the public, including issuers, auditors and users of financial information. In certain cases, financial accounting and reporting requirements in the United States may be derived from U.S. Generally Accepted Auditing Standards (GAAS), as well as ethics requirements established by the American Institute of Certified Public Accountants (AICPA). The "AU" reference in this document refers to GAAS promulgated by the AICPA. For example, Statement on Auditing Standards (SAS) No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles* (AU Section 411)[1], states that GAAP for financial statements of entities other than governmental entities include:

- Financial Accounting Standards Board (FASB) Statements of Financial Accounting Standards and Interpretations, Accounting Principles Board (APB) Opinions, and AICPA Accounting Research Bulletins.

- FASB Technical Bulletins and, if cleared by the FASB, AICPA Industry Audit and Accounting Guides and AICPA Statements of Position.

1. This guidance will remain essentially the same with the issuance of SAS 162, *The Hierarchy of Generally Accepted Accounting Principles*, which likely will be effective in the second half of 2008.

- AICPA Accounting Standards Executive Committee (AcSEC) Practice Bulletins that have been cleared by the FASB and consensus positions of the FASB Emerging Issues Task Force.

- AICPA accounting interpretations and implementation guides (Qs and As) published by the FASB staff, and practices that are widely recognized and prevalent either generally or in the industry.

SEC registrants must also comply with U.S. Securities and Exchange Commission financial reporting requirements like those promulgated in SEC Regulations S-X and S-K, Financial Reporting Releases (FRR), and Staff Accounting Bulletins (SAB). SEC Staff Accounting Bulletins represent practices followed by the staff in administering SEC disclosure requirements.

IFRS and U.S. GAAP comparison

This document highlights the major areas of similarities and differences between current U.S. GAAP and IFRS. It is not intended to be an exhaustive list of similarities and differences or of IFRS requirements. Our objective is to help identify those areas of differences that we believe are most commonly encountered in practice and to assist those new to IFRS in gaining an appreciation of their major requirements and how these differ from requirements in the United States. Disclosure requirements are not addressed other than in exceptional cases where there are major differences between U.S. GAAP and IFRS that are central to accounting standards under either GAAP.

The financial statements of EU reporting companies are required to comply with IFRS as endorsed by the European Commission. These standards may from time to time differ from IFRS as issued by the IASB, for example because of timing of endorsement. Those specific differences are not addressed in this document. This document is only a guide; for the complete details of IFRS and U.S. GAAP requirements, reference should be made to the text of the standards themselves.

This document includes standards issued up to June 30, 2008. It does not address industry-specific requirements for banks, other financial institutions, insurance companies, charities, retirement benefit plans, or agriculture. In terms of specific IFRS, the following pronouncements have not been taken into account in the comparison due to their specialized nature:

- IFRS 4, *Insurance Contracts*

- IFRS 6, *Exploration for and Evaluation of Mineral Resources*

- IAS 26, *Accounting and Reporting by Retirement Benefit Plans*

- IAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*

- IAS 41, *Agriculture*

2. Overall financial statement presentation

Note: On 6 September 2007, the IASB issued a revised IAS 1, *Presentation of Financial Statements*. The revised IAS 1 includes changes in the titles of the financial statements to clarify their function:

- Balance sheet is renamed statement of financial position
- Income statement is renamed statement of comprehensive income (if one statement is used, but see below)
- Cash flow statement is renamed statement of cash flows

The new titles will be used in IFRS; however entities will not be required to use the new titles.

The more significant changes to IAS 1 require an entity to

- Present all non-owner changes in equity as components of comprehensive income either in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income)
- Present a statement of financial position as of the beginning of the earliest comparative period in a complete set of financial statements when the entity applies a change in accounting policy, the correction of an error or the reclassification of items
- Disclose income taxes relating to each component of other comprehensive income
- Disclose reclassification adjustments relating to components of other comprehensive income

The revised IAS 1 is effective for annual periods beginning on or after 1 January 2009. Early adoption is permitted.

2.1 General

IFRS	U.S. GAAP
Relevant standards: Form and content is specified by IFRS, including IAS still extant and SIC/IFRIC Interpretations. Additional requirements may be specified by local statute, regulators or stock exchanges.	**Relevant standards**: Form and content specified by GAAP as set forth in GAAP Hierarchy (AU Section 411) and SEC Regulation S-X.
Financial statements comprise: ▪ Balance sheet ▪ Income statement ▪ A statement showing either: – All changes in equity; or – Changes in equity other than those arising from capital transactions with owners and distributions to owners (called a Statement of Recognised Income and Expense (SORIE)) ▪ Cash flow statement (no exemptions) ▪ Accounting policies and explanatory notes (IAS 1.8)	Financial statements comprise: ▪ Balance sheet ▪ Income statement ▪ Statement of comprehensive income. This statement may be combined with the income statement or the statement of changes in stockholders' equity (SFAS 130.22) ▪ Statement of changes in stockholders' equity. Alternatively, disclosure of changes in the separate accounts comprising stockholders' equity (in addition to retained earnings) could be made in the notes to financial statements (APB 12.10) ▪ Statement of cash flows (limited exemptions; see Section 2.5) ▪ Notes to financial statements
Generally, comparative financial information is required "except where a Standard or interpretation requires otherwise" (IAS 1.36).	No specific requirement to provide comparative statements but desirable to do so (ARB 43, Ch2A, par. 2). SEC rules require balance sheets for the two most recent

	fiscal years and three year statements of income and cash flows (SEC Regulation S-X; Rules 3-01a and 3-02a).

2.2 Balance sheet

IFRS	U.S. GAAP
Relevant standards: IAS 1	**Relevant standards**: ARB 43; SFAS 6 and 109; SEC Regulation S-X (Rule 5-02)
IAS 1 specifies items that must be presented on the face of the balance sheet, and lists additional information that must be either on the face or in the notes (IAS 1.68-.77).	U.S. GAAP does not prescribe a standard format. SEC Regulation S-X (Rule 5-02) does require specific line items to appear on the face of the balance sheet, where applicable.
IAS 1 requires current and non-current items to be presented as separate classifications on the face of the balance sheet (except where a presentation based on liquidity is reliable and more relevant) (IAS 1.51).	The balance sheets of most enterprises show separate classifications of current assets and liabilities. However, an unclassified balance sheet is commonplace for enterprises in specialized industries for which the distinction is deemed to have little or no relevance (SFAS 6.7).
No subtotals are specified in IAS 1.	Non-SEC reporting entities are required by SFAS 6.15 to present a total of current liabilities if they present a classified balance sheet. As a matter of practice, these non-SEC reporting entities also present a subtotal for current assets as well. SEC rules explicitly require subtotals for current assets and current liabilities.
Deferred and current tax liabilities and assets must be shown as separate line items on the face of the balance sheet. Deferred tax assets (liabilities) may not be classified as current assets (liabilities) (IAS 1.70).	Deferred tax assets and liabilities are separated into current and non-current amounts and the net current deferred tax asset or liability and the net non-current deferred tax asset or liability, if any, is shown on the face of the balance sheet (SFAS 109.41-.42).
IAS 1 defines current assets as those that are: ▪ Expected to be realised within normal operating cycle (via sale or consumption) – normal operating cycle where not clearly identifiable is assumed to be 12 months, or ▪ Held primarily for trading; or ▪ Expected to be realised within 12 months from the balance sheet date, or ▪ Cash or cash equivalents not restricted in their use All other assets are non-current (IAS 1.57).	Current assets are cash and other assets or resources commonly identified as those which are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the business (ARB 43; Ch. 3A.4). In businesses where the period of the operating cycle is more than twelve months, the longer period should be used. Where a particular business has no clearly defined operating cycle, the one-year rule governs (ARB 43; Ch. 3A.5).
The definitions of current and non-current liabilities are similar to those for current and non-current assets (IAS 1.60). Current liabilities also include those liabilities where the entity does not have an unconditional right to defer settlement beyond 12 months after the balance sheet	Current liabilities are obligations whose liquidation is reasonably expected to require the use of existing resources properly classifiable as current assets, or the creation of other current liabilities (ARB 43; Ch. 3A.7).

<table>
<tr><th>IFRS</th><th>U.S. GAAP</th></tr>
<tr><td>date (IAS 1.65).</td><td></td></tr>
<tr><td>An entity classifies its financial liabilities as current when they are due to be settled within 12 months after the balance sheet date even if (IAS 1.63):
The original term was for a period longer than twelve months and
An agreement to refinance, or to reschedule payments, on a long-term basis is completed after the balance sheet date and before the financial statements are authorised for issue</td><td>Short-term obligations, other than those arising from transactions in the normal course of business that are due in customary terms, are excluded from current liabilities only if the entity intends to refinance the obligation on a long-term basis and (SFAS 6.9-.11):
Before the balance sheet is issued there is a post-balance sheet issuance of a long-term obligation or equity securities for the purpose of refinancing the obligation on a long-term basis; or
Before the balance sheet is issued the entity has entered into a financing agreement that permits it to refinance the short-term obligation on a long-term basis and certain conditions are met</td></tr>
<tr><td>A liability that becomes payable on demand because an entity breaches an undertaking under a long-term loan agreement is classified as current even if the lender has agreed, after the balance sheet date and before authorisation of the financial statements, not to demand payment as a consequence of the breach (IAS 1.65).</td><td>An entity must classify as current a long-term obligation that is or will be callable by a creditor because of the entity’s violation of a provision of the debt agreement at the balance sheet date or because the violation, if not cured within a specified grace period, will make the obligation callable unless (SFAS 78.5):
The creditor has waived or subsequently lost the right to demand repayment for more than one year (or operating cycle, if longer) from the balance sheet date; or
For long-term obligations containing a grace period within which the entity may cure the violation, it is probable that the violation will be cured within that period</td></tr>
<tr><td>If any asset or liability line item combines amounts expected to be settled or recovered (a) within 12 months of balance sheet date and (b) more than 12 months after the balance sheet date then the entity shall in addition to current/ non-current classification disclose the amount due after more than 12 months (IAS 1.52).</td><td>SFAS 47.10 requires that the combined aggregate amount of maturities and sinking fund requirements for all long-term borrowings be disclosed for each of the five years following the date of the latest balance sheet presented.</td></tr>
<tr><td>Minority interests are presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity (IAS 27.33).</td><td>Minority interests are not presented within shareholders’ equity. In practice minority interests are presented as part of non-current liabilities or between liabilities and shareholders’ equity (Regulation S-X; Rule 5-02.27).

Note: On December 4, 2007, the FASB issued SFAS 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51. The Statement introduces significant changes in the accounting for and reporting of minority interests (now referred to as noncontrolling interests.) SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008.</td></tr>
</table>

IFRS	U.S. GAAP
	Early adoption is prohibited.
Assets and liabilities, and income and expenses, are not offset unless required or permitted by a Standard or an Interpretation (IAS 1.32).	Offsetting is permitted only when (FIN 39.5-.6 and EITF Topic D-43): ▪ The parties owe each other determinable amounts ▪ There is a right and intention to set-off ▪ The right of set-off is enforceable by law

2.3 Profit and loss account/income statement

IFRS	U.S. GAAP
Relevant standards: IAS 1; IFRS 5	**Relevant standards**: SEC Regulation S-X (Rule 5-03); APB 30; and SFAS 144
Two main expense categorisations: ▪ Nature of expenses ▪ Function of expenses IAS 1 does not specify exact formats but does specify items that must be on the face of the income statement and additional information that must be either on the face of the income statement or in the notes (IAS 1.78-.95).	U.S. GAAP does not prescribe a standard format; single-step format or multiple-step format acceptable. SEC Regulation S-X (Rule 5-03) does require specific line items to appear on the face of the income statement, where applicable.
Where items of income and expense are material, disclose the amount and nature of those items either on the face of the income statement or in the notes (IAS 1.86). Additional line items, headings and subtotals are presented where relevant to an understanding of performance (IAS 1.69).	A material event or transaction that is unusual in nature or occurs infrequently but not both should be reported as a separate component of income from continuing operations (APB 30.26).
Extraordinary items are prohibited anywhere within the financial statements (IAS 1.85). However, under IFRS 5 discontinued/held-for-sale items are presented post-tax (IFRS 5.33).	Extraordinary items are material items that are both unusual and infrequently occurring (APB 30.20). Extraordinary items are rare. These items also include the excess of fair value of net assets acquired in a business combination over cost that is required to be recognized as an extraordinary gain (SFAS 141.45).
For Financial instruments (Section 7) and Investment property (Section 4.2), some *unrealized gains* via fair value adjustments are included in the income statement.	Under SFAS 115 (see Section 7), unrealized gains and losses on investments in certain debt and equity securities classified as *trading* are recognized via fair value adjustments through the income statement. Further, since U.S. GAAP follows a cost model for investment property (see Section 4.2), unrealized gains on investment property are not recognized while losses on impairment of long-term assets to be held and used (see Section 4.4) are recognized and included in the income statement.
In IFRS, there are instances where gains or losses initially recognized in equity are recycled to the income statement on subsequent realisation (e.g., available for	Similar to IFRS. See “Recognition and measurement of financial assets” (Section 7.1) and “Foreign currency translation” (Section 10.1). Amounts related to pension

IFRS	U.S. GAAP
sale investments, foreign exchange losses on net investment in subsidiaries, and hedged items).	and other postretirement benefit plans that are initially recognized in other comprehensive income are also recycled according to the recognition provisions of Statements 87, 88 and 106.

2.4 Statement of changes in equity/SORIE/reporting comprehensive income

IFRS	U.S. GAAP
Relevant standards: IAS 1.96-.101	**Relevant standards**: ARB 43 Ch. 2A; SFAS 130; APB 12
Present either: ▪ A statement of recognised income and expense (SORIE) as a primary statement, and present capital movements and distributions in the notes, or ▪ A statement of changes in equity, which combines recognised income and expenses with capital movements and distributions in a statement of changes in equity	Comprehensive income and its components must be displayed in a financial statement that is displayed with the same prominence as the other financial statements that constitute a full set of financial statements. A specific format is not required but net income must be displayed as a component of comprehensive income in the financial statement that displays the comprehensive income information. Comprehensive income may be displayed 1) as part of the income statement, 2) on a stand-alone basis, or 3) as part of the statement of changes in stockholders' equity (SFAS 130.22-.23). Disclosure of changes in the separate accounts comprising stockholders' equity (in addition to retained earnings) is required. These disclosures may be made in the notes to the financial statements or through a separate financial statement (APB 12.10).
Certain items must be split between minority interest and parent. The effects on prior year adjustments must be expressed in respect of each component.	Income attributable to minority interests is generally presented in consolidated profit and loss account as a deduction against after-tax profits.
The SORIE approach must be used if the IAS 19 approach of recognising actuarial gains and losses outside of profit or loss is taken (IAS 19.93C) (see Section 6.2.)	Gains and losses that are not immediately recognized as a component of net periodic pension cost are recognized as increases or decreases in other comprehensive income as they arise and subsequently recognized in earnings (SFAS 87.29).
Corrections of errors and changes in accounting principles are generally accounted for through retrospective adjustments of previously issued financial statements (IAS 8; see Section 3.2).	Similar to IFRS (SFAS 154; see Section 3.2).

2.5 Cash flow statement

IFRS	U.S. GAAP
Relevant standards: IAS 7	**Relevant standards**: SFAS 95,102, and 104
No exemptions under IFRS.	Exemption for: ▪ Defined benefit pension plans ▪ Certain other employee benefit plans and highly liquid

IFRS	U.S. GAAP
	investment companies that meet specified criteria (SFAS 102.10)
Cash movement in cash flow statement includes cash equivalents, i.e. short-term highly liquid investments readily convertible into known amounts of cash and with an insignificant risk of changes in value. (IAS 7.6 and IAS 7.7)	Statement shows change in cash and cash equivalents (i.e., short-term, highly liquid investments that are readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.). Generally, only investments with original maturities of three months or less are cash equivalents (SFAS 95.8).
Bank borrowings are generally considered to be financing activities. However, in some countries, bank overdrafts which are repayable on demand form an integral part of an entity's cash management. In these circumstances, bank overdrafts are included as a component of cash and cash equivalents. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn. (IAS 7.8).	Bank overdrafts are included in liabilities and excluded from *cash equivalents*. Changes in overdraft balances are financing activities.
Standard categories are: ▪ Operating ▪ Investing ▪ Financing Interest and dividends are classified consistently from year to year under the most appropriate heading. Interest and dividends paid may be shown as operating or financing cash flows. Interest and dividends received may be shown as operating or investing cash flows. However, banks must show interest received and paid as operating cash flows (IAS 7.31-.34). Taxation cash flows are disclosed separately under operating unless they can be identified specifically with investing or financing cash flows (IAS 7.14(f) and IAS 7.35-.36).	Standard categories are: ▪ Operating ▪ Investing ▪ Financing Interest and dividends received and interest paid are classified as operating activities. Dividends paid are classified as financing activities (SFAS 95.14-.23). Taxation cash flows are classified as operating activities (SFAS 95.23).
IAS 7.18 allows the cash flows from operating activities to be disclosed via either the direct method (i.e. shows major classes of gross cash receipts and payments) or the indirect method (adjust profit for non cash movements – IAS 7.20 states two alternative presentations for indirect method).	SFAS 95 allows either the direct or indirect method but in any case requires that the financial statement presentation include a reconciliation of net cash flow from operating activities to net income. If the indirect method is used, interest paid (net of amounts capitalized) and income taxes paid must be disclosed (SFAS 95.29).
Cash flows arising from the following may be reported on a net basis (IAS 7.22): ▪ Cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the entity; and ▪ Cash receipts and payments for items in which the turnover is quick, the amounts are large, and the	Receipts and payments should generally be shown gross. Certain items may be presented net because their turnover is quick, the amounts are large, and the maturities are short. Items that qualify for net reporting are cash flows pertaining to (a) investments (other than cash equivalents), (b) loans receivable, and (c) debt, provided that the original maturity of the asset or liability is three months or less (SFAS 95.11-.13).

IFRS	U.S. GAAP
maturities are short	
IAS 7.39 requires cash flows relating to purchase or disposal of a business to be included in investing activities (with separate disclosure).	Cash flows relating to the purchase or disposal of a business are classified as investing activities.
IFRS 5.33(c) requires disclosure of the amount of the cash flows attributable to a discontinued operation under each of the standard headings. IFRS do not mandate separate disclosure of the impact of acquisitions on cash flows under each heading in the cash flow statement.	Separate disclosure of cash flows related to discontinued operations is not required to be presented. If an entity chooses to separately report cash flows from discontinued operations, then it should not aggregate operating, investing, and financing cash flows from discontinued operations into a single line item but should display them separately.
Disclose components of cash and cash equivalents and reconcile to balance sheet (IAS 7.45).	Total cash and cash equivalents at the beginning and end of period shown in the cash flows statement must be the same as similarly titled line items or subtotals in the balance sheet (SFAS 95.7).
IAS 7.25 to IAS 7.27 require that foreign subsidiaries or branches cash flows are translated using rates at the time of the cash flow or approximations using weighted averages. While unrealized gains and losses are not cash flows, the exchange differences must be shown in the statement of cash flows to reconcile cash and cash equivalents at the beginning and end of the period, which is presented separately from operating, investing, and financing activities (IAS 7.28).	Cash currency cash flows are reported using the exchange rates in effect at the time of the cash flows. A weighted average rate may be used if the result is substantially the same as that which would have been obtained using the actual rate (SFAS 95.25). The effect of exchange rate changes on foreign currency cash balances is reported as a separate part of the reconciliation of the change in cash and cash equivalents during the period (SFAS 95.25).

2.6 Discontinued operations/discontinuing operations /assets held for sale

IFRS	U.S. GAAP
Relevant standards: IFRS 5	**Relevant standards**: SFAS 144 and 154; APB 20
Definition of discontinued operations	
An operation is classified as discontinued (IFRS 5.31-.32): ▪ At the date the operation meets the criteria to be classified as held for sale; or ▪ When the entity has disposed of the operation	A long-lived asset that is a *component of an entity* is reported as a discontinued operation if it (SFAS 144.42): ▪ Is classified as held for sale; or ▪ Has been disposed of AND ▪ The operations and cash flows of the component have been (or will be) eliminated from the ongoing operations of the entity; and ▪ The entity will not have any significant continuing involvement in the operation of the component after the disposal transaction
To be classified as discontinued, the operation must also relate to a separate major line of business or	A *component of an entity* comprises operations and cash flows that can be clearly distinguished, operationally and

<table>
<tr><th>IFRS</th><th>U.S. GAAP</th></tr>
<tr><td>geographical area of operations or be a subsidiary acquired exclusively with a view to resale.</td><td>for financial reporting purposes, from the rest of the entity and may be a reportable segment, an operating segment, a reporting unit, a subsidiary, or an asset group (SFAS 144.41).</td></tr>
<tr><td colspan="2">Held for sale</td></tr>
<tr><td>An asset or disposal group is held for sale when its carrying amount will be recovered principally through a sale transaction rather than continued use (IFRS 5.6). See criteria for held for sale classification below.

Note: In May 2008, the IASB issued Improvements to IFRSs, which amended IFRS 5, Non-current Assets Held for Sale and Discontinued Operations. The amendments clarify that all assets and liabilities of a subsidiary should be classified as held for sale if the entity is committed to a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest after the sale. The amendments are effective for annual periods beginning on or after 1 July 2009. Early adoption is permitted; however an entity must also adopt IAS 27 (as amended in May 2008), Consolidated and Separate Financial Statements.</td><td>An entity classifies a long lived asset (disposal group) as held for sale when it satisfies certain criteria (see below) that demonstrate that the entity is sufficiently committed to a plan to sell (SFAS 144.B70).</td></tr>
<tr><td>For an asset to be held for sale, the sale must be highly probable and the asset must be available for sale in its present condition subject only to terms that are usual and customary for sales of such assets (IFRS 5.7 – useful illustrations also given with implementation guidance issued with IFRS 5). The sale is highly probable when (IFRS 5.8):
Management committed to a plan to sell
Active programme to locate a buyer and complete the plan initiated
Asset actively marketed and at a reasonable price
Sale should be expected to qualify for recognition as a completed sale within one year from the date of classification (one year limit extended if conditions in IFRS 5 App B apply)
Actions required to complete plan indicate it is unlikely that significant changes to the plan will be made or that it will be withdrawn</td><td>Normally, a long-lived asset (disposal group) is classified as held for sale when the following criteria are met (SFAS 144.30):
Management, having the authority to approve the action, is committed to a plan to sell
The asset is available for immediate sale in its present condition subject only to usual and customary terms
Active program to locate a buyer and other actions required to complete the plan have been initiated
Sale is probable and expected to qualify for recognition as a completed sale, within one year, except as permitted by SFAS 144.31
Asset is being actively marketed for sale at a price reasonable in relation to its current fair value
Actions required to complete plan indicate it is unlikely that significant changes to the plan will be made or that it will be withdrawn</td></tr>
<tr><td colspan="2">Timing considerations</td></tr>
<tr><td>In IFRS assets and disposal groups are treated as held for sale when at the balance sheet date they meet the criteria (see above) for being held for sale. A discontinued operation is one that is held for sale or has been disposed of (IFRS 5.32).</td><td>Similar to IFRS except that for those situations where the criteria are met after the balance sheet date but before issuance of the financial statements, SFAS 144 requires disclosure of the carrying amounts of the major classes of assets and liabilities included as part of a disposal group</td></tr>
</table>

IFRS	U.S. GAAP
However, where the criteria are met between the balance sheet date and the date that the accounts are signed certain disclosures are required (IFRS 5.12).	and IFRS 5 does not (SFAS 144.33). Furthermore, SFAS 144 requires disclosure of the segment in which the asset is presented and IFRS 5 does not (SFAS 144.47d).
Presentation in performance statements	
The key disclosures required for discontinued operations are (IFRS 5.33): ▪ On the face of the income statement a single amount comprising the total of: – The post-tax profit or loss of discontinued operations; and – The post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group constituting the discontinued operation ▪ An analysis of the above single amount (on the face or in the notes) into: (1) Revenue, expenses and pre-tax profit or loss of discontinued operations (2) The related income tax expense of (1) (3) The gain or loss recognized on the measurement to fair value less costs to sell or on disposal of the assets or disposal group constituting the discontinued operation; and (4) The related income tax expense of (3) If the analysis is shown on the face of the income statement it must be presented separately from continuing operations.	When a component of an entity either has been disposed of or is classified as held for sale, the following is reported (net of taxes) separately on the face of the income statement in discontinued operations (SFAS 144.43): ▪ Results of operations of the component ▪ Gain or loss recognized as a result of measuring a long-lived asset (disposal group) classified as held for sale at the lower of its carrying amount or fair value less cost to sell A gain or loss on disposal may be disclosed either on the face of the income statement or in the notes (SFAS 144.43). Adjustments to amounts previously reported in discontinued operations that are directly related to the disposal of a component of an entity in a prior period are classified separately in discontinued operations in the current period (SFAS 144.44).
Extraordinary items are prohibited anywhere within the financial statements (IAS 1.85). Unless an individual standard specifies otherwise, a change in accounting policy is applied retrospectively and not currently in the income statement.	Discontinued operations are reported as a separate component of income before extraordinary items and the cumulative effect of accounting changes (SFAS 144.43).
Net cash flows attributable to operating, investing and financing activities of discontinued operations (IFRS 5.33(c)).	Separate disclosure of cash flows related to discontinued operations is not required to be presented. If an entity chooses to separately report cash flows from discontinued operations, then it should not aggregate operating, investing, and financing cash flows from discontinued operations into a single line item but should display them separately.
Disclosure exemptions apply for disposal groups that are newly acquired subsidiaries meeting the definition of held-for-sale (IFRS 5.33).	SFAS 144 does not contain similar disclosure exemptions for disposal groups that are newly acquired subsidiaries.
Income statement and cash flow comparatives are restated so that discontinued operations include all operations that have been discontinued by the balance	Similar to IFRS except that separate disclosure of cash flows related to discontinued operations is not required to be presented (SFAS 144.43).

