

IFRS compared to US GAAP: An overview

September 2010



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This overview is an abridged version of our publication *IFRS compared to US GAAP*, published in September 2010.

This overview should be read in conjunction with that publication in order to understand more fully the differences and similarities between International Financial Reporting Standards (IFRSs) and US Generally Accepted Accounting Principles (US GAAP).

This overview, and the related publication *IFRS compared to US GAAP*, have been produced jointly by the KPMG International Standards Group (part of KPMG IFRG Limited) and the Department of Professional Practice of KPMG in the US. We would like to acknowledge the efforts of the project team leaders of this publication, including Jeremy Sage and Julie Santoro of the KPMG International Standards Group, and Sheri Anderson and Paul Munter of the Department of Professional Practice of KPMG in the US.

We would also like to thank other members of the KPMG International Standards Group and the Department of Professional Practice of KPMG in the US, as well as KPMG in Spain and KPMG in Israel, for the time that they committed to this project.

(Still) on the road to convergence

Change takes time and the road to the convergence of IFRSs and US GAAP is not a short one. Eight years ago, in September 2002, the IASB and the FASB agreed that a common set of high quality, global accounting standards was a priority of both Boards. With that goal in mind the two Boards set out on a path to work together to remove differences between IFRSs and US GAAP.

In the past year we have seen the Boards prioritise their convergence agenda with the aim of completing the highest priority projects in the IASB and the FASB's Memorandum of Understanding. In the last two months the Boards have released exposure drafts on two of those projects: *Revenue from Contracts with Customers* and *Leases*. These exposure drafts represent significant steps in the Boards' aim of achieving substantially converged accounting guidance in these areas. You may be wondering why after eight years of convergence efforts there remains much left to do. This underlies a key aspect of convergence. The process of attempting to dissect and eliminate every possible difference, some of which may be based on experience in practice, would be very costly and time consuming, if not impossible. The Boards believe that a more effective approach focuses on aligning the general principles and overall methodologies. This is illustrated further in other largely converged standards, such as those for assets held for sale, operating segments, business combinations and share-based payments. Although the general principles and overall methodologies of these standards are converged, we continue to experience differences in the detail, and therefore you should avoid a false sense of security that convergence eliminates all significant differences.

While the IASB and the FASB continue to work on convergence, the SEC is in the process of acting on its own work plan to determine whether, and if so, when and how IFRSs should be incorporated into the financial reporting system for US issuers. The SEC's decision to accept foreign private issuers' financial statements prepared in accordance with IFRSs as issued by the IASB without reconciliation to US GAAP, as well as public statements by Commissioners and staff, have demonstrated the SEC's continued support for convergence. The SEC

has stated that it expects to be able to make a decision about the use of IFRSs by US issuers in 2011 and the Staff is expected to issue reports on the Staff's progress on the work plan starting in October 2010.

With this progress in mind, we are pleased to publish our comparison of IFRSs and US GAAP as of 1 September 2010. We hope that this publication continues to serve as a useful resource for standard setters, preparers, auditors and financial statement users who are living, at least for the moment, in a bilingual accounting world.

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KPMG International Standards Group

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About this publication

Content

The purpose of this overview is to assist you in understanding the significant differences between IFRSs and US GAAP by providing a quick overview for easy reference. However, it is not detailed enough to allow a full understanding of the significant differences; for more information you should refer to our September 2010 publication *IFRS compared to US GAAP*.

This overview does not discuss every possible difference; rather, it is a brief summary of the key requirements of IFRSs, contrasted with the parallel requirements of US GAAP. The focus of this overview is on recognition, measurement and presentation, rather than on disclosure; therefore, disclosure differences generally are not discussed. However, areas that are disclosure-based, such as segment reporting, are included.

This overview does not include the specific views that we have developed in the absence of specific guidance under IFRSs or US GAAP.

This overview focuses on consolidated financial statements prepared on a going concern basis. Separate (i.e. unconsolidated) financial statements are not addressed.

Lastly, the requirements of IFRSs are discussed on the basis that the entity has adopted IFRSs already. The special transitional requirements that apply in the period in which an entity changes its GAAP to IFRSs are discussed in our publication *IFRS Handbook: First-time adoption of IFRS*.

Effective date

Generally, the standards and interpretations included in this publication are those that are mandatory for an annual reporting period beginning on 1 January 2010, i.e. ignoring standards and interpretations that might be adopted before their effective dates. Additionally, the following forthcoming requirements are the subject of new chapters: chapter 3.6A *Financial instruments – classification*

and measurement of financial assets, and chapter 5.5A *Related party disclosures*.

Other ways KPMG member firms' professionals can help

A more detailed discussion of the general accounting issues that arise from the application of IFRSs can be found in our publication *Insights into IFRS*. In addition to *Insights into IFRS*, we have a range of publications that can assist you further, including:

- IFRS Handbooks, which include extensive interpretative guidance and illustrative examples to elaborate or clarify the practical application of a standard;
- Illustrative financial statements for interim and annual periods;
- New on the Horizon publications, which discuss consultation papers;
- IFRS Practice Issues, which discuss specific requirements of pronouncements;
- First Impressions publications, which discuss new pronouncements;
- Newsletters, which highlight recent developments; and
- IFRS disclosure checklist.

IFRS-related technical information also is available at www.kpmg.com/ifrs.

For access to an extensive range of accounting, auditing and financial reporting guidance and literature, visit KPMG's Accounting Research Online. This web-based subscription service can be a valuable tool for anyone who wants to stay informed in today's dynamic environment. For a free 15-day trial, go to www.aro.kpmg.com and register today.

For further assistance with the analysis and interpretation of the differences between IFRSs and US GAAP, please get in touch with your usual KPMG contact.

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1. Background

1.1 Introduction

(IFRS Foundation Constitution, Preface to IFRSs, IAS 1)

IFRSs is the term used to indicate the whole body of IASB authoritative literature.

IFRSs are designed for use by profit-oriented entities.

Any entity claiming compliance with IFRSs complies with all applicable standards and interpretations, including disclosure requirements, and makes a statement of explicit and unreserved compliance with IFRSs.

Both the bold- and plain-type paragraphs of IFRSs have equal authority.

The overriding requirement of IFRSs is for the financial statements to give a fair presentation (or true and fair view).

1. Background

1.1 Introduction

(ASC Topic 105, SEC Rules and Regulations)

US GAAP is the term used to indicate the body of authoritative literature that comprises accounting and reporting standards in the US Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants.

Unlike IFRSs, US GAAP is designed for use by both profit-orientated and not-for-profit entities, with additional Codification topics that are specifically applicable to not-for-profit entities.

Like IFRSs, any entity claiming compliance with US GAAP complies with all applicable sections of the Codification, including disclosure requirements. However, unlike IFRSs, a statement of explicit and unreserved compliance is not required.

Like IFRSs, both the bold- and plain-type paragraphs of US GAAP have equal authority.

Unlike IFRSs, the objective of financial statements is fair presentation in accordance with US GAAP.

1.2 The Framework (IASB Framework)

The IASB uses its conceptual framework (the Framework) when developing new or revised IFRSs or amending existing IFRSs.

The Framework is a point of reference for preparers of financial statements in the absence of specific guidance in IFRSs.

IFRSs do not apply to items that are “immaterial”.

Transactions are accounted for in accordance with their substance, rather than only their legal form.

Transactions with shareholders in their capacity as shareholders are recognised directly in equity.

1.2 The Framework

(ASC Topic 105, ASC paragraph 250-10-S99-1, ASC paragraph 250-10-S99-2, CON 1, CON 2, CON 5, CON 6, CON 7, SAB 99, SAB 108)

Like IFRSs, the FASB Concepts Statements (the Framework) establish the objectives and concepts that the FASB uses in developing guidance.

Unlike IFRSs, the Framework is non-authoritative guidance and is not referred to routinely.

Like IFRSs, US GAAP need not be applied to items that are “immaterial”

Unlike IFRSs, there is no general principle that transactions should be accounted for in accordance with their substance, rather than only their legal form.

Like IFRSs, transactions with shareholders in their capacity as shareholders are recognised directly in equity. However, the determination of when a shareholder is acting in that capacity differs from IFRSs in some cases.

2. General issues

2.1 Form and components of financial statements (IAS 1, IAS 27)

The following are presented: a statement of financial position; a statement of comprehensive income; a statement of changes in equity; a statement of cash flows; and notes including accounting policies.

In addition, a statement of financial position as at the beginning of the earliest comparative period is presented when an entity restates comparative information following a change in accounting policy, correction of an error or reclassification of items in the financial statements.

An entity presents comprehensive income in a single statement of comprehensive income, or in an income statement and a separate statement of comprehensive income.

While IFRSs specify minimum disclosures, they do not prescribe specific formats.

Comparative information is required for the preceding period only, but additional periods and information may be presented.

2. General issues

2.1 Form and components of financial statements (ASC Subtopic 210-10, ASC Subtopic 220-10, ASC Subtopic 235-10, ASC Subtopic 310-10, ASC Subtopic 810-10, ASC Subtopic 825-10, Reg S-K, Reg S-X, Reg G)

Like IFRSs, the following are presented: a statement of financial position; a statement of comprehensive income; a statement of changes in equity; a statement of cash flows; and notes including accounting policies. However, unlike IFRSs, the statement of investments by and distributions to owners during the period (statement of changes in equity) may be presented in the notes to the financial statements in certain circumstances.

Unlike IFRSs, a statement of financial position as at the beginning of the earliest comparative period generally is not required.

Like IFRSs, comprehensive income may be presented in a single statement of comprehensive income, or in a statement of earnings and a separate statement of comprehensive income. However, unlike IFRSs, comprehensive income also may be presented in the statement of changes in equity.

Like IFRSs, while minimum disclosures are required, which may differ from IFRSs, specific formats are not prescribed. Unlike IFRSs, there are more specific format and line item disclosure requirements for SEC registrants.

Unlike IFRSs, US GAAP does not require comparative information. However, SEC registrants are required to present statements of financial position as of the end of the current and prior reporting periods, like IFRSs, and all other statements for the three most recent reporting periods, unlike IFRSs.

An entity with one or more subsidiaries presents consolidated financial statements unless specific criteria are met.

Unlike IFRSs, there are no exemptions, other than for investment companies, from preparing consolidated financial statements when an entity has one or more subsidiaries.

2.2 Changes in equity

(IAS 1)

An entity presents both a statement of comprehensive income and a statement of changes in equity as part of a complete set of financial statements.

An entity presents comprehensive income in a single statement of comprehensive income, or in an income statement and a separate statement of comprehensive income.

All owner-related changes in equity are presented in the statement of changes in equity, separately from non-owner changes in equity.

2.2 Changes in equity

(ASC Subtopic 220-10, ASC Subtopic 250-10, ASC Subtopic 505-10, ASC Subtopic 810-10-50)

Unlike IFRSs, an entity is not required to present a statement of comprehensive income separate from a statement of changes in equity as part of a complete set of financial statements. The statement of investments by and distributions to owners during the period (statement of changes in equity) may be presented in the notes to the financial statements in certain circumstances, unlike IFRSs.

Like IFRSs, comprehensive income may be presented in a single statement of comprehensive income, or in a statement of earnings and a separate statement of comprehensive income. However, unlike IFRSs, comprehensive income also may be presented in the statement of changes in equity.

Like IFRSs, all owner-related changes in equity are presented in the statement of changes in equity, separately from non-owner changes in equity.

2.3 Statement of cash flows

(IAS 7)

The statement of cash flows presents cash flows during the period classified into operating, investing and financing activities.

The separate components of a single transaction are classified as operating, investing or financing.

Net cash flows from all three categories are totalled to show the change in cash and cash equivalents during the period, which then is used to reconcile opening and closing cash and cash equivalents.

Cash and cash equivalents include certain short-term investments and, in some cases, bank overdrafts.

Cash flows from operating activities may be presented using either the direct method or the indirect method.

Foreign currency cash flows are translated at the exchange rates at the dates of the cash flows (or using averages when appropriate).

Generally all financing and investing cash flows are reported gross. Cash flows are offset only in limited circumstances.

2.3 Statement of cash flows

(ASC Subtopic 230)

Like IFRSs, the statement of cash flows presents cash flows during the period classified into operating, investing and financing activities.¹

Unlike IFRSs, cash receipts and payments with attributes of more than one class of cash flows are classified based on the predominant source of the cash flows unless the underlying transaction is accounted for as having different components.

Like IFRSs, net cash flows from all three categories are totalled to show the change in cash and cash equivalents during the period, which then is used to reconcile opening and closing cash and cash equivalents.

Like IFRSs, cash and cash equivalents include certain short-term investments, although not necessarily the same short-term investments as under IFRSs. Unlike IFRSs, cash and cash equivalents do not include bank overdrafts, which are classified as financing activities.

Like IFRSs, cash flows from operating activities may be presented using either the direct method or the indirect method.

Like IFRSs, foreign currency cash flows are translated at the exchange rates at the dates of the cash flows (or using averages when appropriate).

Like IFRSs, cash flows generally are reported gross, and are offset only in limited circumstances.

2.4 Basis of accounting

(IAS 1, IAS 21, IAS 29, IFRIC 7)

Financial statements are prepared on a modified historical cost basis with a growing emphasis on fair value.

When an entity's functional currency is hyperinflationary, its financial statements should be adjusted to state all items in the measuring unit current at the reporting date.

When an entity's functional currency becomes hyperinflationary, it makes price-level adjustments retrospectively as if the economy always had been hyperinflationary.

The financial statements of a foreign operation whose functional currency is hyperinflationary are adjusted before being translated for consolidation purposes.

An entity discloses information about key sources of estimation uncertainty and judgements made in applying the entity's accounting policies. An entity discloses estimation uncertainty that has a significant risk of causing material adjustments within the next annual reporting period.

2.4 Basis of accounting

(ASC Subtopic 235-10, ASC Subtopic 255-10, ASC Subtopic 275-10, ASC Subtopic 820-10, ASC Subtopic 825-10, ASC Topic 830)

Like IFRSs, financial statements are prepared on a modified historical cost basis with a growing emphasis on fair value.

When a non-US entity that prepares US GAAP financial statements operates in an environment that is highly inflationary, it either reports price-level adjusted local currency financial statements, like IFRSs, or it remeasures its financial statements into a non-highly inflationary currency, unlike IFRSs.

Unlike IFRSs, when an economy becomes highly inflationary, an entity makes price-level adjustments prospectively.

Unlike IFRSs, the financial statements of a foreign operation whose functional currency is highly inflationary are remeasured for consolidation purposes as if the parent's reporting currency were its functional currency.

Like IFRSs, SEC registrants disclose information about critical accounting policies and estimates; however, unlike IFRSs, this information is disclosed outside of the financial statements. Entities disclose information about estimates that are reasonably possible of changing by significant amounts in the near term, like IFRSs.

2.5 Consolidation and non-controlling interests in consolidated financial statements

(IAS 27, SIC-12)

Consolidation is based on a control model.

Control is the power to govern, either directly or indirectly, the financial and operating policies of an entity so as to obtain benefits from its activities.

The assessment of control may be based on either a power-to-govern or a *de facto* control model.

Potential voting rights that are currently exercisable are considered in assessing control.

A special purpose entity (SPE) is an entity created to accomplish a narrow and well-defined objective. SPEs are consolidated based on control. The determination of control includes an analysis of the risks and benefits associated with an SPE.

IFRSs do not have a concept of variable interest entities (VIEs).

2.5 Consolidation and non-controlling interests in consolidated financial statements

(ASC Subtopic 480-10, ASC Subtopic 718-40, ASC Topic 810, ASC Topic 860, ASC Topic 970, ASC Subtopic 974-323)

Consolidation is based on a controlling financial interest model, which differs in certain respects from IFRSs.

For non-variable interest entities, control is the continuing power to govern the financial and operating policies of an entity, like IFRSs. However, unlike IFRSs, there is no explicit linkage between control and ownership benefits.

Unlike IFRSs, there is no *de facto* control model for non-variable interest entities.

Unlike IFRSs, potential voting rights are not considered in assessing control for non-variable interest entities.

Although US GAAP has the concepts of variable interest entities (VIEs), which may meet the definition of an SPE under IFRSs, the control model that applies to VIEs differs from the control model that applies to SPEs under IFRSs. Additionally, unlike IFRSs, entities are evaluated as VIEs based on the amount and characteristics of their equity investment at risk and not on whether they have a narrow and well-defined objective.

Unlike IFRSs, a VIE is any entity in which (1) the equity investors' equity at risk is insufficient to finance the entity's own operations without additional subordinated financial support; or (2) as a group, the holders of the equity investment at risk lack any one of the following characteristics: a) the power, through voting or similar rights, to direct the activities that most significantly impact the entity's economic performance; b) the obligation to absorb the expected losses of the entity; or c) the right to receive the expected residual returns of the entity. A VIE is assessed for consolidation based on a qualitative analysis of whether the reporting entity has the power to direct the activities

All subsidiaries are consolidated, including subsidiaries of venture capital organisations and unit trusts, and those acquired exclusively with a view to subsequent disposal.

A parent and its subsidiaries generally use the same reporting date when consolidated financial statements are prepared. If this is impracticable, then the difference between the reporting date of a parent and its subsidiary cannot be more than three months. Adjustments are made for the effects of significant transactions and events between the two dates.

Uniform accounting policies are used throughout the group.

Non-controlling interests (NCI) are recognised initially at fair value or at their proportionate interest in the recognised amount of the identifiable net assets of the acquiree at the acquisition date.

An entity recognises a liability for the present value of the (estimated) exercise price of put options held by NCI, but there is no explicit guidance on the accounting for such put options.

Losses in a subsidiary may create a deficit balance in NCI.

NCI in the statement of financial position are classified as equity but are presented separately from the parent shareholders' equity.

Profit or loss and comprehensive income for the period are allocated to NCI and owners of the parent.

that most significantly impact the VIE's economic performance and either the obligation to absorb losses of the VIE, or the right to receive benefits from the VIE, that could potentially be significant to the VIE.

Generally all subsidiaries are consolidated, like IFRSs. However, unlike IFRSs, there are limited exceptions in certain specialised industries.

Like IFRSs, the difference between the reporting date of a parent and its subsidiary cannot be more than three months. However, unlike IFRSs, use of the same reporting date need not be impracticable, and adjustments are not made for the effects of significant transactions and events between these dates, although disclosures regarding those effects are required.

Unlike IFRSs, uniform accounting policies within the group are not required.

Unlike IFRSs, non-controlling interests (NCI) are recognised initially at fair value.

Unlike IFRSs, there is specific guidance on the accounting for put options held by NCI, which results in a liability recognised at fair value or redemption amount, or the presentation of NCI as temporary equity, depending on the terms of the arrangement.

Like IFRSs, losses in a subsidiary may create a deficit balance in NCI.

Like IFRSs, NCI in the statement of financial position are classified as equity but are presented separately from the parent shareholders' equity.

Like IFRSs, profit or loss and comprehensive income for the period are allocated to NCI and owners of the parent.

Intra-group transactions are eliminated in full.

Upon the loss of control of a subsidiary, the assets and liabilities of the subsidiary and the carrying amount of the NCI are derecognised. The consideration received and any retained interest, measured at fair value, are recognised. Amounts recognised in other comprehensive income are reclassified as required by other IFRSs. Any resulting gain or loss is recognised in profit or loss.

Spin-offs (demergers) generally are accounting for on the basis of fair values, and a gain or loss is recognised in profit or loss.

Changes in the parent's ownership interest in a subsidiary without a loss of control are accounted for as equity transactions and no gain or loss is recognised in profit or loss.

Generally intra-group transactions are eliminated in full, like IFRSs. However, for a consolidated VIE, the effect of eliminations on the consolidated results of operations is attributed entirely to the primary beneficiary, unlike IFRSs.

