Similarities and Differences

A Comparison of IFRS, US GAAP and Indian GAAP*

*connectedthinking

November 2007

PricewaterhouseCoopers' publications and tools

PricewaterhouseCoopers has a range of tools and publications to help companies apply IFRS (see also the inside back cover).

Illustrative Consolidated Financial Statements

- Corporate, 2007
- Banking, 2006
- Insurance, 2006
- Investment funds, 2006
- Investment property, 2006

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

Measurement checklist 2006

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

Disclosure checklist 2007

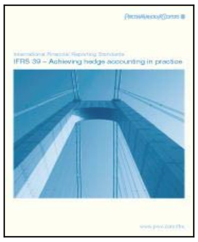
Outlines the disclosures required by all IFRSs published upto September 2006

Adopting IFRS – A step-by-step illustration of the transition to IFRS

Illustrates the steps involved in preparing the first IFRS financial statements. It takes into account the effect on IFRS 1 of the standards issued up to and including March 2004.

IFRS for SMEs (proposals) – Pocket Guide 2007

Provides a summary of the recognition and measurement requirements in the proposed 'IFRS for Small and Medium-Sized Entities' published by the International Accounting Standards Board in February 2007



IAS 39 – Achieving hedge accounting in practice

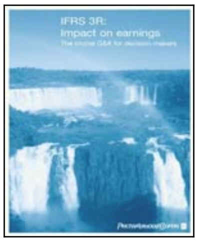
Covers in detail the practical issues in achieving hedge accounting under IAS 39. It provides answers to frequently asked questions and step-by-step illustrations of how to apply common hedging strategies.

Understanding financial instruments –A guide to IAS 32, IAS 39 and IFRS 7

Comprehensive guidance on all aspects of the requirements for financial instruments accounting. Detailed explanations illustrated through worked examples and extracts from company reports.

Acquisitions – Accounting and transparency under IFRS 3

Assesses the impact of the standard, highlighting the key issues for management and raising questions for the Board



IFRS 3R: Impact on earnings –the crucial Q&A for decision-makers

Guide aimed at finance directors, financial controllers and deal-makers, providing background to the standard, impact on the financial statements and controls, and summary differences with US GAAP -

Share-based Payment a practical guide to applying IFRS 2

Assesses the impact of the new standard, looking at the requirements and providing a step-by-step illustration of how to account for share-based payment transactions

SIC-12 and FIN 46R – The Substance of Control

Helps those working with special purpose entities to identify the differences between US GAAP and IFRS in this area, including examples of transactions and structures that may be impacted by the guidance.

IFRS Pocket Guide 2006

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

IFRS News

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

Similarities and Differences

A Comparison of
IFRS, US GAAP and Indian GAAP

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers, its members, employees and agents accept no liability, and disclaim all responsibility, for the consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

This publication (and any extract from it) may not be copied, paraphrased, reproduced, or distributed in any manner or form, whether by photocopying, electronically, by internet, within another document or otherwise, without the prior written permission of PricewaterhouseCoopers. Further, any quotation, citation, or attribution of this publication, or any extract from it, is strictly prohibited without PricewaterhouseCoopers' prior written permission.

© 2007 PricewaterhouseCoopers. All rights reserved. "PricewaterhouseCoopers", a registered trademark, refers to PricewaterhouseCoopers Private Limited (a limited company in India) or, as the context requires, other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Contents

	Page
Preface	2
How to use this publication	3
Summary of similarities and differences	4
Accounting framework	21
Financial statements	23
Consolidated financial statements	30
Business combinations	36
Revenue recognition	42
Expense recognition	46
Assets	53
Liabilities	66
Equity	78
Derivatives and hedging	79
Other accounting and reporting topics	82
Foreign currency translation	82
Earnings per share	84
Related-party disclosures	86
Segment reporting	87
Discontinued operations	89
Post-balance-sheet events	89
Interim financial reporting	91
Abbreviations	92
Index	93

Preface

We are writing this note when we all are at threshold of significant changes in the financial reporting landscape and indeed these are exciting times for the profession.

On November 15, the Securities & Exchange Commission (SEC) unanimously approved amendments to its rules and forms that will eliminate the requirement for foreign private issuers (FPIs), using International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), to reconcile their financial statements to US GAAP. When effective, this ruling will apply to those FPIs for fiscal years ending after November 15, 2007. This decision signals the SEC's acknowledgement of the globalization of the capital markets, the quality of the IFRS accounting and reporting framework, and the progress achieved through the convergence efforts of the IASB and the Financial Accounting Standards Board (FASB).The world is moving towards convergence to one unified standard: IFRS.

As of now, more than 100 countries require or permit use of IFRS. China and Canada have announced to converge from 2008 and 2011 respectively. US SEC has also declared its intention to allow the use of IFRS by the domestic companies in years to come. It is also heartening to note that the Institute of Chartered Accountants of India (ICAI) have also set out a roadmap to converge with IFRS by 2011. We congratulate ICAI on this initiative.

