

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

SUBJECT	IAS	US GAAP	UK GAAP	INDIAN GAAP
Accounting framework				
Contents of Financial statements	Two years' balance sheets, income, recognised gains and losses and cash flow statements, changes in equity, accounting policies and notes.	Similar to IAS, except three years required by SEC for all statements except balance sheet.	Similar to IAS	Two years' balance sheets, profit and loss account, accounting policies and notes. Only companies listed on Indian stock exchanges and non-listed enterprises whose turnover exceeds Rs. 500 million are required to furnish cash flow statements.
True and fair view override	In rare cases, override standards to give "true and fair view".	No override of standards permitted.	Similar to IAS	No override of standards permitted.
Accounting convention	Historical cost, but some assets may be revalued.	No revaluations except some securities and derivatives at fair value.	Comparable to IAS	Historical cost, but fixed assets, other than intangibles, may be revalued.
Changes in accounting policies	<p>Either restate comparatives and prior year opening retained earnings or include effects (net of taxes) in current year income statement and provide proforma comparatives in the notes.</p> <p>Disclosure: Disclosure is required of the reasons for and the effect of the change.</p>	<p>Generally include effect (net of taxes) in current year income statement after extraordinary items. Disclose proforma comparatives. Retrospective adjustments for specific items.</p> <p>Disclosure:</p> <ul style="list-style-type: none"> Cumulative effect of change on the amount of retained earnings at the beginning of the period in which the change is made. Effect of change on income 	<p>Restate comparatives and prior year opening retained earnings.</p> <p>Disclosure: Effect of the change on current period results.</p>	<p>Include effect in the income statement of the period in which the change is made.</p> <p>Disclosure:</p> <ul style="list-style-type: none"> Impact of and adjustments resulting from the change, if material, is to be shown in the financial statements of the period in which the change is made. If the effect of the change cannot be estimated that fact is to be disclosed. A change that has no

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		<p>before extraordinary items and on net income (and related per share amounts).</p> <ul style="list-style-type: none"> Income before extraordinary items and net income computed on pro forma basis on the face of the income statement for all periods presented as if the new policy had been applied during all periods. 		<p>material effect in the current period but is reasonably expected to have material effect in later periods is to be appropriately disclosed in the period in which change is adopted.</p>
Correction of fundamental errors	Either restate comparatives or include effect in current year income statement with proforma comparatives in the notes.	Restate comparatives. Adjustments required to be made to previously issued financial statements.	Similar to US GAAP	Include effect in current year income statement.
Reporting currency	Requires measurement of profit using the measurement currency, however entities may present financial statements in different currency.	Uses a functional currency. Does not specify the concept of a presentation currency.	In practice it is rare for entities not to use sterling.	In practice it is rare for entities not to use local currency.
Balance sheet format	Does not prescribe a particular format, however certain items must be presented on the face of the balance sheet.	Similar to IAS, items presented on the face of the balance sheet are generally presented in decreasing order of liquidity.	Company law specifies various formats. Items presented are similar to IAS, except shareholders' funds are required to be analysed into equity and non-equity elements.	Company law specifies various formats.
Income statement format	Does not prescribe a particular format, however expenditure must be presented in one of	Present as either a single step or multiple step format. Expenditure must be presented by function.	Company law specifies four alternative formats.	Does not prescribe a particular format, however prescribes certain disclosure norms for

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	two formats (function or nature). Certain items must be presented on the face of the income statement.			income and expenditures.
Cash flow statement - formats and method	Standard headings, but flexibility over their contents. Use direct or indirect method.	Similar headings to IAS, but more specific guidance given for items to include in each. Use direct or indirect method.	More standard headings than IAS. Use direct or indirect method.	Standard headings, using direct or indirect method, prescribed for all listed companies and companies with turnover in excess of Rs 500 million.
Cash flow statements - definition of cash and cash equivalents	Cash includes overdrafts and cash equivalents with short-term maturities (less than 3 months).	Cash excludes overdrafts but includes cash equivalents with short-term maturities.	Cash includes overdrafts but excludes cash equivalents.	Cash includes cash in hand and deposits repayable on demand. Cash equivalents are short term, highly liquid investments that are readily convertible to cash (normally 3 months or less). Bank borrowings are generally considered to be financing activities.
Changes in accounting estimates	Account for in income statement in the current and future periods, as appropriate.	Similar to IAS.	Similar to IAS	Comparable to IAS.
Group Reporting				
Definition of subsidiary	Based on voting control or power to exercise dominant influence.	Controlling interest through majority ownership of voting shares. Recent proposals similar to IAS.	Similar to IAS	Controlling interest through majority of voting shares or control of board of directors.
Exclusion of subsidiaries from consolidation	Only if severe long-term restrictions or acquired and held for re-sale in the near	Comparable to IAS. <ul style="list-style-type: none"> If control is likely to be temporary or if it does not rest 	Similar to IAS	Comparable to IAS.

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	future; dissimilar activities is not a justification.	with the majority owner. • Significant doubts as to the parent's ability to control.		
Definition of associate	Based on significant influence: presumed if 20% interest or participation in entity's affairs.	Broadly comparable to IAS.	Requires evidence of exercise of significant influence	<p>An associate is an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor.</p> <p>Significant influence is the power to participate in the financial and/or operating policy decisions of the investee but not control over those policies.</p> <p>As regards share ownership, if an investor holds, directly or indirectly through subsidiary(ies), 20% or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds, directly or indirectly through subsidiary(ies), less than 20% of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly</p>

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				demonstrated.
Presentation of associate results	<p>Use equity method. Show share of profits and losses.</p> <p><u>The equity method</u> is a method of accounting whereby the investment is initially recorded at cost, identifying any goodwill/capital reserve arising at the time of acquisition. The carrying amount of the investment is adjusted thereafter for the post acquisition change in the investor's share of net assets of the investee. The consolidated statement of profit and loss reflects the investor's share of the results of operations of the investee.</p>	Use equity method. Show share of post-tax result.	Use expanded equity method. Share of operating profit, exceptional items and tax shown separately.	Use equity method. Show share of profits and losses.
Disclosures about significant associates	<p>Following disclosures to be made:</p> <ul style="list-style-type: none"> • List and description of Associates including proportion of ownership and proportion of voting power (if different from proportion of ownership) • Method used to account for such investments. • Investments in associates 	Give detailed information on significant associates' assets, liabilities and results.	Similar to US GAAP.	<p>Following disclosures to be made in Consolidated Financial statements:</p> <ul style="list-style-type: none"> • Reasons for not applying the equity method of accounting for investments in associates. • Goodwill/Capital reserve arising on acquisition of an associate. (included in carrying amount but

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	<p>accounted for using the equity method classified as long-term investments</p> <ul style="list-style-type: none">• The investor's share of the profits or losses of such investments.• The investor's share of any extraordinary or prior period items.			<p>disclosed separately)</p> <ul style="list-style-type: none">• List and description of Associates including proportion of ownership and proportion of voting power (if different from proportion of ownership)• Investments in associates accounted for using the equity method classified as long-term investments• The investor's share of the profits or losses of such investments.• The investor's share of any extraordinary or prior period items.• Names of associates whose reporting dates are different from those of the investor's financial statements together with the difference in the reporting dates.• The fact that it is impracticable to make adjustments to the associate's financial statements for differences between accounting policies of the associate and those used for consolidated financial

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				statements together with a brief description of the differences.
Equity method or proportional consolidation for joint ventures	Both proportional consolidation and equity method permitted. Consolidate own assets / liabilities in limited circumstances such as oil and gas ventures.	Generally use equity method. Use proportional consolidation in limited circumstances, such as oil and gas ventures.	Generally use gross equity method. Consolidate own assets / liabilities in limited circumstances such as oil and gas ventures.	<p>Three forms of Joint Ventures identified:</p> <ol style="list-style-type: none"> 1. Jointly controlled operation: Venturer to recognize in its separate financial statements <ul style="list-style-type: none"> • assets it controls • liabilities it incurs • its share of income • expenses it incurs 2. Jointly controlled assets: Venturer to recognize in its separate financial statements <ul style="list-style-type: none"> • Share of jointly controlled assets • Liabilities it has incurred • Share of jointly incurred liabilities • Share of income and expenses from the joint venture • Expense incurred by it in relation to the joint venture. 3. Jointly controlled entities: In its separate

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				financial statements venturer to recognize as an investment, its interest in the Joint Venture. In consolidated financial statements venturer to report its interest in the jointly controlled entity using proportionate consolidation method.
Foreign Currency Translation				
Individual company	Translate at rate on date of transaction; monetary assets/liabilities at balance sheet rate; non-monetary items at historical rate.	Similar to IAS.	Similar to IAS.	Similar to IAS.
Foreign entities within consolidated financial statements	Use closing rate for balance sheets; average rate for income statements. Take exchange differences to equity and include in gain on disposal of subsidiary.	Similar to IAS.	Similar to IAS, but can use closing rate for income statements. Recognise exchange differences in the Statement of Recognized Gains and Losses.	Even though consolidation of Foreign subsidiaries is required the accounting treatment has not been specifically addressed. However, taking into account the accounting treatment suggested by other Standards the closing rate may be used for balance sheets and average rates may be used for income statements with the difference being accounted for in the income statement of the parent company.

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Combinations				
Purchase method - fair values on acquisition	<p>Fair value assets and liabilities of acquired entity.</p> <p>Some liabilities relating to the acquired entity may be recognised in restricted circumstances.</p> <ul style="list-style-type: none"> • Liabilities are not recorded at the date of acquisition if they result from the acquirer's intentions or actions. • Acquirer recognises a provision that was not a liability if the acquirer has developed the main features of a plan that involves reducing/terminating activities and that relates to compensating employees of the acquiree. 	<p>Similar to IAS, but specific rules for acquired in-process research and development (generally expensed).</p> <p>Similar to IAS, but less stringent recognition criteria as regards timing of implementation of the plans.</p>	<p>Similar to IAS.</p> <p>Very few acquisition provisions allowed.</p>	<p>Assets and liabilities may be incorporated at their existing carrying amounts, or alternatively the consideration is allocated to individual assets and liabilities on the basis of their fair values.</p> <p>No separate acquisition provisions allowed.</p>

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Purchase method – subsequent adjustments to fair values	<p>Fair values can be corrected against goodwill up to the end of the year after acquisition if additional evidence of values becomes available.</p> <p>Record subsequent adjustments in income statement. Reversals of acquisition provisions always adjust goodwill.</p>	<p>Similar to IAS, in that there is an allocated period of up to one year following the date of the acquisition. Adjustments made during the allocation period relating to data for which management was waiting to complete the allocation are recorded against goodwill.</p> <p>Similar to IAS.</p>	<p>Similar to IAS.</p> <p>Very few acquisition provisions allowed.</p>	Subsequent adjustments normally not allowed.
Purchase method – contingent consideration	Estimated at acquisition then subsequently corrected against goodwill.	Not recognised until the contingency is resolved or the amount is determinable.	Similar to IAS	Included in consideration if the payment is probable and a reasonable estimate of the amount can be made. Adjustment is made to goodwill or capital reserve, as applicable.
Purchase method – minority interests at acquisition	State at share of fair value of net assets or at share of pre-acquisition carrying value of net assets.	Usually state at share of pre-acquisition carrying value of net assets.	State at share of fair value of net assets	State at share of pre-acquisition carrying value of net assets .
Purchase method – disclosure	Disclosures include names and descriptions of combining entities, method of accounting for acquisition and date of acquisition, summary of fair values of assets and liabilities acquired and impact on results and financial position of acquirer.	Similar to IAS, plus additional disclosures regarding the reasons for the acquisition, and details of allocations. Public companies must also present proforma income statement information as if acquisition occurred at the start of the comparative period.	Similar to IAS, but must also present table showing book values, fair value adjustments and fair values of acquired assets and liabilities.	Comparable to IAS. Additional disclosures include particulars of the scheme sanctioned under a statute, consideration and description of the consideration paid or contingently payable, amount of goodwill/ capital reserve, and the treatment thereof.

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Purchase method – goodwill	Capitalise and amortise over useful life, normally not longer than 20 years.	Capitalise but do amortise Goodwill should be tested for impairment at least annually at the reporting unit level.	Similar to IAS, although indefinite life may be used in certain circumstances.	Capitalise and amortise to income over useful life, normally not exceeding 5 years.
Purchase method – negative goodwill	If relates to expected future losses/costs recognise in income when these occur. Otherwise record as negative asset and recognise over useful lives of identifiable, non-monetary assets. Any excess over the fair values of such assets is recognised in income immediately.	Reduce proportionately the fair values assigned to non-current assets (with certain exceptions). Any excess is recognised in the income statement immediately as an extraordinary gain	Recognise as negative asset and recognise in the income statement to match depreciation of non-monetary assets; any excess over the fair value of such assets is recognised in the income statement over period likely to benefit.	Treat as capital reserve, which is not amortised.
Pooling of interests method	Severely restricted to “true mergers of equals”. Rules focus on lack of identification of an acquirer.	Prohibited.	Restrictions similar, but not quite as though as IAS. Criteria include size of entities and low level limits on non share consideration.	Restricted to amalgamation in the nature of “merger” only. Allowed only when certain conditions are met, mainly when all assets and liabilities, and 90% shareholders of transferor company become part of the transferee company.
Intangible assets	Capitalise if recognition criteria met; intangible assets must be amortised over useful life, normally no longer than 20 years. Revaluations are permitted in rare circumstances.	Capitalise purchased intangible assets. Goodwill and other intangibles are not presumed to be wasting assets. All intangibles that have indefinite useful life are required to be tested, at least annually, for	Broadly similar to IAS, although may use indefinite life in certain rare circumstances.	Capitalise intangible assets if specific criteria are met and amortise over useful life. The recoverable amount of an intangible asset that is not available for use or is being amortised over a period

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		impairment. Intangible assets that have finite useful life are required to be amortised over their useful lives.		exceeding 10 years should be reviewed at each year-end. Amortisation should be based on the consumption pattern of the asset or on straight line basis if a pattern is not determinable. The amortisation period should be reviewed at each year-end and changed if significantly different from previous estimates. Subsequent expenditure on an intangible asset is recognised as an expense unless it is probable that the expenditure will generate future benefits in excess of originally assessed standards of performance.
Internally generated intangible assets	Expense research costs as incurred. Capitalise and amortise development costs only if stringent criteria are met.	Expense both research and development costs as incurred. Some software and website development costs must be capitalised.	An entity may choose to capitalise internally generated assets, other than research and development expenditure when a market exists. Recognition criteria not as strict as IAS.	Intangible assets arising from development are recognised if specific criteria are met. Expense research costs as incurred. Internally generated goodwill is not recognised.
Main Accounting Principles				
Property, plant and	Use historical cost or revalued	Revaluations not permitted.	Similar to IAS.	Use historical costs or revalued

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equipment	amounts. Frequent valuations of entire classes of assets necessary when revalued amounts used.			amounts. On revaluation, an entire class of assets is revalued, or selection of assets for revaluation is made on a systematic basis. No current restriction on frequency of valuation.
Depreciation	Allocated on a systematic basis to each accounting period during the useful life of the asset.	Calculated to match the use of the asset over its useful life.		Rates prescribed in the Companies Act for the minimum depreciation provision. Where applicable, higher depreciation based on useful life of the asset should be provided. Asset lives are not prescribed by the Cos. Act but can be derived from the depreciation rates.
Investment properties	Measure at depreciated cost or fair value and recognise changes in fair value in the income statement.	Treat as for other properties (use historical cost).	Carry at open market value without depreciation. Changes in fair value recognise in the STATEMENT OF RECOGNISED GAINS AND LOSSES.	Carry at cost. Reduce carrying amount to recognise a decline in value other than a temporary decline.
Impairment of assets	If impairment indicated, write down assets to higher of net selling price and value in use based on discounted cash flows.	Impairment review based on undiscounted cash flows. If less than carrying amount, measure impairment loss using discounted cash flows.	Similar to IAS.	The institute of chartered Accountants of India is reviewing an exposure draft on impairment of assets.
Capitalisation of borrowing costs	Permitted for qualifying assets.	Compulsory when relates to construction of certain qualifying assets.	Similar to IAS.	Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset is capitalised as part of

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				the cost of the asset.
Finance leases – classification	Finance lease if substantially all risks and rewards of ownership transferred. Substance over form is important.	Similar to IAS, but considerably more extensive form-driven requirements.	Comparable to IAS.	Similar to IAS.
Leases – lessee accounting	Record finance leases as asset and obligation for future rentals. Normally depreciate over useful life of asset. Apportion rental payments to give constant interest rate on outstanding obligation. Generally charge operating lease rentals on straight-line basis.	Comparable to IAS.	Comparable to IAS.	Similar to IAS
Leases-lessor accounting	Record amounts due under finance leases as a receivable. Allocate gross earnings to give constant rate of return based on net investment method.	Comparable to IAS but specific rules for leveraged leases.	Presentation comparable to IAS but measurement basis differs: use (post tax) non cash investment method for allocating gross earnings.	Similar to IAS.
Leases – sale and leaseback transactions	Defer and amortise profit arising on sale and finance leaseback. If an operating lease arises then profit recognition depends on sale proceeds compared to fair value of the asset.	Defer and amortise profits up to certain limits. Immediately recognise losses. Consider specific strict criteria if a real estate transaction.	Similar to IAS except defer and amortise profit over the shorter of the lease term or useful life.	Similar to IAS.
Investments	Carry long-term investments at cost or revalued amounts. Record revaluations consistently	Depends on classification of investment-if held to maturity then carry at amortised cost, otherwise	Carry long term investment at cost, market value or other appropriate basis, such as net	Carry long-term investments at cost (with provision for permanent diminution in

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	in income statement or equity. Carry current asset investments at lower of cost and market value or at market value. Record market value changes in income statement. Recent proposals to carry some financial assets at fair value.	at fair value. Take unrealised gains / losses to other comprehensive income or (if trading securities) to income statement.	asset value. Carry current asset investments at lower of cost and net realisable value or at current cost.	value). Current investments carried at lower of cost or fair value determined on individual basis or by category of investment but not on overall (or global) basis.
Inventories and long term contracts	Carry at lower of cost and net realisable value; use FIFO, LIFO or weighted average method to determine cost. Recognise long-term contract revenues and profits using percentage of completion method.	Broadly comparable to IAS – more common use of LIFO. Use completed contract method for long-term contract accounting in limited circumstances.	Comparable to IAS except that LIFO method not permitted.	Carry at lower of cost and net realisable value. Cost is normally determined by FIFO or weighted average cost method. Specific identification method may be used in certain cases. For long-term contracts, either percentage completion method or completed contract method may be used.
Revenue recognition	Recognise revenue if meets specific criteria.	Broadly comparable to IAS. Numerous accounting guidance for specific industries and situations.	No detailed standard on revenue recognition but practices similar to IAS.	Comparable to IAS.
Transfers of financial assets	Currently no standard. Recent proposals to recognise and de-recognise assets based on control.	Recognise and de-recognise assets based on control. Strict criteria evidencing surrender of control for de-recognition.	Recognise and derecognise assets based on risks and rewards, focussing in part on substance rather than just legal form.	Recognise/de-recognise based on transfer of significant risks and rewards of ownership.
Provisions - general	Record provisions relating to present obligations from past events if probable outflow of resources can be reliably estimated.	Separate rules for specific situations (employee termination costs, environmental liabilities, etc.)	Comparable to IAS.	Comparable to IAS.

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Provisions - restructuring	Make restructuring provisions if detailed formal plan exists and announced or implementation begun.	Similar to IAS, however only need management approval and communication for involuntary employee termination.	Similar to IAS.	Comparable to IAS.
Contingencies	Disclose possible losses and probable gains.	Similar to IAS	Similar to IAS.	Contingent loss is provided in the profit and loss statement if it is probable that future events will confirm that, after taking into account any related probable recovery, an asset has been impaired or a liability has been incurred as at the balance sheet date and a reasonable estimate of the amount of the resulting loss can be made. In other cases, contingent losses are to be disclosed unless the possibility of occurrence is remote. Contingent gains are not recognised.
Employee benefits - pension costs – defined benefit plans	Must use projected unit credit method to determine benefit obligation	Broadly comparable to IAS, although several minor differences.	New standard is similar to IAS with some differences. The surplus or deficit of the defined benefit obligation over plan assets are recognised immediately in the STATEMENT OF RECOGNISED GAINS AND LOSSES.	If employer chooses to make payment for retirement benefits out of his own funds provision in the accounts is normally made based on actuarial valuation. In case liability is funded through creation of a trust, cost incurred for the year is determined actuarially. Annual contributions are normally based on actuarial valuation.

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				<p>In case liability is funded through a scheme administered by an insurer, an actuarial certificate or confirmation from the insurer regarding contributions payable is obtained.</p> <p>The financial statements have to disclose the method by which retirement benefit costs for the period have been determined. In case the costs are based on actuarial valuation, the financial statements to disclose the date of actuarial valuation and the method by which the accrual for the period has been determined.</p>
Employee benefits - other	Account for post-retirement benefits as pensions. Rules also given for termination benefits and other post-employment and long term employee benefits. Account for termination indemnity plans as pensions.	Comparable to IAS for post-retirement benefits. More detailed guidance for termination benefits. Termination indemnity similar to IAS.	New standard similar to IAS for post-retirement benefits. Other benefits not covered by standards, but practice generally similar to IAS.	Post retirement schemes, which are defined benefit schemes, are accounted as pensions. For other benefits, contributions are reflected in the profit and loss statement.
Deferred income taxes	Use full provision method, driven by balance sheet temporary differences. Recognise deferred tax assets if recovery is probable.	Comparable to IAS, but recognise all deferred tax assets and then provide valuation allowance if recovery is less than 50% likely.	Use full provision method (more extensive exceptions) based on timing differences between accounting and taxable profit.	Deferred Tax assets and liabilities should be recognised for all timing differences subject to consideration of prudence in respect of deferred tax assets.

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		A number of specific differences in application.	A number of specific differences in application.	<p>Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is certain that such previously unrecognised deferred tax assets will be realised.</p> <p>Deferred tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted by the Balance Sheet date.</p>
Derivatives and other financial instruments – measurement of hedges of foreign entity investments	<p>Gains / losses on hedges of foreign entity investments recognised in equity, including hedge ineffectiveness on non-derivatives. For derivatives, recognise hedge ineffectiveness in the Income statement.</p> <p>Gains/losses held in equity must be transferred to the income statement on disposal of investment.</p>	Similar to IAS, except all hedge ineffectiveness recognised in the income statement.	Similar to US GAAP.	No guidance currently.
Derivatives and other financial instruments – measurement of derivative instruments and hedging activities	Measure derivatives and hedge instrument at fair value; recognise changes in fair value in income statement except for effective cash flow hedges defer in equity until effect of	Similar to IAS, except no basis adjustment on cash flow hedges of future.	No comprehensive guidance currently. Financial liabilities measured at amortised net proceeds, with gains and losses from premature settlement recognised in the income	No guidance currently.

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	<p>the underlying transaction is recognised in the income statement.</p> <p>Gains/losses on hedge instrument used to hedge forecast transaction, included in cost of asset/liability.</p>		statement.	
Related party transactions - definition	Determine by level of direct or indirect control and significant influence of one party over another, or common control of both parties.	Similar to IAS.	Similar to IAS.	Determine by ability to control or to exercise significant influence over the other party.
Related party transactions - disclosures	<p>Disclose name of related party and nature of relationship and types of transactions. For control relationships, give disclosures regardless of whether transactions occur.</p> <p>Some exemptions available for separate financial statements of subsidiaries.</p>	<p>Similar to IAS.</p> <p>Exemptions are narrower than under IAS.</p>	<p>Similar to IAS.</p> <p>Exemptions are more widely available than under IAS.</p>	<p>Similar to IAS except the following additional disclosures:</p> <ul style="list-style-type: none"> • Volume of transactions • Amounts due from related parties outstanding at the balance sheet date together with provision for doubtful debts due from related parties. • Amounts written off or written back during the period in respect of debts due from related parties.
Earnings per share – diluted	Use weighted average potential dilutive shares as denominator for diluted EPS. Use “treasure stock” method for share options / warrants.	Similar to IAS.	Similar to IAS.	Comparable to IAS.

