

Similarities and Differences

A Comparison of IFRS, US GAAP and Indian GAAP*



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Preface



We are humbled by the response we received to the second edition of this guide. In response to the request to update the edition we are happy to share with you the third edition of this publication. This latest version has been updated to include all standards and interpretations published under IFRS, US GAAP and Indian GAAP up to 30 September, 2006.

We are often asked a question about the convergence of the US GAAP and IFRS and the resultant impact that it could have on the Indian accounting scenario, especially with the current talks of aligning Indian GAAP more closely to and maybe even adopting IFRS as it is.



We believe that the long-term vitality of the global capital markets demands a revolution in corporate governance and reporting. It is the desire of every participant in the financial reporting supply chain for an establishment of single global corporate governance model and a single accounting and reporting framework, which are universally accepted and understood. Effective corporate governance and ethics could remain a myth in a world of divergent accounting and reporting frameworks. Any accounting and reporting framework would be successful only if it is effectively able to communicate with the investors, rather than focusing principally on technical compliance with rules and regulations.

We fully appreciate and have confidence in the role that the Institute of Chartered Accountants of India is playing in this regard. Whatever direction the ICAI takes, viz. migrating to IFRS or having a separate Indian GAAP closely aligned to IFRS, there are fundamentally two areas which we believe are very crucial. One, providing an infrastructure for uniform interpretation and application of the standards and secondly, strengthening of the training infrastructure to ensure a quick dissemination of the standards.

Indian accounting fraternity needs to consider a strategy to align itself with the evolving global GAAP. Right choices need to be made by the standard setters with active inputs from the Industry. This transformation will take a coordinated effort from all of the key stakeholders in the capital markets network. Further, for it to be successful, investors and company executives must play a central role.

Hopefully, this publication plays its role at signalling potential areas where we need to converge.

Rathin Datta

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How to use this publication

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

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

This publication takes account of authoritative pronouncements issued under IFRS, US GAAP and Indian GAAP up to 30 September 2006; and is based on the most recent version of those pronouncements, should an earlier version of a pronouncement still be effective at the date of this publication. We have noted certain developments within the detailed text; however, not all recent developments or exposure drafts have been included.

Summary of similarities and differences

SUBJECT	IFRS	US GAAP	Indian GAAP	PAGE
Accounting framework				
Historical cost	Generally uses historical cost, but intangible assets, property plant and equipment (PPE) and investment property may be revalued to fair value. Derivatives, biological assets and certain securities are revalued to fair value.	No revaluations except for certain types of financial instruments.	Uses historical cost, but property, plant and equipment may be revalued to fair value. Certain derivatives are carried at fair value. No comprehensive guidance on derivatives and biological assets.	21
Fair presentation override	Entities may, in rare cases, override the standards where essential to give a fair presentation.	Similar to IFRS ; rarely used in practice.	Similar to IFRS .	21
First-time adoption of accounting frameworks	Full retrospective application of all IFRSs effective at the reporting date for an entity's first IFRS financial statements, with some optional exemptions and limited mandatory exceptions.	First-time adoption of US GAAP requires retrospective application.	Similar to US GAAP .	22
Financial statements				
Components of financial statements	Two years' consolidated balance sheets, income statements, cash flow statements, changes in equity and accounting policies and notes. In limited circumstances or on a voluntary basis, an entity may present single-entity parent company (standalone) financial statements along with its consolidated financial statements.	Similar to IFRS , except three years required for SEC registrants (public companies) for all statements except balance sheet. Specific accommodations in certain circumstances for foreign private issuers that may offer relief from the three-year requirement.	Single-entity parent company (standalone) two years' balance sheets, income statements, cash flow statements, and accounting policies and notes. Public listed company: Additionally are required to prepare consolidated financial statements along with the standalone financial statements.	23
Balance sheet	Does not prescribe a particular format. A liquidity presentation of assets and liabilities is used, instead of a current/non-current presentation, only when a liquidity presentation provides more relevant and reliable information. Certain minimum items must be presented on the face of the balance sheet.	Entities may present either a classified or non-classified balance sheet. Items on the face of the balance sheet are generally presented in decreasing order of liquidity. US public companies should follow SEC regulations.	Accounting standards do not prescribe a particular format; certain items must be presented on the face of the balance sheet. Formats are prescribed by the Companies Act and other industry regulations like banking, insurance, etc.	24

SUBJECT	IFRS	US GAAP	Indian GAAP	PAGE
Income statement	Does not prescribe a standard format, although expenditure is presented in one of two formats (function or nature). Certain minimum items must be presented on the face of the income statement.	Present as either a single-step or multiple-step format. Expenditures are presented by function. US public companies should follow SEC regulations.	Does not prescribe a standard format; but certain income and expenditure items are disclosed in accordance with accounting standards and the Companies Act. Industry-specific formats are prescribed by industry regulations.	26
Exceptional items	Does not use the term, but requires separate disclosure of items that are of such size, incidence or nature that their separate disclosure is necessary to explain the performance of the entity.	Similar to IFRS , but individually significant items are presented on the face of the income statement and disclosed in the notes.	Similar to IFRS , except that the Companies Act uses the term exceptional items.	26
Extraordinary items	Prohibited.	Defined as being both infrequent and unusual, and are rare. Negative goodwill is presented as an extraordinary item.	Defined as events or transactions clearly distinct from the ordinary activities of the entity and are not expected to recur frequently and regularly.	26
Statement of recognised income and expense (SoRIE)/ Other comprehensive income and statement of accumulated other comprehensive income	A SoRIE can be presented as a primary statement, in which case a statement of changes in shareholders' equity is not presented. Alternatively it may be disclosed separately in the primary statement of changes in shareholders' equity.	Total comprehensive income and accumulated other comprehensive income are disclosed, presented either as a separate primary statement or combined with the income statement or with the statement of changes in stockholders' equity.	Not required.	27
Statement of changes in share (stock) holders' equity	Statement shows capital transactions with owners, the movement in accumulated profit and a reconciliation of all other components of equity. The statement is presented as a primary statement except when a SoRIE is presented. In this case, only disclosure in the notes applies.	Similar to IFRS except that the statement is presented as a primary statement; SEC rules allow certain information to be included in the notes and not in the primary statement.	No separate statement is required. Changes in shareholders' equity are disclosed in separate schedules of 'Share capital' and 'Reserves and surplus'.	27
Cash flow statements – format and method	Standard headings, but limited guidance on contents. Direct or indirect method is used.	Similar headings to IFRS , but more specific guidance for items included in each category. Direct or indirect method is used; SEC encourages the direct method.	Similar to IFRS . However, indirect method is required for listed companies and direct method for insurance companies.	28
Cash flow statements – definition of cash and cash equivalents	Cash includes cash equivalents with maturities of three months or less from the date of acquisition and may include bank overdrafts.	Similar to IFRS , except that bank overdrafts are excluded.	Similar to US GAAP .	28

SUBJECT	IFRS	US GAAP	Indian GAAP	PAGE
Cash flow statements – exemptions	No exemptions.	Limited exemptions for certain investment entities.	Exemption for certain 'Small and Medium Sized Enterprises' (SMEs) having turnover or borrowings below certain threshold.	28
Changes in accounting policy	Comparatives are restated, unless specifically exempted; where the effect of period(s) not presented is adjusted against opening retained earnings.	With the adoption of FAS 154, similar to IFRS . Prior to FAS 154, the effect of change, net of tax, was included in current-year income statement. Pro-forma comparatives were disclosed. Retrospective adjustment was required only for specific items.	The effect of change is included in current-year income statement. The impact of change is disclosed.	29
Correction of errors	Comparatives are restated and, if the error occurred before the earliest prior period presented, the opening balances of assets, liabilities and equity for the earliest prior period presented are restated.	Similar to IFRS .	Restatement is not required. The effect of correction is included in current-year income statement with separate disclosure.	29
Changes in accounting estimates	Reported in income statement in the current period and future, if applicable.	Similar to IFRS .	Similar to IFRS .	29
Consolidated financial statements				
Consolidation model	Based on voting control or power to govern. Control is presumed to exist when parent owns, directly or indirectly through subsidiaries, more than one half of an entity's voting power. Control also exists when the parent owns half or less of the voting power but has legal or contractual rights to control, or de facto control (rare circumstances). The existence of currently exercisable potential voting rights is also taken into consideration. Special purpose entities (SPEs) controlled by an entity are also consolidated.	A bipolar consolidation model is used, which distinguishes between a variable interest model and a voting interest model. Control can be direct or indirect and may exist with a lesser percentage of ownership (voting interest model). 'Effective control', which is a similar notion to de facto control under IFRS , is very rare if ever employed in practice.	Based on voting control or control over the composition of the board of directors or the governing body. Control exists when (a) parent owns, directly or indirectly through subsidiaries, more than one half of an entity's voting power or (b) it controls composition of an entity's board of directors so as to obtain economic benefits from its activities. The existence of currently exercisable potential voting rights is not taken into consideration.	30

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Special purposes entity (SPE)	Consolidated where the substance of the relationship indicates control.	Variable interest entities (VIEs) are consolidated when the entity has a variable interest that will absorb the majority of the expected losses, receive a majority of the expected returns, or both. A voting interest entity in which the entity holds a controlling financial interest is consolidated. If a SPE meets the definition of a qualified SPE (QSPE), the transferor does not consolidate the QSPE.	No specific guidance.	30
Non-consolidation of subsidiaries	If control, as defined under 'definition of a subsidiary' above, does not rest with the entity or on acquisition a subsidiary is held-for-sale, the entity does not consolidate the subsidiary.	Similar to IFRS , but also if the owner is not the primary beneficiary of a VIE. A subsidiary held-for-sale will be consolidated until sold.	If the entity is acquired and held for resale (temporary control) or if it operates in severe long-term restrictions which impair its ability to transfer funds to the parent.	31
Definition of associate	Based on significant influence; presumed if 20% or greater interest or participation in entity's affairs.	Similar to IFRS , although the term 'equity investment' is used instead of 'associate'.	Similar to IFRS ; exemptions similar to non-consolidation of subsidiaries.	32
Presentation of associate results	In consolidated financials: equity method is used. Share of post-tax results is shown. In standalone financials: at cost or at fair value in accordance with IAS 39.	In consolidated financials: similar to IFRS . In standalone financials: at cost or equity method is used.	In consolidated financials: similar to IFRS . In standalone financials: at cost less impairment.	32
Disclosures about significant associates	Detailed information on significant associates' assets, liabilities and results is required.	Similar to IFRS .	Certain disclosures are required for all associates; however, detailed information on significant associates is not required.	32
Definition of joint venture	Contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control. Exclusion if investment is held-for-sale.	A corporation owned and operated by small group of businesses as a separate and specific business or project for the mutual benefit of the members of the group.	Similar to IFRS . Exclusion if it meets the definition of a subsidiary or exemptions similar to non-consolidation of subsidiaries.	33
Presentation of jointly controlled entities (joint ventures)	In consolidated financials: both proportional consolidation and equity method is permitted. In standalone financials: at cost or at fair value in accordance with IAS 39.	In consolidated financials: equity method is required except in specific circumstances. In standalone financials: at cost or equity method is used.	In consolidated financials: proportional consolidation is used. In standalone financials: at cost less impairment.	34

SUBJECT	IFRS	US GAAP	Indian GAAP	PAGE
Employee share (stock) trusts	Consolidated where substance of relationship indicates control (SIC-12 model). Entity's own shares held by an employee share trust are accounted for as treasury shares.	Similar to IFRS except where specific guidance applies for Employee Stock Ownership Plans (ESOPs) in SOP 93-6.	Employee share trusts are not consolidated.	35
Business combinations				
Types	All business combinations are acquisitions.	Similar to IFRS .	No comprehensive accounting standard on business combinations. All business combinations are acquisition; except uniting of interests method is used in certain amalgamations when all the specified conditions are met. Accounting would defer for following: <ul style="list-style-type: none"> • An entity acquired and held as a subsidiary • An acquisition by way of amalgamation of entity • A business acquisition (assets & liabilities only) 	36
Purchase method –values on acquisition	Assets, liabilities and contingent liabilities of acquired entity are fair valued. If control is obtained in a partial acquisition of a subsidiary, the full fair value of assets, liabilities and contingent liabilities, including portion attributable to the minority (non-controlling) interest, is recorded on consolidated balance sheet. Goodwill is recognised as the residual between the consideration paid and the percentage of the fair value of the identifiable assets, liabilities and contingent liabilities acquired. Liabilities for restructuring activities are recognised only when acquiree has an existing liability at acquisition date. Liabilities for future losses or other costs expected to be incurred as a result of the business combination cannot be recognised.	Similar to IFRS , except minority interest is stated at pre-acquisition carrying value of net assets, and contingent liabilities of the acquiree are not recognised at the date of acquisition. Specific rules exist for acquired in-process research and development (generally expensed) and contingent liabilities. Some restructuring liabilities relating solely to the acquired entity may be recognised if specific criteria about restructuring plans are met.	For an entity acquired and held as a subsidiary, the assets acquired and liabilities assumed are incorporated at their existing carrying amounts for consolidation purposes On amalgamation, they may be incorporated at their existing carrying amounts or, alternatively, the consideration is allocated to individual identifiable assets and liabilities at their fair values. However, a court order approving an amalgamation may provide different and/or additional accounting entries. On business acquisition, they may be incorporated at their fair values or value of surrendered assets. No separate restructuring provision is recognised on acquisition.	36

SUBJECT	IFRS	US GAAP	Indian GAAP	PAGE
Purchase method – contingent consideration	Included in cost of combination at acquisition date if adjustment is probable and can be measured reliably.	Not recognised until contingency is resolved or amount is determinable.	Included in consideration if payment is probable and an amount can be reasonably estimated.	37
Purchase method – minority interests at acquisition	Stated at minority's share of the fair value of acquired identifiable assets, liabilities and contingent liabilities.	Stated at minority's share of pre-acquisition carrying value of net assets.	Similar to US GAAP .	38
Purchase method – goodwill and intangible assets with indefinite useful lives	Capitalised but not amortised. Goodwill and indefinite-lived intangible assets are tested for impairment at least annually at either the cash-generating unit (CGU) level or groups of CGUs, as applicable.	Similar to IFRS , although the level of impairment testing and the impairment test itself are different.	Goodwill on consolidation and business acquisitions: no specific guidance – practice varies, between no amortisation versus amortisation over a period not exceeding 10 years; Goodwill on amalgamation is amortised over a period not exceeding 5 years, unless a longer period is justified; Goodwill is reviewed for impairment whenever an indication of impairment exists at the CGU level. Intangible assets are not classified into indefinite useful lives category. All intangible assets are amortised over a period not exceeding 10 years.	39
Purchase method – negative goodwill	The identification and measurement of acquiree's identifiable assets, liabilities and contingent liabilities are reassessed. Any excess remaining after reassessment is recognised in income statement immediately.	Any remaining excess after reassessment is used to reduce proportionately the fair values assigned to non-current assets (with certain exceptions). Any excess is recognised in the income statement immediately as an extraordinary gain.	Recorded in equity as capital reserve, which is not amortised to income. However, in case of an amalgamation, the fair value of intangible assets with no active market is reduced to the extent of capital reserve, if any, arising on the amalgamation.	40
Purchase method – subsequent adjustments to fair values	Fair values determined on a provisional basis can be adjusted against goodwill within 12 months of the acquisition date. Subsequent adjustments are recorded in income statement unless they are to correct an error.	Similar to IFRS . Once fair value allocation is finalised, no further changes are permitted except for the resolution of known pre-acquisition contingencies. The adjustments made during the allocation period relating to data for which management was waiting to complete the allocation are recorded against goodwill.	No change is permitted, except for deferred tax asset on carryforward losses or unabsorbed depreciation not recognised on amalgamation. It is permitted to be recognised, if it becomes recognisable by the first annual balance sheet date subsequent to the amalgamation. All other subsequent adjustments are recorded in income statement.	40

SUBJECT	IFRS	US GAAP	Indian GAAP	PAGE
Purchase method – disclosure	Disclosures include names and descriptions of combining entities, date of acquisition, cost of combination, summary of fair values and pre-acquisition IFRS values of assets and liabilities acquired, impact on results and financial position of acquirer, and reasons behind the recognition of goodwill.	Similar to IFRS , with additional disclosures regarding the reasons for the acquisition and details of allocations.	Disclosures include names and descriptions of combining entities, the effective date, consideration (paid or contingently payable), method of accounting, amount of goodwill/ capital reserve, and period of goodwill amortisation.	40
Uniting of interests method	Prohibited.	Same as IFRS .	Required for certain amalgamations when all the specified conditions are met.	42
Business combinations involving entities under common control	Not specifically addressed. Entities elect and consistently apply either purchase or pooling-of-interest accounting for all such transactions.	Generally recorded at predecessor cost; the use of predecessor cost or fair value depends on a number of criteria.	No specific guidance. Normal business combination accounting would apply.	42
Revenue recognition				
Revenue recognition	Based on several criteria, which require the recognition of revenue when risks and rewards and control have been transferred and the revenue can be measured reliably.	Similar to IFRS in principle, based on four key criteria. Extensive detailed guidance exists for specific types of transactions.	Similar to IFRS conceptually, although several differences in detail.	44
Construction contracts	Accounted for using percentage-of-completion method. Completed contract method is prohibited.	Similar to IFRS ; however, completed contract method is permitted in rare circumstances.	Similar to IFRS .	47
Multiple-element contracts	No detailed guidance for multiple-element transactions exists.	Arrangements with multiple deliverables are divided into separate units of accounting if deliverables in arrangement meet specified criteria outlined in EITF 00-21. Specific guidance exists for software vendors with multiple-element revenue arrangements.	Similar to IFRS .	46
Expense recognition				
Depreciation	Allocated on a systematic basis to each accounting period over the useful life of the asset.	Similar to IFRS .	Similar to IFRS , except where the useful life is shorter as envisaged under the Companies Act or the relevant statute, the depreciation is computed by applying a higher rate.	59

SUBJECT	IFRS	US GAAP	Indian GAAP	PAGE
Interest expense	Recognised on an accrual basis using the effective interest method.	Similar to IFRS .	Recognised on an accrual basis; practice varies with respect to recognition of discounts and premiums.	48
Employee benefits: pension costs – defined benefit plans	Projected unit credit method is used to determine benefit obligation and record plan assets at fair value. Actuarial gains and losses can be deferred.	Similar to IFRS but with several areas of differences in the detailed application.	With the adoption of AS 15 (revised), similar to IFRS , although several differences in detail. Eg, actuarial gains and losses are recognised upfront in the income statement. Prior to AS 15 (revised), no method is prescribed for actuarial valuation and limited guidance available on other specific issues.	48
Employee benefits: Compensated absences	It qualifies as short-term or other long-term employee benefits. The expected cost of accumulating short-term compensated absences is recognised on an accrual basis. Liability for long-term compensated absences is measured using projected credit unit method.	No segregation between short-term and long-term. The expected cost of all the accumulating compensated absences is recognised on an accrual basis. Discounting is permitted in rare circumstances.	With the adoption of AS 15 (revised), similar to IFRS . Prior to AS 15 (revised) practice varies for accrual of compensated absences other than for leave encashable on retirement, which is recognised based on an actuarial valuation.	54
Employee share compensation	Expense for services purchased is recognised. Corresponding amount recorded either as a liability or an increase in equity, depending on whether transaction is determined to be cash- or equity-settled. Amount to be recorded is measured at fair value of shares or share options granted.	With the adoption of FAS 123R, similar model to IFRS . Compensation expense is generally recognised based on fair value of awards at grant date. Several areas of difference exist in application. Prior to FAS 123R, compensation expense is measured based on either (a) the intrinsic value (market price at measurement date less any employee contribution or exercise price) or (b) fair value at issue using option pricing model.	In absence of an accounting standard, SEBI provided certain basic guidelines for public listed companies. As per guidelines, compensation expense for stock options are recorded either based on intrinsic value or fair value using the option pricing model; whereas for shares issued at discount at the discount value. ICAI has issued a guidance note which requires measurement of cost based on fair value where the guidance is similar to IFRS ; several areas of differences in detailed application. Alternatively, the guidance note allows use of the intrinsic value method.	53

SUBJECT	IFRS	US GAAP	Indian GAAP	PAGE
Termination benefits	Termination benefits arising from redundancies are accounted for similarly to restructuring provisions. Termination indemnity schemes are accounted for based on actuarial present value of benefits.	Four types of termination benefits with three different timing methods for recognition. Termination indemnity schemes are accounted for as pension plans; related liability is calculated as either vested benefit obligation or actuarial present value of benefits.	With the adoption of AS 15 (revised), similar to IFRS , however, timing of recognising liability could differ. Prior to AS 15 (revised), no specific guidance. Generally, voluntary retirement expenses were recognised on acceptance of the plan by employees and amortised over 3 to 5 years.	54
Assets				
Acquired intangible assets	Capitalised if recognition criteria are met; amortised over useful life. Intangibles assigned an indefinite useful life are not amortised but reviewed at least annually for impairment. Revaluations are permitted in rare circumstances.	Similar to IFRS , except revaluations are not permitted.	Capitalised if recognition criteria are met; all intangibles are amortised over useful life with a rebuttable presumption of not exceeding 10 years. Revaluations are not permitted.	56
Internally generated intangible assets	Research costs are expensed as incurred. Development costs are capitalised and amortised only when specific criteria are met.	Research and development costs are expensed as incurred. Some software and website development costs are capitalised.	Similar to IFRS .	56
Property, plant and equipment	Historical cost or revalued amounts are used. Regular valuations of entire classes of assets are required when revaluation option is chosen.	Historical cost is used; revaluations are not permitted.	Historical cost is used. Revaluations are permitted, however, no requirement on frequency of revaluation. On revaluation, an entire class of assets is revalued, or selection of assets is made on a systematic basis.	58
Non-current assets held for sale or disposal group	Non-current asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. A non-current asset classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell. Comparative balance sheet is not restated.	Similar to IFRS .	Similar to IFRS ; however there is no requirement to classify and present an asset as held for sale on the face of the balance sheet or in the notes.	60

SUBJECT	IFRS	US GAAP	Indian GAAP	PAGE
Leases – classification	A lease is a finance lease if substantially all risks and rewards of ownership are transferred. Substance rather than form is important.	Similar to IFRS , but with more extensive form-driven requirements.	Similar to IFRS .	61
Leases – lessor accounting	Amounts due under finance leases are recorded as a receivable. Gross earnings allocated to give constant rate of return based on (pre-tax) net investment method.	Similar to IFRS , but with specific rules for leveraged leases.	Similar to IFRS .	61
Impairment of assets	Impairment is assessed on discounted cash flows for assets other than held-for-sale. If impairment is indicated, assets are written down to higher of fair value less costs to sell and value in use based on discounted cash flows. Reversal of impairment losses is required, other than for goodwill; in certain circumstances,	Impairment is assessed on undiscounted cash flows for assets to be held and used. If less than carrying amount, impairment loss is measured using market value or discounted cash flows. Reversal of losses is prohibited.	Similar to IFRS , except reversal of impairment losses for goodwill is required in certain circumstances.	62
Capitalisation of borrowing costs	Permitted as a policy choice for all qualifying assets, but not required.	Required.	Required.	63
Investment property	Measured at depreciated cost or fair value, with changes in fair value recognised in the income statement.	Treated the same as for other properties (depreciated cost). Industry-specific guidance applies to investor entities (for example, investment entities).	Treated the same as a long-term investment and is carried at cost less impairment.	64
Inventories	Carried at lower of cost and net realisable value. FIFO or weighted average method is used to determine cost. LIFO prohibited. Reversal is required for subsequent increase in value of previous write-downs.	Similar to IFRS ; however, use of LIFO is permitted. Reversal of write-down is prohibited.	Similar to IFRS .	65
Biological assets	Measured at fair value less estimated point-of-sale costs.	Not specified. Generally historical cost used.	Not specified. Generally historical cost used.	65