Convergence brings both opportunities and challenges to us all. Opportunities, which come with the use of singular financial reporting framework, eases access to global capital markets, peer group comparison, cross border acquisitions or strategic transactions amongst others. Challenges include, uniform interpretation and application of principle based standards, train the current professionals in India, ensure compatability with the tax regime.

While we see the results of the efforts to converge the accounting framework, we at PricewaterhouseCoopers believe that the next wave would be to make the financial reporting more relevant to the most important users - the investor community. An effective financial report should be able to explain what the business is doing and the key business drivers. By no means is it a simple task to address the requirements of all the stakeholders but at the same time, the importance of relevant, timely, transparent and cost-effective corporate reporting cannot be undermined. We believe that improved transparency will be rewarded.

We take this opportunity to thank all of you for your feedback and response, which is a constant source of encouragement. We are pleased to present our fourth edition of this monograph, which aims to give a bird’s eye view of some of the accounting, disclosures and related requirements under the existing IFRS, US GAAP and Indian GAAP.

We hope it helps you in getting a feel of what is coming to India as it moves to converge with IFRS.

N. Ramesh Rajan

Ramesh Rajan

Chairman and CEO
PricewaterhouseCoopers – India

Sanjay Hegde

Executive Director and
Leader - Global Capital Markets Group
PricewaterhouseCoopers – India

How to use this publication

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

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

This publication takes account of authoritative pronouncements issued under IFRS, US GAAP and Indian GAAP up to 31 October 2007; It is based on the most recent version of those pronouncements even where an earlier version of a pronouncement is still effective at the date of this publication. We have noted certain developments within the detailed text; however, not all recent developments or exposure drafts have been included.

Summary of similarities and differences

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

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

PRICEWATERHOUSECOOPERS

SUBJECT	IFRS	US GAAP	Indian GAAP	PAGE
Cash flow statements – exemptions	No exemptions.	Limited exemptions for certain investment entities and defined benefit plans.	Exemption for certain 'Small and Medium Sized Enterprises' (SMEs) having turnover or borrowings below certain threshold.	28
Changes in accounting policy	Comparatives and prior year are restated against opening retained earnings, unless specifically exempted.	Similar to **IFRS**.	Restatement is not required. The effect of change is included in current-year income statement. The impact of change is disclosed.	29
Correction of errors	Comparatives are restated and, if the error occurred before the earliest prior period presented, the opening balances of assets, liabilities and equity for the earliest prior period presented are restated.	Similar to **IFRS**.	Restatement is not required. The effect of correction is included in current-year income statement with separate disclosure.	29
Changes in accounting estimates	Reported in income statement in the current period and future, if applicable.	Similar to **IFRS**.	Similar to **IFRS**.	29
Consolidated financial statements				
Consolidation model	Based on control, which is the power to govern the financial and operating policies. Control is presumed to exist when parent owns, directly or indirectly through subsidiaries, more than one half of an entity's voting power. Control also exists when the parent owns half or less of the voting power but has legal or contractual rights to control, or de facto control (rare circumstances). The existence of currently exercisable potential voting rights is also taken into consideration.	A bipolar consolidation model is used, which distinguishes between a variable interest model and a voting interest model. The variable interest model is discussed below. Under the voting interest model, control can be direct or indirect and may exist with less than 50% ownership. 'Effective control', which is a similar notion to de facto control under **IFRS**, is very rare if ever employed in practice.	Based on voting control or control over the composition of the board of directors or the governing body. Control exists when (a) parent owns, directly or indirectly through subsidiaries, more than one half of an entity's voting power or (b) it controls composition of an entity's board of directors so as to obtain economic benefits from its activities. The existence of currently exercisable potential voting rights is not taken into consideration.	30

SUBJECT	IFRS	US GAAP	Indian GAAP	PAGE
Special purpose entities (SPE)	Consolidated where the substance of the relationship indicates control.	Variable interest entities (VIEs) are consolidated when the entity has a variable interest that will absorb the majority of the expected losses, receive a majority of the expected returns, or both. A voting interest entity in which the entity holds a controlling financial interest is consolidated. If an SPE meets the definition of a qualifying SPE (QSPE), the transferor does not consolidate the QSPE.	No specific guidance.	30
Non-consolidation of subsidiaries	On an acquisition, if a subsidiary is held-for-sale, the entity does not consolidate the subsidiary.	A subsidiary held-for-sale, even at the time of acquisition, will be consolidated until sold.	If the entity is acquired and held for resale (temporary control) or if it operates in severe long-term restrictions which impair its ability to transfer funds to the parent.	31
Definition of associate	Based on significant influence, which is the power to participate in the financial and operating policy decisions; presumed if 20% or greater interest.	Similar to **IFRS**, although the term 'equity investment' is used instead of 'associate'.	Similar to **IFRS**; exemptions similar to non-consolidation of subsidiaries.	32
Presentation of associate results	In consolidated financials: equity method is used. Share of post-tax results is shown. In standalone financials: at cost or at fair value in accordance with IAS 39.	In consolidated financials: similar to **IFRS**. In standalone financials: at cost or equity method is used.	In consolidated financials: similar to **IFRS**. In standalone financials: at cost less impairment.	32
Disclosures about associates	Detailed information on associate's assets, liabilities, revenue and profit/loss is required.	Similar to **IFRS.**	Certain disclosures are required for all associates; however, detailed information on significant associates is not required.	32
Accounting policies of associate	Adjustments are made for consolidation purposes to the associate's policies to conform to those of the investor.	No adjustment to accounting policies is required if the associate follows an acceptable alternative **US GAAP** treatment.	Similar to **IFRS**, except it is not practicable, the fact is disclosed.	33
Definition of joint venture	Contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control. Exclusion if investment is held-for-sale.	A corporation owned and operated by small group of businesses as a separate and specific business or project for the mutual benefit of the members of the group.	Similar to **IFRS**. Exclusion if it meets the definition of a subsidiary or exemptions similar to non-consolidation of subsidiaries.	33