IFRS	U.S. GAAP
sheet date (IFRS 5.34). The balance sheet comparatives are not restated (IFRS 5.40).	
Balance sheet presentation	
Where a non-current asset or a disposal group qualifies as held for sale, the assets should be presented separately from other assets and similarly for liabilities (both as separate single lines) and not offset on the face of the balance sheet (IFRS 5.38). The main classes of assets and liabilities within the held for sale balances should be separately disclosed, either on the face of the balance sheet or in the notes (there is an exemption from this additional disclosure in cases where the disposal group is a newly acquired subsidiary) (IFRS 5.38-.39).	Similar to IFRS (SFAS 144.46) except that U.S. GAAP does not have a similar disclosure exemption for a newly acquired subsidiary.
Measurement	
IFRS 5 contains measurement and disclosure rules for non-current assets (or disposal groups) that are held for sale. Certain types of non-current assets are scoped out of IFRS 5 where they are dealt with by other standards (IFRS 5.5). Where held for sale criteria met, non-current assets (or disposal group) are measured at lower of carrying amount and fair value less costs to sell (IFRS 5.15). Impairment losses are recognised for initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell (IFRS 5.20). A gain is recognized for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been previously recognised (IFRS 5.21-.22). No depreciation (or amortisation) is charged on non-current assets held for sale (IFRS 5.25).	Similar to IFRS (SFAS 144.3-.5, .30 and .34-.37).
IFRS 5.26-.29 deal with situations where assets or disposal groups previously classed as held for sale no longer meet those criteria. The asset or disposal group is no longer classified as held for sale and disclosure of the circumstances surrounding the change is required (IFRS 5.26 and .42).	Similar to IFRS (SFAS 144.38-.40).
After the change, the assets are re-measured at the lower of carrying amount prior to classification as held for sale, with effect of depreciation/amortization, or its recoverable amount (IFRS 5.27).	Similar to IFRS (SFAS 144.38).
Non-current assets to be abandoned are not classed as held for sale (so the above measurement rules do not apply), but may qualify as a discontinued operation	Similar to IFRS. Long-lived assets to be abandoned continue to be classified as long-lived assets to be held and used (SFAS 144.27).

IFRS	U.S. GAAP
requiring disclosure (IFRS 5.13).	
Subsidiaries held exclusively for resale	
Subsidiaries held exclusively for resale that meet the conditions for held for sale are also discontinued items. Hence, the balance sheet items are presented as a single line of assets and single line of liabilities, with the non-current assets being stated at the lower of carrying amount had it not been so classified and fair value less costs to sell (IFRS 5.16).	Similar to IFRS (SFAS 144.34 and .46).

3. Accounting policies – general

3.1 Selection of accounting policies

IFRS	U.S. GAAP
Relevant standards: IAS 1, 8, and 10	**Relevant standards**: APB 22; SFAC 2 and 6; FIN 39; SAS 59; AICPA Ethics Interpretation 203-1; and EITF Topic D-43
An entity must disclose (a) the measurement bases used to prepare the financial statements, and (b) other accounting policies that are relevant to understanding the financial statements (IAS 1.108). Select and apply accounting policies so that the financial statements comply with all requirements of each applicable IFRS/IAS, SIC/IFRIC Interpretation and any implementation guidance (IAS 8.7).	An entity must disclose its accounting policies to identify and describe the accounting principles followed by the reporting entity and the methods of applying those principles that materially affect the determination of financial position, cash flows, or results of operations (APB 22.12).
An entity must state that the financial statements comply with IFRS via an explicit statement of compliance (IAS 1.14). Financial statements should not be described as complying with IFRS unless they comply in full with all requirements of each applicable IFRS (IAS 1.14).	No equivalent requirement.
Under IAS 1.113, disclosure of summary of significant accounting policies or other notes and the judgements that management has made in the process of applying the accounting policies is required.	In general, the disclosure of accounting policies should encompass important judgments as to appropriateness of principles relating to recognition of revenue and allocation of asset costs to current and future periods (APB 22.12).
IFRS are overridden only in extremely rare cases where compliance would be so misleading that it would conflict with the objective of the financial statements set out in the Framework and thus where departure is needed to achieve fair presentation (IAS 1.17). Where compliance with IFRS would be misleading but where the overriding of IFRS is prohibited by the relevant regulatory framework disclosures must be given (IAS 1.21).	There is a strong presumption that adherence to officially established accounting principles would in nearly all instances result in financial statements that are not misleading. AICPA Ethics Rule 203 recognizes that there may be unusual circumstances where the literal application of pronouncements on accounting principles would have the effect of rendering financial statements misleading. In such cases, the proper accounting treatment is that which will render the financial statements not misleading (AICPA Ethics Interpretation 203-1).
Where no specific requirement exists, management must use judgement to develop policies to ensure financial statements provide information that is: ▪ Relevant to decision-making needs of users; and ▪ Reliable, i.e. gives a faithful representation, reflects economic substance and is neutral, prudent and complete (IAS 8.10)	The characteristics of accounting information that make it a desirable commodity guide the selection of preferred accounting policies from among available alternatives. Those characteristics can be viewed as a hierarchy of qualities, the most important of which are decision usefulness, relevance, and reliability (SFAC 2.32-.33).

IFRS	U.S. GAAP
In the absence of a specific requirement, management considers, in the following order: 1. IFRS and Interpretations dealing with similar issues (IAS 8.11) 2. IASC framework definitions and recognition and measurement criteria (IAS 8.11) 3. Pronouncements of other standard-setters and accepted industry practices (but not so as to override 1 and 2) (IAS 8.12)	In selecting accounting policies, accountants in the U.S. generally follow a *GAAP Hierarchy* set forth in SAS 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*, as amended (AU section 411). **Note**: On May 9, 2008, the FASB issued SFAS 162, *The Hierarchy of Generally Accepted Accounting Principles*, to replace AU section 411. The Statement is effective 60 days following the SEC's approval of the U.S. Public Company Accounting Oversight Board amendments to AU section 411.
Going concern basis should be used unless management intends to liquidate or cease trading, or has no realistic alternative but to do so (even if management did not determine this until after the balance sheet date) (IAS 1.23 and IAS 10.14).	Going concern basis should be used unless liquidation appears imminent (SAS 59; AU section 341).
IAS 1 identifies general principles regarding: ▪ Accrual basis of accounting (IAS 1.25) ▪ Consistency of presentation (IAS 8.13, IAS 1.27) ▪ Materiality and aggregation (IAS 1.29) ▪ Offsetting (IAS 1.32)	FIN 39 and SFAC 2 and 6 identify general principles regarding: ▪ Accrual basis of accounting (SFAC 6.134-.152) ▪ Comparability and consistency (SFAC 2.111-.122) ▪ Materiality (SFAC 2.123-.132) ▪ Offsetting (FIN 39)
Assets and liabilities, and income and expenses, are not offset unless required or permitted by a Standard or an Interpretation (IAS 1.32).	Offsetting is permitted only when (FIN 39.5-.6 and EITF Topic D-43): ▪ The parties owe each other determinable amounts ▪ There is a right and intention to set off ▪ The right of set-off is enforceable by law

3.2 Changes in accounting policy and correction of errors

IFRS	U.S. GAAP
Relevant standards: IAS 8 and 33	**Relevant standards**: SEC SAB Topic 11:M; APB 20; and SFAS 128 and 154
A change in accounting policy should be made if (a) it is required by a standard or interpretation, or (b) the change will result in the financial statements providing reliable and more relevant information about transactions, events and conditions (IAS 8.14).	A change in accounting principle is made only if (a) the change is required by a newly issued accounting pronouncement or (b) the entity can justify the use of an allowable alternative accounting principle on the basis that it is preferable (SFAS 154.5).
The initial application of a policy to revalue assets under IAS 16 (fixed assets) or IAS 38 (intangibles) is a change of accounting policy but is not accounted for under IAS 8's change of accounting policy rules, applying IAS 16 and IAS 38 instead (IAS 8.17), thereby avoiding retrospective application.	Under U.S. GAAP, fixed assets and intangibles are not revalued in a manner similar to that provided by IAS 16 or IAS 38. However, these assets are subject to impairment writedowns under specific standards. The application of those specific standards to determine impairment is not considered a change in accounting principle.

IFRS	U.S. GAAP
Unless an individual standard specifies otherwise, a change in accounting policy is applied retrospectively (IAS 8.19 and IAS 8.22) except to the extent that it is impracticable to determine either the period-specific or cumulative effects of the change, in which case the policy is applied from the earliest date practicable (IAS 8.23-.27). IAS 8.5 contains definition of impracticable and IAS 8.50-53 contains further guidance.	A change in accounting principle is reported through retrospective application of the new accounting principle to all prior periods, unless an individual standard specifies otherwise or it is impracticable to do so (SFAS 154.6-.7). Specific criteria (SFAS 154.11) must be met before one can conclude that it is impracticable to apply the effects of a change in accounting principle retrospectively.
Unless an individual standard specifies otherwise, or the impracticability criteria apply, a change in accounting policy is accounted for by adjusting the relevant opening equity balance and prior-period comparative amounts (IAS 8.22).	Unless an individual standard specifies otherwise, or it is impracticable to do so, under SFAS 154 a change in accounting principle is reported by adjusting equity for the earliest period presented and adjusting the financial statements presented to reflect the new principle (SFAS 154.7).
IAS 8.30 requires disclosure of standards issued but not yet effective, together with their reasonably estimable effect.	SAB 74 (SEC SAB Topic 11:M) contains similar disclosure requirements for public companies.
Material error	
Material errors are corrected in the same way as for accounting policy changes (IAS 8.42-.48), i.e. retrospective restatement unless impracticability criteria apply.	Correction of material errors in previously issued financial statements are reported as prior-period adjustments by restating the prior-period financial statements. (SFAS 154.25).
Other items relating to prior periods	
Changes in estimates are accounted for prospectively (IAS 8.36 and IAS 8.37).	Changes in estimates are accounted for prospectively (SFAS 154.19).
Basic and diluted earnings per share of all periods presented must be adjusted for the effects of errors and adjustments resulting from changes in accounting policies accounted for retrospectively (IAS 33.64).	Similar to IAS 33 (SFAS 128.57).

4. Assets

4.1 Tangible fixed assets/property, plant and equipment

IFRS	U.S. GAAP
Relevant standards: IAS 16 and 23	**Relevant standards**: ARB 43; APB 6, 12, and 29; Statement of Financial Accounting Concepts (SFAC) 5; SFAS 34, 62,143, and 144; SAB 100; and AICPA Audit and Accounting Guide (AAG), *Audits of Airlines*.
Initial recognition	
Initial recognition at cost and IAS 16.16-.22 contain detailed rules on qualifying costs. Capitalization of interest costs is optional (see "Borrowing costs" below).	Similar to IFRS except that cost: ▪ Does not include fair value gains or losses on qualifying cash flow hedges relating to the purchase of property, plant, and equipment in a foreign country ▪ Includes interest required to be capitalized on certain assets under construction
IAS 16.23 notes that cost is the cash price equivalent at recognition date so extended credit terms must be taken into account.	Cost is the amount of cash, or its equivalent, paid to acquire an asset, commonly adjusted after acquisition for amortization or other allocations (SFAC 5.67).
IAS 16.16(c) requires the initial recognition to include the estimate of costs of dismantling and site restoration. This applies when entity has an obligation as a consequence of using the item for a purpose other than production of inventory.	Upon recognition of a liability for an asset retirement obligation under SFAS 143, an entity increases the carrying amount of the related long-lived asset by the same amount as the liability.
Asset exchanges	
IAS 16.24-.26 deal with assets received in an exchange (and whether new asset recognised at its fair value or the carrying amount of the asset given up – the emphasis is on substance over form).	Exchanges of nonmonetary assets are generally recorded at fair value. However, if the exchange lacks commercial substance, fair value is not determinable, or it's an exchange transaction to facilitate sales to customers, the exchange is recorded using a carryover basis (APB 29.20).
Subsequent expenditure	
IAS 16.13 requires that subsequent expenditure on components is added to cost (and replaced element derecognised). Day-to-day servicing costs are expensed (IAS 16.12). Costs of major periodic inspections should be capitalised (IAS 16.14) and previous inspection cost derecognised (which may require estimations where not separately collated in past).	Cost of routine maintenance is expensed as incurred. Major inspections and overhauls may be expensed as incurred (*direct expensing method*) or capitalized and amortized to the next major inspection or overhaul (*built-in overhaul* and *deferral* methods) (AAG, *Audits of Airlines*; pars. 3.69-.72).
Revaluations	
Revaluations are permitted (as an alternative to cost model), but not required, but if revalued must be done on a class-by-class basis (IAS 16.29): ▪ Revalue to fair value (usually market value) if fair	Revaluation not permitted except for impairment (see Section 4.4 below). Restoration of a previous impairment loss is prohibited. Property, plant and equipment should not be written up

IFRS	U.S. GAAP
value can be measured reliably (IAS 16.31) ▪ Revaluations must be sufficiently regular that carrying value does not differ materially from fair value at the balance sheet date (IAS 16.31, IAS 16.34) ▪ IAS 16.32 clarifies that property revaluation usually determined from market-based evidence by appraisal that is normally undertaken by professionally qualified valuers	by an entity to reflect appraisal, market or current values which are above cost to the entity, except in special cases such as quasi-reorganizations (APB 6.17).
Revaluation increase is credited directly to equity via revaluation surplus. Increase recognised in profit or loss to extent that it reverses a previous revaluation decrease of the same asset previously recognised in profit or loss (IAS 16.39).	Revaluation not permitted except for impairment (see Section 4.4 below). Restoration of a previous impairment loss is prohibited.
Revaluation losses are recognised in equity to the extent of any remaining credit balance in the revaluation reserve in respect of that asset. Other losses are an expense in the income statement (IAS 16.40).	Revaluation not permitted except for impairment (see Section 4.4 below). Restoration of a previous impairment loss is prohibited.
Some of the revaluation surplus may be transferred to retained earnings as an asset is used. Remaining surplus transferred to retained earnings on derecognition of the asset. Transfers to retained earnings are not reflected in the income statement (IAS 16.41).	Revaluation not permitted except for impairment (see Section 4.4 below). Restoration of a previous impairment loss is prohibited.
Depreciation	
Depreciation is recognised as long as the asset's residual value does not exceed its carrying amount in which case the depreciation charge is nil (IAS 16.52-.54). Land is generally not depreciated (IAS 16.58).	Tangible fixed assets (less estimated salvage value) are depreciated over their expected useful lives. Land is not depreciated.
IAS 16.51 requires residual values (estimate of value at end of useful life) to be reviewed annually and so are at *current* values taking into account inflation (this also reaffirmed in definition in IAS 16.6).	Initially, salvage value is based on price levels in effect when the asset is acquired. Such values are subsequently reviewed and revised to recognize changes in conditions other than inflation (SAB Topic 5:CC).
IAS 16 requires depreciation over useful life to the reporting entity, which may be less than its economic life (IAS 16.57).	ARB 43 (Chapter 9C.5) requires depreciation over the expected useful life of the facility in such a way as to allocate it as equitably as possible to the periods during which services are obtained from the use of the facility.
Depreciation ceases in accordance with IFRS 5 if asset qualifies as held for sale (although held for sale criteria relatively stringent) (see Section 2.6).	Similar to IFRS under SFAS 144.
Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost shall be depreciated separately (IAS 16.43).	Depreciation method must be systematic and rational (ARB 43 (Chapter 9C.5)).
No requirement for annual impairment reviews. IAS 36 contains rules on impairment and may require an impairment review if an indication of impairment exists.	No requirement for annual impairment reviews. SFAS 144 contains rules on impairment and may require an impairment review if an indication of impairment exists.

IFRS	U.S. GAAP
Borrowing costs	
IAS 23 applies to qualifying assets which generally are those assets that take a substantial period of time to get ready for their intended use or sale (IAS 23.4). Inventories routinely manufactured or otherwise produced in large quantities, other investments, and assets for their intended use or sale do not qualify (IAS 23.6).	Similar to IFRS (SFAS 34.9-.10).
IAS 23.11 allows capitalisation of borrowing costs as an alternative to the preferred method of expensing all borrowing costs. This choice is a matter of accounting policy and if adopted should be applied consistently. **Note:** In March 2007, the IASB issued a revised IAS 23, *Borrowing Costs.* The main change is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The revised Standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. Early adoption is permitted.	Interest costs must be capitalized as part of the historical cost of qualifying assets when those assets require a period of time (e.g., a construction period) to get them ready for their intended use (SFAS 34.6).
IAS 23 includes a number of constraints on the capitalisation, including that costs must be directly attributable (IAS 23.12).	Similar to IFRS, the amount of interest cost to be capitalized is the interest cost incurred that theoretically could have been avoided if expenditures for the asset were not made (SFAS 34.12).
IAS 23 allows capitalisation once actual borrowing costs have been incurred and activities in preparing the asset for use are in progress (IAS 23.20-.22).	SFAS 34 requires interest cost capitalization when activities to get asset ready for intended use are in progress, expenditures have been made, and interest is being incurred (SFAS 34.17). In cases involving qualifying assets financed with the proceeds of tax-exempt borrowings that are externally restricted, the capitalization begins at the date of the borrowing (SFAS 34 fn 4b).
Must suspend during extended delays in construction (IAS 23.23) and cease once asset ready for use (IAS 23.25-.26).	Must suspend during extended delays in construction (SFAS 34.17) and cease once asset ready for use (SFAS 34.18).
IAS 23 allows capitalisation of overdraft borrowing costs (IAS 23.5), capitalisation of other ancillary costs (IAS 23.5), and capitalisation of an allocation of an entity's overall borrowings using the weighted average method although these cannot exceed the overall borrowing costs incurred by the entity (IAS 23.17). Therefore *notional* allocations where an entity does not have borrowings are not allowed.	Similar to IFRS (SFAS 34.12-.15).
If asset book value after capitalisation exceeds net recoverable amount and net realisable value then write-down necessary (IAS 23.19).	Accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset is an indicator that the

IFRS	U.S. GAAP
	asset should be tested for impairment (SFAS 144.8d).

4.2 Investment property

IFRS	U.S. GAAP
Relevant standards: IAS 40	**Relevant standards**: See Section 4.1 on PP&E
Definition	
IAS 40.5 defines investment property, supplemented by IAS 40.7-.15. Basic definition covers property owned or held under a finance lease (see below for property held under operating lease). Property must be for rental or capital appreciation. IAS 40 excludes owner-occupied property from being investment property (IAS 40.7 and .9(c)). For purpose of individual accounts, can be let within group (IAS 40.15).	No equivalent standard in U.S. GAAP. Property held for investment purposes is treated the same as other property, plant and equipment (see Section 4.1).
Land held for a currently undetermined use is classed as investment property (IAS 40.8). Property under construction for future use as an investment property is accounted for under IAS 16 until complete, although IAS 40 applies to redevelopments (IAS 40.9(d)). **Note**: In May 2008, the IASB issued *Improvements to IFRSs*, which amended IAS 40.8 to bring property that is being constructed or developed for future use as an investment property within the scope of IAS 40, *Investment Property* (the IAS 40 fair value model may therefore be applied). Previously IAS 16, *Property, Plant and Equipment* applied to such property until completion. The amendment is effective for annual periods beginning on or after 1 January 2009, with early adoption permitted. An entity is permitted to apply the amendment to investment property under construction from any date before 1 January 2009 provided that the fair values of investment properties under construction were determined at those dates.	No equivalent standard.
IAS 40.10 deals with situations where a property comprises a mix of parts for investment and other uses (e.g., admin, production, supply) – if portions can be sold separately then portions accounted for separately. IAS 40.11-.14 contains guidance where other services provided to property – particularly relevant for situations like hotel-owning company that subcontracts hotel management elsewhere.	No equivalent standard.
Accounting treatment	
IAS 40 permits two approaches (must adopt one throughout portfolio (IAS 40.30)): ▪ Fair value, with annual remeasurement where	Cost model is used.

IFRS	U.S. GAAP
movements are recognised in profit or loss ▪ Cost model, i.e., carry at cost less depreciation (under IAS 16 principles) Change from one model to the other is permitted only if it results in more appropriate presentation. This is considered highly unlikely in the case of moving from fair value model to cost model (IAS 40.31). Note that if cost model adopted, fair value disclosure is still required (IAS 40.79(e)).	
A property held under an operating lease is not ordinarily recognised as an asset by the lessee (applying IAS 17). However, it may be classified and accounted for as an investment property providing certain criteria are met (IAS 40.6). This can be done on a property-by-property basis (in respect of properties held under operating lease), but requires that the fair value model be selected as the accounting policy for all investment property (IAS 40.6).	Property held under an operating lease is not capitalized. Rent is expensed as incurred.
Where fair value approach is adopted, gains and losses on investment property revaluations go through the income statement for the year (IAS 40.35). Where a property is self-constructed (and transferred from inventory to investment property) or in the case of another transfer from inventory to investment property, the resulting movement to fair value is recognised in profit or loss (IAS 40.63-65). However, previously owner-occupied properties which are now to be transferred to investment property are revalued under IAS 16 first (i.e. gains to equity – IAS 40.61).	Fair value model is not permitted.
Valuation basis	
Fair value at price which is between willing, knowledgeable external parties. IAS 40.33-.52 provide guidance on determining fair value. Fair value takes account of existing tenancies (IAS 40.40).	Fair value model is not permitted.
IAS 40.32 states entity is encouraged but not required to determine fair value via an independent professionally qualified valuer.	Fair value model is not permitted.
IAS 40.20-24 contains guidance on initial cost (linking into IAS 16 where self constructed). Applies similar principles as IAS 16. IAS 40.25-26 covers initial cost of investment properties held on lease (initial cost based on the lower of the fair value of the property and the present value of the minimum lease payments).	No direct equivalent requirements.
IAS 40.27-.29 contain guidance where asset received in	Exchanges of nonmonetary assets are covered by APB

IFRS	U.S. GAAP
an exchange (similar to IAS 16).	Opinion 29.
Transfers in or out	
IAS 40.57 covers transfers in/out of investment property – in particular IAS 40.57(b) and IAS 40.58. Existing investment properties where entity decides to redevelop with view to short term sale are transferred to inventory at fair value (though no similar requirement if simply decide to redevelop for long term use or to sell an investment property in existing state).	No direct equivalent requirements.
Held for sale	
See "Assets held for sale" (Section 2.6). IFRS 5 only applies where cost model is used. Other investment properties are out of scope of IFRS 5 (IFRS 5.5(d)).	Investment property held for sale is carried at fair value less cost to sell pursuant to SFAS 144.

4.3 Intangible assets

(**Note:** This section does not cover goodwill – see Section 8.7.)