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Extraordinary and exceptional items	Extraordinary items limited to a few events outside control of company. Does not use the term, but requires separate disclosure of items that are of such size and nature that requires separate disclosure to explain the performance of the entity. Exceptional items usually shown on the face of the income statement or in the notes.	Similar to IAS. Gains or loss from extinguishing debt must be classified as extraordinary. Exceptional items treatment is similar to IAS but it is disclosed on the face of the income statement.	Extraordinary items are non-existent. Exceptional items are disclosed by way of note, or where necessary to give true and fair view, on the face of the income statement. Classify with related line item.	Similar to IAS.
Post balance sheet events	Adjust financial statements for subsequent events providing evidence of conditions at balance sheet date and materially affecting amounts in financial statements. Disclose non-adjusting events.	Similar to IAS.	Similar to IAS.	Similar to IAS.
Segment reporting - scope and basis of formats	Public entities. Report primary and secondary segment formats based on risks and returns and internal reporting structure.	Public entities. Report based on internal operating segments.	Public and very large private entities. Report based on classes of business and geographical areas.	Similar to IAS.
Segment reporting - accounting policies	Use group accounting policies.	Use internal financial reporting policies (even if accounting policies may differ from consolidated GAAP).	Similar to IAS.	Segment information should confirm to accounting policies used for preparing financial statements of the enterprise as a whole. A detailed calculation for applying an enterprise wide accounting policy may be allocated to segments. Disclosure of additional

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				segment information prepared on a basis other than enterprise wide accounting policy is permitted.
Segment reporting – disclosures	Disclosures for primary segment format include sales, profits, capex, assets and liabilities. For secondary segment format, report sales, assets and capex.	Similar disclosures to IAS, except liabilities and geographical capex not required. Depreciation, amortisation, tax, interest and exceptional / extraordinary items required if reported internally.	Disclose revenue results and net assets. Equal prominence to disclosures by class of business and geographically.	Additional disclosures with respect to depreciation and other non cash expenses. For secondary format sales, assets and capex to be disclosed. Other required disclosures include basis of pricing inter segment transfers, types of products and services and composition of each geographical segment.
Cash flow statement - formats and method	Standard headings, but flexibility over their contents. Use direct or indirect method.	Similar headings to IAS, but more specific guidance given for items to include in each. Use direct or indirect method.	More standard headings than IAS. Use direct or indirect method.	Standard headings, using direct or indirect method, prescribed for all listed companies and companies with turnover in excess of Rs 500 million.
Cash flow statements – definition of cash and cash equivalents	Cash includes overdrafts and cash equivalents with short-term maturities (less than 3 months).	Cash excludes overdrafts but includes cash equivalents with short-term maturities.	Cash includes overdrafts but excludes cash equivalents.	Cash includes cash in hand and deposits repayable on demand. Cash equivalents are short term, highly liquid investments that are readily convertible to cash (normally 3 months or less). Bank borrowings are generally

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

SUBJECT	IAS	US GAAP	UK GAAP	INDIAN GAAP
				considered to be financing activities.
Statement of recognised gains and losses	Give statement of recognised gains and losses either as separate primary statement or separately highlighted in primary statement of movements in equity.	Disclose total comprehensive income, either combined with income statement or choose one of the two alternatives as for IAS.	Give primary statement of total recognised gains and losses (STATEMENT OF RECOGNISED GAINS AND LOSSES). Current proposal for a single performance statement.	Not required.
Interim financial reporting	Not mandatory to prepare interim statements but must use standard if do prepare. Basis should be consistent with full year statements and include comparatives.	If issued, the contents of interim statements are prescribed and basis should be consistent with full year statements. Quarterly reporting also necessary for SEC registrants (domestic US enterprises only).	Mandatory for listed entities (half yearly); minimum contents specified by the London Stock Exchange. UK ASB non mandatory statement is similar to IAS.	Only an enterprise desirous of preparing interim financial statements is required to comply with the statement on interim financial reporting. Minimum requirements include balance sheet, P&L a/c and cash flow statement (if applicable) in condensed form. Form and content should confirm to requirements of Annual financial statements. Quarterly interim financial reporting mandatory for listed entities; minimum contents specified by SEBI.
Discontinuing/discontinued operations – measurement	Make provision for some cost if considered a restructuring and criteria for recognising a provision are met. Write down assets to higher of net selling price and value in	Accrue at measurement date for estimated operating loss in wind-down period and on disposal. Carry assets at lower of carrying amount and net realisable value.	Similar to IAS.	Assets are stated at lower of net book value and net realisable value. Provide for all foreseeable losses that are probable and measurable.

GAAP differences**Comparison of GAAP requirements under IAS, US, UK and India**

SUBJECT	IAS	US GAAP	UK GAAP	INDIAN GAAP
	use based on discounted cash flows.			
Discontinuing/discontinued operations - presentation and disclosure	Give details of discontinuing operation. Disclose (on face of income statement) pre tax gain or loss from discontinuance.	Report discontinued operations as a separate line item on the face of the income statement (net of tax and below net income from continuing operations).	Disclose on the face of the income statement components of operating profit relating to discontinued operations. Current proposal is for a greater level of disclosure of discontinuing operations.	Disclose on the face of the income statement the pre tax gain or loss from operations and from disposal of assets. Other disclosures include details about the discontinued operations, the business or geographical segment in which it is reported, the date or period in which discontinuance is expected to be completed and the assets, liabilities, revenues, expenses and cash flows attributable to the discontinued operation. Disclosures begin with the period in which the initial disclosure event occurs.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Conceptual Framework

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

Qualitative characteristics of financial information

IAS Financial information must possess certain characteristics for it to be useful. The **IAS** Framework requires that financial information must be understandable, relevant, reliable and comparable.

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

UK GAAP The Accounting Standard's Board (ASB's) Statement of Principles is similar to the **IAS** Framework, requiring financial information to be relevant, reliable, similar and understandable. The Statement of Principles deals with several issues not covered by the **IAS** Framework including: the boundaries of the reporting entity; discounting; presentation of financial information; offsetting rights and obligations; de-recognition of assets and liabilities and subsequent measurement.

Indian GAAP **Indian GAAP** is guided by the accounting standard addressing the issue of adoption of accounting policies, which form the framework for specific accounting principles, and the methods of applying those principles adopted by the enterprise in the preparation and presentation of financial statements.

Reporting elements

IAS The **IAS** Framework presents five reporting elements: assets; liabilities; equity; income (includes revenues and gains) and expenses (includes losses). Assets are resources controlled from a past event. Liabilities are present obligations arising from a past event. Assets and liabilities are recognized on the balance sheet when it is "probable" that economic benefits will flow in to, or out from the entity, and those benefits must be able to be measured reliably. Equity is the residual interest in the assets after deducting the liabilities of the entity. Income is increases in economic benefits that result in an increase in equity other than those relating to contributions from equity participants. Expenses are decreases in economic benefits that result in decreases in equity other than those relating to distributions to equity participants.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

- US GAAP** Reporting elements and the definition and recognition criteria are similar to **IAS**. **US GAAP** concept statements contain additional elements: investments by and distributions to owners and, comprehensive income. Other comprehensive income includes all changes in equity during a period, except those resulting from investments by and distributions to owners.
- UK GAAP** Reporting elements comprise assets, liabilities, equity, gains (includes revenues) and losses (includes expenses) and investments by and distributions to owners. There are some differences in emphasis from **IAS** with regard to the definitions and recognition criteria. Assets and liabilities are recognized when there is sufficient evidence that economic benefits that will flow to/from the entity. **IAS** uses the term "probable". Assets must be capable of being controlled independently from the business as a whole. This means that certain intangible assets might be recognized under **IAS**, but not under **UK GAAP**.
- Indian GAAP** Reporting elements comprise assets, liabilities, equity, gains (includes revenues) and losses (includes expenses) and investments by and distributions to owners.

Historical Cost

- IAS** Historical cost is the main accounting convention. However, **IAS** permits the revaluation of intangible assets, PPE and investment property. **IAS** also requires fair valuation of certain categories of financial instruments and certain agricultural assets.
- US GAAP** Prohibits revaluations except for certain categories of financial instruments, which have to be carried at fair value.
- UK GAAP** Similar to **IAS**, except that derivatives, most investments and agricultural assets are not re-measured to fair value. Investment property must be shown at fair values.
- Indian GAAP** Historical cost, but fixed assets, other than intangibles, may be revalued.

True and Fair Override

- IAS** Entities may depart from a standard in those very rare cases where the standard's application would lead to misleading financial statements. **IAS** requires disclosure of the nature of and the reason for the departure and the financial impact of the departure. The override does not apply where there is a conflict between local company law and **IAS**; in such a situation the **IAS** requirements must be applied.
- US GAAP** Extremely rare in practice.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

UK GAAP Similar to **IAS**, the override also applies in the rare cases where there is a conflict between company law and accounting standards e.g. investment property and non-amortisation of goodwill when it is necessary to override company law.

Indian GAAP No override of standards permitted.

First-Time Adoption of Accounting Framework

IAS First-time adoption of **IAS**, as the primary accounting basis, requires the preparation of financial statements as if the entity had always reported in accordance with **IAS**. Consequently, the application of standards and interpretations must be retrospective except where the standard or interpretation permits a different transitional treatment, or where the amount of the adjustment relating to prior periods cannot be reasonably determined.

Comparative information must be prepared and presented on the basis of **IAS**. Any adjustment arising from the first-time application of **IAS** must be adjusted against opening retained earnings of the first period presented on an **IAS** basis.

US GAAP Accounting principles must be consistent for financial information presented in comparative financial statements. **US GAAP** does not give any specific guidance on first-time adoption of its accounting framework. Particular standards specify the transitional treatment upon first-time application of a standard. Specific rules apply for carve-out entities and first-time preparation of financial statements for the public.

UK GAAP Similar to **US GAAP**.

Indian GAAP Indian GAAP does not give any specific guidance on first time adoption of its accounting framework. However, the accounting standard on Disclosure of Accounting Policies addresses the issue of adoption of accounting policies.

REFERENCES: **IAS:** Framework, IAS 1, IAS 16, IAS 38, IAS 39, IAS 40, IAS 41, SIC-8. **US GAAP:** CON 1-7, FAS 115, FAS 133. **UK GAAP:** Statement of principles, SSAP 2, SSAP 19, FRS 5, FRS 10, FRS 13, FRS 15, FRS 18. **Indian GAAP:** AS 1
US GAAP and UK GAAP

ccounting framework

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

General Requirements

Compliance

IAS Entities must disclose that financial statements comply with **IAS**. Financial statements must not disclose compliance with **IAS**, unless they comply with all the requirements of each applicable standard and each applicable interpretation.

US GAAP US companies with registered securities must comply with **US GAAP** and the rules and regulations and financial interpretations of the SEC. Non-US companies with registered securities in the US may issue financial statements under **US GAAP** or another comprehensive basis of accounting principles (such as **IAS**), provided that a reconciliation of net income and equity to **US GAAP** is given in the notes, together with **US GAAP** and SEC disclosures.

There is no regulatory reporting requirement for non-public US companies. However, certain regulated entities are subject to statutory reporting.

UK GAAP Generally accepted accounting practice in the UK has its basis in company law as well as accounting standards. All companies must file full financial statements, except those designated as small or medium sized by reference to legal limits. These companies may file abbreviated accounts on the public register.

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

Indian GAAP Certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed. It is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. Such disclosure should form part of the financial statements.

Reporting currency for presentation of financial statements

IAS **IAS** specifies the measurement currency as that currency used to a significant extent in the entity's operations, or that currency having a significant impact on the entity.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

An entity may choose to present its financial statements in a different currency from the measurement currency. The method of translating from the measurement currency to another currency is not specified; however, it must not lead to reporting in a manner that is inconsistent with the measurement of items using the measurement currency.

US GAAP Uses a functional currency, being the currency of the primary economic environment in which the entity operates. Does not specify the concept of a different presentation currency.

UK GAAP In practice it is very rare for entities not to use sterling.

Indian GAAP Reporting currency is the currency used in presenting the financial statements. Foreign currency transactions should be expressed in the enterprise's reporting currency

Reporting in a hyperinflationary economy

IAS Where the reporting entity itself reports in the currency of a hyperinflationary economy, it must prepare financial statements based on the measuring unit current at the balance sheet date. Comparative amounts for prior periods are also restated into the measuring unit at the current balance sheet date. Any gain or loss on the net monetary position arising from the restatement of amounts into the measuring unit current at the balance sheet date must be included in net income and separately disclosed.

US GAAP Similar to **IAS**. However, inflation-adjusted financial statements are not permitted to be presented as primary financial statements of a reporting entity that uses the US dollar as its reporting currency.

UK GAAP Not specified for a parent reporting in the currency of a hyperinflationary economy, but a similar approach to **IAS** would be followed in practice.

Indian GAAP There are no specific or generic pronouncements addressing the issue of hyperinflationary economies.

Financial s

Components of financial statements

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

GAAP differences
Comparison of GAAP requirements under IAS, US, UK and India

COMPONENT	Page	IAS	US GAAP	UK GAAP	INDIAN GAAP
Balance sheet.	15	√	√	√	√
Income statement.	16	√	√	Profit and loss account	Profit and loss account
Statement of changes in shareholders' equity.	17	√ (a)	Statement of changes in stockholders' equity.	Reconciliation of movements in shareholders' funds.	Separate schedules of share capital and reserves.
Statement of recognized gains and losses.	17	√ (a)	Other comprehensive income.	√ (a)	Shown as a part of the reserves.
Cash flow statement.	18	√	√	√	√
Accounting policies.	-	√	√	√	√
Notes to financial statements.	-	√	√	√	√

√ Required

(a) Under **IAS** recognised gains and losses can be presented in a statement of recognised gains and losses with the changes in equity displayed in a note. Alternatively, the other recognised gains and losses can be separately highlighted in the statement of changes in equity, which is presented as a primary statement.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Comparatives

IAS Requires one year of comparatives for all numerical information in the financial statements, with small exceptions.

US GAAP SEC requirements specify that all registrants must give two years of comparatives (to the current year) for all statements except for the balance sheet, which requires one comparative year. This rule applies whichever accounting framework is used in the primary financial statements.

UK GAAP Similar to **IAS**.

Indian GAAP Similar to IAS.

Balance Sheet

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

Format

IAS Does not prescribe a particular balance sheet format, except that **IAS** requires separate presentation of total assets and total liabilities. Management may use judgement regarding the form of presentation in many areas. However, as a minimum, **IAS** requires presentation of the following items on the face of the balance sheet.

Assets: PPE; investment property; intangible assets; financial assets; investments accounted for using the equity method; inventories; trade and other receivables; tax assets and cash and cash equivalents; and

Equity and liabilities: issued share capital and other components of shareholders' equity; minority interests; non-current interest bearing liabilities; provisions; tax liabilities and other payables.

US GAAP Generally presented as total assets balancing to total liabilities and shareholders' funds. Items presented on the face of the balance sheet are similar to **IAS**, but are generally presented in decreasing order of liquidity. The balance sheet detail must be sufficient to enable identification of material components.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

UK GAAP Company law prescribes various formats. The format usually adopted is total assets less liabilities, shareholders' funds and minority interests. Items presented are similar to **IAS**, except shareholders' funds and minority interests are each required to be analysed into equity and non-equity elements.

Indian GAAP The Indian Companies Act prescribes format for balance sheet. Equity and liabilities are sources of funds and assets are application of funds.

Current/non-current distinction

IAS The current/non-current distinction is optional. When an enterprise chooses not to make this classification, assets and liabilities must be presented in the order of their liquidity. Where the distinction is adopted, assets must be classified as current assets where they are held for sale or consumption in the normal course of the operating cycle. Both assets and liabilities, are classified as current where they are held for trading, or, expected to be realized within twelve months of the balance sheet date. Interest bearing liabilities may be non-current if their original term was for more than twelve months and the documented intention is to refinance, and an agreement to refinance is completed before the financial statements are issued.

US GAAP Similar to **IAS**. The SEC provides guidelines for the minimum information to be included if a classified balance sheet is presented.

UK GAAP Separate presentation of fixed assets and current assets required. The classification basis differs from **IAS**. Fixed assets are those intended for use on a continuing basis. Also separate presentation of liabilities into amounts due within one year, or after one year. Refinancing of debt may be assumed provided that certain conditions are met.

Indian GAAP Separate presentation of fixed assets and current assets. Fixed assets are those intended for use on a continuing basis.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Offsetting assets and liabilities

- IAS** Assets and liabilities must not be offset, except where an entity has a legally enforceable right to set off and expects to settle transactions on a net basis.
- US GAAP** Offset permitted where the parties owe each other determinable amounts, there is an intention of offset, and the offset is enforceable at law.
- UK GAAP** Similar to **IAS** and **US GAAP**, but net settlement must be "beyond reasonable doubt".
- Indian GAAP** Similar to IAS.

Income Statement

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

Format

- IAS** **IAS** does not prescribe a standard format for the income statement. The entity must analyse its expenditure by function or type.
- As a minimum, **IAS** requires presentation of the following items on the face of the income statement: revenue; results of operating activities; finance costs; share of results of associates and joint ventures accounted for using the equity method; tax expense; profit or loss from ordinary activities; extraordinary items (if any); minority interests and net profit or loss for the period.
- US GAAP** Presented in one of two formats either :
- a single-step format where all expenses are classified by function and are deducted from total income to give income before tax; or
 - in a multiple-step format where cost of sales is deducted from sales to show gross profit, then other income and expense are presented to give income before tax.
- SEC regulations specify further line items.
- UK GAAP** Company law permits four formats. Two formats are generally used in practice. One presents turnover less expenses by function and requires disclosure of gross profit. The second presents expenses by type and does not show gross profit.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Indian GAAP The Indian Companies Act does not prescribe a format, however the entity must analyze the expenditure by function or type.

Exceptional items

IAS Does not use the term exceptional items but requires the separate disclosure of items of income and expense that are of such size, nature or incidence that their separate disclosure is necessary to explain the performance of the entity for the period. Disclosure may be on the face of the income statement or in the notes.

US GAAP As for **IAS**, but items of an exceptional nature must be disclosed separately on the face of the income statement in arriving at income from operations.

UK GAAP Requires disclosure of exceptional items by way of note or, where necessary to give a true and fair view, on the face of the income statement under the appropriate statutory format headings to which the items relate.

Indian GAAP Similar to IAS.

Extraordinary items

IAS Are very rare, being restricted for example to losses arising from natural disasters and expropriation of assets. Disclosure of individual extraordinary items, net of income taxes, is made either on the face of the income statement or in the notes, provided the total of all such items is shown on the face of the income statement.

US GAAP Must also include gains/losses from the early extinguishment of debt if material. Presented separately on the face of the income statement net of taxes. Disclosure of the tax impact is either on the face of the income statement or in the notes to the financial statements.

UK GAAP Effectively prohibited.

Indian GAAP Similar to IAS.

Financial statements

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Statement of Recognized Gains and Losses

Presentation

IAS The statement of recognized gains and losses can be presented either as a separate primary statement or separately highlighted within the primary statement of changes in shareholders' equity.

US GAAP One of three possible formats may be used:

- a single primary statement of income and comprehensive income containing both net income and other comprehensive income; or
- a two-statement approach (as under **IAS**); or
- a separate category highlighted within the primary statement of changes in equity (as under **IAS**).

In addition, requires the cumulative amounts for each item of comprehensive income.

UK GAAP Requires a separate primary statement.

Indian GAAP The schedule forming part of the balance sheet discloses the changes in the retained earnings and reserve balances.

Format

IAS The total of gains and losses recognised in the period comprises net income and the following gains and losses recognised directly in equity:

- fair value gains (losses) on land and buildings, investments and certain financial instruments;
- foreign exchange translation differences;
- the cumulative effect of changes in accounting policy; and
- changes in fair values on certain financial instruments if designated as cash flow hedges, net of tax and cash flow hedges reclassified to income and/or the relevant hedged asset/liability.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

US GAAP Similar to **IAS**, however exclude revaluation reserves on land and buildings.

Recent proposals – UK GAAP

In December 2000 the ASB issued FRED 22 with proposals to revise FRS 3. A single statement of financial performance would replace both the profit and loss account and the statement of total recognised gains and losses. This statement would have three sections: operating; financing and treasury; and other gains and losses. These proposals are similar to proposals included in a paper published in 1998 by the G4+1 group of standard setters.

IAS The statement must be presented as a primary statement, or as a note. The statement shows capital transactions with owners, the movement in accumulated profit and a reconciliation of all other components of equity.

US GAAP Similar to **IAS**, but is always a primary statement.

UK GAAP Similar to **IAS**.

Indian GAAP No specific requirement of shareholders' equity. However, schedule of share capital and reserves showing the movement forms a part of the financial statements.

Cash Flow Statement

Exemptions

IAS No exemptions.

US GAAP Limited exemptions for certain investment entities.

UK GAAP Some exemptions. For example, subsidiary exempt if: (at least) 90% owned, and the parent's consolidated financial statements (that include the subsidiary) are publicly available. Like **US GAAP**, limited exemptions are available for certain mutual funds.

Indian GAAP Exempted for unlisted companies with turnover less than Rs. 500 million.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Direct/indirect method

IAS Requires that the cash flow statement must report inflows and outflows of "cash and cash equivalents". The cash flow statement may be prepared using either the direct method (cash flows derived from aggregating cash receipts and payments associated with operating activities) or the indirect method (cash flows derived from adjusting net income for transactions of a non-cash nature such as depreciation). The latter is more common in practice.

US GAAP Based on "cash receipts" and "cash payments". The direct method is encouraged, however the indirect method is permitted.

UK GAAP Based on inflows and outflows of "cash" (not "cash and cash equivalents" as under **IAS**). Either the direct or indirect method may be used.

Indian GAAP Direct or indirect method may be used.

Definition of cash and cash equivalents

IAS Cash includes overdrafts repayable on demand but not short-term bank borrowings, which are considered to be financing flows. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. An investment normally qualifies as a cash equivalent only when it has a maturity of three months or less from its acquisition date.

US GAAP The definition of cash equivalents is similar to that in **IAS**, but changes in the balances of overdrafts are classified as financing cash flows, rather than being included within cash and cash equivalents.

UK GAAP Cash is defined as cash in hand and deposits receivable on demand, less overdrafts repayable on demand. Cash equivalents are not included in cash but are dealt with in the management of liquid resources section.

Indian GAAP Cash includes cash in hand and deposits repayable on demand. Cash equivalents are short term, highly liquid investments that are readily convertible to cash (normally 3 months or less). Bank borrowings are generally considered to be financing activities.

Format

IAS Requires separate classification of cash flows from operating, investing and financing activities.

US GAAP Same as **IAS**.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

UK GAAP Is more detailed and requires separate classification of cash flows from the following activities:

- operating;
- returns on investment and servicing of finance (investment and finance);
- taxation;
- capital expenditure and financial investment;
- acquisitions and disposals;
- equity dividends paid;
- management of liquid resources; and
- financing.

Indian GAAP Requires separate classification of cash flows from operating, investing and financing activities.