SUBJECT	IFRS	US GAAP	Indian GAAP	PAGE
Presentation of jointly controlled entities (joint ventures)	Both proportional consolidation and equity method permitted. In standalone financials: at cost or at fair value in accordance with IAS 39	Equity method required except in specific circumstances. In standalone financials: at cost or equity method is used.	In consolidated financials: proportional consolidation is used. In standalone financials: at cost less impairment.	34
Employee share (stock) trusts	Consolidated where substance of relationship indicates control (SIC-12 model). Entity's own shares held by an employee share trust are accounted for as treasury shares.	Similar to **IFRS** except where specific guidance applies for Employee Stock Ownership Plans (ESOPs) in SOP 93-6.	Employee share trusts are not consolidated.	35
Business combinations				
Types: acquisitions or mergers	All business combinations are acquisitions, thus the purchase method is the only method of accounting that is allowed.	Similar to **IFRS**.	No comprehensive accounting standard on business combinations. All business combinations are acquisition; except uniting of interests method is used in certain amalgamations when all the specified conditions are met. Accounting would differ for the following: • An entity acquired and held as a subsidiary • An acquisition by way of amalgamation of entity • A business acquisition (assets & liabilities only)	36
Purchase method –fair values on acquisition	Assets, liabilities and contingent liabilities of acquired entity are fair valued. Goodwill is recognised as the residual between the consideration paid and the percentage of the fair value of business acquired. In-process research and development is generally capitalised. Liabilities for restructuring activities are recognised only when acquiree has an existing liability at acquisition date. Liabilities for future losses or other costs expected to be incurred as a result of the business combination cannot be recognised.	There are specific differences to IFRS. Contingent liabilities of the acquiree are recognised if, by the end of the allocation period: • their fair value can be determined, or • they are probable and can be reasonably estimated. Specific rules exist for acquired in-process research and development (generally expensed). Some restructuring liabilities relating solely to the acquired entity may be recognised if specific criteria about restructuring plans are met.	For an entity acquired and held as a subsidiary, the assets acquired and liabilities assumed are incorporated at their existing carrying amounts for consolidation purposes On amalgamation, they may be incorporated at their existing carrying amounts or, alternatively, the consideration is allocated to individual identifiable assets and liabilities at their fair values. However, a court order approving an amalgamation may provide different and/or additional accounting entries. On business acquisition, they may be incorporated at their fair values or value of surrendered assets. No separate restructuring provision is recognised on acquisition.	36

SUBJECT	IFRS	US GAAP	Indian GAAP	PAGE
Purchase method – contingent consideration	Included in cost of combination at acquisition date if adjustment is probable and can be measured reliably.	Generally, not recognised until contingency is resolved and the amount is determinable.	Included in consideration if payment is probable and an amount can be reasonably estimated.	37
Purchase method – minority interests at acquisition	Stated at minority's share of the fair value of acquired identifiable assets, liabilities and contingent liabilities.	Stated at minority's share of pre-acquisition carrying value of net assets.	Similar to **US GAAP**.	38
Purchase method – intangible assets with indefinite useful lives and goodwill	Capitalised but not amortised. Goodwill and indefinite-lived intangible assets are tested for impairment at least annually at either the cash-generating unit (CGU) level or groups of CGUs, as applicable.	Similar to **IFRS**, although the level of impairment testing and the impairment test itself are different.	Goodwill on consolidation and business acquisitions: no specific guidance – practice varies, between no amortisation versus amortisation over a period not exceeding 10 years; Goodwill on amalgamation is amortised over a period not exceeding 5 years, unless a longer period is justified; Goodwill is reviewed for impairment whenever an indication of impairment exists at the CGU level. Intangible assets can not be classified into indefinite useful lives category. All intangible assets are amortised over a period not exceeding 10 years (rebuttable presumption).	38
Purchase method – negative goodwill	The identification and measurement of acquiree's identifiable assets, liabilities and contingent liabilities are reassessed. Any excess remaining after reassessment is recognised in income statement immediately.	Any remaining excess after reassessment is used to reduce proportionately the fair values assigned to non-current assets (with certain exceptions). Any excess is recognised in the income statement immediately as an extraordinary gain.	Recorded in equity as capital reserve, which is not amortised to income. However, in case of an amalgamation, the fair value of intangible assets with no active market is reduced to the extent of capital reserve, if any, arising on the amalgamation.	39
Business combinations involving entities under common control	Not specifically addressed. Entities elect and consistently apply either purchase or pooling-of-interest accounting for all such transactions.	Generally recorded at predecessor cost; the use of predecessor cost or fair value depends on a number of criteria.	No specific guidance. Normal business combination accounting would apply.	40