SUBJECT	IFRS	US GAAP	Indian GAAP	PAGE
Financial assets – measurement	Depends on classification of investment – if held to maturity or loans and receivables, they are carried at amortised cost; otherwise at fair value. Unrealised gains/losses on fair value through profit or loss classification (including trading instruments) is recognised in income statement. Unrealised gains and losses on available-for-sale investments are recognised in equity.	Similar accounting model to IFRS , with some detailed differences in application. For example, no ability to designate financial assets at fair value through profit or loss except certain hybrid financial instruments with the adoption of FAS 155.	Long-term investments, loans and receivables are carried at cost less impairment; whereas current investments are carried at lower of cost and fair value. Any reduction in the carrying amount and any reversal of such reduction is charged or credited to income statement. Industry-specific guidance applies e.g. banking and insurance.	66
Derecognition of financial assets	Financial assets are derecognised based on risks and rewards first; control is secondary test.	Derecognised based on control. Requires legal isolation of assets even in bankruptcy.	Limited guidance. In general, derecognised based on transfer of risks and rewards. Guidance note issued by ICAI on securitisation requires derecognition based on control.	69
Liabilities				
Provisions – general	Provisions relating to present obligations from past events recorded if outflow of resources is probable and can be reliably estimated. Provisions are discounted to present value where the effect of the time value of money is material.	Similar to IFRS , with rules for specific situations such as environmental liabilities, loss contingencies, etc.	Similar to IFRS , except that discounting is not permitted.	70
Provisions – restructuring	Restructuring provision is recognised if detailed formal plan announced or implementation effectively begun.	Recognition of liability based solely on commitment to plan is prohibited. In order to recognise, restructuring plan has to meet the definition of a liability, including certain criteria regarding likelihood that no changes will be made to plan or that plan will be withdrawn.	Restructuring provisions is recognised when recognition criteria for provisions are met.	70
Contingencies	Disclose unrecognised possible losses and probable gains.	Similar to IFRS .	Similar to IFRS , except that contingent gains are neither recognised nor disclosed.	72

SUBJECT	IFRS	US GAAP	Indian GAAP	PAGE
Deferred income taxes – general approach	Full provision method is used (some exceptions) driven by balance sheet temporary differences. Deferred tax assets are recognised if recovery is probable (more likely than not).	Similar to IFRS but with specific differences in application.	Full provision method is used driven by timing differences arising from taxable and accounting income. Deferred tax assets is recognised if realisation is virtually certain or reasonably certain as applicable for entities with and without tax carryforward losses, respectively. A number of other specific differences.	73
Fringe benefits tax	Included as part of related expense (fringe benefit) which gives rise to incurrence of the tax.	Similar to IFRS .	Disclosed as a separate item after 'profit before tax' on the face of income statement.	
Government grants	Recognised as deferred income and amortised when there is reasonable assurance that the entity will comply with the conditions attached to them and the grants will be received. Entities may offset capital grants against asset values.	Similar to IFRS , except when conditions are attached to grant. In this case, revenue recognition is delayed until such conditions are met. Long-lived asset contributions are recorded as revenue in the period received.	Similar to IFRS conceptually, although several differences in detail. For e.g., in certain cases, grants received are directly credited to capital reserve (in equity).	77
Leases – lessee accounting	Finance leases are recorded as asset and obligation for future rentals. Depreciated over useful life of asset. Rental payments are apportioned to give constant interest rate on outstanding obligation. Operating lease rentals are charged on straight-line basis.	Similar to IFRS . Specific rules should be met to record operating or capital lease.	Similar to IFRS .	78
Leases – lessee accounting: sale and leaseback transactions	For finance leases, profit arising on sale and finance leaseback is deferred and amortised. If an operating lease arises, profit recognition depends on whether the transaction is at fair value. Substance/linkage of transactions is considered.	Timing of profit and loss recognition depends on whether seller relinquishes substantially all or a minor part of the use of the asset. Losses are immediately recognised. Specific strict criteria are considered if the transaction involves real estate.	Similar to IFRS .	79
Financial liabilities – classification	Capital instruments are classified, depending on substance of issuer's contractual obligations, as either liability or equity. Mandatorily redeemable preference shares are classified as liabilities.	Similar to IFRS but certain redeemable instruments are permitted to be classified as 'mezzanine equity' (i.e., outside of permanent equity). Mandatorily redeemable instruments with a date or event-certain redemption are classified as liabilities.	No specific guidance. In practice, classification is based on legal form rather than substance. All preference shares are disclosed separately as share capital under shareholders' funds.	80

SUBJECT	IFRS	US GAAP	Indian GAAP	PAGE
Convertible debt	Convertible debt (fixed number of shares for a fixed amount of cash) is accounted for on split basis, with proceeds allocated between equity and debt.	Conventional convertible debt is usually recognised entirely as liability, unless there is a beneficial conversion feature.	Convertible debt is recognised as a liability based on its legal form without any split.	80
Derecognition of financial liabilities	Liabilities are derecognised when extinguished. Difference between carrying amount and amount paid is recognised in income statement.	Similar to IFRS .	No specific guidance; in practice, treatment would be similar to IFRS based on substance of the transaction.	81
Equity instruments				
Capital instruments – purchase of own shares	Show as deduction from equity.	Similar to IFRS .	Purchase is permitted in limited circumstances subject to the provisions under the Companies Act. On purchase, such shares are required to be cancelled i.e. cannot be kept as treasury stock.	82
Dividends on ordinary equity shares	Presented as a deduction in the statement of changes in shareholders' equity in the period when authorised by shareholders. Dividends are accounted in the year when declared.	Similar to IFRS .	Presented as an appropriation to the income statement. Dividends are accounted in the year when proposed.	82
Derivatives and hedging				
Derivatives and other financial instruments – cash flow and fair value hedges	Derivatives and hedge instruments are measured at fair value; changes in fair value are recognised in income statement except for effective portion of cash flow hedges, where the changes are deferred in equity until effect of underlying transaction is recognised in income statement. Gains/losses from hedge instruments that are used to hedge forecasted transactions may be included in cost of non-financial asset/liability (basis adjustment).	Similar to IFRS , except no 'basis adjustment' on cash flow hedges of forecasted transactions.	No comprehensive guidance; except for: (a) forward exchange contracts intended for speculative or trading are carried at fair value; whereas those not held for speculative or trading, the premium or discount is amortised over life of the contract and the exchange difference is recognised in income statement; (b) equity index futures and options and equity stock options are carried at lower of cost or market; (c) interim clarification on forward exchange contract to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction. Industry-specific guidance on certain instruments for e.g. banking industry.	83

SUBJECT	IFRS	US GAAP	Indian GAAP	PAGE
Derivatives and other financial instruments – net investment hedges	<p>Effective portion of gains/losses on hedges of net investments is recognised in equity; ineffective portion is recorded in income statement.</p> <p>Gains/losses held in equity are transferred to income statement on disposal or partial disposal of investment.</p>	<p>Similar to IFRS.</p> <p>Gains/losses are transferred to income statement upon sale or complete or substantially complete liquidation of investment.</p>	No specific guidance.	85
Other accounting and reporting topics				
Functional currency definition	Currency of primary economic environment in which entity operates.	Similar to IFRS .	Functional currency is not defined.	87
Functional currency – determination	If indicators are mixed and functional currency is not obvious, judgement is used to determine functional currency that most faithfully represents economic results of entity's operations by focusing on currency of primary economic environment in which entity operates.	Similar to IFRS ; however, no specific hierarchy of factors to consider. In practice, currency in which cash flows are settled is often key consideration.	<p>Functional currency determination is not required.</p> <p>It is assumed an entity normally uses the currency of the country in which it is domiciled in recording its transactions.</p>	87
Presentation currency	When financial statements are presented in the currency other than the functional currency, assets and liabilities are translated at exchange rate at balance sheet date. Income statement items are translated at exchange rate at dates of transactions, or average rates if rates do not fluctuate significantly.	Similar to IFRS .	<p>Similar to IFRS.</p> <p>It is assumed an entity normally uses the currency of the country in which it is domiciled in presenting its financial statements. If a different currency is used, reason for using a different currency is disclosed.</p>	88
Hyperinflationary economy – definition	Hyperinflation is indicated by characteristics of economic environment of country, which include: population's attitude towards local currency and prices linked to price index; and if cumulative inflation rate over three years is approaching, or exceeds, 100%.	Hyperinflation is generally indicated by cumulative three-year inflation rate of approximately 100% or more.	No specific guidance.	88

SUBJECT	IFRS	US GAAP	Indian GAAP	PAGE
Hyperinflationary economy – measurement	Entities that have the currency of hyperinflationary economy as functional currency restate their financial statements using a measurement unit current at balance sheet date.	Generally does not permit inflation-adjusted financial statements; instead requires use of reporting currency (US dollar) as functional currency. Foreign private issuers that use IFRS are permitted to omit quantification of any differences that would have resulted from application of FAS 52.	No specific guidance.	88
Earnings per share – diluted	Weighted average potential dilutive shares are used as denominator for diluted EPS. 'Treasury share' method is used for share options/warrants.	Similar to IFRS .	Similar to IFRS , except in certain circumstances advance share application money received is treated as dilutive potential equity shares.	89
Related-party transactions – definition	Determined by level of direct or indirect control, joint control and significant influence of one party over another or common control by another entity.	Similar to IFRS .	Similar to IFRS ; however, the determination may be based on legal form rather than substance. Hence, the scope of parties covered under the definition of related party could be less than under IFRS or US GAAP .	90
Related-party transactions – disclosures	Name of the parent entity is disclosed and, if different, the ultimate controlling party, regardless of whether transactions occur. For related-party transactions, nature of relationship (seven categories), amount of transactions, outstanding balances, terms and types of transactions are disclosed. Some exemptions available for separate financial statements of subsidiaries.	Similar to IFRS . Exemptions are narrower than under IFRS .	Similar to IFRS . However, certain explicit exemptions available for disclosures. Exemption for certain SMEs having turnover or borrowings below certain threshold. No exemption for separate financial statements of subsidiaries	90
Segment reporting – scope and basis of formats	Public entities: primary and secondary (business and geographic) segments are reported based on risks and returns and internal reporting structure.	Public entities (SEC registrants): reported based on operating segments, which are based on manner in which chief operating decision-maker evaluates financial information for purposes of allocating resources and assessing performance.	Similar to IFRS . Exemption only for certain SMEs having turnover or borrowings below certain threshold.	91
Segment reporting – accounting policies	Group accounting policies or entity accounting policies apply.	Internal financial reporting policies apply (even if accounting policies differ from group accounting policy).	Similar to IFRS .	91

SUBJECT	IFRS	US GAAP	Indian GAAP	PAGE
Segment reporting – disclosures	Disclosures for primary segment include revenues, segment results, capital expenditures (capex), total assets, total liabilities and other items. For secondary segment, revenues, total assets and capex are reported.	Similar disclosures to IFRS (primary segment) except liabilities and geographical capex are not required. Depreciation, amortisation, tax, interest and exceptional/ extraordinary items are disclosed if reported internally. Disclosure of factors used to identify segments is required.	Similar to IFRS with some exceptions.	91
Discontinued operations – definition	Operations and cash flows that can be clearly distinguished for financial reporting and represent a separate major line of business or geographical area of operations, or a subsidiary acquired exclusively with a view to resale.	Wider definition than IFRS : component that is clearly distinguishable operationally and for financial reporting can be: reporting segment, operating segment, reporting unit, subsidiary or asset grouping.	Operations and cash flows that can be clearly distinguished for financial reporting and represent a separate major line of business or geographical area of operations.	93
Discontinued operations – measurement	Measured at lower of carrying amount and fair value less costs to sell.	Similar to IFRS .	By applying other relevant accounting standards for measurement. For example, by applying accounting standard on impairment of assets, provisions, etc.	94
Discontinued operations – presentation and main disclosures	At a minimum, a single amount is disclosed on face of income statement, and further analysis disclosed in notes, for current and prior periods. Assets and liabilities of discontinued operations are presented separately from other assets and liabilities on balance sheet. No restatement of comparative balance sheet.	Similar to IFRS . Discontinued and held-for-sale operations are reported as separate line items on face of income statement before extraordinary items.	At a minimum, the following is disclosed on the face of the income statement separately from continuing operations: (a) pre-tax profit or loss and related taxes (b) pre-tax gain or loss on disposal. Income and expenses line items from continuing and discontinued operations are segregated and disclosed in the notes; however, presented on a combined basis in the income statement. No separate presentation for balance sheet items. Exemption for certain SMEs having turnover or borrowings below certain threshold.	93

SUBJECT	IFRS	US GAAP	Indian GAAP	PAGE
Post-balance-sheet events	Financial statements are adjusted for subsequent events, providing evidence of conditions that existed at the balance sheet date and materially affecting amounts in financial statements (adjusting events). Non-adjusting events are disclosed.	Similar to IFRS .	Similar to IFRS , except non-adjusting events are not required to be disclosed in financial statements but are disclosed in report of approving authority e.g. Directors' Report.	94
Interim financial reporting	Contents are prescribed and basis should be consistent with full-year statements. Frequency of reporting (eg, quarterly, half-year) is imposed by local regulator or is at discretion of entity.	Similar to IFRS . Additional quarterly reporting requirements apply for SEC registrants (domestic US entities only). Interim reporting requirements for foreign private issuers are based on local law and stock exchange requirements.	Similar to IFRS . However, pursuant to the listing agreement, all listed entities in India are required to furnish their quarterly results in the prescribed format. Quarterly results include financial results relating to the working of the Company and certain notes thereon.	95

Accounting framework

Conceptual framework

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

Qualitative characteristics of financial information

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

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

Indian GAAP The **Indian GAAP** Framework sets out characteristics similar to **IFRS**.

Reporting elements

IFRS There are five reporting elements: assets, liabilities, equity, income (includes revenues and gains) and expenses (includes losses).

Assets are resources controlled from a past event. Liabilities are present obligations arising from a past event. Assets and liabilities are recognised on the balance sheet when it is 'probable' that economic benefits will flow to or from the entity, and those benefits are reliably measurable.

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

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

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

Indian GAAP Reporting elements and the definition and recognition criteria are similar to **IFRS**.

Historical cost

IFRS Historical cost is the main accounting convention. However, **IFRS** permits the revaluation of intangible assets, property, plant and equipment (PPE) and investment property. **IFRS** also requires certain categories of financial instruments and certain biological assets to be reported at fair value.

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

Indian GAAP Historical cost is the main accounting convention. However, **Indian GAAP** permits the revaluation of property, plant and equipment but there is no requirement on frequency of revaluation. Certain derivatives are carried at fair value.

Fair presentation override

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

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

Indian GAAP Similar to **IFRS**. If there is a conflict between the accounting standards and the company law or an industry regulation, the company law or industry regulation is applied with adequate disclosures.

First-time adoption of accounting framework

IFRS	The IASB framework includes a specific standard on how to apply IFRS for the first time. It introduces certain reliefs and imposes certain requirements and disclosures. First-time adoption of IFRS as the primary accounting basis requires full retrospective application of IFRS effective at the reporting date for an entity's first IFRS financial statements, with optional exemptions primarily for PPE and other assets, business combinations and pension plan accounting and limited mandatory exceptions. Comparative information is prepared and presented on the basis of IFRS . Almost all adjustments arising from the first-time application of IFRS are adjusted against opening retained earnings of the first period presented on an IFRS basis. Some adjustments are made against goodwill or against other classes of equity.
US GAAP	Accounting principles should be consistent for financial information presented in comparative financial statements. US GAAP does not give specific guidance on first-time adoption of its accounting principles. However, first-time adoption of US GAAP requires full retrospective application. Some standards specify the transitional treatment upon first-time application of a standard. Specific rules apply for carve-out entities and first-time preparation of financial statements for the public.
Indian GAAP	Similar to US GAAP . No rules for carve-out entities or first-time preparation of financial statements for the public.

Recent proposals – IFRS and US GAAP

In October 2004, the International Accounting Standards Board (the "IASB") and the Financial Accounting Standards Board (the "FASB") (together, the Boards) embarked on a joint project with an objective to develop a common conceptual framework that is both complete and internally consistent. Such a framework would provide a sound foundation for developing future accounting standards and is essential to fulfilling the Boards' goal of developing standards that are principles-based, internally consistent, internationally converged, and that lead to financial reporting that provides the information needed for investment, credit, and similar decisions. That framework, which will deal with a wide range of issues, will build on the existing IASB and FASB frameworks and consider developments since they issued their original frameworks.

Recent proposals – US GAAP

On April 24, 2005, the FASB in connection with its effort to improve the quality of financial accounting standards and the standard-setting process, published an Exposure Draft -- proposed Statement of Financial Accounting Standards (SFAS), The Hierarchy of Generally Accepted Accounting Principles. The proposed Statement would identify the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental enterprises that are presented in conformity with **US GAAP**. The proposed Statement would incorporate, with certain modifications, the GAAP hierarchy currently presented in the AICPA's Statement on Auditing Standards (SAS) No. 69, The Meaning of "Present Fairly in Conformity With Generally Accepted Accounting Principles."

REFERENCES: **IFRS:** Framework, IAS 1, IAS 8, IAS 16, IAS 38, IAS 39, IAS 40, IAS 41, IFRS 1.
US GAAP: CON 1-7, SAB 107, FAS 115, FAS 130, FAS 133, FAS 154.
Indian GAAP: Framework, AS 1, AS 10, AS 11.

Financial statements

General requirements

Compliance

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

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

Indian GAAP Indian companies should comply with **Indian GAAP**, the Companies Act and industry-specific regulatory requirements. Additionally, listed companies should comply with the rules, regulations and financial interpretations of the Securities and Exchange Board of India (SEBI).

The law requires entities to disclose whether the financial statements comply with applicable accounting standards and to give details of non-compliance. There is a presumption that compliance with accounting standards is necessary to give a true and fair view.

Components of financial statements

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

COMPONENT	PAGE	IFRS	US GAAP	Indian GAAP
Balance sheet	24	Required	Required	Required
Income statement	26	Required	Required	Required
Statement of recognised income and expense (SoRIE)	27	Required ¹	Other comprehensive income and accumulated other comprehensive income ²	Not required
Statement of changes in share (stock) holders' equity	27	Required ¹	Required	Required ³
Cash flow statement	28	Required	Required ⁴	Required ³
Accounting policies	–	Required	Required	Required
Notes to financial statements	–	Required	Required	Required

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

² **US GAAP:** The statements of other comprehensive income and accumulated other comprehensive income may be combined with the income statement or the statement of changes in stockholders' equity, or presented as a separate primary statement.

³ **Indian GAAP:** No separate statement of changes in shareholders' equity is required. Changes are disclosed in separate schedules of 'Share capital' and 'Reserves and surplus'. Cash flows statements are required for listed enterprises or in the process of listing, banks, financial institutions, insurance companies, all enterprises whose turnover exceeds Rs. 500 million or having borrowings in excess of Rs. 100 million at any time during the accounting period, and their holding and subsidiary enterprises.

⁴ Except for certain entities, such as investment companies.

Comparatives

- IFRS** One year of comparatives is required for all numerical information in the financial statements, with limited exceptions in disclosures.
- US GAAP** SEC requirements specify that all registrants should give two years of comparatives (to the current year) for all statements except for the balance sheet, which requires one comparative year. This rule applies whichever accounting principles are used in the primary financial statements.
- Only one year of comparatives, in the year of adoption, is required for companies that adopt **IFRS** prior to their fiscal year starting on or after 1 January 2007. This one-off accommodation was designed to allow **IFRS** adopters to avoid recasting the earliest year presented (i.e., third year back) under **IFRS**.
- The general requirement for non-public entities and in certain circumstances for foreign private issuers is one year of comparatives for all numerical information in the financial statements.
- Indian GAAP** Similar to **IFRS**.

Preparation and presentation

- IFRS** Financial statements are presented on a consolidated basis. In limited circumstances or on a voluntary basis, an entity may present single-entity parent company (standalone) financial statements along with its consolidated financial statements.
- US GAAP** Similar to **IFRS**.
- Indian GAAP** Financial statements are presented on a single-entity parent company (standalone) basis. It is not mandatory to prepare consolidated financial statements but must use the consolidation standard if prepared. Pursuant to the listing agreement with stock exchanges, public listed companies present consolidated financial statements along with their standalone financial statements.

Balance sheet

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

Format

- IFRS** There is no prescribed balance sheet format, but a separate presentation of total assets and total liabilities is required. Management may use judgement regarding the form of presentation in many areas. Entities present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of their balance sheets except when a liquidity presentation provides more relevant and reliable information. All assets and liabilities are presented broadly in order of liquidity in such cases. However, as a minimum, **IFRS** requires presentation of the following items on the face of the balance sheet:
- Assets: PPE, investment property, intangible assets, financial assets, investments accounted for using the equity method, biological assets, inventories, trade and other receivables, tax assets, and cash and cash equivalents; and
 - Equity and liabilities: issued share capital and other components of shareholders' equity, financial liabilities, provisions, tax liabilities, trade and other payables, and minority interests (presented within equity).
- US GAAP** Generally presented as total assets balancing to total liabilities and shareholders' equity. Items presented on the face of the balance sheet are similar to **IFRS** but are generally presented in decreasing order of liquidity. The balance sheet detail should be sufficient to enable identification of material components. Public entities should follow specific SEC guidance.
- Indian GAAP** Accounting standards do not prescribe a particular format, except certain items should be presented on the face of the balance sheet. The Companies Act prescribes a format of the balance sheet and requires presentation of the following items on the face of the balance sheet.
- Sources of Funds: Share capital, Reserves and surplus, Secured loans, Unsecured loans, Minority interest; and
 - Application of Funds: Fixed assets, Investments, Current assets, loans and advances (inventories, sundry debtors, cash and bank balances, loans and advances, other current assets) less Current liabilities and provisions, Miscellaneous expenditure.
- Other industry regulations prescribe industry-specific formats of the balance sheet.

Current/non-current distinction (general)

IFRS	The current/non-current distinction is required (except when a liquidity presentation is used). Where the distinction is made, assets are classified as current assets if they are: held for sale or consumption in the normal course of the entity's operating cycle; or cash or cash equivalents. Both assets and liabilities are classified as current where they are held for trading or expected to be realised within 12 months of the balance sheet date. Interest-bearing liabilities are classified as current when they are due to be realised or settled within 12 months of the balance sheet date, even if the original term was for a period of more than 12 months. An agreement to refinance or reschedule payments on a long-term basis that is completed after the balance sheet date does not result in non-current classification of the financial liabilities even if executed before the financial statements are issued.
US GAAP	Management may choose to present either a classified or non-classified balance sheet. The requirements are similar to IFRS if a classified balance sheet is presented. The SEC provides guidelines for the minimum information to be included by public companies. Liabilities may be classified as non-current as of the balance sheet date provided that agreements to refinance or to reschedule payments on a long-term basis (including waivers for certain debt covenants) are completed before the financial statements are issued.
Indian GAAP	No strict distinction between current and non-current. Companies follow formats prescribed by the Companies Act or industry regulations.

Offsetting assets and liabilities

IFRS	Assets and liabilities cannot be offset, except where specifically permitted by a standard. Financial assets and financial liabilities may be offset where an entity has a legally enforceable right to offset the recognised amounts and intends to settle transactions on a net basis or to realise the asset and settle the liability simultaneously. A master netting agreement, in the absence of the intention to settle net or realise the asset and liability simultaneously, is not sufficient to permit net presentation of derivative financial instruments. Master netting arrangements generally do not meet the conditions of offsetting.
US GAAP	Offsetting is permitted where the parties owe each other determinable amounts, where there is an intention to offset and where the offsetting is enforceable by law. There are certain exceptions to these requirements, e.g. derivative financial instruments under master netting arrangements where a net presentation is permitted, offsetting of amount related to certain repurchase and reverse repurchase agreements.
Indian GAAP	In absence of specific guidance practice varies.

Other balance sheet classification

IFRS	Minority interests are presented as a component of equity.
US GAAP	Minority interests cannot be presented as equity.
Indian GAAP	Minority interests are presented as separately from liabilities and equity.

Income statement

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

Format

IFRS There is no prescribed format for the income statement. The entity should select a method of presenting its expenses by either function or nature. The portion of profit and loss attributable to the minority interest and to the parent entity is separately disclosed on the face of the income statement. Disclosure of expenses by nature is required in the footnotes if functional presentation is used on the income statement. **IFRS** requires, as a minimum, presentation of the following items on the face of the income statement:

- revenue;
- finance costs;
- share of after-tax results of associates and joint ventures accounted for using the equity method;
- tax expense;
- post-tax gain or loss attributable to the results and remeasurement of discontinued operations; and
- net profit or loss for the period.

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

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

US GAAP Presentation in one of two formats. Either:

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

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

Indian GAAP There is no prescribed format for the income statement. However, the accounting standards and the Companies Act prescribe disclosure norms for certain income and expenditure items. In practice, the expenses are presented by either function or nature.

Other industry regulations prescribe industry-specific format of the income statement.

Exceptional (significant) items

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

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

Indian GAAP Similar to **IFRS**, except that the Companies Act uses the term 'exceptional items'.

Extraordinary items

IFRS Prohibited.