Like IFRSs, upon the loss of control of a subsidiary, the assets and liabilities of the subsidiary and the carrying amount of the NCI are derecognised. Like IFRSs, the consideration received and any retained interest, measured at fair value, are recognised. Amounts recognised in accumulated other comprehensive income are reclassified, like IFRSs. Any resulting gain or loss is recognised in profit or loss, like IFRSs.

Unlike IFRSs, spin-offs are accounting for on the basis of book values, and no gain or loss is recognised.

Like IFRSs, changes in the parent's ownership interest in a subsidiary without a loss of control are accounted for as equity transactions and no gain or loss is recognised in profit or loss.

2.6 Business combinations

(IFRS 3)

All business combinations are accounted for using the acquisition method, with limited exceptions.

A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses.

A business is an integrated set of activities and assets that is capable of being conducted and managed to provide a return to investors (or other owners, members or participants) by way of dividends, lower costs or other economic benefits.

The acquirer in a business combination is the combining entity that obtains control of the other combining business or businesses.

In some cases the legal acquiree is identified as the acquirer for accounting purposes ("reverse acquisition").

The acquisition date is the date on which the acquirer obtains control of the acquiree.

Consideration transferred by the acquirer, which generally is measured at fair value at the acquisition date, may include assets transferred, liabilities incurred by the acquirer to the previous owners of the acquiree and equity interests issued by the acquirer.

Contingent consideration transferred is recognised initially at fair value. Contingent consideration classified as a liability generally is remeasured to fair value each period until settlement, with changes recognised in profit or loss. Contingent consideration classified as equity is not remeasured.

2.6 Business combinations

(ASC Topic 350, ASC Topic 805, ASC Subtopic 810-10, ASC Topic 820, SAB Topic 5-J)

Like IFRSs, all business combinations are accounted for using the acquisition method, with limited exceptions.

Like IFRSs, a business combination is a transaction or other event in which an acquirer obtains control of one or more businesses. However, the US GAAP guidance on control differs from IFRSs.

Like IFRSs, a business is an integrated set of activities and assets that is capable of being conducted and managed to provide a return to investors (or other owners, members or participants) by way of dividends, lower costs or other economic benefits.

Like IFRSs, the acquirer in a business combination is the combining entity that obtains control of the other combining business or businesses.

Like IFRSs, in some cases the legal acquiree is identified as the acquirer for accounting purposes ("reverse acquisition").

Like IFRSs, the acquisition date is the date on which the acquirer obtains control of the acquiree. However, the determination of control under US GAAP differs from IFRSs.

Like IFRSs, consideration transferred by the acquirer, which generally is measured at fair value at the acquisition date, may include assets transferred, liabilities incurred by the acquirer to the previous owners of the acquiree and equity interests issued by the acquirer.

Like IFRSs, contingent consideration transferred is recognised initially at fair value. Contingent consideration classified as a liability generally is remeasured to fair value each period until settlement, with changes recognised in profit or loss, like IFRSs. Contingent consideration classified as equity is not remeasured, like IFRSs.

Any items that are not part of the business combination transaction are accounted for outside of the acquisition accounting. Examples include:

- the settlement of a pre-existing relationship between the acquirer and the acquiree;
- remuneration to employees who are former owners of the acquiree; and
- acquisition-related costs.

The identifiable assets acquired and liabilities assumed as part of a business combination are recognised separately from goodwill at the acquisition date if they meet the definition of assets and liabilities and are exchanged as part of the business combination.

The identifiable assets acquired and liabilities assumed as part of a business combination are measured at the acquisition date at their fair values.

There are limited exceptions to the recognition and/or measurement principles in respect of contingent liabilities, deferred tax assets and liabilities, indemnification assets, employee benefits, reacquired rights, share-based payment awards and assets held for sale.

While various IFRSs include limited guidance on the overall approach to measuring the fair values of various assets and liabilities, there is no detailed guidance on valuation methodologies.

Goodwill or a gain on a bargain purchase is measured as a residual. Goodwill is recognised as an asset. A gain on a bargain purchase is recognised in profit or loss after reassessing the values used in the acquisition accounting.

Like IFRSs, any items that are not part of the business combination transaction are accounted for outside of the acquisition accounting. Like IFRSs, examples include:

- the settlement of a pre-existing relationship between the acquirer and the acquiree;
- remuneration to employees who are former owners of the acquiree; and
- acquisition-related costs.

Like IFRSs, the identifiable assets acquired and liabilities assumed as part of a business combination are recognised separately from goodwill at the acquisition date if they meet the definition of assets and liabilities and are exchanged as part of the business combination.

Like IFRSs, the identifiable assets acquired and liabilities assumed as part of a business combination are measured at the acquisition date at their fair values.

Like IFRSs, there are limited exceptions to the recognition and measurement principles in respect of contingent liabilities, deferred tax assets and liabilities, indemnification assets, employee benefits, reacquired rights, share-based payment awards and assets held for sale, although the accounting for some of these items differs from IFRSs. However, unlike IFRSs, there is specific guidance on the recognition and measurement of uncertain tax positions. Unlike IFRSs, there are no exceptions to the recognition principle only.

Unlike IFRSs, there is specific guidance on fair value measurement in US GAAP, including a fair value hierarchy and general valuation guidance and disclosure requirements.

Like IFRSs, goodwill or a gain on a bargain purchase is measured as a residual. Like IFRSs, goodwill is recognised as an asset and a gain on a bargain purchase is recognised in profit or loss after reassessing the values used in the acquisition accounting.

Adjustments to the acquisition accounting during the “measurement period” reflect additional information about facts and circumstances that existed at the acquisition date. The measurement period ends when the acquirer obtains all information that is necessary to complete the acquisition accounting, or learns that more information is not available, and cannot exceed one year from the acquisition date.

The acquirer in a business combination can elect, on a transaction-by-transaction basis, to measure non-controlling interests (NCI) at fair value or at their proportionate interest in the recognised amount of the identifiable net assets of the acquiree at the acquisition date.

When a business combination is achieved in stages (step acquisition), the acquirer’s previously held non-controlling equity interest in the acquiree is remeasured to fair value at the acquisition date, with any resulting gain or loss recognised in profit or loss.

In general, items recognised in the acquisition accounting are measured and accounted for in accordance with the relevant IFRS subsequent to the business combination. However, the business combinations standard includes specific guidance for certain items.

“Push down” accounting, whereby fair value adjustments are recognised in the financial statements of the acquiree, is not permitted under IFRSs.

The acquisition of a collection of assets that does not constitute a business is not a business combination. In such cases the entity allocates the cost of acquisition to the assets acquired and liabilities assumed based on their relative fair values at the date of acquisition. No goodwill is recognised.

Like IFRSs, adjustments to the acquisition accounting during the “measurement period” reflect additional information about facts and circumstances that existed at the acquisition date. Like IFRSs, the measurement period ends when the acquirer obtains all information that is necessary to complete the acquisition accounting, or learns that more information is not available, and cannot exceed one year from the acquisition date.

Unlike IFRSs, the acquirer in a business combination measures non-controlling interests (NCI) at fair value at the acquisition date.

Like IFRSs, when a business combination is achieved in stages (step acquisition), the acquirer’s previously held non-controlling equity interest in the acquiree is remeasured to fair value at the acquisition date, with any resulting gain or loss recognised in profit or loss.

Like IFRSs, in general items recognised in the acquisition accounting are measured and accounted for in accordance with the relevant US GAAP subsequent to the business combination. However, like IFRSs, the business combinations Codification topic includes specific guidance for certain items, although the guidance differs in some respects from IFRSs.

Unlike IFRSs, “push down” accounting, whereby fair value adjustments are recognised in the financial statements of the acquiree, is required for SEC registrants in certain circumstances.

Like IFRSs, the acquisition of a collection of assets that does not constitute a business is not a business combination. Like IFRSs, the entity allocates the cost of acquisition to the assets acquired and liabilities assumed based on their relative fair values at the date of acquisition, and no goodwill is recognised.

2.7 Foreign currency translation

(IAS 21, IAS 29)

An entity measures its assets, liabilities, income and expenses in its functional currency, which is the currency of the primary economic environment in which it operates.

When the indicators are mixed and the functional currency is not obvious, management should give priority to a number of primary indicators before considering secondary indicators.

An entity may present its financial statements in a currency other than its functional currency (presentation currency).

An entity may have more than one presentation currency.

All transactions that are not denominated in an entity's functional currency are foreign currency transactions; exchange differences arising on translation generally are recognised in profit or loss.

The financial statements of foreign operations are translated for the purpose of consolidation as follows: assets and liabilities are translated at the closing rate; income and expenses are translated at actual rates or appropriate averages; and equity components (excluding the current year movements, which are translated at actual rates) are translated at historic rates.

Exchange differences arising on the translation of the financial statements of a foreign operation are recognised in other comprehensive income and accumulated in a separate component of equity. The amount attributable to any non-controlling interests (NCI) is allocated to and recognised as part of NCI.

2.7 Foreign currency translation

(ASC Topic 830)

Like IFRSs, an entity measures its assets, liabilities, income and expenses in its functional currency, which is the currency of the primary economic environment in which it operates. However, the indicators used to determine the functional currency differ in some respects from IFRSs.

Unlike IFRSs, there is no priority given to any indicators when the indicators are mixed and the functional currency is not obvious. Instead, the functional currency is evaluated by giving consideration to all of the indicators.

Like IFRSs, an entity may present its financial statements in a currency other than its functional currency (reporting currency).

Unlike IFRSs, US GAAP does not address whether an entity may have more than one reporting currency. However, the SEC Staff has indicated that a foreign private issuer may select any reporting currency that the issuer deems appropriate.

Like IFRSs, transactions that are not denominated in an entity's functional currency are foreign currency transactions, and exchange differences arising on translation generally are recognised in profit or loss.

Like IFRSs, the financial statements of foreign operations are translated for the purpose of consolidation as follows: assets and liabilities are translated at the closing rate; income and expenses are translated at actual rates or appropriate averages; and equity components (excluding the current year movements, which are translated at actual rates) are translated at historic rates.

Like IFRSs, exchange differences arising on the translation of the financial statements of a foreign operation are recognised in other comprehensive income and accumulated in a separate component of equity. The amount attributable to any non-controlling interests (NCI) is allocated to and recognised as part of NCI, like IFRSs.

If the functional currency of a foreign operation is hyperinflationary, then current purchasing power adjustments are made to its financial statements prior to translation and the financial statements are translated into a different presentation currency at the closing rate at the end of the current period. However, if the presentation currency is not hyperinflationary, then comparative amounts are not restated. This accounting is followed for financial statements of the period in which the economy becomes hyperinflationary.

When an entity disposes of an interest in a foreign operation, the cumulative exchange differences recognised in other comprehensive income and accumulated in a separate component of equity are reclassified to profit or loss. Partial disposals result in a proportionate reclassification to NCI (in the case of a subsidiary) or to profit or loss (in other cases). For this purpose the loss of control, significant influence or joint control is a disposal even if the entity retains an interest in the investee.

When financial statements are translated into a presentation currency other than the entity's functional currency, the entity uses the same method as for translating the financial statements of a foreign operation.

An entity may present supplementary financial information in a currency other than its presentation currency (currencies) if certain disclosures are made.

Unlike IFRSs, the financial statements of a foreign operation in a highly inflationary economy are remeasured as if the parent's reporting currency were its functional currency with translation gains and losses recognised in profit or loss. Unlike IFRSs, this accounting is followed for financial statements of the period that begins after the economy becomes highly inflationary.

Like IFRSs, when an entity disposes of an interest in a foreign operation, the cumulative exchange differences recognised in accumulated other comprehensive income are transferred to profit or loss. Partial disposals result in a proportionate reclassification to NCI (in the case of a subsidiary) or to profit or loss (in other cases), like IFRSs. For this purpose the loss of control is a disposal even if the entity retains an interest in the investee, like IFRSs; however, the loss of significant influence or joint control is a partial disposal when the entity retains an interest in the investee, unlike IFRSs.

Like IFRSs, when financial statements are translated into a reporting currency other than the entity's functional currency, the entity uses the same method as for translating the financial statements of a foreign operation.

Like IFRSs, an SEC registrant may present supplementary financial information in a currency other than its reporting currency; however, the SEC regulations are more prescriptive than IFRSs.

2.8 Accounting policies, errors and estimates

(IAS 1, IAS 8)

Accounting policies are the specific principles, bases, conventions, rules and practices that an entity applies in preparing and presenting financial statements.

A hierarchy of alternative sources is specified when IFRSs do not cover a particular issue.

Unless otherwise permitted specifically by an IFRS, the accounting policies adopted by an entity are applied consistently to all similar items.

An accounting policy is changed in response to a new or revised IFRS, or on a voluntary basis if the new policy is more appropriate.

Generally accounting policy changes and corrections of prior period errors are made by adjusting opening equity and restating comparatives unless this is impracticable.

Changes in accounting estimates are accounted for prospectively.

When it is difficult to determine whether a change is a change in accounting policy or a change in estimate, it is treated as a change in estimate.

Comparatives are restated unless impracticable if the classification or presentation of items in the financial statements is changed.

A statement of financial position as at the beginning of the earliest comparative period is presented when an entity restates comparative information following a change in accounting policy, correction of an error; or reclassification of items in the financial statements.

2.8 Accounting policies, errors and estimates

(ASC Subtopic 250-10, ASC Subtopic 270-10, SAB 99)

Like IFRSs, accounting principles (policies) are the specific principles, bases, conventions, rules and practices that an entity applies in preparing and presenting financial statements.

Unlike IFRSs, US GAAP is divided between authoritative and non-authoritative literature.

Like IFRSs, unless otherwise permitted, the accounting principles adopted by an entity are applied consistently to all similar items.

Like IFRSs, an accounting principle is changed in response to an Accounting Standards Update, or on a voluntary basis if the new principle is preferable.

Like IFRSs, accounting principle changes generally are made by adjusting opening equity and comparatives unless impracticable. Unlike IFRSs, errors are corrected by restating opening equity and comparatives, with no impracticability exemption.

Like IFRSs, changes in accounting estimates are accounted for prospectively.

Like IFRSs, when it is difficult to determine whether a change is a change in accounting principle or a change in estimate, it is treated as a change in estimate. However, unlike IFRSs, the change needs to be preferable.

Like IFRSs, comparatives are adjusted unless impracticable if the classification or presentation of items in the financial statements is changed.

Unlike IFRSs, a statement of financial position as at the beginning of the earliest comparative period is not required to be presented in any circumstances.

2.9 Events after the reporting period

(IAS 1, IAS 10)

The financial statements are adjusted to reflect events that occur after the end of the reporting period, but before the financial statements are authorised for issue, if those events provide evidence of conditions that existed at the end of the reporting period.

Financial statements are not adjusted for events that are indicative of conditions that arose after the end of the reporting period, except when the going concern assumption no longer is appropriate.

Dividends declared after the end of the reporting period are not recognised as a liability in the financial statements.

Liabilities generally are classified as current or non-current based on circumstances at the end of the reporting period. However, if an entity expects, and has the discretion, at the end of the reporting period to refinance or roll over an obligation for at least twelve months after the end of the reporting period under an existing loan facility, then it classifies the obligation as non-current.

2.9 Events after the reporting period

(ASC Subtopic 260-10, ASC Subtopic 470-10, ASC paragraph 505-10-S99-4, ASC paragraph 855-10, SAB Topic 4-C)

Like IFRSs, the financial statements are adjusted to reflect events that occur after the end of the reporting period if those events provide evidence of conditions that existed at the end of the reporting period. However, unlike IFRSs, the period to consider goes to the date that the financial statements are issued for public entities and to the date the financial statements are available to be issued for certain non-public entities. However, certain differences from IFRSs exist in specific Codification topics/subtopics.

Like IFRSs, generally financial statements are not adjusted for events that are indicative of conditions that arose after the end of the reporting period. However, unlike IFRSs, there is no exception when the going concern assumption no longer is appropriate. Also unlike IFRSs, SEC registrants adjust the statement of financial position for a share dividend, share split or reverse share split occurring after the end of the reporting period.

Like IFRSs, generally dividends declared after the end of the reporting period are not recognised as a liability in the financial statements.

Like IFRSs, generally the classification of liabilities as current or non-current reflects circumstances at the end of the reporting period. Like IFRSs, if an entity expects, and has the discretion, at the end of the reporting period to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility, then it classifies the obligation as non-current. However, unlike IFRSs, after the end of the reporting period, refinancings are considered in determining the classification of debt at the end of the reporting period. Also unlike IFRSs, liabilities payable on demand at the end of the reporting period due to covenant violations are classified as non-current in certain circumstances.

3. Statement of financial position

3.1 General (IAS 1)

Generally an entity presents its statement of financial position classified between current and non-current assets and liabilities. An unclassified statement of financial position based on the order of liquidity is acceptable only when it provides reliable and more relevant information.

While IFRSs require certain items to be presented in the statement of financial position, there is no prescribed format.

A liability that is payable on demand because certain conditions are breached is classified as current even if the lender has agreed, after the end of the reporting period but before the financial statements are authorised for issue, not to demand repayment.

Assets and liabilities that are part of working capital are classified as current even if they are due to be settled more than 12 months after the end of the reporting period.

3. Statement of financial position

3.1 General

(ASC Topic 210, ASC Subtopic 310-10, ASC Subtopic 470-10, ASC paragraph 210-20-45-9, Reg S-X)

Unlike IFRSs, US GAAP does not contain a requirement to present a classified statement of financial position. Unlike IFRSs, there is no restriction on when an unclassified statement of financial position based on the order of liquidity can be presented.

Unlike IFRSs, SEC regulations prescribe the format and certain minimum line item disclosures for SEC registrants. For non-SEC registrants, there is limited guidance on the presentation of the statement of financial position, like IFRSs.

Generally obligations that are payable on demand are classified as current, like IFRSs. However, unlike IFRSs, a liability is not classified as current when it is refinanced subsequent to the end of the reporting period but prior to the financial statements being issued (available to be issued for certain non-public entities), or when the lender has waived after the end of the reporting period its right to demand repayment for more than 12 months from the end of the reporting period.

Like IFRSs, assets and liabilities that are expected to be settled within the entity's normal operating cycle, which may be longer than 12 months after the end of the reporting period, are classified as current.

3.2 Property, plant and equipment

(IAS 16, IFRIC 1, IFRIC 18)

Property, plant and equipment is recognised initially at cost.

Cost includes all expenditure directly attributable to bringing the asset to the location and working condition for its intended use.

Cost includes the cost of dismantling and removing the asset and restoring the site.

Changes to an existing decommissioning or restoration obligation generally are added to or deducted from the cost of the related asset and depreciated prospectively over the remaining useful life of the asset.

Property, plant and equipment is depreciated over its useful life.

An item of property, plant and equipment is depreciated even if it is idle, but not if it is held for sale.

Estimates of useful life and residual value, and the method of depreciation, are reviewed at least at each annual reporting date. Any changes are accounted for prospectively as a change in estimate.

When an item of property, plant and equipment comprises individual components for which different depreciation methods or rates are appropriate, each component is depreciated separately.

3.2 Property, plant and equipment

(ASC Topic 835, ASC Subtopic 250-10, ASC Subtopic 360-10, ASC Subtopic 410-20, ASC Subtopic 605-40, ASC Subtopic 720-15, ASC Subtopic 720-40, ASC Subtopic 845-10, TPA 2210.28)

Like IFRSs, property, plant and equipment is recognised initially at cost.

Like IFRSs, cost includes all expenditure directly attributable to bringing the asset to the location and working condition for its intended use.

Cost includes the cost of dismantling and removing the asset and certain costs of restoring the site, like IFRSs. However, unlike IFRSs, to the extent that such costs relate to environmental remediation, they are not capitalisable.

Like IFRSs, changes to an existing decommissioning or restoration obligation generally are added to or deducted from the cost of the related asset and depreciated prospectively over the remaining useful life of the asset.