SUBJECT	IFRS	US GAAP	Indian GAAP	PAGE
Revenue recognition				
Revenue recognition	Based on several criteria, which require the recognition of revenue when risks and rewards and control have been transferred and the revenue can be measured reliably.	Similar to **IFRS** in principle, although there is extensive detailed guidance for specific types of transactions that may lead to differences in practice.	Similar to **IFRS** conceptually, although several differences in detail.	42
Multiple-element arrangements	Revenue recognition criteria are applied to each separately identifiable component of a transaction to reflect the substance of the transaction – e.g, to divide one transaction into the sale of goods and to the subsequent servicing of those goods. No further detailed guidance exists.	Arrangements with multiple deliverables are divided into separate units of accounting if deliverables in arrangement meet specified criteria outlined in EITF 00-21. Specific guidance exists for software vendors with multiple-element revenue arrangements.	No specific guidance.	43
Construction contracts	Accounted for using percentage-of-completion method. Completed contract method is prohibited.	Similar to **IFRS**; however, completed contract method is permitted in rare circumstances.	Similar to **IFRS**.	44
Expense recognition				
Depreciation	Allocated on a systematic basis to each accounting period over the useful life of the asset.	Similar to **IFRS**.	Similar to **IFRS**, except where the useful life is shorter as envisaged under the Companies Act or the relevant statute, the depreciation is computed by applying a higher rate.	56
Interest expense	Recognised on an accrual basis using the effective interest method. Interest incurred on borrowings to construct an asset over a substantial period of time are capitalised as part of the cost of the asset.	Similar to **IFRS**. Similar to **IFRS** with some differences in the detailed application.	Recognised on an accrual basis; practice varies with respect to recognition of discounts and premiums. Capitalisation rules are similar to **IFRS.**	46
Employee benefits: pension costs – defined benefit plans	Projected unit credit method is used to determine benefit obligation and plan assets are recorded at fair value. Actuarial gains and losses can be deferred. If actuarial gains and losses are recognised immediately, they can be recognised outside the income statement.	Similar to **IFRS** but with several areas of differences in the detailed application. Actuarial gains and losses cannot be deferred and are recognised in accumulated other comprehensive income with subsequent amortisation to the income statement.	With the adoption of AS 15 (revised), similar to **IFRS**, although several differences in detail. Eg, actuarial gains and losses are recognised upfront in the income statement. Prior to AS 15 (revised), no method is prescribed for actuarial valuation and limited guidance available on other specific issues.	46

PricewaterhouseCoopers

SUBJECT	IFRS	US GAAP	Indian GAAP	PAGE
Employee benefits: Compensated absences	It qualifies as short-term or other long-term employee benefits. The expected cost of accumulating short-term compensated absences is recognised on an accrual basis. Liability for long-term compensated absences is measured using projected credit unit method.	No segregation between short-term and long-term. The expected cost of all the accumulating compensated absences is recognised on an accrual basis. Discounting is permitted in rare circumstances.	With the adoption of AS 15 (revised), similar to **IFRS**. Prior to AS 15 (revised) practice varies for accrual of compensated absences other than for leave encashable on retirement, which is recognised based on an actuarial valuation. However, Certain exemptions are available for smaller entities depending upon the number of employees.	51
Employee share-based payment transactions	Expense for services purchased is recognised based on the fair value of the equity awarded or the liability incurred.	Similar model to **IFRS**, although many areas of difference exist in application.	In absence of an accounting standard, SEBI provided certain basic guidelines for public listed companies. As per guidelines, compensation expense for stock options are recorded either based on intrinsic value or fair value using the option pricing model; whereas for shares issued at discount at the discount value. ICAI has issued a Guidance Note which requires measurement of cost based on fair value where the guidance is similar to **IFRS**; several areas of differences in detailed application. Alternatively, the Guidance Note allows use of the intrinsic value method. However, above pronouncements have limited guidance for modifications, lapses or complex structured awards.	50