IFRS	U.S. GAAP
Relevant standards: IAS 38; IFRS 3; SIC-32	**Relevant standards**: SFAS 2, 86, 141 and 142; SOP 98-5 and 98-1; EITF 00-2
Basic requirements: ▪ Carry acquired intangibles with a finite useful life at cost less amortization ▪ Carry acquired intangibles with an indefinite useful life at unamortized cost ▪ Internally generated intangibles representing development must be capitalised if conditions are met. ▪ Revaluation is permitted only in limited cases	Basic requirements: ▪ Similar to IFRS ▪ Similar to IFRS ▪ Expenditures related to research and development activities are required to be expensed as incurred ▪ Revaluation not permitted
Definition and recognition	
An intangible asset is defined as an identifiable non-monetary asset without physical substance (IAS 38.8).	Intangible assets are defined as assets (not including financial assets) that lack physical substance (SFAS 142 Glossary).
An intangible asset must be identifiable to distinguish it from goodwill (IAS 38.11). Identifiable means separable or arising from contractual or other legal rights, regardless of whether those rights are transferable or separable. Separable is capable of being sold, transferred, licensed, rented, or exchanged (IAS 38.12). ▪ To qualify as an asset must have control – IAS 38.13-.16 gives guidance on control ▪ Cost must be measurable reliably (IAS 38.21)	An intangible asset is recognized separately from goodwill if it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable. Otherwise, only recognize as separate intangible if separable. Separable means capable of being sold, transferred, licensed, rented or exchanged (SFAS 141.39). To qualify as an asset must: ▪ Have a relevant attribute measurable with sufficient reliability (SFAC 5.63)

<table>
<tr><th>IFRS</th><th>U.S. GAAP</th></tr>
<tr><td>Must be probable that future economic benefits will flow to the entity (IAS 38.21) – this condition is always considered met in the case of a purchase of an intangible or if acquired via a business combination (IAS 38.25 and .33)</td><td>Be controlled by the entity (SFAC 6.26)
Embody a probable future benefit to contribute to future net cash inflows (SFAC 6.26)
Have resulted from a transaction or other event that has already occurred (SFAC 6.26)
Have information about it is relevant, representationally faithful, neutral, and verifiable (SFAC 5.63)</td></tr>
<tr><td>Intangible assets arising from development and other internally generated intangibles must be capitalised if detailed criteria in IAS 38 are met:
The general intangibles recognition criteria must all be met (i.e. identifiable via separability or via legal or contractual rights, cost ascertainable, probable of economic benefits)
Expenditure must be expensed prior to development phase. Once all criteria met, then cost of development phase must be capitalised (IAS 38.57)
The intangible cost capitalised is the cost from the date the recognition criteria are first met (IAS 38.65). Reinstatement of previous expensed cost not allowed (IAS 38.71).
IAS 38.66-.67 gives further specific guidance on costs that should and others that cannot be capitalised – for instance, identified inefficiencies, initial operating losses, and training costs are all specifically excluded from capitalisation.</td><td>With the exception of certain costs related to computer software (see below), expenditures related to research and development activities are required to be expensed as incurred (SFAS 2.12).</td></tr>
<tr><td>Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are specifically prohibited from being treated as intangible assets (IAS 38.63).</td><td>Costs of internally developing, maintaining, or restoring intangible assets (including goodwill) that are not specifically identifiable, that have indeterminate lives, or that are inherent in a continuing business and related to an entity as a whole, are expensed when incurred (SFAS 142.10).</td></tr>
<tr><td colspan="2">Acquisition in a business combination</td></tr>
<tr><td>For initial measurement and recognition of intangibles acquired via business combinations:
Probability of economic benefit criterion always assumed to be met (IAS 38.33)
IAS 38.33-41 set out specific guidance on recognition and measurement in business combinations
IFRS 3 requires an intangible to be recognised separately if meets IAS 38 criteria and its fair value at time of acquisition can be measured reliably (IFRS 3.37)
IAS 38.3 states that where in the measurement of fair</td><td>SFAS 141 provides specific guidance on recognition and measurement in business combinations.
In addition to the general recognition criteria above, SFAS 141.39 requires that an intangible asset acquired in a business combination be recognized separately from goodwill if:
It arises from contractual or other legal rights or
It is separable
Recognized intangible assets that are acquired in a business combination are initially recorded at fair value.</td></tr>
</table>

<table>
<tr><th>IFRS</th><th>U.S. GAAP</th></tr>
<tr><td>value on initial recognition there is a range of possible outcomes, the uncertainty is taken into account in the fair value assessment (rather than demonstrating an inability to measure the fair value)
▪ IAS 38.3 includes a rebuttable presumption that fair value of an intangible can be measured reliably at time of business combination, and is supported by IAS 38.38</td><td></td></tr>
<tr><td>IFRS 3 illustrative examples show a number of intangibles that are recognised provided they can be measured separately.</td><td>SFAS 141 provides numerous examples on how intangible assets should be accounted for.</td></tr>
<tr><td>IAS 38 requires disaggregation of acquired intangibles, except where the individual components are not reliably measurable or the components have similar useful lives (IAS 38.37).</td><td>An intangible asset that cannot be sold, transferred, licensed, rented, or exchanged individually is considered separable if it can be sold, transferred, licensed, rented, or exchanged in combination with a related contract, asset, or liability (SFAS 141.39).</td></tr>
<tr><td colspan="2">Revaluation</td></tr>
<tr><td>An entity can choose ongoing measurement via either the cost model or the revaluation model (IAS 38.72).
Where the revaluation model is selected, all intangibles in that class shall be treated under the revaluation model unless there is no active market for those assets (otherwise those assets would be classed under the cost model) (IAS 38.72).</td><td>Revaluation is only permitted for recognition of impairment when the intangible asset's carrying amount is not recoverable and exceeds the intangible asset's fair value (SFAS 142.15 and .17). It is permissible to add certain costs to the basis of an intangible asset such as defending a patent.</td></tr>
<tr><td colspan="2">Amortisation</td></tr>
<tr><td>Amortisation:
▪ Life is finite or indefinite (IAS 38.88). Note that indefinite does not mean infinite (IAS 38.91).
▪ Amortize intangible asset with a finite useful life over its useful life (IAS 38.97)
▪ Annual impairment tests are required for intangible assets not yet available for use or with an indefinite useful life (IAS 38.108)
IASB has issued useful illustrative examples with IAS 38 which demonstrate use of indefinite lives.</td><td>Amortization:
▪ Amortization over intangible asset's useful life unless that life is determined to be indefinite (SFAS 141.12)
▪ Indefinite does not mean infinite (SFAS 142.11)
▪ Intangible assets subject to amortization are reviewed for impairment in accordance with SFAS 144 (SFAS 142.15)
▪ Intangible assets not subject to amortization are tested annually or sooner if impairment indicated (SFAS 142.17)</td></tr>
<tr><td colspan="2">Other matters</td></tr>
<tr><td>Computer software is an intangible asset where it is not an integral part of the related hardware (IAS 38.4).</td><td>Costs of developing computer software may be capitalized as an intangible asset in certain specific circumstances. Separate guidelines are provided for internal-use software (SOP 98-1) and software to be marketed externally (SFAS 86).</td></tr>
<tr><td>Expenditure on intangible items (including start-up costs) may not be capitalised unless it satisfies the criteria in IAS 38 or is recognised as part of the goodwill on a business</td><td>SOP 98-5 indicates that start-up costs must be expensed whether or not the entity is a development-</td></tr>
</table>

IFRS	U.S. GAAP
acquisition, or is included in the cost of property, plant and equipment under IAS 16 (IAS 38.68-.69).	stage enterprise.
Web site costs (excluding hardware costs) are dealt with via SIC-32. SIC-32 notes hardware-related costs are dealt with via IAS 16. SIC-32 notes an entity's web site development costs are dealt with via IAS 38. SIC-32 provides additional interpretation of IAS 38 recognition criteria (re development phase etc) in the context of web site costs.	Web site costs may be capitalized as an intangible asset in certain specific circumstances. Generally, EITF 00-2 provides that the accounting treatment depends on whether the web site is for internal-use software (SOP 98-1) or is to be marketed externally (SFAS 86).
If qualify as *held for sale* then IFRS 5 measurement and presentation rules apply.	If qualify as *held for sale* then SFAS 144 measurement and presentation rules apply.

4.4 Impairment

IFRS	U.S. GAAP
Relevant standards: IAS 36	**Relevant standards**: SFAS 142 and 144
Basic requirements: ▪ For goodwill and intangible assets that are not amortized, perform impairment review annually or more frequently if indications of impairment exist ▪ For other long-lived assets perform impairment review when indications of impairment exist ▪ Review at level of individual asset if possible, if not at level of cash generating unit (CGU). CGU is the smallest identifiable group of assets generating cash flows largely independent of cash inflows of other assets or group of assets. Intangible assets that are not amortized are normally reviewed at the CGU level. Goodwill is always reviewed at the CGU level. ▪ Write down to recoverable amount if below carrying amount ▪ Recoverable amount is higher of value in use and fair value less selling costs ▪ Value in use is future discounted cash flow from asset or CGU	Basic requirements: ▪ Similar to IFRS. ▪ Similar to IFRS. ▪ For assets other than goodwill, review at lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Goodwill is reviewed at reporting unit level. A reporting unit is an operating segment or one level below an operating segment. Intangible assets that are not amortized are reviewed individually. ▪ For goodwill and intangible assets that are not amortized, write down to fair value if below carrying amount. For all other long-lived assets write down to fair value if carrying amount is not recoverable and fair value is below carrying amount. ▪ Fair value is the amount at which asset could be bought or sold in a current transaction between willing parties not in a forced or liquidation sale
Impairment losses in a CGU should be allocated in the following order (IAS 36.104): ▪ Goodwill allocated to the CGU ▪ Pro rata to other assets	Impairment losses on goodwill allocated to a reporting unit with no other assets being simultaneously tested for impairment are determined using a two step approach (SFAS 142.19-.22): ▪ Compare the fair value of the reporting unit with its carrying amount

IFRS	U.S. GAAP
	▪ If the fair value in the first step is less than the carrying amount of the reporting unit, compare the *implied fair value* (SFAS 142.21) of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value, recognize an impairment loss for the excess. Where goodwill is allocated to a reporting unit with other assets that are being simultaneously tested for impairment, losses in a reporting unit should be allocated in the following order (SFAS 142.29): ▪ Pro rata to other long-lived assets ▪ Goodwill
Impairment losses for assets other than goodwill are reversed provided certain conditions are met (IAS 36.109-.125).	Reversals not permitted (SFAS 142.20 and SFAS 144.15).

4.5 Inventories

IFRS	U.S. GAAP
Relevant standards: IAS 2 and 23	**Relevant standards**: ARB 43; SFAS 151
Inventories are carried at the lower of cost and net realisable value (IAS 2.9). Net realizable value is selling price less costs to complete and costs to sell (IAS 2.6).	Inventories are carried at the lower of cost or market (but with a ceiling of net realizable value and a floor of net realizable value less normal profit margin) (ARB 43, Ch 4.8).
Reversal of write-down for subsequent increase in realisable value permitted, limited to the amount of the original write-down. The reversal is recognized as a reduction in expense of the period (IAS 2.33-.34).	Reversal of write-down for increase in market value is not permitted (ARB 43, Ch 4, fn 2).
Costs include all costs of purchase, conversion, and other costs incurred in bringing the product or service to its present location and condition (IAS 2.10). Borrowing costs may be included where appropriate (IAS 2.17). Generally, capitalisation of borrowing costs is permitted for inventories that require a substantial period of time to bring them to a saleable condition (IAS 23.6). When purchase arrangements contain a financing element, that element is recognised as interest expense over the period of the financing (IAS 2.18). **Note:** In March 2007, the IASB issued a revised IAS 23, *Borrowing Costs.* The main change is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The revised Standard applies to borrowing costs relating to	Costs include all costs incurred in normal course of business in bringing the product or service to its present location and condition (ARB 43, Ch 4.5). Allocations of production overhead at normal level of activity (SFAS 151.2). Interest cost is not capitalized for inventories that are routinely manufactured or otherwise produced in large quantities on a repetitive basis (SFAS 34.10).

IFRS	U.S. GAAP
qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. Early adoption is permitted.	
FIFO or weighted average may be used to value inventories. LIFO is not permitted (IAS 2.25).	The cost-flow assumption must be the one which, under the circumstances, most clearly reflects periodic income. FIFO, LIFO, and weighted average permitted (ARB 43, Ch 4.6).

4.6 Long-term contracts/construction contracts

IFRS	U.S. GAAP
Relevant standards: IAS 11	**Relevant standards**: ARB 45; SOP 81-1
Applies to fixed-price and cost-plus construction contracts for single asset or combination of related assets (IAS 11.3). Basic requirements: ▪ Percentage-of-completion used if outcome can be estimated reliably. Revenue is recognized as contract activity progresses (IAS 11.22). ▪ Profit attributable to work done is recognized when a profitable outcome can be estimated reliably (IAS 11.22-32) ▪ Probable losses are recognized as an expense immediately, regardless of the stage reached (IAS 11.36) Completed contract method prohibited.	Guidance not limited to construction-type contracts (SOP 81-1.11-.15) Basic requirements: ▪ Percentage-of-completion is the preferred method (ARB 45.15). Revenue is recognized as contract activity progresses (ARB 45.4). ▪ Profit attributable to work done is recognized when a profitable outcome can be estimated reliably (SOP 81-1.23-.25) ▪ Probable losses are recognized as an expense immediately, regardless of the stage reached (ARB 45.6) Completed contract method permitted under ARB 45.15 when reasonable estimates cannot be made. Under this method, probable losses are also expensed immediately.
IAS 11 is restricted to construction contracts only (and services in connection with construction contracts (IAS 11.5)); non-construction services are covered by IAS 18.	Except for services in connection with the construction contracts, long-term service contracts are excluded from the scope of SOP 81-1 and ARB 45.
IAS 11 addresses combining and segmenting contracts. Contracts should be combined when they are negotiated as a single package and are closely interrelated (IAS 11.9). Contracts should be segmented where each part was subject to separate negotiation and costs and revenues can be separately identified (IAS 11.8).	SOP 81-1 permits the combining and segmenting of contracts, provided certain criteria are met (SOP 81-1.35-.42).

IFRS	U.S. GAAP
IAS 11.22 notes that revenue and costs should be recognized to the stage of completion once the outcome can be measured reliably. IAS 11.23 and IAS 11.24 define when profit can be measured reliably. IAS 11.33 notes that it may be in the early stages of a contract that the outcome cannot be measured reliably (in which case, under IAS 11.32, no profit would be recognized).	The ability to produce reasonably reliable estimates is essential for the use of the percentage-of-completion method. Where a precise estimate is not practical, equal amounts of revenue and cost should be recognized until results can be estimated more precisely (SOP 81-1.24-.25).
IAS 11.11(b) says that revenue should be recognized on contract variations and claims to extent that they are probable and capable of being reliably measured.	Contract revenue and costs should be adjusted to reflect change orders when their scope and price have been approved by the customer and contractor. Costs of unpriced change orders may be deferred if it is probable that aggregate contract costs, including costs related to the change orders, will be recovered from contract revenues (SOP 81-1.61-.63).
In respect of claims, IAS 11.14 adds that the customer negotiations must have reached an advanced stage and the probable amount acceptable to the customer must be measurable reliably.	Generally, recognition of additional contract revenue resulting from claims is appropriate only if it is probable that the claim will result in additional revenue and the amount can be reliably estimated, which generally requires specific criteria to be met. To the extent that the criteria are not met, the claim is treated as a contingent asset (SOP 81-1.65-.67).

5. Liabilities

5.1 Leases

IFRS	U.S. GAAP
Relevant standards: IAS 17; SIC-15; SIC-27; IFRIC 4	**Relevant standards**: SFAS 13, 28, 29, and 66, 98; FIN 19 and 45; FTB 88-1; FSP FAS 13-1; EITF 01-8 and 01-12
Definitions	
A finance lease is one that transfers substantially all the risks and rewards of ownership of an asset to the lessee. An operating lease does not (IAS 17.8).	A capital lease is one that transfers substantially all the benefits and risks of ownership of an asset to the lessee, in accordance with specific criteria. All other leases are operating leases (SFAS 13.6-.9).
A finance lease is not determined by a *bright lines* test. Instead, IAS 17 lists factors normally indicating a finance lease, including any of the following (IAS 17.10): ▪ Transfer of ownership by end of lease term ▪ Lessee has option to purchase asset on such favourable terms such that option exercise is reasonably certain at inception ▪ Lease is for major part of asset's life, even if no purchase option exists ▪ Present value of minimum lease payments at inception amounts to at least substantially all of the fair value of the leased asset ▪ Leased assets are specialised such that only the lessee can use them without major modification	A capital lease is one that meets one or more of the following criteria (SFAS 13.7): ▪ Lease transfers ownership of the property to the lessee by the end of the lease term ▪ Lease contains a bargain purchase option ▪ Lease term is equal to 75 percent or more of the estimated economic life of the leased property.* ▪ Present value at the beginning of the lease term of the minimum lease payments, excluding that portion of the payments representing executory costs to be paid by the lessor, including any profit thereon, equals or exceeds 90 percent of the excess of the fair value of the leased property to the lessor at the inception of the lease over any related investment tax credit retained by the lessor and expected to be realized by the lessor.* For the lessor to classify a lease as a capital lease, the following additional criteria must also be met (SFAS 13.8): ▪ Collectibility of the minimum lease payments is reasonably predictable ▪ No important uncertainties surround the amount of unreimbursable costs yet to be incurred by the lessor under the lease * Not applicable if lease inception is within last 25% of property's estimated economic life.
IAS 17 also lists other potential indicators of a finance lease (individually or in combination) including (IAS 17.11): ▪ Lessor's losses borne by lessee if lessee has option to cancel ▪ Gains or losses in fair value of residual fall to	There is no direct equivalent in SFAS 13. Periods subject to bargain renewal options are considered to be a part of the original lease term (SFAS 98.22). Guarantees of residual values are included in minimum lease payments. Lessee must recognize under FIN 45; but guarantee is not subject to SFAS 133 (EITF 01-12).

<table>
<tr><th>IFRS</th><th>U.S. GAAP</th></tr>
<tr><td>lessee
▪ Lessee has ability to continue lease for secondary term at substantially below-market rent.</td><td></td></tr>
<tr><td colspan="2">Lease classification</td></tr>
<tr><td>Lease classification and initial accounting are determined at the inception of the lease (IAS 17.13), which is the earlier of the lease agreement date and the date of commitment to the principal provisions of the lease (IAS 17.4).</td><td>Lease term begins on the date the lessee takes possession or is given control of the leased property, even if rental payments are not required until the lessee begins operations. Consequently, for accounting purposes, the lease term can begin before the initial fixed noncancelable term stated in the lease agreement (FSP FAS 13-1, fn 1).</td></tr>
<tr><td colspan="2">Accounting treatment</td></tr>
<tr><td>Operating leases (lessee/lessor):
▪ Charge lease rentals or recognize lease revenue on straight-line basis over lease term unless another systematic basis is representative of the time pattern of the user's benefits (IAS 17.33 and .50)
▪ Recognise lease incentives as an integral part of the net payment for the use of the asset over the lease term (SIC-15.3-.5)</td><td>Operating leases (lessee/lessor):
▪ Charge lease rentals or recognize lease revenue on straight-line basis over lease term but if another systematic and rational basis is more representative of the time pattern in which use benefit is derived, the other basis must be used (SFAS 13.15)
▪ Incentives are recognized as a reduction of rent expense (lessee) or rental income (lessor) on a straight line basis over the lease term (FTB 88-1.7)</td></tr>
<tr><td>Finance leases (lessee):
▪ Initial recognition at fair value of the leased asset or, if lower, present value of minimum lease payments (as determined at inception of lease) (IAS 17.20)
▪ Rate implicit in lease generally used to calculate present value. If not practicable to determine, incremental borrowing rate may be used (IAS 17.20)
▪ Capitalise assets held on finance leases and depreciate on same basis as for owned assets. If no reasonable certainty that lessee will obtain ownership, depreciate over shorter of lease term and useful life (IAS 17.27).
▪ Finance costs charged to give constant rate on outstanding obligation (IAS17.25)
▪ Lessee's initial direct costs (costs incurred in connection with specific leasing activities) are added to the asset (IAS 17.24)</td><td>Capital leases (lessee):
▪ Initial recognition at present value of minimum lease payments or, if lower, fair value of leased property (SFAS 13.10)
▪ Incremental borrowing rate generally used to calculate present value. However, if it is practicable to learn rate implicit in lease and that rate is lower than the incremental borrowing rate, the implicit rate must be used (SFAS 13.7.d).
▪ Capitalize assets held on capital leases. If lease contains a bargain purchase option or transfers ownership to lessee, depreciate over useful life. Otherwise, depreciate over lease term (SFAS 13.11).
▪ Interest expense charged to produce a constant rate on outstanding obligation (i.e., the interest method is used) (SFAS 13.12)
▪ Initial direct costs attributable to the lessor paid by the lessee are added to minimum lease payments including costs to enhance the credit of the lessor. Costs for residual value insurance on behalf of the lessor are considered executory costs and not added to minimum lease payments (FIN 19). In practice initial direct costs of lessee generally are deferred</td></tr>
</table>

IFRS	U.S. GAAP
	and amortized on a straight line basis over lease term.
Finance leases (lessor): ▪ Recognise receivable in balance sheet at net investment in the lease (IAS 17.36), which is the gross investment discounted at the interest rate implicit in the lease (IAS 17.4). Gross investment in the lease is the sum of the minimum lease payments and the unguaranteed residual value (IAS 17.4). ▪ Lessor's income under a finance lease is calculated using the *pre-tax* net investment method via IAS 17.39 which requires finance income to be recognised to reflect a constant periodic rate of return on the lessors' net investment ▪ Initial direct costs (except manufacturer or dealer lessors) included in initial measurement of finance lease receivable (IAS 17.38)	Capital leases (lessor): ▪ Recognize asset for net investment in lease, which is gross investment and unearned income. Gross investment is minimum lease payments, net of executory costs, plus unguaranteed residual value. Unearned income is the difference between the gross investment and the present value of the gross investment using the interest rate implicit in the lease (SFAS 13.17). ▪ Lessor's income under a direct financing lease is calculated using a rate that will produce a constant periodic rate of return on the net investment in the lease (i.e., the *interest* method is used). Lease-generated tax flows are not taken into account. ▪ Initial direct costs are (1) capitalized for direct financing leases, or (2) expensed as a cost of sale for sales-type leases.
Manufacturer or dealer lessors recognise selling profit or loss in the period, in accordance with the policy followed by the entity for outright sales (IAS 17.42).	The manufacturer's/dealer's profit on sales-type leases is the difference between (a) the present value of the minimum lease payments and (b) the leased asset's cost or carrying amount plus any initial direct costs less the present value of the unguaranteed residual value. Special rules exist for sales-type leases involving real estate (SFAS 13.17).
Unless expect title to pass to lessee at end of lease, land normally treated as an operating lease (IAS 17.14). Under IAS 17.15 to IAS 17.17, a lease of land and buildings should be split into land and buildings components and considered separately. If they cannot be split reliably then the entire lease is treated as a finance lease, unless it is clear that both elements are operating leases. IAS 17.18 notes that where land and buildings are classified as investment property and carried under fair value model under IAS 40 it is not necessary to split the land and buildings. Long term operating leases of land may be accounted for as finance leases if the lessee elects to account for the lease as an investment property (IAS 40.25)	Same as IFRS (SFAS 13.25). For capital leases where the lease transfers ownership of the property to the lessee by the end of the lease term or contains a bargain purchase option, the lessee's capitalized amount must be apportioned between land and building based on their relative fair values at lease inception (SFAS 13.26.a). For leases that do not meet the ownership transfer or bargain purchase option criteria above, the land and buildings are considered separately if the fair value of the land is more than twenty-five percent of the value of the leased property at the inception of the lease (SFAS 13.26.b).
For sale and finance leaseback transactions, gain is deferred and amortized over the lease term (IAS 17.59). For sale and operating leaseback transactions where sale price is (IAS 17.61): ▪ At fair value, immediate profit/loss recognition	For sale and leaseback generally, profit or loss is deferred and amortized: ▪ In proportion to the amortization of the leased asset, if a capital lease ▪ In proportion to the related gross rental charged to

IFRS	U.S. GAAP
▪ Below fair value, immediate profit/loss recognition, but if loss is compensated by lower rentals, then defer over asset's expected useful life ▪ Above fair value, defer and amortize excess over asset's expected useful life	expense over the lease term, if an operating lease Above rules are modified if seller-lessee retains less than substantially all of the use of the asset and if fair value at time of transaction is less than net book value; loss for the difference between the two amounts must be immediately recognized (SFAS 13.32-.33). Special rules exist for sale-leaseback transactions involving real estate (SFAS 66 and 98).
Lease classification may differ for lessor and lessee, such as when third party guarantees residual value (IAS 17.9).	Lease classification may differ for lessor and lessee, depending upon whether criteria in paragraphs 7 and 8 of SFAS 13 are met.
IFRIC 4 provides guidance on whether an arrangement contains a lease (this geared for a scenario where a power company has a facility which is used almost exclusively to provide power for one entity).	EITF 01-8 provides guidance on determining whether an arrangement contains a lease.

5.2 Provisions, contingent liabilities, and contingent assets

IFRS	U.S. GAAP
Relevant standards: IAS 37; IFRIC 1	**Relevant standards**: FASB Statements of Financial Accounting Concepts (SFAC) 5-6; SFAS 5, 143 and 146 and FIN 47
Basic requirements: ▪ Recognise a provision when there is a present obligation (legal or constructive) as a result of a past event, transfer of economic benefits is probable, and a reliable estimate can be made (IAS 37.14) ▪ Measure provisions at the best estimate of the amount required to settle the obligation at the balance sheet date. Where there is a continuous range of possible outcomes and each point in the range is as likely as any other, the mid-point of the range is used (IAS 37.36-.39). ▪ Discount provisions at pre-tax discount rate where time value of money is material (IAS 37.45) ▪ Disclose contingent liabilities where obligation exists but transfer of benefit is not probable or where existence of obligation is possible but not probable (IAS 37.86) Disclose contingent assets where an inflow of benefits is probable (IAS 37.89) **Note:** In June 2005, the IASB issued an Exposure Draft, *Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IAS 19 Employee Benefits*. The proposed amendments affect contingent assets and liabilities.	SFAC 5-6 and SFAS 5 similar to IAS 37 except that: ▪ Most provisions are not discounted since a provision is only discounted when the timing of the related cash flows is fixed ▪ When the reasonable estimate of the obligation is a range and some amount within the range appears at the time to be a better estimate than any other amount within the range, that amount is accrued but when no amount within the range is a better estimate than any other amount, the minimum amount in the range is accrued. ▪ Under IFRS 3.A. and 5.A. *probable* means "more likely than not" whereas under SFAS 5.3 *probable* means "the future event or events are likely to occur" **Note**: In June 2008, the FASB issued an Exposure Draft, *Disclosure of Certain Loss Contingencies*. The proposed amendments to SFAS 5 would expand the disclosure requirements for loss contingencies (recognition and measurement would not be affected).

<table>
<tr><th>IFRS</th><th>U.S. GAAP</th></tr>
<tr><td>Under IAS 37, provisions for the estimated cost of dismantling and removing an asset and restoring a site are recognized when a legal or constructive obligation to incur costs exists (IAS 37.19).</td><td>The fair value of a liability for an asset retirement obligation (ARO) is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made, or in the later period in which it can be made, if not when incurred (SFAS 143.3 and FIN 47.2-.6). An asset retirement obligation must be a legal or contractual obligation (SFAS 143.2) and not just a constructive obligation.</td></tr>
<tr><td>Provisions for the estimated cost of dismantling and removing an asset and restoring a site are initially discounted using the current risk adjusted rate. The rate is adjusted at each subsequent reporting date (IAS 37.47).</td><td>Where the fair value of an ARO is estimated using the expected cash flow approach, the cash flows are initially discounted using the current credit-adjusted risk-free rate. In subsequent periods (SFAS 143.8 and .15):
▪ Downward revisions in the amount of undiscounted cash flows are discounted using the rate used upon initial recognition
▪ Upward revisions in the amount of undiscounted cash flows are discounted using the new current credit-adjusted risk-free rate</td></tr>
<tr><td>IFRIC 1 covers changes in estimates in respect of decommissioning, restoration and similar liabilities. It clarifies the following:
▪ Unwinding of discount must be charged against profit and not capitalised as a borrowing cost (IFRIC 1.8)
▪ Where cost model used for asset, changes in estimate (other than through unwinding of discount rate) are normally added or deducted against the asset (subject to certain restrictions) (IFRIC 1.5)
▪ Entries are also shown where revaluation model used (IFIC 1.6)</td><td>SFAS 143 provides that changes in the liability for the asset retirement obligation (SFAS 143.13-.15):
▪ That are due to the passage of time must be treated as expense
▪ That are due to changes in the timing or amount of the estimated cash flows are added to or deducted from the cost of the asset
▪ U.S. GAAP does not provide a similar revaluation model</td></tr>
<tr><td>A constructive obligation to restructure is recognized when an entity (IAS 37.72):
▪ Has a formal plan for the restructuring; and
▪ Has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it
Note: In June 2005, the IASB issued an Exposure Draft, Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IAS 19 Employee Benefits, to converge the application guidance for accounting for costs associated with restructuring in IAS 37 with SFAS 146, Accounting for Costs Associated with Exit or Disposal Activities.</td><td>Generally, a liability for a cost associated with an exit or disposal activity is recognized when the definition of a liability is met. An entity's commitment to an exit or disposal plan is not by itself the requisite past transaction or event for recognition of a liability (SFAS 146.4).</td></tr>
<tr><td>Disclosures regarding provisions and contingent assets and liabilities may be omitted if they can be expected to</td><td>No similar exemption provided.</td></tr>
</table>

IFRS	U.S. GAAP
seriously prejudice the position of the entity in a dispute with other parties on the subject matter of the related asset or liability (IAS 37.92).	