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

Indian GAAP These are defined as events or transactions clearly distinct from the ordinary activities of the entity and are not expected to recur frequently and regularly. Disclosure of the nature and amount of each extraordinary item is required in the income statement in a manner that its impact on current profit or loss can be perceived.

Statement of recognised income and expense/ Other comprehensive income and Statement of accumulated other comprehensive income

Presentation

IFRS	Entities that present a statement of recognised income and expense (SoRIE) are prohibited from presenting a statement of changes in shareholder's equity as a primary statement; supplemental equity information is provided in a note. Recognised income and expense can be separately highlighted in the statement of changes in shareholders' equity if a SoRIE is not presented as a primary statement. Entities that choose to recognise actuarial gains and losses from post-employment benefit plans in equity in the period in which they occur are required to present a SoRIE.
US GAAP	<p>One of three possible formats may be used:</p> <ul style="list-style-type: none"> • a single primary statement of income, other comprehensive income and accumulated other comprehensive income containing both net income, other comprehensive income and a roll-forward of accumulated other comprehensive income; • a two-statement approach (a statement of comprehensive income and accumulated other comprehensive income, and a statement of income); or • a separate category highlighted within the primary statement of changes in stockholders' equity (as under IFRS). <p>The cumulative amounts are disclosed for each item of comprehensive income (accumulated other comprehensive income). The SEC will accept the presentation prepared in accordance with IFRS without any additional disclosures.</p>
Indian GAAP	Not required.

Format

IFRS	<p>The total of income and expense recognised in the period comprises net income. The following income and expense items are recognised directly in equity:</p> <ul style="list-style-type: none"> • fair value gains/(losses) on land and buildings, intangible assets, available-for-sale investments and certain financial instruments; • foreign exchange translation differences; • the cumulative effect of changes in accounting policy; • changes in fair values of certain financial instruments if designated as cash flow hedges, net of tax, and cash flow hedges reclassified to income and/or the relevant hedged asset/liability; and • actuarial gains and losses on defined benefit plans recognised directly in equity (if the entity elects the option available under the amendment to IAS 19, Employee Benefits, relating to actuarial gains and losses, effective from 1 January 2006, with earlier adoption encouraged).
US GAAP	Similar to IFRS , except that revaluations of land and buildings and intangible assets are prohibited under US GAAP . Actuarial gains and losses (when recorded) are recognised through the income statement.
Indian GAAP	Not applicable.

Statement of changes in share (stock) holders' equity

IFRS	Presented as a primary statement unless a SoRIE is presented as a primary statement. Supplemental equity information is presented in the notes when a SoRIE is presented (see discussion under 'Presentation' above). It should show capital transactions with owners, the movement in accumulated profit and a reconciliation of all other components of equity. Certain items are permitted to be disclosed in the notes rather than in the primary statement.
US GAAP	Similar to IFRS , except that US GAAP does not have a SoRIE, and SEC rules require further disclosure of certain items in the notes.
Indian GAAP	No separate statement is required. Changes in shareholders' equity are disclosed in separate schedules of 'Share capital' and 'Reserves and surplus'.

Cash flow statement

Exemptions

IFRS	No exemptions.
US GAAP	Limited exemptions for certain investment entities.
Indian GAAP	Required for enterprises listed or in the process of listing, banks, financial institutions, insurance companies, all enterprises whose turnover exceeds Rs. 500 million or having borrowings in excess of Rs. 100 million at any time during the accounting period, and their holding and subsidiary.

Direct/indirect method

IFRS	Inflows and outflows of 'cash and cash equivalents' are reported in the cash flow statement. The cash flow statement may be prepared using either the direct method (cash flows derived from aggregating cash receipts and payments associated with operating activities) or the indirect method (cash flows derived from adjusting net income for transactions of a non-cash nature such as depreciation). The indirect method is more common.
US GAAP	The cash flow statement provides relevant information about 'cash receipts' and 'cash payments'. The SEC encourages the direct method; however, the indirect method is permitted and more common in practice. A reconciliation of net income to cash flows from operating activities is disclosed if the direct method is used. Significant non-cash transactions are disclosed.
Indian GAAP	Similar to IFRS . However, only indirect method is prescribed for listed enterprises and direct method is prescribed for insurance companies.

Definition of cash and cash equivalents

IFRS	Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. An investment normally qualifies as a cash equivalent only when it has a maturity of three months or less from its acquisition date. Cash may also include bank overdrafts repayable on demand but not short-term bank borrowings; these are considered to be financing cash flows.
US GAAP	The definition of cash equivalents is similar to that in IFRS , except bank overdrafts are not included in cash and cash equivalents; changes in the balances of overdrafts are classified as financing cash flows, rather than being included within cash and cash equivalents.
Indian GAAP	Similar to US GAAP .

Format

IFRS	Cash flows from operating, investing and financing activities are classified separately.
US GAAP	Same as IFRS .
Indian GAAP	Same as IFRS .

Classification of specific items

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

ITEM	IFRS	US GAAP	Indian GAAP
Interest paid	Operating or financing	Operating ¹	Financial enterprises: Operating; Other enterprises: Financing
Interest received	Operating or investing	Operating	Financial enterprises: Operating; Other enterprises: Investing
Dividends paid	Operating or financing	Financing	Financing
Dividends received	Operating or investing	Operating	Financial enterprises: Operating; Other enterprises: Investing
Taxes paid	Operating – unless specific identification with financing or investing	Operating ^{1,2}	Similar to IFRS .

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

² **US GAAP** has specific rules regarding the classification of the tax benefit associated with share-based compensation arrangements and the classification of derivatives that contain a financing element.

Changes in accounting policy and other accounting changes

Changes in accounting policy

IFRS	Changes in accounting policy are accounted for retrospectively. Comparative information is restated, and the amount of the adjustment relating to prior periods is adjusted against the opening balance of retained earnings of the earliest year presented. An exemption applies when it is impracticable to change comparative information. Policy changes made on the adoption of a new standard are accounted for in accordance with that standard's transition provisions. The method described above is used if transition provisions are not specified.
US GAAP	Similar to IFRS with the adoption of FAS 154, Accounting Changes and Error Corrections, effective for fiscal years beginning after 15 December 2005. Prior to FAS 154, the cumulative amount of the change is recognised and disclosed in the income statement in the period of the change. The entity discloses pro-forma comparatives as if the change had been applied to those periods. However, retrospective adjustments are required in certain cases: changes in the method of accounting for inventory valuation; depreciation in the rail industry; construction contracts and adoption of the full-cost method in the extractive industry.
Indian GAAP	The cumulative amount of the change is recognised and disclosed in the income statement in the period of the change. Transition provisions of certain new standards require adjustment of the cumulative amount of the change to opening retained earnings (reserves).

Correction of errors

IFRS	The same method as for changes in accounting policy applies.
US GAAP	Similar to IFRS , reported as a prior-period adjustment; restatement of comparatives is mandatory.
Indian GAAP	Reported as a prior-period adjustment separately in the income statement in a manner that its impact on the income statement can be perceived. Restatement of comparatives is prohibited.

Changes in accounting estimates

IFRS	Changes in accounting estimates are accounted for in the income statement when identified.
US GAAP	Similar to IFRS with the adoption of FAS 154. Prior to FAS 154, change in depreciation method for previously recorded assets is treated as a change in accounting principle. However, a change in the estimated useful lives of depreciable assets is a change in estimate, which is accounted for prospectively in the period of change and future periods.
Indian GAAP	Similar to IFRS . However, the impact of change in depreciation method is determined by retrospectively computing depreciation under the new method and is recorded in the period of change; whereas on revision of asset life, the unamortized depreciable amount is charged over the revised remaining asset life.

REFERENCES:	IFRS: IAS 1, IAS 7, IAS 8, IAS 19, IAS 21, IAS 29, IAS 32, SIC-30. US GAAP: CON 1-7, FAS 16, FAS 52, FAS 95, FAS 130, FAS 141, FAS 154, APB 20 (superseded by FAS 154), APB 28, APB 30, ARB 43, SEC Regulation S-X, FIN 39 Indian GAAP: Companies Act, AS 1, AS 3, AS 5, AS 6, AS 10, AS 11.
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Consolidated financial statements

Preparation

IFRS	<p>Parent entities prepare consolidated financial statements that include all subsidiaries. An exemption applies to a parent that is itself wholly owned or if:</p> <ul style="list-style-type: none"> the owners of the minority interests have been informed about and do not object to the parent not presenting consolidated financial statements, and the parent's securities are not publicly traded; it is not in the process of issuing securities in public securities markets; and the immediate or ultimate parent publishes consolidated financial statements that comply with IFRS.
US GAAP	<p>There is no exemption for general purpose financial statements. Consolidated financial statements are presumed to be more meaningful and are required for public companies. Specific rules apply for certain industries.</p>
Indian GAAP	<p>Consolidated financial statements are mandatory for public listed companies, whereas optional for other entities.</p>

Consolidation model and subsidiaries

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

IFRS	<p>Focuses on the concept of the power to control in determining whether a parent/subsidiary relationship exists. Control is the parent's ability to govern the financial and operating policies of a subsidiary to obtain benefits. Control is presumed to exist when a parent owns, directly or indirectly through subsidiaries, more than one half of an entity's voting power. Control also exists when parent owns half or less of the voting power but has legal or contractual rights to control the majority of the entity's voting power or board of directors. A parent could have control over an entity in circumstances where it holds less than 50% of the voting rights of an entity and has no legal or contractual rights to control the majority of the entity's voting power or board of directors (de facto control).</p> <p>Entities acquired (disposed of) are included in (excluded from) consolidation from the date on which control passes. Currently exercisable potential voting rights should also be considered to determine whether control exists.</p> <p>Special purpose entities that an entity controls are consolidated (see guidance below).</p>
US GAAP	<p>Uses a bipolar consolidation model. All consolidation decisions are evaluated first under the variable interest entity (VIE) model. If the entity is a VIE, management should follow the guidance below, under 'Special purpose entities'. Entities controlled by voting rights are consolidated as subsidiaries.</p> <p>US GAAP contains a similar notion of de facto control, referred to as 'effective control'. This concept is rarely employed in practice. Accordingly, there could be situations in which an entity is consolidated under IFRS based on the notion of de facto control. However, it may not be consolidated under US GAAP under the concept of effective control.</p>
Indian GAAP	<p>Similar to IFRS, except that currently exercisable potential voting rights are not considered. Control is defined as ownership of more than one-half of the voting rights or control of the composition of the board of directors or a governing body so as to obtain economic benefits from its activities.</p>

Special purpose entities

IFRS	<p>Special purpose entities (SPEs) are consolidated where the substance of the relationship indicates that an entity controls the SPE. Indicators of control arise where:</p> <ul style="list-style-type: none"> the SPE conducts its activities on behalf of the entity; the entity has the decision-making power to obtain the majority of the benefits of the SPE; the entity has other rights to obtain the majority of the benefits of the SPE; or the entity has the majority of the residual or ownership risks of the SPE or its assets. <p>Post-employment benefit plans or other long-term employee benefit plans to which IAS 19, Employee Benefits, applies are excluded from this rule.</p>
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US GAAP The consolidation of an SPE is required by its primary beneficiary when the SPE meets the definition of a VIE and the primary beneficiary has a variable interest in the entity that will cause it to absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both. There are several scope exceptions to this rule (such as pension, post-retirement or post-employment plans). Specific criteria also permit the transfer of financial assets to an SPE that is not consolidated by the transferor. The SPE should be a qualifying SPE (QSPE, as defined), and the assets should be financial assets (as defined).

Indian GAAP No specific guidance on special purpose entities. ESOP trusts are not consolidated.

Subsidiaries excluded from consolidation

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

US GAAP Similar to **IFRS**, but also if the owner is not the primary beneficiary of a VIE. A subsidiary held-for-sale may not be precluded from consolidation. Unconsolidated subsidiaries are generally accounted for using the equity method unless the presumption of significant influence can be overcome.

Indian GAAP A subsidiary is excluded from consolidation and carried at cost less impairment, if any, when:

- control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future (being not more than 12 months); or
- it operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parent.

Uniform accounting policies

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

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

Indian GAAP Similar to **IFRS**. However, if it is not practical to use uniform accounting policies that fact should be disclosed together with the proportions of the items to which different accounting policies have been applied.

Reporting periods

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

US GAAP Similar to **IFRS**, except that adjustments are generally not made for transactions that occur in the gap period.

Indian GAAP Similar to **IFRS**. However, the difference between the reporting dates should not be more than six months.

REFERENCES: **IFRS:** IAS 27, SIC-12, IFRS 5.
US GAAP: ARB 51, FAS 94, FAS 144, SAB 51, SAB 84, EITF 96-16, FIN 46.
Indian GAAP: AS 21, ASI 8, Guidance note on Employee Share Based Payments.

Investments in associates

Definition

IFRS	An associate is an entity over which the investor has significant influence – that is, the power to participate in, but not control, an associate’s financial and operating policies. Participation in the entity’s financial and operating policies via representation on the entity’s board demonstrates significant influence. A 20% or more interest by an investor in an entity’s voting rights leads to a presumption of significant influence. It excludes a subsidiary or a joint venture entity.
US GAAP	Similar to IFRS , although the term ‘equity investment rather than ‘associate’ is used. US GAAP does not include unincorporated entities, although these would generally be accounted for in a similar way.
Indian GAAP	Similar to IFRS . However, equity method is not applied when <ul style="list-style-type: none"> the investment is acquired and held exclusively with a view to its subsequent disposal in the near future (being not more than 12 months); or the associate operates under severe long-term restrictions which significantly impair its ability to transfer funds to the investor.

Presentation of associate results

IFRS	In consolidated financials: Equity method is used; wherein share of post-tax result is disclosed in the income statement. In standalone financials: Investment in associate is carried at cost or at fair value in accordance with IAS 39.
US GAAP	In consolidated financials: similar to IFRS . In standalone financials: Investment in associate is carried at cost or equity method.
Indian GAAP	In consolidated financials: similar to IFRS . However, in absence of a subsidiary, an entity may not prepare consolidated financial statements and not account the associate under the equity method. In standalone financials: Investment in associate is carried at cost less impairment.

Equity method

IFRS	<p>An investor accounts for an investment in an associate using the equity method. The investor presents its share of the associate’s profits and losses in the income statement. This is shown at a post-tax level. The investor recognises in equity its share of changes in the associate’s equity that have not been recognised in the associate’s profit or loss. The investor, on acquisition of the investment, accounts for the difference between the cost of the acquisition and investor’s share of fair value of the net identifiable assets as goodwill. The goodwill is included in the carrying amount of the investment.</p> <p>The investor’s investment in the associate is stated at cost, plus its share of post-acquisition profits or losses, plus its share of post-acquisition movements in reserves, less dividends received. Losses that reduce the investment to below zero are applied against any long-term interests that, in substance, form part of the investor’s net investment in the associate – for example, preference shares and long-term receivables and loans. Losses recognised in excess of the investor’s investment in ordinary shares are applied to the other components in reverse order of priority in a winding up. Further losses are provided for as a liability only to the extent that the investor has incurred legal or constructive obligations to make payments on behalf of the associate.</p> <p>Disclosure of information is required about the results, assets and liabilities of significant associates.</p>
US GAAP	Similar to IFRS .
Indian GAAP	Similar to IFRS .

Accounting Policies

IFRS	An investor’s financial statements are prepared using uniform accounting policies for like transactions and events; adjustments are made to the associate’s policies to conform to that of the investor.
US GAAP	The investor’s financial statements do not have to be adjusted if the associate follows an acceptable alternative US GAAP treatment, although it would be acceptable to do so.
Indian GAAP	Similar to IFRS . If it is not practicable to do so, that fact is disclosed along with a brief description of the differences between the accounting policies

Impairment

IFRS	Impairment is tested as prescribed under IAS 36, Impairment of Assets, (IAS 28.33) if the investment has objective evidence of one of the indicators set out in IAS 39.59 (IAS 28.31). In the estimation of future cash flows for the impairment test, the investor may use its share of future net cash flows in the investment, or the cash flows expected to arise from dividends. The investee's goodwill is not subject to direct impairment testing by the investor.
US GAAP	Equity investments are considered impaired if the decline in value is considered to be other than temporary. The investee's goodwill is not subject to direct impairment testing by the investor, similar to IFRS . If an other-than-temporary impairment is determined to exist, the investment is written down to fair value.
Indian GAAP	Impairment test on investment is applied.

Investments in joint ventures

Definition

IFRS	A joint venture is defined as a contractual agreement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control of an economic activity.
US GAAP	A corporate joint venture is defined as a corporation owned and operated by a small group of businesses as a separate and specific business or project for the mutual benefit of the members of the group.
Indian GAAP	Similar to IFRS , except where it meets the definition of subsidiary under AS 21, Consolidation.

Types of joint venture

IFRS	Distinguishes between three types of joint venture: <ul style="list-style-type: none"> • jointly controlled entities – the arrangement is carried on through a separate entity (company or partnership); • jointly controlled operations – each venturer uses its own assets for a specific project; and • jointly controlled assets – a project carried on with assets that are jointly owned.
US GAAP	Only refers to jointly controlled entities, where the arrangement is carried on through a separate corporate entity.
Indian GAAP	Similar to IFRS .

Jointly controlled entities

IFRS	Either the proportionate consolidation method or the equity method is allowed. Proportionate consolidation requires the venturer's share of the assets, liabilities, income and expenses to be combined on a line-by-line basis with similar items in the venturer's financial statements, or reported as a separate line item in the venturer's financial statements.
US GAAP	Proportionate consolidation is generally not permitted except for unincorporated entities operating in certain industries. Venturers apply the equity method to recognise the investment in a jointly controlled entity.
Indian GAAP	Proportionate consolidation method is used in the venturer's consolidated financial statements, except when an interest in a jointly controlled entity <ul style="list-style-type: none"> • is acquired and held exclusively with a view to its subsequent disposal in the near future; • operates under severe long-term restrictions which significantly impair its ability to transfer funds to the investor.

Contributions to a jointly controlled entity

IFRS	A venturer that contributes non-monetary assets, such as shares or fixed assets, to a jointly controlled entity in exchange for an equity interest in the jointly controlled entity recognises in the income statement the portion of the gain or loss attributable to the equity interests of the other venturers, except when: <ul style="list-style-type: none"> the significant risks and rewards of the contributed assets have not been transferred to the jointly controlled entity; the gain or loss on the assets contributed cannot be measured reliably; or the asset is similar to those contributed by other venturers.
US GAAP	Little guidance exists regarding what basis to use in recording contributions to a jointly controlled entity. Joint ventures whose financial statements are filed with the SEC (or when one or more venturers are SEC registrants) may only use step-up to fair value when certain strict criteria are met.
Indian GAAP	Similar to IFRS . However, the exceptions in IFRS have not been expressly clarified in the standard.

Jointly controlled operations

IFRS	Requirements are similar to jointly controlled entities without an incorporated structure. A venturer recognises in its financial statements: <ul style="list-style-type: none"> the assets that it controls; the liabilities it incurs; the expenses it incurs; and its share of income from the sale of goods or services by the joint venture.
US GAAP	Equity accounting is appropriate for investments in unincorporated joint ventures. The investor's pro-rata share of assets, liabilities, revenues and expenses are included in their financial statements in specific cases where the investor owns an undivided interest in each asset of a non-corporate joint venture.
Indian GAAP	Similar to IFRS .

Jointly controlled assets

IFRS	A venturer accounts for its share of the jointly controlled assets and any liabilities it has incurred.
US GAAP	Not specified. However, proportionate consolidation is used in certain industries to recognise investments in jointly controlled assets.
Indian GAAP	Similar to IFRS .

Presentation of jointly controlled entities (joint ventures)

IFRS	In consolidated financials: Both proportional consolidation and equity method is permitted. In standalone financials: Investment in joint venture is carried at cost or at fair value (IAS 39).
US GAAP	In consolidated financials: Equity method is required except in specific circumstances. In standalone financials: Investment in joint venture is carried at cost or equity method.
Indian GAAP	In consolidated financials: proportional consolidation is used. However, in absence of a subsidiary, an entity may not prepare consolidated financial statements and not account them under the proportional consolidation method. In standalone financials: Investment in joint venture is carried at cost less impairment.
REFERENCES:	IFRS: IAS 1, IAS 28, IAS 31, SIC-13. US GAAP: APB 18, FIN 35. Indian GAAP: AS 23, AS 27.

Employee share trusts (including employee share ownership plans)

For **US GAAP**, the guidance in this section is based on the introduction of FAS 123 Revised, Share-based Payment, effective for public entities for interim filings after 15 June 2005 and non-public entities with fiscal years beginning after 15 December 2005, with earlier adoption encouraged.

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

Accounting

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

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

Indian GAAP Employee share trusts are not consolidated.

REFERENCES: **IFRS:** IAS 32, SIC-12.
US GAAP: FAS 123-R, SOP 93-6.
Indian GAAP: SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, Guidance Note on Accounting for Employee Share Based Payments.

Business combinations

Types

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

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

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

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

Indian GAAP There is no comprehensive accounting standard on business combinations; further no separate guidance on common control transaction. All business combinations are acquisition; except uniting of interests method is used in certain amalgamations when all the specified conditions are met.

Accounting for a business combination depends upon whether an acquired entity has been held as a subsidiary by the acquirer or whether the entity has been amalgamated (accounting on amalgamation) or whether a business (assets and liabilities only) has been acquired.

- An acquired entity held as a subsidiary is accounted as long-term investment in the acquirer's separate financial statements and is carried at cost less impairment; whereas on consolidation, the acquisition is accounted under the purchase method, however, the acquired assets and liabilities are incorporated at their existing carrying amounts.
- On amalgamation, the amalgamation is accounted as either a pooling-of-interests or an acquisition. In case of amalgamation accounted as an acquisition, the acquired asset and liabilities are incorporated at their existing carrying amounts or, alternatively, the consideration is allocated to individual identifiable assets and liabilities at their fair values. However, a court order approving an amalgamation may provide different and/or additional accounting entries.
- In a business acquisition (assets and liabilities only), acquired assets and liabilities are accounted at their fair values or value of surrendered assets under the purchase method.

Acquisitions

Date of acquisition

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

US GAAP Similar to **IFRS** as FAS 141, Business Combinations, considers the date on which assets are received or securities are issued (i.e., the date the transaction closes).

Indian GAAP Not defined. However, for an entity acquired and held as a subsidiary, on consolidation, the date of acquisition is the date of investment in the subsidiary or in absence of financial statements of the subsidiary as on that date, financial statements for the immediately preceding period is permitted to be used for consolidation. On amalgamation or acquisition of a business (assets and liabilities only), it is the date prescribed in the court scheme or as specified in the purchase agreement.

Cost of acquisition

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

IFRS	Shares issued as consideration are recorded at their fair value as at the date of the exchange – the date on which the acquirer obtains control over the acquiree’s net assets and operations. The published price of a share at the date of exchange is the best evidence of fair value in an active market.
US GAAP	Shares issued as consideration are measured at their market price over a reasonable period of time (interpreted to be a few days) before and after the parties reach an agreement on the purchase price and the proposed transaction is announced. The date for measuring the value of marketable securities is not influenced by the need to obtain shareholder or regulatory approval.
Indian GAAP	Shares issued as consideration are recorded at fair value, which in appropriate cases may be determined/ fixed by statutory authorities.

Contingent consideration

IFRS	If part of the purchase consideration is contingent on a future event, such as achieving certain profit levels, IFRS requires an estimate of the amount to be included as part of the cost at the date of the acquisition if it is probable that the amount will be paid and can be reliably measured. Any revision to the estimate is adjusted against goodwill. Additional consideration to be paid contingent on the continued employment of a former owner/manager is evaluated based on facts and circumstances as to which part, if any, should be included in the cost of the acquisition and which part should be recognised as compensation expense over the service period.
US GAAP	The additional cost is not generally recognised until the contingency is resolved or the amount is determinable. Any additional revision to the estimate is recognised as an adjustment to goodwill. Additional consideration to be paid for the continued employment of a former owner/manager is accounted for similarly to IFRS .
Indian GAAP	The additional cost is included in consideration at the date of acquisition if the payment is probable and a reasonable estimate of the amount can be made. In all other cases, the adjustment is recognised in the income statement when the amount becomes determinable.

Recognition and measurement of identifiable assets and liabilities acquired

IFRS and **US GAAP** require separate recognition, by the acquirer, of the acquiree’s identifiable assets, liabilities and contingent liabilities that existed at the date of acquisition. These assets and liabilities are recognised at fair value at the date of acquisition.