Like IFRSs, property, plant and equipment is depreciated over its useful life.

Like IFRSs, an item of property, plant and equipment is depreciated even if it is idle, but not if it is held for sale.

Unlike IFRSs, estimates of useful life and residual value, and the method of depreciation, are reviewed only when events or changes in circumstances indicate that the current estimates or depreciation method are no longer appropriate. Like IFRSs, any changes are accounted for prospectively as a change in estimate.

Unlike IFRSs, component accounting is permitted but not required. When component accounting is used, its application may differ from IFRSs.

Subsequent expenditure is capitalised only when it is probable that it will give rise to future economic benefits.

Property, plant and equipment may be revalued to fair value if fair value can be measured reliably. All items in the same class are revalued at the same time and the revaluations are kept up to date.

Compensation for the loss or impairment of property, plant and equipment is recognised in profit or loss when receivable.

The gain or loss on disposal is the difference between the net proceeds received and the carrying amount of the asset.

Like IFRSs, subsequent expenditure is capitalised only when it is probable that it will give rise to future economic benefits.

Unlike IFRSs, the revaluation of property, plant and equipment is not permitted.

Unlike IFRSs, compensation for the loss or impairment of property, plant and equipment, to the extent of losses and expenses recognised, is recognised in profit or loss when receipt is likely to occur. Compensation in excess of that amount is recognised only when receivable, like IFRSs.

Like IFRSs, the gain or loss on disposal is the difference between the net proceeds received and the carrying amount of the asset.

3.3 Intangible assets and goodwill

(IFRS 3, IAS 36, IAS 38, SIC-32)

An intangible asset is an identifiable non-monetary asset without physical substance.

An intangible asset is identifiable if it is separable or arises from contractual or legal rights.

Intangible assets generally are recognised initially at cost.

The initial measurement of an intangible asset depends on whether it has been acquired separately, as part of a business combination, or was generated internally.

Goodwill is recognised only in a business combination and is measured as a residual.

Acquired goodwill and other intangible assets with indefinite useful lives are not amortised, but instead are subject to impairment testing at least annually.

Intangible assets with finite useful lives are amortised over their expected useful lives.

Subsequent expenditure on an intangible asset is capitalised only if the definition of an intangible asset and the recognition criteria are met.

Intangible assets may be revalued to fair value only if there is an active market.

3.3 Intangible assets and goodwill

(ASC Subtopic 205-20, ASC Subtopic 340-20, ASC Topic 350, ASC Subtopic 360-10, ASC Subtopic 720-15, ASC Subtopic 720-35, ASC Topic 730, ASC Topic 805, ASC Subtopic 985-20)

Like IFRSs, an intangible asset is an asset, not including a financial asset, without physical substance.

Like IFRSs, an intangible asset is identifiable if it is separable or arises from contractual or legal rights.

Because several different Codification topics/subtopics apply to the accounting for intangible assets, there are different measurement bases upon initial recognition, unlike IFRSs.

Like IFRSs, the initial measurement of an intangible asset depends on whether it has been acquired separately, as part of a business combination, or was generated internally. However, there are certain differences from IFRSs in the detailed requirements.

Like IFRSs, goodwill is recognised only in a business combination and is measured as a residual.

Like IFRSs, acquired goodwill and other intangible assets with indefinite useful lives are not amortised, but instead are subject to impairment testing at least annually.

Like IFRSs, intangible assets with finite useful lives are amortised over their expected useful lives.

Subsequent expenditure on an intangible asset is not capitalised unless it can be demonstrated that the expenditure increases the utility of the asset, which broadly is like IFRSs.

Unlike IFRSs, intangible assets cannot be revalued.

Internal research expenditure is expensed as incurred. Internal development expenditure is capitalised if specific criteria are met. These capitalisation criteria are applied to all internally developed intangible assets.

Advertising and promotional expenditure is expensed as incurred.

Expenditure on relocation or a reorganisation is expensed as incurred.

The following costs are not capitalised as intangible assets: internally generated goodwill, costs to develop customer lists, start-up costs and training costs.

Unlike IFRSs, both internal research and development (R&D) expenditure is expensed as incurred. Special capitalisation criteria apply to in-process R&D acquired in a business combination, direct-response advertising, software developed for internal use, and software developed for sale to third parties, which differ from the general criteria under IFRSs.

Unlike IFRSs, direct-response advertising expenditure is capitalised if specific criteria are met. Other advertising and promotional expenditure is expensed as incurred, like IFRSs, or deferred until the advertisement first appears, unlike IFRSs.

Like IFRSs, expenditure on relocation or reorganisation is expensed as incurred.

Like IFRSs, the following costs cannot be capitalised as intangible assets: internally generated goodwill, costs to develop customer lists, start-up costs and training costs.

3.4 Investment property

(IAS 17, IAS 40)

Investment property is property held to earn rental income or for capital appreciation, or both.

Property held by a lessee under an operating lease may be classified as investment property if the rest of the definition of investment property is met and the lessee measures all its investment property at fair value.

A portion of a dual-use property is classified as investment property only if the portion could be sold or leased out under a finance lease. Otherwise the entire property is classified as property, plant and equipment, unless the portion held for own use is insignificant.

When a lessor provides ancillary services, the property is classified as investment property if such services are a relatively insignificant component of the arrangement as a whole.

Investment property is recognised initially at cost.

Subsequent to initial recognition, all investment property is measured using either the fair value model (subject to limited exceptions) or the cost model. When the fair value model is chosen, changes in fair value are recognised in profit or loss.

Disclosure of the fair value of all investment property is required, regardless of the measurement model used.

Subsequent expenditure is capitalised only when it is probable that it will give rise to future economic benefits.

3.4 Investment property

(ASC Subtopic 205-20, ASC Subtopic 210-10, ASC Topic 360, ASC Topic 840, ASC Topic 970, ASC Topic 976, CON 6)

Unlike IFRSs, there is no specific definition of investment property; such property is accounted for as property, plant and equipment unless it meets the criteria to be classified as “held for sale”.

Unlike IFRSs, property held by a lessee under an operating lease cannot be recognised in the statement of financial position.

Unlike IFRSs, there is no guidance on how to classify dual-use property. Instead, the entire property is accounted for as property, plant and equipment.

Unlike IFRSs, ancillary services provided by a lessor do not affect the treatment of a property as property, plant and equipment.

Like IFRSs, investment property is recognised initially at cost.

Unlike IFRSs, subsequent to initial recognition all investment property is measured using the cost model.

Unlike IFRSs, there is no requirement to disclose the fair value of investment property.

Like IFRSs, subsequent expenditure is capitalised only when it is probable that it will give rise to future economic benefits.

Transfers to or from investment property can be made only when there has been a change in the actual use of the property. The intention to sell an investment property without redevelopment does not justify reclassification from investment property into inventory; the property continues to be classified as investment property until the time of disposal unless it is classified as held for sale.

Unlike IFRSs, investment property is accounted for as property, plant and equipment, and there are no transfers to or from an “investment property” category.

3.5 Investments in associates and joint ventures (IAS 28, IAS 31, SIC-13)

The definition of an associate is based on significant influence, which is the power to participate in the financial and operating policies of an entity.

There is a rebuttable presumption of significant influence if an entity holds 20 to 50 percent of the voting rights of another entity.

Potential voting rights that are currently exercisable are considered in assessing significant influence.

A joint venture is an entity, asset or operation that is subject to contractually established joint control.

Associates are accounted for using the equity method in the consolidated financial statements.

3.5 Equity-method investees

(ASC paragraph 225-10-S99-2, ASC paragraph 235-10-S99-1, ASC Subtopic 272-10, ASC paragraph 320-10-S99-1, -ASC Topic 323, ASC Subtopic 325-20, ASC Subtopic 808-10, ASC Subtopic 810-20, ASC Subtopic 825-10, ASC Topic 970, Reg S-X, 3-09, Reg S-X 4-08(e), Reg S-X 4-08(g), Reg S-X 5-03.13, SAB Topic 5-M)

Like IFRSs, significant influence is the ability to significantly influence the operating and financial policies of an investee. In addition, unlike IFRSs, for partnerships and similar entities significant influence is defined more broadly to include all circumstances except those in which the investor's interest is so minor that the investor may have virtually no influence over the investee's operating and financial policies. The term *equity-method investee* is used to describe what would be an associate under IFRSs.

Like IFRSs, there is a rebuttable presumption of significant influence if an entity holds 20 to 50 percent of the voting rights of another entity. Unlike IFRSs, there are additional requirements in respect of partnerships and similar entities under which significant influence is deemed to exist for investments of more than 3 to 5 percent of the investee's equity interests.

Unlike IFRSs, the role of currently exercisable voting rights is not addressed explicitly in US GAAP. However, because all factors are required to be considered in assessing significant influence, in effect any such voting rights would need to be considered, which may result in the same outcome as IFRSs.

Unlike IFRSs, US GAAP does not define a joint venture other than a corporate joint venture.

Equity-method investees are accounted for using the equity method in the consolidated financial statements, like IFRSs, or under the fair value option, unlike IFRSs. However, certain aspects of the application of the equity method differ from IFRSs.

Jointly controlled entities may be accounted for either by proportionate consolidation or using the equity method in the consolidated financial statements.

In applying the equity method or proportionate consolidation, an associate's or jointly controlled entity's accounting policies should be consistent with those of the investor.

The reporting date of an associate or jointly controlled entity may not differ from the investor's by more than three months, and should be consistent from period to period. Adjustments are made for the effects of significant events and transactions between the two dates.

When an equity-accounted investee incurs losses, the carrying amount of the investor's interest is reduced but not to below zero. Further losses are recognised by the investor only to the extent that the investor has an obligation to fund losses or has made payments on behalf of the investee.

Unrealised profits or losses on transactions with associates or jointly controlled entities are eliminated to the extent of the investor's interest in the investee.

Gains and losses on non-monetary contributions, other than a subsidiary, in return for an equity interest in a jointly controlled entity generally are eliminated to the extent of the investor's interest in the investee.

When an entity contributes a *subsidiary* in exchange for an interest in an associate or jointly controlled entity, the entity may choose to either recognise the gain or loss in full or eliminate the gain or loss to the extent of the investor's interest in the investee.

Unlike IFRSs, jointly controlled entities generally are accounted for using the equity method. Proportionate consolidation is allowed only in certain industries for unincorporated ventures.

Unlike IFRSs, in applying the equity method or, in limited cases, proportionate consolidation, an equity-method investee's or jointly controlled entity's accounting policies need not be consistent with those of the investor.

Like IFRSs, the reporting date of an equity-method investee or jointly controlled entity may not differ from the investor's by more than three months. However, unlike IFRSs, adjustments are not made for the effects of significant events and transactions between the two dates; instead, disclosure is provided.

Like IFRSs, when an equity-method investee incurs losses, the carrying amount of the investor's interest is reduced but not to below zero. Like IFRSs, further losses generally are recognised by the investor only to the extent that the investor has an obligation to fund losses. However, unlike IFRSs, further losses also are recognised if the investee is expected to return to profitability imminently, or if a subsequent further investment in the investee is in substance the funding of such losses.

Like IFRSs, unrealised profits or losses on transactions with equity-method investees or jointly controlled entities are eliminated to the extent of the investor's interest in the investee.

Like IFRSs, gains and losses on non-monetary contributions, other than a *business*, in return for an equity interest in a jointly controlled entity generally are eliminated to the extent of the investor's interest in the investee. Unlike IFRSs, the exclusion from the general principle focuses on whether the assets comprise a business rather than whether they are in a subsidiary.

Unlike IFRSs, when an entity contributes a subsidiary or group of assets that constitutes a *business* in exchange for an interest in an equity-method investee or a joint venture, the entity is required to recognise any gain or loss in full.

The carrying amount of an equity-accounted investee is written down if it is impaired.

For jointly controlled assets, the investor accounts for its share of the jointly controlled assets, the liabilities and expenses it incurs, and its share of any income or output.

For jointly controlled operations, the investor accounts for the assets it controls, the liabilities and expenses it incurs, and its share of the income from the joint operation.

Equity accounting or proportionate consolidation is not applied to an investee that is acquired with a view to its subsequent disposal if the criteria are met for classification as held for sale.

Venture capital organisations, mutual funds, unit trusts and similar entities may elect to account for investments in associates and jointly controlled entities as financial assets.

A loss of significant influence or joint control is an economic event that changes the nature of the investment. The fair value of any retained investment is taken into account to calculate the gain or loss on the transaction, as if the investment was fully disposed of. This gain or loss is recognised in profit or loss. Amounts recognised in other comprehensive income are reclassified or transferred as required by other IFRSs.

Unlike IFRSs, the carrying amount of an equity-method investee is written down only if there is an impairment of the carrying amount that is considered to be “other than temporary”.

Although there is no concept of jointly controlled assets under US GAAP, in practice the investor accounts for its share of the jointly controlled assets, the liabilities and expenses it incurs, and its share of any income or output, like IFRSs.

Although there is no concept of jointly controlled operations under US GAAP, in practice the investor accounts for the assets it controls, the liabilities and expenses it incurs, and its share of the income from the joint operation, like IFRSs.

Unlike IFRSs, there is no exemption from use of the equity method for an equity-method investee or joint venture that is acquired with a view to subsequent sale.

Unlike IFRSs, an entity may elect to account for equity-method investees as financial assets at fair value through profit or loss regardless of whether it is a venture capital or similar organisation. Additionally, investment companies account for investments in equity-method investees and jointly controlled entities as financial assets at fair value through profit or loss, unlike IFRSs.

Unlike IFRSs, if an equity-method investee or jointly controlled entity becomes an investment, then any retained investment is measured based on the investor’s carrying amount of the investment at the date of the change in status of the investment, adjusted for the reclassification of items recognised previously in accumulated other comprehensive income.

3.6 Financial instruments

(IAS 21, IAS 32, IAS 39, IFRIC 9)

Financial assets and financial liabilities, including derivative instruments, are recognised in the statement of financial position at trade date. However, “regular way” purchases and sales of financial assets are recognised either at trade date or at settlement date.

A derivative is a financial instrument or other contract within the scope of the financial instruments standards:

- the value of which changes in response to an underlying variable;
- that has an initial net investment smaller than would be required for other instruments that would be expected to have a similar response to changes in market factors; and
- that will be settled at a future date.

An embedded derivative is one or more implicit or explicit terms in a host contract that affect the cash flows of the contract in a manner similar to a stand-alone derivative instrument.

A host contract may be a financial or a non-financial contract.

3.6 Financial instruments

(ASC Subtopic 310-10 and 20; ASC Subtopic 320-10; ASC Subtopic 325-20; ASC Subtopic 405-20; ASC Topic 450; ASC Subtopic 460-10; ASC Subtopic 470-20, 50, and 60; ASC Subtopic 480-10; ASC Subtopic 505-10, ASC Subtopic 810-10; ASC Subtopic 815-10, 15, and 25; ASC Subtopic 820-10; ASC Subtopic 825-10; ASC Subtopic 830-20; ASC Topic 840; ASC Topic 860; ASC Subtopic 940-320; ASC Subtopic 946-320 and 830; ASC Subtopic 948-10; SAB Topic 5-M; SAB Topic 6-L)

Like IFRSs, financial assets and financial liabilities, including derivative instruments, are recognised in the statement of financial position at trade date. However, unlike IFRSs, certain industries are required to use trade date accounting for “regular way” transactions; otherwise, US GAAP is silent and practice varies.

A derivative is a financial instrument or other contract within the scope of the financial instruments Codification topics:

- that has (1) one or more underlyings and (2) one or more notional amounts or payment provisions or both, unlike IFRSs;
- that has an initial net investment smaller than would be required for other instruments that would be expected to have a similar response to changes in market factors, like IFRSs; and
- that, unlike IFRSs:
 - requires or permits net settlement;
 - is readily settleable through a market mechanism outside the contract; or
 - provides for delivery of an asset that is readily convertible to cash.

Like IFRSs, an embedded derivative is one or more implicit or explicit terms in a host contract that affect the cash flows of the contract in a manner similar to a stand-alone derivative instrument.

Like IFRSs, a host contract may be a financial or a non-financial contract.

An embedded derivative is not accounted for separately from the host contract when it is closely related to the host contract, or when the entire contract is measured at fair value through profit or loss.

Financial assets are classified into one of four categories: at fair value through profit or loss; loans and receivables; held to maturity; or available for sale. Financial liabilities are categorised as either at fair value through profit or loss, or other liabilities. The categorisation determines whether and where any remeasurement to fair value is recognised. The category “loans and receivable” may include securities not quoted in an active market.

Financial assets and financial liabilities classified at fair value through profit or loss are further subcategorised as held for trading or designated as such on initial recognition.

All financial instruments are measured initially at fair value plus directly attributable transaction costs, except when the instrument is classified as at fair value through profit or loss, in which case it is measured initially at fair value.

Financial assets are measured subsequent to initial recognition at fair value with gains and losses generally recognised in profit or loss except for loans and receivables and held-to-maturity investments which are measured at amortised cost, and unlisted equity instruments which are measured at cost in the rare circumstances that fair value cannot be measured reliably.

Like IFRSs, an embedded derivative is not accounted for separately from the host contract when it is clearly and closely related to the host contract, or when the entire contract is measured at fair value through profit or loss. However, the US GAAP guidance related to the term *clearly and closely related* differs from the IFRS guidance related to the term *closely related* in certain respects.

Although US GAAP has investment categories, unlike IFRSs, these categories are only available for debt and marketable equity securities: held for trading; held to maturity; and available for sale. A security may also be designated as at Fair Value through Profit or Loss, like IFRS. Also unlike IFRSs, US GAAP has a loans-held-for-sale category; however, unlike IFRS this category may not include securities not quoted in an active market. Unlike IFRSs, US GAAP does not prescribe classification categories for financial liabilities. Like IFRSs, categorisation determines whether and where any remeasurement to fair value is recognised.

Under US GAAP entities may designate certain financial assets and financial liabilities to be measured at fair value with changes recorded through profit or loss. However, this is not considered a category; rather it is a measurement concept.

Like IFRSs, derivatives, securities classified as trading or available for sale, and instruments for which the fair value through profit or loss option has been elected are measured initially at fair value. Unlike IFRSs, other financial instruments are measured initially at cost. Like IFRSs, the initial amount recognised for all financial instruments measured at fair value excludes transaction costs.

Financial assets at fair value through profit or loss, trading and available-for-sale securities are measured subsequent to initial recognition at fair value, like IFRSs. Unlike IFRSs, loans held for sale are measured at the lower of cost and fair value.

Changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income, except that foreign exchange gains and losses on available-for-sale monetary items and impairment losses on all available-for-sale financial assets are recognised in profit or loss. On derecognition any gains or losses accumulated in other comprehensive income are recycled to profit or loss.

Financial liabilities, other than those held for trading or designated at fair value through profit or loss, are measured at amortised cost subsequent to initial recognition.

All derivatives (including separated embedded derivatives) are measured at fair value. Fair value gains and losses on derivatives are recognised immediately in profit or loss unless they qualify as hedging instruments in a cash flow hedge or in a net investment hedge.

An entity may reclassify a non-derivative financial asset out of the held-for-trading category in certain circumstances if it is no longer held for the purpose of being sold or repurchased in the near term. An entity also may reclassify, if certain conditions are met, a non-derivative financial asset from the available-for-sale category to loans and receivables.

A financial asset is derecognised only when the contractual rights to the cash flows from the financial asset expire or when the financial asset is transferred and the transfer meets certain specified conditions.

Like IFRSs, changes in the fair value of available-for-sale securities are recognised in other comprehensive income, except for impairment losses, which are recognised in profit or loss if deemed to be other than temporary. However, unlike IFRSs, the amount recognised in other comprehensive income includes foreign exchange gains and losses on available-for-sale securities.