5.3 Taxation

IFRS	U.S. GAAP
Relevant standard: IAS 12	**Relevant standard**: SFAS 109
General	
Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect to the current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset. The benefit relating to a tax loss that can be carried back to recover current tax of a previous period is recognised as an asset (IAS 12.12-.13).	Similar to IFRS. **Note**: The FASB's Short-Term Income Tax Convergence Project seeks to reduce the existing differences between SFAS 109, *Accounting for Income Taxes,* and IAS 12, *Income Taxes.*
With certain exceptions discussed below, deferred taxes are recognized using the balance sheet liability method. This method focuses on temporary differences – the differences between the tax base of an asset or liability and its carrying amount in the balance sheet (IAS 12.IN2 and .15-.18).	Similar to IFRS. With certain exceptions discussed below, deferred tax liabilities and assets are recognized for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns (SFAS 109.6).
Exceptions	
Deferred taxes are not recognized for goodwill that is not deductible for tax purposes (IAS 12.15)	Similar to IFRS (SFAS 109.9d).
A deferred tax asset or liability is not recognized to the extent that it arises from the initial recognition of an asset or liability in a transaction that 1) is not a business combination and 2) at the time of the transaction affects neither accounting profit nor taxable profit (tax loss) (IAS 12.15 and .24).	U.S. GAAP does not have a similar exception.
A deferred tax liability is recognized for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, except to the extent that (IAS 12.39): ▪ The parent, investor or venturer is able to control the timing of the reversal of the temporary difference; and ▪ It is probable that the temporary difference will not reverse in the foreseeable future	A deferred tax liability is not recognized for an excess of the amount for financial reporting over the tax basis of an investment in a foreign subsidiary or a foreign corporate joint venture as defined in APB Opinion 18, *The Equity Method of Accounting for Investments in Common Stock,* that is essentially permanent in duration, unless it becomes apparent that those temporary differences will reverse in the foreseeable future (SFAS 109.31).
Deferred taxes that result from temporary differences that arise when nonmonetary assets and liabilities are measured in their functional currency but have a tax base determined in a different currency are charged or credited to profit or loss (IAS 12.41).	U.S. GAAP prohibits recognition of deferred taxes for differences related to assets and liabilities that are remeasured from the local currency into the functional currency using historical exchange rates and that result from changes in exchange rates or indexing for tax

IFRS	U.S. GAAP
	purposes (SFAS 109.9f).
Tax rates/recognition and measurement	
Current tax liabilities and assets are measured at amounts expected to be paid to (recovered from) the taxation authorities (IAS 12.46). Deferred tax assets and liabilities should reflect the tax consequences that would follow from the manner in which the entity expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities (IAS 12.51).	An enterprise initially recognizes the financial statement effects of a tax position when it is more likely than not (likelihood of more than 50%), based on the technical merits, that the position will be sustained upon examination (FIN 48.6). A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that is greater than 50 % likely of being realized upon ultimate settlement (FIN 48.8).
Deferred tax assets and liabilities are measured at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date (IAS 12.47 and .51-.52).	Deferred tax assets and liabilities are measured using the enacted tax rate(s) expected to apply to taxable income in the periods in which the deferred tax liability or asset is expected to be settled or realized (SFAS 109.18).
Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which deductible temporary differences and unused tax losses/credits carried forward can be utilised. At each balance sheet date deferred tax assets are reviewed and the carrying amount reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of all or part of that deferred tax asset to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available (IAS 12.24, .34, and .56).	Deferred tax assets are recognized in full and reduced by a valuation allowance if it is more likely than not (a likelihood of more than 50 percent) that some portion or all of the deferred tax assets will not be realized (SFAS 109.17e).
Deferred taxes on elimination of intragroup profits are calculated with reference to the tax rate of the buyer (the company that holds the inventory) at the end of the reporting period.	Deferred taxes on elimination of intercompany profits are calculated with reference to the tax rate of the seller.
Deferred tax related to share-based payments are based on expected applicable tax deduction using market value at each reporting date (IAS 12.68B).	Tax deductions generally arise in different amounts and in different periods from compensation cost recognized in financial statements (SFAS 123(R).58).
Deferred tax assets and liabilities are not discounted (IAS 12.53).	Similar to IFRS (SFAS 109.130).
All entities must disclose a numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate(s) or between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed (IAS 12.81c).	Public companies must disclose a reconciliation of (a) the reported amount of income tax expense attributable to continuing operations to (b) that amount of income tax expense that would result from applying domestic federal statutory tax rates to pretax income from continuing operations. Nonpublic enterprises must disclose the nature of significant reconciling items but may omit a numerical reconciliation (SFAS 109.47).

IFRS	U.S. GAAP
Business combinations	
As a result of a business combination, an acquirer may consider it probable that it will recover its own deferred tax asset that was not recognised before the business combination. In such cases, the acquirer recognises a deferred tax asset and credits income (IAS 12.67).	In this type of situation, U.S. GAAP requires that this be accounted for as part of the business combination. This either reduces goodwill or non-current assets (except long-term investments in marketable securities) of the acquired enterprise or creates or increases negative goodwill (SFAS 109.266).
If a deferred tax asset that is not recognised at acquisition is subsequently recognised, the acquirer recognises the resulting deferred tax income in profit or loss. In addition the acquirer 1) reduces the carrying amount of goodwill to the amount that would have been recognised if the deferred tax asset had been recognised as an identifiable asset from the acquisition date and 2) recognises the reduction in the carrying amount of goodwill as an expense. This procedure may not result in the creation of negative goodwill (IAS 12.68).	If a valuation allowance is recognized for the deferred tax asset for an acquired entity's deductible temporary differences or operating loss or tax credit carryforwards at the acquisition date, the tax benefits for those items that are first recognized (that is, by elimination of that valuation allowance) in financial statements after the acquisition date are applied (a) first, to reduce to zero any goodwill related to the acquisition, (b) second, to reduce to zero other non-current intangible assets related to the acquisition, and (c) third, to reduce income tax expense (SFAS 109.30).
Presentation and classification	
Current and deferred tax is charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity (IAS 12.61).	The tax effects of certain items occurring during the year are charged or credited directly to other comprehensive income or to related components of shareholders' equity (SFAS 109.36).
Tax benefits related to share-based payments are credited to equity to the extent that they arise from a transaction recognised in equity (IAS 12.68C).	Tax benefits related to share-based payments are credited to equity (SFAS 109.36).
Deferred tax assets and liabilities are presented as separate line items in the balance sheet. If a classified balance sheet is used, deferred tax assets and liabilities may not be classified as current (IAS 1.68 and .70).	In a classified balance sheet deferred tax assets and liabilities are presented as separate line items and classified as current or noncurrent based on the classification of the related asset or liability for financial reporting. The valuation allowance for a given tax jurisdiction is allocated between current and noncurrent deferred tax assets on a pro rata basis (SFAS 109.41).
Deferred tax assets and liabilities are permitted to be offset only if the amounts relate to taxes levied by the same taxing authority and the entity has a legally enforceable right to offset current tax assets against current tax liabilities (IAS 12.74).	Unless relating to different tax-paying components or to different tax jurisdictions, (1) current deferred tax assets and liabilities are offset and presented as a single amount and (2) non-current deferred tax assets and liabilities are offset and presented as a single amount (SFAS 109.42).
Deferred taxes related to the revaluation of intangible assets and property, plant and equipment are credited or charged directly to equity if the tax relates to items that are credited or charged directly to equity (IAS 12.61).	Revaluation not permitted.

6. Income and expenditure

6.1 Revenue

IFRS	U.S. GAAP
Relevant standards: IAS 18; SIC-31	**Relevant standards**: See below
IAS 18 is a general standard on revenue recognition. The term *revenue* encompasses the gross inflow of economic benefits in the course of ordinary activities when those inflows result in increases in equity, other than increases relating to contributions from equity participants.	There is no one general comprehensive revenue recognition standard in the U.S. Revenues are inflows or other enhancements of assets of an entity or settlements of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major or central operations.
IAS 18 applies to revenue from: ▪ The sale of goods ▪ The rendering of services ▪ The use by others of enterprise assets yielding interest, royalties, and dividends (IAS 18.1) The standard does not deal with construction contracts, leases, dividends from investments accounted for under the equity method, insurance contracts, changes in the fair value of financial instruments under IAS 39, changes in the value of other current assets, extraction of mineral ores, or agriculture (IAS 18.4 and .6).	General revenue recognition criteria are found in FASB Statement of Financial Accounting Concepts (SFAC) 5, *Recognition and Measurement in Financial Statements of Business Enterprises*. In addition to the SFAC, there are well over one hundred references in FASB statements, EITF consensuses and AICPA SOPs that address specific revenue recognition issues. In addition to the above, SAB 104, *Revenue Recognition*, addresses numerous revenue recognition issues encountered by SEC registrants. Furthermore, the SEC has issued several Accounting and Auditing Enforcement Releases related to revenue.
Revenue is measured at the fair value of the consideration received or receivable (IAS 18.9).	Revenues and gains are generally measured by the exchange values of the assets (goods or services) or liabilities involved (SFAC 5.83).
Recognition criteria must be applied to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. Where two or more transactions are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole the recognition criteria are applied to all transactions together (IAS 18.13).	In arrangements with multiple deliverables, the delivered item(s) are considered a separate unit of accounting if (EITF 00-21 par. 9): ▪ The delivered item(s) has value to the customer on a standalone basis ▪ There is objective and reliable evidence of the fair value of the undelivered item(s) ▪ If the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the vendor Where arrangements contain one or more related contracts or side agreements, such contracts and agreements are evaluated together (SAB 104).
In an agency relationship the amounts collected on behalf of the principal are not revenue of the agent. Instead revenue is the amount of commission (IAS 18.8).	Amounts billed to customers for shipping and handling and reimbursements received for out-of-pocket expenses are classified as revenue in the income statement (EITF 00-10 and 01-14).

<table>
<tr><th>IFRS</th><th>U.S. GAAP</th></tr>
<tr><td>Revenue from the sale of goods is recognised when all of the following conditions have been met:
▪ The significant risks and rewards of ownership of the goods have been transferred to the buyer
▪ The selling enterprise retains neither continuing managerial involvement to the degree normally associated with ownership nor effective control of the goods sold
▪ The amount of revenue can be measured reliably
▪ Economic benefits associated with the transaction will probably flow to the enterprise
▪ The costs incurred or to be incurred can be measured reliably (IAS 18.14)</td><td>Revenue is recognized when it is earned and realized or realizable (SFAC 5.83). The SEC staff believes that revenue generally is earned and realized or realizable when all of the following criteria are met (SAB 104):
▪ Persuasive evidence of an arrangement exists
▪ Collectibility is reasonably assured
▪ Delivery has occurred or services have been rendered
▪ The seller’s price to the buyer is fixed or determinable
Revenue is not recognized when an entity delivers a product to a customer on a consignment basis or a seller is required to repurchase a product that has already been delivered to a customer (SAB 104 and SFAS 49.8).</td></tr>
<tr><td>Revenue from services is recognised by reference to the stage of completion at the balance sheet date when the outcome can be measured reliably. The outcome can be measured reliably when
▪ The revenue can be measured reliably
▪ It is probable that economic benefits will flow to the entity
▪ The stage of completion can be measured reliably; and
▪ The costs incurred for the transaction and the costs to complete the transaction can be measured reliably (IAS 18.20)
When the outcome of the transaction involving the rendering of services cannot be reliably estimated then revenue shall be recognised only to the extent of the expenses recognised that are recoverable (IAS 18.26).</td><td>U.S. GAAP does not specifically address accounting for service revenue in general. However, SFAC 5 and SAB 104 refer to revenue from both goods and services. Consequently, the aforementioned general revenue recognition principles for the sale of goods also apply to services. Three common methods that are used to recognize service revenue are:
▪ Specific performance method – used when service revenue is earned by the performance of a single act
▪ Proportional performance method – used when service revenue is earned by the performance of more than one act
▪ Completed performance method – used when service revenue is earned by the performance of more than one similar or dissimilar acts but the final act is so critical to the entire transaction that revenue cannot be considered earned until the final act is performed.</td></tr>
<tr><td>If the seller retains significant risks of ownership, revenue is not recognized. For example, when:
▪ There is an obligation for unsatisfactory performance beyond normal warranty provisions
▪ Sale is contingent on buyer selling goods
▪ Goods are shipped subject to installation that is significant to the contract and not complete; and
▪ The buyer has the right to rescind and the seller is uncertain about the probability of return (IAS 18.16)</td><td>When the buyer has the right to return a product, revenue from the sales transaction is recognized at time of sale only if (SFAS 48.6):
▪ The seller's price to the buyer is substantially fixed or determinable at the date of sale
▪ The buyer has paid the seller, or the buyer is obligated to pay the seller and the obligation is not contingent on resale of the product
▪ The buyer's obligation to the seller would not be changed in the event of theft or physical destruction or damage of the product
▪ The buyer acquiring the product for resale has economic substance apart from that provided by the seller
▪ The seller does not have significant obligations for future performance to directly bring about resale of</td></tr>
</table>

IFRS	U.S. GAAP
	the product by the buyer ▪ The amount of future returns can be reasonably estimated
Where an enterprise retains only an insignificant risk of ownership such as a retail sale where a refund is offered to the customer, revenue is recognised at the time of sale provided the seller can reliably estimate future returns and recognises a liability based on previous experience and other relevant factors (IAS 18.17).	Sales revenue and cost of sales reported in the income statement are reduced to reflect estimated returns (SFAS 48.7).
Revenue is recognised for a bill and hold sale when: ▪ It is probable that delivery will be made ▪ The item is on hand, identified and ready for delivery to the buyer at the time the sale is recognised ▪ The buyer specifically acknowledges the deferred delivery instructions; and ▪ The usual payment terms apply (IAS 18 App 1)	SAB 104 sets forth a fairly significant number of restrictive conditions that must be met in order to recognize revenue on a bill and hold sale. Those criteria are far more stringent than those in IAS 18. Consequently, situations where revenue is recognized on bill and hold transactions are rare.
Revenue arising from the use by others of enterprise assets yielding interest, royalties, and dividends is recognised when it is probable that the associated economic benefits will flow to the enterprise and the amount can be measured reliably. Such revenue is recognised on one of the following bases: ▪ Interest – on a time proportion basis taking into account the effective yield ▪ Royalties – on an accrual basis according to the substance of the agreement ▪ Dividends – when the shareholder's right to receive payment is established (IAS 18.29-30)	SFAC 5 and SAB 104 general revenue recognition principles previously described also apply to interest, royalty, and dividend revenue. SFAS 50, *Financial Reporting in the Record and Music Industry*, and EITF 00-2, *Accounting by Producers or Distributors of Films*, address royalties. APB 21, *Interest on Receivables and Payables*, addresses interest. These revenue streams are recognized as follows: ▪ Interest – earned as time passes and accounted for using the *interest method* ▪ Royalties – on an accrual basis according to the substance of the agreement ▪ Dividends – earned on date of declaration
Barter transactions	
IAS 18.12 deals with barter transactions in general. Where goods or services are exchanged for similar goods or services, this is not regarded as giving rise to revenue. Where the goods and services exchanged are dissimilar, revenue is measured at the fair value of the goods or services received in exchange.	Exchanges of nonmonetary assets are generally recorded at fair value, therefore giving rise to revenue. However, if the exchange lacks commercial substance, fair value is not determinable, or it's an exchange transaction to facilitate sales to customers, the exchange is recorded using a carryover basis and no revenue is recognized (APB 29.20).
SIC-31 states that revenue in a barter transaction involving advertising cannot be measured reliably at the fair value of advertising services received. A seller can measure reliably the fair value of advertising services supplied in a barter transaction only by reference to non-barter transactions that: ▪ Involve advertising similar to the advertising in the	Similar to IFRS (EITF 99-17).

IFRS	U.S. GAAP
barter transaction ▪ Occur frequently ▪ Represent a predominant number of transactions and amount when compared to all transactions to provide advertising that is similar to the advertising in the barter transaction ▪ Involve cash and/or another form of consideration (e.g. marketable securities, non-monetary assets, and other services) that has a reliably measurable fair value; and ▪ Do not involve the same counterparty as in the barter transaction (SIC-31.5)	

6.2 Employee benefits

IFRS	U.S. GAAP
Relevant standards: IAS 19	**Relevant standards**: APB 12; SFAS 43, 87, 88, 106, 112, 123(R), 146, and 158
IAS 19 covers employee benefits, which include:	Employee benefits are covered by several U.S. GAAP standards as follows:
▪ Post-employment benefits	▪ SFAS 87, 88 and 106 cover post-retirement benefits
▪ Other long-term employee benefits	▪ SFAS 43 covers long-term compensated absences and APB 12 covers long-term deferred compensation contracts not covered by SFAS 87 or 106. SFAS 112 covers long-term post-employment pre-retirement benefits.
▪ Short-term employee benefits	▪ SFAS 43 covers short-term compensated absences and APB 12 covers short-term deferred compensation contracts not covered by SFAS 87 or 106. SFAS 112 covers short-term post-employment pre-retirement benefits. Other short-term benefits are not specifically addressed by U.S. GAAP.
▪ Termination benefits	▪ Severance benefits are covered by SFAS 112 and *special* and *contractual* termination benefits are covered by SFAS 88 and 106
IFRS 2 addresses share-based payments. See “Share-based payments” (Section 6.3).	Share-based payments are covered by SFAS 123(R). See “Share-based payments” (Section 6.3).
Defined benefit retirement benefits	
The amount recognised as a defined benefit liability is the net total of (IAS 19.54): ▪ The present value of the defined benefit obligation at the balance sheet date ▪ Plus any actuarial gains (less any actuarial losses) not yet recognised	If the projected benefit obligation exceeds the fair value of plan assets, the employer recognizes in its statement of financial position a liability that equals the unfunded projected benefit obligation. If the fair value of plan assets exceeds the projected benefit obligation, the employer recognizes in its statement of financial position an asset that equals the overfunded projected benefit obligation

IFRS	U.S. GAAP
▪ Minus any past service cost not yet recognised ▪ Minus the fair value at the balance sheet date of plan assets (if any) out of which the obligations are to be settled directly	(SFAS 87.35). Gains and losses that are not immediately recognized as a component of net periodic pension cost are recognized as increases or decreases in other comprehensive income as they arise (SFAS 87.29).
Plan assets are measured at fair value and when no market price is available fair value is estimated (e.g., by discounting expected future cash flows) (IAS 19.102).	Similar to IFRS (SFAS 87.49).
Plan liabilities determined under projected unit credit method using a discount rate determined by reference to market yields on high quality corporate bonds. If no deep market in such bonds, use market yields on government bonds (IAS 19.78).	Similar to IFRS except that U.S. GAAP does not refer to government bonds in the measurement of plan liabilities. An employer may look to rates of return on high-quality fixed-income investments in determining assumed discount rates. (SFAS 87.44).
An enterprise is required to determine the present value of defined benefit obligations and the fair value of plan assets sufficiently often that amounts recognised do not differ materially from the amounts that would be determined at the balance sheet date (IAS 19.56).	Measurement of plan assets and benefit obligations is as of the date of the employer's fiscal year-end statement of financial position unless the plan is sponsored by a consolidated subsidiary or equity method investee with a different fiscal period and the date of the consolidated subsidiary's or equity method investee's statement of financial position is used (SFAS 87.52). **Note:** The measurement date requirement above is effective for fiscal years ending after December 15, 2008. Retrospective application is not permitted and early application is encouraged (SFAS 158.15). Prior to the application of the SFAS 158 amendment that codifies the measurement date requirement above, the measurement of plan assets and obligations are as of the date of the financial statements or, if used consistently from year to year, as of a date not more than three months prior to that date (SFAS 87.52).
IAS 19 encourages, but does not mandate, the involvement of a qualified actuary (IAS 19.57).	Use of actuary not addressed by U.S. GAAP.
Where the net cumulative unrecognised gain or loss at the previous year end exceeds the greater of (a) 10% of the present value of the defined benefit obligation at that date (before deducting plan assets) and (b) 10% of the fair value of any plan assets at that date (the '10% corridor'), the excess must be recognised in the income statement on a systematic basis. Recognition may be spread forward over the expected average remaining working lives of participating employees (IAS 19.92). Recognition of actuarial gains and losses within the 10% corridor is permitted but not required (IAS 19.93). IAS 19 also permits faster methods of recognising actuarial gains and losses, including immediate recognition both of amounts outside and within the corridor (IAS 19.93).	At a minimum, amortization of a net gain or loss included in accumulated other comprehensive income (excluding asset gains and losses not yet reflected in market-related value) is included as a component of net pension cost for a year if, as of the beginning of the year, that net gain or loss exceeds 10 percent of the greater of the projected benefit obligation or the market-related value of plan assets. If amortization is required, the minimum amortization is that excess divided by the average remaining service period of active employees expected to receive benefits under the plan. If all or almost all of a plan's participants are inactive, the average remaining life expectancy of the inactive participants is used instead of the average remaining service. Any systematic method of amortizing gains or losses may be used in lieu of the minimum specified above provided that (a) the minimum is used in any period in which the minimum amortization is

IFRS	U.S. GAAP
	greater (reduces the net balance included in accumulated other comprehensive income by more), (b) the method is applied consistently, (c) the method is applied similarly to both gains and losses, and (d) the method used is disclosed (SFAS 87.32-.33).
If an entity adopts a policy of recognising immediately actuarial gains and losses, it is permitted to recognise them outside the income statement provided it does so: ▪ For all actuarial gains and losses, and ▪ For all of its defined benefit plans (IAS 19.93A) Actuarial gains and losses recognised outside the income statement are recognised in the SORIE. (See Section 2.4). (IAS 19.93B).	Actuarial gains and losses not recognized in income are recognized in other comprehensive income when they occur.
The income statement includes (IAS 19.61): ▪ Current service costs ▪ Past service costs (which are recognised over the period until vesting or immediately if already vested) ▪ Expected return on any reimbursement right recognised as an asset ▪ Interest cost ▪ Expected return on plan assets ▪ Actuarial gains and losses (to the extent recognised in profit or loss) ▪ Effect of any settlement or curtailment	Net periodic pension cost includes (SFAS 87.20): ▪ Service cost ▪ Interest cost ▪ Actual return on plan assets, if any ▪ Amortization of any prior service cost or credit included in accumulated other comprehensive income ▪ Gain or loss (including the effects of changes in assumptions) to the extent recognized ▪ Amortization of any net transition asset or obligation existing at the date of initial application of SFAS 158 and remaining in accumulated other comprehensive income ▪ Any recognized settlement or curtailment gains or losses
To determine expected return on plan assets the expected rate of return is applied to the fair value of plan assets (IAS 19.106).	Similar to IFRS except that the expected long-term rate of return is applied to the *market-related value* of plan assets, which is either fair value or a calculated value that recognizes changes in fair value in a systematic and rational manner over not more than five years (SFAS 87.30).
Plan curtailment or settlement gains or losses include any related actuarial gains and losses and past service cost that had not been previously recognized and any resulting changes in the present value of the defined benefit obligation and the fair value of plan assets (IAS 19.109).	The maximum gain or loss subject to recognition in earnings when a pension obligation is settled is the net gain or loss remaining in accumulated other comprehensive income defined in SFAS 87.29 plus any transition asset remaining in accumulated other comprehensive income from initial application of SFAS 87. That maximum amount includes any gain or loss first measured at the time of settlement (SFAS 88.9). The projected benefit obligation may be decreased (a gain) or increased (a loss) by a curtailment. To the extent that such a gain exceeds any net loss included in

IFRS	U.S. GAAP
	accumulated other comprehensive income (or the entire gain, if a net gain exists), it is a curtailment gain. To the extent that such a loss exceeds any net gain included in accumulated other comprehensive income (or the entire loss, if a net loss exists), it is a curtailment loss. The prior service cost included in accumulated other comprehensive income associated with years of service no longer expected to be rendered as the result of a curtailment is a loss. Any transition asset remaining in accumulated other comprehensive income from initial application of SFAS 87 is treated as a net gain and is combined with the net gain or loss arising subsequent to transition to SFAS 87 (SFAS 88.12-.13).
Plan curtailment or settlement gains or losses are recognized when the curtailment or settlement occurs (IAS 19.109).	Settlement gains or losses are recognized when the settlement occurs (SFAS 88.9). A curtailment loss is recognized when it is probable that a curtailment will occur and the effects are reasonably estimable. A curtailment gain is recognized when the related employees terminate or the plan suspension or amendment is adopted (SFAS 88.14).
Pension assets cannot exceed the sum of the following elements (IAS 19.58): ▪ Unrecognised actuarial losses ▪ Unrecognised past service cost ▪ Present value of benefits available from refunds or reduction of future contributions to the plan	No limitation on amount of pension assets that can be recognized.
Some entities distinguish current assets and liabilities from non-current assets and liabilities. IAS 19 does not specify whether an entity should distinguish current and non-current portions of assets and liabilities arising from post-employment benefits (IAS 19.118).	An employer that presents a classified balance sheet classifies the liability for an underfunded plan as a current liability, a noncurrent liability, or a combination of both. The current portion (determined on a plan-by-plan basis) is the amount by which the actuarial present value of benefits included in the benefit obligation payable in the next 12 months, or operating cycle if longer, exceeds the fair value of plan assets. The asset for an overfunded plan is classified as a noncurrent asset in a classified balance sheet (SFAS 87.36).
Group and multi-employer schemes	
Multi-employer defined benefit plans are accounted for as defined benefit plans if the information necessary is available. Otherwise they are accounted for as defined contribution plans (IAS 19.30).	Multi-employer plans are accounted for as a defined contribution plan by the individual companies (SFAS 87.68).
Multi-employer plans exclude those where all the participating entities are companies under common control (IAS 19.7). So group plans are dealt with only in IAS 19.34, 34A and 34B. If a group defined benefit plan, where the risks are	Group plans are not specifically addressed in U.S. GAAP. In such circumstances related party disclosures are appropriate. See “Related party disclosures” (Section 10.6).