Under **Indian GAAP**, (a) on consolidation of an acquired entity held as a subsidiary, the acquired assets and liabilities are incorporated at their existing carrying amounts (after making adjustments to eliminate conflicting accounting policies); (b) for amalgamation accounted under the purchase method, the acquired assets and liabilities are incorporated at their existing carrying amounts (after making adjustments to eliminate conflicting accounting policies) or, alternatively, the consideration is allocated to individual identifiable assets and liabilities at their fair values; and (c) on acquisition of a business, the acquired assets and liabilities are incorporated at their fair values or the value of assets surrendered.

However, the three frameworks apply different criteria to the recognition of acquisition restructuring provisions.

Restructuring provisions

IFRS	The acquirer may recognise restructuring provisions as part of the acquired liabilities only if the acquiree has an existing liability at the acquisition date for a restructuring recognised in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets.
US GAAP	The acquirer may recognise a restructuring provision at the acquisition date if specific criteria are met. Management begins to assess and formulate a plan to exit an activity of the acquired entity as of the acquisition date. The plan should be completed in detail as soon as possible, but no more than one year after the date of the business combination. Management should communicate the termination or relocation arrangements to the employees of the acquired company. The restructuring provision should meet the definition of a liability in order to be recorded.
Indian GAAP	The acquirer may recognise a restructuring provision at the acquisition date in amalgamation accounted under the purchase method using the fair value, only when an enterprise has a present obligation as a result of a past event, there is a probable obligation to settle the liability and a reliable estimate can be made of the amount of the obligation.

Intangible assets

IFRS	An intangible asset is recognised separately from goodwill if it represents contractual or legal rights or is capable of being separated or divided and sold, transferred, licensed, rented or exchanged. Acquired in-process research and development (R&D) is recognised as a separate intangible asset if it meets the definition of an intangible asset and its fair value can be measured reliably. Non-identifiable intangible assets are subsumed within goodwill.
US GAAP	Similar intangible assets may be recognised under both IFRS and US GAAP . US GAAP similarly requires acquired in-process R&D to be valued at fair value. However, the acquired in-process R&D is expensed immediately unless it has an alternative future use.
Indian GAAP	An intangible asset is recognised in amalgamations accounted under the purchase method using the fair value, if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and the cost of the asset can be measured reliably. However, the fair value of intangible assets with no active market is reduced to the extent of capital reserve, if any, arising on the amalgamation.

Contingent liabilities

IFRS	The acquiree's contingent liabilities are recognised separately at the acquisition date as part of allocating the cost, provided their fair values can be measured reliably.
US GAAP	The acquiree's contingent liabilities are recognised at the acquisition date only if probable and management can make a reasonable estimate of settlement amounts.
Indian GAAP	Not recognised.

Deferred tax recognised after initial purchase accounting

IFRS	If a deferred tax asset relating to the acquiree is identified but not recognised at the time of the acquisition and subsequently recognised in the acquirer's consolidated financial statements, the deferred tax income is recognised in the income statement. The acquirer also adjusts goodwill as if the deferred tax asset had been recognised at the acquisition date. The subsequent reduction in the net carrying amount of goodwill is recognised in the income statement as an expense.
US GAAP	Subsequent recognition of a deferred tax asset for which a valuation allowance was established on the acquisition date reduces goodwill, then reduces intangible assets, and finally reduces tax expense. Subsequent establishment of a valuation allowance (after the allocation period) related to a deferred tax asset recognised on an acquisition is recorded as expense.
Indian GAAP	If a deferred tax asset relating to the amalgamating entity is identified but not recognised at the time of the amalgamation and is subsequently recognised in the acquirer's first annual balance sheet, the deferred tax asset is recognised by adjusting: <ul style="list-style-type: none"> • goodwill/ capital reserve for amalgamation accounted under the purchase method (using fair value or predecessor basis), whereas, • revenue reserves for amalgamation accounted under the pooling of interests method. Any adjustment subsequent to the first annual balance sheet date is routed through the income statement.

Minority interests at acquisition

IFRS	Where an investor acquires less than 100% of a subsidiary, the minority (non-controlling) interests are stated on the investor's balance sheet at the minority's proportion of the net fair value of acquired assets, liabilities and contingent liabilities assumed.
US GAAP	The minority interests are valued at their historical book value. Fair values are assigned only to the parent company's share of the net assets acquired.
Indian GAAP	The minority interests are valued at their historical book value.

Goodwill

Goodwill arises as the difference between the cost of the acquisition and the acquirer's share of fair value (carrying value in certain cases under **Indian GAAP**) of identifiable assets, liabilities and contingent liabilities acquired. Purchased goodwill is capitalised as an intangible asset.

IFRS	Goodwill is not amortised but reviewed for impairment annually, and when indicators of impairment arise, at the cash-generating-unit (CGU) level, or group of CGUs, as applicable. A CGU is typically at a lower level than a reporting unit, as defined under US GAAP . CGUs may be aggregated for purposes of allocating goodwill and testing for impairment. Groupings of CGUs for goodwill impairment testing cannot be larger than a segment.
US GAAP	Similar to IFRS . Goodwill is not amortised but reviewed for impairment at least annually at the reporting unit level. Goodwill is assigned to an entity's reporting unit (ie, an operating segment) or one level below (ie, a component).
Indian GAAP	Goodwill arising on amalgamation is amortised over its useful life not exceeding 5 years unless longer period can be justified. No specific guidance exists for goodwill arising on consolidation or on business acquisitions (assets and liabilities only); practice varies with no amortisation versus amortisation over its useful life not exceeding 10 years. Goodwill is reviewed for impairment at the CGU level whenever there is a trigger or indication of impairment.

Impairment

IFRS	<p>An impairment review of CGUs with allocated goodwill is required annually or whenever an indication of impairment exists. The impairment review does not need to take place at the balance sheet date. If newly acquired goodwill is allocated to a CGU that has already been tested for impairment during the period, a further impairment test is required before the balance sheet date.</p> <p>A one-step impairment test is performed. The recoverable amount of the CGU (ie, the higher of its fair value less costs to sell and its value in use) is compared to its carrying amount. The impairment loss is recognised in operating results as the excess of the carrying amount over the recoverable amount. Impairment is allocated first to goodwill. Allocation is made on a pro rata basis to the CGU's assets if the impairment loss exceeds the book value of goodwill.</p>
US GAAP	<p>Goodwill is reviewed for impairment, at the reporting unit level, at least annually or whenever events or changes in circumstances indicate that the recoverability of the carrying amount should be assessed.</p> <p>A two-step impairment test is required:</p> <ol style="list-style-type: none"> 1) The fair value and the carrying amount of the reporting unit including goodwill is compared. Goodwill is considered to be impaired if the fair value of the reporting unit is less than the book value; and 2) If goodwill is determined to be impaired based on step one, then goodwill impairment is measured as the excess of the carrying amount of goodwill over its implied fair value. The implied fair value of goodwill is determined by calculating the fair value of the various assets and liabilities included in the reporting unit in the same manner as goodwill is determined in a business combination. The impairment charge is included in operating income.
Indian GAAP	Similar to IFRS . However, specific differences exist in timing of impairment testing (reviewed whenever an indication of impairment exists), allocation of goodwill to a CGU (bottom-up and then top-down test performed) and hence its measurement, etc. In addition to this, reversal of an impairment loss for goodwill is permitted when the impairment loss was caused by a specific external event of an exceptional nature that is not expected to recur and subsequent external events have occurred that reverse the effect of that event.

Negative goodwill

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

US GAAP Any excess over the purchase price after reassessment is used to reduce proportionately the fair values assigned and allocated on a pro-rata basis to all assets other than:

- current assets;
- financial assets (other than equity method investments);
- assets to be sold;
- prepaid pension assets; and
- deferred taxes.

Any negative goodwill remaining is recognised as an extraordinary gain.

Indian GAAP Negative goodwill is termed as capital reserve (recorded in equity) and reduced from the investment value. Capital reserve is neither amortised nor available for distribution as dividends to the shareholders. However, in case of an amalgamation accounted under the purchase method, the fair value of intangible assets with no active market is reduced to the extent of capital reserve, if any, arising on the amalgamation.

Subsequent adjustments to assets and liabilities

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

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

Indian GAAP No change is permitted, except for certain deferred tax adjustment discussed above. All other subsequent adjustments are recorded in income statement.

Disclosure

ITEM	IFRS	US GAAP	Indian GAAP
General			
Names and descriptions of the combining entities	Required	Required. Reasons for the business combination are also disclosed.	Required
The effective date of the combination for accounting purposes (ie, acquisition date)	Required	Required	Required
The cost of acquisition and the form of the consideration given, including any deferred and contingent consideration	Required	Required. Basis for determining the value of shares given as consideration, and accounting treatment to be followed should contingent consideration be realised, is also disclosed.	Required

ITEM	IFRS	US GAAP	Indian GAAP
Operations to be disposed of	Required	Required	Not specified, however, particulars of the amalgamation scheme are disclosed.
The percentage of voting shares acquired	Required	Required	Not specified, however, particulars of the amalgamation scheme are disclosed.
Goodwill			
Goodwill – amortization period	Not applicable	Not applicable	Required
Goodwill – impairment charge	Required	Required	Required
Total amount of goodwill, the amount expected to be tax deductible and the amount of goodwill by reportable segment	Not specified	Required	Total amount of goodwill required. Others – not required
Reconciliation of the goodwill between opening and closing amount	Required	Required	Required
Factors giving rise to goodwill and a list of unrecognised intangible assets	Required	Only description of factors giving rise to goodwill is required.	Not required
Other financial disclosures			
Summary of fair value and pre-acquisition amounts of assets and liabilities acquired with separate disclosure of cash equivalents	Required unless impracticable	Condensed balance sheet is provided disclosing amounts assigned to each balance sheet caption of the acquired entity.	Not specified, however, particulars of the amalgamation scheme are disclosed.
Provisions for terminating or reducing activities of acquiree	Required, subject to meeting IAS 37 recognition criteria	Required	Not required
Effect of acquisition on the financial position at the balance sheet date and on the results since the acquisition	Required unless impracticable	Not required, but pro-forma income statement information is presented instead (see below).	Not required
Amount of purchased research and development assets acquired and written off in the period	Not applicable	Required	Not applicable
Initial purchase accounting not yet finalised. If the purchase price had not been finalised at the date of issue of the financial statements, this fact and the reasons are disclosed. Adjustments made to initial allocations in subsequent periods are also to be disclosed.	Required	Required	Not specified
Details of amounts allocated to intangible assets including total amounts, amortisable/non-amortisable, residual values and amortisation period by assets	Required	Required	Disclosure of allocations not required. However, reconciliation between the opening and closing balance, amortisation period and method are disclosed.

ITEM	IFRS	US GAAP	Indian GAAP
Pro-forma income statement including comparatives	Not required; however, the revenue and profit or loss for the period is disclosed as though the acquisition date had been the beginning of that period, unless impracticable.	Required only for public entities.	Not specified
For a series of individually immaterial business combinations that are material in the aggregate: <ul style="list-style-type: none"> the number of entities and brief description; the aggregate cost, the number of equity instruments issued or issuable and value; and the aggregate amount of any contingent payments options or commitments. 	Required	Required	Not specified

Pooling (uniting) of interests method

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

Indian GAAP permits use of this method only on amalgamation when all the specified conditions are met, else accounted under the purchase method. The assets and liabilities are incorporated at their existing carrying amounts, after making adjustments to eliminate conflicting accounting policies. Goodwill is not recognised on the transaction; any difference is adjusted against the equity. Expenses relating to uniting-of-interests transaction are recognised in the income statement as and when incurred.

Business combinations involving entities under common control

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

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

Indian GAAP Does not specifically address such transactions. Normal business combination accounting would apply as discussed in the above sections.

Partial disposals of subsidiaries with control retained

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

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

Indian GAAP Similar to **IFRS**.

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

IFRS	The acquiree's identifiable assets, liabilities and contingent liabilities are remeasured to fair value at the date of the business combination. Each significant transaction is treated separately for the purpose of determining the cost of the acquisition and the amount of goodwill. Any existing goodwill is not remeasured. The adjustment to any previously held interests of the acquirer in the acquiree's identifiable assets, liabilities and contingent liabilities is treated as a revaluation.
US GAAP	Similar to IFRS , each significant transaction is treated separately for the purposes of determining the cost of the acquisition and the amount of the related goodwill. Any previous interest in the acquirer's net assets is not restated, resulting in the accumulation of portions of fair values at different dates.
Indian GAAP	Similar to US GAAP , except that the assets and liabilities are carried at their existing book values and not at fair value.

Recent proposals – IFRS and US GAAP

The IASB and the FASB issued exposure drafts (EDs) of proposed amendments to IFRS 3, Business Combinations, and FAS 141, Business Combinations, in June 2005. The comment periods ended in October 2005. Both EDs propose a number of significant changes to the financial reporting for business combinations. According to the IASB's work plan, the effective date of a new **IFRS** will be no earlier than for financial periods beginning 1 January 2009. The Boards are currently considering the comment letters received.

REFERENCES: **IFRS:** IAS 12, IFRS 3, SIC-9.
US GAAP: FAS 38, FAS 121, FAS 141, FAS 142, EITF 90-5, EITF 95-3, EITF 95-8.
Indian GAAP: AS 5, AS 10, AS 13, AS 14, AS 21, AS 26, AS 28, ASI 11

Revenue recognition

Revenue

Definition

IFRS	Income is defined in the IASB's Framework as including revenues and gains. The standard IAS 18, Revenue, defines revenue as the gross inflow of economic benefits during the period arising from the ordinary activities of an enterprise when the inflows result in an increase in equity, other than increases relating to contributions from equity participants.
US GAAP	Revenue is defined by the Concept Statement to represent actual or expected cash inflows (or the equivalent) that have occurred or will result from the entity's major ongoing operations.
Indian GAAP	Income is defined in the Framework to include revenues and gains. The accounting standard on revenue recognition defines revenue as the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends. Revenue is measured by the charges made to customers or clients for goods supplied and services rendered to them and by the charges and rewards arising from the use of resources by them. In an agency relationship, the revenue is the amount of commission and not the gross inflow of cash, receivables or other consideration.

Measurement

All three frameworks require measurement of revenues at the fair value of the consideration received or receivable. This is usually the amount of cash or cash equivalents received or receivable. Discounting to present value is required under **IFRS** where the inflow of cash or cash equivalents is deferred, and in limited situations under **US GAAP** and **Indian GAAP**.

Revenue recognition

IFRS	<p>There is a standard on revenue recognition, IAS 18. It describes specific criteria for the sale of goods, the rendering of services, and interest, royalties and dividends. The revenue recognition criteria common to each of these are the probability that the economic benefits associated with the transaction will flow to the entity and that the revenue and costs can be measured reliably.</p> <p>Additional recognition criteria apply to revenue arising from the sale of goods. IFRS requires the seller to have transferred the significant risks and rewards of ownership to the buyer and retained neither management involvement in, nor control over, the goods. Revenue from the rendering of services is recognised by reference to the stage of completion of the transaction at the balance sheet date. Interest revenue is recognised on a basis that takes into account the asset's effective yield. Royalties are recognised on an accrual basis. Dividends are recognised when the shareholder's right to receive payment is established.</p>
US GAAP	<p>The guidance is extensive. There are a number of different sources of revenue recognition guidance, such as FAS, SABs, SOPs, EITFs and AAERs. US GAAP focuses more on revenues being realised (either converted into cash or cash equivalents, or the likelihood of its receipt being reasonably certain) and earned (no material transaction pending and the related performance has occurred). Revenue recognition involves an exchange transaction – ie, there should be no revenue recognition unless and until an exchange has taken place. Additional guidance for SEC registrants sets out criteria that an entity should meet before revenue is realised and earned (compared to IFRS in the table below). SEC pronouncements also provide guidance related to specific revenue recognition situations.</p>
Indian GAAP	<p>Similar to IFRS, except that in certain circumstances, revenue from the rendering of services is recognised only on completion of service. Further, unlike IFRS, the accounting standard on revenue recognition does not provide guidance on measurement of revenue.</p>

Revenue recognition criteria

IFRS	US GAAP	Indian GAAP
It is probable that economic benefits will flow to the entity.	Vendor's price to the buyer is fixed or determinable. Collectibility is reasonably assured.	Implied in the definition of revenue.
The amount of revenue can be measured reliably.	Vendor's price to the buyer is fixed or determinable.	Similar to IFRS
The entity has transferred to the buyer the significant risks and rewards of ownership of the goods.	Persuasive evidence that an arrangement exists, and delivery has occurred or services have been rendered.	Similar to IFRS
The entity retains neither continuing managerial involvement nor effective control over the goods.	Delivery has occurred or services have been rendered.	Similar to IFRS
The costs incurred or to be incurred in respect of the transaction can be measured reliably.	Vendor's price to the buyer is fixed or determinable, and collectibility is reasonably assured.	Uncertainty in the determination of associated cost may influence the timing of revenue recognition.
The stage of completion of the transaction can be measured reliably.	Vendor's price to the buyer is fixed or determinable.	Implied for recognition of revenue under the proportionate completion method.

Specific revenue recognition issues

Warranty and product maintenance contracts

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

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

Indian GAAP Similar to **IFRS**.

Sales of services

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

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

Indian GAAP Similar to **IFRS**.

Barter transactions

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

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

Barter transactions (Cont'd)

US GAAP	Non-monetary transactions are measured based on the fair value of the goods or services given up unless the fair value of the assets received is more clearly evident than the fair value of the assets given up. The transaction is measured at the cost of the asset given up if the fair value of both the asset received and the asset surrendered is not determinable or the exchange transaction is to facilitate sales to customers.
Indian GAAP	No specific guidance on barter transactions, except that the Guidance Note on <i>“Accounting for Dot-Com Companies”</i> provides limited guidance on accounting for advertising barter transactions. It provides that revenue from barter transactions should be recognised only when the fair values of similar transactions are readily determinable from the entity’s history.

Barter transactions – advertising

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

IFRS	Revenue may be recognised on the exchange of dissimilar advertising services if the amount of revenue can be measured reliably. The transaction is measured at the fair value of advertising services provided. The fair value of advertising provided in a barter transaction is measured by reference to equivalent non-barter transactions that occur frequently, involve advertising similar to that in the barter transaction and do not involve the same counterparty as the barter transaction.
US GAAP	Revenue and expense is recognised at the fair value of the advertising given. Fair value is based on the entity’s own historical practice of receiving cash for similar advertising from unrelated entities. Similar transactions used as a guide to fair value should not be older than six months prior to the date of the barter transaction. The carrying amount of the advertising surrendered, which is likely to be zero, is used if the fair value of the advertising given cannot be determined within these criteria.
Indian GAAP	No specific guidance on barter transactions, except that the Guidance Note on <i>“Accounting for Dot-Com Companies”</i> provides limited guidance on accounting for advertising barter transactions. It provides that revenue from barter transactions should be recognised only when the fair values of similar transactions are readily determinable from the entity’s history.

Multiple-element arrangements

IFRS	No detailed guidance for multiple-element revenue recognition arrangements exists. The recognition criteria are usually applied to the separately identifiable components of a transaction in order to reflect the substance of the transaction. However, the recognition criteria are applied to two or more transactions together when they are linked in such a way that the whole commercial effect cannot be understood without reference to the series of transactions as a whole.
US GAAP	Revenue arrangements with multiple deliverables are divided into separate units of accounting if the deliverables in the arrangement meet specified criteria outlined in EITF 00-21. The arrangement’s consideration is allocated among the separate units of accounting based on their relative fair values. Applicable revenue recognition criteria is considered separately for separate units of accounting.
Indian GAAP	No specific guidance but increasingly practice is similar to IFRS .

Multiple-element arrangements – software revenue recognition

IFRS	No specific software revenue recognition guidance exists. Fees from the development of customised software are recognised as revenue by reference to the stage of completion of the development, including completion of services provided for post-delivery customer support service.
US GAAP	Specific guidance on software revenue recognition for software vendors is provided, in particular for multiple-element arrangements. A value is established for each element of a multiple-element arrangement, based on vendor-specific objective evidence (VSOE) or other evidence of fair value. VSOE is generally limited to the price charged when elements are sold separately. Consideration is allocated to separate units based on their relative fair values; revenue is recognised as each unit is delivered.
Indian GAAP	No specific guidance but increasingly practice is similar to IFRS . In other cases, revenue is recognised based on the billing milestones agreed in the contract.

Construction contracts

Scope

IFRS	Guidance applies to fixed-price and cost-plus construction contracts of contractors (not defined), for the construction of a single asset or combination of assets.
US GAAP	Guidance is defined from the perspective of the contractor rather than the contract, as in IFRS . Scope is not limited to construction-type contracts. Guidance is also applicable to unit-price and time-and-materials contracts.
Indian GAAP	Similar to IFRS .

Recognition method

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

Percentage-of-completion method

IFRS	When the outcome of the contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.
US GAAP	Two different approaches are allowed: <ul style="list-style-type: none"> the revenue approach (similar to IFRS) multiplies the estimated percentage of completion by the estimated total revenues to determine earned revenues and multiplies the estimated percentage of completion by the estimated total contract costs to determine the cost of earned revenue; and the gross-profit approach (different from IFRS) multiplies the estimated percentage of completion by the estimated gross profit to determine the estimated gross profit earned to date. Losses are recognised when incurred or when the expected contract costs exceed the expected contract revenue, regardless of which accounting method is used.
Indian GAAP	Similar to IFRS .

Completed contract method

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

Combining contracts and segmenting a contract

IFRS	Contracts are combined when part of a package, or segregated when each contract is part of a separate proposal and when revenues and costs can be clearly identified.
US GAAP	Combining contracts is permitted but not required.
Indian GAAP	Similar to IFRS .
REFERENCES:	IFRS: IAS 11, IAS 18. US GAAP: CON 5, SAB 104, SOP 81-1, SOP 97-2, EITF 99-17, EITF 00-21, FTB 90-1. Indian GAAP: AS 7 (Revised 2002), AS 9

Expense recognition

Expenses

Definition

IFRS	Expenses are defined in the Framework to include losses. Expenses are decreases in economic benefits that result in a decrease in equity.
US GAAP	Expenses are defined by the Concept Statement as actual or expected cash outflows, or the equivalent, that have occurred or will result from the entity's ongoing major operations.
Indian GAAP	Expenses are defined in the Framework to include losses. Expenses are defined as decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

Specific expense recognition issues

Interest expense

IFRS	Interest expense is recognised on an accrual basis using the effective interest method. Directly attributable transaction costs and any discount or premium arising on the issue of a debt instrument are amortised using the effective interest method. The effective interest rate is the rate that discounts the estimated future cash payments through the expected life of the debt instrument to the initial carrying amount of the debt instrument.
US GAAP	Similar to IFRS ; however, the contractual life of the debt instrument is generally used in practice.
Indian GAAP	Interest expense is recognised on an accrual basis. However, there is no specific guidance on discounts and premiums and practice varies with respect to their recognition.

Employee benefits – pensions

The **IFRS** guidance in this section is based on the introduction of IAS 19, Employee Benefits (revised 2004), effective 1 January 2006, with earlier adoption encouraged; and AS 15 (Revised), effective for accounting periods commencing on or after 1 April 2006.

All three frameworks require the cost of providing these benefits to be recognised on a systematic and rational basis over the period during which employees provide services to the entity. These frameworks separate pension plans into defined contribution plans and defined benefit plans.

Defined contribution plans

Defined contribution plans are post-employment benefit plans that require the entity to pay fixed contributions into a fund. The entity is under no legal or constructive obligation to make further contributions to the fund even if losses are sustained. Exposure risks attributable to the plan assets rest with the employee. These frameworks require pension cost to be measured as the contribution payable to the fund on a periodic basis. If a plan does not have individual participant accounts, the plan is not a defined contribution plan for **US GAAP** purposes. Under IAS 19 and AS 15 (Revised), a careful analysis of all terms and conditions of the plan, including its legal standing, must be performed to determine whether the substance of the plan is that of a defined contribution plan or a defined benefit plan.

Defined benefit plans

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

The methodology for accounting for defined benefit plans is based on similar principles; however, detailed differences exist in application. The key features are outlined below.