Like IFRSs, financial liabilities generally are measured at either fair value or amortised cost subsequent to initial recognition. Like IFRSs, a financial liability may be designated at fair value through profit or loss. Like IFRSs, trading liabilities and derivative liabilities are recorded at fair value. Unlike IFRSs, mandatorily redeemable instruments and obligations to repurchase a fixed number of an issuer's own equity shares are recorded at a settlement value or a net present value depending on the situation. Also unlike IFRSs, certain obligations to issue or repurchase a variable number of shares are required to be recorded at fair value.

Like IFRSs, all derivatives (including separated embedded derivatives) are measured at fair value. Fair value gains and losses on derivatives are recognised immediately in profit or loss unless they qualify as hedging instruments in a cash flow hedge or in a net investment hedge, like IFRSs.

Like IFRSs, an entity may reclassify a security out of the held-for-trading category only in rare circumstances. Also, an entity may reclassify a security out of the available-for-sale category upon a change in intent. Additionally, an entity may reclassify a loan out of the loans held-for-sale category in certain circumstances.

Unlike IFRSs, the derecognition model for transfers of financial assets focuses on surrendering control over the transferred assets (financial components approach); the transferor has surrendered control over transferred assets only if certain conditions are met.

A financial asset is considered to have been transferred if an entity transfers the contractual rights to receive the cash flows from the financial asset, or enters into a qualifying “pass-through” arrangement. If a transfer meets the conditions, then an entity evaluates whether or not it has retained the risks and rewards of ownership of the transferred financial asset.

An entity derecognises a transferred financial asset if it has transferred substantially all of the risks and rewards of ownership, or if it has not retained substantially all of the risks and rewards of ownership and it has not retained control of the financial asset; otherwise it continues to recognise the asset.

An entity continues to recognise a financial asset to the extent of its continuing involvement if it has neither retained nor transferred substantially all of the risks and rewards of ownership, and it has retained control of the financial asset.

A financial liability is derecognised when it is extinguished or when its terms are modified substantially.

When there is objective evidence that a financial asset measured at amortised cost, or at fair value with changes recognised in other comprehensive income, may be impaired, the amount of any impairment loss is recognised in profit or loss.

Unlike IFRSs, an entity that is not the issuer is considered to have transferred a financial asset when it has conveyed the financial asset by and to someone other than the issuer of that financial asset.

Unlike IFRSs, risks and rewards is not an explicit consideration when testing a transfer for derecognition. Rather, an entity derecognises a transferred financial asset or a participating interest therein if it surrenders legal, actual and effective control of the financial asset or participating interest; otherwise it continues to recognise the asset.

After a transfer of a financial asset, or a participating interest therein, an entity continues to recognise the financial and servicing assets that it controls, like IFRSs.

Like IFRSs, a financial liability is derecognised when it is extinguished or when its terms are modified substantially. However, unlike IFRSs, there is specific guidance in respect of convertible debt and troubled debt restructuring.

Unlike IFRSs, an impairment loss on a security is recognised only if it is “other than temporary” even if there is objective evidence that the security may be impaired. If the impairment is other than temporary, then any impairment loss is recognised in profit or loss, except in certain situations involving debt securities in which case the impairment loss is split between profit or loss and other comprehensive income. Unlike IFRSs, impairment losses can be reversed only if they were not fully written off through profit or loss. Unlike IFRSs, other impairment losses (e.g. the allowance for loan losses) that are other than temporary cannot be reversed.

3.6A Financial instruments – classification and measurement of financial assets

(IFRS 9)

The first chapters of the new financial instruments standard apply only to financial assets. These chapters are effective for annual periods beginning on or after 1 January 2013; earlier application is permitted.

There are two primary measurement categories for financial assets: amortised cost and fair value.

A financial asset is measured at amortised cost if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest.

All other financial assets are measured at fair value.

There is specific guidance on classifying non-recourse financial assets and contractually linked instruments that create concentrations of credit risk (e.g. securitisation tranches). Financial assets acquired at a discount that may include incurred credit losses are not precluded automatically from being classified at amortised cost.

3.6A Financial instruments – classification and measurement of financial assets

(ASC Topic 310, ASC Topic 815, ASC Topic 830, ASC Topic 942, ASC Subtopic 320-10, ASC Subtopic 470-50, ASC Subtopic 825-10, ASC Subtopic 948-10, SAB Topic 5-M, ASC paragraph 320-10-S99-1, SAB Topic 6-L, ASC paragraph 310-10-S99-4)

The FASB has a comprehensive project on financial instruments underway and issued an exposure draft in 2010. As no final Accounting Standards Update has yet been issued, the comparison in this chapter is based on current US GAAP.

Like IFRSs, financial assets are measured at amortised cost or fair value. However, differences exist as to which assets are measured at amortised cost and which are measured at fair value.

Unlike IFRSs, a financial asset is measured at amortised cost if it is a held-to-maturity security or a loan or receivable other than loans held for sale. Loans held for sale are measured at the lower of cost or fair value, unlike IFRSs.

Like IFRSs, other financial assets generally are measured at fair value however there are differences between IFRSs and US GAAP as to whether the changes in fair value are recognised in profit or loss or other comprehensive income. Unlike IFRSs, investments in equity securities that are not readily marketable are measured at cost unless fair value option is elected.

Unlike IFRSs, US GAAP does not contain specific guidance regarding the classification of non-recourse financial assets and contractually linked securities. Like IFRSs, financial assets acquired at a discount that may include incurred credit losses are not automatically precluded from amortised cost accounting.

Entities have an option to classify financial assets that meet the amortised cost criteria as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

Embedded derivatives with host contracts that are financial assets within the scope of the current financial instruments standards are not separated; instead the hybrid financial instrument is assessed as a whole for classification under the forthcoming financial instruments standard. Hybrid instruments with host contracts that are not financial assets within the scope of the current financial instruments standards are outside the scope of forthcoming financial instruments standard and continue to be assessed for bifurcation in accordance with the current financial instruments standards.

If a financial asset is measured at fair value, then all changes in fair value are recognised in profit or loss. However, for investments in equity instruments which are not held for trading, an entity has the option, on an instrument-by-instrument basis, to recognise gains and losses in other comprehensive income with no reclassification of gains and losses into profit or loss and no impairments recognised in profit or loss. If an equity investment is so designated, then dividend income generally is recognised in profit or loss.

There is no exemption allowing some unquoted equity investments and related derivative assets to be measured at cost. However, guidance is provided as to the limited circumstances in which the cost of such an instrument may be an appropriate approximation of fair value.

The classification of a financial instrument is determined on initial recognition. Reclassifications are made only upon a change in an entity's business model that is significant to its operations. These are expected to be very infrequent. No other reclassifications are permitted.

Like IFRSs, entities have the option to classify financial assets that would otherwise be accounted for at amortised cost as at fair value through profit or loss. However, this is a free election and there is no requirement that doing so reduces an accounting mismatch, unlike IFRSs.

Unlike IFRSs, derivatives embedded in hybrid instruments are evaluated to determine whether or not they are bifurcated and accounted for separately unless the hybrid instrument is classified as at fair value through profit or loss.

If a financial asset is measured at fair value, then all changes in fair value are recognised in profit or loss, except for securities that are classified as available-for-sale, for which changes in fair value are recognised in other comprehensive income. Unlike IFRSs, amounts recognised in other comprehensive income are recycled to profit or loss when the security is sold. Unlike IFRSs, securities classified as available for sale are subject to impairment analysis with such losses generally being recognised in profit or loss.

Unlike IFRSs, non-marketable equity securities are measured at cost unless the fair value through profit or loss election is made.

Like IFRSs, the classification of an asset is determined on initial recognition. Unlike IFRSs, reclassifications are made from the held-to-maturity category to the available-for-sale category upon a tainting event. Reclassifications are made out of the loans-held-for-sale category to loans and receivables category when the holder has the intention and ability to hold the loan for the foreseeable future or until maturity, unlike IFRSs. Unlike IFRS, reclassifications to or from the trading category are permitted but rare.

3.7 Hedge accounting

(IAS 39, IFRIC 16)

Hedge accounting allows an entity to selectively measure assets, liabilities and firm commitments on a basis different from that otherwise stipulated in IFRSs, or to defer the recognition in profit or loss of gains or losses on derivatives.

Hedge accounting is voluntary; however, it is permitted only when strict documentation and effectiveness requirements are met.

There are three hedge accounting models: fair value hedges of fair value exposures, cash flow hedges of cash flow exposures, and net investment hedges of currency exposure on a net investment in a foreign operation.

Qualifying hedged items can be recognised assets, liabilities, unrecognised firm commitments, highly probable forecast transactions, net investments in foreign operations, or in a portfolio hedge of interest rate risk, a portion of a portfolio of financial assets or financial liabilities that share the risk being hedged.

In general, only derivative instruments entered into with an external party qualify as hedging instruments. However, for hedges of foreign exchange risk only, non-derivative financial instruments may qualify as hedging instruments.

3.7 Hedge accounting

(ASC Topic 815)

Like IFRSs, hedge accounting allows an entity to selectively measure assets, liabilities and firm commitments on a basis different from that otherwise stipulated in US GAAP, or to defer the recognition in profit or loss of gains or losses on derivatives.

Like IFRSs, hedge accounting is voluntary; however, it is permitted only when strict documentation and effectiveness requirements are met.

Like IFRSs, there are three hedge accounting models: fair value hedges of fair value exposures, cash flow hedges of cash flow exposures, and net investment hedges of currency exposure on a net investment in a foreign operation. However, the requirements differ in certain respects from IFRSs.

Like IFRSs, qualifying hedged items can be recognised assets, liabilities, unrecognised firm commitments, highly probable forecast transactions or net investments in foreign operations. Unlike IFRSs, in a portfolio hedge of interest rate risk, a portion of a portfolio of financial assets or financial liabilities that share the risk being hedged is not allowed under US GAAP. In addition, the details may differ in certain respects from IFRSs. Also, unlike IFRSs, US GAAP restricts the hedged risk to the entire risk of changes in cash flows or fair value, benchmark interest rate risk, currency risk, or counterparty credit risk in a hedged item.

Like IFRSs, in general only derivative instruments qualify as hedging instruments. Like IFRSs, for hedges of foreign exchange risk exposure of a net investment in a foreign operation, non-derivative financial instruments qualify as hedging instruments. However, unlike IFRSs, for foreign currency fair value hedges of unrecognised firm commitments, non-derivative financial instruments qualify as hedging instruments. Also unlike IFRSs, intra-group derivatives can be used as hedging instruments in certain circumstances.

All derivatives, including separable embedded derivatives, can qualify as hedging instruments, with some limitations.

The hedged risk should be one that could affect profit or loss.

Effectiveness testing is conducted on both a prospective and retrospective basis. In order for a hedge to be effective, changes in the fair value or cash flows of the hedged item attributable to the hedged risk should be offset by changes in the fair value or cash flows of the hedging instrument within a range of 80 – 125 percent.

Hedge accounting is discontinued prospectively if the hedged transaction no longer is highly probable; the hedging instrument expires, is sold, terminated or exercised; the hedged item is sold, settled or otherwise disposed of; or the hedge is no longer highly effective.

Like IFRSs, all derivatives, including separable embedded derivatives, can qualify as hedging instruments, with some limitations. However, those limitations differ from IFRSs in certain respects.

Like IFRSs, the hedged risk should be one that could affect profit or loss.

Like IFRSs, effectiveness testing is conducted on both a prospective and retrospective basis. Unlike IFRSs, the 80 – 125 percent range is not specified. However, this range is very commonly used in practice. The SEC Staff has indicated that this is an acceptable range. Unlike IFRSs, hedging instruments meeting very restrictive criteria are accounted for as if they are perfectly effective without testing effectiveness.

Like IFRSs, hedge accounting is discontinued prospectively if the hedged transaction no longer is probable; the hedging instrument expires, is sold, terminated or exercised; the hedged item is sold, settled or otherwise disposed of; or the hedge is no longer highly effective. However, the requirements differ in certain respects from IFRSs.

3.8 Inventories

(IAS 2)

Generally inventories are measured at the lower of cost and net realisable value.

Cost includes all direct expenditure to get inventory ready for sale, including attributable overheads.

Decommissioning and restoration costs incurred through the production of inventory are included in the cost of that inventory.

The cost of inventory generally is determined using the FIFO (first-in, first-out) or weighted average cost method. The use of the LIFO (last-in, first-out) method is prohibited.

Other cost formulas, such as the standard cost or retail method, may be used if the result approximates actual cost.

The same cost formula is applied to all inventories having a similar nature and use to the entity.

The cost of inventory generally is recognised as an expense when the inventory is sold.

Inventory is written down to net realisable value when net realisable value is less than cost.

Net realisable value is the estimated selling price less the estimated costs of completion and sale.

3.8 Inventories

(ASC Topic 330, ASC Subtopic 605-50, ASC Topic 845, ASC paragraph 420-10-S99-3, SAB Topic 5-BB)

Unlike IFRSs, generally inventories are measured at the lower of cost and market.

Like IFRSs, cost includes all direct expenditure to get inventory ready for sale, including attributable overheads.

Unlike IFRSs, asset retirement obligations incurred through the production of inventory are added to the carrying amount of the related item of property, plant and equipment.

Unlike IFRSs, the cost of inventory can be determined using the LIFO method in addition to the FIFO or weighted average method.

Like IFRSs, other cost formulas such as the standard cost or retail method may be used if the result approximates actual cost.

Unlike IFRSs, the same cost formula need not be applied to all inventories having a similar nature and use to the entity.

Like IFRSs, the cost of inventory generally is recognised as an expense when the inventory is sold.

Unlike IFRSs, inventory is written down to market when net market is less than cost.

Unlike IFRSs, “market” is current replacement cost limited by net realisable value (ceiling) and net realisable value less a normal profit margin (floor). Like IFRSs, net realisable value is the estimated selling price less the estimated costs of completion and sale.

If the net realisable value of an item that has been written down subsequently increases, then the write-down is reversed.

Unlike IFRSs, a write-down of inventory to market is not reversed for subsequent recoveries in value.

3.9 Biological assets

(IAS 41)

Biological assets are measured at fair value less costs to sell unless it is not possible to measure fair value reliably, in which case they are measured at cost. All gains and losses from changes in fair value less costs to sell are recognised in profit or loss.

Agricultural produce harvested from a biological asset is measured at fair value less costs to sell at the point of harvest.

3.9 Biological assets

(ASC Topic 905, AICPA Agricultural Producers and Agricultural Cooperatives Guide)

Unlike IFRSs, “biological assets” are stated at the lower of cost and market. The terms “growing crops” and “animals being developed for sale” are used to describe what would be biological assets under IFRSs.

Unlike IFRSs, agricultural produce is measured either at the lower of cost and market or at sales price (fair value) less costs of disposal when certain conditions are met. The terms “harvested crops” and “animals held for sale” are used to describe what would be agricultural produce under IFRSs.

3.10 Impairment of non-financial assets

(IAS 36, IFRIC 10)

The impairment standard covers the impairment of a variety of non-financial assets, including property, plant and equipment, intangible assets and goodwill; investment property and biological assets carried at cost less accumulated depreciation; and investments in subsidiaries, joint ventures and associates.

Impairment testing is required when there is an indication of impairment.

Annual impairment testing is required for goodwill and intangible assets that either are not yet available for use or have an indefinite useful life. This impairment test may be performed at any time during the year provided that it is performed at the same time each year.

Goodwill is allocated to cash-generating units (CGUs) or groups of CGUs that are expected to benefit from the synergies of the business combination from which it arose. The allocation is based on the level at which goodwill is monitored internally, restricted by the size of the entity's operating segments.

Whenever possible an impairment test is performed for an individual asset. Otherwise, assets are tested for impairment in CGUs. Goodwill always is tested for impairment at the level of a CGU or a group of CGUs.

3.10 Impairment of non-financial assets

(ASC Topic 350, ASC Subtopic 205-20, ASC Subtopic 360-10, ASC Subtopic 820-10, CON 7)

Like IFRSs, the impairment Codification topics deal with the impairment of a variety of non-financial long-lived assets, including property, plant and equipment, intangible assets and goodwill. However, unlike IFRSs, different topics/subtopics address impairments of biological assets, investments in joint ventures and equity-method investees (associates).

Like IFRSs, impairment testing is required when there is an indicator of impairment.

Like IFRSs, annual impairment testing is required for goodwill and intangible assets that have an indefinite useful life. Unlike IFRSs, intangible assets not yet available for use are tested for impairment only if there is an indicator of impairment. Like IFRSs, the impairment test may be performed at any time during an annual reporting period provided that it is performed at the same time each year.

Unlike IFRSs, goodwill is allocated to reporting units (RUs) that are expected to benefit from the synergies of the business combination from which it arose. Unlike IFRSs, an RU is defined as an operating segment or one level below an operating segment.

Unlike IFRSs, long-lived depreciable and amortisable assets are tested for impairment in asset groups unless an individual asset generates identifiable cash flows largely independent of the cash flows from other asset groups. However, unlike IFRSs, certain long-lived depreciable or amortisable assets have a separate impairment test (e.g. capitalised software intended for sale). Unlike IFRSs, in general an indefinite-lived intangible asset always is tested as an individual asset. Unlike IFRSs, goodwill is tested for impairment at the RU level, and RUs may differ from CGUs or groups of CGUs.

A CGU is the smallest group of assets that generates cash inflows from continuing use that largely are independent of the cash inflows of other assets or groups thereof.

The carrying amount of goodwill is grossed up for impairment testing if the goodwill arose in a transaction in which non-controlling interests were initially measured based on their proportionate share of identifiable net assets.

An impairment loss is recognised if an asset's or CGU's carrying amount exceeds the greater of its fair value less costs to sell and value in use, which is based on the net present value of future cash flows.

Estimates of future cash flows used in the value in use calculation are specific to the entity, and need not be the same as those of market participants.

The discount rate used in the value in use calculation reflects the market's assessment of the risks specific to the asset or CGU.

An impairment loss for a CGU is allocated first to any goodwill and then *pro rata* to other assets in the CGU.

Unlike IFRSs, an asset group is the lowest level for which there are identifiable cash flows (rather than cash inflows) that largely are independent of the cash flows of other groups of assets.

Unlike IFRSs, the carrying amount of goodwill is not grossed up for impairment testing because non-controlling interests are measured at fair value in the acquisition accounting.

Unlike IFRSs, an impairment loss is recognised for assets other than goodwill and identifiable intangibles with indefinite lives only if the asset's (asset group's) carrying amount is not recoverable (i.e. the carrying amount is less than the undiscounted cash flows of the asset or asset group). If the carrying amount is not recoverable, then the impairment loss is based on the fair value of the asset (asset group), unlike IFRSs. Also unlike IFRSs, goodwill is impaired if the RU's fair value is less than its carrying amount. If goodwill is impaired, then the amount of the impairment is measured as the difference between goodwill's implied fair value and its carrying amount. Unlike IFRSs, an indefinite-lived identifiable intangible asset is impaired if its fair value is less than its carrying amount.

Like IFRSs, estimates of future cash flows used to assess recoverability of depreciable or amortisable assets (asset groups) are specific to the entity.

Like IFRSs, discounted cash flows might be used to determine the fair value of an RU, asset group, or indefinite-lived identifiable intangible asset, although the composition of the cash flows differs in certain respects from IFRSs. If so, the discount rate would be the rate that a market participant would use reflecting the risk inherent in the cash flow projections and assets (asset groups, RUs), like IFRSs.

Unlike IFRSs, an impairment loss for an asset group is allocated *pro rata* to assets in the asset group, excluding working capital, goodwill, corporate assets and indefinite-lived intangible assets. Goodwill and indefinite-lived intangible assets are tested separately from asset groups, unlike IFRSs.