Financial statements

Classification of specific items

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

ITEM	IAS	US GAAP	UK GAAP	INDIAN GAAP
Interest paid.	Operating or financing.	Operating.	Investment and finance.	Financing. In case of financial enterprise it is classified as cash flow from operating activities.
Interest received.	Operating or investing.	Operating.	Investment and finance.	Investing. In case of financial enterprise it is classified as cash flow from operating activities.
Dividends paid.	Operating or financing.	Financing.	Non equity shareholders – investment and finance. Equity shareholders –	Financing. In case of financial enterprise it is classified as cash flow from operating activities.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

			equity dividends paid.	
Dividends received.	Operating or investing.	Operating.	Generally investment and finance. Joint ventures and associates may be operating.	Investing. In case of financial enterprise it is classified as cash flow from operating activities.
Taxes paid.	Operating – unless specific identification with financing or investing.	Operating.	Taxation.	Same as IAS.

Changes in Accounting Policies and Other Accounting Changes

Changes in accounting policies

IAS Permits two approaches. Changes in accounting policy may be accounted for retrospectively with comparative information restated and the amount of the adjustment relating to prior periods adjusted against the opening balance of retained earnings of the earliest year presented. Alternatively, the adjustment may be recognized in the income statement with pro-forma comparative information presented. The entity must apply one of these policies consistently to all changes in accounting policy.

Policy changes made on the adoption of a new standard must be accounted for in accordance with the transitional provisions of that standard. If transitional provisions are not specified then one of the methods described above must be used consistently.

US GAAP Requires recognition and disclosure of the cumulative amount of the change in the income statement for the period of the change. The entity discloses pro-forma comparatives as if the change had been applied to those periods. However, retrospective adjustments are required in certain cases: changes in the method of accounting for inventory valuation, depreciation in the rail industry; construction contracts and adoption of the full-cost method in the extractive industry. Unlike **IAS** and **UK GAAP**, treats a change in the depreciation method as a change in accounting policy

UK GAAP All changes in policy dealt with retrospectively by way of a prior year adjustment. Also requires the effect of the change on the current year, and prior year income to be disclosed.

Indian GAAP Any change in an accounting policy which has a material effect should be disclosed. The impact of, and the adjustments resulting from, such change, if material, should be shown in the financial statements of the period in which such change is made, to reflect the effect of such

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

change. Where the effect of such change is not ascertainable, wholly or in part, the fact should be indicated. If a change is made in the accounting policies which has no material effect on the financial statements for the current period but which is reasonably expected to have a material effect in later periods, the fact of such change should be appropriately disclosed in the period in which the change is adopted.

Correction of fundamental errors

- IAS** Allows the same choice, as for policy changes, for the correction of fundamental errors. An entity may choose either restatement of comparatives or recognition in the income statement. However a policy must be selected and applied consistently. Entities filing **IAS** financial statements prepared in accordance with **IAS** with the SEC are required to restate comparatives.
- US GAAP** Restatement of comparatives is mandatory.
- UK GAAP** Restatement of comparatives is mandatory.
- Indian GAAP** The nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on the current profit or loss can be perceived.

Changes in accounting estimates

- IAS** Changes in accounting estimates are accounted for in the income statement when identified. **IAS** treats changes in depreciation method as a change in accounting estimate.
- US GAAP** Similar to **IAS**, but treats change in depreciation method as a change in accounting policy.
- UK GAAP** Same as **IAS**.
- Indian GAAP** The effect of a change in an accounting estimate should be included in the determination of net profit or loss in:
- (a) the period of the change, if the change affects the period only; or
 - (b) the period of the change and future periods, if the change affects both.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

REFERENCES: **IAS:** IAS 1, IAS 7, IAS 8, IAS 21, IAS 29, SIC-18, SIC-19. **US GAAP:** FAS 16, FAS 95, FAS 102, FAS 130, APB 3, APB 20, APB 30, ARB 43, SEC Regulation S-X. **UK GAAP:** SSAP 20, FRS 1, FRS 3, FRED 22, Companies Act 1985. **Indian GAAP:** AS 5
financial statements

Preparation

IAS Requires the preparation of consolidated financial statements by a parent entity which include all subsidiaries. An exemption applies to a parent that is wholly or virtually wholly (90%) owned, provided that it obtains the approval of the owners of the minority interests and discloses certain additional information.

US GAAP No exemption.

UK GAAP Similar to **IAS**. Requires the preparation of consolidated financial statements unless: the entity is a parent of a small or medium sized group, by reference to legal limits; the parent is itself a wholly owned subsidiary; or the entity is more than a 50% owned subsidiary of a parent, incorporated in the European Economic Area, where no notice to prepare consolidated statements has been served by a minority shareholder.

Indian GAAP Similar to IAS.

Subsidiaries

Definition

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

IAS Focuses on the concept of the power to control in determining whether a parent/subsidiary relationship exists. Control is the parent's ability to govern the financial and operating policies of a subsidiary to obtain benefits. Companies acquired (disposed of) are included in (excluded from) consolidation from the date control passes.

US GAAP Focuses on a controlling financial interest through ownership of a majority voting interest, coupled with control.

UK GAAP Similar to **IAS**.

Indian GAAP Similar to **IAS**.

Special Purpose Entities

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

IAS Requires the consolidation of special purpose entities (SPEs) where the substance of the relationship indicates that an entity controls the SPE. Indicators of control arise where:

- the SPE conducts its activities on behalf of the entity; or
- the entity has the decision making power or other rights to obtain the majority of the benefits of the SPE; or
- the entity has the majority of the residual or ownership risk of the SPE, or of its assets.

US GAAP Generally fewer SPEs will be consolidated than under **IAS**. The consolidation of SPEs requires, among other things, an evaluation of the substantive risks and rewards of ownership to determine whether consolidation is required.

Specific criteria exist for the transfer of financial assets to a SPE which is not consolidated. The SPE must be a qualifying SPE (as defined) and the assets must be financial assets (as defined). The assets must not arise from a structured transaction. Specific guidance also exists for the consolidation of lease arrangements involving SPEs as lessors and the entity as lessee.

UK GAAP The requirement to account for the substance of transactions requires the consolidation of "quasi subsidiaries".

Indian GAAP No specific guidance with regard to special purpose entities.

Subsidiaries excluded from consolidation

IAS Subsidiaries must be excluded from consolidation if there are severe long-term restrictions on the exercise of the parent's rights to obtain cash flows or, if the parent acquires the subsidiary and holds it exclusively for subsequent re-sale in the near future. Dissimilar activities between a parent and subsidiary are not grounds for excluding the subsidiary from consolidation. Requires that entities excluded from consolidation be classified as either available-for-sale or held for trading financial assets and measured at fair value.

US GAAP Similar to **IAS**. Subsidiaries excluded from the consolidation are those which operate under long-term restrictions which impair the parent's ability to control the subsidiary and those where control is intended to be temporary. Requires that entities excluded from consolidation be accounted for using the cost method.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

UK GAAP Similar to **IAS**. Company law permits exclusion of a subsidiary with entirely different activities. However, this is not permitted by Financial Reporting Standards. Subsidiaries excluded from consolidation are accounted for using the rules for fixed asset investments, or if held for resale, as a current asset at the lower of cost and net realisable value.

Indian GAAP A subsidiary should be excluded from consolidation when:

(a) control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future; or

(b) it operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parent.

Consolidated financial statements

Reduction of an interest in a subsidiary

IAS The gain or loss on a partial disposal must be calculated by comparing the reduction in the group's interest in the carrying amount of the subsidiary's net assets before and after the sale, with the proceeds received.

US GAAP Similar to **IAS**, but for a public offering, a gain may be recognised only if the transaction is not part of a group reorganisation.

UK GAAP Similar to **IAS**.

Indian GAAP The difference between the proceeds from the disposal of investment in a subsidiary and the carrying amount of its assets less liabilities as of the date of disposal is recognised in the consolidated statement of profit and loss as the profit or loss on the disposal of the investment in the subsidiary.

Uniform accounting policies

IAS Consolidated financial statements must be prepared using uniform accounting policies for all of the entities in a group. Disclosures of the effect must be made where the adoption of uniform policies is not practicable.

US GAAP Requires uniform accounting policies. There is no exemption where uniform policies are not practicable. However, specialised industry accounting principles applied by a subsidiary can be retained if they are not applicable to the parent.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

UK GAAP Similar to **IAS**, uniform policies required but where there are special circumstances, differing policies may be followed with disclosure of the particulars and the effect.

Indian GAAP Similar to IAS.

Reporting periods

IAS The consolidated financial statements of the parent and the subsidiary are usually drawn up at the same reporting date. However, **IAS** does permit the consolidation of subsidiary accounts, drawn up at a different reporting date provided the difference between the reporting dates is not more than three months. Adjustments must be made for significant transactions that occur in the gap period.

US GAAP Similar to **IAS**.

UK GAAP Similar to **IAS**.

Indian GAAP The financial statements used in the consolidation should be drawn up to the same reporting date. If it is not practicable to draw up the financial statements of one or more subsidiaries to such date and, accordingly, those financial statements are drawn up to different reporting dates, adjustments should be made for the effects of significant transactions or other events that occur between those dates and the date of the parent's financial statements. In any case, the difference between reporting dates should not be more than six months

Recent proposals – US GAAP

An exposure draft from the FASB proposes to align the definition of a subsidiary under **US GAAP** more closely with **IAS** and **UK GAAP**. The draft expands the concept of control beyond a primarily legal view (i.e. majority ownership), to incorporate the substance of a parent's non-shared decision making ability.

REFERENCES: IAS: IAS 27, SIC-12. **US GAAP:** ARB 51, FAS 94, SAB 51, SAB 84, ED 194-B, EITF 90-15, EITF 96-16, SOP 93-6. **UK GAAP:** FRS 2, FRS 5, Companies Act 1985, **Indian GAAP:** AS 21

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Investments in Associates

Definition

- IAS** An associate is an entity over which the investor has significant influence, being the power to participate in, but not control, the financial and operating policies of the associate. Participation in the financial and operating policies of the entity and/or representation on the entity's board may demonstrate significant influence. A 20% or more interest, by an investor, in the voting rights of an entity leads to a presumption of significant influence.
- US GAAP** Similar to **IAS**. Does not include unincorporated entities although these would be generally accounted for in a similar way.
- UK GAAP** An associate is an entity where the investor has a participating interest (presumed through a 20% or more shareholding). However, unlike **IAS** the investor must actually exercise significant influence for an associate relationship to exist.
- Indian GAAP** Similar to IAS.

Equity method

- IAS** An investor must account for an investment in an associate using the equity method. The investor presents its share of the associate's profits and losses in the income statement. **IAS** does not specify at what level this must be shown, at a post-tax level, or at a pre-tax level with separate disclosure of the investor's share of the associate's interest and tax. Losses that reduce the investment below zero are not recognized unless the investor makes payments, or provides a guarantee, on behalf of the associate.
- The investor must account for the difference on acquisition of the investment, between the cost of the acquisition and investor's share of fair value of the net identifiable assets, as goodwill.
- The investor's consolidated balance sheet includes its share of the associate's net assets, plus any goodwill, less accumulated amortisation, arising from the acquisition of the associate.
- Does not require disclosure of information about the results, assets and liabilities of significant associates.
- US GAAP** Similar to **IAS**, but the investor's share of the associate's profits and losses is always presented at a post-tax level. Requires disclosure of information about the results, assets and liabilities of significant associates.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

UK GAAP Similar to **IAS**, the investor's share of the associate's operating profit, exceptional items, interest and tax are all presented separately. Also requires the separate disclosure of goodwill within the carrying amount.

Requires disclosure of information about the results, assets and liabilities of significant associates.

Indian GAAP The equity method is a method of accounting whereby the investment is initially recorded at cost, identifying any goodwill/capital reserve arising at the time of acquisition. The carrying amount of the investment is adjusted thereafter for the post acquisition change in the investor's share of net assets of the investee. The consolidated statement of profit and loss reflects the investor's share of the results of operations of the investee.

Impairment

IAS Apply the general impairment requirements of **IAS**. In estimating future cash flows the investor may use its share of the future net cash flows from the underlying entity, or the cash flows expected to arise from dividends.

US GAAP Similar to **IAS**. Apply fair value impairment testing of goodwill acquired in connection with an equity method investment.

UK GAAP Similar to **IAS**, although estimated cash flows would normally be based on the net cash flows of the underlying entity and not the anticipated dividend flows.

Indian GAAP The carrying amount of investment in an associate should be reduced to recognise a decline, other than temporary, in the value of the investment, such reduction being determined and made for each investment individually.

Investments in Joint Ventures

Definition

IAS Defines a joint venture as a contractual agreement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control of an economic activity.

US GAAP Does not specifically define joint ventures for accounting purposes.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

UK GAAP Similar to **IAS**. A joint venture is an entity in which an entity holds an interest on a long-term basis and which is jointly controlled, with one or more other venturers, under a contractual arrangement. Joint control exists where no one party can control the financial or operating policy decisions of the venture, but together they do so.

Indian GAAP A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity.

Types of joint ventures

IAS Distinguishes between three types of joint ventures/arrangements:

- jointly controlled entities, where the arrangement is carried on through a separate entity (company or partnership);
- jointly controlled operations, in which each venturer uses their own assets for a specific project; and
- jointly controlled assets, a project carried on with assets that are jointly owned.

US GAAP Only refers to jointly controlled entities, where the arrangement is carried on through a separate corporate entity.

UK GAAP Similar to **IAS**. Distinguishes between three types of joint ventures/arrangements: jointly controlled entities; joint arrangements that are not entities (JANE) and contractual arrangements with the form but not substance of a joint venture. The latter two are not often seen in practice. A jointly controlled entity may be a body corporate, a partnership or an unincorporated association carrying on its own business.

Indian GAAP Similar to **IAS**.

Jointly controlled entities

IAS For jointly controlled entities use either the proportionate consolidation (benchmark) method or the equity method (allowed alternative). Proportionate consolidation requires that the venturer's share of the assets, liabilities, income and expenses are combined on a line-by line basis with similar items in the venturer's financial statements, or reported as a separate line item in the venturer's financial statements.

US GAAP Does not permit proportionate consolidation. Venturers apply the equity method to recognise the investment in a jointly controlled entity. Equity accounting is also appropriate for investments in unincorporated joint ventures. Foreign issuers are not required to reconcile the differences between the application of the proportionate consolidation and the equity method.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

UK GAAP Does not permit proportionate consolidation. The investor applies the “gross equity” method to investments in joint ventures. This method requires presentation of the investor’s share of gross assets and liabilities and turnover on the face of the balance sheet and income statement.

Indian GAAP Similar to **IAS**.

Contributions to a jointly controlled entity

IAS Where a venturer contributes non-monetary assets, such as shares or fixed assets, to a jointly controlled entity in exchange for an equity interest in the jointly controlled entity, the venturer must recognise, in the income statement, a gain or loss on the contribution except when:

- the significant risks and rewards of the contributed assets have not been transferred to the jointly controlled entity; or
- the gain or loss on the assets contributed cannot be measured reliably; or
- the asset is similar to those contributed by other venturers.

In addition, where a venturer receives assets, dissimilar to those it contributed, then an appropriate proportion of the gain must be recognised by the venturer in the income statement.

Consolidated financial

US GAAP Not specified but similar criteria would be considered in practice.

UK GAAP Not specified. However, practice would be that if the exchange is not the culmination of the earnings process, the accounting for an exchange of a non-monetary asset between a venturer and a joint venture must be based on the carrying amount of the non-monetary asset.

Indian GAAP Similar to **IAS**.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Jointly controlled operations

- IAS** Similar to jointly controlled entities without a specific incorporated structure. A venturer must recognise in its financial statements: the assets that it controls; the liabilities it incurs; the expenses it incurs and its share of income from the sale of goods or services by the joint venture.
- US GAAP** Not specified. However, certain industry practice would permit a venturer to account for its proportionate share of the assets, liabilities, revenues and expenses in its financial statements.
- UK GAAP** Similar to **IAS**, but must also recognise share of cash flows.
- Indian GAAP** In respect of its interests in jointly controlled operations, a venturer should recognise in its separate financial statements and consequently in its consolidated financial statements:
- a. the assets that it controls and the liabilities that it incurs; and
 - b. the expenses that it incurs and its share of the income that it earns from the joint venture.

Jointly controlled assets

- IAS** Venturer must account for its share of the jointly controlled assets and any liabilities it has incurred.
- US GAAP** Not specified. However, proportionate consolidation is used in certain industries to recognise investments in jointly controlled assets.
- UK GAAP** Similar to **IAS**.
- Indian GAAP** In respect of its interest in jointly controlled assets, a venturer should recognise, in its separate financial statements, and consequently in its consolidated financial statements:
- a. its share of the jointly controlled assets, classified according to the nature of the assets;
 - b. any liabilities which it has incurred;
 - c. its share of any liabilities incurred jointly with the other venturers in relation to the joint venture;

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Comparison of GAAP requirements under IAS, US, UK and India

- d. any income from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture; and
- e. any expenses which it has incurred in respect of its interest in the joint venture.

REFERENCES: **IAS:** IAS 1, IAS 28, IAS 31, SIC-3, SIC-13, SIC-20. **US GAAP:** APB 18, FIN 35. **UK GAAP:** FRS 9, Companies Act 1985. **Indian GAAP** AS 27

Employee share option plans

Employee share option plans (ESOPs) are designed to facilitate employee shareholdings. Often they are combined with separate trusts that buy shares to be given or sold to employees.

Accounting

IAS No specific guidance for such plans. However, the guidance given for **US GAAP** would apply in practice.

US GAAP An ESOP trust's assets and liabilities are included in the balance sheet of the sponsoring entity where the arrangements are such that the sponsoring entity has de facto control and bears the benefits and risks of the shares held by the ESOP trust.

Loans from outside lenders to ESOPs, often guaranteed by the sponsoring entity, are reported as liabilities in the sponsoring entity's balance sheet, with related interest costs recognised in the income statement of the sponsoring entity. The entity charges the finance costs and administrative expenses of the trust as they accrue and not as funding payments are made to the ESOP trust.

UK GAAP Similar to **US GAAP**.

Indian GAAP No specific pronouncement. However the Securities Exchange Board of India (SEBI) requires the excess of market price of the underlying equity shares as of the date of the grant of the options, including up-front payments, if any to be recognized and amortized on a straight line basis over the vesting period.

REFERENCES: **US GAAP:** SOP 93-6. **UK GAAP:** FRS 5, UITF 13.

Consolidated financial statements

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Foreign Currency Translation

Transactions – the individual entity

IAS, US GAAP and **UK GAAP** all have similar requirements regarding the translation of transactions by an individual entity.

- Translation of transactions denominated in foreign currency is at the exchange rate in operation on the date of the transaction.
- Monetary assets and liabilities denominated in a foreign currency are translated at the closing (year-end) rate or, under **UK GAAP**, at a forward contract rate where applicable.
- Non-monetary foreign currency assets and liabilities are translated at the appropriate historical rate.
- Income statement amounts are translated using historical rates of exchange at the date of transactions or a weighted average rate as a practical alternative.
- Non-monetary items denominated in a foreign currency and carried at fair value are reported using the exchange rate that existed when the fair value was determined (**IAS** and **UK GAAP** only).
- Exchange gains and losses arising on an entity's own foreign currency transactions are reported as part of the profit or loss for the year from ordinary activities. The exception to this is for certain long-term loans, which in substance form part of an entity's net investment in a foreign entity, and foreign currency borrowings or other instruments hedging such net investment – refer page 117 for details.

Indian GAAP Similar to IAS. Non monetary items other than fixed assets, which are carried in terms of historical cost are denominated in a foreign currency, should be reported using the exchange rate at the date of the transaction.

Non-monetary items other than fixed assets, which are carried in terms of fair value or other similar valuation, e.g. net realisable value, denominated in a foreign currency, should be reported using the exchange rates that existed when the values were determined (e.g. if the fair value is determined as on the balance sheet date, the exchange rate on the balance sheet date may be used)

Translation – consolidated financial statements

IAS, US GAAP and **UK GAAP** require that where the operations of a foreign entity are largely independent of the reporting currency of the investing entity, amounts in the balance sheet of the foreign entity are translated using the closing (year end) rate with the exception of equity balances for which the

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

historical rate is used. Amounts in the income statement are usually translated using the average rate for the accounting period (**UK GAAP** also permits the closing rate to be used). The translation differences arising are taken to equity via the statement of recognised gains and losses (other comprehensive income).

Where a foreign operation is integral to the reporting entity, its accounts are translated as if all the transactions had been carried out by the reporting entity itself.

Indian GAAP Even though consolidation of foreign subsidiaries is required the accounting treatment has not been specifically addressed. However, taking into account the accounting treatment suggested by other Standards the closing rate may be used for balance sheets and average rates may be used for income statements with the difference being accounted for in the income statement of the parent company.

Tracking of translation differences in equity

IAS These must be separately tracked and the cumulative amounts disclosed. On disposal of a foreign entity, the appropriate amount of cumulative translation difference relating to the entity is transferred to the income statement and included in the gain or loss on sale.

US GAAP Similar to **IAS**.

UK GAAP Translation gains and losses are not recycled to the income statement on disposal.

Indian GAAP Though the treatment has not been specifically addressed in the Indian accounting framework it is recommended that equity be translated at the historical rate with the difference being accounted for as Cumulative Translation adjustment.

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

IAS Translate either at the closing or historical rates but the policy chosen must be applied consistently.

US GAAP Translate at closing rates.

UK GAAP Similar to **US GAAP**.

Indian GAAP No specific guidance. However the treatment as per US GAAP is recommended.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Foreign entity in hyperinflationary economy

IAS Restate to current purchasing power prior to translation into the reporting currency of the reporting entity.

US GAAP Re-measure using the reporting currency as the functional currency.

UK GAAP Use either the **IAS** or **US GAAP** approaches.

Indian GAAP No specific guidance.

Consolidated financial statements

Reporting entity in a hyperinflationary economy

IAS Where the reporting entity itself reports in the currency of a hyperinflationary economy, the financial statements must be stated in terms of the measuring unit current at the balance sheet date.

US GAAP Similar to **IAS**, but inflation adjusted financial statements are not permitted to be presented as primary financial statements of a reporting entity that adopts the US dollar as its reporting currency.

UK GAAP There is no equivalent requirement but a similar procedure to **IAS** would be followed in practice.

Indian GAAP No specific guidance.

REFERENCES: IAS: IAS 21, IAS 29. **US GAAP:** FAS 52, APB Statement 3. SOP 93-6. **UK GAAP:** FRS 5, SSAP 20, UITF 9, UITF 13.

Business Combinations

Business combinations

Types

A business combination involves the bringing together of separate entities into one economic entity. Three types of business combination occur in practice. An acquisition is where one of the combining entities obtains control over the other, enabling an acquirer to be identified; this is the most common type of

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

combination. A uniting of interests (pooling) occurs where it is not possible to identify an acquirer; instead the shareholders of the combining entities join in substantially equal arrangements to share control. A group reorganisation can arise from transactions among entities which operate under common control.

IAS Business combinations are almost always accounted for as acquisitions. **IAS** requires that the purchase method of accounting is used to portray the financial effect of an acquisition. **IAS** severely restricts the circumstances in which transactions can be recognised as a uniting of interests. Specific **IAS** guidance about business combinations excludes from its scope transactions among entities under common control.

US GAAP Requires the use of the purchase method of accounting for all business combinations.

UK GAAP Similar to **IAS**, however specific guidance is given for group reorganisations.

Indian GAAP Business combinations may be accounted for either as pooling of interests or as an acquisition. Accounting for business combinations as pooling of interests is permitted only on fulfilment of certain conditions. Non-fulfilment of one or more of the conditions results in the business combination being accounted for as an acquisition by applying the purchase method.

Acquisitions

Date of acquisition

IAS The date on which the acquirer obtains control over the acquired entity.

US GAAP The date on which assets are received or securities are issued.

UK GAAP Similar to **IAS**.