ITEM	IFRS	US GAAP	Indian GAAP
Determination of pension and post-retirement expense	Projected unit credit actuarial method used.	Similar to IFRS .	With the adoption of AS 15 (Revised), similar to IFRS . Earlier, based on actuarial valuation, however, no specific method was prescribed.
Discount rate for obligations	Based on market yields for high-quality corporate bonds. Government bond yields used where there is no deep market in high-quality corporate bonds.	Similar to IFRS , except that reference to government bonds is not required.	With the adoption of AS 15 (Revised), government bond market yields with similar maturities are used. Earlier, there was no specific guidance.
Valuation of plan assets	Measured at fair value or using discounted cash flows if market prices unavailable. Insurance contracts measured at fair value. Where plan assets include qualifying insurance policies that exactly match the amount and timing of some or all of the benefits payable under the plan, the fair value of those insurance policies is deemed to be the present value of the related obligations.	Similar to IFRS , except for differences resulting from the expected long-term rate of return applied to market related value of plan assets (see expected return on plan assets below). Contracts (other than purchases of annuities) are measured at fair value. If the contract has a determinable cash surrender value or conversion value, that value is used.	With the adoption of AS 15 (Revised), guidance is similar to IFRS . Earlier, there was no specific guidance.
Recognition of actuarial gains and losses	Recognised immediately or amortised over expected remaining working lives of participating employees. At a minimum, a net gain/loss in excess of 10% of the greater of the defined benefit obligation or the fair value of plan assets at the beginning of the year is recognised. An entity can adopt a policy of recognising actuarial gains and losses in full in the period in which they occur and recognition may be outside of the income statement; a statement of recognised income and expense is presented (the SoRIE option) if this option is chosen.	Similar to IFRS , except that actuarial gains and losses are amortised over the remaining life expectancy of the plan participants if all or almost all plan participants are inactive. The SoRIE option under IFRS is currently not permitted. However, with the adoption of FAS 158, the unamortized actuarial gains and losses will be recognised in other comprehensive income.	Recognised immediately in the income statement.

ITEM	IFRS	US GAAP	Indian GAAP
Expected return on plan assets	<p>Based on market expectations at the beginning of the period for returns over the entire life of the related obligation. Reflects changes in the fair value of plan assets as a result of actual contributions and benefits paid.</p> <p>The rate is applied to the fair value of plan assets.</p>	<p>Based on market conditions and nature of the assets. Includes changes in plan assets due to contributions and benefit payments.</p> <p>The rate is applied to the market-related value of the plan assets, which is either the fair value or a calculated value (which incorporates asset-related gains and losses over a period of no more than five years).</p>	<p>With the adoption of AS 15 (Revised), guidance is similar to IFRS.</p> <p>Earlier, there was no specific guidance.</p>
Balance sheet asset limitation	<p>Asset limited to the lower of: a) the asset resulting from applying the standard; and b) the net total of any unrecognised actuarial losses and past-service cost, and the present value of any available refunds from the plan or reduction in future contributions to the plan.</p>	<p>No similar requirement.</p>	<p>With the adoption of AS 15 (Revised), asset limited to the lower of: a) the asset resulting from applying the standard, and b) the present value of any available refunds from the plan, or reduction in future contributions to the plan.</p> <p>Earlier, contributions in excess of actuarial valuation were treated as prepayment.</p>
Recognition of minimum pension liability	<p>Not required.</p>	<p>Additional minimum liability required when the accumulated benefit obligation exceeds the fair value of the plan assets. It is increased by any prepaid pension asset and decreased by any accrued pension liability previously recognised.</p>	<p>Not required.</p>
Past-service cost	<p>Positive and negative past-service cost recognised over remaining vesting period. Where benefits have already vested, past-service cost is recognised immediately.</p>	<p>Positive prior-service costs for current and former employees are recognised over the period during which the employer expects to receive an economic benefit from the increased pension benefit, which is typically the remaining service periods of active employees. Negative prior-service costs first offset previous positive prior-service costs, with the excess recognised in the same manner as positive prior-service cost.</p> <p>If all or almost all plan participants are inactive, prior-service cost is amortised over the remaining life expectancy of the plan participants.</p>	<p>Similar to IFRS.</p>

ITEM	IFRS	US GAAP	Indian GAAP
Multi-employer plans	<p>If it is a defined benefit plan, account for it as such, unless sufficient information is not available.</p> <p>If there is a contractual agreement between the multi-employer plan and its participants, and the plan is accounted for as a defined contribution plan, the asset or liability that arises from the contractual agreement and the resulting income or expense in profit or loss are recognised.</p>	Defined contribution accounting used.	<p>With the adoption of AS 15 (Revised), guidance is similar to IFRS.</p> <p>Earlier, there was no specific guidance.</p>
Subsidiary's defined benefit pension plan forming part of a group plan	Plans with participating entities under common control are not multi-employer plans. If there is a contractual arrangement between the subsidiary and the parent, the subsidiary accounts for the benefit costs on that basis; otherwise the contribution payable for the period is recognised as an expense, except for the sponsoring employer, which must apply defined benefit accounting for the plan as a whole.	The subsidiary should account for its participation in an overall group plan as a participant in a defined contribution (multi-employer) plan.	<p>With the adoption of AS 15 (Revised), (i) in case of an agreement, the subsidiary would recognise net defined benefit cost so charged, or else (ii) the cost is recognised by legal sponsor and other entities would recognise a cost equal to their contributions.</p> <p>Earlier, there was no specific guidance.</p>
Curtailment definition	A curtailment occurs either when an entity is demonstrably committed to making a material reduction in the number of employees covered by the plan or when it amends the terms of the plan such that a material element of future service by current employees will no longer qualify for benefits, or will qualify only for reduced benefits.	A curtailment eliminates, rather than reduces, the accrual of benefits for some or all of employees' future services.	With the adoption of AS 15 (Revised), a curtailment occurs either when an entity has a present obligation arising from a statutory or regulatory requirement or otherwise to making a material reduction in the number of employees covered by the plan or when it amends the terms of the plan such that a material element of future service by current employees will no longer qualify for benefits, or will qualify only for reduced benefits.
Settlement definition	A settlement occurs when an entity enters into a transaction that eliminates all further legal or constructive obligation for part or all the benefits under the plan.	Similar to IFRS and evidenced by the employer meeting three conditions.	<p>With the adoption of AS 15 (Revised), a settlement occurs when an entity enters into a transaction that eliminates all further obligations for part or all the benefits under the plan.</p> <p>Earlier, there was no definition.</p>

ITEM	IFRS	US GAAP	Indian GAAP
Curtailment/ settlement (timing of recognition)	Gains and losses are recognised when curtailments/settlements occur.	Curtailment losses are recognised when it is probable that a curtailment will occur and the effect of the curtailment is reasonably estimable. Curtailment gains are deferred until realised and are recognised in earnings, either when the related employees terminate, or the plan suspension or amendment is adopted. Settlement gains or losses are recognised when settlement occurs.	Similar to IFRS .
Curtailment/ settlement (calculation of gains and losses)	Gains and losses on curtailments/settlements include changes in the present value of the defined benefit obligation, any resulting changes in the fair value of the plan assets and any related actuarial gains and losses and past-service cost that had not previously been recognised.	Gains and losses on curtailments include unrecognised prior-service cost (including any remaining transition obligation) for which services are no longer expected to be rendered, and changes in the projected benefit obligation (net of any unrecognised gains or losses and remaining transition asset). The gain or loss on settlements to be recognised in profit or loss only includes unrecognised net actuarial gain or loss plus any unrecognised transition asset.	With the adoption of AS 15 (Revised), guidance is similar to IFRS . Earlier, there was no specific guidance.

Recent amendment – US GAAP

The FASB issued FAS 158 - Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R) on September 29, 2006; effective for financial statements issued for fiscal years beginning after December 15, 2006 (public companies) and June 15, 2006 (non-public companies) with the requirement to measure plan assets and benefit obligations effective fiscal years ending after December 15, 2008. It addresses the following topics -

- recognition of the overfunded or underfunded status of a defined benefit post-retirement plan measured as the difference between plan assets at fair value (with limited exceptions) and the benefit obligation—in its statement of financial position;
- recognition of actuarial gains/(losses) and prior service costs/(credits) as a component of other comprehensive income, net of tax;
- measurement of defined benefit plan assets and obligations as of the date of the employer's statement of financial position, with limited exceptions; and
- disclosure of additional information in the notes to the financial statements about certain effects on net periodic benefit cost in the upcoming fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation.

REFERENCES: **IFRS:** IAS 19, IAS 39, IAS 37.
US GAAP: APB 12, APB 21, FAS 87, FAS 88, FAS 106, FAS 158.
Indian GAAP: AS 15, AS 15 (Revised 2005)

Employee share compensation

The guidance in this section is based on the introduction of IFRS 2, Share-based Payment, effective 1 January 2005, and FAS 123 Revised, Share-based Payment, effective for public entities for interim filings after 15 June 2005 and non-public entities for fiscal years beginning after 15 December 2005, with earlier adoption encouraged for both standards.

For **Indian GAAP**, the guidance in this section is based on both the Guidance Note issued by the ICAI and the SEBI guidelines as applicable to public listed companies.

Recognition

- IFRS** The fair value of shares and options awarded to employees is recognised over the period to which the employees' services relate. The award is presumed to be for past services if it is unconditional without any performance criteria.
- US GAAP** The fair value of the stock-based compensation is recognised over the requisite service period, which may be explicit, implicit or derived depending on the terms of the awards (service condition, market condition, performance condition, or a combination of conditions).
- Indian GAAP** The requirement in the Guidance Note is similar to **IFRS**. However, the SEBI guidelines require that the 'cost' be recognised and amortised on a straight-line basis over the vesting period.

Measurement

- IFRS** For equity-settled share-based payment transactions, the goods or services received and the corresponding increase in equity are measured at the fair value of the goods or services received. If the entity cannot estimate reliably the fair value of the goods or services received, as will be the case with employee services, it should measure their value and the corresponding increase in equity by reference to the fair value of the equity instruments granted. For cash-settled share-based payment transactions, the goods or services acquired and the liability incurred are measured at the fair value of the liability. Extensive disclosures are also required.
- US GAAP** Similar conceptual model. The use of the 'fair-value-based method' for measuring the value of share-based compensation is required. The fair value is determined at the grant date, assuming that employees fulfill the award's vesting conditions and are entitled to retain the award.
- Several detailed application differences exist, such as the definition of grant date, the classification of awards between equity-settled awards and cash-settled awards and the attribution of expense with graded vesting.
- Indian GAAP** Under both the Guidance Note and the SEBI Guidelines, entities have a choice of accounting methods for determining the costs of benefits arising from employee share compensation plans. They may either follow an intrinsic value method or a fair value method. The Guidance Note prefers fair value method.
- Under the intrinsic value method, the compensation cost is the difference between the market price of the share at the measurement date and the price to be contributed by the employee (exercise price). Usually the measurement date is the date of grant. This method is widely used in practice. The fair value method is based on the fair value of the option at the date of grant. This is estimated using an option-pricing model. If an entity chooses to follow the intrinsic value method, the Guidance Note recommends disclosing the impact on net results and earnings per share, as if the fair value method was applied.
- Several detailed application differences exist.

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

- IFRS** Employers' social security liability arising from share-based payment transactions is recognised over the same period or periods as the share-based payment charge.
- US GAAP** Employer payroll taxes due on employee stock-based compensation are recognised as an expense on the date of the event triggering the measurement and payment of the tax to the taxing authority (generally the exercise date and vesting date for options and restricted stock respectively).
- Indian GAAP** No specific guidance.

Non-employee share-based payment transactions

IFRS IFRS 2 requires the fair value of the goods or services acquired by an entity to be determined and used as the value of an equity-settled share-based payment transaction. There is a rebuttable presumption that the fair value of the goods and services can be reliably estimated. However, IFRIC 8, Scope of IFRS 2 (effective for years commencing on or after 1 May 2006), stipulates that where the identifiable fair value of the goods or services received is less than the fair value of the equity instruments, there is a presumption that unidentifiable goods or services have also been received. Identifiable goods or services acquired in a share-based payment transaction are recognised when they are received. Unidentifiable goods or services are measured at grant date as the difference between the fair value of share-based payment and the fair value of any identifiable goods or services received (or to be received), however for cash-settled transactions, the liability is remeasured at each reporting date until it is settled.

The credit side of the entry will be a liability if the entity has an obligation to settle the transaction in cash. However, the credit entry is an increase in equity if there is no obligation to settle in cash; the consideration for goods and services will therefore be achieved through the issuance of equity instruments. If the fair value of the goods or services exceeds the fair value of the obligation to settle in cash, the credit entry will comprise both a liability and an increase in equity.

US GAAP All non-employee transactions in which goods or services are received in exchange for equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. The fair value of the equity instruments is used in most cases because a direct measurement based on the fair value of the goods and services is generally considered unreliable. The measurement date of an equity award is fixed on the earlier of (a) the date on which a performance commitment is reached, and (b) the date on which performance is complete.

Indian GAAP No specific guidance. All non-cash share-based payment transactions are disclosed.

Recent proposals - IFRS

The IASB issued an exposure draft of amendments to IFRS 2 in February 2006. It addresses how to apply IFRS 2 to account for an employee who ceases to contribute to an employee share purchase plan (ESPP) (i.e., is not able to buy shares under the plan) or if the employee starts to contribute to another ESPP (ie, changes from one ESPP to another)

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

REFERENCES: **IFRS:** IAS 19, IAS 37, IFRS 2.

US GAAP: FAS 123-R, FIN 44, EITF D-83, EITF 96-18, EITF 00-16.

Indian GAAP: Employee Stock Option Scheme and Employee Stock Purchase Scheme Guidelines, 1999 issued by SEBI, Guidance Note on Employee Share Based Payments.

Compensated absences

These benefits may accumulate over the employee's service period. For a benefit that is attributable to an accumulating right, all three **IFRS**, **US GAAP** and **Indian GAAP** frameworks generally recognise the liability, as the employee provides the service that gives rise to the right to the benefit. The guidance in this section for **Indian GAAP** is based on AS 15 (Revised), effective for accounting periods commencing on or after 1 April 2006.

Termination benefits

IFRS

Termination benefits arising from redundancies are accounted for similarly to restructuring provisions. A liability is recorded when the entity is demonstrably committed to the reduction in workforce.

If an offer is made to encourage voluntary redundancy, the measurement of termination benefits is based on the number of employees expected to accept the offer.

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

US GAAP

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

- 1) Special termination benefits – generally additional benefits offered for a short period of time to certain employees electing to accept an offer of voluntary termination, recognised at the date on which the employees accept the offer and the amount can be reasonably estimated;
- 2) Contractual termination benefits – benefits provided to employees when employment is terminated due to the occurrence of a specified event under an existing plan, recognised at the date when it is probable that employees will be entitled to the benefits and the amount can be reasonably estimated;
- 3) Termination benefits that are paid for normal severances pursuant to an ongoing termination benefit plan. Costs are recognised for probable and reasonably estimable payments as employee services are rendered, if the benefit accumulates or vests, or when the obligating event occurs; and
- 4) One-time termination benefits – benefits provided to current employees that are involuntarily terminated and will receive a termination benefit under the terms of a one-time benefit arrangement.

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

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

Indian GAAP

With the adoption of AS 15 (Revised), termination benefits arising from redundancies are accounted for similarly to restructuring provisions. That is, when the entity has a present obligation as a result of past event and the liability is considered probable and can be reliably estimated.

If an offer is made to encourage voluntary redundancy, the measurement of termination benefits is based on the actual number of employees accepting the offer and is immediately expensed. However, as a transition provision, for the liability incurred on termination benefits up to 31 March 2009, entities may defer such cost over its pay-back period but any unamortised amount cannot be carried forward to accounting periods commencing on or after 1 April 2010.

Accounting for termination indemnities is similar to **IFRS**.

Prior to AS 15 (Revised), there was no specific guidance on termination benefits, but termination liabilities were accrued similar to the guidance in the revised standard. Generally, the expenditure on voluntary termination were deferred and amortised over 3 to 5 years.

REFERENCES:

IFRS: IAS 19.

US GAAP: FAS 43, FAS 88, FAS 112, FAS 146, EITF 88-1, EITF 06-2.

Indian GAAP: AS 15, AS 15 (Revised 2005)

Assets

Intangible assets

Definition

IFRS	An intangible asset is an identifiable non-monetary asset without physical substance controlled by the entity. It may be acquired or internally generated.
US GAAP	Similar to IFRS .
Indian GAAP	An intangible asset is an identifiable non-monetary asset, without physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes. It may be acquired or internally generated.

Recognition – separately acquired intangibles¹

IFRS	General IFRS asset recognition criteria apply. The acquired intangible is recognised if future economic benefits attributable to the asset are probable and the cost of the asset can be measured reliably.
US GAAP	Similar to IFRS .
Indian GAAP	Similar to IFRS .

¹ See p38 for accounting for intangible assets acquired in a business combination.

Recognition – additional criteria for internally generated intangibles

IFRS	<p>The costs associated with the creation of intangible assets are classified between the research phase and development phase. Costs in the research phase are always expensed. Costs in the development phase are expensed unless the entity can demonstrate all of the following:</p> <ul style="list-style-type: none"> • the technical feasibility of completing the intangible asset; • the intention to complete the intangible asset; • the ability to use or sell it; • how the intangible asset will generate future economic benefits – the entity should demonstrate the existence of a market or, if for internal use, the usefulness of the intangible asset; • the availability of adequate resources to complete the development; and • the ability to measure reliably the expenditure attributable to the intangible asset during its development. <p>Development costs initially recognised as an expense cannot be capitalised in a subsequent period.</p>
US GAAP	Research and development costs are expensed as incurred, making the recognition of internally generated intangible assets rare. However, separate rules apply to development costs for computer software that is to be sold; capitalisation (and amortisation) applies once technological feasibility is established. Capitalisation ceases when the product is available for general release to customers. Similar rules apply to certain elements of development costs for computer software developed for internal use.
Indian GAAP	Similar to IFRS .

Recognition – website development costs

IFRS	Costs incurred during the planning stage are expensed. Costs incurred for activities during the website's application and infrastructure development stages are capitalised, and costs incurred during the operation stage are expensed as incurred.
US GAAP	Similar to IFRS .
Indian GAAP	Similar to IFRS .

Measurement – acquired intangibles

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

Measurement – internally generated intangibles

IFRS	The cost comprises all expenditures that can be directly attributed or allocated to creating, producing and preparing the asset from the date when the recognition criteria are met.
US GAAP	Costs of internally developing, maintaining or restoring intangible assets that are not specifically identifiable, that have indeterminable lives, or that are inherent in a continuing business and related to an entity as a whole, are recognised as an expense when incurred.
Indian GAAP	Similar to IFRS .

Subsequent measurement – acquired and internally generated intangibles

IFRS	Intangible assets subject to amortisation are carried at historical cost less accumulated amortisation/ impairment, or at fair value less subsequent amortisation/impairment. Intangible assets not subject to amortisation are carried at historical cost unless impaired. Subsequent revaluation of intangible assets to their fair value is based on prices in an active market. Revaluations are performed regularly and for the entire class of intangible assets at the same time if an entity adopts this treatment (extremely rare in practice).
US GAAP	Initial recognition is similar to IFRS . Revaluation is not allowed. Intangible assets subject to amortisation are carried at amortised cost less impairment. Intangible assets not subject to amortisation are carried at historical cost less impairment.
Indian GAAP	Initial recognition is similar to IFRS . Revaluation is not allowed. All intangible assets are carried at amortised cost less impairment.

Amortisation – acquired and internally generated intangibles

IFRS	Amortised if the asset has a finite life; not amortised if the asset has an indefinite life, but should be tested at least annually for impairment. There is no presumed maximum life.
US GAAP	Similar to IFRS .
Indian GAAP	Amortised over the estimated useful life of intangible asset, from the date when the asset is available for use, with a rebuttable presumption that the useful life does not exceed ten years.

Impairment – acquired and internally generated intangibles

IFRS	Impairment reviews are required whenever changes in events or circumstances indicate that an intangible asset's carrying amount may not be recoverable. Annual reviews are required for intangible assets with indefinite useful lives and for assets not yet ready for use. Indefinite-lived assets are usually reviewed for impairment as part of a CGU. Reversals of impairment losses are allowed under specific circumstances.
US GAAP	Similar to IFRS , except reversals of impairment losses are prohibited and indefinite-lived intangible assets are tested for impairment separately from the reporting unit.
Indian GAAP	Similar to IFRS , except that annual review is required for intangible assets that are amortised over ten years from the date when the asset is available for use and for assets not yet ready for use.

REFERENCES:	IFRS: IAS 36, IAS 38, SIC-32. US GAAP: FAS 86, FAS 142, APB 17, SOP 98-1. Indian GAAP: AS 26, AS 28.
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Property, plant and equipment

Definition

- IFRS** Property, plant and equipment (PPE) are tangible assets that are held by an entity for use in the production or supply of goods or services, for rental to others, or for administrative purposes. They are expected to be used during more than one reporting period.
- US GAAP** Similar to **IFRS**.
- Indian GAAP** Similar to **IFRS**, except it uses the term fixed assets rather than PPE.

Recognition

- IFRS** General **IFRS** asset recognition criteria apply. PPE is recognised if future economic benefits attributable to the asset are probable and the cost of the asset can be measured reliably.
- US GAAP** Similar to **IFRS**.
- Indian GAAP** Similar to **IFRS**.

Initial measurement

- IFRS** PPE, at initial measurement, comprises the costs directly attributable to bringing the asset to the location and working condition necessary for it to be capable of operating in the way management intends, including costs of testing whether the asset is functioning properly. Start-up and pre-production costs are not capitalised unless they are a necessary part of bringing the asset to its working condition. The following are also included in the initial measurement of the asset:
- the costs of site preparation;
 - initial delivery and handling costs;
 - installation and assembly costs;
 - costs of employee benefits arising from construction or acquisition of the asset;
 - costs of testing whether the asset is functioning properly;
 - professional fees;
 - fair value gains/losses on qualifying cash flow hedges relating to the purchase of PPE in a foreign currency (see p82); and
 - the initial estimate of the costs of dismantling and removing the item and restoring the site on which PPE is located.
- The entity has the policy option to include the borrowing costs incurred during the period of acquiring, constructing or producing the asset for use (see p63).
- Government grants received in connection with acquisition of PPE may be offset against the cost (see p77).
- US GAAP** Similar to **IFRS**, except that hedge gains/losses on qualifying cash flow hedges are not included. Relevant borrowing costs are included if certain criteria are met. Consistent with **IFRS**, the fair value of a liability for an asset retirement obligation is recognised in the period incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalised as part of the asset's carrying amount.
- Indian GAAP** Similar to **IFRS**, except that there is no specific guidance on the measurement of gains/losses on qualifying cash flow hedges and capitalisation of dismantling and site restoration costs. Relevant borrowing costs, if certain criteria are met, and exchange difference arising on restatement and settlement of certain foreign exchange liabilities are capitalised.

Decommissioning, restoration and similar liabilities (asset retirement obligations)

See 'Decommissioning, restoration and similar liabilities (asset retirement obligations)' on page 71.

Subsequent expenditure

- IFRS** Subsequent maintenance expenditure is expensed as incurred. Replacement of parts may be capitalised when general recognition criteria are met. The cost of a major inspection or overhaul occurring at regular intervals is capitalised where the recognition criteria are satisfied. The net book value of any replaced component would be expensed at the time of overhaul.
- US GAAP** Similar to **IFRS**.
- Indian GAAP** Similar to **IFRS**, except that the replaced components are charged to income.

Depreciation

IFRS	The depreciable amount of an item of PPE is allocated on a systematic basis over its useful life, reflecting the pattern in which the entity consumes the asset's benefits. Any change in the depreciation method used is treated as a change in accounting estimate reflected in the depreciation charge for the current and prospective periods. The depreciation methods are reviewed periodically; residual values and useful lives are reviewed at each balance sheet date.
US GAAP	Similar to IFRS , FAS 154, Accounting Changes and Error Corrections, requires that a change in depreciation method be accounted for as a change in accounting estimate affected by a change in accounting principle. Regarding periodic reviews of depreciation methods, residual values and useful lives, the appropriateness of these decisions should be assessed at each reporting date.
Indian GAAP	The depreciable amount of an item of PPE is allocated on a systematic basis over its useful life, but a governing statute may provide rates for depreciation, where those rates would prevail. However, where the useful life determined by management is shorter than that envisaged under the relevant statute, the depreciation is computed by applying a higher rate. For example, a company provides depreciation at the rates specified in Schedule XIV of the Companies Act or as determined based on estimated useful lives of assets, whichever is higher. Further, the impact of change in depreciation method is determined by retrospectively computing depreciation under the new method and is recorded in the period of change; whereas on revision of asset life, the unamortized depreciable amount is charged over the revised remaining asset life.