SUBJECT	IFRS	US GAAP	Indian GAAP	PAGE
Termination benefits	Termination benefits arising from redundancies are accounted for similarly to restructuring provisions. Termination indemnity schemes are accounted for based on actuarial present value of benefits.	Four types of termination benefits with three different timing methods for recognition. Termination indemnity schemes are accounted for as pension plans; related liability is calculated as either vested benefit obligation or actuarial present value of benefits.	With the adoption of AS 15 (revised), similar to **IFRS**, however, timing of recognising liability could differ. Under the transitional provisions, if the expense was incurred on or before March 31, 2009, there is an option to defer the liability over (a) payback period or (b) the period from the date expenditure on termination benefits is incurred to 1st April, 2010, whichever is shorter. Prior to AS 15 (revised), no specific guidance. Generally, voluntary retirement expenses were recognised on acceptance of the plan by employees and amortised over 3 to 5 years.	52
Assets				
Acquired intangible assets	Capitalised if recognition criteria are met; amortised over useful life. Intangibles assigned an indefinite useful life are not amortised but reviewed at least annually for impairment. Revaluations are permitted in rare circumstances.	Similar to **IFRS**, except revaluations are not permitted.	Capitalised if recognition criteria are met; all intangibles are amortised over useful life with a rebuttable presumption of not exceeding 10 years. Revaluations are not permitted. In case the life of an Intangible asset is ascertained to be more than ten years, then impairment testing is compulsorily required irrespective of the triggering event.	53
Internally generated intangible assets	Research costs are expensed as incurred. Development costs are capitalised and amortised only when specific criteria are met.	Unlike **IFRS**, both research and development costs are expensed as incurred, with the exception of some software and website development costs that are capitalised.	Similar to **IFRS**.	53
Property, plant and equipment	Historical cost or revalued amounts are used. Regular valuations of entire classes of assets are required when revaluation option is chosen.	Historical cost is used; revaluations are not permitted.	Historical cost is used. Revaluations are permitted, however, no requirement on frequency of revaluation. On revaluation, an entire class of assets is revalued, or selection of assets is made on a systematic basis.	55

SUBJECT	IFRS	US GAAP	Indian GAAP	PAGE
Non-current assets held for sale or disposal group	Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. A non-current asset classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell. Comparative balance sheet is not restated.	Similar to **IFRS**.	Similar to **IFRS**; however there is no requirement to classify and present an asset as held for sale on the face of the balance sheet or in the notes.	57
Leases – classification	A lease is a finance lease if substantially all risks and rewards of ownership are transferred. Substance rather than form is important.	Similar to **IFRS**, but with more extensive form-driven requirements.	Similar to **IFRS**.	57
Leases – lessor accounting	Amounts due under finance leases are recorded as a receivable. Gross earnings allocated to give constant rate of return based on (pre-tax) net investment method.	Similar to **IFRS**, but with specific rules for leveraged leases.	Similar to **IFRS**.	57
Impairment of long-lived assets held for use	Impairment is a one-step approach under **IFRS** and is assessed on the basis of discounted cash flows. If impairment is indicated, assets are written down to higher of fair value less costs to sell and value in use. Reversal of impairment losses is required in certain circumstances, except for goodwill.	Impairment is a two-step approach under **US GAAP**. Firstly, impairment is assessed on the basis of undiscounted cash flows. If less than carrying amount, the impairment loss is measured as the amount by which the carrying amount exceeds fair value. Reversal of losses is prohibited.	Similar to **IFRS**, except reversal of impairment losses for goodwill is required in certain circumstances.	59
Capitalisation of borrowing costs	Permitted as a policy choice for all qualifying assets, but not required. However, the option has been removed in the revised IAS 23.	Required	Required	59
Investment property	Measured at depreciated cost or fair value, with changes in fair value recognised in the income statement.	Treated the same as for other properties (depreciated cost). Industry-specific guidance applies to investor entities (for example, investment entities).	Treated the same as a long-term investment and is carried at cost. Provision for diminution is made for a decline other than temporary.	60
Inventories	Carried at lower of cost and net realisable value. FIFO or weighted average method is used to determine cost. LIFO prohibited. Reversal is required for subsequent increase in value of previous write-downs.	Similar to **IFRS**; however, use of LIFO is permitted. Reversal of write-down is prohibited.	Similar to **IFRS** except captialisation of distribution cost is not allowed	61

SUBJECT	IFRS	US GAAP	Indian GAAP	PAGE
Biological assets	Measured at fair value less estimated point-of-sale costs, with changes in valuation recognised in the income statement.	Not specified. Generally historical cost used.	Not specified. Generally historical cost used.	62
Financial assets – measurement	Depends on classification of instruments – if held to maturity or loans and receivables, they are carried at amortised cost; otherwise at fair value. Gains/losses on fair value through profit or loss classification (including trading instruments) is recognised in income statement. Gains and losses on available-for-sale investments, whilst the investments are still held, are recognised in equity.	Similar accounting model to **IFRS**, with some detailed differences in application.	Long-term investments, loans and receivables are carried at cost less impairment; whereas current investments are carried at lower of cost and fair value. Any reduction in the carrying amount and any reversal of such reduction is charged or credited to income statement. Industry-specific guidance applies e.g. banking and insurance.	62
Derecognition of financial assets	Financial assets are derecognised based on risks and rewards first; control is secondary test.	Significantly different model to **IFRS** and derecognition is based on control. Requires legal isolation of assets even in bankruptcy.	Limited guidance. In general, financial assets are derecognised based on transfer of risks and rewards. Guidance note issued by ICAI on securitisation requires derecognition based on control.	65
Liabilities				
Provisions – general	Liabilities relating to present obligations from past events recorded if outflow of resources is probable and can be reliably estimated. Provisions are discounted to present value where the effect of the time value of money is material.	Similar to **IFRS.** However, 'probable' is a higher threshold than 'more likely than not'.	Similar to **IFRS**, except that discounting is not permitted.	66
Provisions – restructuring	Restructuring provision is recognised if detailed formal plan (identifying specified information) announced or implementation effectively begun.	Recognition of liability based solely on commitment to plan is prohibited. In order to recognise, restructuring plan has to meet definition of a liability, including certain criteria regarding likelihood that no changes will be made to plan or that plan will be withdrawn.	Restructuring provisions is recognised when recognition criteria for provisions are met.	66
Contingencies	Disclose unrecognised possible losses and probable gains.	Similar to **IFRS**.	Similar to **IFRS**, except that contingent gains are neither recognised nor disclosed.	68