Indian GAAP

Cost of acquisition

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

IAS Shares issued as consideration are recorded at their fair value as at the date of the exchange, being the date when the acquirer obtains control over the net assets and operations of the acquiree. When the acquisition occurs in stages, the fair value of the shares issued as

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

purchase consideration is determined at each exchange date. In an active market the published price of a share at the date of exchange is the best evidence of fair value.

US GAAP Shares issued as consideration are measured at their market price over a reasonable period of time (interpreted to be a few days) before and after the parties reach an agreement on the purchase price and the proposed transaction is announced. The date for measuring the value of marketable securities must not be influenced by the need to obtain shareholder or regulatory approval.

UK GAAP Similar to **IAS**, except in exceptional circumstances if the market price on one particular day is not a reliable indicator of value. **UK GAAP** suggests considering market prices for a reasonable period before the date of acquisition.

Indian GAAP Consideration may consist of securities, cash or other assets. In determining the value of the consideration, an assessment is made of the fair value of its elements. A variety of techniques is applied in arriving at fair value. For example, where consideration includes securities, the value fixed by the statutory authorities may be taken to be the fair value. In case of other assets, the fair value may be determined by reference to the market value of the assets given up. Where the market value of the assets given up cannot be reliably assessed, such assets may be valued at their respective net book values.

Contingent consideration

IAS If part of the purchase consideration is contingent on a future event, such as achieving certain profit levels, **IAS** requires an estimate of the amount to be included as part of the cost at the date of the acquisition where it is probable it will be paid. Any revision to the estimate is subsequently adjusted against goodwill.

US GAAP The additional cost is not recognised until the contingency is resolved or the amount is determinable. Any additional revision to the estimate is recognised as an adjustment to goodwill. Separate rules apply for consideration contingent on the market price of a specified security issued to effect the acquisition. Additional consideration to be paid only on the condition of continued employment by former owner/manager is generally not included in the cost of the acquisition, but is recognised as compensation expense.

UK GAAP Included as part of the cost of the acquisition on a best estimate basis. Revisions to the estimate are adjusted against goodwill.

Business combinations

Indian GAAP Included in consideration if the payment is probable and a reasonable estimate of the amount can be made. Adjustment is made to goodwill or capital reserve, as applicable.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Recognition and measurement of identifiable assets and liabilities acquired

IAS, US GAAP and **UK GAAP** require separate recognition, by the acquirer, of the identifiable assets and liabilities of the acquiree, which existed at the date of acquisition. These assets and liabilities must be recognised at fair value at the date of acquisition. However, the three frameworks apply different criteria to the recognition of acquisition provisions and intangible assets.

Indian GAAP If pooling of interests method used: Assets and liabilities recorded at their existing carrying amounts after making adjustments for uniformity in accounting policy.
If purchase method used: Assets and liabilities recorded at their existing carrying amounts or by allocating the consideration to individual identifiable assets and liabilities on the basis of their fair values at the date of acquisition. Assets and liabilities not recorded in the financial statements of the transferor company are also included.

Restructuring provisions

IAS The acquirer must satisfy the following criteria to recognise a restructuring provision:

- at or before the acquisition date, the acquirer must have developed the main features of a plan that involves terminating or reducing the activities of the acquiree;
- at or before the acquisition date, the acquirer must raise an expectation in those affected by the plan (constructive obligation) by announcing its main features to those affected; and
- by the earlier of, three months after the acquisition date or the date on which the first annual financial statements are authorised for issue, the acquirer must have developed the main features of the plan into a detailed formal plan.

US GAAP As of the consummation date of the acquisition, management, having the appropriate level of authority, must begin to assess and formulate a plan to exit an activity of the acquired entity. Within a year after the consummation date of the acquisition, the plan must be completed in detail, and management must communicate the termination or relocation arrangements to the employees of the acquired company.

UK GAAP Much more restrictive than **IAS** and **US GAAP**. Restructuring provisions may only be recognised as a fair value adjustment, if the acquired entity already had an irrevocable commitment to restructure which was not conditional on the completion of the acquisition.

Indian GAAP No specific guidance

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Intangible assets

- IAS** Only record separate intangible assets if they meet the definition of and recognition criteria for an intangible asset – see page 41. Otherwise, intangible assets must be subsumed within goodwill and amortised accordingly.
- US GAAP** An intangible asset must be recognised separately from goodwill if it represents contractual or legal rights or is capable of being separated or divided and sold, transferred, licensed, rented or exchanged. This sometimes leads to the recognition of more intangibles than **IAS**, for example, franchises and customer and supplier lists. **US GAAP** requires the fair value exercise to include acquired in-process research and development (R&D). However, the acquired in process R&D must be expensed immediately unless it has an alternative future use.
- UK GAAP** Similar to **IAS**.
- Indian GAAP** Similar to **IAS**.

Minority interests at acquisition

- IAS** Where an investor acquires less than 100% of a subsidiary, **IAS** requires the minority interest to be stated at either: its share of the pre-acquisition carrying value of net assets; or its share of the fair value of the net assets. Whichever method is followed, no goodwill is attributed to the minority interest.
- US GAAP** Generally follows the first method as for **IAS**.
- UK GAAP** Is consistent with the second method as for **IAS**.
- Indian GAAP** Consistent with the second method as for **IAS**.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Goodwill

Arises as the difference between the cost of the acquisition and the fair value of identifiable assets and liabilities acquired. It may be positive or negative. Purchased goodwill is capitalised as an intangible asset.

Useful life

- IAS** There is a rebuttable presumption that the useful life of goodwill does not exceed 20 years. In very rare cases goodwill may be demonstrated to have a useful life in excess of 20 years. If the useful life does exceed 20 years, amortisation is still mandatory and the reasons for rebutting the presumption must be disclosed.
- US GAAP** Goodwill should not be amortised but should be tested for impairment at least annually at the reporting unit level. A reporting unit is the same as an operating segment as defined in guidance on the disclosure of segments, or one level below a segment.
- UK GAAP** Also a rebuttable presumption that the useful life will not exceed 20 years, but permits an indefinite useful life. Requires extensive disclosures where an indefinite life is used. Systematic amortisation is not required if the goodwill has an indefinite life.
- Indian GAAP** Estimate the useful life (normally not exceeding 5 years unless a longer period can be justified) and amortise accordingly. Certain factors that that may be considered while estimating the useful life specified.

Impairment

- IAS** Requires an impairment review of goodwill whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, and annually if the estimated useful life exceeds 20 years. On subsequent disposal of the acquired entity, any attributable goodwill not yet amortised, or recognised in equity reserves prior to the adoption of IAS 22, must be transferred to the income statement and included in the gain or loss on sale.
- US GAAP** Goodwill is reviewed for impairment, at the reporting unit level, annually or whenever events or changes in circumstances indicate that the recoverability of the carrying amount must be assessed. A two-step impairment test is required:
- a comparison between the fair value and the carrying amount of the reporting unit including goodwill, if the fair value of the reporting unit is less than the book value, goodwill would be considered to be impaired: then

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

- the goodwill impairment would be measured as the excess of the carrying amount of goodwill over its implied fair value. The implied fair value of goodwill shall be determined in the same manner as goodwill is determined in a business combination. The impairment charge must be included in operating income.

UK GAAP Similar to **IAS**, and annual impairment reviews required if an indefinite life is used.

Indian GAAP An accounting standard on the subject is being prepared by the Accounting Standards Board of the (Institute of Chartered Accountants of India).

Negative goodwill

IAS Negative goodwill relating to expected future losses or expenses identified in the acquirer's plan for the acquisition must be recognised in the income statement when those losses/expenses occur. Otherwise negative goodwill not exceeding the fair value of acquired identifiable, non-monetary assets must be recognised in the income statement on a systematic basis over the useful lives of such assets, where negative goodwill exceeds the fair value of non-monetary assets it must be immediately recognised in the income statement.

Negative goodwill is presented as a "negative" asset, alongside positive goodwill.

US GAAP Negative goodwill must be allocated on a pro-rata basis to all assets other than: current assets; financial assets, other than equity method investments; assets to be sold; prepaid pension assets and deferred taxes. Any negative goodwill remaining is recognised as an extraordinary gain. If the business combination includes contingent consideration, the lesser of the maximum contingent consideration or the negative goodwill remaining is recorded as if it was a liability.

UK GAAP Similar to **IAS**, negative goodwill up to the aggregate fair value of the non-monetary assets acquired must be recognised in the income statement to match the depreciation of those assets. The balance, if any, is recognised in the income statement over the period likely to benefit.

Similar to **IAS**, negative goodwill is presented as a "negative asset" alongside positive goodwill.

Indian GAAP The term "Negative Goodwill" is not used. If the consideration is less than the value of net assets acquired the difference is termed as "Capital reserve".

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Subsequent adjustments to assets and liabilities

IAS Permits adjustments to fair values recognised at acquisition as additional evidence becomes available to estimate those values. Adjustments are recognised as changes to goodwill, provided they are made before the end of the first full accounting period beginning after the acquisition. Subsequent adjustments must be recognised in the income statement.

The reversal of restructuring provisions made on acquisition must always be recognised as changes to goodwill.

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

UK GAAP Similar to **IAS**, but only permits such changes if it has not been possible to complete the investigations necessary to determine fair values by the date on which the first post-acquisition financial statements are approved, and the changes arise from further investigations. Like **IAS** adjustments to goodwill must be made before the end of the first full accounting period after acquisition, otherwise they are recognised in the income statement.

Indian GAAP No specific guidance

Subsequent adjustments to deferred tax

IAS If a deferred tax asset relating to the acquiree is identified but not recognised at the time of the acquisition and is subsequently recognised in the acquirer's consolidated financial statements, the deferred tax income is recognised in the income statement. The acquirer must also adjust goodwill and accumulated amortisation, as if the deferred tax asset had been recognised at the acquisition date. The subsequent reduction in the net carrying amount of goodwill is recognised in the income statement as an expense.

US GAAP Subsequent recognition of a deferred tax asset reduces goodwill then reduces intangible assets and finally reduces tax expense.

UK GAAP Not specified.

Indian GAAP No specific guidance.

GAAP differences**Comparison of GAAP requirements under IAS, US, UK and India****Disclosure**

ITEM	IAS	US GAAP	UK GAAP	INDIAN GAAP
General				
Names and descriptions of the combining entities.	Required.	Required. Also disclose the reasons for the business combination.	Requires name only, but a description would be encouraged.	Required.
Method of accounting for the business combination.	Required.	Required.	Required.	Required.
The effective date of the combination for accounting purposes.	Required.	Required.	Required.	Required.
The cost of acquisition and the form of the consideration given, including any deferred and contingent consideration.	Required.	Required. Also disclose the basis for determining the value of shares given as consideration. Disclose accounting treatment to be followed should contingent consideration be realized.	Required.	Required.
Operations to be disposed of.	Required.	Not specified.	Disclose operations to be disposed of, as a current asset.	Not specified. But particulars of the scheme required to be disclosed.
The % of voting shares acquired.	Required.	Not specified.	Not specified.	Not specified. But particulars of the scheme required to be disclosed.
Goodwill				
Goodwill – method & amortisation period.	Required.	Not applicable.	Period. Required.	Amortisation period required.
Goodwill – impairment charge.	Required.	Required.	Required.	No guidance.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

ITEM	IAS	US GAAP	UK GAAP	INDIAN GAAP
Total amount of goodwill – amount expected to be tax deductible, - the amount of goodwill by reportable segment.	Not specified.	Required.	Not specified.	Not required.
Reconciliation of goodwill between opening and closing amount.	Required.	Not specified.	Required.	Not sure
Other financial disclosures				
Summary of fair value of assets and liabilities acquired with separate disclosure of cash equivalents.	Required.	Provide condensed balance sheet disclosing amounts assigned to each balance sheet caption of the acquired entity.	More prescriptive than IAS . A table is required showing the book values, adjustments and fair values. Disclose effects of acquisitions on major cash flow headings.	Not required.
Provisions for terminating or reducing activities of acquiree.	Required.	Required.	Disclosure of post-acquisition, reorganization, restructuring and integration costs required.	Not sure
Effect of acquisition on the financial position at the balance sheet date and on the results since the acquisition.	Required.	Not required, but instead pro-forma income statement information is presented (see below).	More prescriptive than IAS . Current year income statement must highlight, as a component of continuing operations, the post-acquisition results. For material acquisitions, disclose profit after tax and minority interest for current	Not required.

GAAP differences**Comparison of GAAP requirements under IAS, US, UK and India**

ITEM	IAS	US GAAP	UK GAAP	INDIAN GAAP
			year up to the date of acquisition and prior year. For substantial acquisitions also provide summary profit and loss and STATEMENT OF RECOGNISED GAINS AND LOSSES.	
Amount of purchased research and development assets acquired and written off in the period.	Not specified.	Required.	Not specified.	Not specified.
If the purchase price had not been finalized, disclose that fact and the reasons. In subsequent periods, adjustments made to the initial allocation must be disclosed.	Not specified.	Required.	Not specified.	Not specified.
Details of amounts allocated to intangible assets including total amounts, amortizable/non-amortisable, residual values and amortisation period by assets.	Not specified.	Required.	Not specified.	Not specified.
Pro-forma income statement including comparatives.	Not specified.	Required only for public entities.	Not specified.	Not specified.

Business combinations**Uniting of Interests**

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Under both **IAS** and **UK GAAP** it is very rare to account for a business combination as a uniting of interests. **US GAAP** now prohibits the use of this method.

The criteria under **IAS** and **UK GAAP** are similar and focus on the substance of the transaction. A uniting of interests only applies to a true merger of equals where an acquirer cannot be identified. Control must not appear to pass from one entity to another; the parties must come together in substance to create a new reporting entity and to share in its future risks and benefits.

The table below highlights the required conditions for a uniting of interest under **IAS** and **UK GAAP**. In practice uniting of interests are more rare under **IAS**, than **UK GAAP**.

ITEM	IAS	UK GAAP (i)	INDIAN GAAP
Representation			
The combination does not portray either party as acquirer or acquiree.	Required.	Required.	Required. (90% shareholders remain same)
Size of parties			
The fair value of one party is not significantly different from the other.	Required.	Refers to ownership interests. Domination/acquirer exists if one entity 50% > the other (the 60:40 rule).	Not required.
Appointment of management			
All parties to the combination participate in the management appointment process.	Required.	Required.	Not required.
The terms of the combination			
Effectuated in a share for share exchange with rights. No party contributes cash.	Required.	Similar to IAS – non-equity consideration or shares equal with reduced rights permitted for “immaterial proportion” of purchase consideration.	Required.
The shareholders of each party maintain substantially the same voting rights, in the combined entity, relative to each other after	Required.	Not specified.	Required.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

ITEM	IAS	UK GAAP (i)	INDIAN GAAP
the combination as before.			
Subsequent financial arrangements			
No material interest is retained by one party in future performance of part of the combined entity.	Required.	Required.	Not required.

(i) In addition UK company law includes specific requirements about the percentages of shares exchanged and the amount of non-equity consideration.

(ii) In addition Indian GAAP prescribes specific requirements regarding continuation of business and retention of all assets and liabilities at book values.

Accounting for uniting of interests

Accounting for a uniting of interests follows the same approach under **IAS** and **UK GAAP and Indian GAAP**. The uniting of interests does not involve an acquisition but a continuation of the business that existed before the transaction. The financial statements of the combining parties are simply added together. The combined assets, liabilities and reserves are recognised at their existing carrying amounts (after adjustments necessary to conform the accounting policies and practices). The results are combined from the earliest year reported and comparatives are restated. No goodwill is recognised on the transaction; any difference arising is adjusted against equity. Expenses relating to a uniting of interests are recognised in the income statement in the period incurred.

combinations

Common Control Transactions

IAS Does not specifically address such transactions. In practice, such combinations are generally accounted for at predecessor cost, reflecting the carrying amount of the assets and liabilities transferred including any goodwill relating to the transferred entity previously recognised in the transferor's financial statements.

US GAAP Has specific rules for accounting for combination of entities under common control. The use of predecessor values or fair values depends on a number of individual criteria.

UK GAAP Includes rules to address group reconstructions, which are generally accounted for by merger accounting.

Indian GAAP No specific guidance on common control transactions.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Note: **US GAAP** requirements for business combinations (FAS 141) and goodwill and other intangible assets (FAS 142) are effective for entities with fiscal years starting after December 15, 2001. Classification requirements apply to business combinations completed after 30 June 2001.

REFERENCES: IAS: IAS 12, IAS 22 (revised), SIC-9. **US GAAP:** FAS 38, FAS 121, FAS 141, FAS 142, EITF 95-3. **UK GAAP:** FRS 6, FRS 7, FRS 10, Companies Act 1985.

Revenue

Definition

- IAS** Income is defined in the **IAS** Framework to include revenues and gains. A specific standard on revenue recognition defines revenue as the gross inflow of economic benefits during the period arising from the ordinary activities of an enterprise when the inflows result in an increase in equity, other than increases relating to contributions from equity participants.
- US GAAP** Revenue is defined by the Concept Statement to represent actual or expected cash inflows (or the equivalent) that have occurred or will eventuate as a result of the entity's ongoing major operations.
- UK GAAP** The UK Statement of Principles defines gains, which include revenues, as increases in ownership interest not resulting from contributions from owners.
- Indian GAAP** Revenue is defined as the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends

Measurement

All three frameworks require measurement of revenues at the fair value of the consideration received or receivable. This is usually the amount of cash or cash equivalents received or receivable. Where the inflow of cash or cash equivalents is deferred, discounting to a present value is appropriate under **IAS** but not under **US** and **Indian GAAP**. In practice **UK GAAP** would follow **IAS**.

Revenue Recognition

- IAS** **IAS** is the only one of the three frameworks to contain a specific standard on revenue recognition. The standard describes specific revenue recognition criteria for each of: the sale of goods; the rendering of services and interest, royalties and dividends. The revenue recognition

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

criteria common to each of these are; the probability that the economic benefits associated with the transaction will flow to the entity, and that the revenue and costs can be measured reliably.

Additional recognition criteria apply to revenue arising from the sale of goods. **IAS** requires that the seller has transferred the significant risks and rewards of ownership to the buyer and retains neither management involvement in, nor control over the goods. Revenue from the rendering of services must be recognised by reference to the state of completion of the transaction, at the balance sheet date. Interest revenue must be recognised on a basis that takes into account the effective yield of the asset. Royalties are recognised on an accrual basis and dividends when the shareholder's right to receive payment is established.

US GAAP Focuses more on revenues being realised (either converted into cash or cash equivalents or the likelihood of its receipt being reasonably certain) and earned (no material transaction pending and the related performance has occurred). Additional guidance for SEC registrants sets out four criteria, which an entity must meet before revenue is realised and earned (compared to **IAS** in the table below). In addition, SEC pronouncements provide guidance related to specific revenue recognition situations.

UK GAAP The term revenue is not specifically defined in UK company law or in an accounting standard. The ASB's Statement of Principles requires that a gain (revenue) must be recognised if there is sufficient evidence that an asset has been created, and the asset can be measured with sufficient reliability. The criteria for recognising a gain from the provision of goods and services would be met when a "critical event" in the operating cycle is reached, such as full performance of a contract, that is delivery of the goods and services. In some cases it might be appropriate to recognise revenue earlier.

Indian GAAP Similar to **IAS**.

I

Revenue recognition

IAS/US GAAP revenue recognition criteria compared

The table below compares the **IAS** revenue recognition criteria with the four criteria prescribed for SEC registrants.

IAS	US GAAP	INDIAN GAAP
It is probable that economic benefits will flow to the entity.	Vendor's price to the buyer is fixed or determinable. Collectability is reasonably assured.	Implied in Definition.
The amount of revenue can be measured reliably.	Vendor's price to the buyer is fixed or	Similar to IAS.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

IAS	US GAAP	INDIAN GAAP
	determinable.	
The entity has transferred to the buyer the significant risks and rewards of ownership of the goods.	Persuasive evidence of an arrangement exists; and delivery has occurred or services have been rendered.	Similar to IAS.
The entity retains neither continuing managerial involvement nor effective control over the goods.	Delivery has occurred or services have been rendered.	Similar to IAS.
The costs incurred or to be incurred in respect of the transaction can be measured reliably.	Vendor's price to the buyer is fixed or determinable; and collectability is reasonably assured.	Uncertainties regarding costs influence timing of revenue recognition.
The stage of completion of the transaction can be measured reliably.	Vendor's price to the buyer is fixed or determinable.	Implied for recognition of revenue under proportionate completion method.

Specific Revenue Recognition Issues

Warranty and product maintenance contracts

IAS When the selling price of a product includes an identifiable component for subsequent servicing, the latter is deferred and recognised over the warranty period.

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

UK GAAP Similar to **IAS**.

Indian GAAP No specific guidance.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Barter transactions – advertising

- IAS** An advertising barter arrangement exists when two companies enter into a non-cash transaction to exchange advertising services. Under **IAS** revenue may generally be recognised on the exchange of dissimilar goods and services if the amount of revenue can be measured reliably. The transaction must be measured at the fair value of goods or services received, however where the fair value of goods or services received cannot be reliably measured the fair value of the goods and services given up is used. The fair value of advertising received or provided in a barter transaction is generally measured by reference to equivalent non-barter transactions.
- US GAAP** Revenue and expense must be recognised at the fair value of the advertising given. Fair value must be based on the entity's own historical practice of receiving cash for similar advertising from unrelated entities. Similar transactions used as a guide to fair value must not be older than six months prior to the date of the barter transaction. If the fair value of the advertising given cannot be determined within these criteria, then the carrying amount of the advertising given must be used.
- UK GAAP** Turnover and costs in respect of barter transactions for advertising must not be recognised unless there is persuasive evidence of the value at which, if the advertising had not been exchanged, it would have been sold for cash in a similar transaction. The satisfaction of this criterion is likely to be rare.
- Indian GAAP** No specific guidance.

Multiple-element arrangements – software revenue recognition

- IAS** No specific software revenue recognition guidance exists. Fees from the development of customised software would usually be recognised by reference to the stage of completion of a project.
- US GAAP** Provides specific guidance on software revenue recognition for software vendors, and in particular for multiple-element arrangements. For these arrangements, a value is established for each element based only on Vendor-Specific Objective Evidence (VSOE) of fair value. VSOE is generally limited to the price charged when elements are sold separately. Revenue is recognised as each element is delivered.
- UK GAAP** No specific guidance, but increasingly practice is similar to **US GAAP**.
- Indian GAAP** No specific guidance.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Construction Contracts

Scope

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

Recognition method

- IAS** Requires the percentage of completion method to recognise revenue and expenses if the outcome can be measured reliably. The criteria necessary for a cost plus contract to satisfy reliable measurement is less restrictive than for a fixed price contract. In limited circumstances, **IAS** permits the use of the zero profit method, which recognises revenue only to the extent of contract costs incurred that are expected to be recovered. Provides limited guidance on the use of estimates.
- US GAAP** Entities usually adopt the percentage of completion method. However, when the extent of progress towards completion is not reasonably measurable, the completed contract method is used. Provides detailed guidance on the use of estimates.
- UK GAAP** Prescribes a method similar to the percentage of completion method. Also permits the zero profit method.
- Indian GAAP** Similar to **IAS**. Use of zero profit method is not permitted.

Applying the percentage of completion method

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

IAS When the outcome of the contract can be estimated reliably, revenue and costs must be recognised by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss must be recognised as an expense immediately.

US GAAP Permits two different approaches:

- the revenue cost approach (similar to **IAS**), multiplies the estimated percentage of completion by the estimated total revenues to determine earned revenue, and multiplies the estimated percentage of completion by the estimated total contract cost to determine the cost of earned revenue; and
- the gross-profit approach (different from **IAS**), multiplies the estimated percentage of completion by the estimated gross profit to determine the estimated gross profit earned to date.