Subsequent measurement

IFRS	The cost model requires an asset to be carried at cost less accumulated depreciation and impairment. However, revaluation of PPE at fair value is permitted under the alternative treatment. The revaluation model should be applied to an entire class of assets. The increase of an asset's carrying amount as a result of a revaluation is credited directly to equity under the heading 'revaluation surplus', unless it reverses a revaluation decrease for the same asset, previously recognised as an expense. In this case it is recognised in the income statement. A revaluation decrease is charged directly against any related revaluation surplus for the same asset; any excess is recognised as an expense. Disclosures of the historical cost equivalent (cost and accumulated depreciation) of assets carried at revalued amounts are required.
US GAAP	PPE is carried at cost less accumulated depreciation and impairment losses. Revaluations are not permitted. Consistent with IFRS , impairment testing is performed whenever events or changes in circumstances suggest the carrying value of an asset is not recoverable.
Indian GAAP	Similar to IFRS .

Frequency of revaluations

IFRS	Revaluations have to be kept sufficiently up to date so that the carrying amount does not differ materially from the fair value. This requires regular revaluations of all PPE in the relevant class when the revaluation policy is adopted. Management should consider at each year-end whether fair value is materially different from carrying value.
US GAAP	Not applicable (see above).
Indian GAAP	No requirement on frequency of valuation.

Impairment of revalued PPE

IFRS	An impairment loss (downward revaluation) may be offset against revaluation surpluses to the extent that it relates to the same asset; any uncovered deficit is recorded to the income statement.
US GAAP	Not applicable (see above).
Indian GAAP	Similar to IFRS .

REFERENCES:	IFRS: IAS 16, IAS 23, IAS 36. US GAAP: FAS 34, FAS 143, FAS 144, FAS 154, ARB 43, APB 6, FIN 47. Indian GAAP: AS 6, AS 10, AS 28, Companies Act, 1956.
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Recent proposals – Indian GAAP

The ICAI is expected to release the revised AS 10, *Property, Plant and Equipment*. It deals with accounting for property, plant and equipment and depreciation thereof. Accordingly, the revised AS 10 would replace the existing AS 10, *Accounting for Fixed Assets*, and AS 6, *Depreciation Accounting*. Some major changes envisaged as part of the revised AS 10 are as follows:

- (i) Capitalisation of costs of major inspections or overhauls as part of the respective asset, instead of expensing as incurred, at present. The costs so capitalized would be charged to the profit and loss by way of a depreciation charge over the remaining useful lives of the respective assets;
- (ii) Prescription of a more refined and conceptually superior approach with regard to revaluation of property, plant and equipment (PPE). The key features of this approach is that an entity has to opt for cost or revaluation model and if revaluation model is adopted:
 - Revaluation needs to be done on an entire class of PPE to which that item belongs,
 - Depreciation charge is recorded based on revalued amounts and it should not nullify the impact of revaluation in the income statement by withdrawing an equivalent amount from the revaluation reserve, and
 - Frequency of revaluation should be on a regular basis so that the carrying amounts of the items revalued do not materially differ from their fair value at the balance sheet date;
- (iii) Enhanced disclosures as compared to the existing versions of AS 10 and AS 6.
- (iv) Consequential amendments by way of a limited revision to AS 2 (Revised) *Valuation of Inventories*.

Non-current assets held for sale

IFRS

A non-current asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The asset should be available for immediate sale in its present condition, and its sale should be highly probable. For the sale to be highly probable, the appropriate level of management should be committed to a plan to sell the asset, and an active programme to locate a buyer and complete the plan should have been initiated. The asset should be actively marketed for sale at a price that is reasonable in relation to its current fair value. The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. Once classified as held for sale, the asset is measured at the lower of its carrying amount and fair value less costs to sell.

US GAAP

Similar to **IFRS**. For assets to be disposed of, the loss recognised is the excess of the asset's carrying amount over its fair value less cost to sell. Costs to sell include incremental direct costs to transact the sale that would not have been incurred had the decision to sell not been made. These assets are not depreciated or amortised during the selling period.

Indian GAAP

Similar to **IFRS**, except that there is no requirement to classify an asset as held for sale and present it separately on the face of the balance sheet.

REFERENCES:

IFRS: IFRS 5.

US GAAP: FAS 144.

Indian GAAP: AS 10, AS 24.

Leases – lessor accounting

Classification

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

A finance (capital) lease exists if the agreement transfers substantially all the risks and rewards associated with ownership of the asset to the lessee. All three frameworks provide guidance on determining when an arrangement contains a lease. All three frameworks provide indicators for determining the classification of a lease; these are presented in the table below.

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

Recognition of the investment in the lease

All three frameworks require the amount due from a lessee under a finance lease to be recognised as a receivable at the amount of the net investment in the lease. This will comprise, at any point in time, the total of the future minimum lease payments and the unguaranteed residual value less gross earnings allocated to future periods. Minimum lease payments for a lessor under **IFRS** and **Indian GAAP** include guarantees from the lessee or a party related to the lessee or a third party unrelated to the lessor. **US GAAP** excludes third party residual value guarantees that provide residual value guarantees on a portfolio basis. The interest rate implicit in the lease would, **under IFRS, US GAAP** and **Indian GAAP**, generally be used to calculate the present value of minimum lease payments.

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

Operating leases

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

Incentives

IFRS and **US GAAP** require the lessor to recognise the aggregate cost of incentives given as a reduction of rental income over the lease term on a straight-line basis unless another systematic basis is more representative of the time pattern over which the benefit of the leased asset is diminished. **Indian GAAP** does not provide specific guidance on this issue; however a treatment similar to **IFRS** would be followed in practice.

REFERENCES: **IFRS:** IAS 17, IFRIC 4
US GAAP: FAS 13, FAS 66, FAS 98, FTB 88-1, EITF 01-08.
Indian GAAP: AS 19.

Impairment of assets

Recognition

IFRS An entity should assess at each reporting date whether there are any indications that an asset may be impaired. The asset is tested for impairment if there is any such indication. In addition, an intangible asset with an indefinite useful life or an intangible asset not yet available for use is tested for impairment at least annually. An impairment loss is recognised in the income statement when an asset's carrying amount exceeds its recoverable amount. Assets classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell.

US GAAP Long-lived assets shall be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Several impairment indicators exist for making this assessment. In addition, an intangible asset with an indefinite useful life or an intangible asset not yet available for use is tested for impairment at least annually. For assets to be held and used, impairment is first measured by reference to undiscounted cash flows. Any impairment is measured by comparing the asset's carrying value to its fair value. No further action is required if there is no impairment by reference to undiscounted cash flows, but the useful life of the asset should be reconsidered. Assets classified as held for disposal are measured at the lower of the carrying amount or fair value less costs to sell.

Indian GAAP Similar to **IFRS**, except that (a) all intangible assets are amortised and not considered to have indefinite useful lives and (b) assets are not separately classified or disclosed as held for disposal (sale) on the face of the balance sheet.

Measurement

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

US GAAP The impairment loss is measured as the excess of the carrying amount over the asset's fair value, being either market value (if an active market for the asset exists), the best information available in the circumstances including the price for similar assets, or the sum of discounted future cash flows or other valuation techniques, using market assumptions.

Indian GAAP Similar to **IFRS**.

Reversal of impairment loss

IFRS Impairment losses are reversed when there has been a change in economic conditions or in the expected use of the asset. Reversal of impairment loss for goodwill is not permitted.

US GAAP Impairment losses cannot be reversed for assets to be held and used, as the impairment loss results in a new cost basis for the asset. Subsequent revisions to the carrying amount of an asset to be disposed of are reported as adjustments to the asset's carrying amount, but limited by the carrying amount at the date on which the decision to dispose of the asset is made.

Indian GAAP Similar to **IFRS**. However, reversal of impairment loss for goodwill is required when the impairment loss was caused by a specific external event of an exceptional nature that is not expected to recur and subsequent external events have occurred that reverse the effect of that event.

REFERENCES: **IFRS:** IAS 16, IAS 36.
US GAAP: FAS 142, FAS 143, FAS 144.
Indian GAAP: AS 28.

Capitalisation of borrowing costs

Recognition

- IFRS** An entity can make a policy choice to capitalise or expense borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The policy is applied consistently to all qualifying assets. A qualifying asset is one that necessarily takes a substantial period of time to get it ready for its intended use or sale.
- US GAAP** Borrowing costs are capitalised, including the amortisation of discount premium and issue costs on debt, if applicable. A qualifying asset is defined similarly to **IFRS**, except that investments accounted for using the equity method meet the criteria for a qualifying asset while the investee has activities in progress necessary to commence its planned principal operations, provided that the investee's activities include the use of funds to acquire qualifying assets for its operations.
- Indian GAAP** Similar to **IFRS**, however, there is no choice but to capitalise borrowing costs. A period of twelve months is considered as substantial period of time unless a shorter or longer period can be justified.

Measurement

- IFRS** The amount of interest eligible for capitalisation is either the actual costs incurred on a specific borrowing or an amount calculated using the weighted average method, considering all the general borrowings outstanding during the period for that entity. Interest can include foreign exchange differences but under tightly defined conditions. Any interest earned on temporary investment of funds borrowed to finance the asset's production is netted and the interest capitalised. Capitalisation of interest ceases once the asset is ready for its intended use or sale. The amount of borrowing costs capitalised during a period may not exceed the amount of borrowing costs incurred during that period.
- US GAAP** Similar to **IFRS**, except that foreign exchange differences and interest earned on funds borrowed to finance the production of the asset cannot be netted against interest, except for certain governmental or private entities that finance qualifying assets through tax-exempt borrowings. In these cases, interest costs to be capitalised are required to be reduced by related interest income.
- Indian GAAP** Similar to **IFRS**.

Recent proposals – IFRS

The IASB issued an exposure draft for public comment of amendments to IAS 23, Borrowing Costs, in May 2006. The objective is to remove the main difference between US GAAP and IAS 23. This will require the capitalisation of borrowing cost, to the extent they are directly attributable to the acquisition, production or construction of a qualifying asset. The existing option of immediate recognition of those borrowing costs as an expense will be removed. The final amendments to IAS 23 are expected in Q1 or Q2, 2007.

- REFERENCES:** **IFRS:** IAS 23.
US GAAP: FAS 34, FAS 58, FAS 62.
Indian GAAP: AS 16, ASI 10.

Investment property

Definition

IFRS	Property (land and buildings) held in order to earn rentals and/or for capital appreciation. The definition does not include owner-occupied property or property held for sale.
US GAAP	No specific definition.
Indian GAAP	Property (land and buildings) not intended to be occupied substantially for use by, or in the operations of, the investing enterprise.

Initial measurement

IFRS	The same cost-based measurement is used for acquired and self-constructed investment property. The cost of a purchased investment property comprises its purchase price and any directly attributable costs, such as professional fees for legal services, property transfer taxes and other transaction costs. Self-constructed property is accounted for as PPE until construction is complete; then it becomes an investment property. Property under finance or operating lease can also be classified as investment property.
US GAAP	The historical cost model is used for most real-estate companies and operating companies. Investor entities such as many investment companies, insurance companies separate accounts, bank-sponsored real-estate trusts and employee benefit plans that invest in real estate carry their investments at fair value.
Indian GAAP	Accounted as long-term investment. No detailed guidance, however, practice similar to IFRS would follow.

Subsequent measurement

IFRS	The entity can choose between the fair value and depreciated cost models for all investment property. When fair value is applied, the gain or loss arising from a change in the fair value is recognised in the income statement. The carrying amount is not depreciated.
US GAAP	The depreciated cost model is applied for real estate companies and operating companies. Investor entities measure their investments at fair value.
Indian GAAP	Investment property is treated as long-term investment and carried at cost less impairment. Reversal of impairment is permitted.

Transfers to/from investment property

IFRS	There is detailed guidance for subsequent classification where there is a change in use of the investment property. Investment property to be sold is re-classified as inventories; investment property to be owner-occupied is reclassified as PPE.
US GAAP	Not applicable.
Indian GAAP	No specific guidance.

Frequency and basis of revaluations

IFRS	The fair value of investment property reflects the market conditions and circumstances as of the balance sheet date. The standard does not require the use of an independent and qualified appraiser, but the use is encouraged. Revaluations should be made with sufficient regularity that the carrying amount does not differ materially from fair value.
US GAAP	Specific rules apply to determine the fair value of investment entities.
Indian GAAP	Not applicable.
REFERENCES:	IFRS: IAS 40. US GAAP: ARB 43, APB 6. Indian GAAP: AS 13

Inventories

Definition

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

Measurement

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

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

Indian GAAP Similar to **IFRS**.

Formula for determining cost

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

Consistency of the cost formula for similar inventories

IFRS The same cost formula is used for all inventories that have a similar nature and use to the entity.

US GAAP Similar to **IFRS**.

Indian GAAP Not specified, but consistency is a fundamental principle.

Allocation of fixed overheads

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

US GAAP Similar to **IFRS**.

Indian GAAP Similar to **IFRS**.

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

Biological assets

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

US GAAP Not specified – historical cost is generally used.

Indian GAAP No specific guidance.

REFERENCES: **IFRS:** IAS 41.

Financial assets

IFRS outlines the recognition and measurement criteria for all financial assets defined to include derivatives. The guidance in **IFRS** is broadly consistent with **US GAAP**. Under **Indian GAAP** there is no comprehensive guidance on financial assets except accounting standards on investments and the effect of changes in foreign exchange rates and guidance notes on accounting for equity index futures, equity index options and equity stock options.

Definition

IFRS, US GAAP and **Indian GAAP** define a financial asset in a similar way, to include:

- cash;
- a contractual right to receive cash or another financial asset from another entity or to exchange financial instruments with another entity under conditions that are potentially favourable; and
- an equity instrument of another entity.

Financial assets include derivatives (under **IFRS**, these include many contracts that will or may be settled in the entity's own equity instruments). See p83 for accounting for derivatives.

Recognition and initial measurement

IFRS and **US GAAP** require an entity to recognise a financial asset when and only when the entity becomes a party to the contractual provisions of a financial instrument. A financial asset is recognised initially at its fair value (which is normally the transaction price), plus, in the case of a financial asset that is not recognised at fair value with changes in fair value recognised in the income statement, transaction costs that are directly attributable to the acquisition of that asset. Under **Indian GAAP**, there is no specific guidance, however, financial assets are recognised based on the transfer of significant risks and rewards of ownership.

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

CLASSIFICATION	IFRS	US GAAP
Financial assets at fair value through profit or loss		
Two sub-categories: financial assets held for trading (see below), and those designated to the category at inception. Any financial asset may, on initial recognition, be classified as fair value through profit or loss provided it meets certain criteria. ¹	An irrevocable decision to classify a financial asset at fair value, with changes in fair value recognised in the income statement, provided it results in more relevant information because either: <ul style="list-style-type: none"> a) it eliminates or significantly reduces a measurement or recognition inconsistency; b) a group of financial assets, financial liabilities or both is managed and performance is evaluated on a fair value basis; or c) the contract contains one or more substantive embedded derivatives. 	With the adoption of FAS 155 effective from fiscal year that begins after 15 September 2006, option to designate financial assets at fair value with changes in fair value recognised in the income statement only if it's a hybrid financial instrument that contains an embedded derivative that would otherwise require separation.
Held-for-trading financial assets		
Debt and equity securities held for sale in the short term. Includes non-qualifying hedging derivatives. ²	The intention should be to hold the financial asset for a relatively short period, or as part of a portfolio for the purpose of short-term profit-taking. Guidance applies to all financial assets. Subsequent measurement at fair value. Changes in fair value are recognised in the income statement.	Similar to IFRS . Frequent buying and selling usually indicates a trading instrument. Guidance applies to equity securities that have a readily determinable fair value and all debt securities. Similar to IFRS .

CLASSIFICATION	IFRS	US GAAP
Held-to-maturity investments		
Financial assets held with a positive intent and ability to hold to maturity. Includes assets with fixed or determinable payments and maturities. Does not include equity securities, as they have an indefinite life.	An entity should have the 'positive intent and ability' to hold a financial asset to maturity, not simply a present intention. When an entity sells more than an insignificant amount of assets (other than in limited circumstances), classified as held to maturity, it is prohibited from using the held-to-maturity classification for two full annual reporting periods (known as tainting). The entity should also reclassify all its held-to-maturity assets as available-for-sale assets. Measured at amortised cost using the effective interest rate method.	Similar to IFRS , although US GAAP is silent about when assets cease to be tainted. For listed companies, the SEC states that the taint period for sales or transfers of held-to-maturity securities should be two years.
Loans and receivables		
Financial assets with fixed or determinable payments not quoted in an active market. May include loans and receivables purchased, provided their intention is similar, but not interests in pools of assets (for example, mutual funds).	Measured at amortised cost.	Does not define a loan and receivable category. Focuses on the definition of a security. Industry-specific guidance may also apply.
Available-for-sale financial assets		
Includes debt and equity securities designated as available for sale, except those equity securities classified as held for trading, and those not covered by any of the above categories.	Measured at fair value. Changes in fair value are recognised net of tax effects in equity (ie, presented in a statement of changes in shareholders' equity or in a SoRIE) and recycled to the income statement when sold, impaired or collected. Foreign exchange gains and losses on debt securities are recognised in the income statement.	Similar to IFRS , except unlisted equity securities are generally carried at cost. Exceptions apply for specific industries. Changes in fair value are reported in other comprehensive income. Foreign exchange gains and losses on debt securities are recognised in equity.

¹ This restricted fair value option under **IFRS** is applicable for annual periods beginning on or after 1 January 2006. Prior to that date, entities had an ability to designate any financial asset or financial liability at fair value though profit or loss.

² Qualifying hedging derivatives are classified separately.

Under **Indian GAAP**, investments are classified as current and long-term. A current investment is an investment that by its nature is readily realisable and is intended to be held for not more than one year from the date of investment. A long-term investment is an investment other than a current investment.

Current investments are carried at lower of cost and fair value whereas long-term investments are carried at cost less impairment, if any. Any reduction in the carrying amount and any reversals of such reductions are recycled through income statement.

Banking regulations require investments to be classified between held-to-maturity, trading and available-for-sale. However, the classification criteria and measurement requirements differ from **IFRS** and **US GAAP**.

Reclassification of assets between categories

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

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

An instrument may be reclassified into the category where the tainted held-to-maturity portfolio has been 'cleansed'. In this case, the financial asset's carrying value at the date of reclassification becomes its amortised cost. For financial assets that do not have a fixed maturity, any gains and losses already recognised in equity remain in equity until the asset is impaired or derecognised. For financial assets with a fixed maturity, the gain or loss is amortised to profit or loss over the remaining life of the instrument using the effective yield method.

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

- **Held-to-maturity investments:** a financial asset is reclassified from the held-to-maturity category when there has been a change of intent or ability, or there has been evidence of short-term profit-taking. Where the reclassification is to held-for-trading, the asset is remeasured to fair value with the difference recognised in the income statement. Where the financial asset is reclassified from held-to-maturity to available for sale, the asset is remeasured at fair value with the difference recognised in equity. Such a transfer may trigger tainting provisions, similar to **IFRS**.

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

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

Indian GAAP Transfer from long-term to current category is made at lower of cost and carrying amount at the date of transfer; whereas transfer from current to long-term category is made at lower of cost and fair value at the date of transfer. Banking regulations provide separate guidelines for transfers.

Impairment

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

IFRS Entities should consider impairment when there is an indicator of impairment, such as: the deterioration in the creditworthiness of a counterparty; an actual breach of contract; a high probability of bankruptcy; the disappearance of an active market for an asset, or in the case of an investment in an equity instrument, whether there has been a significant or prolonged decline in the fair value of that investment below its cost. A decline in the fair value of a financial asset below its cost that results from the increase in the risk-free interest rate is not necessarily evidence of impairment. An impairment of a security does not establish a new cost basis.

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

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

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

Indian GAAP requires the write-down of long-term investments to income statement when an entity considers a decline in fair value to be 'other than temporary'. It does not specifically lay down indicators of impairment. The reduction in carrying amount is reversed when there is a rise in the value of the investment, or if the reasons for the reduction no longer exist.

Derecognition

IFRS

A financial asset (or part) is derecognised when:

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

An entity consolidates subsidiaries including SPEs before applying the derecognition tests to assets of the consolidated entity. The entity derecognises the asset if an entity transfers substantially all the risks and rewards of ownership of the asset (for example, an unconditional sale of a financial asset). It continues to recognise the asset (the transaction is accounted for as a collateralised borrowing) if it retains substantially all the risks and rewards of ownership of the asset. If an entity neither transfers nor retains substantially all the risks and rewards of ownership of the asset, it has to determine whether it has retained control of the asset. Control is based on the transferee's practical ability to sell the asset. The asset is derecognised if the entity has lost control. If the entity has retained control, it continues to recognise the asset to the extent of its continuing involvement.

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

US GAAP

The derecognition model is different from the **IFRS** model and governed by three key tests:

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

Indian GAAP

Limited guidance on derecognition of assets. In general, derecognised based on transfer of risks and rewards. However, a Guidance Note on Accounting for Securitisation requires derecognition of securitised assets if the originator loses control of the contractual rights that comprise the securitised asset.

Recent pronouncement and proposal

See 'Recent pronouncement and proposal – US GAAP' on page 81.

REFERENCES:

IFRS: IAS 39, SIC-12.

US GAAP: FAS 115, FAS 133, FAS 140, FAS 155, FAS 157.

Indian GAAP: AS 13, Guidance Note on Accounting for Securitisation.

Liabilities

Provisions

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

Recognition

IFRS

A provision is recognised when:

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

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

US GAAP

Similar to **IFRS**.

Indian GAAP

Similar to **IFRS**, except that constructive obligations are not considered for recognising provisions.

Measurement

IFRS

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

US GAAP

Similar to **IFRS**. However, if a range of estimates is present and no amount in the range is more likely than any other amount in the range, the 'minimum' (rather than the mid-point) amount is used to measure the liability. A provision is only discounted when the timing of the cash flows is fixed.

Differences may arise in the selection of the discount rate, particularly in the area of asset retirement obligations.

Indian GAAP

Similar to **IFRS**, except that discounting is not required. In practice, provisions are measured by using a substantial degree of estimation.

Restructuring provisions

IFRS

A present obligation exists only when the entity is 'demonstrably committed' to the restructuring. An entity is usually demonstrably committed when there is legal obligation or when the entity has a detailed formal plan for the restructuring. The entity must be unable to withdraw because it has started to implement the plan or announced its main features to those affected (constructive obligation). A current provision is unlikely to be justified if there will be a delay before the restructuring begins, or the restructuring will take an unreasonably long time to complete.

US GAAP

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

Indian GAAP

In the case of a restructuring, provision can be made only when the general recognition criteria for provisions are met as compared to the 'constructive obligation' recognition criteria specified under **IFRS**.

Onerous contracts

IFRS Provisions for future operating losses are prohibited. However, if an entity is party to a contract that is onerous (the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under the contract), the present obligation under the contract is recognised and measured as a provision. One of the most common examples relates to leasehold property that has been left vacant. The liability is reduced by estimated sub-lease rentals if management has the ability to sublease and sublease income is probable (more likely than not) of being obtained.

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

Indian GAAP Similar to **IFRS**, except that discounting is not required.

REFERENCES: **IFRS:** IAS 37.

US GAAP: FAS 5, EITF 88-10, FAS 143, FAS 146, SOP 96-1.

Indian GAAP: AS 29

Decommissioning, restoration and similar liabilities (asset retirement obligations)

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

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

US GAAP The decommissioning liability is referred to as an 'asset retirement obligation' (ARO). The associated asset retirement costs are capitalised as part of the asset's carrying amount. The criteria for accrual and capitalisation of an ARO are more stringent under US GAAP than under IFRS – for example, there has to be an existing legal obligation and the ARO is recorded only if a reasonable estimate of fair value can be made. IFRS has no similar requirement regarding an entity's ability to estimate fair value.

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

Indian GAAP Similar to **IFRS**, except that discounting is not required and currently there is no specific guidance on capitalisation of these costs to PPE. The ICAI is expected to release the revised AS 10, *Property, Plant and Equipment*, which proposes to include these costs as part of the related PPE.

REFERENCES: **IFRS:** IAS 16, IAS 37, IFRIC 1.

US GAAP: FAS 143, FIN 47.

Indian GAAP: AS 29.

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

IFRS An entity obligated under the national legislation to bear the waste management cost on equipment sold to private households before 13 August 2005 ('historical waste') recognises a liability when it participates in the market during the measurement period. The entity applies the same treatment for waste management cost on equipment sold to private households on or after 13 August 2005 ('new waste') if the national legislation treats new waste in a similar manner as historical waste. The entity is not obligated for costs incurred after it exits the business. Commercial-user entities can also apply the same treatment if the fact pattern is similar.