SUBJECT	IFRS	US GAAP	Indian GAAP	PAGE
Deferred income taxes – general approach	Full provision method is used (some exceptions) driven by balance sheet temporary differences. Deferred tax assets are recognised if recovery is probable (more likely than not).	Similar to **IFRS** but with many differences in application.	Full provision method is used driven by timing differences arising from taxable and accounting income. Deferred tax assets is recognised if realisation is virtually certain or reasonably certain as applicable for entities with and without tax carry-forward losses, respectively. A number of other specific differences.	69
Fringe benefits tax	Included as part of related expense (fringe benefit) which gives rise to incurrence of the tax.	Similar to **IFRS**.	Disclosed as a separate item after ‘profit before tax’ on the face of income statement.	
Government grants	Recognised as deferred income and amortised when there is reasonable assurance that the entity will comply with the conditions attached to them and the grants will be received. Entities may offset capital grants against asset values.	Similar to **IFRS,** except when conditions are attached to grant. In this case, revenue recognition is delayed until such conditions are met. Long-lived asset contributions are recorded as revenue in the period received.	Similar to **IFRS** conceptually, although several differences in detail. For e.g., in certain cases, grants received are directly credited to capital reserve (in equity).	73
Leases – lessee accounting	Finance leases are recorded as asset and obligation for future rentals. Depreciated over useful life of asset. Rental payments are apportioned to give constant interest rate on outstanding obligation. Operating lease rentals are charged on straight-line basis.	Similar to **IFRS**. Specific rules should be met to record operating or capital lease.	Similar to **IFRS**.	74
Leases – lessee accounting: sale and leaseback transactions	Profit arising on sale and finance leaseback is deferred and amortised. If an operating lease arises, profit recognition depends on whether the transaction is at fair value. Substance/ linkage of transactions is considered.	Timing of profit and loss recognition depends on whether seller relinquishes substantially all or a minor part of the use of the asset. Losses are immediately recognised. Specific strict criteria should be considered if the transaction involves real estate.	Similar to **IFRS**.	74

SUBJECT	IFRS	US GAAP	Indian GAAP	PAGE
Financial liabilities versus equity classification	Capital instruments are classified, depending on substance of issuer's contractual obligations, as either liability or equity. Mandatorily redeemable preference shares are classified as liabilities.	Application of the **US GAAP** guidance may result in significant differences to **IFRS**, for example, certain redeemable instruments are permitted to be classified as 'mezzanine equity' (i.e., outside of permanent equity but also separate from debt).	No specific guidance. In practice, classification is based on legal form rather than substance. All preference shares are disclosed separately as share capital under shareholders' funds.	76
Convertible debt	Convertible debt (fixed number of shares for a fixed amount of cash) is accounted for on split basis, with proceeds allocated between equity and debt.	Conventional convertible debt is usually recognised entirely as liability, unless there is a beneficial conversion feature.	Convertible debt is recognised as a liability based on its legal form without any split.	76
Derecognition of financial liabilities	Liabilities are derecognised when extinguished. Difference between carrying amount and amount paid is recognised in income statement.	Similar to **IFRS**.	No specific guidance; in practice, treatment would be similar to **IFRS** based on substance of the transaction. ICAI has issued two standards on financial assets and liabilities, which are similar to IAS 32 and 39 and effective from April 1, 2009. This is subject to notification from Central Government and can be early adopted.	77
Equity instruments				
Capital instruments – purchase of own shares	Show as deduction from equity.	Similar to **IFRS**.	Purchase is permitted in limited circumstances subject to the provisions under the Companies Act. On purchase, such shares are required to be cancelled i.e. cannot be kept as treasury stock.	78
Dividends on ordinary equity shares	Presented as a deduction in the statement of changes in shareholders' equity in the period when authorised by shareholders. Dividends are accounted in the year when declared.	Similar to **IFRS**.	Presented as an appropriation to the income statement. Dividends are accounted in the year when proposed.	78