UK GAAP Similar to **IAS**.

Indian GAAP Similar to **IAS**.

Completed contract method

IAS Prohibited.

US GAAP Allowed in circumstances when estimates of costs to completion and the extent of progress towards completion are not determined with enough certainty. Revenue is recognised only when the contract is completed or substantially so.

UK GAAP Prohibited.

Indian GAAP Use of completed contract method permitted. Under this method revenue on a contract is recognized only when the contract is complete or substantially complete rather than on estimates which may require subsequent adjustment as a result of unforeseen costs and possible losses

Combining contracts and segmenting a contract

IAS Requires contracts to be combined when part of a package, or segregated when each contract is part of a separate proposal and when revenues and costs can be clearly identified.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

US GAAP Combining contracts is permitted but not required.

UK GAAP Requires each contract to be considered separately.

Indian GAAP Similar to **IAS**.

REFERENCES: IAS: IAS 11, IAS 18. **US GAAP:** CON 5, SAB 101, SOP 81-1, SOP 97-2. **UK GAAP:** SSAP 9, FRS 5, FRS 12, FRS 18, UITF 26, Companies Act 1985, Statement of principles.

Expenses

Definition

IAS Expenses are defined in the **IAS** Framework to include losses. Expenses are decreases in economic benefits that result in a decrease in equity.

US GAAP Expenses are defined by the Concept Statement to represent actual or expected cash outflows, or the equivalent, that have occurred or will eventuate as a result of the entity's ongoing major operations.

UK GAAP The Statement of Principles defines losses, which include expenses, as decreases in ownership interest not resulting from distributions to owners.

Indian GAAP No specific pronouncements defining expenses, but is in accordance with the general accounting framework as defined in other accounting standards.

Specific Expense Recognition Issues

Interest Expense

IAS Interest expense is recognised on an accrual basis. Where interest expense includes a discount or premium arising on the issue of a debt instrument, the discount or premium is amortised using the effective yield method. The effective yield is the rate that discounts the expected future cash payments to the carrying amount of the debt instrument.

US GAAP Similar to **IAS**, but the effective yield method is known as the interest method.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

UK GAAP Similar to **IAS**.

Indian GAAP Similar to **IAS**.

Employee Benefits – Pensions

All three frameworks, **IAS**, **US** and **UK** require that the cost of providing these benefits is recognised on a systematic and rational basis over the period during which employees provide services to the entity. All three frameworks separate pension plans into defined contribution plans and defined benefit plans and define them in similar ways.

Defined contribution plans

Defined contribution plans are post-employment benefit plans that require the entity to pay fixed contributions into a fund. The entity is under no legal or constructive obligation to make further contributions to the fund even if losses are sustained. Under these plans it is the employee who is exposed to the risk attributable to the plan assets. All three frameworks require that pension cost is measured as the contribution payable to the fund on a periodic basis.

Defined benefit plans

Defined benefit plans oblige the employer to provide defined post employment benefits of set amounts to employees. Therefore, the risks associated with plan assets rest with the employer. The methodology for accounting for defined benefit plans is similar under the three frameworks. The key features are:
Expense

ISSUE	IAS	US GAAP	UK GAAP (i)	INDIAN GAAP
Determination of pension and post-retirement expense.	Use projected unit credit actuarial method	Similar to IAS .	Similar to IAS .	Does not specifically propose a method of expense determination.
Discount rate for obligations.	Based on market yields for high quality corporate bonds.	Similar to IAS .	Similar to IAS . Based on AA bond yield.	Does not specify the rate determination criterion to be used by the actuary.
Valuation of plan assets.	Measure at fair value or using discounted cash flows if market prices unavailable.	Similar to IAS .	Similar to IAS .	No specific guidance.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

ISSUE	IAS	US GAAP	UK GAAP (i)	INDIAN GAAP
Frequency of actuarial valuations.	Must be undertaken sufficiently regularly so that financial statement amounts are not materially different from amounts determined at balance sheet date.	Annual valuation required.	At intervals not exceeding three years. Actuary must review the most recent actuarial valuation at the balance sheet date, and reflect current conditions.	No specific guidance.
Recognition of actuarial gains and losses.	Immediate recognition or amortise over expected remaining working lives of participating employees. At a minimum a net gain/loss in excess of 10% of greater of defined benefit obligation or fair value of plan assets at beginning of year must be recognized.	Similar to IAS .	Recognised immediately in the statement of recognised gains and losses.	No specific guidance.
Balance sheet asset limitation.	Asset limited to the lower of : a) the asset resulting from applying the standard; and b) the net total of any unrecognised actuarial losses and past service cost and the present value of any available funds from the plan or reduction in future contributions to the plan.	No similar requirement.	Asset is the difference between the value of scheme assets and value of scheme liabilities (net of deferred tax). However, asset amount is restricted to recoverable surplus.	No specific guidance.
Recognition of minimum pension	Not required.	Minimum liability is amount by which a plan is	Not required.	No specific guidance.

GAAP differences**Comparison of GAAP requirements under IAS, US, UK and India**

ISSUE	IAS	US GAAP	UK GAAP (i)	INDIAN GAAP
liability.		underfunded (ignoring projected future salary increases).		
Past service cost.	Past service cost recognized over remaining vesting period. Where benefits have already vested, recognise past service cost immediately.	Past service cost for current and former employees generally recognised over remaining lives of active employees. Negative plan amendments are deferred and used first to offset previous positive past service costs. Recognise excess as for past service cost.	Similar to IAS .	No specific guidance.
Multi-employer plans.	Use defined benefit accounting unless sufficient information not available.	Use defined contribution accounting.	Similar to IAS .	No specific guidance.
Subsidiary's defined benefit pension plan forming part of a group plan.	No exemption. The plan is accounted for as a defined benefit plan.	If a subsidiary is unable to determine its share of pension assets and liabilities then the subsidiary may account for pension obligations as for a defined contribution plan.	Similar to US GAAP .	No specific guidance.

(i) The information included here for **UK GAAP** is based on FRS 17, which is mandatory for accounting periods ending on or after 22 June 2003, but can be adopted early. SSAP 24 applies up until that date, but in the meantime the FRS 17 disclosures are required.

REFERENCES : **IAS** : IAS 19, IAS 39. **US GAAP** : APB 21, FAS 87, FAS 88. **UK GAAP** : FRS 4, FRS 17.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Employee Stock Compensation

There are no current requirements in **IAS** for recognising and measuring employee stock compensation, although specific disclosure rules apply. Both **US GAAP** and **UK GAAP** require that the “cost” of providing shares or rights to shares to an employee under share schemes is recognised in the income statement over the relevant service period. However, the measurement of “cost” can differ between the two frameworks as detailed below.

Recognition

IAS Not required.

US GAAP Requires recognition of the cost of shares/options awarded to employees, whether conditional upon performance criteria or not, over the period to which the employee’s service relates.

UK GAAP If the award of shares/options is conditional upon future performance criteria, the entity must recognise the cost over the period to which the employee’s service relates. The cost is recognised immediately if there are no performance criteria.

Measurement

IAS Not applicable as recognition is not currently required.

US GAAP Entities have a choice of accounting methods for determining the costs of benefits arising from employee stock compensation plans. They may either follow an intrinsic value method or a fair value method.

Under the intrinsic value method, the compensation cost is the difference between the market price of the stock at the measurement date and the price to be contributed by the employee (exercise price). Usually the measurement date is the date of grant. This method is widely used in practice.

The fair value method is based on the fair value of the option at the date of grant. This is estimated using an option-pricing model. If an entity chooses to follow the intrinsic value method, it must make pro-forma disclosures of net income and earnings per share as if the fair value method had been applied.

UK GAAP Requires use of the intrinsic value method.

Indian GAAP No specific guidance.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

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

- IAS** No specific guidance regarding the recognition and measurement of payroll tax payable by entities in connection with the benefit accruing to employees from the award of stock options. In practice the **UK GAAP** approach would be adopted.
- US GAAP** Provides that employer payroll taxes due upon the exercise of stock options must be recognised as an expense at the exercise date of the option.
- UK GAAP** Requires that employers' national insurance liability arising from the payment of stock options must be accrued based on the latest enacted national insurance rate and the current market value of the gain. This charge is spread over the performance period.
- Indian GAAP** No specific guidance.

Recent proposals

A discussion paper, developed by the UK Accounting Standards Board, was published in July 2000 by the G4+ 1 working group of standard setters. The paper concluded that share-based payment to employees must result in compensation expense to reflect the receipt and consumption of employee services and issue of equity instruments. The paper recommended recognition of a charge over the employees' service period to vesting date measured on the basis of the fair value of the option at the end of each period.

REFERENCES: **IAS:** IAS 19, IAS 37. **US GAAP:** APB 25, FAS 123, EITF D-83, EITF 00-16. **UK GAAP:** UITF 17, UITF 25, UITF 28.

Expense recognition

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Compensated Absences

Includes long-term compensated absences such as long term disability, long service and sabbatical. These benefits typically accumulate over the employee's service period. All three frameworks recognise the liability as the employee provides the service that gives rise to the right to the benefit.

Termination Benefits

IAS Termination benefits arising from redundancies are accounted for similarly to restructuring provisions. Termination indemnities are generally payable regardless of the reason for the employee's departure. The payment of such benefits is certain (subject to any vesting or minimum service requirements) but the timing of their payment is uncertain. **IAS** requires that termination indemnities be accounted for consistently with pension obligations.

US GAAP Sets out specific guidance addressing post-employment benefits, for example salary continuation, termination benefits, training and counselling. **US GAAP** distinguishes between three types of termination benefits with three different timing methods for recognition.

First, special termination benefits, which are recognised at the date when the employees accept the offer and the amount can be reasonably estimated. Second, contractual termination benefits, which are recognised at the date when it is probable that employees will be entitled to the benefits and the amount can be reasonably estimated. Third, termination benefits in conjunction with a restructuring, which are recognised as a liability when management approves the plan and certain criteria are met.

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

UK GAAP There is no specific standard at present covering these areas (except termination benefits arising from redundancies where the rules for restructuring provisions apply), but practice is generally similar to **IAS**.

REFERENCES: **IAS:** IAS 19. **US GAAP:** FAS 43, FAS 88, FAS 112, EITF 88-1.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Assets

Intangible Assets

Definition

IAS An identifiable non-monetary asset without physical substance controlled by the entity and held for use in the production or supply of goods or services, for rental to others, or for administration purposes. May be acquired or internally generated.

US GAAP Similar to **IAS**.

UK GAAP Similar to **IAS**, except that the asset has to be capable of being disposed of separately from the business in order to meet the definition.

Indian GAAP Similar to **IAS**.

Recognition – acquired intangibles (i)

IAS General **IAS** asset recognition criteria apply. Recognise if future economic benefits attributable to the asset are probable and the cost of the asset can be measured reliably.

US GAAP Similar to **IAS**.

UK GAAP Internally generated intangible assets, other than development expenditure, can only be capitalised where there is a readily determinable market value.

Indian GAAP Similar to **IAS**.

(i) Accounting for intangible assets acquired in a business combination is dealt with in the Business Combinations section

Recognition – additional criteria for internally generated intangibles

IAS Requires classification of the costs associated with the creation of intangible assets by research phase and development phase. Costs in the research phase must always be expensed. Costs in the development phase are expensed unless the entity can demonstrate all of the following:

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

- the technical feasibility of completing the intangible asset;
- the intention to complete the intangible asset;
- the ability to use or sell it;
- how the intangible asset will generate future economic benefits. The entity must demonstrate the existence of a market or, if for internal use, the usefulness of the intangible asset;
- the availability of adequate resources to complete the development; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development. Development costs initially recognised as an expense cannot be capitalised in a subsequent period.

US GAAP Applies stricter recognition criteria than **IAS**. **US GAAP** requires that research and development costs be expensed as incurred, making the recognition of internally generated intangible assets rare. However, separate rules apply to development costs for computer software that is to be sold. Here capitalisation (and amortisation) applies once technological feasibility is established. Capitalisation ceases when the product is available for general release to customers. Similar rules apply to certain elements of development costs for computer software for internal use.

UK GAAP Internally developed intangible assets (excluding research and development) may only be capitalised when there is an active market for the asset. Specific rules apply to research and development expenditure (as defined). The recognition criteria, for research and development, are similar to **IAS**, except, under **UK GAAP**, that an entity can choose not to capitalise development costs. Where capitalisation is selected, the recognition criteria are less strict than **IAS** in that there can be a “reasonable expectation” of future benefits rather than “demonstration” of them (as for **IAS**).

Indian GAAP Similar to **IAS**.
Assets

Recognition – website development costs

IAS Currently no specific guidance under **IAS**, but the criteria for internally generated assets would apply.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

- US GAAP** Costs incurred during the planning stage must be expensed. Costs incurred for activities during the website's application and infrastructure development stages must be capitalised, and costs incurred during the operation stage must be expensed as incurred.
- UK GAAP** Costs incurred to develop a website must be capitalised if certain criteria are met. In particular, **UK GAAP** requires a discrete flow of revenue to result from the development of the website. This precludes the capitalisation of development costs for websites used only for advertising or promotion.
- Indian GAAP** Expenditures incurred in the planning stage of a web site's development are recognised as an expense when incurred. Expenditure incurred in the development stages should be recognised as an intangible asset if criteria specified for recognition are met.
Also See Guidance Note on accounting for Dot Com Companies.

Measurement – acquired intangibles

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

Measurement – internally generated intangibles

- IAS** The cost comprises all expenditure that can be directly attributed or allocated to creating, producing and preparing the asset from the date when the recognition criteria are met.
- US GAAP** Similar to **IAS**.
- UK GAAP** Not specified but practice as for **IAS**.
- Indian GAAP** Similar to **IAS**.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Subsequent measurement – acquired and internally generated intangibles

- IAS** Intangible assets are initially recognised at cost less accumulated depreciation/impairment or at fair value less subsequent depreciation/impairment. Subsequent revaluation of intangible assets to their fair value must be based upon prices in an active market. Where an entity adopts this treatment (extremely rare in practice), the revaluations must be regularly performed and the revaluation of the entire class of intangible assets must take place at the same time.
- US GAAP** Initial recognition is similar to **IAS**. Revaluation is not allowed. Intangible assets subject to amortisation are carried at amortised cost unless impaired. Intangible assets not subject to amortisation are carried at historical cost unless impaired.
- UK GAAP** Similar to **IAS**.
- Indian GAAP** After initial recognition, an intangible asset should be carried at its cost less any accumulated amortisation and any accumulated impairment losses. Revaluations are not permitted.

Amortisation – acquired and internally generated intangibles

- IAS** **IAS** has a rebuttable presumption that the useful life does not exceed 20 years from the date on which the asset is available for use. In very rare cases an entity may demonstrate that an intangible asset has a finite useful life in excess of 20 years, but an indefinite useful life is not permitted. The amortisation method must reflect the pattern in which the asset's benefits are consumed.
- US GAAP** No presumed maximum life.
- UK GAAP** Similar to **IAS**, rebuttable presumption that the useful life does not exceed 20 years from the date of acquisition. In very rare cases an entity may demonstrate that an intangible asset has a finite useful life in excess of 20 years or, contrary to **IAS**, has an indefinite useful life, in which case no amortisation arises.
- Indian GAAP** Rebuttable presumption that useful life does not exceed 10 years from the date the asset is available for use. Amortization should be over the best estimate of the useful life in a manner that reflects the pattern in which the asset's benefits are consumed.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Impairment – acquired and internally generated intangibles

IAS Requires impairment reviews whenever changes in events or circumstances indicate that the carrying amount of an intangible asset may not be recoverable. Annual reviews required, if the 20-year useful life presumption is rebutted or if the intangible asset is not yet ready for use.

US GAAP Requires impairment reviews annually and whenever changes in events or circumstances indicate that the carrying amount of an intangible asset exceeds its fair value.

UK GAAP Similar to **IAS**, except **UK GAAP** requires an annual review for intangible assets recognised with an indefinite useful life, and a first year review for intangible assets with a useful life of 20 years or less.

Indian GAAP Similar to IAS except that annual reviews required if the 10 year useful life presumption is rebutted.

REFERENCES: IAS: IAS 36, IAS 38. **US GAAP:** FAS 86, APB 17. **UK GAAP:** FRS 10, SSAP 13, UITF 29, Companies Act 1985.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Property, Plant and Equipment

Definition

IAS PPE are tangible assets that are held by an entity: for use in the production or supply of goods or services; for rental to others; or for administrative purposes; and are expected to be used during more than one period.

US GAAP Similar to **IAS**.

UK GAAP Similar to **IAS**.

Indian GAAP Does not use the term Property Plant and Equipment instead uses the term **Fixed Assets**. **Fixed Assets** are defined as assets held with the intention of being used for the purpose of producing or providing goods or services and not held for sale in the normal course of business.

Recognition

IAS General **IAS** asset recognition criteria apply. Recognise if future economic benefits attributable to the asset are probable and the cost of the asset can be measured reliably.

US GAAP Similar to **IAS**.

UK GAAP Similar to **IAS**.

Indian GAAP No specific guidance. Recognition has not been specifically addressed under AS 10 but the IAS criteria appears to be universal.

Initial measurement

IAS Comprises the costs directly attributable to acquiring the asset and the costs necessary to bring such an asset to working condition for its intended use. Start-up and pre-production costs must not be capitalised unless they are a necessary part of bringing the asset to its working condition. The following costs are also included in the initial measurement of the asset:

- the cost of dismantling and removing the asset and restoring the site;

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

- the entity has the policy option to include the borrowing costs incurred during the period of acquiring, constructing or producing the asset for use (see page 48);
- government grants received in connection with acquisition of PPE may be set off against the cost. (see page 58); and
- fair value gains/losses on qualifying cash flow hedges relating to the purchase of PPE in a foreign currency (see page 64).

US GAAP Similar to **IAS**, except that hedge gains/losses on qualifying cash flow hedges are not included. Relevant borrowing costs must be included if certain criteria are met. The fair value of an asset's retirement cost must be capitalised as part of the cost of a long-lived asset, if the cost meets the definition of a liability. The amount of the asset retirement obligation liability is initially measured at fair value.

Assets

UK GAAP Similar to **IAS**, except that **UK GAAP** does not address the measurement of gains/losses on qualifying cash flow hedges. Company law prohibits netting of grants against the cost of an asset.

Indian GAAP Similar to **IAS** except that **Indian GAAP** does not address the measurement of gains/losses on qualifying cash flow hedges. Specific guidance on the inclusion of borrowing costs, general and administrative expenses and start up and commissioning costs.

Subsequent expenditure

IAS Subsequent expenditure relating to an item of PPE must be added to the carrying amount of the asset when it is probable that future economic benefits, exceeding the original standard of performance, will flow to the entity. The cost of a major inspection or overhaul occurring at regular intervals is capitalised where it is identified as a separate component of the asset and the replaced components are fully depreciated.

US GAAP Not addressed. However, under a current proposal, the cost of planned major maintenance is not considered to be a separate asset or component. Those costs could be capitalised to the extent they represent additions or replacements. For example, in some specific industries such as airlines, overhaul costs on aircraft would be capitalised to the extent that the costs represented a replacement of existing components. At the time of overhaul, the net book value of any replaced component would be expensed.

UK GAAP Similar to **IAS**.

Indian GAAP Similar to **IAS**.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Depreciation

- IAS** The depreciable amount of an item of PPE must be allocated on a systematic basis over its useful life, reflecting the pattern in which the asset's benefits are consumed by the entity. Any changes in the depreciation method used is treated as change in accounting estimate reflected in the depreciation charge for the current and prospective periods.
- US GAAP** Similar to **IAS**, except that **US GAAP** classifies a change in the depreciation method as a change in accounting policy. The cumulative effect of the change is then reflected in the current year's income statement.
- UK GAAP** Similar to **IAS**.
- Indian GAAP** Similar to **IAS** except **Indian GAAP** classifies change in method as a change in accounting policy. Also, the Companies Act, specifies the minimum rates to be charged for depreciation.

Subsequent measurement

- IAS** The benchmark treatment requires an asset to be carried at cost less accumulated depreciation and impairment. However, revaluation of PPE at fair value is permitted under the alternative treatment, may use highest and best use to determine fair value. The increase of the carrying amount of an asset as a result of a revaluation must be credited directly to equity under the heading revaluation surplus, unless it reverses a revaluation decrease, for the same asset, previously recognised as an expense, then it must be recognised in the income statement. A revaluation decrease must be charged directly against any related revaluation surplus, for the same asset, with any excess being recognized as an expense. Disclosures of the historical cost equivalent (cost and accumulated depreciation) of assets carried at revalued amounts, are required.
- US GAAP** Cost less accumulated depreciation and impairment losses.
- UK GAAP** Revaluation recognised as for **IAS**. However, fair value of an asset is defined as the lower of the recoverable amount and the replacement cost of the asset. Recoverable amount is the higher of the value in use and net realisable value. Existing use (and not highest and best use) used as the basis of fair value.
- Indian GAAP** Revaluation recognised as for **IAS**. The revalued units of fixed assets are presented in the financial statements either by restating both gross book value and accumulated depreciation so as to give a net book value equal to the net revalued amount or by restating the net book value

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

by adding therein the net increase on account of revaluation. An upward revaluation does not provide a basis for crediting to the profit and loss statement for accumulated depreciation existing at the date of revaluation.

Frequency of revaluations

- IAS** The revaluations must be kept sufficiently up to date so that the carrying amount does not differ materially from the fair value.
- US GAAP** Not applicable.
- UK GAAP** Similar to **IAS**, except that **UK GAAP** provides more guidance regarding the frequency and reliability of the revaluations. In particular a full valuation is required at least every five years with interim valuations at year three.
- Indian GAAP** Does not specifically address the issue of frequency of revaluation.

Impairment of revalued PPE

- IAS** An impairment loss (downward revaluation) may be offset against revaluation surpluses to the extent that it relates to the same asset; any uncovered deficit must be accounted for in the income statement.
- US GAAP** All impairments recognised in the income statement.
- UK GAAP** Impairment losses on revalued assets are recognised in the income statement if they are caused by a clear consumption of economic benefits. Otherwise, they are recognised in the STATEMENT OF RECOGNISED GAINS AND LOSSES until the carrying amount of the asset reaches its depreciated historical cost and in the income statement thereafter.
- Indian GAAP** No specific pronouncement on impairment.

Recent proposals – US GAAP

In July 2001 the American Institute of Certified Public Accountants issued an exposure draft of a proposed AICPA Statement of Position, Accounting for Certain Costs and Activities Related to PPE. The project addresses accounting and disclosure issues related to determining which costs related to PPE assets should be capitalized as assets or components of assets and which should be charged to expense as repairs and maintenance. The SOP would use a “project stage” framework whereby guidance would be provided in terms of each of the various stages of a PPE project. The stages would include: preliminary; pre-acquisition; acquisition-or-construction; and in-service. Costs incurred during the preliminary stage would be expensed and directly identifiable costs capitalised during the pre-acquisition and acquisition or construction phase. During the in -service stage replacement of new components must be capitalised. The costs of planned major maintenance activities are not a separate PPE asset or component. Those costs would be capitalized to the extent they are capitalizable under the in-service stage guidance of the SOP and represent additions or replacements, and would otherwise be charged to expense as incurred.

GAAP differences
Comparison of GAAP requirements under IAS, US, UK and India

Lessor Accounting

REFERENCES: IAS: IAS 16, IAS 23, IAS 36, SIC-23. **US GAAP:** FAS 34, FAS 143, ARB 43, APB 6. **UK GAAP:** FRS 3, FRS 11, FRS 15, Companies Act 1985.