US GAAP Similar to **IFRS**.

Indian GAAP Similar to **IFRS**.

REFERENCES: **IFRS:** IAS 37, IFRIC 6.
US GAAP: FAS 143, FIN 47, FSP No. FAS 143-1.
Indian GAAP: AS 29.

Contingencies

Contingent asset

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

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

Indian GAAP Similar to **IFRS**, except that certain disclosures as specified under **IFRS** are not required.

Contingent liability

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

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

Indian GAAP Similar to **IFRS**.

REFERENCES: **IFRS:** IAS 37
US GAAP: FAS 5, SOP 96-1.
Indian GAAP: AS 4, AS 29.

Deferred tax

All three frameworks require a provision for deferred taxes, but there are differences in the methodologies, as set out in the table below.

ISSUE	IFRS	US GAAP	Indian GAAP
General considerations			
General approach	Full provision.	Similar to IFRS .	Similar to IFRS .
Basis for deferred tax assets and liabilities	Temporary differences – ie, the difference between carrying amount and tax base of assets and liabilities (see exceptions below).	Similar to IFRS .	Timing differences – i.e., the difference between accounting income and taxable income for a period that originate in one period and are capable of reversal in one or more subsequent periods.
Exceptions (i.e., deferred tax is not provided on the temporary/ timing difference)	<p>Non-deductible goodwill (that which is not deductible for tax purposes) does not give rise to taxable temporary differences.</p> <p>Initial recognition of an asset or liability in a transaction that: (a) is not a business combination; and (b) affects neither accounting profit nor taxable profit at the time of the transaction.</p> <p>Other amounts that do not have a tax consequence (commonly referred to as permanent differences) exist and depend on the tax rules and jurisdiction of the entity.</p>	Similar to IFRS , except no initial recognition exemption and special requirements apply in computing deferred tax on leveraged leases.	Similar to IFRS .
Specific applications			
Unrealised intra-group profits – for example, on inventory	Deferred tax recognised at the buyer's tax rate.	The buyer is prohibited from recognising deferred taxes. Any income tax effects to the seller (including taxes paid and tax effects of any reversal of temporary differences) as a result of the inter-company sale are deferred and recognised upon sale to a third party.	Deferred tax is not recognised as deferred taxes are aggregated from standalone financial statement of all consolidating entities and no adjustment is made on consolidation.
Revaluation of PPE and intangible assets	Deferred tax recognised in equity.	Not applicable, as revaluation is prohibited.	Deferred tax is not recognised as considered as permanent difference.
Intra-period tax allocation (backwards tracing)	Deferred tax is recognised in the income statement unless changes in the carrying amount of the assets are taken to equity. In this case, deferred tax is taken to equity (the 'follow-up principle').	Similar to IFRS for initial recognition, but certain subsequent changes (rate changes and valuation allowance) are recognised in the income statement.	Similar to IFRS .

ISSUE	IFRS	US GAAP	Indian GAAP
Foreign non-monetary assets/liabilities when the tax reporting currency is not the functional currency	Deferred tax is recognised on the difference between the carrying amount determined using the historical rate of exchange and the tax base determined using the balance sheet date exchange rate.	No deferred tax is recognised for differences related to assets and liabilities that are remeasured from local currency into the functional currency resulting from changes in exchange rates or indexing for tax purposes.	No specific guidance, however, no deferred tax will be recognised.
Investments in subsidiaries – treatment of undistributed profit	Deferred tax is recognised except when the parent is able to control the distribution of profit and if it is probable that the temporary difference will not reverse in the foreseeable future.	Deferred tax is required on temporary differences arising after 1992 that relate to investments in domestic subsidiaries, unless such amounts can be recovered tax-free and the entity expects to use that method. No deferred taxes are recognised on undistributed profits of foreign subsidiaries that meet the indefinite reversal criterion.	Deferred tax is not recognised as deferred taxes are aggregated from standalone financial statements of all consolidating entities and no adjustment is made on consolidation.
Investments in joint ventures – treatment of undistributed profit	Deferred tax is recognised except when the venturer can control the sharing of profits and if it is probable that the temporary difference will not reverse in the foreseeable future.	Deferred tax is required on temporary differences arising after 1992 that relate to investment in domestic corporate joint ventures. No deferred taxes are recognised on undistributed profits of foreign corporate joint ventures that meet the indefinite reversal criterion.	As for subsidiaries
Investments in associates – treatment of undistributed profit	Deferred tax is recognised except when the investor can control the sharing of profits and it is probable that the temporary difference will not reverse in the foreseeable future.	Deferred tax is recognised on temporary differences relating to investments in investees.	As for subsidiaries
Uncertain tax positions	Reflects the tax consequences that follow from the manner in which the entity expects, at the balance sheet date, to pay to (recovered from) the taxation authorities.	A tax benefit from an uncertain tax position may be recognised only if it is 'more likely than not' that the tax position is sustainable based on its technical merits. The tax position is measured as the largest amount of tax benefit that is greater than 50% likely of being realised upon ultimate settlement.	Similar to IFRS .

ISSUE	IFRS	US GAAP	Indian GAAP
Share-based compensation	<p>If a tax deduction exceeds cumulative share-based compensation expense, deferred tax calculations based on the excess deduction are recorded directly in equity. If the tax deduction is less than or equal to cumulative share-based compensation expense, deferred taxes arising are recorded in income. The unit of accounting is an individual award.</p> <p>If changes in the stock price impact the future tax deduction, the estimate of the tax deduction is based on the current stock price.</p>	<p>If the tax benefit available to the issuer exceeds the deferred tax asset recorded, the excess benefit (known as a 'windfall' tax benefit) is credited directly to shareholders' equity. If the tax benefit is less than the deferred tax asset, the shortfall is recorded as a direct charge to shareholders' equity to the extent of prior windfall tax benefits, and as a charge to tax expense thereafter.</p> <p>Changes in the stock price do not impact the deferred tax asset or result in any adjustments prior to settlement or expiration. Although they do not impact deferred tax assets, future changes in the stock price will affect the actual future tax deduction (if any).</p>	Deferred tax is not recognised as it is permanent difference.
Measurement of deferred tax			
Tax rates	Tax rates and tax laws that have been enacted or substantively enacted.	Use of substantively enacted rates is not permitted. Tax rate and tax laws used must have been enacted.	Similar to IFRS .
Recognition of deferred tax assets	A deferred tax asset is recognised if it is probable (more likely than not) that sufficient taxable profit will be available against which the temporary difference can be utilised.	A deferred tax asset is recognised in full but is then reduced by a valuation allowance if it is more likely than not that some or all of the deferred tax asset will not be realised.	Deferred tax assets is recognised (a) if realisation is virtually certain for entities with tax losses carryforward, whereas (b) if realisation is reasonably certain for entities with no tax losses carryforward.
Recognition of asset on minimum alternative tax (MAT) credit carryforward.	It is recognised as a deferred tax asset if it is probable (more likely than not) that MAT credit can be used in future years to reduce the regular tax liability.	It is recognised as a deferred tax asset in full, but is then reduced by a valuation allowance, if it more likely than not that MAT credit cannot be used in future years to reduce the regular tax liability.	It is considered as prepaid tax and recognised as an asset (not as a deferred tax asset) when and to the extent there is convincing evidence that MAT credit will be used in future years to reduce the regular tax liability.
Discounting	Prohibited.	Prohibited.	Prohibited.
Business combinations – acquisitions			
Step-up of acquired assets/liabilities to fair value	Deferred tax is recorded unless the tax base of the asset is also stepped up.	Similar to IFRS .	Deferred taxes are aggregated from stand-alone financial statements of all consolidating entities and no adjustment is made on consolidation.

ISSUE	IFRS	US GAAP	Indian GAAP
Previously unrecognised tax losses of the acquirer	A deferred tax asset is recognised if the recognition criteria for the deferred tax asset are met as a result of the acquisition. Offsetting credit is recorded in income.	Similar to IFRS , except the offsetting credit is recorded against goodwill.	Similar to IFRS .
Tax losses of the acquiree (initial recognition)	Similar requirements as for the acquirer except the offsetting credit is recorded against goodwill.	Similar to IFRS .	For entity acquired and held as a subsidiary, offsetting credit is recorded in income statement. For entity acquired and amalgamated, similar to IFRS .
Subsequent resolution of income tax uncertainties in a business combination	If the resolution is more than one year after the year in which the business combination occurred, the result is recognised in the income statement.	The subsequent resolution of any tax uncertainty relating to a business combination is recorded against goodwill.	All adjustments are recorded in income statement.
Subsequent recognition of deferred tax assets that were not 'probable' at the time of the business combination	A deferred tax asset that was not considered probable at the time of the business combination but later becomes probable is recognised. The adjustment is to income tax expense with a corresponding adjustment to goodwill. The income statement shows a debit to goodwill expense and a credit to income tax expense. There is no time limit for recognition of this deferred tax asset.	The subsequent resolution of any tax uncertainty relating to a business combination is recorded first against goodwill, then non-current intangibles and then income tax expense. There is no time limit for recognition of this deferred tax asset.	For entity acquired and held as a subsidiary, no adjustment is recorded on consolidation. For entity acquired and amalgamated, similar to IFRS . However, if the recognition of deferred tax asset is done after the first annual balance sheet date following the combination, the corresponding effect of any subsequent recognition is routed through the income statement.
Presentation of deferred tax			
Offset of deferred tax assets and liabilities	Permitted only when the entity has a legally enforceable right to offset and the balance relates to tax levied by the same authority.	Similar to IFRS .	Similar to IFRS .
Current/non-current	Deferred tax assets and liabilities are classified net as non-current on the balance sheet, with supplemental note disclosure for: (1) the components of the temporary differences, and (2) amounts expected to be recovered within 12 months and more than 12 months of the balance sheet date.	Deferred tax assets and liabilities are either classified as current or non-current, based on the classification of the related non-tax asset or liability for financial reporting. Tax assets not associated with an underlying asset or liability are classified based on the expected reversal period.	Deferred tax asset, net, is disclosed after 'Net current assets'; whereas deferred tax liability, net, is disclosed after 'Unsecured loans'.

ISSUE	IFRS	US GAAP	Indian GAAP
Minimum alternative tax credit carryforward	Disclosed along with any other deferred tax amount.	Similar to IFRS .	Disclosed as “MAT credit entitlement” within “Loans and Advances”, with a corresponding credit to the income statement and presented as a separate line item therein. MAT credit utilised is shown as a deduction from “Provision for Taxation” on the liabilities side of the Balance Sheet.
Reconciliation of actual and expected tax expense	Required. Computed by applying the applicable tax rates to accounting profit, disclosing also the basis on which the applicable tax rates are calculated.	Required for public companies only. Calculated by applying the domestic federal statutory tax rates to pre-tax income from continuing operations.	Not required.

REFERENCES: **IFRS:** IAS 1, IAS 12, IFRS 3.

US GAAP: FAS 109, FIN 48.

Indian GAAP: AS 22, Guidance Note on Accounting for Credit Available in respect of Minimum Alternative Tax under the Income Tax Act, 1961

Government grants

IFRS

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

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

US GAAP

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

Indian GAAP

Government grants are not recognised until there is reasonable assurance that (i) the enterprise will comply with the conditions attached to them and (ii) the grants will be received. Two broad approaches may be followed for the accounting treatment of government grants: the capital approach, under which a grant is treated as a part of the shareholders’ funds, and the income approach, under which a grant is taken to income over one or more periods.

Government grants related to specific fixed assets are presented in the balance sheet by showing the grant as a deduction from the gross value of the assets concerned in arriving at their book value. Government grants related to revenue are recognised on a systematic basis in the income statement over the periods necessary to match them with the related costs that they are intended to compensate. Such grants are either shown separately under ‘other income’ or deducted in reporting the related expense. Government grants of the nature of promoters’ contribution are credited to capital reserve and treated as a part of shareholders’ funds.

Government grants in the form of non-monetary assets, given at a concessional rate, are accounted for on the basis of their acquisition cost. If a non-monetary asset is given free of cost, it is recorded at a nominal value.

Government grants that are receivable as compensation for expenses or losses incurred in a previous accounting period or for the purpose of giving immediate financial support to the enterprise with no further related costs, are recognised and disclosed in the income statement of the period in which they are receivable as an extraordinary item, if appropriate.

Grants – agricultural assets

IFRS	An unconditional government grant related to a biological asset measured at its fair value is recognised in the income statement when the grant becomes receivable. If a government grant relating to a biological asset measured at its fair value is conditional, the grant is recognised when the conditions are met. The accounting treatment specified for government grants generally is applied if a grant relates to a biological asset measured at cost.
US GAAP	Not specified.
Indian GAAP	Not specified.

REFERENCES: **IFRS:** IAS 20, IAS 41.
US GAAP: FAS 116.
Indian GAAP: AS 12.

Leases – lessee accounting

Finance leases

IFRS	Requires recognition of an asset held under a finance lease (see classification criteria on p61) with a corresponding obligation for future rentals, at an amount equal to the lower of the fair value of the asset and the present value of the future minimum lease payments (MLPs) at the inception of the lease. The asset is depreciated over its useful life or the lease term if shorter. However, this is only permitted if there is no reasonable certainty of the lessee obtaining ownership of the asset. The interest rate implicit in the lease is normally used to calculate the present value of the MLPs. The lessee's incremental borrowing rate may be used if the implicit rate is unknown.
US GAAP	Similar to IFRS , except that the lessee's incremental borrowing rate is used to calculate the present value of the MLPs, excluding the portion of payments representing executory costs, unless it is practicable to determine the rate implicit in the lease and the implicit rate is lower than the incremental borrowing rate. If the incremental borrowing rate is used, the amount recorded as the asset and obligation is limited to the fair value of the leased asset. Asset amortisation is consistent with IFRS .
Indian GAAP	Similar to IFRS .

Operating leases

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

Incentives

A lessor often provides lease incentives to encourage the lessee to renew a lease arrangement. The lessee, under **IFRS** and **US GAAP**, recognises the aggregate benefit of incentives as a reduction of rental expense over the lease term. The incentive is amortised on a straight-line basis unless another systematic basis is representative of the pattern of the lessee's benefit from the use of the leased asset. **Indian GAAP** does not provide specific guidance on this issue; however a treatment similar to **IFRS** would be followed in practice.

Sale and leaseback transactions

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

ISSUE	IFRS and Indian GAAP	US GAAP
Finance lease		
Profit or loss on sale	Deferred and amortised over the lease term.	Timing of profit or loss recognition depends on whether the seller relinquishes substantially all or a minor part of the use of the asset. If substantially all, profit/loss is generally recognised at date of sale. If seller retains more than a minor part, but not substantially all of the use of the asset, any profit in excess of either the present value of MLPs (for operating leases) or the recorded amount of the leased asset (for finance leases) is recognised at date of sale. A loss on a sale-leaseback is recognised immediately by the seller-lessee to the extent that net book value exceeds fair value. Specific rules apply for sale-leasebacks relating to continuing involvement and transfer of risks and rewards of ownership.
Operating lease		
Sale at fair value	Immediate recognition.	See above.
Sale at less than fair value	Immediate recognition, unless the difference is compensated by lower future rentals. In such cases, the difference is deferred over the period over which the asset is expected to be used.	See above.
Sale at more than fair value	The difference is deferred over the period for which the asset is expected to be used.	See above.

REFERENCES: **IFRS:** IAS 17, SIC-15.
US GAAP: FAS 13, FAS 28, FAS 66, FAS 98.
Indian GAAP: AS 19.

Financial liabilities

Definition

IFRS and **US GAAP** define a financial liability in a similar way, to include a contractual obligation to deliver cash or a financial asset to another entity, or to exchange financial instruments with another entity under conditions that are potentially unfavourable. Financial liabilities include derivatives (under **IFRS**, these include many contracts that will or may be settled using the entity's own equity instruments). **Indian GAAP** does not define financial liability or provides guidance on accounting of such liability. See also 'Derivatives' on p83.

Classification

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

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

The issuer classifies the financial instrument as a liability if the settlement of a financial instrument, such as a preferred share, is contingent on uncertain future events beyond the control of both the issuer and the holder. An instrument that is settled using an entity's own equity shares is classified as a liability if the number of shares varies in such a way that the fair value of the shares issued equals the obligation.

Puttable instruments (financial instruments that give the holder the right to put the instrument back to the issuer for cash or another asset) are liabilities. Specific guidance exists for when the holder's right to redemption is subject to specific limits.

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

US GAAP SEC guidance provides for the classification of certain redeemable instruments that are outside the scope of FAS 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, as mezzanine equity (ie, outside of permanent equity). The following types of instrument are classified as liabilities under FAS 150:

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

Indian GAAP No specific guidance. In practice, classification is based on legal form rather than substance. All preference shares are disclosed separately as share capital under shareholders' funds.

Convertible debt

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

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

Indian GAAP No specific guidance. Convertible liability is recognised as liability based on legal form without any split. On conversion, the amount is allocated between share capital and additional paid-in capital.

Measurement

- IFRS** Convertible debt is measured at fair value on initial recognition, which is usually the consideration received plus incremental and directly attributable costs of issuing the debt.
- There are two categories of financial liabilities: those that are recognised at fair value through profit or loss (includes trading), and all others. All derivatives that are liabilities (except qualifying hedging instruments) are trading liabilities. Other trading liabilities may include a short position in securities. Financial liabilities at fair value through profit or loss (including trading) are measured at fair value (the change is recognised in the income statement for the period). Financial liabilities aside from those that are trading can only be designated at fair value through profit or loss provided they meet certain criteria. All other (non-trading) liabilities are carried at amortised cost using the effective interest method.
- US GAAP** Similar to **IFRS**. Incremental and directly attributable costs of issuing debt are deferred as an asset and amortised using the effective interest method. There are also specific measurement criteria for certain financial instruments. Entities cannot use the fair value option to designate at initial recognition a financial liability at fair value through profit or loss, except for certain hybrid financial instruments.
- Indian GAAP** No specific guidance. Generally, liabilities are recorded at face value.

Derecognition of financial liabilities

- IFRS** A financial liability is derecognised when: the obligation specified in the contract is discharged, cancelled or expires; or the primary responsibility for the liability is legally transferred to another party. A liability is also considered extinguished if there is a substantial modification in the terms of the instrument - for example, where the discounted present value of new cash flows is different from the previous cash flows by at least 10%.
- The difference between the carrying amount of a liability (or a portion thereof) extinguished or transferred and the amount paid for it should be recognised in net profit or loss for the period.
- US GAAP** Similar to **IFRS**, a financial liability is derecognised only if it has been extinguished. Extinguished means paying the creditor and being relieved of the obligation or being legally released from the liability either judicially or by the creditor, or as a result of a substantial modification in terms (10% or greater change in discounted present value of cash flows).
- Indian GAAP** No specific guidance. In practice, treatment would be similar to **IFRS** based on substance of the transaction, however, 10% criteria may not be applied.

Recent pronouncement – US GAAP

The FASB issued FAS 157 - Fair Value Measurements on September 15, 2006 to create consistency in valuing all assets and liabilities when required by **US GAAP**; effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. This statement defines fair value and establishes a measurement framework for all financial and non-financial assets and liabilities that are measured at fair value for either recognition or disclosures purposes under **US GAAP**, with certain exceptions.

FAS 157 establishes a fair value hierarchy that prioritises the information used to develop the assumptions market participants would use when pricing an asset or liability (i.e., the principal or most advantageous market for the asset or liability). Further, it focuses on use of the price that would be received to sell the asset or paid to transfer the liability (an exit price). The fair value hierarchy distinguishes between observable inputs and unobservable inputs and gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the reporting entity's own data. This Statement expands disclosures about the use of fair value to measure assets and liabilities. The disclosures focus on the inputs used to measure fair value and for recurring fair value measurements.

Although, this Statement does not provide any new fair value measures, for most entities, the application of this Statement will change current practice.

Recent proposal – US GAAP

The FASB issued an ED on the fair value option for financial assets and financial liabilities in January 2006. The proposal would create a fair value option under which an entity may irrevocably elect fair value through profit or loss for the initial and subsequent measurement of certain assets and financial liabilities on a contract-by-contract basis.

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

Equity

Equity instruments

Recognition and classification

IFRS	An instrument is classified as equity when it does not contain an obligation to transfer economic resources. Preference shares that are not redeemable, or that are redeemable solely at the option of the issuer, and for which distributions are at the issuer's discretion, are classified as equity. Only derivative contracts that result in the delivery of a fixed amount of cash, or other financial asset for a fixed number of an entity's own equity instruments, are classified as equity instruments. All other derivatives on the entity's own equity are treated as derivatives.
US GAAP	Shareholders' equity is analysed between capital stock (showing separate categories for non-redeemable preferred stock and common stock) and other categories of shareholders' equity. Mandatorily redeemable financial instruments (date or event certain redemption), obligations to repurchase own shares by transferring assets and certain obligations to issue a variable number of shares are not classified as equity but are considered to be liabilities. Unlike IFRS , certain derivatives of an entity's own shares that are or may be net share-settled can be classified as equity.
Indian GAAP	The Companies Act defines an equity share capital as all share capital which is not a preference share capital. A preference capital is defined as a share capital (a) that with respect to dividends carry a preferential right to be paid a fixed amount or an amount calculated at a fixed rate and (b) that with respect to capital carries a preferential right to be repaid on a winding up or repayment of capital.

Purchase of own shares

IFRS	When an entity's own shares are repurchased, they are shown as a deduction from shareholders' equity at cost. Any profit or loss on the subsequent sale of the shares is shown as a change in equity.
US GAAP	Similar to IFRS , except when treasury stock is acquired with the intention of retiring the stock, an entity has the option to: charge the excess of the cost of treasury stock over its par value entirely to retained earnings; allocate the excess between retained earnings and additional paid-in-capital (APIC); or charge the excess entirely to APIC.
Indian GAAP	An entity is permitted to repurchase its own shares only under limited circumstances subject to the legal requirements stipulated in the Companies Act. On repurchase, such shares are required to be cancelled, i.e. cannot be kept as treasury stock.

Dividends on ordinary equity shares

IFRS	Presented as a deduction in the statement of changes in shareholders' equity in the period when authorised by shareholders. Dividends are accounted in the year when declared.
US GAAP	Similar to IFRS .
Indian GAAP	Presented as an appropriation to the income statement. Dividends are accounted in the year when proposed.

REFERENCES:	IFRS: IAS 32, IAS 39. US GAAP: CON 6, APB 6, APB 14, FAS 150. Indian GAAP: AS 4, Companies Act, 1956.
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Derivatives and hedging

Derivatives

IFRS and **US GAAP** specify rules for the recognition and measurement of derivatives. Under **Indian GAAP**, there is no comprehensive guidance for the recognition and measurement of derivatives. However, guidance is available for (a) forward exchange contracts and (b) equity index future, equity index options and equity stock options. There is separate guidance available for banking companies.

Definition

IFRS A derivative is a financial instrument:

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

US GAAP Sets out similar requirements, except that the terms of the derivative contract should require or permit net settlement. There are therefore some derivatives, such as option and forward agreements to buy unlisted equity investments, that fall within the **IFRS** definition, not the **US GAAP** definition, because of the absence of net settlement.

Indian GAAP The guidance note on *Accounting for Equity Index Options and Equity Stock Options* uses an inclusive definition and states derivatives include, (a) a security derived from a debt instrument, share, loan, whether secured or unsecured, risk instrument or contract for differences or any other form of security; (b) a contract which derives its value from the prices, or an index of prices, of underlying securities.

Initial measurement

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

Subsequent measurement

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

Under **Indian GAAP**, forward exchange contracts intended for trading or speculation purposes are carried at fair value with unrealised gains and losses recognised in the income statement, else, the premium or discount is amortised over the life of the contract and the exchange difference on such contracts is recognised in the income statement in the reporting period in which the exchange rate changes. Equity index options and equity stock options are carried at lower of cost or market value. With effect from fiscal years beginning 1 April 2007, forward exchange contracts to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction would be accounted similar to foreign exchange contracts not held for speculation or trading as discussed above. Prior to this, there was no specific guidance for forward exchange contracts to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction.

Embedded derivatives

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

There are some detailed differences between **IFRS** and **US GAAP** for certain types of embedded derivatives on what is meant by 'closely related'. Under **IFRS**, reassessment of whether an embedded derivative needs to be separated is permitted only when there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract. Under **US GAAP**, reassessment of whether an embedded derivative should be bifurcated from its host contract is required on an ongoing basis, even if there is no modification of the hybrid contract (certain exceptions apply).