An impairment loss generally is recognised in profit or loss. However, an impairment loss on a revalued asset is recognised in other comprehensive income, and presented in the revaluation reserve within equity, to the extent that it reverses a previous revaluation surplus relating to the same asset. Any excess is recognised in profit or loss.

Reversals of impairment are recognised, other than for impairments of goodwill. A reversal of an impairment loss generally is recognised in profit or loss. However, a reversal of an impairment loss on a revalued asset is recognised in profit or loss only to the extent that it reverses a previous impairment loss recognised in profit or loss relating to the same asset. Any excess is recognised in other comprehensive income and presented in the revaluation reserve.

Unlike IFRSs, the revaluation of property, plant and equipment and intangible assets is not permitted; therefore, all impairment losses are recognised in profit or loss.

Unlike IFRSs, reversals of impairments are prohibited.

3.11 Equity and financial liabilities

(IAS 1, IAS 27, IAS 32, IAS 39, IFRIC 17)

An instrument, or its components, is classified on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset or an equity instrument.

A financial instrument is a financial liability if the issuer can be obliged to settle it in cash or by delivering another financial asset.

A financial instrument is a financial liability if it will or may be settled in a variable number of the entity's own equity instruments.

An obligation for an entity to acquire its own equity instruments creates a financial liability.

As an exception to the general principle, certain puttable instruments and instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a *pro rata* share of the net assets of the entity only on liquidation are classified as equity instruments if certain conditions are met.

3.11 Equity and financial liabilities

(ASC Topic 815, ASC Subtopic 470-20, ASC Subtopic 480-10, ASC Subtopic 505-20, ASC Subtopic 505-30, ASC Subtopic 810-10, ASC paragraph 480-10-S99-3, ASR 268, CON6)

An instrument, or its components, is classified on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the applicable Codification topics/subtopics, which may result in differences from IFRSs.

Like IFRSs, financial instruments that can obligate the issuer to settle in cash or by delivering another financial asset are classified as liabilities. Unlike IFRSs, certain securities with redemption features that are outside the control of the issuer, such as redeemable preferred shares, that would not otherwise be classified as liabilities, are presented in the statement of financial position between total liabilities and equity (referred to as temporary equity).

Unlike IFRSs, a financial instrument is a financial liability if it is predominantly indexed to a fixed monetary amount known at inception that will or may be settled in a variable number of the entity's own equity instruments. Unlike IFRSs, a financial instrument that only conditionally obligates settlement in a variable number of shares is classified as equity if other criteria are met. Unlike IFRSs, a financial instrument that is predominantly indexed to the entity's own stock that is settleable in a variable number of shares is classified as equity if other criteria are met.

Unlike IFRSs, an obligation for an entity to acquire its own equity instruments creates a financial liability only if it has certain characteristics.

Unlike IFRSs, the accounting for a puttable instrument depends on whether the entity is publicly- or privately-held and on whether it is conditionally or unconditionally puttable so differences from IFRSs arise in practice.

The contractual terms of preference shares and similar instruments are evaluated to determine whether they have the characteristics of a financial liability. Such characteristics will lead to the classification of these instruments, or a component of them, as financial liabilities.

The components of compound financial instruments, which have both liability and equity characteristics, are accounted for separately. A conversion option embedded in a convertible instrument that may be settled in whole or in part in cash upon conversion would be bifurcated and accounted for as a derivative at fair value through profit or loss. A feature that is not closely related to the host contract that is not equity-classified is bifurcated and accounted for as a derivative.

A non-derivative contract that will be settled by an entity delivering its own equity instruments is an equity instrument if, and only if, it is settleable by delivering a fixed number of its own equity instruments.

A derivative contract that will be settled by the entity delivering a fixed number of own equity instruments for a fixed amount of cash is an equity instrument. If it contains settlement options, it is an equity instrument only if all settlement alternatives lead to equity classification.

Incremental costs that are directly attributable to issuing or buying back own equity instruments are recognised directly in equity.

Like IFRSs, an instrument issued in the legal form of a preferred share and similar instruments may have to be classified in whole or in part as a liability based on an analysis of the contractual terms of the instrument. However, differences between IFRSs and US GAAP exist in classifying preferred shares as debt, equity, or temporary equity.

Unlike IFRSs, instruments with characteristics of both debt and equity are not always split between their debt and equity components. However, convertible instruments that may be settled in whole or in part in cash upon conversion are split and may have a liability and an equity component that are accounted for separately. Like IFRSs, an embedded feature that is not clearly and closely related to the host contract that is not equity-classified is bifurcated and accounted for as a derivative; however, the conditions for bifurcation as a derivative differ in certain respects from IFRSs (see 3.6). Unlike IFRSs, a beneficial conversion feature is bifurcated from the host based on its intrinsic value if the conversion feature otherwise qualifies for equity classification.

Unlike IFRSs, a non-derivative contract that may or must be settled in an entity's own shares may be classified as equity if the contract meets specified criteria such that the entity has the ability to settle either gross or net in shares, unless it predominantly represents an obligation to issue a variable number of shares or is a financial instrument other than an outstanding share that embodies a conditional obligation to issue a variable number of shares based on a fixed monetary amount known at inception or certain other criteria.

Like IFRSs, derivative instruments indexed to an entity's own shares that will be settled by the entity delivering a fixed number of own equity instruments for a fixed amount of cash may be classified as equity; however, the criteria for determining equity or liability classification differ from IFRSs. Additionally, US GAAP contains more guidance on what constitutes "indexed to an entity's own shares." Also, derivative instruments indexed to an entity's own shares may be classified as equity if they can be net share settled, unlike IFRSs.

Like IFRSs, incremental costs that are directly attributable to issuing or buying back an entity's own equity instruments are recognised directly in equity.

Treasury shares are presented as a deduction from equity.

Gains and losses on transactions in own equity instruments classified as equity are recognised directly in equity.

Dividends and other distributions to the holders of equity instruments, in their capacity as owners, are recognised directly in equity.

Non-controlling interests are classified within equity, but separately from equity attributable to shareholders of the parent.

Like IFRSs, treasury shares are presented as a deduction from equity.

Like IFRSs, gains and losses on transactions in own equity instruments classified as equity are recognised directly in equity.

Like IFRSs, dividends and other distributions to the holders of equity instruments, in their capacity as owners, are recognised directly in equity.

Like IFRSs, non-controlling interests are classified within equity, but separately from equity attributable to shareholders of the parent.

3.12 Provisions

(IAS 37, IFRIC 1, IFRIC 5, IFRIC 6)

A provision is recognised for a legal or constructive obligation arising from a past event, if there is a probable outflow of resources and the amount can be estimated reliably. *Probable* in this context means more likely than not.

A constructive obligation arises when an entity's actions create valid expectations of third parties that it will accept and discharge certain responsibilities.

A provision is measured at the "best estimate" of the expenditure to be incurred.

If there is a large population, then the obligation generally is measured at its expected value.

If there is a continuous range of equally possible outcomes for a single event (e.g. litigation), then the obligation is measured at the mid-point in the range.

If the possible outcomes of a single obligation are mostly higher (lower) than the single most likely outcome, then the obligation is measured at an amount higher (lower) than the single most likely outcome.

3.12 Recognised contingencies and other “provisions”

(ASC Topic 450, ASC Topic 715, ASC Subtopic 410-20, ASC Subtopic 410-30, ASC Subtopic 420-10, ASC Subtopic 460-10, ASC Subtopic 605-15, ASC Subtopic 605-40, ASC Subtopic 720-40, ASC Subtopic 825-20, ASC Subtopic 840-20, ASC Subtopic 840-30, ASC paragraph 805-50-S99-2, SAB Topic 5-P, ASC paragraphs 420-10-S99-1 and S99-2, SAB Topic 5-Y, ASC paragraph 450-20-S99-1, CON 6, TPA 5100.35)

A contingency (provision) is recognised if it is probable that a liability has been incurred and the amount is reasonably estimable. However, unlike IFRSs, *probable* in this context means likely to occur, which is a higher recognition threshold than IFRSs.

Like IFRSs, a constructive obligation arises when an entity's actions create valid expectations of third parties that it will accept and discharge certain responsibilities. However, unlike IFRSs, constructive obligations are recognised only if required by a specific Codification topic/subtopic.

Unlike IFRSs, a recognised contingency is measured using a “reasonable estimate”. However, under some Codification topics obligations that are a provision under IFRSs are measured at fair value, unlike IFRSs.

Like IFRSs, if there is a large population, then the obligation generally is measured at its expected value.

Unlike IFRSs, if no amount within a range is a better estimate than any other, then the obligation is measured at the low end of the range.

Unlike IFRSs, an obligation is measured at the single most likely outcome even if the possible outcomes are mostly higher or lower than that amount.

Provisions are discounted if the effect of discounting is material.

A reimbursement right is recognised as a separate asset when recovery is virtually certain, capped at the amount of the related provision.

A provision is not recognised for future operating losses.

A provision for restructuring costs is not recognised until there is a formal plan and details of the restructuring have been communicated to those affected by the plan.

IFRSs do not specifically address provisions for contract termination costs.

Provisions are not recognised for repairs or maintenance of own assets or for self-insurance prior to an obligation being incurred.

A provision is recognised for a contract that is onerous, i.e. one in which the unavoidable costs of meeting the obligations under the contract exceed the benefits to be derived.

Unlike IFRSs, recognised contingencies are not discounted except in limited cases, in which case specific requirements apply that may differ from IFRSs.

Like IFRSs, a reimbursement right is recognised as a separate asset. However, unlike IFRSs, such a right is recognised only when recovery is probable. Like IFRSs, the asset is capped at the amount of the related recognised contingency.

Like IFRSs, a provision is not recognised for future operating losses.

Like IFRSs, a provision for restructuring costs is not recognised until there is a formal plan and details of the restructuring have been communicated to those affected by the plan, unless the benefits will be paid pursuant to an ongoing post-employment benefit plan or a contractual arrangement.

Unlike IFRSs, a liability for contract termination costs is recognised only when the contract has been terminated pursuant to its terms or the entity has permanently ceased using the rights granted under the contract. The liability is measured initially at fair value.

Like IFRSs, provisions are not recognised for repairs or maintenance of own assets or for self-insurance prior to an obligation being incurred.

Unlike IFRSs, there is no general requirement to recognise a loss for onerous contracts; such a provision is recognised only when required by a specific Codification topic/subtopic.

3.13 Income taxes

(IAS 12, SIC-21, SIC-25)

Income taxes are taxes based on taxable profits, and taxes that are payable by a subsidiary, associate or joint venture upon distribution to investors.

The total income tax expense recognised in a period is the sum of current tax plus the change in deferred tax assets and liabilities during the period, excluding tax recognised outside profit or loss (i.e. either in other comprehensive income or directly in equity) or arising from a business combination.

Current tax represents the amount of income taxes payable (recoverable) in respect of the taxable profit (loss) for a period.

Deferred tax is recognised for the estimated future tax effects of temporary differences, unused tax losses carried forward and unused tax credits carried forward.

A temporary difference is the difference between the tax base of an asset or liability and its carrying amount in the financial statements.

A deferred tax liability is not recognised if it arises from the initial recognition of goodwill. However, a deferred tax liability is recognised if a temporary difference arises after initial recognition.

A deferred tax liability (asset) is not recognised if it arises from the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction affects neither accounting profit nor taxable profit.

3.13 Income taxes

(ASC Topic 740, ASC Topic 840, ASC Subtopic 830-740)

US GAAP defines income taxes as all domestic federal, state and local (including franchise) taxes based on income, including foreign income taxes from an entity's operations that are consolidated, combined or accounted for under the equity method, both foreign and domestic. While the wording differs from IFRSs, generally we would not expect differences from IFRSs in the application of the scope of the income taxes Codification topic.

Like IFRSs, the total income tax expense recognised in a period is the sum of current tax plus the change in deferred tax assets and liabilities during the period, excluding tax recognised outside profit or loss (i.e. either in other comprehensive income or directly in equity) or arising from a business combination.

Like IFRSs, current tax represents the amount of income taxes payable (recoverable) in respect of the taxable profit (loss) for a period.

Like IFRSs, deferred tax is recognised for the estimated future tax effects of temporary differences, unused tax losses carried forward and unused tax credits carried forward.

Like IFRSs, a temporary difference is the difference between the tax base of an asset or liability and its carrying amount in the financial statements.

Like IFRSs, a deferred tax liability is not recognised if it arises from the initial recognition of goodwill. However, a deferred tax liability is recognised if a temporary difference arises after initial recognition, like IFRSs.

Unlike IFRSs, there is no exemption from recognising a deferred tax liability (asset) for the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction affects neither accounting profit nor taxable profit.

A deferred tax liability (asset) is recognised for the difference in tax bases between jurisdictions as a result of an intra-group transfer of assets.

A deferred tax liability (asset) is recognised for exchange gains and losses related to foreign non-monetary assets and liabilities that are remeasured into the functional currency using historical exchange rates or indexing for tax purposes.

Deferred tax is not recognised in respect of investments in subsidiaries, associates and joint ventures (both foreign and domestic) if certain conditions are met.

A deferred tax asset is recognised to the extent that it is probable that it will be realised, i.e. a net approach.

Income tax is measured based on rates and tax laws that are enacted or substantively enacted at the reporting date.

Deferred tax is measured based on the expected manner of settlement (liability) or recovery (asset).

Deferred tax is measured on an undiscounted basis.

Deferred tax is classified as non-current in a classified statement of financial position.

Unlike IFRSs, a deferred tax liability (asset) is not recognised for the difference in tax bases between jurisdictions as a result of an intra-group transfer of assets.

Unlike IFRSs, when the reporting currency is the functional currency, a deferred tax liability (asset) is not recognised for exchange gains and losses related to foreign non-monetary assets and liabilities that are remeasured into the functional currency using historical exchange rates or indexing for tax purposes.

Like IFRSs, deferred tax is not recognised in respect of investments in foreign or domestic subsidiaries and foreign corporate joint ventures if certain conditions are met; however, these conditions differ from IFRSs. Unlike IFRSs, deferred tax always is recognised in respect of investments in equity-method investees (associates) and outside basis differences caused by post-1992 undistributed earnings from domestic joint ventures.

Unlike IFRSs, all deferred tax assets are recognised and a valuation allowance is recognised to the extent that it is more likely than not that the deferred tax assets will not be realised, i.e. a gross approach.

Unlike IFRSs, income tax is measured based on rates and tax laws that are enacted at the reporting date.

Unlike IFRSs, deferred tax is measured based on an assumption that the underlying asset (liability) will be recovered (settled) in a manner consistent with its current use in the business.

Like IFRSs, deferred tax is measured on an undiscounted basis.

Unlike IFRSs, deferred tax, but not the valuation allowance, is classified as either current or non-current in the statement of financial position according to the classification of the related asset or liability giving rise to the temporary difference. The valuation allowance is allocated against current and non-current deferred tax assets for the relevant tax jurisdiction on a *pro rata* basis, unlike IFRSs.

Income tax related to items recognised outside profit or loss, in the current or a previous period, is recognised where that item was recognised.

Deferred tax assets recognised in relation to share-based payment arrangements are adjusted each period to reflect the amount of tax deduction that the entity would receive if the award were tax deductible in the current period based on the current market price of the shares.

Current tax assets and liabilities are offset only when there is a legally enforceable right of offset, and the entity intends to apply offset or to settle simultaneously.

Deferred tax liabilities and assets are offset if the entity has a legally enforceable right to offset current tax liabilities and assets, and the deferred tax liabilities and assets relate to income taxes levied by the same tax authority on either the same taxable entity or different taxable entities who intend to settle current taxes on a net basis or their tax assets and liabilities will be realised simultaneously.

Like IFRSs, income tax relating to items recognised outside profit or loss during the current reporting period is recognised where that item was recognised. However, unlike IFRSs, subsequent changes are recognised in profit or loss.

Unlike IFRSs, temporary differences related to share-based payment arrangements are based on the amount of compensation cost recognised in profit or loss without any adjustment for the entity's current share price until the tax benefit is realised.

Like IFRSs, current tax assets and liabilities are offset only when there is a legally enforceable right of offset. However, unlike IFRSs, the entity need not intend to apply offset or to settle simultaneously.

Unlike IFRSs, for a particular tax-paying component of an entity and within a particular tax jurisdiction, all current deferred tax liabilities and assets are offset and presented as a single amount and all non-current deferred tax liabilities and assets are offset and presented as a single amount. Like IFRSs, deferred tax liabilities and assets attributable to different tax-paying components of the entity or to different tax jurisdictions may not be offset.

3.14 Contingent assets and liabilities

(IAS 37)

Contingent liabilities are present obligations with uncertainties about either the probability of outflows of resources or the amount of the outflows, and possible obligations whose existence is uncertain.

Contingent liabilities are not recognised except for contingent liabilities that represent present obligations in a business combination.

Details of contingent liabilities are disclosed in the notes to the financial statements unless the probability of an outflow is remote.

Contingent assets are possible assets whose existence is uncertain.

Contingent assets are not recognised in the statement of financial position. If an inflow of economic benefits is probable, then details are disclosed in the notes to the financial statements.

3.14 Unrecognised contingencies

(ASC Topic 450, ASC Topic 805, ASC Subtopic 275-10, ASC Subtopic 410-20, ASC Subtopic 410-30, ASC Subtopic 450-20, ASC paragraph 450-20-S99-2, SEC SAB Topic 5-Y, ASC paragraph 450-20-S99-1)

Loss contingencies are uncertain obligations, both recognised and unrecognised; this chapter deals with unrecognised loss contingencies.

Unlike IFRSs, contingent liabilities are recognised in a business combination only when the acquisition-date fair value is determinable within the measurement period or if the contingency is probable and the amount is reasonably estimable.

Like IFRSs, generally information on contingencies is disclosed in the notes to the financial statements unless the probability of an outflow is remote; however, IFRSs require more detailed disclosures about contingencies than US GAAP. Unlike IFRSs, certain loss contingencies are disclosed even if the likelihood of an outflow is remote.

Like IFRSs, a *gain contingency* is an item whose existence will be confirmed by the occurrence or non-occurrence of uncertain future events. This chapter deals with unrecognised gain contingencies.

Unlike IFRSs, gain contingencies are not recognised until they are realised. However, if a gain contingency related to an insurance recovery offsets a loss contingency, then it is recognised when it is probable, unlike IFRSs.

4. Specific items of profit or loss and comprehensive income

4.1 General (IAS 1)

A statement of comprehensive income is presented as either a single statement or an income statement (displaying components of profit or loss) with a separate statement of comprehensive income (beginning with profit or loss and displaying components of other comprehensive income).

While IFRSs require certain items to be presented in the statement of comprehensive income, there is no prescribed format.

An analysis of expenses is required, either by nature or by function, in the statement of comprehensive income or in the notes.

The presentation of alternative earnings measures, in the statement of comprehensive income or in the notes to the financial statements, is not prohibited.

The presentation or disclosure of items of income or expense as “unusual items” should be given only for very significant items when necessary for a fair presentation.

4. Specific items of profit or loss and comprehensive income

4.1 General

(ASC Topic 205, ASC Topic 225 ASC Topic 605, ASC Topic 220, ASC Topic 815, Reg S-X, SAB Topic 5-P)

Like IFRSs, an entity may present comprehensive income in either a single statement, a statement of earnings with a separate statement of comprehensive income or, unlike IFRSs, in a statement of changes in equity.

Unlike IFRSs, SEC regulations prescribe the format and certain minimum line item disclosures for SEC registrants. For non-SEC registrants, there is limited guidance on the presentation of the statement of earnings or statement of comprehensive income, like IFRSs.

Unlike IFRSs, there is no requirement for expenses to be classified according to their nature or function. SEC regulations prescribe expense classification requirements for certain specialised industries, unlike IFRSs.