<table>
<tr><th>IFRS</th><th>U.S. GAAP</th></tr>
<tr><td>shared among the various group entities, has a contractual arrangement or stated policy that allocates the net defined benefit cost determined by IAS 19 to the participating entities, then each entity recognises the cost thus charged.

If there is no such agreement or policy, each entity recognises a cost equal to its contribution payable for the period, except for the entity that is legally the sponsoring employer for the plan. This entity recognises the net defined benefit cost in its individual accounts.</td><td></td></tr>
<tr><td colspan="2">Other employee benefits</td></tr>
<tr><td>Short-term employee benefits are those benefits other than termination benefits which fall due wholly within one year of the end of the period in which the employee renders the relevant services (IAS 19.7).

Short-term benefits are accounted for on an accrual basis (IAS 19.10).

An accrual is required for accumulating compensated absences, such as holiday pay where holiday entitlements accumulate, i.e. they can be carried forward to the next accounting period (IAS 19.11).</td><td>With the exception of APB 12 (pars. 6 to 7) on deferred compensation contracts, SFAS 43 on compensated absences, and SFAS 112 on post-employment pre-retirement benefits, U.S. GAAP does not specifically address short-term benefits.

Accrual basis accounting is used to account for short-term benefits.

Employers must accrue a liability for employees' compensation for future absences and for post-employment pre-retirement benefits if all of the following conditions are met (SFAS 43.6 and 112.6):
▪ The employer's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered
▪ The obligation relates to rights that vest or accumulate
▪ Payment of the compensation is probable
▪ The amount can be reasonably estimated

Notwithstanding the above, employers are not required to accrue a liability for nonvesting accumulating rights to receive sick pay benefits (SFAS 43.7). Furthermore, post-employment pre-retirement benefits that do not meet the above conditions are accrued when (SFAS 112.6):
▪ It is probable that a liability for the benefit has been incurred at the balance sheet date; and
▪ The amount can be reasonably estimated</td></tr>
<tr><td>Other long-term benefits are benefits other than termination or post-employment benefits that do not fall due within one year of the end of the period in which the employee renders the relevant services (IAS 19.7).</td><td>With the exception of APB 12 (pars. 6 to 7) on deferred compensation contracts, SFAS 43 on compensated absences, and SFAS 112 on post-employment pre-retirement benefits, U.S. GAAP does not specifically address other long-term benefits as defined in IAS 19. The accounting for these benefits when they are of a long-term nature is the same as previously described for short-term benefits.</td></tr>
</table>

IFRS	U.S. GAAP
IAS 19 applies a *simplified version* of the accounting for post-employment benefits to other long-term benefits, the main difference being the immediate recognition of any actuarial gains and losses and past service costs (IAS 19.127).	There is no comparable *simplified version* of the accounting for these benefits under U.S. GAAP. The costs would be immediately recognized in other comprehensive income by analogy to SFAS 158.
Termination benefits are employee benefits payable because the employer has decided to terminate the employee's employment prior to the normal retirement date or because an employee has accepted voluntary redundancy in exchange for those benefits (IAS 19.7). Termination benefits are recognised as an expense only when the enterprise is demonstrably committed to either terminate employment or provide termination benefits as a result of an offer made to encourage voluntary redundancy (IAS 19.133). **Note**: In June 2005, the IASB issued an Exposure Draft, *Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IAS 19 Employee Benefits*, to converge the application guidance for accounting for costs associated with restructuring in IAS 37 with SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities*.	*Special termination benefits* are recognized when the employees accept the offer and the amount can be reasonably estimated and *contractual termination benefits* are recognized when it is probable that employees will be entitled to benefits and the amount can be reasonably estimated (SFAS 88.15). Severance benefits pursuant to an ongoing severance plan under which the benefits vest or accumulate are recognized when payment is probable and the amount can be reasonably estimated. Otherwise, they are recognized when it is probable that a liability for the benefit has been incurred and the amount can be reasonably estimated (SFAS 112.6). A liability for *one-time* termination benefits is recognized when the plan of termination is communicated to employees and certain criteria are met. However, if employees must render services beyond a *minimum retention period* the liability is recognized ratably over the future service period (SFAS 146.8-.11).
Defined contribution plans	
When an employee has rendered services to an entity during a period, pension cost is measured as the contribution payable to the plan in exchange for that service. Additionally, where contributions do not fall due wholly within 12 months of the end of the period in which employees render the related services, they should be discounted using the rate specified in IAS 19.78 (i.e., market yield at balance sheet date on high-quality corporate bonds) for discounting defined benefit obligations (IAS 19.44-.45).	To the extent that a plan's defined contributions to an individual's account are to be made for periods in which that individual renders services, the net pension cost for a period is the contribution called for in that period. If a plan calls for contributions for periods after an individual retires or terminates, the estimated cost is accrued during the employee's service period (SFAS 87.64).

6.3 Share-based payments

IFRS	U.S. GAAP
Relevant standards: IFRS 2 **Note**: On 17 January 2008, the IASB issued *Vesting Conditions and Cancellations*, which is an amendment of IFRS 2, *Share-based Payment*. The amendment clarifies the definition of vesting conditions and the accounting treatment of certain cancellations of share-based payments. The new rules distinguish vesting from non-vesting conditions and require non-vesting conditions to be included in grant date measurement of	**Relevant standards**: SFAS 123(R) (for employees) and EITF 96-18 (for nonemployees)

<table>
<tr><th>IFRS</th><th>U.S. GAAP</th></tr>
<tr><td>the fair value of share-based payments. Vesting conditions are either service conditions or performance conditions. Non-vesting conditions are all requirements that do not represent service or performance conditions but which have to be met in order for the counterparty to receive the share-based payment.

The amendment also requires that when either the entity or a counterparty can choose whether a non-vesting condition is met, failure to meet that non-vesting condition is to be treated as a cancellation. The cancellation is accounted for as an acceleration of vesting. The amount that would otherwise have been recognised for services received over the remainder of the vesting period is expensed.

The amendment relates only to equity-settled share based payment arrangements. It is effective for annual periods beginning on or after 1 January 2009. Early adoption is permitted.</td><td></td></tr>
<tr><td>Basic requirements:
▪ Recognise the fair value of share-based payment over performance period
▪ Scope covers all employee share schemes and other transactions in which the entity issues a share-based payment as consideration
▪ Share-based payments include equity-settled, cash-settled and transactions which offer a choice of these (cash or equity-settled)</td><td>Similar to IFRS (see SFAS 123(R) Summary).</td></tr>
<tr><td>IFRS 2 does not have a similar provision allowing an entity to consider an employee share purchase plan to be not compensatory.</td><td>An employee share purchase plan that satisfies certain explicit criteria does not give rise to recognizable compensation cost (SFAS 123(R).12).</td></tr>
<tr><td>Company should recognise an expense in the profit and loss account and for:
▪ Equity-settled transactions an equivalent credit in shareholders' funds
▪ Cash-settled transactions an equivalent credit to liabilities
▪ Cash or equity-settled transactions depending on who has the choice:
– An equivalent liability
– An equivalent credit to shareholders' funds; or
– A compound financial instrument</td><td>Expense reporting is similar to IFRS but liability versus equity classification could differ since, for example, IFRS 2 does not distinguish between liabilities and equity using all the criteria established in SFAS 150 (SFAS 123(R).28-.35 and .B265).</td></tr>
<tr><td>Measurement of fair value depends on counterparty to the transaction. Fair value could be measured by reference to either:</td><td>Similar to IFRS (SFAS 123(R).7).</td></tr>
</table>

IFRS	U.S. GAAP
▪ Fair value of goods or services received; or ▪ Fair value of instrument granted If it is the second of these a valuation model will be required. Cost of awards to employees is measured by reference to fair value of instruments granted (IFRS 2.10-.11).	
No subsequent remeasurement of fair value of equity instruments granted. Value of cash-settled awards, and liability element of awards that may be settled either in cash or equity is remeasured until settlement.	Similar to IFRS (SFAS 123(R).10 and .A2 – .A6).
Modified grant date method is used for share-based payments to non-employees.	For share-based payments to non-employees, the date for measuring the fair value of the equity instruments issued is the earlier of (EITF 96-18): ▪ The date at which the counterparty's performance is completed ▪ The date at which a commitment for performance by the counterparty to earn the equity instruments is reached (a *performance commitment*)
The cumulative expense to be recognised is based on (IFRS 2.19-.21): ▪ Fair value of the award ▪ Proportion of any performance period complete ▪ Estimate of achievement of any other performance conditions affecting the award of share options, not including market conditions – these must be included in the estimate of fair value In rare cases, fair values may not be reliably determined at the measurement date, so the intrinsic value is used, with subsequent remeasurement (IFRS 2.24).	Similar to IFRS except that: ▪ For equity instruments with terms that make it not possible to estimate fair value, use intrinsic value and remeasure at each reporting date (SFAS 123(R).24-.25) ▪ In some instances, non-public entities may use calculated or intrinsic value to estimate the fair value of equity (SFAS123(R).23) or liability instruments (SFAS 123(R).38)
IFRS 2 contains detailed rules on (IFRS 2.26-.29 and App. B.42-.44): ▪ Modifications – incremental fair value is recognised over remaining vesting period ▪ Cancellations or settlements – require the expense that would be recognised over the remaining performance period to be recognised immediately unless new award is provided as a replacement in which case rules on modifications should be followed	Similar to IFRS (SFAS 123(R).51-.57). Under GAAP the expense is based on the grant date fair value plus any incremental fair value at the date of modification. Appendix A of SFAS 123(R) contains several examples of the accounting for modifications and cancellations or settlements.
IFRS 2 contains detailed disclosure requirements including, but not limited to: ▪ Model and assumptions used in valuing share-based payments, if applicable	SFAS 123(R) contains detailed disclosure requirements (SFAS 123(R).64-.65 and .A240-.241) including, but not limited to: ▪ A description of the method used to measure fair

IFRS	U.S. GAAP
▪ All movements in the number of options outstanding	value of the awards and the associated significant assumptions ▪ Activity with respect to the number of options: outstanding at the beginning of the year, activity during the year, and outstanding at the end of the year

7. Financial instruments

7.1 Recognition and measurement of financial assets

IFRS	U.S. GAAP
Relevant standards: IAS 32 and 39	**Relevant standards**: SOP 01-6; SFAS 107, 114, 115, 133, 140, 155, and 159
IAS 39 addresses recognition and measurement of financial instruments, including financial assets. Financial assets comprise (IAS 32.11): ▪ Cash ▪ Rights to receive cash or another financial asset (i.e. receivables and loans made to others) ▪ A contract to exchange financial instruments on potentially favourable terms ▪ Equity instruments in another entity ▪ A non-derivative contract to receive a variable number of the entity's own equity instruments ▪ A certain type of complex derivative as specified in IAS 32 in respect of an entity's own equity instruments	A financial instrument is defined as cash, evidence of an ownership interest in an entity, or a contract that both (SFAS 107.3): ▪ Imposes on one entity a contractual obligation (1) to deliver cash or another financial instrument to a second entity or (2) to exchange other financial instruments on potentially unfavorable terms with the second entity ▪ Conveys to that second entity a contractual right (1) to receive cash or another financial instrument from the first entity or (2) to exchange other financial instruments on potentially favorable terms with the first entity
IAS 39 has highly detailed requirements concerning derivatives, complex instruments (such as embedded derivatives) and hedging arrangements. Derivatives such as interest swaps, forward contracts and currency options are carried at fair value.	Similar to IFRS. Derivatives and hedging arrangements are covered by SFAS 133 (see Sections 7.3 and 7.4).
Categorization of financial assets	

Divide financial assets into the following categories (IAS 39.9):
▪ Financial assets at fair value through profit or loss (see below for further details)
▪ Loans and receivables (see below for further details)
▪ Held to maturity – defined narrowly with strict conditions; covers only assets with fixed or determinable payments and fixed maturity that the enterprise has the positive intent and ability to hold to maturity, other than loans and receivables originated by the enterprise
▪ Available-for-sale financial assets – all financial assets not falling under another category (any financial asset other than one that is held for trading may be designated into this category on initial recognition)
	No explicit categorization scheme for financial assets. They could be categorized as follows:
	▪ Derivative financial instruments (see Sections 7.2 and 7.3)
	▪ Hybrid financial instruments that would be required to be separated into a host and derivative component under SFAS 133.12 which the entity has irrevocably elected to measure at fair value (SFAS 155.4)
	▪ Eligible financial assets that the entity elects to measure at fair value – fair value option (SFAS 159.7 and .8)
	▪ Loans and receivables (see below for further details)
	▪ Debt and equity securities within the scope of SFAS 115:
	  – Trading (see below for further details)
	  – Held-to-maturity – defined narrowly with strict conditions and covers only those debt securities

IFRS	U.S. GAAP
	that the enterprise has the positive intent and ability to hold to maturity – Available-for-sale – debt and equity securities not classified as trading or held-to-maturity securities
An entity may not use the held to maturity category for two annual reporting periods (taint period) when it sells more than an insignificant amount of assets, with limited exceptions.	The length of the taint period under U.S. GAAP is not defined. The SEC uses a two year time frame.
Financial assets at fair value through profit or loss include: ▪ Assets held for trading – includes all derivatives (see Sections 7.2 and 7.3) as well as other instruments acquired for the purpose of generating profit from short-term fluctuations in price or dealer's margin ▪ Financial assets designated irrevocably into this category on initial recognition if they fall into one of the categories below (See IAS 39 June 2005 fair value option amendment) (IAS 39.9). Note that the fair value option may not be applied to unquoted equity investments whose fair value cannot be measured reliably. – The contract contains one or more embedded derivatives (IAS 39.11A) – The designation results in more relevant financial information because it eliminates an accounting mismatch or a group of financial assets, financial liabilities, or both are managed and evaluated on a fair value basis	Financial assets at fair value through earnings include: ▪ Derivative financial instruments (see Sections 7.2 and 7.3) ▪ Trading securities - securities that are bought and held principally for the purpose of selling them in the near term and held for only a short period of time (SFAS 115.12a) ▪ Hybrid financial instruments that would be required to be separated into a host and derivative component under SFAS 133.12 which the entity has irrevocably elected to measure at fair value (SFAS 155.4) ▪ Eligible financial assets that the entity elects to measure at fair value – fair value option (SFAS 159.7 and .8)
Reclassification of financial instruments into or out of the fair value through profit or loss category is prohibited.	Transfers into or from the trading category should be rare (SFAS 115.15).
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: ▪ Held-for-trading assets ▪ Those designated on initial recognition as at fair value through profit or loss or as available-for-sale ▪ Those where the holder may not recover substantially all of its investment (other than due to credit deterioration), which are classified as available-for-sale (IAS 39.9)	A loan is a contractual right to receive money on demand or on fixed or determinable dates that is recognized as an asset in the creditor's statement of financial position (SFAS 114.4). Loans are not considered debt securities and hence may not be categorized in the trading, available-for-sale, or held-to-maturity categories provided by SFAS 115.
Measurement on initial recognition	
When a financial asset is recognised initially, an entity measures it at its fair value plus, in the case of a	Financial assets are recognized initially at fair value. This may lead to the recognition of premiums and discounts on

<table>
<tr><th>IFRS</th><th>U.S. GAAP</th></tr>
<tr><td>financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset (IAS 39.43).</td><td>loans and debt securities acquired.
Except for certain costs associated with certain lending activities and loan purchases, transaction costs that are directly attributable to the purchase of a financial asset are expensed as incurred (SFAS 91.5-.7).</td></tr>
<tr><td colspan="2">Subsequent measurement</td></tr>
<tr><td>Subsequent treatment (IAS 39.46):
▪ Remeasure financial assets at fair value through profit or loss at fair value with gains and losses going to the income statement
▪ Carry held-to-maturity financial assets and loans and receivables at amortized cost
▪ Remeasure available-for-sale financial assets to fair value and take gains or losses through statement of changes in equity (or SORIE) until point of sale (when recycled to income statement)
▪ Investments in equity instruments that do not have quoted prices in active markets and whose fair value cannot be reliably measured shall be measured at cost</td><td>Subsequent treatment :
▪ Remeasure financial assets at fair value through earnings at fair value with gains and losses going to the income statement (derivatives see SFAS 133.17; hybrid financial instruments see SFAS 155.4; trading securities 115.13)
▪ Carry held-to-maturity securities and loans and trade receivables at amortized cost. Special rules apply for certain acquired loans with deterioration in credit quality (SFAS 115.7 and SOP 01-6.8).
▪ Remeasure available-for-sale securities to fair value. Unrealized gains and losses are included (net of tax) in shareholder's equity in other comprehensive income. All or a portion of the unrealized holding gain and loss of an available-for-sale security that is designated as being hedged in a fair value hedge is recognized in earnings during the period of the hedge. Realized gains and losses are reported in earnings (SFAS 115.13-.14).</td></tr>
<tr><td colspan="2">Derecognition</td></tr>
<tr><td>IAS 39 addresses derecognition specifically in relation to financial instruments. Assets are derecognized when the enterprise loses control of the contractual rights that comprise the financial assets. IAS 39's derecognition principles operate via a five-step process, which focuses on the transfer of risks and rewards as follows (there is no isolation in bankruptcy test) (IAS 39.15-37):
▪ Financial assets are derecognized when an entity transfers substantially all the risks and rewards of ownership
▪ Financial assets are not derecognized when an entity retains substantially all the risks and rewards of ownership
▪ If the entity neither transfers or retains substantially all the risks and rewards of ownership it shall determine whether it has retained control
▪ If it has not retained control, derecognize the financial assets and recognize as separate assets or liabilities any rights or obligations created or retained</td><td>A financial asset is derecognized when the following conditions are met (SFAS 140.9):
▪ Transferred assets have been isolated from the transferor —put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership
▪ Transferee has the right to pledge or exchange the assets (or beneficial interests) received, without any constraints
▪ Transferor does not maintain effective control over the transferred asset</td></tr>
</table>

IFRS	U.S. GAAP
▪ If it has retained control, partially continue to recognize the asset to the extent of its continuing involvement	
Impairment	
If there is objective evidence that a financial asset is impaired, its recoverable amount must be determined and any impairment loss recognised in the income statement. Where such evidence exists, impairment reviews are relevant to assets carried at amortised cost or assets categorised as available-for-sale (although carried at fair value, the gains or losses are included in equity).	For available-for-sale and held-to-maturity securities, if an entity determines that a decline in fair value below the amortized cost basis is other than temporary, the cost basis of the individual security is written down to fair value and the write-down is included in earnings (SFAS 115.16). A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement (SFAS 114.8).
Reversal of impairment losses on receivables, loans, and held-to-maturity and available-for-sale debt securities is required provided certain criteria are met. The reversal is recognized in the income statement.	Reductions of valuation allowances related to receivables and loans are recognized in the income statement. Reversals of impairment losses on held-to-maturity and available-for-sale debt securities are prohibited.
Reversal of impairment losses on available-for-sale equity securities is prohibited.	Similar to IFRS.

7.2 Presentation, recognition, and measurement of financial liabilities and equity

IFRS	U.S. GAAP
Relevant Standards: IAS 32; IAS 39	**Relevant Standards**: APB 6, 14, 21, and 26; ARB 43; SFAS 107, 123, 140, 150, 155, and 159; FIN 39; EITF 98-5, 00-27 and Topic D-43; and SAB Topic 11-D)
Classification as liabilities or shareholders' funds/equity	
Any financial instrument that requires the issuer to deliver cash or another financial asset or to exchange instruments on potentially unfavourable terms is classed as a financial liability. An instrument with these characteristics is classed as a liability regardless of its legal nature (e.g., preference shares with a commitment to pay dividends or redeemable shares would normally be classed as liabilities) (IAS 32.15-.25). When a derivative financial instrument gives one party a choice over how it is settled (e.g. the issuer or the holder can choose settlement net in cash or by exchanging shares for cash), it is a financial asset or a financial liability unless all of the settlement alternatives would result in it being an equity instrument (IAS 32.26). **Note:** On 14 February 2008, the IASB amended IAS 32, *Financial Instruments: Presentation* and IAS 1, *Presentation of Financial Statements* with respect to the balance sheet classification of puttable financial instruments and obligations arising only on liquidation.	A financial instrument, other than an outstanding share, that embodies an obligation to repurchase the issuer's equity shares, or is indexed to such an obligation, and requires or may require the issuer to settle the obligation by transferring assets is classified as a liability (SFAS 150.11). A financial instrument that embodies an unconditional obligation, or a financial instrument other than an outstanding share that embodies a conditional obligation, that the issuer must or may settle by issuing a variable number of its equity shares is classified as a liability if, at inception, the monetary value of the obligation is based solely or predominantly on one of the following (SFAS 150.12): ▪ A fixed monetary amount ▪ Variations in something other than the fair value of the issuer's equity ▪ Variations inversely related to changes in the fair value of the issuer's equity shares

<table>
<tr><th>IFRS</th><th>U.S. GAAP</th></tr>
<tr><td>The amendments will result in some financial instruments currently classified as liabilities being treated as equity instruments in the future and affect certain instruments that :
▪ The holder is entitled to redeem (referred to as puttable instruments)
▪ Impose on the entity an obligation to deliver a pro rata share of the net assets of the entity only on liquidation
The amendments are effective for annual periods beginning on or after 1 January 2009. Early adoption is permitted.</td><td></td></tr>
<tr><td>Redeemable preference shares are generally accounted for as liabilities where they provide for mandatory redemption for a fixed or determinable amount or give the holder the right to require the issuer to redeem (IAS 32.18).</td><td>A mandatorily redeemable financial instrument is classified as a liability unless the redemption is required to occur only upon the liquidation or termination of the reporting entity (SFAS 150.9).</td></tr>
<tr><td>Under IAS 39, financial liabilities are divided into two main categories:
▪ At fair value through profit or loss, which includes:
– Held-for-trading financial liabilities (including all derivative financial liabilities)
– Financial liabilities designated irrevocably into this category on initial recognition (this designation is restricted; see IAS 39 2005 fair value option amendment for full details) (IAS 39.9)
▪ Other financial liabilities</td><td>Under U.S. GAAP financial liabilities may be categorized as follows:
▪ At fair value through earnings, which includes:
– Derivatives classified as liabilities
– Financial liabilities that are hybrid financial instruments that would be required to be bifurcated into a host and derivative component (SFAS 133.12) which the entity has irrevocably elected to measure at fair value (SFAS 155.4)
– Financial liabilities within the scope of SFAS 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity, that are not covered by the guidance in SFAS 150.22
– Eligible financial liabilities that the entity elects to measure at fair value – fair value option (SFAS 159.7 and .8)
▪ Forward contracts that require physical settlement by repurchase of a fixed number of the issuer’s equity shares in exchange for cash and mandatorily redeemable financial instruments (SFAS 150.22)
▪ Liabilities carried at amortized cost</td></tr>
<tr><td>Split accounting is applied to compound instruments (such as convertible debt) that contain both a liability and an equity element. For convertible debt, the debt element is accounted for as a liability and the option to convert to equity is treated as an equity instrument (as long as option embedded is for a fixed number of</td><td>Generally, convertible debt with a nondetachable conversion feature is accounted for completely as debt. However, when convertible debt is issued at a substantial premium, the premium is treated as paid-in capital. In addition, when a nondetachable conversion feature is in the money at the commitment date, the embedded beneficial conversion feature is recognized and</td></tr>
</table>

IFRS	U.S. GAAP
shares) (IAS 32.28-32).	measured by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital (APB 14.12 and .18 and EITF 98-5 and 00-27). When the nondetachable conversion feature meets the definitions of a derivative (SFAS 133.6-9) and does not qualify for any exceptions (SFAS 133.10-12) the embedded conversion feature is treated as a derivative liability (or asset) (see Section 7.3). **Note:** On May 9, 2008, the FASB issued FSP APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)," which requires issuers to account separately for the liability and equity components of convertible debt instruments that have stated terms permitting settlement on conversion in cash or other assets. The FSP does not apply, however, if the embedded conversion option must be accounted for separately as a derivative under SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*. Convertible preferred shares accounted for in equity or temporary equity are also not subject to the FSP. The FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008 and for interim periods within those fiscal years. Early adoption is not permitted.
Offsetting	
A financial asset is offset against a financial liability when and only when an enterprise (IAS 32.42): ▪ Has a legally enforceable right to set off the recognized amounts, and ▪ Intends either to settle on a net basis or realize the asset and settle the liability simultaneously	Offsetting of financial assets and financial liabilities is permitted only when (FIN 39.5-.6, EITF Topic D-43, and SAB Topic 11-D): ▪ The parties owe each other determinable amounts ▪ There is a right and intention to set-off ▪ The right of set-off is enforceable by law
Initial measurement	
Financial liabilities and equity instruments are recorded initially at fair value (which is normally its initial transaction price unless fair value is evidenced by comparison to other observable current market transactions) (IAS 39.43). Initial recognition for liabilities carried at amortised cost is net of transaction costs (defined as incremental costs) (IAS 39.43).	Liabilities and equity instruments are recorded initially at the fair value of the property, goods, services, or other consideration received or at the fair value of the financial instrument issued, whichever is the more clearly determinable (APB 21.12 and SFAS 123.7). Debt issue costs are reported in the balance sheet as deferred charges (APB 21.16).
Finance costs and distributions	
Finance costs on financial liabilities are calculated using the effective interest method (i.e., at a constant rate of charge on the outstanding liability (IAS 39.47)).	Similar to IFRS.
Interest, gains and losses relating to financial	Similar to IFRS.