Under **Indian GAAP**, there is no specific guidance.

Hedge accounting

Detailed guidance is set out in the respective standards under **IFRS** and **US GAAP** dealing with hedge accounting. Under **Indian GAAP**, there is no specific guidance on hedge accounting.

Criteria for hedge accounting

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

A hedge qualifies for hedge accounting under **IFRS** and **US GAAP** if changes in fair values or cash flows of the hedged item are expected to be highly effective in offsetting changes in the fair value or cash flows of the hedging instrument ('prospective' test) and 'actual' results are within a range of 80% to 125% ('retrospective' test). **US GAAP**, unlike **IFRS**, also allows, assuming stringent conditions are met, a 'short-cut' method that assumes perfect effectiveness for certain hedging relationships involving interest-rate swaps.

Hedged items

IFRS and **US GAAP** contain additional requirements for the designation of specific financial assets and liabilities as hedged items. These are outlined in the table below.

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

Hedging instruments

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

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

Under **IFRS**, a written option cannot be designated as a hedging instrument unless it is combined with a purchase option and a net premium is paid. Under **US GAAP**, a written option can be designated as a hedging instrument only if stringent criteria are met. Written options will not qualify for hedge accounting in most cases.

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

Hedge relationships

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

IFRS Recognises the following types of hedge relationships:

- a fair value hedge where the risk being hedged is a change in the fair value of a recognised asset or liability;
- a cash flow hedge where the risk being hedged is the potential volatility in future cash flows; and
- a hedge of a net investment in a foreign entity, where a hedging instrument is used to hedge the currency risk of a net investment in a foreign entity.

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

US GAAP Similar to **IFRS**.

Fair value hedges

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

US GAAP Similar to **IFRS**.

Cash flow hedges

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

US GAAP Similar to **IFRS**; however, the basis adjustment approach is not permitted. All gains and losses are subsequently released to the income statement concurrent with the deferred recognition of the hedged item.

Hedges of net investments in foreign operations

IFRS Similar treatment to cash flow hedges. The hedging instrument is measured at fair value with gains/losses deferred in equity, to the extent that the hedge is effective, together with exchange differences arising on the entity's investment in the foreign operation. These gains/losses are transferred to the income statement on disposal or partial disposal of the foreign operation.

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

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

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

US GAAP Prohibited.

Disclosure

The disclosures are similar under the two frameworks and include general information about the entity's use of financial instruments, fair value information, details of hedging activities and liquidity information. However, there are differences in the detailed requirements (such as those for disclosures of interest-rate risk, credit risk and market risk), as well as industry-specific disclosures, which are outside the scope of this publication. Disclosures in **IFRS** are presented in the notes to the financial statements, while many similar disclosures in **US GAAP** are presented in the management discussion and analysis (MD&A) for SEC registrants.

Under **Indian GAAP**, as per a recent notification by the ICAI, pending the issuance of an accounting standard on Financial Instruments the ICAI requires certain minimum disclosures as follows, effective for fiscal years ending on or after 31 March 2006,: (a) category wise quantitative data of derivative instruments outstanding, (b) purpose of acquiring such derivative instruments and (c) the non-hedged foreign currency exposure.

REFERENCES: **IFRS:** IAS 39, IFRS 7, IFRIC 9.

US GAAP: FAS 133, FAS 137, FAS 138, FAS 149, FAS 155, EITF D-102, FIN 37.

Indian GAAP: AS 11 (Revised 2003), GN on Accounting for Equity Index and Equity Stock Futures and Options.

Other accounting and reporting topics

Foreign currency translation

Functional currency – definition and determination

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

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

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

Indian GAAP It does not define or require determination of functional currency. Assumes an entity normally uses the currency of the country in which it is domiciled in recording its transaction.

Translations – the individual entity

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

- Translation of transactions denominated in foreign currency is at the exchange rate in operation on the date of the transaction;
- Monetary assets and liabilities denominated in a foreign currency are translated at the closing (year-end) rate;
- Non-monetary foreign currency assets and liabilities are translated at the appropriate historical rate;
- Non-monetary items denominated in a foreign currency and carried at fair value are reported using the exchange rate that existed when the fair value was determined (**IFRS** and **Indian GAAP**);
- Income statement amounts are translated using historical rates of exchange at the date of transaction or an average rate as a practical alternative, provided the exchange rate does not fluctuate significantly; and
- Exchange gains and losses arising from an entity's own foreign currency transactions are reported as part of the profit or loss for the year, except that exchange gains and losses on certain foreign currency liabilities are capitalised to PPE under **Indian GAAP**. This includes foreign currency gains and losses on available-for-sale debt securities (**IFRS** only) as well as long-term loans, which in substance form part of an entity's net investment in a foreign operation. See 'Derivatives and hedging' section for the hedge of a net investment (p85).

Translation – consolidated financial statements

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

Tracking of translation differences in equity

IFRS Translation differences in equity are separately tracked and the cumulative amounts disclosed. The appropriate amount of cumulative translation difference relating to the entity is transferred to the income statement on disposal of a foreign operation and included in the gain or loss on sale. The cumulative translation difference may be released through the income statement, for a partial disposal on a pro rata basis relative to the portion disposed. The proportionate share of the related cumulative translation difference is included in the gain or loss. The payment of a dividend out of pre-acquisition profits constitutes a return of the investment and is regarded as a partial disposal.

US GAAP Similar to **IFRS**; however, gains and losses are transferred to the income statement only upon sale or complete or substantially complete liquidation of the investment.

Indian GAAP Similar to **IFRS**.

Translation of goodwill and fair value adjustments on acquisition of foreign entity**IFRS** Translated at closing rates.**US GAAP** Similar to **IFRS**.**Indian GAAP** Similar to **IFRS**.**Presentation currency****IFRS** Assets and liabilities are translated at the exchange rate at the balance sheet date when financial statements are presented in a currency other than the functional currency. Income statement items are translated at the exchange rate at the date of the transaction or are permitted to use average rates if the exchange rates do not fluctuate significantly.**US GAAP** Similar to **IFRS**; historical rates are used in equity.**Indian GAAP** It assumes an entity normally uses the currency of the country in which it is domiciled in presenting its financial statements. If a different currency is used, requires disclosure of the reason for using a different currency.**Foreign currency translation – hyperinflationary economy****Definition****IFRS** Hyperinflation is indicated by characteristics of the economic environment of a country. These characteristics include: the general population's attitude towards the local currency; prices linked to a price index; and the cumulative inflation rate over three years is approaching or exceeds 100%.**US GAAP** Similar to **IFRS**; however, the prescribed test for a highly inflationary economy is cumulative inflation of approximately 100% or more over a three-year period. Historical inflation rate trends and other pertinent economic factors are also considered if the cumulative inflation rate is high but less than 100%.**Indian GAAP** There is no specific guidance on foreign currency translation in a hyperinflationary economy.**Functional currency – hyperinflationary economy****IFRS** Entities that have the currency of a hyperinflationary economy as the functional currency use that currency for measurement of transactions. The financial statements for current and prior periods are remeasured at the measurement unit current at the balance sheet date in order to present current purchasing power.**US GAAP** Does not generally permit inflation-adjusted financial statements; the use of the reporting currency (US dollar) as the functional currency is required. However, SEC rules provide an accommodation allowing foreign issuers that use **IFRS** to omit quantification of any differences that would have resulted from the application of FAS 52, Foreign Currency Translation.**Indian GAAP** There is no specific guidance on foreign currency translation in a hyperinflationary economy.**Presentation currency – hyperinflationary economy****IFRS** The results and financial position of an entity whose functional currency is the currency of a hyperinflationary economy are translated into a different presentation currency using the following procedure:

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

US GAAP Not applicable, because the currency of a hyperinflationary economy is not used for measuring its transactions in the hyperinflationary economy.**Indian GAAP** There is no specific guidance on foreign currency translation in a hyperinflationary economy.

REFERENCES: **IFRS:** Framework, IAS 21, IAS 29.
US GAAP: FAS 52, FIN 37.
Indian GAAP: AS 11 (Revised 2003)

Earnings per share

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

Basic EPS

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

Diluted EPS

- IFRS** For diluted EPS, earnings are adjusted for the after-tax amount of dividends and the impact resulting from the assumed conversion of dilutive potential ordinary shares; diluted shares are also adjusted accordingly for any assumed conversions. A conversion is deemed to have occurred at the beginning of the period or the date of the issue of potential dilutive ordinary shares, if later. There is no '*de minimis*' dilution threshold below which diluted EPS need not be disclosed. The effects of anti-dilutive potential equity shares are ignored in calculating diluted earnings per share.
- US GAAP** Similar to **IFRS**.
- Indian GAAP** Similar to **IFRS**, except in certain circumstances e.g. advance share application money received is treated as dilutive potential equity shares.

Diluted EPS – share options

- IFRS** The 'treasury share' method is used to determine the effect of share options and warrants. The assumed proceeds from the issue of the dilutive potential ordinary shares are considered to have been used to repurchase shares at fair value. The difference between the number of shares issued and the number of shares that would have been issued at fair value is treated as an issue of ordinary shares for no consideration (ie, a bonus issue) and is factored into the denominator used to calculate the diluted EPS. The earnings figure is not adjusted for the effect of share options/warrants.
- US GAAP** Similar to **IFRS**; however, when applying the treasury stock (share) method in year-to-date computations, the number of incremental shares to be included in the denominator is determined by computing a year-to-date weighted average of the number of incremental shares included in each quarterly diluted EPS computation.
- Indian GAAP** Similar to **IFRS**.

Recent proposals – US GAAP

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

- REFERENCES:** **IFRS:** IAS 33.
US GAAP: FAS 128.
Indian GAAP: AS 20.

Related-party transactions

The objective of the disclosures required by **IFRS**, **US GAAP** and **Indian GAAP** in respect of related-party relationships and transactions is to ensure that users of financial statements are made aware of the extent to which the financial position and results of operations may have been influenced by the existence of related parties.

Related-party relationships are generally determined by reference to the control or indirect control of one party by another, or by the existence of joint control or significant influence by one party over another. The accounting frameworks are broadly similar as to which parties would be included within the definition of related parties, including subsidiaries, joint ventures, associates, directors and shareholders. However, under **Indian GAAP**, in practice, the determination may be based on legal form rather than substance. Hence, the scope of parties covered under the definition of related party could be less than under **IFRS** or **US GAAP**.

Certain disclosures are required if the relationship is one based on control, regardless of whether transactions between the parties have taken place. These include the existence of the related-party relationship, the name of the related party and the name of the ultimate controlling party.

Disclosures and exemptions

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

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

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

Indian GAAP Similar to **IFRS**, except that transactions in the normal course of business with providers of finance, trade unions, public utilities and state controlled entities need not be disclosed. No exemption for separate financial statements of subsidiaries.

State-controlled entities are not required to disclose related-party transactions with other state-controlled entities. In addition to this, certain SMEs having turnover or borrowings below certain threshold are not required to disclose any related-party transactions.

REFERENCES: **IFRS:** IAS 1 and IAS 24.
US GAAP: FAS 57.
Indian GAAP: AS 18, Companies Act, 1956

Segment reporting

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

ISSUE	IFRS and Indian GAAP	US GAAP
General requirements		
Scope	Listed entities and entities in the process of listing. Non-listed entities may choose full compliance. Additionally, under Indian GAAP , banks, financial institutions, insurance companies, and all other enterprises whose turnover exceeds Rs. 500 million or have borrowings exceeding Rs. 100 million need to comply with the standard.	Listed entities. Non-listed entities are encouraged but not required to comply.
Format	Business and geographical reporting – one as primary format, the other as secondary. The choice will depend on the impact on business risks and returns. The secondary format requires less disclosure.	Based on operating segments and the way the chief operating decision-maker evaluates financial information for the purposes of allocating resources and assessing performance.
Identification of segment		
General approach	Based on profile of risks and returns and internal reporting structure.	Based on the internally reported operating segments.
Aggregation of similar business/operating segments	Specific factors are given to determine whether products and services are similar.	Similar criteria apply for the aggregation of similar operating segments.
Aggregation of similar geographical segments	As for business/operating segments: six factors as given, focusing on economic and political conditions, special risks, exchange control regulations and currency risks.	Not specified. Certain disclosures (revenues and assets) are required, on a consolidated basis, of domestic operations, foreign countries in total and each material country.
Threshold for reportable segments	Revenue, results or assets are 10% or more of all segments. If revenue of reported segments is below 75% of the total, additional segments are reported until the 75% threshold is reached.	Similar to IFRS .
Segments not reported	Segments not identified as above are included as unallocated items.	Included in 'all other' category, with sources of revenue disclosed.
Maximum number of reported segments	No limits.	Same as IFRS .
Measurement		
Accounting policies for segments	Those adopted for consolidated financial statements. Entities may disclose additional segment data based on internal accounting policies.	Those adopted for internal reporting to the chief operating decision-maker for the purposes of allocating resources and assessing performance.
Symmetry of allocation of assets/liabilities, revenues/expenses	Symmetry required.	Not required, but asymmetrical allocations are disclosed.
Main disclosures		
Factors used to identify reportable segments	No specific disclosure required.	Required, including basis of organisation (for example, based on products and services, geographic areas, regulatory environments) and types of product and service from which each segment derives its revenues.

ISSUE	IFRS and Indian GAAP	US GAAP
Composition of segments	Types of products and services included in each reported business segment and composition of each geographical segment are disclosed.	Same as IFRS .
Profit	Required. The results of continuing operations are disclosed separately from the results of discontinued operations.	Required.
Assets and liabilities	Assets required. Liabilities for primary segment format only.	Assets required. Liabilities not required.
External and inter-segment revenue	External revenue required. Inter-segment revenue in primary segment format only.	Required on a consolidated basis, and on a segment basis if included in the measurement of segment profit/loss for internal reporting.
Depreciation and amortisation expense and other significant non-cash expense	Required only for primary segment format.	Required for reportable segments if included in the measurement of segment profit/loss in internal reporting or otherwise regularly reported to chief operating decision-maker.
Exceptional (significant) items	Encouraged but not required for primary segment format only.	
Interest revenue and interest expense	Not required.	
Income tax	Not required.	
Capital expenditure on an accrual basis	Required.	
Profit/loss from investments in equity method investees, and amount of investment in equity method investees	Required if operations of associate are substantially all within a single segment. No specific guidance under Indian GAAP .	
Major customers	Not required.	Total revenue is disclosed, as well as the relevant segment that reported the revenues for each external customer greater than or equal to 10% of consolidated revenue.
Reconciliation of segment information	Reconciliation is required of total segment revenue, total segment measures of profit or loss (for continuing and discontinued operations under IFRS), total segment assets, total segment liabilities and any other significant segment totals to the corresponding totals of the entity.	Similar to IFRS , except for segment liabilities.

Recent proposals – IFRS

The IASB issued an exposure draft on operating segments (ED 8) that sets out the requirements for disclosing information about an entity's operating segments, its products and services, the geographical areas in which it operates and its major customers. ED 8 adopts the management approach to segment reporting set out in FAS 131, Disclosures about Segment of an Enterprise and Related Information. It may require disclosure of information that differs from the information used to prepare the income statement and balance sheet. ED 8 generally has the same wording as that of FAS 131. The ED is part of the short-term convergence project of the two standard setters and is expected to be published by the end of 2006.

REFERENCES: **IFRS:** IAS 14.
US GAAP: FAS 131.
Indian GAAP: AS 17.

Discontinued operations

IFRS and **US GAAP** have requirements for the measurement and disclosures of 'discontinued' operations. **Indian GAAP** only has requirements for the disclosures of 'discontinued operations' and requires an entity to apply recognition and measurement principles established in other relevant accounting standards to recognise and measure the changes in assets and liabilities and the revenue, expenses, gains, losses and cash flows relating to a discontinued operations. For example, accounting standard on impairment of assets, provisions, etc. should be followed. Further, certain SMEs having turnover or borrowings below certain threshold may voluntarily comply with the standard.

ISSUE	IFRS	US GAAP	Indian GAAP
Definition	Operations and cash flows that can be clearly distinguished operationally and for financial reporting and represent a separate major line of business or geographical area of operations, or are subsidiaries acquired exclusively with a view to resale.	A component is considered a discontinued operation if the operations and cash flows have been or will be eliminated, and if the entity will not have significant continuing involvement. A component that can be clearly distinguished operationally and for financial reporting. It may be a reportable segment, operating segment, reporting unit, subsidiary or an asset grouping.	A component that represents a separate major line of business or geographical area of operations and can be distinguished operationally and for financial reporting purposes.
How discontinued	Operations and cash flows that have been disposed of or classified as held for sale.	Similar to IFRS . Operations and cash flows have been or will be eliminated, and entity will not have significant continuing involvement.	Pursuant to a single plan, either substantially in its entirety or piecemeal or terminated through abandonment.
Envisaged timescale	Completed within a year, with limited exceptions.	Similar to IFRS .	No timeframe specified. Standard envisage several months or longer, but emphasise on a single coordinated plan.
Starting date for disclosure	From the date on which a component has been disposed of or, if earlier, is classified as held for sale.	Similar to IFRS .	Earlier of: the date of announcement of a board approved detailed formal plan or entering into a binding sale agreement.
Measurement	Lower of carrying value or fair value less costs to sell.	Similar to IFRS .	Apply other relevant accounting standards. Eg, by applying accounting standard on impairment of assets, provisions, etc.
Presentation	A single amount is presented on the face of the income statement comprising the post-tax profit or loss of discontinued operations and an analysis of this amount either on the face of the income statement or in the notes for both current and prior periods. Separate classification on the balance sheet for assets and liabilities for the current period only.	Similar to IFRS . From measurement date, results of operations of discontinued component (and gain or loss on disposal) are presented as separate line items in the income statement, net of tax, after income from continuing operations. There is no change in balance sheet presentation if discontinuance is not completed by period end, but assets and liabilities (current and non-current) related to the disposal groups are segregated and classified as held for sale.	At a minimum, the following is disclosed on the face of the income statement separately from continuing operations: (a) pre-tax profit or loss and related taxes (b) pre-tax gain or loss on disposal. Income and expenses line items from continuing and discontinued operations are segregated and disclosed in the notes; however, presented on a combined basis in the income statement. No separate presentation for balance sheet items.
Ending date of disclosure	Until completion of the discontinuance.	Similar to IFRS .	Similar to IFRS .

ISSUE	IFRS	US GAAP	Indian GAAP
Disclosures	<ul style="list-style-type: none"> Assets and liabilities of related disposal groups classified as held for sale are disclosed separately on the balance sheet. Revenue, expenses, pre-tax result, tax and cash flows for current and prior periods of discontinued operations; Description of disposal group; Expected manner and timing of disposal; Facts and circumstances leading to sale or disposal; Gain or loss recognised on classification as held for sale; and Segment of disposal group. 	Similar to IFRS , except that separate disclosure of operating, investing and financing cash flows related to discontinued operations is not required.	<ul style="list-style-type: none"> Description of disposal group Segment of disposal group. Date and nature of the initial disclosure event Expected manner and timing of disposal Carrying amounts of assets and liabilities to be disposed on the balance sheet date. Revenue, expenses, pre-tax result, tax and cash flows for current and prior periods Facts and circumstances leading to sale or disposal Pre-tax gain or loss and tax amount recognised on disposal
Comparatives	Income statement re-presented for effects of discontinued operations but not balance sheet.	Similar to IFRS .	Similar to IFRS .

REFERENCES: **IFRS:** IFRS 5.
US GAAP: FAS 144, FAS 95.
Indian GAAP: AS 24.

Post-balance-sheet events

The frameworks have similar standards on post-balance-sheet events.

Adjusting events after the balance sheet date

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

US GAAP Similar to **IFRS**, referred to as 'Type 2' subsequent events. However, see refinancing and rescheduling of debt payments on page 25.

Indian GAAP Similar to **IFRS**.

Non-adjusting events after the balance sheet date

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

US GAAP Similar to **IFRS**.

Indian GAAP Non-adjusting events are not required to be disclosed in financial statements but are disclosed in report of approving authority e.g. Directors' Report.

Announcement of a dividend relating to the financial year just ended

IFRS	This is a non-adjusting event.
US GAAP	The declaration of a cash dividend is a non-adjusting event, but a stock dividend is an adjusting event.
Indian GAAP	Dividend proposed relating to the financial year just ended is adjusted in the financial statements even though it is subject to shareholders' approval.

REFERENCES: **IFRS:** IAS 10.
US GAAP: AU Section 560.
Indian GAAP: AS 4.

Interim financial reporting

Stock exchange requirements

IFRS	IFRS does not require public entities to produce interim statements but encourages interim reporting – see 'Additional guidance' below.
US GAAP	Similar to IFRS , the FASB does not mandate interim statements. However, if required by the SEC, domestic US SEC registrants should follow APB 28 and comply with the specific financial reporting requirements in Regulation S-X applicable to quarterly reporting.
Indian GAAP	The standard on interim financial reporting does not require entities to present interim financial reports, however, if an entity is required or elects to present interim financial report, it needs to comply with the standard. Pursuant to the listing agreement, all the listed companies in India are required to furnish interim financial results on a quarterly basis in a format prescribed in the listing agreement.

Additional guidance

Additional guidance under the frameworks is similar. They include the following:

- Consistent and similar basis of preparation of interim statements, with previously reported annual data and from one period to the next;
- Use of accounting policies consistent with the previous annual financial statements, together with adoption of any changes to accounting policies that it is known will be made in the year-end financial statements (for example, application of a new standard);
- Preparation of the interim statements using a 'discrete approach' to revenue and expenditure recognition – that is, viewing the interim period as a distinct accounting period, rather than part of the annual cycle. Incomplete transactions are therefore treated in the same way as at the year-end. Impairment losses recognised in interim periods in respect of goodwill, or an investment in either an equity instrument or a financial asset carried at cost, are not reversed.
- However, **US GAAP** allows allocation between interim periods of certain costs benefiting more than one of those periods, and deferral of certain cost variances expected to be absorbed by year-end. The tax charge in all three frameworks is based on an estimate of the annual effective tax rate applied to the interim results;
- Summarised income statement (including segment revenue/profit), balance sheet, cash flow statement, changes in equity, selected notes and (under **IFRS**) a statement of recognised income and expense; and
- A narrative commentary.

Comparatives for the balance sheet are taken from the last annual financial statements under all three frameworks. Quarterly interim reports contain comparatives (other than for the balance sheet) under all three frameworks for the cumulative period to date and the corresponding period of the preceding year.

REFERENCES: **IFRS:** IAS 34, IFRIC 10.
US GAAP: APB 28, FAS 130, FAS 131.
Indian GAAP: AS 25 and Listing Agreement

Abbreviations

IAS – International Accounting Standard

IASB – International Accounting Standards Board

IFRIC – International Financial Reporting Interpretations Committee

IFRS – International Financial Reporting Standards

SIC – Interpretations by Standing Interpretations Committee

SoRIE – Statement of Recognised Income and Expense

AICPA – American Institute of Certified Public Accountants

APB – Accounting Principles Board Opinions

APIC – Additional Paid-in Capital (Share Premium)

ARB – Accounting Research Bulletins

ASR – Accounting Series Release

AU – Codification of Statements on Auditing Standards

CON – Statement of Financial Accounting Concepts

DIG – Derivatives Implementation Group

EITF – Emerging Issues Task Force

FAS – Statement of Financial Accounting Standards

FASB – Financial Accounting Standards Board

FIN – FASB Interpretations

FTB – FASB Technical Bulletins

OCI – Other Comprehensive Income

PCAOB – Public Company Accounting Oversight Board

SAB – SEC Staff Accounting Bulletin

SEC – Securities and Exchange Commission of United States

SOP – AICPA Statement of Position

SoX – Sarbanes Oxley Act, 2002

US GAAP – Generally Accepted Accounting Principles in United States of America

AS – Accounting Standard

ASB – Accounting Standards Board of India

ASI – Accounting Standard Interpretation

GN – Guidance Notes

ICAI – The Institute of Chartered Accountants of India

Indian GAAP - Generally Accepted Accounting Principles in India

SEBI – The Securities and Exchange Board of India

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Notes

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At PricewaterhouseCoopers, we have created the Global Capital Markets Group (the “GCMG”), a dedicated team of professionals who specialise in providing technical, strategic and project management advisory services to companies interested in accessing the U.S. or other overseas capital markets and/ or applying US GAAP or IFRS while converting the financials from local GAAP. We also assist companies in embedding these accounting requirements into the financial reporting systems to enable companies to report on a sustainable basis and provide training to management and accounting teams.

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