Unlike IFRSs, the presentation of alternative earnings measures in the financial statements by SEC registrants is prohibited. Also, unlike IFRSs, in practice the presentation of alternative earnings measures in the financial statements by non-SEC registrants is not permitted.

Unlike IFRSs, transactions of an unusual nature are defined as events or transactions possessing a high degree of abnormality and of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity. Unlike IFRSs, material events or transactions that are unusual or occur infrequently, but not both, can be presented in the statement of earnings.

The presentation or disclosure of items of income and expense characterised as “extraordinary items” is prohibited.

Items of income and expense are not offset unless required or permitted by another IFRS, or when the amounts relate to similar transactions or events that are not material.

Unlike IFRSs, the presentation of certain items as “extraordinary items” is required when the criteria are met, but in practice this is rare. An extraordinary item is one that is both unusual in nature and infrequent in occurrence.

Like IFRSs, generally items of income and expense are not offset unless required or permitted by another Codification topic/subtopic, or when the amounts relate to similar transactions or events that are not material. However, unlike IFRSs, there is more detailed guidance on when amounts are offset.

4.2 Revenue

(Framework, IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18, SIC-27, SIC-31)

Revenue is recognised only if it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably.

Revenue recognition is based mainly on a single standard that contains general principles that are applied to different types of transactions.

When an arrangement includes more than one component, it may be necessary to account for the revenue attributable to each component separately.

Revenue from the sale of goods is recognised when the entity has transferred the significant risks and rewards of ownership to the buyer and it no longer retains control or managerial involvement in the goods.

Construction contracts are accounted for using the percentage of completion method. The completed contract method is not permitted.

4.2 Revenue

(CON 5, ASC Topic 605, ASC Topic 860, ASC Subtopic 905-605, ASC Subtopic 920-605, ASC Subtopic 922-605, ASC Subtopic 926-605, ASC Subtopic 928-605, ASC Subtopic 932-605, ASC Subtopic 944-605, ASC Subtopic 310-20, ASC Subtopic 360-20, ASC Subtopic 460-10, ASC Subtopic 470-40, ASC Subtopic 840-10, ASC Subtopic 845-10, ASC Subtopic 946-605, ASC Subtopic 952-605, ASC Subtopic 976-605, ASC Subtopic 980-605, ASC Subtopic 985-605, ASC paragraph 470-20-S99-1, SAB Topic 13,)

The general guidance in US GAAP is that revenue is recognised when it is earned and realised or realisable. However, US GAAP includes specific revenue recognition criteria for different types of revenue-generating transactions. In many cases these criteria differ from IFRSs.

Unlike IFRSs, there is extensive guidance on revenue recognition specific to the industry and type of contract.

Like IFRSs, when an arrangement includes multiple elements (more than one component), it may be necessary to account separately for the revenue attributable to each component, depending on whether they constitute one or multiple units of accounting. Unlike IFRSs, there is detailed guidance that is followed in making this assessment.

Like IFRSs, revenue from the sale of goods is recognised when the entity has transferred the significant risks and rewards of ownership to the buyer and it no longer retains control or managerial involvement in the goods. However, the detailed criteria underlying these principles are different from those under IFRSs.

Construction contracts are accounted for using the percentage of completion method when an entity has the ability to make reasonably dependable estimates of the extent of progress toward completion, contract revenues, and contract costs, like IFRSs. Otherwise, unlike IFRSs, the completed contract method is used.

Under the percentage of completion method, both contract revenue and costs are recognised by reference to the stage of completion of the work.

Construction contracts are segmented when certain criteria are met.

Revenue from service contracts is recognised in the period that the service is rendered, generally using the percentage of completion method.

There is no specific guidance on software revenue recognition.

There is detailed guidance on accounting for sales of real estate. Application of this guidance may result in revenue being recognised on a percentage of completion basis, a continuous delivery basis, or at a single point in time.

Revenue includes the gross inflows of economic benefits received by an entity for its own account. In an agency relationship, amounts collected on behalf of the principal are not recognised as revenue by the agent. IFRSs include some guidance in evaluating whether an entity is acting as a principal or an agent.

Like IFRSs, under the percentage of completion method, both contract revenue and costs may be recognised by reference to the stage of completion of the work. However, unlike IFRSs, it also is permitted to recognise all costs incurred, with revenue calculated by reference to the gross margin earned on the contract during the period.

Unlike IFRSs, construction contracts may, but are not required, to be segmented when certain criteria are met; additionally, the criteria differ from IFRSs.

Like IFRSs, revenue from service contracts is recognised in the period that the service is rendered. However, unlike IFRSs, revenue from services generally is recognised using the proportional performance or straight-line method rather than the percentage of completion method.

Unlike IFRSs, there is detailed guidance on software revenue recognition.

Like IFRSs, there is detailed guidance on accounting for sales of real estate. However, application of this guidance results in revenue being recognised under the full accrual method, the instalment method, the cost recovery method, the percentage of completion method, or the deposit method, which is a broader range of possibilities than IFRSs.

Like IFRSs, revenue includes the gross inflows of economic benefits received by an entity for its own account. Like IFRSs, in an agency relationship, amounts collected on behalf of the principal are not recognised as revenue by the agent. However, there is more detailed guidance than IFRSs in evaluating whether an entity is acting as a principal or agent.

4.3 Government grants

(IAS 20, IAS 41, SIC-10)

Government grants that relate to the acquisition of an asset, other than a biological asset measured at fair value less costs to sell, may be recognised either as a reduction in the cost of the asset or as deferred income, and are amortised as the related asset is depreciated or amortised.

Government grants are recognised when there is reasonable assurance that the entity will comply with the relevant conditions and that the grant will be received.

Other government grants are recognised in profit or loss when the entity recognises as expenses the related costs that the grants are intended to compensate.

When a government grant is in the form of a non-monetary asset, both the asset and grant are recognised at either the fair value of the non-monetary asset, or at a nominal amount.

Unconditional government grants related to biological assets measured at fair value less costs to sell are recognised in profit or loss when they become receivable; conditional grants for such assets are recognised in profit or loss when the required conditions are met.

4.3 Government grants

Unlike IFRSs, there is no specific US GAAP guidance on the accounting for grants from governments to profit-oriented entities.

Unlike IFRSs, there is no specific US GAAP guidance on the accounting for grants from governments to profit-oriented entities.

Unlike IFRSs, there is no specific guidance on accounting for grants from governments to profit-oriented entities.

Unlike IFRSs, a contributed non-monetary asset is recognised at fair value when fair value can be measured reliably.

Like IFRSs, contributions from government of “biological assets” are recognised initially at fair value when they become unconditionally receivable; however, unlike IFRSs, there is no requirement for the amount to be recognised in profit or loss. Like IFRSs, conditional grants for such assets are recognised when the required conditions are met.

4.4 Employee benefits

(IAS 19, IFRIC 14)

Post-employment benefits are employee benefits that are payable after the completion of employment (before or during retirement).

Short-term employee benefits are employee benefits that are due to be settled within one year after the end of the period in which the services have been rendered, and are accounted for using normal accrual accounting.

Other long-term employee benefits are employee benefits that are not due to be settled within one year after the end of the period in which the services have been rendered.

Liabilities for employee benefits are recognised on the basis of a legal or constructive obligation.

Liabilities and expenses for employee benefits generally are recognised in the period in which the services are rendered.

A defined contribution plan is a post-employment benefit plan under which the employer pays fixed contributions into a separate entity and has no further obligations. All other post-employment plans are defined benefit plans.

Contributions to a defined contribution plan are expensed as the obligation to make the payments is incurred.

4.4 Employee benefits

(ASC Topic 715, ASC Subtopic 420-10, ASC Subtopic 710-10, ASC Subtopic 712-10)

Unlike IFRSs, post-employment benefits are divided into post-retirement benefits (provided during retirement) and other post-employment benefits (provided after the cessation of employment but before retirement). The accounting for post-employment benefits depends on the type of benefit provided, unlike IFRSs.

Unlike IFRSs, US GAAP does not contain specific guidance on short-term employee benefits other than compensated absences, e.g. vacation accruals. However, accrual accounting principles generally are applied in accounting for short-term employee benefits.

Unlike IFRSs, US GAAP does not distinguish between long- and short-term employee benefits.

Like IFRSs, liabilities for post-retirement benefits are recognised on the basis of a legal or constructive obligation. Other types of employee benefits are recognised as the benefits accumulate only if other specific criteria are met, unlike IFRSs.

Like IFRSs, liabilities and expenses for employee benefits generally are recognised in the period in which the services are rendered.

Like IFRSs, a defined contribution plan is a post-retirement benefit plan under which the employer pays specified contributions into a separate entity and has no further obligations. All other post-retirement plans are defined benefit plans. However, unlike IFRSs, other post-employment benefit plans do not have to be classified as either defined contribution or defined benefit plans.

Like IFRSs, contributions to a defined contribution plan are expensed as the obligation to make the payments is incurred.

A liability is recognised for an employer's obligation under a defined benefit plan. The liability and expense are measured actuarially using the projected unit credit method.

The measurement of the defined benefit obligation includes estimated future salary increases, and future changes in state benefits if there is reliable evidence that the change will occur.

To qualify as plan assets, assets need to meet strict criteria, including a requirement that they be unavailable to the entity's creditors.

Insurance policies issued to the sponsor meet the definition of plan assets if they are issued by a party unrelated to the entity and meet certain other criteria. Insurance policies issued to the plan meet the definition of plan assets if they are transferable and meet certain other criteria.

Assets that meet the definition of plan assets, including qualifying insurance policies, and the related liabilities are presented on a net basis in the statement of financial position, adjusted for unrecognised actuarial gains or losses and past service costs.

Actuarial gains and losses of defined benefit plans may be recognised in profit or loss, or immediately in other comprehensive income. Amounts recognised in other comprehensive income are not reclassified to profit or loss.

If actuarial gains and losses of a defined benefit plan are recognised in profit or loss, then as a minimum gains and losses that exceed a "corridor" are required to be recognised over the average remaining working lives of employees in the plan. Faster recognition (including immediate recognition) in profit or loss is permitted.

Like IFRSs, a liability is recognised for an employer's obligation under a defined benefit plan. The liability and expense generally are measured actuarially using the projected unit credit method, like IFRSs for pay-related plans and, unlike IFRSs, using the traditional unit credit method (projected unit credit method without future increases in salary) for non-pay-related plans.

Like IFRSs, the measurement of the defined benefit obligation generally includes estimated future salary increases. However, unlike IFRSs, future changes in state benefits are not included until enacted.

Like IFRSs, to qualify as plan assets, assets need to meet strict criteria. However, unlike IFRSs, there is no requirement that they be unavailable to the entity's creditors.

Unlike IFRSs, insurance policies issued to the sponsor do not meet the definition of plan assets. However, like IFRSs, insurance policies issued to the plan, including those issued by a related party, can meet the definition of plan assets.

Like IFRSs, assets that meet the definition of plan assets, including qualifying insurance policies, and the related liabilities are presented on a net basis in the statement of financial position. Unlike IFRSs, actuarial gains or losses and prior (past) service costs are recognised in full in the statement of financial position.

All actuarial gains and losses that are not included in profit or loss are recognised in other comprehensive income. Amounts recognised in accumulated other comprehensive income are reclassified to profit or loss, unlike IFRSs.

Unlike IFRSs, actuarial gains and losses that exceed a "corridor" (which differs from the calculation under IFRSs) are required to be recognised in profit or loss, generally over the average remaining working lives of active employees in the plan. Faster recognition in profit or loss is permitted, like IFRSs.

Liabilities and expenses for vested past service costs under a defined benefit plan are recognised immediately. Liabilities and expenses for unvested past service costs under a defined benefit plan are recognised over the vesting period.

If a defined benefit plan has assets in excess of the obligation, then the amount of any net asset recognised is limited to available economic benefits from the plan in the form of refunds from the plan or reductions in future contributions to the plan, and unrecognised actuarial losses and past service costs.

Minimum funding requirements give rise to a liability if a surplus arising from the additional contributions, paid to fund an existing shortfall with respect to services already received, is not fully available as a refund or reduction in future contributions.

Gains and losses on the settlement or curtailment of a defined benefit plan are recognised when the settlement or curtailment occurs. However, there is no detailed guidance on the calculation of the gain or loss.

Multi-employer plans are post-employment plans that pool the assets contributed by various entities to provide benefits to employees of more than one entity. Such plans are classified as defined contribution or defined benefit plans following the above definitions. However, if insufficient information is available to permit defined benefit accounting, then it is treated as a defined contribution plan.

Post-employment plans in which participating employers pool their assets for investment purposes, but maintain separate accounts for purposes of benefit payments, are classified as defined contribution or defined benefit plans following the above definitions.

There is no specific guidance on the application of defined benefit accounting to plans that would be defined contribution plans except that they contain minimum benefit guarantees.

Unlike IFRSs, prior (past) service costs are recognised initially in other comprehensive income, and both vested and unvested amounts generally are amortised into profit or loss over the average remaining service period.

Unlike IFRSs, the recognition of an asset in respect of a defined benefit plan is not restricted.

Unlike IFRSs, the funded status is recognised as a liability if the plan is underfunded; the liability is not subject to additional adjustments related to minimum funding requirements.

Unlike IFRSs, curtailment losses are recognised when they are probable. Settlement gains and losses are recognised only when settlement occurs, like IFRSs. Additionally, unlike IFRSs, there is detailed guidance on the calculation of the gain or loss.

Unlike IFRSs, even if there is an agreement that determines how the surplus in a multi-employer plan would be distributed or a deficit in the plan funded, an asset or liability is not recognised until the liability is assessed or the refund received.

Like IFRSs, pension plans in which participating employers pool their assets for investment purposes but maintain separate accounts for purposes of benefit payments (multiple-employer plans) are classified as defined contribution or defined benefit plans following the above definitions.

Unlike IFRSs, there is specific guidance on the application of defined benefit accounting to plans that would be defined contribution plans except that they contain minimum benefit guarantees.

The expense for long-term employee benefits is accrued over the service period.

Redundancy costs are not recognised until the redundancy has been communicated to the group of affected employees.

Like IFRSs, the expense for long-term employee benefits is accrued over the service period.

Unlike IFRSs, there is not a single model for the recognition of termination benefits. The timing of recognition depends on whether the costs will be paid pursuant to an ongoing plan, a contractual arrangement or a one-time benefit arrangement.

4.5 Share-based payments

(IFRS 2)

Goods or services received in a share-based payment transaction are measured at fair value. (References to fair value in this chapter should be understood to be a market-based measure rather than fair value as the term is used for measuring financial instruments.)

Goods are recognised when they are obtained and services are recognised over the period that they are received.

Equity-settled transactions with employees generally are measured based on the grant-date fair value of the equity instruments issued.

Grant date is the date on which the entity and the employee have a shared understanding of the terms and conditions of the arrangement.

Equity-settled transactions with non-employees generally are measured based on the fair value of the goods or services received.

An intrinsic value approach is permitted only when the fair value of the equity instruments cannot be estimated reliably.

For equity-settled transactions an entity recognises a cost and a corresponding increase in equity. The cost is recognised as an expense unless it qualifies for recognition as an asset.

4.5 Share-based payments

(ASC Topic 718, ASC Subtopic 505-50, ASC paragraph 480-10-S99-3)

Like IFRSs, goods or services received in a share-based payment transaction are measured at fair value. (References to fair value in this chapter should be understood to be a fair value-based measure rather than fair value as the term is used for measuring financial instruments, like IFRSs.)

Like IFRSs, goods are recognised when they are obtained and services are recognised over the period that they are received.

Like IFRSs, equity-classified transactions with employees generally are measured based on the grant-date fair value of the equity instruments issued.

Like IFRSs, grant date is the date on which the entity and the employee have a shared understanding of the terms and conditions of the arrangement. However, unlike IFRSs, employees also should begin to benefit from or be adversely affected by the entity's share price.

Unlike IFRSs, equity-settled share-based payment transactions with non-employees are accounted for based on the fair value of the consideration received or the fair value of the equity-based instruments issued, whichever is more reliably measurable.

Like IFRSs, an intrinsic value approach is required in the rare circumstance that the fair value of the equity instruments cannot be estimated reliably. However, unlike IFRSs, all non-public entities may apply an intrinsic value approach for liability-classified share-based payments as an accounting policy election.

Like IFRSs, for equity-settled transactions an entity recognises a cost and a corresponding increase in equity. The cost is recognised as an expense unless it qualifies for recognition as an asset, like IFRSs.

Market conditions for equity-settled transactions are reflected in the initial measurement of fair value. There is no “true up” (adjustment) if the expected and actual outcomes differ because of the market conditions.

Like market conditions, non-vesting conditions are reflected in the initial measurement of fair value and there is no subsequent true up for differences between the expected and the actual outcome.

Initial estimates of the number of equity-settled instruments that are expected to vest are adjusted to current estimates and ultimately to the actual number of equity-settled instruments that vest unless differences are due to market conditions.

Choosing not to meet a non-vesting condition within the control of the entity or the counterparty is treated as a cancellation.

For cash-settled transactions an entity recognises a cost and a corresponding liability. The cost is recognised as an expense unless it qualifies for recognition as an asset.

The liability is remeasured, until settlement date, for subsequent changes in the fair value of the liability. The remeasurements are recognised in profit or loss.

The modification of an equity-settled share-based payment results in the recognition of any incremental fair value but not any reduction in fair value.

Like IFRSs, a market condition for equity-classified transactions is reflected in the initial measurement of fair value and there is no “true-up” (adjustment) to the actual outcome.

Unlike IFRSs, US GAAP does not identify conditions as non-vesting conditions. Rather, US GAAP identifies post-vesting transferability restrictions, which are incorporated in the initial measurement of fair value, like IFRSs, and “other” vesting conditions, which cause the award to be liability classified, unlike IFRSs.

Like IFRSs, estimates of the number of equity instruments that vest are adjusted to current estimates and ultimately to the actual number of equity-settled instruments that vest unless differences are due to market conditions.

Like IFRSs, choosing not to meet a non-vesting condition within the control of the entity is treated as a cancellation. However, unlike IFRSs, choosing not to meet a non-vesting condition outside the control of either the entity or the counterparty generally is treated as an “other” condition, resulting in the award being liability classified. Also, unlike IFRSs, choosing not to meet a non-vesting condition within the control of the counterparty is deemed to be early notice of intent not to exercise rather than a cancellation.

Like IFRSs, for cash-settled transactions an entity recognises a cost and a corresponding liability. The cost is recognised as an expense unless it qualifies for recognition as an asset, like IFRSs.

Like IFRSs, the liability is remeasured, until settlement date, for subsequent changes in the fair value of the liability. Unlike IFRSs, remeasurements generally are recognised as compensation cost, which is eligible for capitalisation.

Like IFRSs, the modification of equity-classified instruments results in the recognition of any incremental fair value but not any reduction in fair value.

Cancellation of a share-based payment results in acceleration of vesting.

The classification of grants in which the entity has the choice of equity or cash settlement depends on whether or not the entity has the ability and intent to settle in shares.

Grants in which the counterparty has the choice of equity or cash settlement are accounted for as compound instruments. Therefore, the entity accounts for a liability component and an equity component separately.

Awards with graded vesting are accounted for as separate share-based payment arrangements.

Equity-settled and cash-settled share-based payments are within the scope of the share-based payment standard even if settled by another group entity or by a shareholder.

Like IFRSs, the cancellation by the employer of a share-based payment results in acceleration of vesting. However, unlike IFRSs, the cost continues to be recognised over the remaining service period when an employee decides to stop contributing to an employee share purchase scheme.

Like IFRSs, the classification of grants in which the entity has the choice of equity or cash settlement depends on whether or not the entity has the ability and intent to settle in shares.

Unlike IFRSs, when the employee has the choice of settlement, generally the award is liability classified in its entirety.

Awards with graded vesting may be accounted for as separate share-based payment arrangements, like IFRSs; or ratably over the longest vesting tranche if the award vests based on service only, unlike IFRSs.