Lessor Accounting

Classification

The concepts behind lease classification are similar in all three frameworks. However, while extensive form-driven requirements are present in **US GAAP**, substance rather than legal form is followed to a greater degree under **IAS** and **UK GAAP**.

A finance (capital) lease exists if the agreement transfers substantially all the risks and rewards associated with ownership of the asset to the lessee. All three frameworks provide certain indicators for determining the classification of a lease. These are presented in the table below.

INDICATOR	IAS	US GAAP	UK GAAP	INDIAN GAAP
Normally leads to a finance lease				
Ownership is transferred to the lessee at the end of the lease term.	Indicator of a finance lease.	Indicator of a finance lease.	Indicator of a finance lease.	Indicator of a finance lease.
A bargain purchase option exists.	Indicator of a finance lease.	Indicator of a finance lease.	Indicator of a finance lease.	Indicator of a finance lease.
The lease term is for the majority of the	Indicator of a finance lease.	Specified as equal to or greater than 75% of the	Indicator of a finance lease.	Indicator of a finance lease.

GAAP differences**Comparison of GAAP requirements under IAS, US, UK and India**

INDICATOR	IAS	US GAAP	UK GAAP	INDIAN GAAP
leased asset's economic life.		asset's life.		
The PV of minimum lease payments = substantially all the fair value of the leased asset.	Indicator of a finance lease.	Specified as 90% of the fair value of the property less any investment tax credit retained by the lessor.	A present value of 90% is suggested as an indicator of a finance lease.	Indicator of a finance lease.
The leased assets are of a specialized nature that only the lessee can use without major modification.	Indicator of a finance lease.	Not specified.	Not specified.	Indicator of a finance lease.
Upon cancellation the lessor's losses are borne by the lessee.	Indicator of a finance lease.	Not specified.	Not specified.	Indicator of a finance lease.
Gains and losses from the fluctuation in the fair value of the residual fall to the lessee.	Indicator of a finance lease.	Not specified.	Not specified.	Indicator of a finance lease.
The lessee has the ability to continue the lease for a secondary period at below market rental.	Indicator of a finance lease.	Not specified.	Indicator of a finance lease.	Indicator of a finance lease.

Assets**Recognition of the investment in the lease**

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

All three frameworks require that the amount due from a lessee under a finance lease is recognised as a receivable at the amount of the net investment in the lease. At any point in time, this will comprise the total of the future minimum lease payments less gross earnings allocated to future periods.

The gross earnings are allocated between receipt of the capital amount and receipt of finance income on a basis so as to provide a constant rate of return. **IAS, US GAAP** and **Indian GAAP** require use of the net investment method to allocate gross earnings, which excludes the effect of cash flows arising from taxes and financing relating to a lease transaction. An exception to this is for leveraged leases under **US GAAP** where tax cash flows are included. **UK GAAP** requires use of the net cash investment method, which includes tax cash flows.

Operating leases

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

Incentives

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

Impairment of Assets

Recognition

IAS An entity must assess annually whether there are any indications that an asset may be impaired. If there is any such indication, the assets must be tested for impairment. An impairment loss must be recognised in the income statement when an asset's carrying amount exceeds its recoverable amount.

US GAAP For assets to be held and used, impairment is first measured by reference to undiscounted cash flows. If impairment exists the entity must measure impairment by comparing the asset's carrying value to its fair value. If there is no impairment by reference to undiscounted cash flows, no further action is required but the useful life of the asset must be reconsidered. Assets classified as held for disposal must be measured at the lower of the carrying amount and fair value less selling costs. See also recent proposals below.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

UK GAAP Similar to **IAS**.

Indian GAAP Does not address the issue of impairment of assets specifically.

Recent proposals – Indian GAAP

The Institute of Chartered Accountants of India has issued an exposure draft on Impairment of Assets. The objective of the Statement is to ensure that its assets are carried at no more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and this Statement requires the enterprise to recognise an impairment loss. This Statement also specifies when an enterprise should reverse an impairment loss and it prescribes certain disclosures for impaired assets.

Measurement

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

US GAAP The impairment loss is based on the asset's fair value, being either market value (if an active market for the asset exists) or the sum of discounted future cash flows. The discount rate reflects the risk specific to that asset. For assets to be disposed of, the loss recognised is the excess of the asset's carrying amount over its fair value less cost to sell. Such assets are not depreciated or amortised during the selling period.

UK GAAP Similar to **IAS**.

Indian GAAP Does not address the issue of impairment of assets specifically.

Reversal of impairment loss

IAS Requires reversal of impairment losses when there has been a change in economic conditions or the expected use of the asset.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

US GAAP Prohibits reversals of impairment losses for assets to be held and used. Subsequent revisions, both increases and decreases, to the carrying amount of an asset to be disposed, must be reported as adjustments to the carrying amount of the asset but limited by the carrying amount at the date the decision to dispose of the asset is made.

UK GAAP Similar to **IAS**.

Indian GAAP Does not address the issue of impairment of assets specifically.

Recent proposals – US GAAP

An exposure draft recently issued by the FASB on Impairment of Long-Lived Assets (which would supersede FAS 121) brings the guidance on estimation of cash flows used to review an asset for impairment closer to **IAS**. In particular, the proposal would require the use of expected cash flows, discounted to present value to assess impairment. It would define the primary asset as the principal asset from which the group derives its cash-flow-generating capacity and require that the expected cash flow estimates be based on the existing service potential of the asset and exclude cash flows associated with future capital improvements

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REFERENCES: IAS: IAS 16, IAS 36. **US GAAP:** FAS 121, ED 206 – B. **UK GAAP:** FRS 11, FRS 15, Companies Act 1985.

Capitalisation of Borrowing Costs

s

Recognition

IAS An entity can choose to capitalise borrowing costs where they are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

US GAAP Requires capitalisation of borrowing costs. **US GAAP** defines a qualifying asset in a similar manner to **IAS**, except that investments accounted for using the equity method meet the criteria for a qualifying asset while the investee is actively preparing for its planned principal operations, provided that the investee's activities include the use of funds to acquire qualifying assets for its operations.

UK GAAP Similar to **IAS**.

Indian GAAP Similar to **IAS**.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Measurement

IAS The amount of interest eligible for capitalisation is either the actual costs incurred on a specific borrowing or an amount calculated using the weighted average method considering all the general borrowings outstanding during the period for that entity. Interest can include foreign exchange differences, but under tightly defined conditions. Any interest earned on temporary investment of funds borrowed to finance the production of the asset is netted with the interest to be capitalised. Capitalisation of interest must cease once the asset is ready for its intended use or sale.

US GAAP Similar to **IAS**, except that foreign exchange differences and interest earned on funds borrowed to finance the production of the asset, cannot be netted against interest as for **IAS**.

UK GAAP Similar to **US GAAP**.

Indian GAAP Similar to **IAS**.

REFERENCES: IAS: IAS 23, SIC-2. **US GAAP:** FAS 34, FAS 62. **UK GAAP:** FRS 15, Companies Act 1985. **Indian GAAP:** AS 16

Investment Property

Definition

IAS Property held to earn rentals and/or for capital appreciation. Does not include owner occupied property or property held for sale. An investment property held under an operating lease cannot be an investment property of the lessee.

US GAAP No specific rules for investment property. Such property is accounted for in the same way as PPE.

UK GAAP Similar to **IAS**, except that investments held under operating leases for land and buildings can be classified as investment properties.

Indian GAAP Investment in land or buildings that are not intended to be occupied substantially for use by or in the operations of the investment enterprise.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Initial measurement

IAS Requires the same cost based measurement for both acquired and self-constructed investment property. The cost of a purchased investment property comprises its purchase price and any directly attributable costs such as professional fees for legal services, property transfer taxes and other transaction costs. Self-constructed property must be accounted for as PPE until construction is complete when it becomes an investment property.

US GAAP No specific rules for investment property. Such property is accounted for in the same way as PPE.

UK GAAP Similar to **IAS**.

Indian GAAP Similar to **IAS**.

Subsequent measurement

IAS The entity can choose, for all investment property, between the fair value model or depreciated cost. When fair value is applied, the gain or loss arising from a change in the fair value is recognised in the income statement and the carrying amount is not depreciated.

US GAAP The depreciated cost model must be applied.

Assets

UK GAAP Adopts a different approach to **IAS**. All investment property is recognised at fair value. A gain or loss arising from a change in fair value is recognised in the statement of recognised gains and losses unless a deficit on an individual investment property is expected to be permanent, in which case it is recognised in the income statement.

Indian GAAP Any reductions in the carrying amount and any reversals of such reductions should be charged or credited to the income statement.

Transfers to/from investment property

IAS When there is a change in use of the investment property, the standard provides detailed guidance for subsequent classification. Investment property to be sold, is re-classified as inventories, and investment property to be owner occupied is reclassified as PPE.

US GAAP Not applicable.

UK GAAP No specific guidance.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Indian GAAP Similar to **IAS**.

Frequency and basis of revaluations

IAS The fair value of investment property must reflect the actual market conditions and circumstances as of the balance sheet date. An independent and qualified valuer is not required by the standard but is encouraged. A highest and best use basis is used to determine fair value. Revaluations must be made with sufficient regularity that the carrying amount does not differ materially from fair value.

US GAAP Not applicable.

UK GAAP Similar to **IAS**, although existing use value (and not highest and best use) is generally used as the basis of fair value.

Indian GAAP The investment in property is classified as long term investment carried at cost and other than temporary decline is charged to the income statement.

REFERENCES: **IAS:** IAS 40. **US GAAP:** ARB 43, APB 6. **UK GAAP:** SSAP 19. **Indian GAAP:** AS 13

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Inventories

Definition

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

Measurement

IAS Carried at the lower of cost or net realisable value (being sale proceeds less all further costs to bring the inventories to completion). Reversal is required for a subsequent increase in value of inventory previously written down.

US GAAP Broadly consistent with **IAS**, in that the lower of cost and market value is used to value inventories. Market value is defined as being current replacement cost subject to an upper limit of net realisable value and a lower limit of net realisable value less a normal profit margin. Reversal of a write down is prohibited.

UK GAAP Similar to **IAS**.

Indian GAAP Similar to **IAS**.

Formula for determining cost

Method	IAS	US GAAP	UK GAAP	INDIAN GAAP
LIFO.	√ (i)	√	Not permitted	Not permitted
FIFO.	√	√	√	√
Weighted average cost.	√	√	√	√

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

- (i) Allowed alternative : Where an entity values inventory using LIFO, it must quantify and disclose the difference between that method and either the lower of : the benchmark treatment (either FIFO or weighted average) and net realisable value; or the lower of current cost at the balance sheet date and NRV.

Consistency of the cost formula for similar inventories

Assets

IAS Requires that an entity must use the same cost formula for all inventories having a similar nature and use to the entity.

US GAAP Similar to **IAS**.

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

Indian GAAP Similar to **UK GAAP**.

Allocation of fixed overheads

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

US GAAP In limited circumstances idle capacity costs may also be absorbed into inventory costs.

UK GAAP Similar to **IAS**.

Indian GAAP Similar to **IAS**.

REFERENCES: IAS: IAS 2, SIC-1. **US GAAP:** ARB 43. **UK GAAP:** SSAP 9. **Indian GAAP:** AS 2

Financial Assets

IAS outlines the recognition and measurement criteria for all financial assets, defined to include derivatives. The guidance in **IAS** is broadly consistent with **US GAAP**.

UK GAAP prescribes the disclosure requirements for derivatives and other financial instruments, however there is no specific standard dealing with the recognition and measurement of financial assets. The accounting treatment of investments is addressed in company law.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Definition

IAS, US GAAP and **UK GAAP** define a financial asset in a similar way to include: cash; a contractual right to receive cash or another financial asset from another entity; a contractual right and/or obligation to exchange financial instruments with another entity under conditions that are potentially favourable; and an equity instrument of another entity. Financial assets include derivatives. Accounting for derivatives is dealt with on **page 62**.

Indian GAAP however does not define financial assets specifically. Income by way of dividends, interest, and rentals, for capital appreciation, or for other benefits to the investing enterprise are defined as investments.

Recognition and initial measurement

IAS and **US GAAP** require that an entity recognise a financial asset when and only when the entity becomes a party to the contractual provisions of a financial instrument. The initial cost of the financial asset is the fair value of the consideration given, including transaction costs.

Classification and subsequent measurement – IAS /US GAAP

Assets

IAS and **US GAAP** define four categories of financial assets, the classification criteria and requirements for subsequent measurement are presented in the table below :

CLASSIFICATION	IAS	US GAAP
Held for trading		
Debt and equity securities held for sale in the short term. Includes derivatives.	The intention must be to hold the financial asset for a relatively short period, or as part of a portfolio for the purpose of short term profit taking. Subsequent measurement at fair value. Unrealised and realised gains and losses recognized in the income statement.	Similar to IAS and frequent buying and selling usually indicates a trading instrument. Similar to IAS .
Held-to-maturity		
Financial assets held with a positive intent and ability to hold to maturity. Includes	Entity must have the "positive intent and ability" to hold a financial asset to maturity. Not simply a present intention.	Similar to IAS .

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

CLASSIFICATION	IAS	US GAAP
<p>assets with fixed and determinable payments and maturities. Does not include equity securities because they have an indefinite life.</p>	<p>When an entity sells more than an insignificant amount of assets, classified as held-to-maturity, it is prohibited from using the held-to-maturity classification for two full annual reporting periods (known as tainting). The entity must also reclassify all its held-to-maturity assets as available-for-sale assets.</p>	<p>Similar to IAS, however, US GAAP is silent about whether assets cease to be tainted.</p>
	<p>Recognised at amortised cost using the effective yield method.</p>	<p>Similar to IAS.</p>
<p>Financial assets created by providing money, goods and services directly to the borrower e.g. bonds, customer loans and trade receivables.</p> <p>Does not include loans and receivables acquired.</p>	<p>Recognised at amortised cost.</p>	<p>There is no distinction under US GAAP between loans and receivables originated and loans and receivables acquired. These are dealt with by specific industry guidance. All debts receivable that are not securities are recognised at amortised cost.</p>
<p>All debt/equity financial assets not covered by above categories. Includes equity securities, except those classified as held-for-trading.</p>	<p>Recognised at fair value.</p> <p>For changes in fair value a one off choice exists. Either: a) all changes in fair value recognised in the</p>	<p>As for IAS, includes debt/equity securities not covered by above categories, but excludes unlisted equity securities.</p> <p>Changes in fair value reported in other comprehensive income.</p>

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

CLASSIFICATION	IAS	US GAAP
	income statement or; b) unrealized gains and losses recognised net of tax effects in equity and recycled to the income statement when sold, impaired or collected.	income.

Assets

Classification and subsequent measurement (investments) – UK GAAP

Under **UK GAAP** the four categories of financial assets outlined above are not specified, however the accounting treatment of investments is addressed in company law. Long-term investments must be carried at cost (less impairment losses) or revalued amount. The revalued amount is based on market value or another appropriate value, e.g. underlying net asset value. Surpluses on revaluation are recognised in the statement of recognised gains and losses. An entity must transfer any attributable revaluation surplus recognised in prior accounting periods directly to retained earnings when the asset is sold, and must not recycle the surplus to the income statement.

Current asset investments are carried at the lower of cost and net realisable value or at current cost. If the latter, then revaluations are accounted for as for long-term investments. Financial assets originated by the enterprise are accounted for similarly to **IAS** and **US GAAP**.

Classification and subsequent measurement (investments) – Indian GAAP

Under **Indian GAAP** investments are classified as current and long term. A *current investment* is an investment that is by its nature readily realisable and is intended to be held for not more than one year from the date on which such investment is made. A *long term investment* is an investment other than a current investment. Investment property is an investment in land or buildings that are not intended to be occupied substantially for use by, or in the operations of, the investing enterprise. The carrying amount for current investments is the lower of cost and fair value. In respect of investments for which an active market exists, market value generally provides the best evidence of fair value. The valuation of current investments at lower of cost and fair value provides a prudent method of determining the carrying amount to be stated in the balance sheet. Long-term investments are usually carried at cost. However, when there is a decline, other than temporary, in the value of a long term investment, the carrying amount is reduced to recognise the decline. Indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment. The type and extent of the investor's stake in the investee are also taken into account. Restrictions on distributions by the investee or on disposal by the investor may affect the value attributed to the investment.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Transfers between categories of financial assets

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

- **Held-to-maturity**

An entity must reclassify a financial asset from the held-to-maturity category when there has been a change of intent or ability, or there has been evidence of short-term profit taking. Where the reclassification is to held-for-trading, the asset must be re-measured to fair value with the difference recognised in the income statement. Where the financial asset is reclassified from held-to-maturity to available-for-sale the asset must be re-measured to fair value with the difference recognised in either the income statement, or in equity, according to the policy adopted by the entity (**US GAAP** to equity only). Such a transfer may trigger tainting provisions.

An entity must reclassify a financial asset to the held-to-maturity category when: there has been a change of intent or ability; where a reliable measurement of fair value is no longer available or where the “two years” have passed (note reference to tainting above). In such a case the financial asset must no longer be carried at fair value; the asset’s fair value at the date of reclassification becomes its amortised cost. Any previous gain or loss recognised in equity must be amortised over the remaining life of the held-to-maturity investment. Any difference between the new amortised cost and the amount due at maturity must be treated as an adjustment of yield.

- **Available-for-sale**

Transfers from available-for-sale into trading only arise if an asset is subsequently included in a portfolio with a pattern of short-term profit taking. The financial asset will already be carried at fair value and any previous fair value gain or loss that has been recognised in equity must only be recognised in the income statement when realised or impaired. **US GAAP** requires that the equity component be recognised in the income statement immediately.

- **Loans and receivables originated by the entity and those held for trading**

IAS and **US GAAP** do not permit transfers from these categories.

Indian GAAP states where long-term investments are reclassified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer. Where investments are reclassified from current to long-term, transfers are made at the lower of cost and fair value at the date of transfer.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Impairment

Both **IAS** and **US GAAP** have similar requirements for the impairment of financial assets. **IAS** requires that an entity consider impairment when there is an indicator of impairment such as: the deterioration in the creditworthiness of a counterparty; an actual breach of contract; a high probability of bankruptcy or the disappearance of an active market for an asset.

US GAAP requires the write down of financial assets when an entity considers a decline in fair value to be “other than temporary”. Indicators of impairment are: the financial health of the counterparty; whether the investor intends to hold the security for a sufficient period to permit recovery in value and the length of time that the market value has been below cost.

Both **IAS** and **US GAAP** require that for financial assets carried at amortised cost the impairment loss is the difference between the asset’s carrying amount and its estimated recoverable amount (present value of expected future cash flows discounted at the instrument’s original effective interest rate). For financial assets carried at fair value, the recoverable amount is the present value of the expected future cash flows discounted at the current market rate. If a loss has been deferred in equity, it must be recycled to the income statement on impairment.

IAS requires recognition in the income statement immediately upon identification of impairment. Under **US GAAP** subsequent changes in fair value are not recognised until realised for held-to-maturity investments. Impairment losses on available-for-sale investments are recognised in other comprehensive income until realised.

US GAAP prohibits the reversal of an impairment charge. **IAS** requires changes in value, identified as reversals of previous impairment, to be recognised in the income statement regardless of the asset’s classification.

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Derecognition

Under both **IAS** and **US GAAP** an entity recognises on its balance sheet the assets that it controls while assets not controlled are derecognised. **UK GAAP** adopts a more “risks and rewards” approach to derecognition of assets, focusing on whether substantially all the risks and rewards of an asset are retained or transferred by an entity.

Control vs. risks and rewards

IAS A financial asset (or a portion thereof) must be removed from the balance sheet when: the entity realises the rights to benefits specified in the contract; the rights expire; or the entity surrenders or otherwise loses control of the contractual rights that comprise the financial asset. The following factors are evidence of surrender of control:

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

- the transferee has the right, free from any constraints, to pledge or exchange the assets; and
- the transferor does not maintain effective control over the assets transferred, i.e. there are no repurchase clauses (unless the asset is readily obtainable in the market or the re-acquisition price is fair value at the time of reacquisition).

However, for non-traded assets there is a further test that some substantive risk has been transferred.

If the asset is derecognised on sale to a Special Purpose Entity (SPE), there may nevertheless be a requirement to consolidate that SPE.

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

US GAAP

Similar to **IAS**, where an entity surrenders control over all or a portion of a financial asset sold, then the asset may be derecognised. Otherwise, the transfer is accounted for as a borrowing secured by the asset "sold". Further, in certain circumstances **US GAAP** requires legal isolation of financial assets from the transferor (even in bankruptcy or receivership) as a necessary condition for derecognition.

UK GAAP

The "risks and rewards" approach to the recognition and derecognition of assets focuses on the substance of a transaction rather than its legal form. The asset is derecognised where the transaction transfers to others the significant rights or other access to benefits relating to that asset, and the significant exposure to the risks inherent in those benefits. For example, receivables "sold" to a financing institution in order to realise cash resources may only be removed from the balance sheet where all of the following criteria are met:

- transfer of the debts is for a single non-returnable fixed sum;
- there is no recourse to the seller for losses; and
- the financing institution is paid all amounts received from the receivables (and no more) with the seller having no rights to further sums from the financing institution.

Where the seller continues to bear the credit risk, the debts continue to be treated as an asset of the seller with the cash advance classified as an obligation to repay the finance. In certain situations where the financing is "ring fenced" without recourse, a linked presentation applies – the finance is shown separately but deducted from the asset to which it relates on the face of the balance sheet.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Indian GAAP Does not specifically address the issue of derecognition of assets.

Recent proposals – all three frameworks

In December 2000 the Joint Working Group (JWG) of standard setters which was formed to develop a long-term solution to recognition and measurement of all financial instruments issued a draft standard in which all financial instruments would be measured at fair value. Gains and losses arising from changes in fair value would generally be included in the income statement. No “deferral” or hedge accounting would be permitted.

REFERENCES: IAS: IAS 39, SIC-12. **US GAAP:** FAS 115, FAS 125. **UK GAAP:** FRS 5, Companies Act 1985.

Provisions

IAS and **UK GAAP** have specific and very similar standards on accounting for provisions generally, while **US GAAP** has several standards addressing specific provisions, e.g. environmental liabilities and restructuring costs. All three frameworks prohibit recognition of provisions for future costs including costs associated with the compliance with proposed but not yet effective legislation.

Recognition

IAS Requires recognition of a provision only when:

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

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

US GAAP Similar to **IAS**.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

UK GAAP Similar to **IAS**.

Indian GAAP Similar to **IAS**.

Measurement

IAS The amount recognised as a provision must be the best estimate of the minimum expenditure required to settle the present obligation at the balance sheet date. The entity must discount the anticipated cash flows at a risk free rate if the effect is material. If a range of estimates is predicted and no amount in the range is more likely than any other amount in the range, the "mid-point" of the range must be used to measure the liability.

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

UK GAAP Similar to **IAS**, except that the discount rate must be a pre-tax rate that reflects the current market assessment of the time value of money.

Indian GAAP Similar to **IAS**.

Restructuring provisions

IAS In the case of a restructuring, a present obligation exists only when the entity is "demonstrably committed" to the restructuring. An entity is usually demonstrably committed when there is a binding sale agreement (legal obligation), or when the entity has a detailed formal plan for the restructuring and is unable to withdraw because it has started to implement the plan or announced its main features to those affected (constructive obligation). However, if there will be a delay before the restructuring begins, or the restructuring will take an unreasonably long time to complete then a provision is unlikely to be justified.

US GAAP Similar to **IAS**, however, under **US GAAP**, management approval and commitment to the restructuring plan is sufficient.

UK GAAP Similar to **IAS**.

Liabilities

Indian GAAP Does not specifically address the issue of restructuring.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Onerous contracts

IAS Generally prohibits provisions for future operating losses. However, if an entity is party to a contract that is onerous (the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under the contract), the present obligation under the contract must be recognized and measured as a provision. One of the most common examples relates to leasehold property that has been left vacant.