IFRS	U.S. GAAP
instruments or component parts classed as liabilities are reported in the income statement (IAS 32.35).	
Distributions to holders of a financial instrument classed as an equity instrument are debited directly to equity (IAS 32.35).	Similar to IFRS.
Subsequent measurement	
Except for liabilities at fair value through profit or loss, financial liabilities are carried at amortised cost (IAS 39.47). Liabilities at fair value through profit or loss are measured at fair value with gains or losses recognised in income statement (IAS 39.47).	The following liabilities are subsequently accounted for at fair value through earnings: ▪ Derivatives classified as liabilities ▪ Financial liabilities that are hybrid financial instruments that would be required to be bifurcated into a host and derivative component (SFAS 133.12) which the entity has irrevocably elected to measure at fair value (SFAS 155.4) ▪ Financial liabilities within the scope of SFAS 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*, that are not covered by the guidance in SFAS 150.22 Forward contracts that require physical settlement by repurchase of a fixed number of the issuer's equity shares in exchange for cash and mandatorily redeemable financial instruments are subsequently measured in one of the following two ways (SFAS 150.22): ▪ If both the amount to be paid and the settlement date are fixed, at the present value of the amount to be paid at settlement, accruing interest cost using the rate implicit at inception ▪ If either the amount to be paid or the settlement date varies based on specified conditions, at the amount of cash that would be paid under the conditions specified in the contract if settlement occurred at the reporting date, recognizing the resulting change in that amount from the previous reporting date as interest cost Any amounts paid or to be paid to holders of those contracts in excess of the initial measurement amount are reflected in interest cost. All other liabilities are subsequently carried at amortized cost.
Derecognition and settlement	
The difference between carrying amount and the amount paid in settlement is recognised in the income statement (IAS 39.41).	Similar to IFRS (APB 26.20).
Liabilities are derecognised when the obligation therein is extinguished. IFRS contain detailed requirements on	A debtor derecognizes a liability if and only if it has been extinguished. A liability has been extinguished if either of

IFRS	U.S. GAAP
liability derecognition (IAS 39.39-40).	the following conditions is met (SFAS 140.16): ▪ The debtor pays the creditor and is relieved of its obligation for the liability. Paying the creditor includes delivery of cash, other financial assets, goods, or services or reacquisition by the debtor of its outstanding debt securities whether the securities are canceled or held as so-called treasury bonds. ▪ The debtor is legally released from being the primary obligor under the liability, either judicially or by the creditor.
Treasury shares	
Under IAS 32, treasury shares are presented in the balance sheet as a deduction from equity. Acquisition of treasury shares is presented as a change in equity. No gain or loss is recognised in the income statement on the sale, issuance, or cancellation of treasury shares. Consideration received is presented as a change in equity (IAS 32.33).	Similar to IFRS (APB 6.12 and ARB 43 Ch. 1B).

7.3 Recognition and measurement of derivatives

IFRS	U.S. GAAP
Relevant standards: IAS 39	**Relevant standards**: SFAS 133 and 155; FASB's Derivatives Implementation Group implementation guidance.
Characteristics of derivatives	
One characteristic of a derivative under IAS 39 is that it is settled at a future date (IAS 39.9). Given the added U.S. GAAP net settlement requirement not found in IAS 39, certain financial instruments may meet the definition of a derivative under IAS 39 but not under U.S. GAAP.	Under U.S. GAAP, one of the characteristics of a derivative is that (SFAS 133.6): ▪ Its terms require or permit net settlement ▪ It can readily be settled net by a means outside the contract, or ▪ It provides for delivery of an asset that puts the recipient in a position not substantially different from net settlement
Under IAS 39 the characteristics of a derivative do not include *notional amounts* (IAS 39.9). Given the added U.S. GAAP *notional amounts* requirement not found in IAS 39, certain financial instruments may meet the definition of a derivative under IAS 39 but not under U.S. GAAP.	U.S. GAAP requires that the derivative contract be based on one or more *notional amounts* (SFAS 133.6).
Basic accounting requirements	
All derivatives are classed as held-for-trading financial instruments, and may be either assets or liabilities (IAS 39.9).	Derivative instruments that are not designated as hedging instruments are carried at fair value.
All derivative instruments are recognised initially at fair	Similar to IFRS (SFAS 133.17-.18).

IFRS	U.S. GAAP
value. All changes in fair value are recognised in the income statement (with limited exceptions under hedge accounting provisions). (See Sections 7.1 and 7.2 for more on accounting for financial assets and liabilities at fair value through profit or loss.)	
Embedded derivatives	
An embedded derivative is a component of a hybrid instrument that includes both a derivative and a host contract, with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative (IAS 39.10).	Similar to IFRS (SFAS 133.12).
An embedded derivative is separated from the host contract and accounted for as a derivative under IAS 39 when: ▪ Its economic characteristics are not closely related to those of the host contract ▪ A separate instrument with the same terms would be a derivative, and ▪ The hybrid instrument is not measured at fair value with changes reported in net profit or loss If an embedded derivative cannot be separately measured, the entire contract should be treated as held for trading (IAS 39.11).	Similar to IFRS (SFAS 133.12-.16).
IAS 39 June 2005 fair value option amendment permits instruments containing embedded derivatives to be designated irrevocably on initial recognition as being at fair value through profit or loss, with limited exceptions (see IAS 39.11A).	Financial liabilities that are hybrid financial instruments that would be required to be bifurcated into a host and derivative component (SFAS 133.12) which the entity has irrevocably elected to measure at fair value are accounted for at fair value through earnings (SFAS 155.4).
IAS 39 and SFAS 133 apply the criteria for determining whether a financial instrument contains an embedded derivative differently. Appendix A of IAS 39 contains implementation guidance and examples that should be considered in determining whether embedded derivatives need to be separated and carried at fair value through profit or loss.	The FASB's Derivatives Implementation Group has issued guidance on SFAS 133 implementation issues. That guidance and the guidance and examples in the appendices to SFAS 133 should be considered in determining whether embedded derivatives need to be separated and carried at fair value through profit or loss.

7.4 Hedge accounting

IFRS	U.S. GAAP
Relevant standards: IAS 39	**Relevant standards**: SFAS 133, as amended, and the Derivatives Implementation Group implementation guidance. SFAS 52 for hedge of a net investment in a foreign entity.
IAS 39 sets out extensive requirements on hedge accounting. Hedge accounting is purely optional but is	Similar to IFRS (SFAS 133.17-.42)

IFRS	U.S. GAAP
only available to entities that have applied all of the requirements (IAS 39.71-102).	
Three types of hedge relationships exist: ▪ Fair value hedges – hedges of exposure to changes in value of a recognised asset or liability ▪ Cash flow hedges – hedges of exposure to variability in cash flows associated with a recognised asset or liability or a forecasted transaction ▪ Hedges of net investment in foreign operation	Similar to IFRS (SFAS 133.17-.42 and 52.20a).
IAS 39 hedge accounting is applied only if extensive conditions are met. These include requirements for: ▪ Formal documentation, which must be in place at the inception of the hedge, setting out the hedging relationship and the enterprise's risk management strategy ▪ The hedge itself to be highly effective and its effectiveness to be capable of reliable measurement (IAS 39.88)	Similar to IFRS (see implementation guidance at SFAS 133.62-.103). However, U.S. GAAP permits a *shortcut method* under which an entity is allowed to assume no ineffectiveness in a hedging relationship of interest rate risk involving a recognized interest-bearing asset or liability and an interest rate swap (or a compound hedging instrument composed of an interest rate swap and a mirror-image call or put option) if certain conditions are met (SFAS 133.68).
Where the conditions for hedge accounting are met: ▪ For a fair value hedge, the hedged item is remeasured with any gain or loss being included in the income statement (to offset the effect on the income statement of the hedge instrument's change in fair value being carried in the income statement). The hedge instrument is similarly remeasured (IAS 39.89-94). ▪ For a cash flow hedge, the portion of the gain or loss on the hedging instrument that is an effective hedge is recognised directly in equity and the ineffective portion is normally recognised in the income statement. The gain or loss in equity is then recycled to the income statement when the hedged item is recognised in the income statement (IAS 39.95-101). ▪ For a hedge of a net investment in a foreign enterprise, accounting is the same as for cash flow hedges (IAS 39.102)	Similar to IFRS: ▪ For fair value hedge – see SFAS 133.22 ▪ For a cash flow hedge – see SFAS 133.30 ▪ For a hedge of a net investment in a foreign enterprise, the accounting for the hedging instrument should be consistent with the accounting for translation adjustments (SFAS 52.20a and .128-.130)

8. Group accounts

Note:

On 10 January 2008, the IASB issued IFRS 3 (revised 2008), *Business Combinations*, and IAS 27(revised 2008), *Consolidated and Separate Financial Statements*. These statements introduce significant changes in the accounting for and reporting of group accounts. They are effective for annual periods beginning on or after 1 July 2009. Early adoption is permitted if both standards are applied together and IFRS 3 (revised 2008) is not adopted in an accounting period beginning before 30 June 2007.

On December 4, 2007, the FASB issued SFAS 141(revised 2007), *Business Combinations*, and SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*. These statements introduce significant changes in the accounting for and reporting of consolidated accounts and minority interests (now referred to as noncontrolling interests). SFAS 141 (revised 2007) applies prospectively to business combinations with an acquisition date on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early adoption is prohibited. Therefore, SFAS 141 (revised 2007) is effective January 1, 2009 for companies with a calendar year-end. SFAS 160 applies to fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Early adoption is prohibited.

8.1 Basic requirements for group accounts

IFRS	U.S. GAAP
Relevant standards: IAS 27; IFRS 5 (See note at the beginning of Section 8 above.)	**Relevant standards**: APB 18; ARB 51; SFAS 94 and 144; SEC Regulation S-X
Definition of subsidiary	
A subsidiary is an entity including an unincorporated entity such as a partnership that is controlled by another entity (its parent) (IAS 27.4).	*Subsidiary* refers to a corporation that is controlled, directly or indirectly, by another corporation (APB 18.3c).
Control is the power to govern financial and operating policies so as to gain economic benefit (IAS 27.4). Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half the voting power of an enterprise unless, in exceptional circumstances, it can be demonstrated that such ownership does not constitute control. Control also exists where the parent owns half or less of the voting power when there is (IAS 27.13): ▪ Power over more than half the voting rights through an agreement with other investors ▪ Power to govern the financial and operating policies under statute or an agreement ▪ Power to appoint or remove the majority of board members ▪ Power to cast the majority of votes at board meetings	The usual condition for a controlling financial interest is ownership of a majority voting interest, i.e., ownership directly or indirectly, of over fifty percent of the outstanding voting shares (ARB 51.2). Control may also exist through contract or other agreement (APB 18.3c).
The existence and effect of potential voting rights that are currently exercisable or convertible are considered in assessing an entity's power to govern another entity. Management intent or financial ability to exercise or	Potential voting rights generally not considered in assessing an entity's power to govern another entity.

IFRS	U.S. GAAP
convert are not considered (IAS 27.14-15).	
Requirement to prepare group accounts	
A parent should present consolidated financial statements unless (IAS 27.10): ▪ It is a wholly-owned subsidiary or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote have been informed about and do not object to the parent not presenting consolidated financial statements ▪ Parent's debt or equity are neither traded in a public market nor are about to be traded in a public market; and ▪ The ultimate or intermediate parent of the parent produces consolidated financial statements that comply with IFRS	There is a presumption that consolidated statements are more meaningful than separate statements and that they are usually necessary for a fair presentation when one of the companies in the group directly or indirectly has a controlling financial interest in the other companies (ARB 51.1).
There is no exclusion from consolidation for a subsidiary acquired exclusively with a view to resale. However, special measurement and presentation requirements exist where a newly acquired subsidiary meets the conditions for being classified as a discontinued operation (IFRS 5.15-.16 and .32-.33). See "Discontinued operations" (Section 2.6).	Similar to IFRS (SFAS 144.32). See "Discontinued operations" (Section 2.6).
An entity is not permitted to exclude from consolidation an entity it continues to control simply because that entity is operating under severe long-term restrictions that significantly impair its ability to transfer funds to the parent. Control must be lost for exclusion to occur (IAS 27.IN9).	A majority-owned subsidiary may not be consolidated if control does not rest with the majority owner (for instance, if the subsidiary is in legal reorganization or in bankruptcy or operates under foreign exchange restrictions, controls, or other governmentally imposed uncertainties so severe that they cast significant doubt on the parent's ability to control the subsidiary) (ARB 51.2).
There is no exclusion from consolidation on grounds of dissimilar activities (IAS 27.20).	Similar to IFRS (SFAS 94.9).
Treatment in parent's individual accounts/separate financial statements	
IAS 27 does not mandate the preparation of separate financial statements. In a parent's separate financial statements, investments in subsidiaries that are not classified as held-for-sale in accordance with IFRS 5 are carried on one of the following bases (IAS 27.37): ▪ Cost ▪ In accordance with IAS 39 If qualifying as held-for-sale, then required to be accounted for under IFRS 5. (**Note**: This would apply only to investments previously carried at cost from 1 January 2009 under the May 2008 *Improvements to IFRSs* — amendment to IAS 27)	When parent-company statements are needed in addition to consolidated statements, consolidating statements in which one column is used for the parent company and other columns for particular subsidiaries or groups of subsidiaries is an effective way of presenting the pertinent information (ARB 51.24). Public companies that meet certain requirements must provide parent-only financial statements in a separate schedule (Regulation S-X; Rule 5-04).

IFRS	U.S. GAAP
Reporting date of subsidiaries	
Parent and subsidiary financial statements used for consolidation should be as of the same reporting date unless impracticable to do so (IAS 27.26).	Similar to IFRS (ARB 51.4).
Where subsidiary accounts are used based on a year-end different from that of the parent, then make adjustments for the effects of significant transactions to the parent's year-end date. In any case subsidiary accounts must be within three months of parent year end (before or after) (IAS 27.27).	A three month date difference is also permitted. However, adjustments for the effects of significant transactions to the parent's year-end date are not required. Instead, the effect of intervening events which materially affect the financial statements must be disclosed (ARB 51.4).
Uniformity of accounting policies	
Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances (IAS 27.28).	Similar to IFRS although not explicitly required in U.S. GAAP. Accounting policies of subsidiaries that apply specialized industry accounting principles are retained in consolidation.

8.2 Minority interests

IFRS	U.S. GAAP
Relevant standards: IFRS 3; IAS 1 and 27 (See note at the beginning of Section 8 above.)	**Relevant standards**: SEC Regulation S-X; ARB 51; FIN 46(R) (See note at the beginning of Section 8 above.)
Minority interests are presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity (IAS 27.33).	Minority interests are not presented within shareholders' equity. In practice minority interests are presented as part of non-current liabilities or between liabilities and shareholders' equity (Regulation S-X; Rule 5-02.27).
Consolidated profit or loss is required to be allocated and separately disclosed between that due to minority interests and that due to equity holders of the parent. Therefore minority interest is regarded as an allocation of profit rather than a deduction against profits (IAS 27.33 and 1.82).	Minority interests are presented in the consolidated income statement as a deduction against after-tax profits (Regulation S-X; Rule 5-03.12).
Minority interests in the subsidiary are stated at the minority's proportion of the fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities (those that were recognised as part of fair value exercise on acquisition) and the minority's share of changes in equity since acquisition (IFRS 3.40 and IAS 27.22(c)). No goodwill is attributed to minority interests.	Minority interests are generally presented at an amount equal to the minority's share of the investee's net assets at book value. However, on the initial consolidation of a variable interest entity, the assets, liabilities and noncontrolling interests of the newly consolidated entity are measured at fair value, except for assets and liabilities that are transferred from the reporting entity (the primary beneficiary of the variable interest entity) shortly before consolidation. Therefore, the reporting entity's previously held interests in the newly consolidated variable interest entity and any remaining noncontrolling interests in the variable interest entity would be remeasured (FIN 46(R).18 and .20.)
Where losses attributable to the minority exceed the	Where losses applicable to the minority interest in a

IFRS	U.S. GAAP
minority interest in the subsidiary's equity, the excess and any further losses are charged against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered (IAS 27.35).	subsidiary exceed the minority interest in the equity capital of the subsidiary, such excess and any further losses applicable to the minority interest should be charged against the majority interest, as there is no obligation of the minority interest to make good such losses. However, if future earnings do materialize, the majority interest should be credited to the extent of such losses previously absorbed (ARB 51.15).

8.3 Special purpose entities/variable interest entities

IFRS	U.S. GAAP
Relevant standards: SIC-12	**Relevant standards**: FIN 46(R)
The main features of *special purpose entities* (SPEs) are that (SIC-12.1): ▪ They may be created to accomplish a narrow and well-defined purpose ▪ They may be companies, trusts, partnerships, or unincorporated entities ▪ The arrangements impose strict limits on their decision-making powers. These provisions may specify that policies cannot be modified other than by the entity's creator or sponsor (i.e., they operate on "autopilot").	A *variable interest entity* (VIE) is defined as an entity that is required to be consolidated by FIN 46(R) (par. 2.a). Except for those entities that are specifically excluded by that interpretation, VIEs include *special purpose entities* (SPEs) as well as entities not typically considered to be SPEs. VIEs may be subsidiaries, corporations, partnerships, limited liability companies, grantor trusts, and other trusts.
SPEs are consolidated where the substance of the relationship indicates that the SPE is controlled by the reporting enterprise (SIC-12.8). Factors which may indicate control include the following (SIC-12.10): ▪ The SPE's activities are conducted on behalf of the enterprise according to its specific business needs so that it obtains the benefits from the SPE's activities ▪ The enterprise in substance has the decision-making powers or has delegated them through an "autopilot" arrangement ▪ The enterprise has, in substance, the rights to obtain the majority of the benefits of the SPE and hence may be exposed to the risks inherent in those benefits ▪ The enterprise in substance retains the majority of the residual or ownership risks related to the SPE.	The enterprise with the variable interest that will absorb the majority of the VIEs expected losses or receive a majority of its expected residual returns (the *primary beneficiary*) must consolidate a VIE if, by design, one or more of the following conditions exist (FIN 46(R).5): ▪ The equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by any parties, including the equity holders ▪ The equity investors lack any of the following essential characteristics of a controlling financial interest: – The direct or indirect ability to make decisions about the entity's activities through voting rights or similar rights – The obligation to absorb the expected losses of the entity – The right to receive the expected residual returns of the entity ▪ The equity investors have voting rights that are not proportionate to their economic interests, and the activities of the entity involve or are conducted on

IFRS	U.S. GAAP
	behalf of an investor that has a disproportionately small voting interest.

8.4 Acquisition in stages and disposals

IFRS	U.S. GAAP
Relevant standards: IAS 27; IFRS 3 (See note at the beginning of Section 8 above.)	**Relevant standards**: SFAS 52, 133, 141, and 142 (See note at the beginning of Section 8 above.)
Acquisition in stages	
A business combination may occur in stages by successive share purchases. Each exchange transaction is treated separately by the acquirer, using cost and fair value information at the date of each exchange transaction to determine the amount of any goodwill. As the acquiree's identifiable assets, liabilities and contingent liabilities must be recognized by the acquirer at fair value at acquisition date, any adjustments to fair values of previously held interests are treated as a revaluation. This required revaluation does not affect the acquirer's accounting policy for revaluation. The acquisition date fair values of the acquiree's identifiable assets, liabilities and contingent liabilities include amounts attributable to remaining minority interests, if any, in the acquiree. (IFRS 3.40 and 3.58 – .60).	Similar to IFRS in that each exchange transaction is treated separately by the acquirer to determine goodwill. However, in a business combination revaluation is not allowed. The carrying amount of the acquirer's previously held interest in the acquiree is not restated at acquisition date. This results in fair value measurements at different dates for the different interests acquired and carryover of acquiree's basis for any minority interests in the acquiree. (SFAS 141.20 and .B4).
IFRS do not currently address this issue.	If an investment in an existing subsidiary is increased (e.g., from sixty to eighty percent), the parent applies the purchase method by using the cost of the incremental investment and fair value information at the date the interest in the subsidiary is increased to determine the amount of any goodwill associated with the transaction (SFAS 141.14).
Disposal of subsidiary	
The gain or loss on disposal (proceeds less subsidiary's carrying amount at date of disposal) is included in the income statement under IAS 27.30. Also recycled to the income statement are foreign exchange differences previously in equity in accordance with IAS 21 (or included in equity as a net investment hedge under IAS 39). Goodwill remaining in the balance sheet is included in the carrying amount for the disposal. Goodwill previously written off to equity is not included in the disposal profit or loss calculation (IFRS 3.80).	Similar to IFRS (SFAS 52.14, 133.42, and 142.39) but under U.S. GAAP goodwill is not written off against equity.
If an entity ceases to be a subsidiary (and does not become an associate or a joint controlled entity) then the remaining investment is accounted for in accordance	If an entity ceases to become a subsidiary and does not become an equity method investee because the investor is unable to exercise significant influence over the entity,

IFRS	U.S. GAAP
with IAS 39 (IAS 27.31). The carrying amount at the date the entity ceases to become a subsidiary then becomes deemed initial cost (IAS 27.32).	the carrying amount at the date the entity ceases to become a subsidiary is deemed the initial cost. The investment is subsequently accounted for at fair value or cost (APB 18.6a, SFAS 115 and Sections 7.1 and 9.1).

8.5 Business combinations

IFRS	U.S. GAAP
Relevant standards: IFRS 3 (See note at the beginning of Section 8 above.)	**Relevant standards**: SFAS 141 (See note at the beginning of Section 8 above.)
Acquisitions and mergers/uniting of interests	
IFRS 3 requires business combinations to be accounted for by applying the purchase (acquisition) method (IFRS 3.14). The pooling of interests method (merger accounting) is not permitted for combinations falling within IFRS 3's scope; an acquirer must always be established (IFRS 3.17). Some combinations are scoped out via IFRS 3.3 (mainly joint ventures, combinations involving entities or businesses under common control, and combinations of mutual entities).	Similar to IFRS (SFAS 141.9-.15 and .D1).
IFRS 3 requires disclosure of the amounts recognised at the acquisition date of each class of the acquiree's assets, liabilities and contingent liabilities and, if practicable, the carrying amounts immediately prior to acquisition (IFRS 3.67f).	Disclosures must include a condensed balance sheet disclosing the amount assigned to each major asset and liability caption of the acquired entity at the acquisition date (SFAS 141.51e).
Separate presentation of the acquired entity's results in the income statement is not required. However, if practicable, the acquirer must disclose the revenue and profit or loss of the combined entity for the period as though the acquisition date had been the beginning of the period (IFRS 3.70).	Separate presentation in the income statement is not required but a public business enterprise must disclose pro forma results of operations for the current period as though the combination had been completed at the beginning of the period and for the comparable prior period as though it had been completed at the beginning of that period (SFAS 141.54).
Reverse acquisitions	
IFRS 3.21 and IFRS 3 Appendix B include provisions relating to reverse acquisitions. A reverse acquisition typically occurs where a parent issues sufficient voting shares to the shareholders of the acquiree in exchange for their shares that control passes to the former shareholders of the acquired enterprise. In this case, the enterprise issuing the shares is deemed to have been acquired by the other enterprise. The latter is deemed to be the acquirer and applies the purchase method to the assets and liabilities of the enterprise issuing the shares. Where reverse acquisitions apply IFRS 3 Appendix B should be consulted in detail for guidance on the required accounting.	In some business combinations (commonly referred to as reverse acquisitions), the acquired entity issues the equity interests. Normally, the acquiring entity is the larger entity. However, the facts and circumstances surrounding a business combination sometimes indicate that a smaller entity acquires a larger one. In identifying the acquiring entity in a combination effected through an exchange of equity interests, all pertinent facts and circumstances must be considered (SFAS 141.17).

IFRS	U.S. GAAP
Reorganisations	
IFRS 3 scopes out transactions among enterprises under common control. There is no other specific IFRS guidance. In accordance with IAS 8.10-.12, management should use judgement to develop an accounting policy that is relevant and reliable. The most relevant and reliable accounting policies are deemed to be: ▪ A pooling of interests-type method (also referred to as merger accounting) or ▪ The purchase method in accordance with IFRS 3	SFAS 141 does not apply to transfers of net assets or exchanges of shares between entities under common control. However, Appendix D of SFAS 141 contains *predecessor* guidance that can be applied to such transactions. That guidance provides that the entity that receives the net assets or the equity interests should initially recognize the assets and liabilities transferred at their carrying amounts in the accounts of the transferring entity at the date of transfer. Financial information presented for prior years should be restated in order to furnish comparative information (SFAS 141.D12).