SUBJECT	IFRS	US GAAP	Indian GAAP	PAGE
Derivatives and hedging				
Derivatives	Derivatives not qualifying for hedge accounting are measured at fair value with changes in fair value recognised in income statement. Hedge accounting is permitted provided that certain stringent qualifying criteria are met.	Similar to **IFRS**, but many differences can arise in the detailed application.	Limited guidance on contracts such as forward exchange contracts, equity index futures and options. Industry-specific guidance on certain instruments for e.g. banking industry. ICAI has issued two standards on financial instruments, which are similar to IAS 32 and 39 and effective from April 1, 2009. This is subject to notification from Central Government and can be early adopted.	79
Other accounting and reporting topics				
Functional currency definition	Currency of primary economic environment in which entity operates.	Similar to **IFRS**.	Functional currency is not defined.	82
Functional currency – determination	If indicators are mixed and functional currency is not obvious, judgement is used to determine functional currency that most faithfully represents economic results of entity's operations by giving priority to currency that mainly influences sales prices and currency that mainly influences direct costs of providing the goods and services before considering the other factors.	Similar to **IFRS**; However, no specific hierarchy of factors to consider. In practice, currency in which cash flows are settled is often key consideration.	Functional currency determination is not required. It is assumed an entity normally uses the currency of the country in which it is domiciled in recording its transactions.	82
Presentation currency	When financial statements are presented in a currency other than the functional currency, assets and liabilities are translated at exchange rate at balance sheet date. Income statement items are translated at exchange rate at dates of transactions, or average rates if rates do not fluctuate significantly.	Similar to **IFRS**.	Similar to **IFRS**. It is assumed an entity normally uses the currency of the country in which it is domiciled in presenting its financial statements. If a different currency is used, reason for using a different currency is disclosed.	83
Hyperinflationary economy – definition	Hyperinflation is indicated by characteristics of economic environment of country, which include: population's attitude towards local currency and prices linked to price index; and if cumulative inflation rate over three years is approaching, or exceeds, 100%.	Hyperinflation is generally indicated by cumulative three-year inflation rate of approximately 100% or more.	No guidance.	83

SUBJECT	IFRS	US GAAP	Indian GAAP	PAGE
Hyperinflationary economy – measurement	Entities that have the currency of hyperinflationary economy as functional currency restate their financial statements using a measurement unit current at balance sheet date.	Generally does not permit inflation-adjusted financial statements; instead requires use of reporting currency (US dollar) as functional currency. Foreign private issuers that use **IFRS** are permitted to omit quantification of any differences that would have resulted from application of FAS 52.	No guidance.	84
Earnings per share – diluted	IAS 33 is prescriptive about the procedure and methods used to determine whether potential shares are dilutive. 'Treasury share' method is used for share options/warrants.	Similar in principle to **IFRS** although there are differences in application.	Similar to **IFRS**, except in certain circumstances advance share application money received is treated as dilutive potential equity shares.	84
Earnings per share – diluted	Weighted average potential dilutive shares are used as denominator for diluted EPS. 'Treasury share' method is used for share options/warrants.	Similar to **IFRS**.	Similar to **IFRS**, except in certain circumstances advance share application money received is treated as dilutive potential equity shares.	85
Related-party transactions – definition	Determined by level of direct or indirect control, joint control and significant influence of one party over another or common control with another entity. Principal owners may not considered related parties.	Similar to **IFRS**, except that principal owners are considered as related parties.	Similar to **IFRS**; however, the determination may be based on legal form rather than substance. Hence, the scope of parties covered under the definition of related party could be less than under **IFRS** or **US GAAP**.	86
Related-party transactions – disclosures	Name of the parent entity is disclosed and, if different, the ultimate controlling party, regardless of whether transactions occur. For related-party transactions, nature of relationship (seven categories), amount of transactions, outstanding balances, terms and types of transactions are disclosed. Disclosure of compensation of key management personnel is required within the financial statements.	Similar to **IFRS**, except that disclosure of compensation of key management personnel is not required within the financial statements.	Similar to **IFRS**. However, certain explicit exemptions available for disclosures. Exemption for certain SMEs having turnover or borrowings below certain threshold. No exemption for separate financial statements of subsidiaries	86