US GAAP Similar to **IAS**, and specified in relation to leasehold property. Capitalised leasehold improvements and costs to terminate a lease must be recognised in the income statement when the leased property or improvements have no benefit to the lessee.

UK GAAP Similar to **IAS**.

Indian GAAP Does not specifically address the issue of restructuring.

REFERENCES: IAS: IAS 37. **US GAAP:** FAS 5, EITF 88-10, EITF 94-3, SOP 96-1. **UK GAAP:** FRS 12.

Contingencies

Contingent asset

IAS Is a possible asset that arises from past events, and only the occurrence or non-occurrence of one or more uncertain future events, not wholly within the entity's control. When the realisation of the associated benefit, such as an insurance recovery, is virtually certain, the item is recognised as an asset.

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

UK GAAP Similar to **IAS**.

Indian GAAP Contingent gains are not recognised in financial statements since their recognition may result in the recognition of revenue which may never be realised. However, when the realisation of a gain is virtually certain, then such gain is not a contingency and accounting for the gain is appropriate.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Contingent liability

IAS Is a potential obligation whose outcome will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the entity's control. A present obligation that is not recognised because it is not probable that there will be an outflow of economic benefits or, the amount of the outflow cannot be reliably measured. A contingent liability is disclosed unless the probability of outflows is remote.

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

UK GAAP Similar to **IAS**.

Indian GAAP Similar to **IAS**.

REFERENCES: IAS: IAS 37. **US GAAP:** FAS 5. **UK GAAP:** FRS 12. **Indian GAAP:** AS 4

Deferred Tax

Although all four frameworks require full provision for deferred tax, there are differences in the methodology as set out in the table below.

ISSUE	IAS	US GAAP	UK GAAP (i)	INDIAN GAAP
General Considerations				
General approach.	Full provision.	Full provision.	Full provision.	Full provision.
Basis for deferred tax assets and liabilities.	Temporary differences, being the difference between carrying amount and tax base of assets & liabilities. (see exceptions below)	Similar to IAS .	Obligation to pay tax arising from timing differences, being the differences between accounting and taxable profit.	Similar to IAS .
Exceptions (i.e., deferred tax is not provided on the	Goodwill, which is not deductible for tax purposes, does not give rise to a	Similar to IAS .	The exceptions are more extensive and include permanent differences on	Similar to IAS .

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

ISSUE	IAS	US GAAP	UK GAAP (i)	INDIAN GAAP
temporary difference).	<p>taxable temporary difference. Similarly, negative goodwill does not give rise to a deductible temporary difference.</p> <p>Initial recognition of an asset or liability in a transaction which : (i) is not a business combination; and (ii) at the time of the transaction affects neither accounting profit nor taxable profit.</p>	<p>Although the IAS terminology is not used, in most situations, this exception applies in a similar manner. Under certain conditions deferred tax is provided on government grants and investment tax credits. Special requirements apply in computing deferred tax on leveraged leases.</p>	<p>which deferred tax is not recognised.</p>	
Specific applications				
Unrealised intra group profits e.g., on inventory.	Deferred tax recognized at the buyer's tax rate.	The buyer is prohibited from recognizing deferred taxes. The seller's tax rate is used.	The seller's tax rate is used.	Does not specifically address the issue of intra group profits.
Revaluation of PPE and intangible assets.	Deferred tax recognized in equity.	Not applicable as revaluation is prohibited.	Recognise deferred tax for fair value changes on non-monetary assets which are recognized in the income statement. For revaluations recognised in equity, deferred tax is not recognised unless the entity	Does not specifically address the issue of revaluation of PPE.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

ISSUE	IAS	US GAAP	UK GAAP (i)	INDIAN GAAP
			has a binding agreement to sell the assets and has recognised the expected gains and losses on sale.	
Revaluation of financial assets.	Deferred tax is recognised in the income statement unless changes in the carrying amount of available-for-sale assets are taken to equity, in which case deferred tax is taken to equity.	All changes in the carrying amount of available-for-sale assets are taken to equity, therefore, deferred tax is taken to equity.	As for revaluation of PPE and intangible assets.	Does not specifically address the issue of revaluation of financial assets.
Exchange differences on translation of the foreign currency financial statements of a foreign operation that is integral to the operations of the parent (e.g. a foreign branch).	Deferred tax is recognised on the difference between the carrying amount determined using the historical rate of exchange and the tax base determined using the balance sheet date exchange rate.	No deferred tax is recognised for differences related to assets and liabilities that are remeasured from local currency into the functional currency resulting from changes in exchange rates or indexing for tax purposes.	No deferred tax is recognised in these circumstances.	Does not specifically address the issue of exchange differences.
Investments in subsidiaries-treatment of undistributed profit.	Deferred tax is recognised except when the parent is able to control the timing difference and it is probable that the temporary difference will not reverse in the foreseeable future.	Similar to IAS , but deferred tax is required on temporary differences post 1992, relating to investments in domestic subsidiaries, unless the investment can be recovered tax free, and the entity expects to use that	Deferred tax is recognised only to the extent that dividends have been accrued as receivable, or there is a binding agreement to distribute earnings.	Does not specifically address the issue of undistributed profit of subsidiaries.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

ISSUE	IAS	US GAAP	UK GAAP (i)	INDIAN GAAP
		means.		
Specific applications				
Investments in joint ventures- treatment of undistributed profit.	Deferred tax is recognised except when the venturer can control the sharing of profits and it is probable that the temporary difference will not reverse in the foreseeable future.	Similar to IAS , but deferred tax is required on temporary differences post 1992 relating to investment in corporate domestic joint ventures.	Deferred tax is recognised only to the extent that dividends have been accrued as receivable, or there is a binding agreement to distribute earnings.	Does not specifically address the issue of undistributed profit of joint ventures.
Investments in associates – treatment of undistributed profit.	As for subsidiaries and joint ventures.	Deferred tax is always recognised on temporary differences relating to investment in associates (whether domestic or foreign).	As for subsidiaries and joint ventures.	Does not specifically address the issue of undistributed profit of associates.
Measurement of deferred tax				
Tax rates.	Tax rates and tax laws that have been enacted or substantively enacted.	Use of substantive enacted rates not permitted. Tax rate and tax laws must have been enacted.	Similar to IAS .	Similar to IAS .
Recognition of deferred tax asset.	Deferred tax asset must be recognised if it is probable that sufficient taxable profit will be available against which the temporary difference can be utilized.	A different approach is used. Deferred tax asset recognised in full but is then reduced by a valuation allowance if it is more likely than not that some portion or all, of the deferred tax asset will not be realized.	Similar to IAS . Probable is regarded as more likely than not.	Similar to IAS .

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

ISSUE	IAS	US GAAP	UK GAAP (i)	INDIAN GAAP
Discounting.	Prohibited.	Prohibited.	Permitted but not required.	Prohibited.
Business combinations – acquisitions				
Set up of acquired assets/liabilities to fair value.	Deferred tax provided unless tax base of asset is also stepped up.	Similar to IAS .	Deferred tax not provided unless there is an agreement to sell assets at re-valued amount.	Does not specifically address the issue of deferred tax provision on acquisition.
Previously unrecognized tax losses of the acquirer.	Deferred tax asset recognised if as a result of the acquisition, the recognition criteria for the deferred tax asset is met.	Similar to IAS .	Deferred tax is not recognised.	Does not specifically address the issue of deferred tax provision on acquisition.
Tax losses of the acquiree.	Similar requirements as for the acquirer.	Similar to IAS .	Similar to IAS .	Does not specifically address the issue of deferred tax provision on acquisition.
Post acquisition recognition of tax losses of acquiree that existed at the date of acquisition.	Recognition of deferred tax asset that reduces goodwill and then reduce tax expense. No time limit for recognition of this deferred tax asset.	Recognition of deferred tax asset reduces goodwill, then reduces intangible assets and then reduces tax expense. No time limit for recognition of this deferred tax asset.	Not specified.	Does not specifically address the issue of deferred tax provision on acquisition.
Presentation of deferred tax				
Offset of deferred tax assets and liabilities.	Permitted only when the entity has a legally enforceable right to set off and the balance relates to tax levied by the same authority.	Similar to IAS .	Similar to IAS .	Similar to IAS .

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

ISSUE	IAS	US GAAP	UK GAAP (i)	INDIAN GAAP
Current/non-current.	Deferred tax assets and liabilities must only be classified as non-current.	Deferred tax assets and liabilities must either be classified as current or non-current based on the classification of the related non-tax asset or liability for financial reporting.	Deferred tax liabilities must be classified in provisions for liabilities and charges (non-current liabilities). Deferred tax assets must be classified as debtors within current assets.	Deferred tax assets and liabilities should be disclosed under a separate heading in the balance sheet of the enterprise, separately from current assets and current liabilities.

(i) Information included here for **UK GAAP** is based on FRS 19, which is mandatory for accounting periods ending on or after 23 January 2002. SSAP 15 applies up until that date.

REFERENCES: IAS: IAS 12. **US GAAP:** FAS 109. **UK GAAP:** FRS 16, FRS 19. **Indian GAAP:** AS 22

Government Grants

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

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

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

US GAAP Similar to **IAS**.

UK GAAP Similar to **IAS**, however, company law does not permit the offset of the grant against the carrying amount of the asset.

Indian GAAP Government grants should not be recognised until there is reasonable assurance that (i) the enterprise will comply with the conditions attached to them, and (ii) the grants will be received. Government grants related to specific fixed assets should be presented in the balance sheet by showing the grant as a deduction from the gross value of the assets concerned in arriving at their book value. Government grants related to revenue should be recognised on a systematic basis in the profit and loss statement over the periods necessary to match them with the related costs which they are intended to compensate. Such grants should either be shown separately under 'other income' or deducted in reporting the related expense. Government grants of the nature of promoters' contribution should be credited to capital reserve and treated as a part of shareholders' funds.

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

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

Grants – agricultural assets

IAS An unconditional government grant related to a biological asset measured at its fair value must be recognized in income statement, when the grant becomes receivable. If a government grant relating to a biological asset measured at its fair value is conditional, the grant must be recognised when the conditions are met. If a grant relates to a biological asset measured at cost then the accounting treatment specified for government grants generally is applied.

US GAAP Not specified.

UK GAAP Not specified.

Indian GAAP Not specified.

REFERENCES: **IAS:** IAS 20, IAS 41. **US GAAP:** FAS 116. **UK GAAP:** SSAP 4, Companies Act 1985. **Indian GAAP:** AS 12

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Lessee Accounting

Finance leases

- IAS** Requires recognition of an asset held under a finance lease (see classification criteria on page 45) with a corresponding obligation to pay future rentals, at an amount equal to the lower of the fair value of the asset and the present value of the minimum lease payments (MLPs) at the inception of the lease. The asset is depreciated over its useful life or the lease term if shorter. However, under **IAS** the latter is only permitted if there is no reasonable certainty of the lessee obtaining ownership of the asset. The interest rate implicit in the lease must normally be used to calculate the present value of the MLPs. If the implicit rate is unknown the lessee's borrowing rate may be used.
- US GAAP** Similar to **IAS**, the lessee's incremental borrowing rate must be used to calculate the present value of the MLP's unless it is practicable to determine the rate implicit in the lease and the implicit rate is lower than the incremental borrowing rate.
- UK GAAP** Similar to **IAS**, but the fair value of the asset may be used if this is a sufficiently close approximation to the present value of the MLPs, even if it is slightly higher than the latter.
- Indian GAAP** Similar to **IAS**.

Operating leases

Under **IAS**, **US GAAP**, **UK GAAP** and **Indian GAAP** the rental under an operating lease must generally be recognised on a straight-line basis over the lease term.

Incentives

A lessor often provides lease incentives to encourage the lessee to renew a lease arrangement. Under all three frameworks the lessee must recognise the aggregate benefit of incentives as a reduction of rental expense over the lease term. The incentive must be amortised on a straight-line basis unless another systematic basis is representative of the pattern of the lessee's benefit from the use of the leased asset.

Sale and Leaseback Transactions

In a sale and leaseback transaction the seller-lessee sells an asset to the buyer-lessor and leases the asset back. There are certain differences in the rules on dealing with profits and losses arising on sale and leaseback transactions across the three frameworks. These are highlighted in the table below:

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

ISSUE	IAS	US GAAP	UK GAAP	INDIAN GAAP
Finance lease				
Profit or loss on sale.	Deferred and amortised over the lease term.	Similar to IAS , but the useful life is used if shorter than the lease term. However, exceptions apply.	Deferred and amortised over the shorter of the lease term and the asset's useful life.	Similar to IAS .
Operating lease				
Sale at fair value.	Immediate recognition.	Gains and losses are generally deferred but some exceptions apply.	Similar to IAS .	Similar to IAS .
Sale at less than fair value.	Immediate recognition unless the difference is compensated by lower future rentals, then defer the difference over the period over which the asset is expected to be used.	Gains and losses are generally deferred but some exceptions apply.	Excess of the sale price over fair value must be deferred and amortised over the shorter of the lease term or the asset's useful life.	Similar to IAS .

Recent proposals

A discussion paper published in 1999 by the G4+1 group proposes a single approach to be applied to all leases, abolishing the current distinction between finance and operating leases. All material leases would give rise to assets and liabilities for lessees, measured with reference to the payments required by the lease and any other liabilities incurred. Lessors would report financial assets (amounts receivable from the lessee) and non-financial assets (residual interests) as separate assets, reflecting the different property rights arising.

REFERENCES: **IAS:** IAS 17, SIC-15. **US GAAP:** FAS 13. **UK GAAP:** SSAP 21, FRS 5, UITF 28. **Indian GAAP:** AS 19

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Financial liabilities

Definition

IAS, US GAAP and **UK GAAP** define a financial liability in a similar manner to include a contractual obligation to deliver cash or a financial asset to another entity, or to exchange financial instruments with another entity under conditions that are potentially unfavourable. Financial liabilities include derivatives which are dealt with on page 114. **Indian GAAP** does not specifically define financial liability or the proposed treatment of such liabilities.

Classification

IAS

Where there is a contractual obligation (or economic compulsion) on the issuer of an instrument either to deliver cash or another financial asset to the holder, that instrument meets the definition of a financial liability regardless of the manner in which the contractual obligation will be settled.

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

Where the settlement of a financial instrument such as preferred share is contingent on uncertain future events beyond the control of both the issuer and the holder, the financial instrument must be classified as a liability by the issuer. However, if the chance of settlement in cash or another instrument is remote, then the contingent settlement provision must be ignored and the financial instrument must be classified as equity by the issuer.

However, an instrument that is settled using an entity's own equity shares is classified as a liability, if the number of shares varies in such a way that the fair value of the shares issued equals the obligation.

Split accounting is applied to convertible debt – see below.

US GAAP

Generally where an instrument is not a share of the entity and it includes an obligation to transfer economic benefits then the instrument is classified as a liability. **US GAAP** does not make specific reference to classification of instruments where contingent settlement provisions exist.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

UK GAAP Similar to **US GAAP**, where an instrument is not a share and its provisions include an obligation to transfer economic benefits then it must be classified as a liability. **UK GAAP** does not make specific reference to classification of instruments where contingent settlement provisions exist. Preference shares are included within shareholders' funds but an additional disclosure is required of "non-equity" capital.

Indian GAAP Does not specifically address the issue of financial liabilities.

Convertible debt

IAS "Split accounting" is used whereby the proceeds of issuing debt are allocated between the two components: the equity conversion rights (recognised in equity); and the liability, recognised at fair value calculated by discounting at a market rate for a non-convertible debt (recognised in liabilities).

US GAAP Recognised as a liability, although a few instruments such as those with detachable warrants require split accounting.

UK GAAP Similar to **US GAAP**.

Indian GAAP Does not specifically address the issue of convertible debt.

Measurement

IAS Initial measurement is at cost, being the fair value of consideration received less transaction costs. There are only two categories of financial liabilities, trading and other. All derivatives that are liabilities (except qualifying hedging instruments) are trading liabilities. Other trading liabilities may include a short position in securities. Trading liabilities are measured at fair value. All other (non-trading) liabilities are carried at amortised cost. For trading liabilities that are re-measured to fair value, the change is recognised in the income statement for the period.

US GAAP Similar to **IAS**.

UK GAAP Initial measurement at fair value of the consideration received less issue costs. Subsequent measurement at amortised cost. No specific measurement rules for trading items, derivatives or hedge accounting.

Indian GAAP Does not specifically address the issue.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Derecognition of financial liabilities

IAS A financial liability must be derecognised when: the obligation specified in the contract is discharged; cancelled or expires; or the primary responsibility for the liability is legally transferred to another party. The difference between the carrying amount of a liability (or a portion thereof) extinguished or transferred and the amount paid for it must be recognised in net profit or loss for the period.

US GAAP Similar to **IAS**.

UK GAAP Does not have detailed requirements about derecognition of financial liabilities. However, practice is similar to **IAS**.

Indian GAAP Does not specifically address the issue.

Recent proposals – US GAAP

In October 2000, the FASB issued a proposed statement on Accounting for financial instruments with characteristics of liabilities, equity, or both. The proposal provides guidance for the classification of financial instruments that have characteristics of liabilities, equity or both. Key changes include a requirement to classify liability components and equity components of a financial instrument separately. Items such as minority interest would no longer receive the mezzanine treatment.

REFERENCES: IAS: IAS 32, IAS 39, SIC-5. **US GAAP:** APB 14, FAS 76, FAS 140. **UK GAAP:** FRS 4.

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Equity Instruments

Recognition and classification

IAS An instrument is classified as equity when it does not contain an obligation to transfer economic resources. Preference shares, which are not redeemable or redeemable solely at the option of the issuer and where distributions are at the discretion of the issuer, are classified as equity.

US GAAP Shareholders' equity is analysed between capital stock (showing separate categories for non-redeemable preferred stock and common stock) and other categories of shareholders' equity. Redeemable preferred stock is not classified in equity but normally in a "mezzanine" category between shareholders' equity and liabilities.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

UK GAAP Capital instruments that do not contain an obligation to transfer economic benefits must be reported within shareholders' funds. All shares (ordinary and preferred) are reported within shareholders' funds. Shareholders' equity and minority interests are then further analysed between equity and non-equity interests.

Indian GAAP Does not specifically address the issue.

Purchase of own shares

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

US GAAP When treasury stock is acquired with the intention of retiring the stock, an entity has the option to charge the excess of the cost of treasury stock over its par value: entirely to retained earnings; allocate the excess between retained earnings and additional paid-in-capital (APIC) or charge the excess entirely to APIC.

UK GAAP An entity may purchase its own shares provided that complex legal requirements are adhered to which require the shares to be cancelled. Shares purchased by an employee benefit trust are shown as an asset rather than a deduction from equity under certain conditions.

Indian GAAP An entity may purchase its own shares provided it is in consonance with the complex legal requirements stipulated in the Companies Act.

Dividends on ordinary equity shares

IAS Presented as a deduction in the statement of changes in shareholders' equity.

US GAAP Similar to **IAS**.

UK GAAP Presented as a deduction at the foot of the profit and loss account.

Indian GAAP Presented as an appropriation of profits rather than as a charge against profits in the income statement.

Recent proposals

In December 2000 the ASB issued exposure draft FRED 22 a revision of FRS 3 "Reporting Financial Performance". FRED 22 proposes that similar to **IAS**, dividends must be recognised in movements in shareholders' equity as they represent transactions with owners. However, dividends for the period must be shown as memorandum items at the foot of the performance statement, both in total and per share. The information must be given for each class of share.

REFERENCES: IAS: IAS 32, IAS 39, SIC-16. **US GAAP:** ASR 268(SEC), APB 6, APB 14. **UK GAAP:** FRS 4, FRED 22, Companies Act 1985.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

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

UK GAAP prescribes the accounting treatment for capital instruments, however there is currently no specific accounting standard dealing with the recognition and measurement of derivatives, although extensive disclosure requirements are prescribed.

Definition

IAS defines a derivative: as a financial instrument whose value changes in response to a specified index; requires no or little net investment; and is settled at a future date. **UK GAAP** defines a derivative as an instrument, which derives its value from the price or rate of some underlying item. **US GAAP** sets out similar requirements except that the terms of the derivative contract must require or permit net settlement. Therefore, there are some derivatives, such as option and forward agreements to buy unlisted equity investments that fall within the scope of **IAS**, and not **US GAAP**.

Indian GAAP does not address the issue of derivative accounting.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Initial measurement

Under **IAS** and **US GAAP** all derivatives are recognised on the balance sheet as either financial assets or liabilities. They are initially measured at cost. Under **IAS** cost includes direct external transaction costs, but not internal allocations of cost.

Subsequent measurement

IAS and **US GAAP** require subsequent measurement of all derivatives at their fair value, regardless of any hedge relationship that might exist. Changes in the value of a derivative are recognised in the income statement as they arise, unless they satisfy the criteria for hedge accounting outlined below. Under **IAS** a derivative whose fair value cannot be measured reliably, is carried at cost less impairment or amortisation until settlement.

Under **IAS** fair value excludes transaction costs. **US GAAP** is not specific on this point.

Hedge Accounting

Under **IAS** and **US GAAP** detailed guidance is set out in the respective standards dealing with hedge accounting. There is no guidance on hedge accounting in **UK GAAP** except for guidance covering the hedging of foreign equity investments and forward exchange contracts.

Criteria for hedge accounting

Under both **IAS** and **US GAAP** hedge accounting is permitted provided that an entity meets certain qualifying criteria in relation to documentation and hedge effectiveness. Both frameworks require documentation of the entity's risk management objectives, and how the effectiveness of the hedge will be assessed.

Under both frameworks hedge

instruments must be highly effective in offsetting the exposure of the hedged item to changes in the fair value or cash flows, and the effectiveness of the hedge must be measured reliably on a continuing basis.

IAS does not require a hedge to be perfectly effective to qualify for hedge accounting. A hedge qualifies for hedge accounting if the expectation is that changes in fair values or cash flows "almost fully" offset and "actual" results are within a range of 80 to 125 per cent. **US GAAP** provides similar rules except that the 80 to 125 per cent requirement applies also to the "expected" effectiveness. Thus **US GAAP** is slightly less restrictive than **IAS**.

Derivatives and hing

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Hedged Items

In addition to the general criteria for hedge accounting, IAS and US GAAP outline rules for the designation of specific financial assets and liabilities as hedged items. These are outlined in the table below :

IAS	US GAAP
A held-to-maturity investment cannot be designated as a hedged item with respect to interest rate risk, because changes in interest rates are not recognized for held-to-maturity investments.	Similar to IAS .
If the hedged item is a financial asset or liability, it may be designated as a hedged item only in relation to those risks where effectiveness can be measured.	The designated risk must be the risk of changes in : the overall fair value or cash flow; market interest rates; foreign currency exchange rates; or the obligor's creditworthiness.
If the hedged item is a non-financial asset or liability, it may be designated as a hedged item only for foreign currency risk, or in its entirety because of the difficulty of isolating other risks.	Similar to IAS , but the designated risk must be
If similar assets or similar liabilities are aggregated and hedged as a group, the change in fair value attributable to the hedged risk for individual items must be proportionate to the change in fair value for the group.	Similar to IAS .
Not specified.	An asset or liability that is re-measured to fair value with changes recognized in earnings, e.g. debt security classified as trading, is not permitted as a hedged item.
Not specified.	The hedged item cannot be related to : a business combination; the acquisition or disposition of subsidiaries; or investments accounted for using the equity method.