8.6 Fair values in acquisition accounting

IFRS	U.S. GAAP
Relevant standards: IFRS 3 (See note at the beginning of Section 8 above).	**Relevant standards**: EITF 95-3; SFAS 87, 106, 109, and 141 (See note at the beginning of Section 8 above.)
Identifiable assets and liabilities	
Per IFRS 3.37, the identifiable assets, liabilities and contingent liabilities acquired that are recognised are those of the acquiree that existed at acquisition together with any liabilities recognised for provisions on acquisition. They should be recognised separately at acquisition only if: ▪ In the case of an asset (other than an intangible asset) it is probable that any associated future economic benefit will flow to the acquirer and its fair value can be measured reliably ▪ In the case of a liability (other than a contingent liability), it is probable that there will be an outflow of resources embodying economic benefits and its fair value can be measured reliably ▪ In the case of an intangible asset or a contingent liability, its fair value can be measured reliably	An acquiring entity must allocate the cost of an acquired entity to the assets acquired and liabilities assumed based on their estimated fair values at date of acquisition (SFAS 141.35).
The acquisition date is the date on which the acquirer effectively obtains control of the acquiree (IFRS 3.25).	The date of acquisition is normally the date assets are received and other assets are given, liabilities are assumed or incurred, or equity interests are issued. However, the parties may, for convenience, designate as the effective date the end of an accounting period between the dates a business combination is initiated and consummated (SFAS 141.48).
Liabilities for terminating or reducing the activities of the acquiree are recognised only where at the acquisition date an existing liability for restructuring exists (IFRS	Restructuring provisions for cost to exit an activity of an acquired company and for involuntary employee termination benefits and relocation costs may be

IFRS	U.S. GAAP
3.41a). Liabilities should not be recognised for future losses or other costs expected to be incurred as a result of the business combination (IFRS 3.41b). Restructuring provisions are included as part of acquired liabilities only if the acquiree has an existing liability under IAS 37 at the acquisition date, and no liabilities are included in respect of restructuring plans that were conditional on the business combination (IFRS 3.43).	recognized as liabilities assumed in a purchase business combination provided certain conditions are met (EITF 95-3).
A liability is recognised for any payment that the acquiree is contractually required to make in the event it is acquired such as to employees or suppliers (IFRS 3.42).	An acquiring entity must allocate the cost of an acquired entity to the assets acquired and liabilities assumed based on their estimated fair values at date of acquisition (SFAS 141.35).
The fair values of inventories are as follows (IFRS 3.B16(d)): ▪ Finished goods and merchandise at estimated selling price less (a) costs of disposal and (b) a reasonable profit allowance for the selling effort of the acquiring entity ▪ Work in process at estimated selling price of finished goods less (a) costs to complete, (b) costs of disposal, and (c) a reasonable profit allowance for the completing and selling effort of the acquiring entity based on profit for similar finished goods ▪ Raw materials at current replacement costs	Similar to IFRS (SFAS 141.37c).
The fair value of tax assets and liabilities is the amount of tax benefit arising from tax losses or the taxes payable in respect of profit or loss in accordance with IAS 12 assessed from the perspective of the combined entity after taking account of the tax effect of restating assets, liabilities, and contingent liabilities to fair value (IFRS 3.B16(i)).	A deferred tax liability or asset is recognized for differences between the assigned values and the tax bases of the assets and liabilities (excluding the portion of goodwill for which amortization is not deductible for tax purposes and leveraged leases) recognized in a purchase business combination (SFAS 109.30).
Per IFRS 3.65, if acquiree's tax losses carried forward are not included as a deferred tax asset, but are subsequently realised, then a corresponding adjustment is made to goodwill (with no time limit), although this is not done to the extent of creating *negative goodwill*. This goodwill adjustment would in effect normally create an expense to the income statement to counteract the deferred tax income credit.	Similar to IFRS except that the corresponding adjustment is first applied to reduce goodwill. If goodwill is reduced to zero, the remaining amount is applied to reduce other non-current intangible assets related to that acquisition. Any remaining amount is then recognized in income (EITF 93-7).
Defined benefit plan assets and liabilities are recognised at the present value of the defined benefit obligation less the fair value of any plan assets (IFRS 3.B16(h)).	The purchase price allocation includes a liability for the projected benefit obligation (PBO) in excess of plan assets or an asset for plan assets in excess of the PBO, thereby eliminating any previously existing unrecognized net gain or loss, unrecognized prior service cost, or unrecognized net obligation or net asset existing upon initial application of SFAS 87 (SFAS 87.74).

<table>
<tr><th>IFRS</th><th>U.S. GAAP</th></tr>
<tr><td>IFRS 3.B16(a) requires the use of current market values for active market investments.

IFRS 3.B16(b) requires assessment of non-active market investments via alternative techniques (more detailed guidance on fair value is in IAS 39).</td><td>Marketable securities are included at their fair values (SFAS 141.37a).</td></tr>
<tr><td>IFRS 3.47-.50 requires a contingent liability to be recognised initially if its fair value can be measured reliably. Thereafter the contingent liability should be measured at the higher of the amount required under IAS 37 and the amounts recognised under IFRS 3 less amounts recognised under IAS 18. IFRS 3.B16(l) clarifies that the fair value of the contingent liability is the amount "that a third party would charge to assume those contingent liabilities."</td><td>Pre-acquisition contingent liabilities of the acquiree are included in the purchase price allocation based on an amount determined as follows (SFAS 141.40):

▪ If the fair value of the preacquisition contingency can be determined during the allocation period, that preacquisition contingency is included in the allocation of the purchase price based on that fair value.

▪ If the fair value of the preacquisition contingency cannot be determined during the allocation period, that preacquisition contingency is included in the allocation of the purchase price based on an amount determined in accordance with the following criteria:

– Information available prior to the end of the allocation period indicates that it is probable that an asset existed, a liability had been incurred, or an asset had been impaired at the consummation of the business combination. It is implicit in this condition that it must be probable that one or more future events will occur confirming the existence of the asset, liability, or impairment.

– The amount of the asset or liability can be reasonably estimated.</td></tr>
<tr><td>Where the initial accounting can be determined only provisionally, the combination is accounted for using those provisional values. Adjustments to provisional values as a result of completing the initial accounting are recognised within twelve months of the acquisition date and from the acquisition date (IFRS 3.62).

IFRS 3.62(b)(iii) notes that where there are adjustments made in the accounting period following that in which the combination occurred, the comparatives are also restated.

Thereafter any adjustments do not lead to restatement of the business combination, other than the following:

▪ Errors in accordance with IAS 8 (IFRS 3.63-64) require restatement of prior periods in accordance with normal IAS 8 principles

▪ Adjustments for deferred tax assets in relation to the acquiree's income tax losses that did not satisfy the criteria for recognition when the business</td><td>The allocation period is the period required to identify and measure the fair value of the assets acquired and the liabilities assumed in a business combination.

Adjustments to fair values and goodwill are made during this period, which should usually not exceed one year from the consummation of a business combination. The allocation period ends when the acquiring entity is no longer waiting for information that it has arranged to obtain and that is known to be available or obtainable (SFAS 141.40 and .F1).

After the end of the allocation period, an adjustment that results from a preacquisition contingency other than a loss carryforward is included in the determination of net income in the period in which the adjustment is determined (SFAS 141.41).</td></tr>
</table>

IFRS	U.S. GAAP
combination was accounted for initially but are subsequently realised are made to goodwill without time limit, although not to the extent of creating *negative goodwill* (IFRS 3.65).	
Cost of acquisition	
The acquirer measures the cost of a business combination as the aggregate of (IFRS 3.24): ▪ The fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree; plus ▪ Any costs directly attributable to the business combination Costs of arranging and issuing financial liabilities and costs of issuing equity instruments are not included in the cost of a business combination but are included in the initial measurement of the liability and reduce the proceeds from the equity issue, respectively (IFRS 3.30-.31). The published price at the date of exchange of a quoted equity instrument provides the best evidence of the instrument's fair value and should be used, except in rare circumstances (IFRS 3.27).	Similar to IFRS (SFAS 141.20-.24). Under U.S. GAAP, however, the market price for a reasonable period before and after the date that the terms of the acquisition are agreed to and announced must be considered in determining the fair value of securities issued (SFAS 141.22).
Where the amount of purchase consideration is contingent on future events, a reasonable estimate of the fair value is made if the adjustment is probable and can be measured reliably (IFRS 3.32). The cost of the combination is adjusted if: ▪ A contingent amount (such as an earn-out) was previously estimated but that estimate is revised (IFRS 3.33); or No contingent amount was previously included in the cost (on the basis of not being probable or not reliably estimable) but subsequently it can be estimated and becomes probable (IFRS 3.34) IFRS 3.35 clarifies that adjustment to the acquisition cost is not made where additional amounts are paid to the seller to compensate for the reduction in value of the assets previously given to the seller. In the case of equity instruments, such adjustment would instead be made to the equity instruments. In the case of a debt instrument, the additional amount paid would be accounted for as an increase in the discount in the initial issue.	Contingent consideration is recorded when the contingency is resolved and consideration is issued or becomes issuable. In general, the issuance of additional securities or distribution of other consideration at resolution of contingencies based on earnings results in an additional element of cost of an acquired entity. In contrast, the issuance of additional securities or distribution of other consideration at resolution of contingencies based on security prices does not change the recorded cost of an acquired entity (SFAS 141.27). Upon issuance of the additional consideration, the amount previously recorded for securities issued at the date of acquisition is reduced to the lower current value of those securities. Reducing the value of debt securities previously issued to their later fair value results in recording a discount on debt securities. That discount is amortized from the date the additional securities are issued (SFAS 141.30).

8.7 Treatment of goodwill

IFRS	U.S. GAAP
Relevant standards: IFRS 3 (See note at the beginning of Section 8 above.)	**Relevant standards**: SFAS 141 and 142 (See note at the beginning of Section 8 above.)
An acquirer recognises goodwill acquired in a business combination as an asset (IFRS 3.51).	The excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed is recognized as an asset referred to as goodwill (SFAS 141.43).
Goodwill is not amortised and instead must be tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired (IFRS 3.55).	Goodwill is not amortized and instead must be tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired (SFAS 142.18, .26, and .28).
If there is an excess of fair value of acquired net assets over cost (*negative goodwill*), it is recognised immediately in profit or loss. However, further tests are required to ensure that the negative goodwill is genuine rather than, say, due to overstatement of fair value of other assets (IFRS 3.56).	The excess of fair value of acquired net assets over cost is allocated as a pro rata reduction of the amounts that otherwise would have been assigned to all of the acquired assets except: ▪ Financial assets other than investments accounted for by the equity method ▪ Assets to be disposed of by sale ▪ Deferred tax assets ▪ Prepaid assets relating to pension and other post-retirement benefit plans ▪ Any other current assets Generally, the excess remaining is recognized as an extraordinary gain. However, if additional contingent consideration is involved, the lesser of the maximum contingent consideration or the negative goodwill prior to the pro rata allocation is recorded as if it were a liability (SFAS 141.44-.46).

9. Associates, equity method investees, and joint ventures

Note: On 10 January 2008, the IASB issued IFRS 3 (revised 2008), *Business Combinations*, and IAS 27(revised 2008), *Consolidated and Separate Financial Statements*. These statements introduce changes in the application of the equity method and are effective for annual periods beginning on or after 1 July 2009. Early adoption is permitted if both standards are applied together and IFRS 3 (revised 2008) is not adopted in an accounting period beginning before 30 June 2007.

9.1 Associates and equity method investees

IFRS	U.S. GAAP
Relevant standards: IAS 1 and 28	**Relevant standards**: APB 18; SFAS 142 and 144; SOP 78-9; FSP APB 18-1; EITF Issue No. 04-5; SEC Regulation S-X
Definition	
An *associate* is an entity, including an unincorporated entity such as a partnership over which the investor has significant influence and which is neither a subsidiary nor an interest in a joint venture (IAS 28.2).	An *equity method investee* is an incorporated or unincorporated entity that an investor accounts for under the equity method due to the investor's ability to exercise significant influence over the operating and financial policies of that investee. See Section 8 for accounting requirements when the investor has the ability to control the investee.
The guidance on identifying significant influence includes a 20% voting rights presumption and also states that significant influence is normally evidenced by board representation, participation in policy-making, material transactions, interchange of managerial personnel, or provision of essential technical information (IAS 28.6-7). The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether an entity has significant influence (IAS 28.8). Loss of significant influence arises when an entity loses the power to participate in the financial and operating policy decisions of the investee, which could occur with or without a change in ownership levels (IAS 28.10).	Similar to IFRS except that when determining an investor's voting stock interest in an investee, the determination is based on those currently outstanding securities whose holders have present voting privileges. Potential voting privileges that may become available to holders of securities of an investee are disregarded (APB 18.17-.18, SOP 78-9, and EITF Issue No. 04-5).
Treatment in consolidated accounts	
Associates are accounted for in consolidated accounts under the equity method based on present ownership interests and not taking account of potential voting rights (IAS 28.12-.13).	Similar to IFRS. An incorporated or unincorporated entity over which an investor has the ability to exercise significant influence and which is not required to be accounted for at fair value is accounted for under the equity method. See "Group accounts" (Section 8) for accounting requirements when the investor has the ability to control the investee.
The equity method is not used for associates where the investment is classified as held for sale under IFRS 5 (IAS	An equity method investee that is *held-for-sale* is accounted for under the equity method. Rules for long-

IFRS	U.S. GAAP
28.13(a)). However, where the associate is operating under severe long-term restrictions the equity method is still applied where the investor continues to have significant influence (IAS 28.IN10).	lived assets to be disposed of by sale do not apply to investments accounted for under the equity method (SFAS 144.5).
Where an investor ceases to have significant influence over the associate it shall be accounted for under IAS 39 (IAS 28.18).	When an investment no longer qualifies for the equity method, an investor discontinues accruing its share of the investee's earnings or losses and the investment account is not adjusted retroactively. Dividends received in subsequent periods that exceed the investor's share of earnings for such periods reduce the investment's carrying amount. SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities,* applies to investments in equity securities with readily determinable fair values that are not consolidated or accounted for under the equity method (APB 18.19l).
Must conform accounting policies (IAS 28.27).	No explicit requirement to conform accounting policies.
The investor's share of the associate's profit or loss is shown separately in the consolidated income statement. Extraordinary items are prohibited anywhere within the financial statements (IAS 1.81, 1.85, and 28.38). The investor's share of any discontinued operations of the associate is to be separately disclosed (IAS 28.38).	The investor's share of the earnings or losses of an equity method investee are normally shown in the income statement as a single amount except for the separate presentation of any extraordinary items of the investee, if material (APB 18.19c). An investor is not required to separately disclose or display the discontinued operations of an equity method investee (SFAS 144.5).
The investor's share of changes recognised directly in the associate's equity is recognised directly as an adjustment of the carrying amount and in the equity of the investor and disclosed in the statement of changes in equity (or statement of recognised income and expense) (IAS 28.11, IAS 28.39).	Under the equity method, an investor records its proportionate share of the investee's equity adjustments for other comprehensive income as increases or decreases to the investment account with corresponding adjustments in equity (SFAS 130.121). On loss of influence, the amounts recognized in equity are offset against the carrying value of the investment. If the offset reduces the investment to zero, the remaining balance would be recorded in income (FSP APB 18-1).
In the consolidated balance sheet, associates are disclosed as a separate item in the balance sheet and classified as a non-current asset (IAS 28.38).	Equity method investments are displayed as a separate item in the consolidated balance sheet (APB 18.19c).
The investment is initially recorded at cost and the carrying amount is increased or decreased to recognise the investor's share of profits or losses, net of distributions received by the investor from the associate (IAS 28.11).	The investment is initially recorded at cost, the investor adjusts the carrying amount of the investment for its share of the equity method investee's earnings or losses subsequent to the date of investment, and those earnings or losses are reported in income. Dividends received from an equity method investee reduce the carrying amount of the investment (APB 18.10).

IFRS	U.S. GAAP
Because goodwill included in the carrying amount is not separately recognised, the entire carrying amount of the investment is tested for impairment under IAS 36 (IAS 28.33).	Goodwill inherent in the investment is not amortized but is reviewed for impairment in accordance with APB 18.19h (SFAS 142.40).
Losses under the equity method are accounted for only until the net investment is reduced to nil unless the investor is under an obligation to make good those losses (IAS 28.29-30).	The equity method is suspended when losses reduce the investment (and net advances) to zero. Additional losses are provided for if the investor has guaranteed obligations of the investee or is otherwise committed to provide further financial support. Additional losses are recognized when the imminent return to profitable operations by the investee appears assured. If the investee subsequently reports net income, the investor resumes applying the equity method after its share of that net income equals the share of net losses not recognized during the period the equity method was suspended (APB 18.19i).
Disclosures include summarised financial information of associates, including the aggregated amounts of assets, liabilities, revenues, and profit or loss (IAS 28.37b).	When equity method investees are material, summarized information as to assets, liabilities, and results of operations of the investees is recommended to be presented in the notes or in separate statements (APB 18.20d). Publicly traded companies may have additional required disclosures if investees meet certain size criteria (e.g., Regulation S-X, Rules 3-09, 4-08(g)).
Treatment in investor's individual accounts and in its separate financial statements	
Per IAS 28.35 and IAS 27.37-42, where an investor also prepares consolidated accounts, associates (other than those classified as held for sale in accordance with IFRS 5) are included in the investor's separate financial statements (if any) on one of the following bases: ▪ At cost less impairment; or ▪ In accordance with IAS 39	No similar exemption from use of the equity method under U.S. GAAP.
Where an investor does not prepare consolidated accounts (e.g., because it has no subsidiaries) associates are included in the investor's (individual) financial statements under the equity method. However the investor is exempt from equity accounting if all of the conditions in IAS 28.13(c) are met (i.e., the investor is itself a subsidiary and its owners do not object, its debt or equity are not traded on a public market, the investor did not file financial statements with a securities commission or other regulatory organisation, and the parent or ultimate parent prepare consolidated accounts available for public use that comply with IFRS).	No similar exemption from use of the equity method under U.S. GAAP.

9.2 Joint ventures

IFRS	U.S. GAAP
Relevant standards: IAS 31; SIC-13	**Relevant standards**: APB 18; SEC Regulation S-X
Definitions	
A *joint venture* is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control (IAS 31.3). **Note:** On 13 September 2007, the IASB issued Exposure Draft 9, *Joint Arrangements*, to replace IAS 31, *Interests in Joint Ventures.* The objective of the joint venture project is to improve the accounting for, and the quality of the information being reported – what the proposed IFRS defines as joint arrangements – which include joint ventures, joint assets, and joint operations.	*Corporate joint venture* refers to 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. Its purpose frequently is to share risks and rewards in developing a new market, product or technology; to combine complementary technological knowledge; or to pool resources in developing production or other facilities. It also usually provides an arrangement under which each joint venturer may participate, directly or indirectly, in the overall management of the joint venture. A minority public ownership in a corporate joint venture does not preclude a corporation from being a corporate joint venture (APB 18.3)
Joint ventures are divided into three types (IAS 31.7): ▪ *Jointly controlled operations*, where there is joint use of assets and other resources of the venturers rather than the establishment of a corporation, partnership or other entity, or a financial structure separate from the venturers themselves ▪ *Jointly controlled assets*, where there is joint control, and often joint ownership, of assets contributed to, or acquired for the purpose of, the joint venture. The assets are used to obtain benefits for the venturers. These ventures do not involve the establishment of a corporation, partnership, other entity or financial structure separate from the venturers themselves. ▪ *Jointly controlled entities*, which involve the establishment of a corporation, partnership or other entity which controls the venture's assets, incurs liabilities and expenses and earns income	U.S. GAAP only addresses corporate joint ventures (APB 18.3).
Treatment of joint operations and jointly controlled assets	
For a jointly controlled operation, a venturer should recognise in its separate financial statements (and thus in its consolidated financial statements): ▪ The assets it controls and the liabilities it incurs ▪ The expenses it incurs and its share of the income earned by the joint venture (IAS 31.15).	For joint operations, the equity method of accounting is generally appropriate. However, in certain circumstances proportionate consolidation is used.
Treatment of jointly controlled assets by a venturer (e.g. two oil companies owning a pipeline) is similar, taking into account its share of assets and liabilities (IAS 31.21).	U.S. GAAP is not specific on accounting for jointly controlled assets. In certain industries proportionate consolidation is used.

IFRS	U.S. GAAP
Treatment of joint ventures in consolidated accounts	
The benchmark treatment for joint ventures classified as joint entities is proportionate consolidation (IAS 31.30). Under proportionate consolidation, two reporting formats are permitted (IAS 31.34): ▪ Combining line-by-line the share of each asset, liability, income and expense of the joint entity with that of the investor (with additional disclosure in the notes of the investor's share of current and long-term assets and liabilities and income and expenditure) ▪ Reporting the share of each asset, liability, income or expense of the joint venture as a separate line item in the venturer's financial statements Per IAS 31.38, the allowed alternative treatment for joint ventures classified as joint entities is equity accounting, in the same way as for associates under IAS 28, but with additional disclosure in the notes of the investor's share of current and long-term assets and liabilities and income and expenditure. The allowed alternative treatment is discouraged by IAS 31.40.	Corporate joint ventures are accounted for using the equity method (APB 18.16). Proportionate consolidation is used in the construction and extractive industries only.
Where the investment is acquired and held for sale in accordance with IFRS 5 proportionate consolidation or equity accounting should not be used (IAS 31.42). Where the joint venture is operating under severe long-term restrictions proportionate consolidation or the equity method should be applied unless joint control is lost (IAS 31.IN8).	An equity method investee that is *held-for-sale* is accounted for under the equity method. Rules for long-lived assets to be disposed of by sale do not apply to investments accounted for under the equity method (SFAS 144.5).
Where the benchmark treatment (proportionate consolidation) is applied, this should continue even if the jointly controlled entity has losses or net liabilities. Losses under the allowed alternative treatment (equity method) are accounted for only until the investment is reduced to nil unless the investor is under an obligation to make good those losses (See "Associates and equity method investees" (Section 9.1)).	The equity method is suspended when losses reduce the investment (and net advances) to zero. Additional losses are provided for if the investor has guaranteed obligations of the investee or is otherwise committed to provide further financial support. Additional losses are recognized when the imminent return to profitable operations by the investee appears assured. If an investee subsequently reports net income, the investor resumes applying the equity method after its share of that net income equals the share of net losses not recognized during the period the equity method was suspended. (APB 18.19i).
There is no equivalent requirement under IFRS.	When equity method investees are material, summarized information as to assets, liabilities, and results of operations of the investees is recommended to be presented in the notes or in separate statements. (APB 18.20d). Publicly traded companies may have additional required disclosures if investees meet certain size requirements (e.g., Regulation S-X, Rules 3-09 and 4-08(g)).

IFRS	U.S. GAAP
Treatment of joint ventures in the investor's individual accounts and in its separate financial statements	
If the investor also issues consolidated accounts, jointly controlled entities should be accounted for in the investor's separate financial statements under IAS 27.37 to IAS 27.42 (via IAS 31.46), which require the investment to be included at cost less impairment or in accordance with IAS 39. Per IAS 31.31 and IAS 31.39, an investor that does not issue consolidated financial statements because it does not have subsidiaries should account for a jointly controlled entity in its individual accounts in accordance with IAS 31's proportional consolidation or equity method rules. The same would apply to any other entity that does not prepare consolidated accounts unless it is exempt under IAS 31.2(c) (i.e., entity is a subsidiary itself and its owners do no object, its debt or equity are not traded on a public market, the investor did not file financial statements with a securities commission or other regulatory organisation, and the parent or ultimate parent prepare consolidated accounts available for public use which comply with IFRS).	No similar exemption from use of the equity method under U.S. GAAP.

10. Other matters

10.1 Foreign currency translation

IFRS	U.S. GAAP
Relevant standards: IAS 21, 29, and 39	**Relevant standards**: SFAS 52
Functional currency and presentation currency	
The *functional currency* is the currency of the primary economic environment in which the entity operates (IAS 21.8). All other currencies are then treated as foreign currencies. IAS 21.9-.14 contain extensive guidance on the determination of the functional currency (which is not a matter of choice). The *presentation currency* is the currency in which the financial statements are presented and it is essentially a matter of choice (IAS 21.8). Financial statements must be prepared in the entity's functional currency but may then be presented in any currency (IAS 21.20-.26 and .38-.41).	Similar to IFRS (SFAS 52.5-.10).
It is necessary for each operation to determine its functional currency and then measure its results and financial position in that currency (IAS 21.17). If the operation's functional currency is the same as that of the parent, it will therefore prepare its IFRS accounts in the same currency as the parent. IAS 21.9-.11 contains more extensive guidance on the determination of functional currency, through use of primary and secondary indicators.	Similar to IFRS (SFAS 52.5). Appendix A of SFAS 52 provides additional guidance on determining the functional currency.
IAS 29 addresses reporting in the currency of a hyperinflationary economy.	There is no corresponding U.S. GAAP to IAS 29.
IAS 29.3 gives a list of characteristics that might indicate hyperinflation, including the 100% criterion, but also qualitative factors.	Only indicator is one that has a cumulative inflation of approximately 100% or more over a three year period (SFAS 52.11).
The accounts of an enterprise whose functional currency is the currency of a hyperinflationary economy should be stated in terms of the measuring unit current at the balance sheet date (IAS 29.8). The functional currency is determined in accordance with IAS 21 which means that it is not appropriate for an enterprise to adopt another currency as its measurement currency simply to avoid the requirement to restate under IAS 29. The financial statements of a foreign entity that reports in the currency of a hyperinflationary currency are restated in accordance with IAS 29 prior to their translation into the investor's presentation currency. This translation is carried out using the normal procedures for foreign entities except	There is no corresponding U.S. GAAP to IAS 29. Financial statements are remeasured as if the functional currency were the reporting currency (SFAS 52.11 and .102 - .107).

IFRS	U.S. GAAP
that the results for the period are translated at the closing rate (IAS 21.42-.43).	
Where the functional currency is that of a hyperinflationary economy, the closing rate at the current balance sheet date should be used for all translation into the presentation currency (IAS 21.42).	In a highly inflationary economy the reporting currency is used as the functional currency (SFAS 52.11 and .107).
Individual transactions and balances	
Individual transactions are translated at the rate on the date of the transaction, or at an average rate for a period if rates do not fluctuate significantly (IAS 21.21-.22).	Similar to IFRS (SFAS 52.12, .15 - .16, and .27a).
Where non-monetary items are included at fair value, the exchange rate for the date on which fair value is determined should be used to translate those items under IAS 21.23.	SFAS 52 does not discuss nonmonetary items included at fair value.
Exchange gains and losses on settled items and unsettled monetary items are taken to profit and loss for the period (IAS 21.28). When a gain or loss on a non-monetary item is recognised directly in equity then the foreign exchange gain or loss is also taken to equity (e.g. revaluation under IAS 16). Conversely if the gains or losses on a non-monetary item are included in the profit or loss then the related exchange component would also be included in profit or loss (e.g. gains on investment property) (IAS 21.30).	Similar to IFRS (SFAS 52.15).
Translation of foreign operations	
The financial statements of a foreign operation are translated as follows (IAS 21.38-.47): ▪ All assets and liabilities are translated at the closing rate ▪ Income and expenses are translated at the actual rate ruling on the dates of the transactions (or an average rate as an approximation) ▪ All resulting exchange differences are classified as a separate component of equity until disposal of the net investment, at which time they are included in the gain or loss on disposal in the income statement (IAS 21.48).	Similar to IFRS (SFAS 52.12 and .47 - .54).
Goodwill arising on the acquisition of a foreign operation and any fair value adjustments are treated as assets and liabilities of the foreign entity and retranslated at the closing rate (IAS 21.47).	Similar to IFRS (SFAS 52.12 and .101).
Where a monetary item payable to or receivable from a foreign operation is in substance part of the net investment in the foreign operation, then in the	Similar to IFRS (SFAS 52.15 and .20(b)).