Like IFRSs, equity-classified and liability classified (cash-settled) share-based payments are within the scope of the share-based payment Codification topic even if settled by another group entity or by a shareholder.

4.6 Financial income and expense

(IAS 18, IAS 23, IAS 39)

Interest income and expense are calculated using the effective interest method, based on estimated cash flows which consider all contractual terms of the financial instrument at the date that the instrument is recognised initially, or at the date of any modification.

Incremental transaction costs directly related to acquiring a financial asset or issuing a financial liability generally are included in the initial measurement of the instrument. However, if the instrument is classified at fair value through profit or loss, then such costs are recognised in profit or loss.

If the modification of a financial liability results in its derecognition, then any gain or loss is recognised in profit or loss immediately, together with the related costs. If the financial liability is not derecognised, then any related costs are adjusted against the carrying amount of the liability.

Following the impairment of a financial asset, interest continues to be recognised using the effective interest method.

Interest, which is calculated using the effective interest method is expensed except borrowing costs related to qualifying assets which are capitalised if certain conditions are met.

4.6 Financial income and expense

(ASC Topic 310, ASC Topic 470, ASC Topic 835, ASC Subtopic 360-10, ASC Subtopic 470-20, ASC Subtopic 470-50, ASC Subtopic 710-10, ASC Subtopic 815 25)

Like IFRSs, generally interest income and expense are calculated using the effective interest method based on market rates at the date that the instrument is recognised initially, or at the date of any modification. However, unlike IFRSs, there are certain exemptions from the requirement to calculate an effective interest rate in this manner, such as for troubled debt restructurings.

Unlike IFRSs, incremental transaction costs generally are not included in the initial measurement of the instrument. Debt issue transaction costs are presented as a separate asset in the statement of financial position, unlike IFRSs, and the amount capitalised on a financial asset may differ from that under IFRSs. If the instrument is at fair value through profit or loss then such costs are recognised in profit or loss, like IFRSs. If the instrument is at fair value through other comprehensive income, then such costs are recognised in profit or loss, unlike IFRSs.

Like IFRSs, if the modification of a financial liability results in its derecognition, then any gain or loss is recognised in profit or loss immediately; like IFRSs, fees paid to the creditor are included in the calculation of the gain or loss, but fees paid to third parties are capitalised, unlike IFRSs. Unlike IFRSs, if the financial liability is not derecognised, then fees paid to the creditor are capitalised and fees paid to third parties are recognised in profit or loss (see 3.6).

Unlike IFRSs, following the impairment of a financial asset, interest need not be recognised using the effective interest method.

Like IFRSs, interest, which is calculated using the effective interest method is expensed except interest costs related to qualifying assets which are capitalised if certain conditions are met. However, the amount of interest cost capitalised may differ from IFRSs.

Property, plant and equipment and internally-developed intangible assets can be qualifying assets. Investments other than investment property, including in our view investments in associates, jointly controlled entities and subsidiaries, are not qualifying assets.

Borrowing costs on specific borrowings eligible for capitalisation are reduced by interest income from the temporary investment of borrowings.

Like IFRSs, property, plant and equipment including that which would be investment property under IFRSs can be a qualifying asset. Unlike IFRSs, an equity-method investee (associate) can be a qualifying asset. However, like IFRSs, other investments cannot be qualifying assets. Unlike IFRSs, internally-developed intangible assets generally do not qualify for capitalisation and therefore generally cannot be qualifying assets.

Unlike IFRSs, borrowing costs on specific borrowings eligible for capitalisation generally are not reduced by interest income from the temporary investment of borrowings.

5. Special topics

5.1 Leases

(IAS 17, IFRIC 4, SIC-15, SIC-27)

There are only limited exclusions from the requirements in respect of lease accounting.

An arrangement that at its inception can be fulfilled only through the use of a specific asset or assets, and which conveys a right to use that asset or assets, is a lease or contains a lease.

A lease is classified as either a finance lease or an operating lease. In respect of lessors, there is a sub-category of finance lease for manufacturer or dealer lessors.

Lease classification depends on whether substantially all of the risks and rewards incidental to ownership have been transferred from the lessor to the lessee.

Lease classification is made at inception of the lease and is not revised unless the lease agreement is modified.

Under a finance lease, the lessor recognises a finance lease receivable and the lessee recognises the leased asset and a liability for future lease payments.

5. Special topics

5.1 Leases

(ASC Topic 840, ASC Subtopic 310-20, ASC Subtopic 360-10, ASC Subtopic 605-15, ASC Subtopic 958-840, ASC Subtopic 970-360)

Unlike IFRSs, the lease accounting guidance applies only to property, plant and equipment.

Like IFRSs, an arrangement that at its inception can be fulfilled only through the use of a specific asset or assets, and which conveys a right to use that asset or assets, is a lease or contains a lease. However, certain aspects of identifying a lease differ from IFRSs.

Like IFRSs, a lease is classified as either a capital (finance) lease or an operating lease. In respect of lessors, capital leases are categorised as direct financing leases and sales-type leases, which differ in certain respects from IFRSs, and leveraged leases for which there is no equivalent in IFRSs.

Like IFRSs, lease classification depends on whether substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred from the lessor to the lessee. However, there are more detailed requirements than IFRSs.

Like IFRSs, lease classification is made at inception of the lease and is not revised unless the lease agreement is modified.

Under a capital lease, generally the lessor recognises a capital lease receivable and the lessee recognises the leased asset and a liability for future lease payments, like IFRSs. However, special accounting requirements apply to lessors in respect of leveraged leases, which differ from IFRSs.

Under an operating lease, both parties treat the lease as an executory contract. The lessor and the lessee recognise the lease payments as income/expense over the lease term. The lessor recognises the leased asset in its statement of financial position, while the lessee does not.

A lessee may classify a property interest held under an operating lease as an investment property. If this is done, then the lessee accounts for that lease as if it were a finance lease and it measures investment property using the fair value model.

Lessors and lessees recognise incentives granted to a lessee under an operating lease as a reduction in lease rental income/expense over the lease term.

A lease of land and a building is treated as two separate leases, a lease of the land and a lease of the building; the two leases may be classified differently.

In determining whether the lease of land is an operating lease or a finance lease, an important consideration is that land normally has an indefinite economic life.

Immediate gain recognition from the sale and leaseback of an asset depends on whether the leaseback is classified as an operating or finance lease and, if the leaseback is an operating lease, whether the sale takes place at fair value.

A series of linked transactions in the legal form of a lease is accounted for based on the substance of the arrangement; the substance may be that the series of transactions is not a lease.

Special requirements for revenue recognition apply to manufacturer or dealer lessors granting finance leases.

Like IFRSs, under an operating lease, both parties treat the lease as an executory contract. The lessor and the lessee recognise the lease payments as income/expense over the lease term, like IFRSs. The lessor recognises the leased asset in its statement of financial position, while the lessee does not, like IFRSs.

Unlike IFRSs, there is no concept of “investment property,” and the usual lease classification requirements apply.

Like IFRSs, lessors and lessees recognise incentives granted under an operating lease as a reduction in lease rental income/expense over the lease term.

A lease of land and a building is treated as two separate leases if the land element is material to the leased property, like IFRSs. However, unlike IFRSs, the land element is deemed to be material only if its fair value is at least 25 percent of the fair value of the leased property as a whole. Like IFRSs, the two leases may be classified differently.

Unlike IFRSs, a lease of land generally is classified as an operating lease unless title transfers to the lessee.

Unlike IFRSs, US GAAP generally does not permit immediate gain recognition on sale-leaseback transactions unless the leaseback is considered to be “minor.”

Unlike IFRSs, there is no explicit requirement that a series of linked transactions in the legal form of a lease be accounted for based on the substance of the arrangement.

US GAAP contains specific requirements for revenue recognition that apply to sales-type leases. However, these requirements differ from IFRSs in respect of the discount rate used to calculate revenue.

5.2 Operating segments (IFRS 8)

Segment disclosures are required by entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.

The standard is based on a “management approach,” which requires segment disclosures based on the components of the entity that management monitors in making decisions about operating matters.

Such components (operating segments) are identified on the basis of internal reports that the entity’s chief operating decision maker (CODM) reviews regularly in allocating resources to segments and in assessing their performance.

The aggregation of operating segments is permitted only when the segments have “similar” economic characteristics and meet a number of other specified criteria.

Entities that follow a matrix form of organisation determine operating segments consistent with the objective of the standard when more than one set of components is reviewed by the CODM.

Reportable segments are identified based on quantitative thresholds of revenue, profit or loss, or assets.

The amounts disclosed for each reportable segment are the measures reported to the CODM, which are not necessarily based on the same accounting policies as the amounts recognised in the financial statements.

5.2 Operating segments

(ASC Topic 350, ASC Subtopic 205-20, ASC Topic 280, ASC Subtopic 360-10)

Like IFRSs, segment disclosures are required by entities whose equity or debt securities are traded in a public market, or that are in the process of issuing such securities. Unlike IFRSs, segment disclosures also are required for certain other entities required to file financial statements with the SEC.

Like IFRSs, the Codification topic is based on a “management approach,” which requires segment disclosures based on the components of the entity that management monitors in making decisions about operating matters.

Like IFRSs, such components (operating segments) are identified on the basis of internal reports that the entity’s chief operating decision maker (CODM) reviews regularly in allocating resources to segments and in assessing their performance.

Like IFRSs, the aggregation of operating segments is permitted only when the segments have “similar” economic characteristics and meet a number of other specified criteria.

Unlike IFRSs, entities that follow a matrix form of organisation determine operating segments based on products and services when more than one set of components is reviewed by the CODM.

Like IFRSs, reportable segments are identified based on quantitative thresholds of revenue, profit or loss, or assets.

Like IFRSs, the amounts disclosed for each reportable segment are the measures reported to the CODM, which are not necessarily based on the same accounting policies as the amounts recognised in the financial statements.

Because disclosure of segment profit or loss, segment assets and segment liabilities as reported to the CODM is required rather than as they would be reported under IFRSs, disclosure of how these amounts are measured for each reportable segment also is required.

Disclosures are required for additions to non-current assets, with certain exceptions.

Reconciliations between total amounts for all reportable segments and financial statement amounts are disclosed, with a description of all material reconciling items.

General and entity-wide disclosures are required, including information about products and services, geographical areas, major customers and factors used to identify an entity's reportable segments. Such disclosures are required even if an entity only has one segment.

Comparative information normally is revised for changes in operating segments.

Because disclosure of segment profit or loss and segment assets as reported to the CODM is required rather than as they would be reported under IFRSs, disclosure of how these amounts are measured for each reportable segment also is required. Unlike IFRSs, there is no requirement to disclose information about liabilities.

Unlike IFRSs, disclosures are required only for additions to long-lived tangible assets, with certain exceptions.

Like IFRSs, reconciliations between total amounts for all reportable segments and financial statement amounts are disclosed, with a description of all material reconciling items.

Like IFRSs, general and entity-wide disclosures are required, including information about products and services, geographical areas, major customers and factors used to identify an entity's reportable segments. Such disclosures are required even if an entity only has one segment, like IFRSs.

Like IFRSs, comparative information normally is revised for changes in operating segments.

5.3 Earnings per share

(IAS 33)

Basic and diluted earnings per share (EPS) is presented by entities whose ordinary shares or potential ordinary shares are traded in a public market or that file, or are in the process of filing, their financial statements for the purpose of issuing any class of ordinary shares in a public market.

Basic and diluted EPS for both continuing operations and total operations are presented in the statement of comprehensive income, with equal prominence, for each class of ordinary shares.

Separate EPS data is disclosed for discontinued operations, either in the statement of comprehensive income or in the notes to the financial statements.

IFRSs do not have the concept of extraordinary items and therefore disclosure of the related EPS is not relevant.

Basic EPS is calculated by dividing the earnings attributable to holders of ordinary equity of the parent by the weighted average number of ordinary shares outstanding during the period.

To calculate diluted EPS, profit or loss attributable to ordinary equity holders, and the weighted average number of shares outstanding, are adjusted for the effects of all dilutive potential ordinary shares.

Potential ordinary shares are considered dilutive only when they decrease EPS or increase loss per share from continuing operations. In determining if potential ordinary shares are dilutive, each issue or series of potential ordinary shares is considered separately rather than in aggregate.

5.3 Earnings per share

(ASC Subtopic 260-10, ASC paragraphs 260-10-S99-2 and S99-3, Reg G)

Like IFRSs, basic and diluted earnings per share (EPS) is presented by entities whose common shares or common ordinary shares are traded in a public market or that file, or are in the process of filing, their financial statements for the purpose of issuing any class of common shares in a public market.

Like IFRSs, basic and diluted EPS for both continuing operations and net income are presented in the statement of earnings, with equal prominence, for each class of common shares.

Like IFRSs, separate basic and diluted EPS is disclosed for discontinued operations.

Unlike IFRSs, entities with an extraordinary item also present EPS data for those line items, either in the statement of earnings or in the notes to the financial statements.

Like IFRSs, basic EPS is calculated by dividing the earnings attributable to holders of ordinary equity of the parent by the weighted average number of common shares outstanding during the period.

Like IFRSs, diluted EPS is calculated based on profit or loss available to common shareholders and the weighted number of shares outstanding, adjusted for the effects of all dilutive potential common shares.

Like IFRSs, potential ordinary shares are considered dilutive only when they decrease earnings per share or increase loss per share from continuing operations. Like IFRSs, in determining if potential ordinary shares are dilutive, each issue or series of potential ordinary shares is considered separately rather than in aggregate.

Contingently issuable ordinary shares are included in basic EPS from the date that all necessary conditions are satisfied and, when not yet satisfied, in diluted EPS based on the number of shares that would be issuable if the end of the reporting period were the end of the contingency period.

When a contract may be settled in either cash or shares at the entity's option, it is treated as a potential ordinary share.

When a contract may be settled in either cash or shares at the holder's option, the more dilutive of cash and share settlement is used to calculate diluted EPS.

For diluted EPS, diluted potential ordinary shares are determined independently for each period presented.

When the number of ordinary shares outstanding changes, without a corresponding change in resources, the weighted average number of ordinary shares outstanding during all periods presented is adjusted retrospectively.

Adjusted basic and diluted EPS based on alternative earnings measures may be disclosed and explained in the notes to the financial statements.

Like IFRSs, contingently issuable common shares are included in basic EPS from the date that all necessary conditions are satisfied and, when not satisfied, in diluted EPS based on the number of shares that would be issuable if the end of the reporting period were the end of the contingency period.

Like IFRSs, when a contract may be settled in either cash or shares at the entity's option, it is treated as a potential common share unless, unlike IFRSs, the entity has an existing practice or a stated policy that provides a reasonable basis to conclude the contract will be paid partially or wholly in cash.

Like IFRSs, when a contract may be settled in either cash or shares at the holder's option, the more dilutive of cash and share settlement is used to calculate diluted EPS.

Unlike IFRSs, the computation of diluted EPS for the year to date is based on the weighted average of incremental shares included in each of the quarters making up the year-to-date period.

Like IFRSs, when the number of common shares outstanding changes, without a corresponding change in resources, the weighted average number of common shares outstanding during all periods presented is adjusted retrospectively.

Like IFRSs, entities may choose to present basic and diluted other per share amounts that are not required under US GAAP only in the notes to the financial statements. However, cash flow per share may not be presented.

5.4 Non-current assets held for sale and discontinued operations

(IFRS 5, IFRIC 17)

Non-current assets and some groups of assets and liabilities (known as disposal groups) are classified as held for sale when their carrying amounts will be recovered principally through sale.

Non-current assets and disposal groups held for sale generally are measured at the lower of carrying amount and fair value less costs to sell, and are presented separately on the face of the statement of financial position.

Assets classified as held for sale are not amortised or depreciated.

The comparative statement of financial position is not re-presented when a non-current asset or disposal group is classified as held for sale.

The classification, presentation and measurement requirements that apply to items that are classified as held for sale also are applicable to a non-current asset or disposal group that is classified as held for distribution.

A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale.

Discontinued operations are limited to those operations that are a separate major line of business or geographical area, and subsidiaries acquired exclusively with a view to resale.

5.4 Non-current assets held for sale and discontinued operations

(ASC Subtopic 205-20, ASC Subtopic 360-10, SAB Topic 5-Z, ASC Section 205-20-S99, ASC paragraph 505-60-S99-1)

Like IFRSs, long-lived assets (disposal groups) are classified as held for sale when specific criteria related to their sale are met. These criteria differ from IFRSs in certain respects.

Like IFRSs, long-lived assets (disposal groups) held for sale are measured at the lower of carrying amount and fair value less costs to sell, and are presented separately in the statement of financial position.

Like IFRSs, assets classified as held for sale are not amortised or depreciated.

Unlike IFRSs, there is no specific guidance on whether the comparative statement of financial position is re-presented when a long-lived asset (disposal group) is classified as held for sale.

Unlike IFRSs, there is no special designation for assets held for distribution.

Like IFRSs, a discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale.

Unlike IFRSs, discontinued operations comprise operations and cash flows that have been or will be eliminated from the ongoing operations as a result of the disposal transaction, which may be only a portion of a separate line of business. Additionally, unlike IFRSs, the entity cannot have significant continuing involvement in the operation after disposal.

Discontinued operations are presented separately on the face of the statement of comprehensive income, and related cash flow information is disclosed.

The comparative statement of comprehensive income and cash flow information is re-presented for discontinued operations.

Like IFRSs, discontinued operations are presented separately on the face of the statement of earnings. However, unlike IFRSs, cash flow information is not required to be disclosed.

Like IFRSs, the comparative statement of earnings is re-presented for discontinued operations. However, unlike IFRSs, cash flow information is re-presented only if cash flow information for discontinued operations is presented separately for the current reporting period.

5.5 Related party disclosures

(IAS 24)

Related party relationships are those involving control (direct or indirect), joint control or significant influence.

Key management and their close family members are parties related to an entity.

There are no special recognition or measurement requirements for related party transactions.

The disclosure of related party relationships between a parent and its subsidiaries is required, even if there have been no transactions between them.

No disclosure is required in the consolidated financial statements of intra-group transactions eliminated in preparing those statements.

Comprehensive disclosures of related party transactions are required for each category of related party relationship.

Key management personnel compensation is disclosed in total and is analysed by component.

5.5 Related party disclosures

(ASC Topic 850, Reg S-X)

Like IFRSs, related party relationships are those involving control (direct or indirect), joint control or significant influence.

Like IFRSs, management and management's immediate family members are parties related to an entity.

Generally there are no special recognition or measurement requirements for related party transactions; however, unlike IFRSs, certain Codification topics have specific guidance.

Like IFRSs, the disclosure of related party relationships between a parent and its subsidiaries is required, even if there have been no transactions between them.

Like IFRSs, no disclosure is required in the consolidated financial statements of intra-group transactions eliminated in preparing those statements.

Like IFRSs, comprehensive disclosures of related party transactions are required. However, unlike IFRSs, there is no requirement for the disclosures to be grouped into categories of related parties.

Unlike IFRSs, management compensation is not required to be disclosed in the financial statements; however, SEC registrants are required to provide compensation information outside of the financial statements for specified members of management and the board.

5.5A Related party disclosures

(IAS 24 (2009))

The revised standard on related party disclosures is effective for annual periods beginning on or after 1 January 2011; earlier application is permitted.

Related party relationships are those involving control (direct or indirect), joint control or significant influence.

Key management and their close family members are parties related to an entity.

There are no special recognition or measurement requirements for related party transactions.

The disclosure of related party relationships between a parent and its subsidiaries is required, even if there have been no transactions between them.

No disclosure is required in the consolidated financial statements of intra-group transactions eliminated in preparing those statements.

Comprehensive disclosures of related party transactions are required for each category of related party relationship.