Hedging instruments

In most cases only a derivative instrument can qualify as a hedging instrument. However, **IAS** permits a non-derivative (such as a foreign currency borrowing) to be used as a hedging instrument for foreign currency risk. **US GAAP** provides that a non-derivative can hedge currency risk only for a net investment in a foreign entity, or a firm commitment.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Under **IAS** a written option cannot be designated as a hedging instrument unless it is combined with a purchase option and a net premium is paid. **US GAAP** provides a broadly similar restriction and in most cases written options will not qualify for hedge accounting.

Hedge relationships

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

IAS Recognises several types of hedge relationships. A fair value hedge where the risk being hedged is a change in the fair value of a recognised asset or liability. A cash flow hedge where the risk being hedged is the potential volatility in future cash flows. A hedge of a net investment in a foreign entity, where a hedge instrument is used to hedge the currency risk of a net investment in a foreign entity. A hedge of an unrecognised firm commitment to buy or sell a fixed asset is accounted for as a cash flow hedge with the requirement that the forecasted transaction must be highly probable.

US GAAP Similar to **IAS**, except that an unrecognised firm commitment is accounted for as a fair value hedge. **US GAAP** requires that the forecasted transaction be highly probable to qualify for hedge accounting.

UK GAAP Disclosure about hedges is required. There is no guidance on hedge accounting generally, however there is limited guidance covering the hedging of foreign equity investments and forward exchange contracts.

IAS US GAAP

Fair value hedges

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

US GAAP Similar to **IAS**.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Cash flow hedges

- IAS** Hedging instruments are measured at fair value, with gains and losses on the hedging instrument, where they are effective, initially deferred in equity and subsequently released to the income statement concurrent with the earnings recognition pattern of the hedged item. Gains and losses on financial instruments used to hedge forecasted asset and liability acquisitions are included in the cost of the asset or liability – so-called 'basis adjustment'.
- US GAAP** The basis adjustment approach is not permitted. Instead all gains and losses are subsequently released to the income statement concurrent with the deferred recognition of the hedged item.

Hedges of net investments in foreign entities

- IAS** Similar treatment to cash flow hedges, the hedging instrument is measured at fair value with gains/losses deferred in equity, to the extent that the hedge is effective, together with exchange differences arising on the entity's investment in the foreign entity. These gains/losses are transferred to the income statement on disposal of the foreign entity. **IAS** allows the full gains and losses on hedges of a net investment in a foreign entity to be deferred in equity (including any hedge ineffectiveness), provided the hedging instrument is a non-derivative (e.g. a borrowing).
- US GAAP** Similar to **IAS**, however, hedge ineffectiveness is recognised in the income statement in all cases.
- UK GAAP** Where an entity has used foreign currency borrowings to finance, or provide a hedge against its foreign equity investments and certain conditions are met, the equity investments may be treated as foreign currency items and the carrying amounts translated at closing rates. Any exchange differences must be recognised in reserves together with exchange gains or losses arising on the foreign currency borrowings. Hedge ineffectiveness must be recognised in the income statement.

Disclosure

The extensive disclosure requirements in **IAS** and **US GAAP** apply to all entities except that under **US GAAP** fair value disclosures are not required for certain small non-public entities. The extensive **UK GAAP** disclosures are limited to entities, other than insurance companies, with listed or publicly traded debt or equity and all banks and similar institutions.

The disclosures under all three frameworks are broadly similar and include general information about the entity's use of financial instruments, fair value information, details of hedging activities and liquidity information. However, there are numerous differences in the detailed requirements (such as those for disclosures of interest rate risk, credit risk and market risk), as well as industry specific disclosures, which are outside the scope of this publication.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Recent proposals - all three frameworks

The Joint Working Group's proposals, issued in December 2000, are that all financial instruments must be measured at fair value. Gains and losses arising from changes in fair value would generally be included in the income statement. No "deferral" or hedge accounting would be permitted.

REFERENCES: IAS: IAS 39. **US GAAP:** FAS 133, FAS 137. **UK GAAP:** FRS 13, FRS 4, SSAP 20.

Earnings Per Share

Earnings per share (EPS) must be disclosed for listed entities under all four frameworks. **IAS, US GAAP, UK GAAP** and **Indian GAAP** are substantially the same in their methods of calculating earnings per share amounts.

Basic EPS

IAS Basic EPS is calculated as profit available to common shareholders, divided by the weighted average number of shares in issue during the period. Shares issued as a result of a bonus issue are treated as if in issue for the whole year. Bonus issues occurring after the year-end must be incorporated into the calculations. For rights issues a theoretical ex-rights formula is used to calculate the bonus element. Comparative EPS is adjusted for bonus issues and rights issues.

US GAAP Similar to **IAS**.

UK GAAP Similar to **IAS**.

Indian GAAP Similar to **IAS**.

Diluted EPS – basis

IAS There is no "de minimis" dilution threshold below which diluted EPS need not be disclosed. For diluted EPS, earnings are adjusted for the after-tax amount of dividends and interest recognised in the period in respect of the dilutive potential ordinary shares and for any other changes in the income statement or expense that would result from the conversion of the dilutive potential ordinary shares. The conversion is deemed to have occurred at the beginning of the period or, if later, the date of the issue of potential dilutive ordinary shares.

US GAAP Similar to **IAS**.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

UK GAAP Similar to **IAS**.

Indian GAAP Similar to **IAS**.

Diluted EPS – share option

IAS The “treasury stock” method is used for determining the effect of share options and warrants. The assumed proceeds from the issue of the dilutive potential ordinary shares are considered to have been used to repurchase shares at fair value. The difference between the number of shares issued and the number of shares that would have been issued at fair value is treated as an issue of ordinary shares for no consideration (i.e. a bonus issue) and is factored into the denominator used to calculate the diluted EPS. The earnings figure is not adjusted for the effect of share options/warrants.

US GAAP Similar to **IAS**.

UK GAAP Similar to **IAS**.

Indian GAAP Similar to **IAS**.

REFERENCES: IAS: IAS 33. **US GAAP:** FAS 128. **UK GAAP:** FRS 14. **Indian GAAP:** AS 20

Other accounting and reporting topics

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Related Party Transactions

The objective of the disclosures required by **IAS, US GAAP, UK GAAP and Indian GAAP** in respect of related party relationships and transactions is to ensure that users of financial statements are made aware of the extent to which those statements might be influenced by the existence of related parties.

Related party relationships are generally determined by reference to the control or indirect control of one party by another or by the existence of significant influence by one party over another. The three accounting frameworks are broadly similar as to which parties would be included within the definition of related parties, including subsidiaries, associates, directors and shareholders.

If the relationship is one based on control, certain disclosures are always required (regardless of whether transactions between the parties have taken place); these include the existence of the related party relationship, the name of the related party and the name of the ultimate controlling party.

There are some exemptions from disclosure available for certain subsidiaries and transactions.

Disclosures and exemptions

IAS Unlike the **UK GAAP** and **US GAAP** standards, there is no specific requirement in **IAS** to disclose the name of the related party (other than the ultimate parent entity) or the amounts involved in a transaction. However, these disclosures would appear to be needed in order to present meaningfully the “elements” of the transaction, which is a disclosure requirement.

Exemptions from disclosures about related party transactions in the financial statements of subsidiaries are rather more limited than under **UK GAAP**: the subsidiary must be wholly owned and their parent must be incorporated in the same country and provide consolidated financial statements.

US GAAP The nature and extent of any transactions with all related parties must be disclosed, together with the amounts involved. Unlike the **IAS** and **UK GAAP** standards, all material related party transactions (other than compensation arrangements, expense allowances and similar items) must be disclosed in the separate financial statements of wholly owned subsidiaries, unless these are presented in the same financial report which includes the parent's consolidated financial statements (including those subsidiaries).

UK GAAP The nature and extent of transactions with all related parties must be disclosed, together with the amounts involved. There is no requirement to disclose transactions with other group entities in the financial statements of (at least) 90% owned subsidiaries, provided the parent's consolidated financial statements in which those subsidiaries are included are publicly available.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Indian GAAP Name of the related party and nature of the related party relationship where control exists should be disclosed irrespective of whether or not there have been transactions between the related parties.

If there have been transactions between related parties, during the existence of a related party relationship, the reporting enterprise should disclose the following:

- (i) the name of the transacting related party;
- (ii) a description of the relationship between the parties;
- (iii) a description of the nature of transactions;
- (iv) volume of the transactions either as an amount or as an appropriate proportion;
- (v) any other elements of the related party transactions necessary for an understanding of the financial statements;
- (vi) the amounts or appropriate proportions of outstanding items pertaining to related parties at the balance sheet date and provisions for doubtful debts due from such parties at that date; and
- (vii) amounts written off or written back in the period in respect of debts due from or to related parties.

REFERENCES: **IAS:** IAS 24. **US GAAP:** FAS 57. **UK GAAP:** FRS 8, Companies Act 1985. **Indian GAAP:** AS 18 and Companies Act.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Segment Reporting

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

ISSUE	IAS	US GAAP	UK GAAP	INDIAN GAAP
General requirements				
Scope.	Listed entities, entities in the process of listing, non-listed entities may choose full compliance.	Listed entities, non-listed entities are encouraged but not required to comply.	Applies to all entities with additional requirements for listed entities, banks and insurance entities and large entities. Exclusion permitted if disclosures prejudicial (disclose this fact).	Enterprises whose equity or debt securities are listed on a recognised stock exchange in India, and enterprises that are in the process of issuing equity or debt securities that will be listed on a recognised stock exchange in India as evidenced by the board of directors' resolution in this regard. All other commercial, industrial and business reporting enterprises, whose turnover for the accounting period exceeds Rs. 500 million.
Format.	Business and geographical, one as primary format other as secondary. Choice will depend on impact upon business risks and returns.	Based on the way management organizes and reports the business result internally.	Business and geographical segments.	Similar to IAS .

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

ISSUE	IAS	US GAAP	UK GAAP	INDIAN GAAP
	Secondary format requires less disclosure.		Does not distinguish between primary and secondary reporting formats.	
Identification of segment				
General approach.	Based on profile of risks and returns and internal reporting structure.	Based on the internally reported operating segments.	Based on profile of risks and returns, rate of growth, size and potential for development.	Similar to IAS .
Aggregation of similar geographical segments.	As for business/operating segments: six factors given, focusing on economic and political conditions, special risks, exchange control regulations and currency risks.	Not specified; certain disclosures (revenues and assets) required on consolidated GAAP basis of domestic operations, foreign countries in total and each material country.	Similar to IAS .	Similar to IAS .
Threshold for reportable segments.	Revenue, result or assets are 10% more of all segments. If revenue of reported segments are below 75% of total, report additional segments until 75% threshold is reached.	Similar to IAS .	Similar to IAS , except that 75% test does not apply.	Similar to IAS .
Segments not reported.	Segments not identified as above, included as unallocated items.	Similar to IAS .	Similar to IAS .	Similar to IAS .
Maximum number of reported segments.	No limits.	Practical limit suggested at not greater than ten segments.	Similar to IAS .	Similar to IAS .

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

ISSUE	IAS	US GAAP	UK GAAP	INDIAN GAAP
Measurement				
Accounting policies for segments.	Those adopted for consolidated financial statements. May disclose additional segment data based on internal accounting policies.	Those adopted for internal reporting.	Similar to IAS .	Similar to IAS .
Symmetry of allocation of assets/liabilities, revenues/expenses.	Symmetry required.	Not required but asymmetrical allocations must be disclosed.	Allocation on a reasonable basis.	Similar to IAS .
Main disclosures				
Factors used to identify reportable segments.	No specific disclosure required.	Required.	Same as IAS .	Similar to IAS .
Composition of segments.	Disclose types of products and services included in each reported business segment and composition of each geographic segment.	Same as IAS .	Same as IAS .	Similar to IAS .
Profit.	Required.	Required.	Required.	Required.
Assets and liabilities.	Assets required. Liabilities for primary segment format only.	Assets required. Liabilities not required.	Net assets required.	Similar to IAS .
External and inter-segment revenue.	External revenue required. Inter segment revenue primary segment format only.	Required on a consolidated GAAP basis, and on a segment GAAP basis but only if included in the	Same as IAS .	Similar to IAS .

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

ISSUE	IAS	US GAAP	UK GAAP	INDIAN GAAP
		measure of segment profit/loss for internal reporting.		
Depreciation and amortisation expense and other significant non-cash expense.	Required only for primary segment format.	Required for reportable segments on segment GAAP basis, but only if included in the measure of segment profit/loss in internal reporting or otherwise regularly reported to chief operating decision-maker.	Not required.	Similar to IAS .
Exceptional item.	Encouraged but not required for primary segment format only.		Required.	Does not address the issue specifically.
Interest revenue and interest expense.	Not required.		Not required.	Not required.
Income tax.	Not required.		Not required.	Not required.
Extraordinary items.	Not required.		Not required.	Not required.
Capital expenditure on an accrual basis	Required.		Not required.	Not required.
Profit/loss from investments in equity method investees.	Required if operations of associate are substantially all within a single segment.		Similar to IAS .	Does not address the issue specifically.
Major customers.	Not required.	For each external customer > 10% of consolidated revenue, disclose total revenue and the relevant segment that reported the revenues.	Not required.	Not required.

REFERENCES: **IAS:** IAS 14. **US GAAP:** FAS 131. **UK GAAP:** SSAP 25, FRS 3, FRS 9, Companies Act 1985. **Indian GAAP:** AS 17.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Discontinuing/Discontinued Operations

US and **UK GAAP** contain requirements for the measurement and disclosures of “discontinued” operations. **IAS** only includes requirements for disclosures of “discontinuing operations”, stating that the measurement rules contained in other standards, for example on impairment and provisions, must be followed.

ISSUE	IAS	US GAAP	UK GAAP	INDIAN GAAP
Definition.	Separate major component.	Identifiable component representing major class of business.	Operation whose discontinuance has material effect on nature/focus of business.	Similar to IAS .
How discontinued.	Either substantially in its entirety or piecemeal or through abandonment.	Has been or will be sold, abandoned or otherwise disposed of.	Sold or otherwise terminated permanently.	Similar to IAS .
Envisaged timescale.	Over several months or longer but pursuant to a single plan.	Completed within a year of measurement date (date of management’s commitment to discontinuance plan).	Completed within the period or within earlier of 3 months after period end or date of approval of financial statements.	Similar to IAS .
Starting date for disclosure.	From the date on which a formal plan of disposal has been announced.	From the date on which management has committed to a formal plan of disposal (announcement not required).	No start date given.	Similar to IAS .
Measurement.	Follow other standards e.g. on provisions and impairment.	Measure gain or loss on discontinuance at measurement date, including provisions for operating losses and estimated loss on disposal. Recognise gains when	Similar to IAS , but provide for losses on sale or termination when demonstrably committed to the sale or termination.	Similar to IAS .

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

ISSUE	IAS	US GAAP	UK GAAP	INDIAN GAAP
		realised.		
Presentation.	Continue to consolidate as normal until discontinuance completed, with additional disclosures on face of the income statement or in notes – see below.	From measurement date, present result from operations of discontinued component (and gain or loss on disposal) as separate lines in the income statement, net of tax, after income from continuing operations. Balance sheet consolidation as normal, if discontinuance not completed by period end.	Analysis of turnover and specified exceptional items and operating profit on the face of the income statement or further details in the notes.	Similar to IAS .
Ending date of disclosure.	Until completion of the discontinuance.	Similar to IAS .	Similar to IAS .	Similar to IAS .
Disclosures – where.	Face of the income statement or In notes to accounts.	Notes to accounts.	See comments for presentation.	Similar to IAS .
Disclosures - what.	<ul style="list-style-type: none"> ▪ Description of component and segment of which the operation is part ▪ Date and nature of initial disclosure event ▪ Expected timescale for completion of discontinuance ▪ Carrying value 	<ul style="list-style-type: none"> ▪ Identity of segment ▪ Expected date and manner of discontinuance ▪ Description of remaining assets/liabilities to be disposed of ▪ Revenues/taxes for that segment 	See comments for presentation.	Similar to IAS .

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

ISSUE	IAS	US GAAP	UK GAAP	INDIAN GAAP
	of total assets/liabilities to be disposed of <ul style="list-style-type: none">Revenue, expenses, pre-tax result, tax and cash flows for current period.	<ul style="list-style-type: none">Income/ loss of segment since measurement date.		
Disclosures once completed.	Pre-tax gain or loss (face of the income statement).	Gain on disposal (losses recognized earlier).	Similar to IAS .	Similar to IAS .
Comparatives.	Restate for effects of discontinuing operations.	Similar to IAS .	Similar to IAS .	Similar to IAS .

Recent proposals - UK GAAP

In December 2000 the ASB issued exposure draft FRED 22 to revise FRS 3 "Reporting Financial Performance". The proposals on discontinuing operations would bring the **UK GAAP** rules much closer to **IAS**. FRED 22 proposes a greater level of disclosure of "discontinuing" operations than presently required. For all those operations classified as discontinuing in the performance statement, the proposed disclosures include: a description of the discontinuing operation; the date or period in which the discontinuance is expected to be completed; the carrying amounts at the balance sheet date of the total assets. Disclosure would also be required of the total assets and liabilities to be disposed of and the amounts of net cash flow

REFERENCES: **IAS:** IAS 35, IAS 36, IAS 37. **US GAAP:** APB 30. **UK GAAP:** FRS 3, FRS 10, FRS 12, FRED 22. **Indian GAAP:** AS 24

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

Post Balance Sheet Events

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

Adjusting events after the balance sheet date

IAS Adjusting events which occur after the balance sheet date are defined as events which provide additional evidence of conditions which existed at the balance sheet date and materially affect the amounts included. The amounts recognised in the financial statements must be adjusted to reflect adjusting events after the balance sheet date.

US GAAP Similar to **IAS**.

UK GAAP Similar to **IAS**.

Indian GAAP Similar to **IAS**.

Non-adjusting events after the balance sheet date

IAS Non-adjusting events which occur after the balance sheet date are defined as material events occurring after the balance sheet date, which concern conditions that did not exist at the balance sheet date. The nature and estimated financial effects of such events are disclosed to prevent the financial statements being misleading.

US GAAP Similar to **IAS**.

UK GAAP Similar to **IAS**.

Indian GAAP Similar to **IAS**.

The announcement of a dividend relating to the financial year just ended

IAS This event is accounted for as a non-adjusting event.

US GAAP The declaration of a cash dividend is a non-adjusting event but a stock dividend is an adjusting event.

GAAP differences

Comparison of GAAP requirements under IAS, US, UK and India

UK GAAP Is an adjusting event.

Indian GAAP Dividend proposed is given effect in the financial statements even though it is subject to approval of the shareholders.

REFERENCES: IAS: IAS 10. **US GAAP:** AU Section 560. **UK GAAP:** SSAP 17, Companies Act 1985. **Indian GAAP:** AS 5

ther accounting and reporting topics

Interim Financial Reporting

Stock Exchange requirements

IAS The IASB does not mandate that public entities produce interim statements, but does encourage interim reporting – see additional guidance below.

US GAAP As well as following APB 28, domestic US SEC registrants must also comply with the specific financial reporting requirements in Regulation S-X applicable to quarterly reporting, including publication within 45 days of the quarter end. SEC registrants must also include an abbreviated management discussion and analysis of financial condition and results of operations.

UK GAAP The Financial Services Authority Listing Rules require: income statement, balance sheet, cash flow statement and earnings per share information in respect of the first six months of each financial year, use of accounting policies consistent with the current annual financial statements and an explanatory statement to shareholders. In practice, many listed companies in the UK go further than the minimum requirements and comply with the ASB's non-mandatory Statement on Interim Reports.

Indian GAAP The statement on interim reporting does not mandate which enterprises should be required to present interim financial reports, how frequently, or how soon after the end of an interim period. If an enterprise is required or elects to prepare and present an interim financial report, it should comply with the statement. All listed companies are required to prepare interim financial statements for filing with the stock exchanges in accordance with the guidance given by the Securities and Exchange Board of India (SEBI).

Additional guidance

Additional guidance under all three frameworks is similar and includes the following:

- consistent and similar basis of preparation of interim statements with previously reported annual data and from one period to the next;

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- use of accounting policies consistent with the previous annual financial statements, together with adoption of any changes to accounting policies which it is known will be made in the year end financial statements (for example application of a new standard);
- preparation of the interim statements using a “discrete approach” to revenue and expenditure recognition; that is, viewing the interim period as a distinct accounting period, rather than part of the annual cycle. Hence incomplete transactions must be treated in the same way as at the year end, although **US GAAP** allows allocation between interim periods of certain costs benefiting more than one of those periods and deferral of certain cost variances expected to be absorbed by year end. The tax charge in all three frameworks is based on an estimate of the annual effective tax rate applied to the interim results;
- summarised income statement (including segment revenue/profit), balance sheet, cash flow statement, selected notes and statement of recognised gains and losses; and
- a narrative commentary.

Under all three frameworks comparatives for the balance sheet are taken from the last annual financial statements. Under **UK GAAP** comparatives for the income statement, cash flow statement and statement of recognised gains and losses are for the previous full financial year in addition to the same interim period of the preceding year. Under **US GAAP** and **IAS**, quarterly interim reports must contain comparatives (other than for the balance sheet) for the cumulative period to date and the corresponding period of the preceding year.

REFERENCES: IAS: IAS 34. **US GAAP:** APB 28, FAS 130, FAS 131. **UK GAAP:** Financial Services Authority Listing Rules (Chapter 12), ASB's Statement on Interim Reports. **Indian GAAP:** AS 25 and SEBI guidelines.

Other accounting and reporting topics

Operating and Financial Review

IAS and **UK GAAP** encourage but do not mandate the inclusion of an operating and financial review (OFR) outside the financial statements of public and large private companies. Both frameworks give some guidance as to the contents of such a review. By contrast, an entity filing with the SEC is required to include a management discussion and analysis (MD&A) section in addition to the financial statements.

IAS Encourages the following to be included:

- main features of operating performance for the current period of review;
- “dynamics of the business” – changes in the business environment, the reaction of the business to them and their effect on performance;

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- policy for investment in the current period to maintain and enhance performance in future periods; and
- sources of funding, gearing policy and strategies for managing risks.

US GAAP

The MD&A focuses mainly on liquidity, capital resources and results of operations addressing the three year period covered by the financial statements and includes among other things:

- explanation of material changes in financial statement balances, focusing on each relevant reportable segment if the revenues, profits and cash needs of these are disproportionate;
- general economic and industry conditions, including known prospective information;
- infrequent events or transactions; and
- the likely impact in future periods of recently issued accounting standards not yet implemented by the entity.

Foreign companies listed in the USA must also discuss pertinent governmental, fiscal, monetary or political policies that may affect them or their US investors. They must also provide an explanation of the main differences between local accounting and **US GAAP**.

UK GAAP

Similar to **IAS**.

REFERENCES: IAS: IAS 1. **US GAAP:** SEC Regulation S-K, SEC FRR 36. **UK GAAP:** ASB's Statement on Operating and Financial Review.

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APB Accounting Principles Board Opinion (US)

ARB Committee on Accounting Procedure Accounting Research Bulletins (US)

ASR SEC Accounting Series Release (US)

AU Auditing Standards (US)

CON Financial Accounting Standards Board Concept (US)

E/ED Exposure Draft (IAS/US)

EITF Emerging Issues Task Force (US)

FAS Financial Accounting Standard (US)

FASB TB Financial Accounting Standards Board Technical Bulletin (US)

FIN Financial Accounting Standards Board Interpretation (US)

FRED Financial Reporting Exposure Draft (UK)

FRS Financial Reporting Standard (UK)

IAS International Accounting Standard (IAS)

SAB SEC Staff Accounting Bulletin (US)

SEC FRR SEC Financial Reporting Release (US)

SIC Standing Interpretations Committee (IAS)

SOP AICPA Statement of Position (US)

SSAP Statement of Standard Accounting Practice (UK)

UITF Urgent Issues Task Force (UK)

AS Accounting Standards (India)