IFRS	U.S. GAAP
consolidated accounts the exchange differences would be taken to equity, although it would remain in profit or loss in individual accounts (IAS 21.15 and IAS 21.32). Any such gains or losses included in equity would be recycled to the income statement on disposal of the foreign operation (IAS 21.48).	
IFRS hedging provisions are included via IAS 39.102. In consolidated accounts, the reporting entity can opt for hedge accounting in respect of a hedge of the net investment in the foreign subsidiary. Any exchange movement in hedging instrument would be accounted for as a cash flow hedge. Note that the condition in IAS 39.88 apply to hedges of a net investment in a foreign operation.	Similar to IFRS (SFAS 133.36).

10.2 Government grants

IFRS	U.S. GAAP
Relevant standards: IAS 20; SIC-10	**Relevant standards**: Government grants to business enterprises are not specifically addressed by U.S. GAAP.
Government grants, including non-monetary grants at fair value, should not be recognised until there is reasonable assurance that the enterprise will comply with the attached conditions and that the grants will be received (IAS 20.7).	General revenue recognition principles should be considered in accounting for government grants (see Section 6.1 above). Accrual basis of accounting is used. Under U.S. GAAP, revenue recognition would be delayed until any conditions attached to a grant are satisfied.
Grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support with no future related costs should be recognised as income in the period in which they become receivable (IAS 20.20).	U.S. GAAP revenue recognition principles would apply.
Grants are recognised as income over the periods necessary to match them with the related costs that they are intended to compensate, on a systematic basis. Grants should not be credited to shareholders' interests (IAS 20.12).	U.S. GAAP revenue recognition principles would apply.
Interest free loans: IAS 39.43 requires a below market interest rate loan to be recognised initially at fair value. Fair value of loan at time of initial receipt would be recognised as loan and balance would be recognised as a grant. However, see also IAS 20.37. **Note**: In May 2008, the IASB issued *Improvements to IFRSs*, which amended IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* to require that the benefit of a government loan with a below-market rate of interest is treated as a government grant. The benefit is measured as the difference between the proceeds received and the initial	Interest free loans or below market rate loans should be initially recognized at fair value in accordance with APB Opinion 21.11-.16. The difference between the face amount of the loan and its fair value is then treated as a grant.

IFRS	U.S. GAAP
carrying value of the loan determined in accordance with IAS 39, *Financial Instruments: Recognition and Measurement.* The amendments are effective prospectively to government loans received in periods beginning on or after 1 January 2009. Early adoption is permitted.	
Grants relating to fixed assets, including non-monetary grants at fair value, should be presented in the balance sheet either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset (IAS 20.24).	Grants that relate to a capital expenditure are accounted for either as deferred income or a credit against the recorded cost of the asset in the period received. In the latter case, the grant is recognized through the reduction of the resulting depreciation expense.
Grants that become repayable should be accounted for as a change in an accounting estimate. Potential liabilities to repay grants are covered by IAS 37, and are provided for to the extent that repayment is probable (IAS 20.32).	A liability to repay a grant should be recognized on a prospective basis when it is probable that repayment will be made and the amount can be reasonably estimated (SFAS 5.8).

10.3 Earnings per share

IFRS	U.S. GAAP
Relevant standards: IAS 33	**Relevant standards**: SFAS 128; ARB 51; SOP 93-6; EITF Topics D-42, D-53, and D-82
Scope	
IAS 33 applies to entities whose ordinary shares or potential ordinary shares are publicly traded or that are in the process of issuing such shares (IAS 33.2).	Similar to IFRS (SFAS 128.6).
Measurement – basic EPS	
Basic earnings per share is calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period (IAS 33.10).	Similar to IFRS (SFAS 128.8).
Amounts attributable to ordinary equity holders is the profit or loss from the parent's continuing operations and the profit or loss attributable to the parent entity adjusted for the after-tax amounts of preference dividends, differences arising on the settlement of preference shares, and other similar effects of preference shares classified as equity (IAS 33.12-.18).	Income available to common stockholders is computed by deducting preferred stock dividends declared (whether paid or not) and cumulative preferred stock dividends accumulated for the period. Income available to common stockholders must also be adjusted for the effects of the redemption or induced conversion of preferred stock (SFAS 128.9 and EITF Topics D-42, D-53, and D-82).
The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor (IAS 33.20).	Similar to IFRS (SFAS 128.8 and App. A).

IFRS	U.S. GAAP
The weighted average number of ordinary shares outstanding during the period and for all periods presented shall be adjusted for events, other than the conversion of potential ordinary shares that have changed the number of ordinary shares outstanding without a corresponding change in resources (IAS 33.26).	Similar to IFRS (SFAS 128.54-.56).
Measurement - diluted EPS	
When calculating diluted earnings per share, profit or loss attributable to ordinary equity holders of the parent entity and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential ordinary shares (IAS 33.31).	Similar to IFRS (SFAS 128.11).
Earnings in diluted EPS Earnings in diluted EPS are the profits attributable to ordinary shareholders (per basic EPS) as adjusted for ▪ Dividends on dilutive potential ordinary shares ▪ Interest on dilutive potential ordinary shares ▪ Any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares (IAS 33.33)	Similar to IFRS (SFAS 128.11-.12).
Number of shares in diluted EPS The number of shares in diluted EPS is that per the basic EPS plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. Dilutive potential ordinary shares are deemed to have been converted into ordinary shares at the beginning of the period or, if later, the date of the issue of the potential ordinary shares (IAS 33.36).	Similar to IFRS (SFAS 128.26c).
The dilutive potential ordinary shares are determined independently for each period presented. The number of dilutive potential ordinary shares in the year-to-date period is not a weighted average of the dilutive potential ordinary shares included in each interim computation (IAS 33.37).	Incremental shares included in quarterly diluted EPS are computed using the average market prices during the three months in the reporting period. For year-to-date EPS, incremental shares are determined using a year-to-date weighted average of the incremental shares included in each quarterly diluted EPS computation (SFAS 128.46; see Note below).
Potential ordinary shares that are cancelled or allowed to lapse during the period are included in the calculation of diluted earnings per share only for the portion of the period during which they are outstanding. Potential ordinary shares that are converted into ordinary shares during the period are included in the calculation of diluted earnings per share from the beginning of the period to the date of conversion; from the date of conversion, the resulting ordinary shares are included in both basic and diluted earnings per share (IAS 33.38).	Similar to IFRS (SFAS 128.28).

IFRS	U.S. GAAP
Method of determining whether or not dilutive Potential ordinary shares shall be treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations (IAS 33.41).	Similar to IFRS (SFAS 128.11 and .13).
In determining whether potential ordinary shares are dilutive or antidilutive, each issue or series of potential ordinary shares is considered separately rather than in the aggregate. The sequence in which potential ordinary shares are considered may affect whether they are dilutive. Therefore, to maximise the dilution of basic earnings per share, each issue or series of potential ordinary shares is considered in sequence from the most dilutive to the least dilutive (IAS 33.44).	Similar to IFRS (SFAS 128.14).
Diluted EPS effect of share options and warrants The *treasury share method* is used when calculating diluted earnings per share. The entity assumes the exercise of dilutive options and warrants of the entity. The assumed proceeds from these instruments are regarded as having been received from the issue of ordinary shares at the average market price of ordinary shares during the period. The difference between the number of ordinary shares issued and the number of ordinary shares that would have been issued at the average market price of ordinary shares during the period is treated as an issue of ordinary shares for no consideration (IAS 33.45-.48).	Similar to IFRS. However, when applying the *treasury stock method* the number of incremental shares included in quarterly diluted EPS is computed using the average market prices during the three months included in the reporting period. For year-to-date diluted EPS, 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 (SFAS 128.46). **Note:** In September 2005, the FASB issued an Exposure Draft, *Earnings per Share,* which would amend SFAS 128 to replace the year-to-date quarterly weighted average requirement with an average market price of shares for the year-to-date period requirement. It would also amend the description of assumed proceeds to include the carrying amount of any liability that would be extinguished upon exercise of an instrument subject to the treasury stock method. The IASB and the FASB have a joint project on the calculation of EPS that converges and simplifies the EPS calculation. A joint Exposure Draft is expected to be issued in the third quarter of 2008.
Employee share options	
Share options with fixed or determinable terms and non-vested ordinary shares are treated as options in the calculation of diluted EPS, even though they may be contingent on vesting. They are treated as contingent on grant date. Performance-based employee share options are treated as contingently issuable shares because their issue is contingent upon satisfying specified conditions in	Similar to IFRS (SFAS 128.20-.23).

IFRS	U.S. GAAP
addition to the passage of time (IAS 33.48).	
Not dealt with by IAS 33.	With respect to leveraged ESOPs, ESOP shares that have been committed to be released should be considered to be outstanding. ESOP shares that have not been committed to be released should not be considered to be outstanding (SOP 93-6; par. 28). All shares held by a nonleveraged ESOP should be treated as outstanding in computing the employer's EPS, except the suspense account shares of a pension reversion ESOP, which should not be treated as outstanding until they are committed to be released for allocation to participant accounts (SOP 93-6; par. 44). Special rules apply to employers with ESOPs that hold convertible preferred stock (SOP 93-6; pars. 29 to 34).
Not dealt with by IAS 33.	ARB 51.13 states, "shares of the parent held by a subsidiary should not be treated as outstanding stock in the consolidated balance sheet." Thus, such shares would also be considered treasury shares for EPS computation purposes and they would not be included in the denominator.
Contingently issuable shares	
Contingently issuable ordinary shares are included as outstanding (i.e. included as if ordinary shares issued and included in the basic EPS calculation) from the date when all necessary conditions are satisfied. Shares that are issuable solely after the passage of time are not contingently issuable shares, because the passage of time is a certainty (IAS 33.24).	Similar to IFRS (SFAS 128.10).
Similar to basic EPS, contingently issuable shares are included in diluted EPS if conditions are satisfied (and for diluted EPS are included from the beginning of the period or from the date of the contingent share agreement if later). If conditions are not satisfied, the number of contingently issuable shares in the diluted EPS is based on the number that would be issuable if the end of the period were the end of the contingency period. Restatement is not permitted if the conditions are not met when the contingency period expires (IAS 33.52).	Similar to IFRS (SFAS 128.30-.35). However, for year-to-date computations, contingent shares are included on a weighted-average basis. In other words, contingent shares are weighted for the interim periods in which they were included in the computation of diluted EPS (SFAS 128.30b; fn. 18). **Note**: In September 2005, the FASB issued an Exposure Draft, *Earnings per Share*, which would amend SFAS 128 to require that contingently issuable shares be included in diluted EPS from the beginning of the period during which the contingency has been satisfied, or from the date of the contingent share agreement, if later. The IASB and the FASB have a joint project on the calculation of EPS that converges and simplifies the EPS calculation. A joint Exposure Draft is expected to be issued in the third quarter of 2008.
Contracts that may be settled in cash or shares	
When an entity has issued a contract that may be settled	Inclusion of the shares is based on a rebuttable

IFRS	U.S. GAAP
in cash or ordinary shares at the entity's option, the entity shall presume that the contract will be settled in ordinary shares and the resulting potential ordinary shares included in the diluted EPS if the effect is dilutive (IAS 33.58). For contracts that may be settled in cash or ordinary shares at the holders' option, the more dilutive of cash settlement and share settlement shall be used in calculating diluted EPS (IAS 33.60).	presumption that the contracts will be settled in shares (SFAS 128.29). **Note**: In September 2005, the FASB issued an Exposure Draft, *Earnings per Share*, which would amend SFAS 128 to provide that except in cases where share settlement is permitted or required only in the event of the legal bankruptcy of the issuer, an entity could not overcome the presumption that a contract that may be settled in cash or shares will be settled in shares. The IASB and the FASB have a joint project on the calculation of EPS that converges and simplifies the EPS calculation. A joint Exposure Draft is expected to be issued in the third quarter of 2008.
Presentation	
Both basic and diluted EPS required to be disclosed on the face of the income statement for profit or loss from continuing operations (if presented) and for profit or loss for the period for each class of ordinary shares (IAS 33.9, .30, and .66). IAS 33.68 requires disclosure on the face of the income statement or in the notes for basic and diluted EPS from discontinued operations.	Similar to IFRS. However, entities that report a discontinued operation, an extraordinary item, or the cumulative effect of an accounting change are required to present basic and diluted per-share amounts for those line items either on the face of the income statement or in the notes to the financial statements (SFAS 128.36-.37).
Basic and diluted EPS must be presented with equal prominence (IAS 33.66).	Similar to IFRS (SFAS 128.36).
Basic and diluted EPS must be presented even if the amounts are negative (IAS 33.69).	Similar to IFRS.
Additional EPS basis presented	
If an entity discloses, in addition to basic and diluted earnings per share, amounts per share using a reported component of the income statement other than one required by IAS 33, such amounts must be calculated using the weighted average number of ordinary shares determined in accordance with IAS 33. An entity must indicate whether amounts per share are before tax or after tax (IAS 33.73).	Similar to IFRS (SFAS 128.37).
IAS 33.73 requires that where additional EPS is disclosed that it is disclosed in the notes and that the basic and diluted EPS for this additional amount be disclosed with equal prominence.	Similar to IFRS (SFAS 128.37).
Retrospective adjustments	
Basic and diluted EPS are restated for all periods presented for the effects of capitalisations, bonus issues and share splits. If these changes occur after the balance sheet date but before the financial statements are authorised for issue, the EPS calculations (including	If the number of common shares outstanding increases due to a stock dividend or stock split or decreases as a result of a reverse stock split, the computations of basic and diluted EPS are adjusted retroactively for all periods presented. This is the case even if such

IFRS	U.S. GAAP
previous periods) are based on the new number of shares (IAS 33.64).	changes occur after the close of the period but before issuance of the financial statements. If per-share computations reflect such changes in the number of shares that fact must be disclosed (SFAS 128.54).
Basic and diluted earnings per share for all periods presented must be adjusted for the effects of errors and adjustments resulting from changes in accounting policies accounted for retrospectively (IAS 33.64).	Similar to IFRS (SFAS 128.57).
Diluted EPS in any prior period should not be adjusted for changes in assumptions used or for the conversion of potential ordinary shares into ordinary shares (IAS 33.65).	Similar to IFRS (SFAS 128.12).

10.4 Post-balance sheet events

IFRS	U.S. GAAP
Relevant standards: IAS 1, 10, and 33	**Relevant standards and statute**: SFAS 128, SAB 40; AU Sections 341 and 560; and Sarbanes-Oxley Act of 2002 (Section 302)
An enterprise should adjust the amounts recognised in its financial statements to reflect adjusting events after the balance sheet date (IAS 10.8).	The financial statements should be adjusted for post-balance sheet events (Type I subsequent events) that provide additional evidence of conditions that existed at the balance sheet date (AU Section 560.03).
An enterprise should not prepare its financial statements on a going concern basis if management determines after the balance sheet date either that it intends to liquidate the enterprise or to cease trading, or that it has no realistic alternative but to do so (IAS 10.14).	Financial statements should not be prepared on the going concern basis if subsequent to the balance sheet date, but before issuance of the financial statements, liquidation appears imminent (AU Section 341, fn. 1).
Disclosure of non-adjusting post-balance sheet events is required where non-disclosure could influence the economic decisions of users (IAS 10.21).	Type II subsequent events are those that provide evidence with respect to conditions that did not exist at the date of the balance sheet under consideration but arose subsequent to that date. These events do not result in a financial statement adjustment. These events 1) should be disclosed if they are of such a nature that disclosure is required to keep the financial statements from being misleading and 2) may be so significant that disclosure can best be made by supplementing the historical financial statements with pro forma financial data (AU Section 560.05).
A liability may not be recognised for dividends proposed or declared after the balance sheet date. However, the amount of such dividends must be disclosed (IAS 10.12; IAS 1.125).	Dividends are recognized as a liability upon declaration by management. SEC registrants must give stock dividends, stock splits, and reverse splits retroactive effect in the balance sheet. The change and the date the change became effective must be disclosed (SAB Topic 4:C).
Basic and diluted EPS are restated for all periods presented for the effects of capitalisations, bonus issues	If after the balance sheet but before issuance of the financial statements an entity's common shares

IFRS	U.S. GAAP
and share splits. If these changes occur after the balance sheet date but before the financial statements are authorised for issue, the EPS calculations (including previous periods) are based on the new number of shares (IAS 33.64).	outstanding either increase due to a stock dividend or stock split or decrease as a result of a reverse stock split, the computations of basic and diluted EPS are adjusted retroactively for all periods presented. If per-share computations reflect such changes in the number of shares that fact must be disclosed (SFAS 128.54).
IFRS 3 contains extensive disclosure requirements for each business combination effected during the period and between the year-end and the date of approval of the accounts (IFRS 3.66-71). See "Group accounts" (Section 8).	SFAS 141.51-.52 disclosures must be provided if a material business combination is completed after the balance sheet date but before the financial statements are issued (unless not practicable) (SFAS 141.57).
The financial statements must disclose the date when they were authorised for issue and who gave that authorisation. If the enterprise's owners or others have the power to amend the financial statements after issuance, the enterprise should disclose that fact (IAS 10.17).	CEO and CFO of SEC registrants must *certify* financial statements (Sarbanes-Oxley Act of 2002; Section 302). The certification is outside of basic general purpose financial statements and not required by U.S. GAAP.

10.5 Segment reporting

IFRS	U.S. GAAP
Relevant standards: IAS 14 **Note:** In November 2006, the IASB issued IFRS 8, *Operating Segments*, which supersedes IAS 14, *Segment Reporting*. Segment reporting under IFRS 8 is very similar to SFAS 131, *Disclosures about Segments of an Enterprise and Related Information*. An entity must apply IFRS 8 in its annual financial statements for periods beginning on or after 1 January 2009. Early adoption is permitted.	**Relevant standards**: SFAS 131
IAS 14 applies only to enterprises whose equity or debt securities are publicly traded and to entities that are in the process of issuing debt or equity securities in public markets (IAS 14.3).	SFAS 131 applies to public companies that: ▪ Have issued debt or equity securities that are traded in a public market, ▪ Are required to file financial statements with the SEC, or ▪ Provide financial statements for the purpose of issuing any class of securities in a public market (SFAS 131.9).
Segment reporting is divided into primary and secondary segment formats according to the dominant source and nature of an enterprise's risks and returns. Either business segments or geographical segments may be the primary format (IAS 14.26).	There is no U.S. GAAP equivalent of primary and secondary formats. An *operating segment* is a component of an enterprise (SFAS 131.10): ▪ That engages in business activities from which it may earn revenues and incur expenses ▪ Whose results are regularly reviewed by the enterprise's chief operating decision maker and ▪ For which discrete financial information is available
Accounting policies used in preparing consolidated	Generally, the amount of segment items reported is the

IFRS	U.S. GAAP
financial statements are used in preparing segment information (IAS 14.44).	measure reported to the chief operating decision maker (SFAS 131.29).
Segment information disclosed under the primary segment format includes: ▪ Revenue ▪ Result (segment revenue less segment expense) ▪ Assets ▪ Liabilities ▪ Investment in assets that are expected to be used in more than one period ▪ Depreciation and amortisation ▪ Other significant non-cash expenses ▪ Share of net profit or loss of associates and joint ventures, and the aggregate investment in those associates and joint ventures (IAS 14.50-66). Segment information disclosed under the secondary segment format includes: ▪ Revenue ▪ Assets ▪ Investment in assets that are expected to be used in more than one period (IAS 14.68-72).	Segment disclosures normally include (SFAS 131.26-.28 and .37-.38): ▪ Factors used to identify segments ▪ Types of products and services from which segment derives revenues ▪ Total assets and a measure of profit or loss ▪ Revenue from 1) external customers and 2) transactions with other segments ▪ Interest income and expense (separately identified unless net interest revenue used to assess performance) ▪ Depreciation, depletion, and amortization ▪ Unusual items ▪ Share of net income of equity method investees ▪ Income tax benefit or expense ▪ Extraordinary items ▪ Significant noncash items other than depreciation, depletion, and amortization ▪ Amount of investment in equity method investees ▪ Expenditures for certain additions to long-lived assets ▪ Information about products and services (if practicable) ▪ Information about geographic areas (if practicable) Presentation of liabilities not required.
Segment information should be reconciled to aggregate information in the financial statements (IAS 14.67).	Segment totals are reconciled to aggregate information in the financial statements (SFAS 131.32)
Information about major customers is not required. However, entities are encouraged to disclose the nature and amount of any items of segment revenue and segment expense that are of such a size, nature, or incidence that their disclosure is relevant to explain the performance of each reportable segment for the period (IAS 14.59).	If revenues from transactions with a single customer are 10% or more of an entity's revenues, the entity must disclose that fact, the total revenue from each such customer, and the identity of the segment or segments reporting the revenues. The identity of a major customer or the amount of revenues that each segment reports from that customer is not required to be disclosed (SFAS 131.39).

10.6 Related party disclosures

IFRS	U.S. GAAP
Relevant standards: IAS 24 **Note:** In February 2007, the IASB issued an Exposure	**Relevant standards**: SFAS 57

IFRS	U.S. GAAP
Draft to amend IAS 24, *Related Party Disclosures* which would revise the definition of a related party and eliminate related party disclosures for certain state-controlled entities.	
Definitions	
A party is related to an entity if (IAS 24.9): ▪ The party directly or indirectly (i) controls, is controlled by, or is under common control with the entity; (ii) has an interest that gives significant influence; or (iii) has joint control over the entity ▪ The party is an associate ▪ The party is a joint venture in which the entity is a venturer ▪ The party is a member of the key management personnel of the entity or its parent ▪ The party is a close member of the family of any individual referred to in (a) or (d) above ▪ The party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, management personnel of the entity or its parent or a close member of the family of any individual referred to in (d) or (e) above ▪ The party is a post employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity	Related parties are (SFAS 57.24f): ▪ Affiliates of the enterprise ▪ Entities for which investments are accounted for by the equity method by the enterprise ▪ Trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management ▪ Principal owners of the enterprise ▪ Management of the enterprise ▪ Members of the immediate families of principal owners (owners of more than ten percent of voting interests) of the enterprise and its management ▪ Other parties with which the enterprise may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests ▪ Another party if it can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.
IAS 24.9(e) would include family members of owners who are included in IAS 24.9(a).	The SFAS 57 related party definition includes members of the immediate families of principal owners (owners of more than ten percent of voting interests).
Disclosure of controlling party	
Related party relationships between parents and subsidiaries should be disclosed irrespective of whether there have been any transactions between the related parties. Disclosure of the name of the entity's parent and ultimate controlling party if different is required (IAS 24.12).	If the reporting enterprise and one or more other enterprises are under common ownership or management control and the existence of that control could result in operating results or financial position of the reporting enterprise significantly different from those that would have been obtained if the enterprises were autonomous, the nature of the control relationship must be disclosed even though there are no transactions between the enterprises (SFAS 57.4).

IFRS	U.S. GAAP
Disclosure of transactions and balances	
IAS 24.17 requires disclosure of the following: ▪ Nature of the related party relationship ▪ Amount of the transactions ▪ Outstanding balances ▪ The terms and conditions of outstanding balances including whether they are secured and the nature of consideration to be provided in settlement ▪ Details of any guarantees given or received ▪ Provisions for doubtful debts ▪ Bad and doubtful debts expensed The disclosures referred to above are made separately for the following categories: ▪ The parent ▪ Entities with joint control or significant influence ▪ Subsidiaries ▪ Associates ▪ Joint ventures in which the entity is a venturer ▪ Key management personnel of the entity or its parent ▪ Other related parties (IAS 24.18) No separate requirement to disclose *tax-related* related party balances or the method by which consolidated tax expense is allocated to members of the group.	SFAS 57 requires disclosure of material related party transactions, including (SFAS 57.2): ▪ Nature of the relationship ▪ Amount of the transactions ▪ Description of the transactions, including transactions to which no or nominal amounts were ascribed ▪ Such other information deemed necessary to an understanding of the effects of the transactions ▪ The effects of any change in the method of establishing the terms ▪ Amounts due from or to related parties and, if not otherwise apparent, the terms and manner of settlement ▪ An entity belonging to a group that files a consolidated tax return must disclose in separately issued financial statements: – The amount of any tax-related balances due to or from affiliates – Principal provisions of the method by which the consolidated amount of current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in that method (and in determining related balances to or from affiliates)
The name of the related party does not have to be disclosed.	The name of the related party should be disclosed if necessary to the understanding of the relationship (SFAS 57, fn. 3).
IAS 24 does not require that related party transactions be disclosed on the face of the financial statements.	SEC registrants are required to disclose related party transactions on the face of their financial statements (Regulation S-X, Rule 4-08(k)).
In addition an entity shall disclose key management personnel compensation in total and for each of the categories – short term employee benefits, post-employment benefits, other long term benefits, termination benefits and share-based payment (IAS 24.16).	SFAS 57 does not require disclosure of compensation arrangements, expense allowances, and other similar items in the ordinary course of business. SEC Regulation S-K (Item 402) requires disclosure of executive compensation. Such disclosures are outside of the entity's basic general purpose financial statements and are not required by U.S. GAAP.
Items of a similar nature may be aggregated except where separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements (IAS 24.22).	SFAS 57 states that in some cases, aggregation of similar transactions by type of related party may be appropriate (SFAS 57, fn. 3).
Disclosure of transactions is not required in consolidated	Under SFAS 57, disclosure of transactions that are

IFRS	U.S. GAAP
financial statements of any transactions or balances eliminated on consolidation (IAS 24.4).	eliminated in the preparation of consolidated or combined financial statements is not required in those statements (SFAS 57.2).
The separate financial statements of a parent, venturer, or investor must disclose related party transactions and outstanding balances with other entities in the group (IAS 24.3-.4).	SFAS 57 also states that it is not necessary to duplicate disclosures in a set of separate financial statements that is presented in the financial report of another enterprise if those separate statements are also consolidated or combined in a complete set of financial statements and both sets of financial statements are presented in the same financial report (SFAS 57, fn. 2).