In certain instances, government-related entities are allowed to provide less detailed disclosures on related party transactions.

Key management personnel compensation is disclosed in total and is analysed by component.

5.5A Related party disclosures

(ASC Topic 850, Reg S-X)

There have been no changes in the requirements under US GAAP regarding related party disclosures. As a consequence, the following requirements are currently effective under US GAAP.

Like IFRSs, related party relationships are those involving control (direct or indirect), joint control or significant influence.

Like IFRSs, management and management's immediate family members are parties related to an entity.

Generally there are no special recognition or measurement requirements for related party transactions; however, unlike IFRSs, certain Codification topics have specific guidance.

Like IFRSs, the disclosure of related party relationships between a parent and its subsidiaries is required, even if there have been no transactions between them.

Like IFRSs, no disclosure is required in the consolidated financial statements of intra-group transactions eliminated in preparing those statements.

Like IFRSs, comprehensive disclosures of related party transactions are required. However, unlike IFRSs, there is no requirement for the disclosures to be grouped into categories of related parties.

Unlike IFRSs, US GAAP does not have any provision for differential related party disclosures available for government-related entities that prepare financial statements in accordance with US GAAP. However, often such entities' financial statements will be prepared in accordance with US governmental accounting standards rather than in accordance with US GAAP.

Unlike IFRSs, management compensation is not required to be disclosed in the financial statements; however, SEC registrants are required to provide compensation information outside of the financial statements for specified members of management and the board.

5.6 Financial instruments: presentation and disclosure

(IFRS 7, IAS 1, IAS 32)

There is no specific guidance on the statement of comprehensive income presentation of gains and losses on financial instruments.

A financial asset and a financial liability are offset only when there is a legally enforceable right to offset, and an intention to settle net or to settle both amounts simultaneously. Master netting arrangements typically do not qualify for netting since they are enforceable contingent on the occurrence of an event.

Disclosures are required to enable users to evaluate the significance of financial instruments for the entity's financial position and performance and the extent of risk arising from financial instruments.

Qualitative disclosures describe management's objectives, policies and processes for managing risks arising from financial instruments.

5.6 Financial instruments: presentation and disclosure

(ASC Topic 815, ASC Topic 860, ASC Subtopic 320-10, ASC Subtopic 405-20, ASC Subtopic 460-10, ASC Subtopic 470-20, ASC Subtopic 480-10, ASC Subtopic 505-10, ASC Subtopic 825-10, Reg S-K, Reg S-X, SAB Topic 4-E, ASC paragraph 310-10-S99-2)

Unlike IFRSs, there is guidance for SEC registrants on the statement of earnings presentation of gains and losses on financial instruments. Like IFRSs, for non-SEC registrants there is no guidance on the statement of earnings presentation of gains and losses on financial instruments.

Like IFRSs, a financial asset and a financial liability may be offset only when there is a legally enforceable right to offset and an intention to settle net or to settle both amounts simultaneously. However, unlike IFRSs, derivatives with the same counterparty may be offset, provided that they are subject to a master netting arrangement and certain criteria are met. Also, unlike IFRSs, repurchase agreements and reverse repurchase agreements that clear through a qualified clearinghouse may be offset, provided that they are subject to a master netting arrangement and certain criteria are met. Once the applicable criteria are met, offsetting is a policy choice in all circumstances.

Like IFRSs, disclosures are required to enable users to evaluate the significance of financial instruments for the entity's financial position and performance and the extent of risk arising from financial instruments.

Unlike IFRSs, US GAAP does not require specific qualitative disclosures in respect of financial instruments other than related to significant concentrations of credit risk. Instead, qualitative disclosures about market-risk, interest rate risk, foreign currency risk, commodity price risk and other relevant price risk (e.g. equity price risk) are required to be disclosed by SEC registrants outside of the financial statements, i.e. in management's discussion and analysis (MD&A).

Specific quantitative disclosures are required for credit, liquidity and market risks arising from financial instruments and how the entity manages those risks.

The fair value of each class of financial asset and liability is disclosed, as well as information about the methods and significant assumptions used in determining fair value.

The level of disclosure varies depending on the nature and relative significance of the financial instruments.

Unlike IFRSs, non-SEC registrants are not required to make specific quantitative risk-related disclosures in respect of financial instruments, other than related to concentrations of credit risk. The SEC requires certain quantitative disclosures; however, unlike IFRSs, those disclosures are limited to market risk disclosures and are provided outside of the financial statements.

Like IFRSs, the fair value of each class of financial asset and liability is disclosed, as well as information about the methods and significant assumptions used in determining fair value.

Like IFRSs, the level of disclosure varies depending on the nature of the financial instruments and, unlike IFRSs, whether the entity is an SEC registrant.

5.7 Non-monetary transactions

(IAS 16, IAS 18, IAS 38, IAS 40, IFRIC 18, SIC-31)

Generally, exchanges of assets are measured at fair value and result in the recognition of gains or losses rather than revenue.

Exchanged assets are recognised based on historical cost if the exchange lacks commercial substance or the fair value cannot be measured reliably.

Revenue is recognised for barter transactions unless the transaction is incidental to the entity's main revenue-generating activities or the items exchanged are similar in nature and value.

Property, plant and equipment that is used to provide access to a supply of goods or services is recognised as an asset if it meets the definition of an asset and the recognition criteria for property, plant and equipment.

Other donated assets may be accounted for in a manner similar to government grants unless the transfer is, in substance, an equity contribution.

5.7 Non-monetary transactions

(ASC Topic 845, ASC Topic 958, ASC Subtopic 605-20, ASC Subtopic 720-25, SAB Topic 5-T, ASC paragraph 225-10-S99-4)

Like IFRSs, generally exchanges of assets are measured at fair value and result in the recognition of gains or losses rather than revenue.

Like IFRSs, exchanged assets are recognised based on historical cost if the exchange lacks commercial substance or the fair value cannot be measured reliably. Additionally, exchange transactions to facilitate sales to customers are recognised based on historical cost, unlike IFRSs.

Unlike IFRSs, US GAAP does not require an exchange of dissimilar items in a barter transaction to be recognised as revenue. No revenue is recognised for barter transactions that facilitate sales to customers. US GAAP provides explicit guidance to support the fair value measurement of a barter revenue transaction, unlike IFRSs.

In accordance with general principles, property, plant and equipment that is used to provide access to a supply of goods or services is recognised as an asset if it meets the definition of an asset and the recognition criteria for property, plant and equipment, like IFRSs.

Unlike IFRSs, US GAAP does not provide specific guidance on donated assets, which are accounted for in accordance with the requirements for other non-monetary transactions.

5.8 Accompanying financial and other information (IAS 1)

Supplementary financial and operational information may be presented, but is not required.

An entity considers its particular legal or securities listing requirements in assessing what information is disclosed in addition to that required by IFRSs.

5.8 Accompanying financial and other information

(Reg S-B, Reg S-K, Reg S-X)

Like IFRSs, a financial and operational review is not required. However, unlike IFRSs, SEC registrants are required to include management's discussion and analysis in their annual and interim reports. Such information is presented outside of the financial statements.

Like IFRSs, an entity considers the legal, securities exchange, or SEC requirement in assessing the information to be disclosed in addition to US GAAP requirements.

5.9 Interim financial reporting

(IAS 34, IFRIC 10)

Interim financial statements contain either a complete or a condensed set of financial statements for a period shorter than a financial year.

The following, as a minimum, are presented in condensed interim financial statements: condensed statement of financial position; condensed statement of comprehensive income, presented as either a condensed single statement or a condensed separate income statement and a condensed statement of comprehensive income; condensed statement of cash flows; condensed statement of changes in equity; and selected explanatory notes.

Items, other than income tax, generally are recognised and measured as if the interim period were a discrete period.

Income tax expense for an interim period is based on an estimated average annual effective income tax rate.

Generally, the accounting policies applied in the interim financial statements are those that will be applied in the next annual financial statements.

5.9 Interim financial reporting

(ASC Topic 250, ASC Topic 270, ASC Sub-topic 740-270, Reg S-X)

Like IFRSs, interim financial statements contain either a complete or a condensed set of financial statements for a period shorter than a financial year.

Entities, as a minimum, present the following in condensed interim financial statements: condensed statement of financial position; condensed statement of earnings; condensed statement of cash flows; selected explanatory notes. However, unlike IFRSs, a condensed statement of changes in equity or statement of comprehensive income is not required.

Unlike IFRSs, each interim period is viewed as an integral part of an annual period to which it relates.

Like IFRSs, income tax expense for an interim period is based on an estimated average annual effective income tax rate.

Like IFRSs, generally the accounting policies applied in the interim financial statements are those that will be applied in the next annual financial statements.

5.10 Insurance contracts

(IFRS 4)

The insurance standard applies to all insurance contracts that an entity issues and reinsurance contracts it holds, regardless of the type of entity that issued the contract. An insurance contract is a contract under which the insurer accepts significant insurance risk from the policyholder.

Generally entities that issue insurance contracts are required to continue their existing accounting policies with respect to insurance contracts, except when the standard requires or permits changes in accounting policies.

A financial instrument that does not meet the definition of an insurance contract is accounted for under the general recognition and measurement requirements for financial instruments.

Changes in existing accounting policies for insurance contracts are permitted only if the new policy, or combination of new policies, results in information that is more relevant or reliable, or both, without reducing either.

Financial instruments that include discretionary participation features are accounted for as insurance contracts, although these are subject to the general disclosure requirements for financial instruments.

In some cases a deposit element is “unbundled” from an insurance contract and accounted for as a financial instrument.

Some derivatives embedded in insurance contracts are separated from their host insurance contract and accounted for as if they were stand-alone derivatives.

The recognition of catastrophe and equalisation provisions is prohibited for contracts not in existence at the reporting date.

5.10 Insurance contracts

(ASC Topic 944)

Unlike IFRSs, the insurance literature applies to all insurance contracts issued by an insurance company; there are no specific requirements for other entities that accept significant insurance risk. An insurance contract is a contract determined as such under applicable law, unlike IFRSs.

Unlike IFRSs, insurance companies must comply with the accounting policies specified in the insurance literature.

Unlike IFRSs, only contracts that are not legally insurance contracts are accounted for under other applicable standards.

Like IFRSs, an entity may change an accounting policy if justified on the basis that it is preferable.

Unlike IFRSs, U.S. GAAP does not use the term “discretionary participation feature” and instead addresses the accounting for dividends to policyholders; although such items are accounted for as insurance contracts, the accounting may differ from IFRSs.

Unlike IFRSs, U.S. GAAP does not have a broad unbundling concept for insurance contracts.

Like IFRSs, derivatives embedded in insurance contracts that meet certain criteria are separated from the host insurance contract and accounted for as if they were stand-alone derivatives.

Like IFRSs, the recognition of catastrophe and equalisation provisions is prohibited for contracts not in existence at the reporting date.

A liability adequacy test is required to ensure that the measurement of an entity's insurance liabilities considers all contractual cash flows, using current estimates.

The introduction of "shadow accounting" for insurance liabilities is permitted for consistency with the treatment of unrealised gains or losses on assets.

An expanded presentation of the fair value of insurance contracts acquired in a business combination or portfolio transfer is permitted.

Unlike IFRSs, the term “liability adequacy test” is not used, and instead a form of premium deficiency testing is required, which meets the minimum requirements of IFRSs for a liability adequacy test.

Unlike IFRSs, the use of “shadow accounting” is required.

Unlike IFRSs, U.S. GAAP has no specific guidance on the presentation for insurance contracts acquired in a business combination or portfolio transfer.

5.11 Extractive activities

(IFRS 6)

IFRSs provide specialised extractive industry guidance only in respect of expenditures incurred on exploration for and evaluation of (E&E) mineral resources after obtaining a legal right to explore and before achieving technical feasibility and commercial viability.

Entities identify and account for pre-exploration expenditure, E&E expenditure and development expenditure separately.

Each type of E&E cost may be expensed as incurred or capitalised, in accordance with the entity's selected accounting policy.

Capitalised E&E costs are segregated and classified as either tangible or intangible assets, according to their nature.

The test for recoverability of E&E assets can combine several cash-generating units, as long as the combination is not larger than an operating segment.

There is no specific guidance on the recognition or measurement of pre-exploration expenditure or development expenditure. Pre-E&E expenditure generally is expensed as incurred.

5.11 Extractive activities

(ASC Topic 930, ASC Topic 932, Reg S-X, SAB Topic 12, ASC Section 932-360-S99)

Unlike IFRSs, US GAAP provides detailed guidance on the accounting and reporting by oil and gas producing entities for expenditure incurred before, during and after exploration and evaluation (E&E) activities. US GAAP does not contain extensive authoritative guidance for other extractive industries, unlike IFRSs.

Unlike IFRSs, the accounting for oil and gas producing activities covers pre-exploration expenditure, E&E expenditure and development expenditure.

Unlike IFRSs, all costs related to oil and gas producing activities are accounted for under either the successful efforts method or the full cost method, and the type of E&E costs capitalised under each method differs.

Like IFRSs, in extractive industries (other than oil and gas producing industries), capitalised costs are segregated and classified as either tangible or intangible assets, according to their nature. Unlike IFRSs, oil and gas producing entities do not segregate capitalised E&E costs into tangible and intangible components; all capitalised costs are classified as tangible assets.

Unlike IFRSs, the test for recoverability usually is conducted at the oil and gas field level under the successful efforts method, or by geographic region under the full cost method.

Unlike IFRSs, there is specific guidance on the recognition or measurement of pre-exploration expenditure and development expenditure for oil and gas producing entities.

5.12 Service concession arrangements

(IFRIC 12, SIC-29)

The interpretation on service concession arrangements provides guidance on the accounting by private sector entities (operators) for public-to-private service concession arrangements. The guidance applies only to service concession arrangements in which the public sector (the grantor) controls or regulates the services provided with the infrastructure and their prices, and controls any significant residual interest in the infrastructure.

In these circumstances the operator does not recognise the infrastructure as its property, plant and equipment if the infrastructure is existing infrastructure of the grantor, or if the infrastructure is constructed or purchased by the operator as part of the service concession arrangement. Depending on the conditions of the arrangement, the operator recognises either a financial asset or an intangible asset, or both, at fair value as compensation for any construction or upgrade services that it provides.

If the grantor provides other items to the operator that the operator may retain or sell at its option, then the operator recognises those items as its assets together with a liability for unfulfilled obligations.

The operator recognises and measures revenue for providing construction or upgrade services, and revenue for other services, in accordance with applicable revenue recognition standards.

The operator recognises consideration receivable from the grantor for construction or upgrade services, including upgrades of existing infrastructure, as a financial asset and/or an intangible asset.

5.12 Service concession arrangements

Unlike IFRSs, US GAAP has no specific guidance applicable to service concession arrangements. The arrangements would be evaluated in accordance with existing US GAAP.

Unlike IFRSs, US GAAP does not provide specific guidance on service concession arrangements. As a consequence, practice may be mixed with some entities applying the guidance applicable to lease arrangements.

While no specific guidance exists, unlike IFRSs, the operator generally would recognise as a separate asset items provided by the grantor that the operator may retain or sell at its discretion; such items may or may not form part of the consideration for the services provided by the operator.

Unlike IFRSs, the operator evaluates construction and upgrade services as separate deliverables to determine whether they constitute separate units of accounting or a single unit of accounting. The operator generally would apply the leasing and/or revenue Codification topics to determine the appropriate accounting. This is likely to lead to differences from IFRSs, particularly when the intangible asset model is applied under IFRSs.

Unlike IFRSs, the operator would need to evaluate the arrangement to determine whether it comprises a single or multiple units of accounting. US GAAP does not provide specific guidance on the classification of a resulting asset, unlike IFRSs.

The operator recognises a financial asset to the extent that it has an unconditional right to receive cash (or another financial asset) irrespective of the usage of the infrastructure.

The operator recognises an intangible asset to the extent that it has a right to charge for usage of the infrastructure.

Any financial asset recognised is accounted for in accordance with the relevant financial instruments standards, and any intangible asset in accordance with the intangible assets standard. There are no exemptions from these standards for operators.

The operator recognises and measures obligations to maintain or restore infrastructure, except for any construction or upgrade element, in accordance with the provisions standard.

The operator generally is required to capitalise attributable borrowing costs incurred during construction or upgrade periods to the extent it has a right to receive an intangible asset. Otherwise the borrowing costs are expensed as incurred.

Like IFRSs, the operator recognises a receivable to the extent that it has an unconditional right to receive cash (or another financial asset) irrespective of the usage of the infrastructure.

Unlike IFRSs, US GAAP does not provide guidance on whether an intangible asset or other asset would be recognised for the right to charge for the usage of the infrastructure. Generally, however, the amounts that are contingent on future usage of the concession would not be recognisable under US GAAP. The costs incurred to obtain the service concession (including infrastructure construction costs) would be evaluated for recoverability under the impairment Codification topics (see 3.10).

Any financial asset recognised is accounted for in accordance with the relevant financial instruments Codification topics, which differ in certain respects from IFRSs. Unlike IFRSs, generally an intangible asset would not be recognised.

Unlike IFRSs, the operator would apply the general guidance applicable to separate deliverables (performance obligations) to determine whether a deliverable (obligation) to maintain or restore infrastructure, including any construction or upgrade element, is a separate unit of accounting and whether the related deliverable (obligation) should be recognised and measured.

Unlike IFRSs, the operator does not capitalise borrowing costs unless it concludes that the construction service gives rise to a qualifying asset, and it has net accumulated expenditures on the qualifying asset.

5.13 Common control transactions and Newco formations

In our view, the acquirer in a common control transaction has a choice of applying either book value accounting or acquisition accounting in its consolidated financial statements.

In our view, the transferor in a common control transaction that is a demerger has a choice of applying either book value accounting or fair value accounting in its consolidated financial statements. In other disposals, in our view judgement is required in determining the appropriate consideration transferred in calculating the gain or loss on disposal.

Common control transactions are accounted for using the same accounting policy to the extent that the substance of the transactions is similar.

Newco formations generally fall into two categories: formations to effect a business combination involving a third party; or formations to effect a restructuring amongst entities under common control.

In a Newco formation to effect a business combination involving a third party, generally acquisition accounting applies.

In a Newco formation to effect a restructuring amongst entities under common control, in our view often it will be appropriate to account for the transaction using book values.

5.13 Common control transactions and Newco formations

805-50-15, 805-50-25, 805-50-S99

Unlike IFRSs, the acquirer in a common control transaction applies book value accounting in its consolidated financial statements.

Unlike IFRSs, the transferor in a common control transaction that is a demerger applies book value accounting in its consolidated financial statements. In other disposals that are common control transactions the transferor applies book value accounting, unlike IFRSs.

Unlike IFRSs, common control transactions are accounted for using the book value method.

Like IFRSs, Newco formations generally fall into two categories: formations to effect a business combination involving a third party; or formations to effect a restructuring amongst entities under common control.

Like IFRSs, in a Newco formation to effect a business combination involving a third party, generally acquisition accounting applies.

In a Newco formation to effect a restructuring amongst entities under common control, the transaction is accounted for using book values which may result in differences from IFRSs in certain situations.

Appendix

Common abbreviations used

IFRS

Framework	The IASB's Framework for the Preparation and Presentation of Financial Statements
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFRIC	Interpretation of the IFRS Interpretations Committee
IFRS	International Financial Reporting Standard
SIC	Interpretation of the Standing Interpretations Committee, predecessor of the IFRS Interpretations Committee

US GAAP

ASC	US Accounting Standards Codification
ASR	Accounting Series Release of the SEC
CON	Statement of Financial Accounting Concepts of the FASB
FASB	Financial Accounting Standards Board
Reg	SEC Regulation
SAB	Staff Accounting Bulletin issued by the SEC Staff as guidance
TPA	Technical Practice Aid issued by the American Institute of Certified Public Accountants

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