SUBJECT	IFRS	US GAAP	Indian GAAP	PAGE
Segment reporting – scope and basis of disclosures	Applies to public entities and entities that file, or are in the process of filing, financial statements with a regulator for the purposes of issuing any instrument in a public market. Prior to IFRS 8, Public entities: primary and secondary (business and geographic) segments were reported based on risks and returns and internal reporting structure. Post IFRS 8, Reporting of operating segments is based on those segments reported internally to entity's chief operating decision-maker for purposes of allocating resources and assessing performance.	Applies to SEC registrants. Basis of reporting is similar to **IFRS**.	Primary and secondary (business and geographic) segments are reported based on risks and returns and internal reporting structure. Exemption only for certain SMEs having turnover or borrowings below certain threshold.	87
Segment reporting – accounting policies	Internal financial reporting policies apply (even if accounting policies differ from group accounting policy).	Similar to **IFRS**.	Group accounting policies or entity accounting policies apply.	87
Segment reporting – disclosures	Disclosures for operating segments are profit or loss, total assets and, if regularly reported internally, liabilities. Other items, such as external revenues, intra-segment revenues, depreciation and amortisation, tax, interest income, interest expense and various material items, are disclosed by segment where such items are included in the segment profit/loss or are reported internally. For geographical areas in which the entity operates, revenues and non-current assets are reported. Disclosure of factors used to identify segments and about major customers is required.	Similar disclosures to **IFRS.**	Disclosures for primary segment include revenues, segment results, capital expenditures (capex), total assets, total liabilities and other items. For secondary segment, revenues, total assets and capex are reported.	87
Discontinued operations – definition	Operations and cash flows that can be clearly distinguished for financial reporting and represent a separate major line of business or geographical area of operations, or a subsidiary acquired exclusively with a view to resale.	Wider definition than **IFRS.** Component that is clearly distinguishable operationally and for financial reporting can be a reportable segment, operating segment, reporting unit, subsidiary or asset group.	Operations and cash flows that can be clearly distinguished for financial reporting and represent a separate major line of business or geographical area of operations.	89

SUBJECT	IFRS	US GAAP	Indian GAAP	PAGE
Discontinued operations – measurement	Measured at lower of carrying amount and fair value less costs to sell.	Similar to **IFRS**.	By applying other relevant accounting standards for measurement. For example, by applying accounting standard on impairment of assets, provisions, etc.	89
Discontinued operations – presentation and main disclosures	At a minimum, a single amount is disclosed on face of income statement, and further analysis disclosed in notes, for current and prior periods.	Similar to **IFRS**. Discontinued operations are reported as separate line items on face of income statement before extraordinary items as well as in balance sheet wherein the items are to be categorised and disclosed separately as current and non-current assets and liabilities.	At a minimum, the following is disclosed on the face of the income statement separately from continuing operations: (a) pre-tax profit or loss and related taxes (b) pre-tax gain or loss on disposal. Income and expenses line items from continuing and discontinued operations are segregated and disclosed in the notes; however, presented on a combined basis in the income statement. No separate presentation for balance sheet items. Exemption for certain SMEs having turnover or borrowings below certain threshold.	89
Post-balance-sheet events	Financial statements are adjusted for subsequent events providing evidence of conditions that existed at the balance sheet date and materially affecting amounts in financial statements (adjusting events). Non-adjusting events are disclosed.	Similar to **IFRS**.	Similar to **IFRS**, except non-adjusting events are not required to be disclosed in financial statements but are disclosed in report of approving authority e.g. Directors' Report.	90
Interim financial reporting	Contents are prescribed and basis should be consistent with full-year statements. Frequency of reporting (eg, quarterly, half-year) is imposed by local regulator or is at discretion of entity.	Similar to **IFRS**. Additional quarterly reporting requirements apply for SEC registrants (domestic US entities only). Interim reporting requirements for foreign private issuers are based on local law and stock exchange requirements.	Similar to **IFRS**. However, pursuant to the listing agreement, all listed entities in India are required to furnish their quarterly results in the prescribed format. Quarterly results include financial results relating to the working of the Company and certain notes thereon.	91

Accounting framework

Conceptual framework

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

Qualitative characteristics of financial information

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

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

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

Reporting elements

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

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

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

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

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

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

Historical cost or fair valuation

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

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

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

First-time adoption of accounting framework

IFRS The **IFRS** framework includes a specific standard on how to apply **IFRS** for the first time. It introduces certain reliefs and imposes certain requirements and disclosures. First-time adoption of **IFRS** as the primary accounting basis requires full retrospective application of **IFRS** effective at the reporting date for an entity’s first **IFRS** financial statements, with optional exemptions primarily for PPE and other assets, business combinations, share-based payments and pension plan accounting and limited mandatory exceptions. Comparative information is prepared and presented on the basis of **IFRS**. Almost all adjustments arising from the first-time application of **IFRS** are adjusted against opening retained earnings of the first period presented on an **IFRS** basis. Some adjustments are made against goodwill or against other classes of equity. Further, in an entity's first **IFRS** financial statements, it must present reconciliations of profit or loss in respect of the last period reported under previous GAAP, of equity at the end of that period and of equity at the start of the earliest period presented in comparatives in those first **IFRS** financial statements.

US GAAP	Accounting principles should be consistent for financial information presented in comparative financial statements. **US GAAP** does not give specific guidance on first-time adoption of its accounting principles. However, first-time adoption of **US GAAP** requires full retrospective application. Some standards specify the transitional treatment upon first-time application of a standard. Specific rules apply for carve-out entities and first-time preparation of financial statements for the public. There is no requirement to present reconciliations of equity or profit or loss on first-time adoption of **US GAAP**.
Indian GAAP	Similar to **US GAAP**. No rules for carve-out entities or first-time preparation of financial statements for the public.

Recent proposals – IFRS

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

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

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

Imminent changes – IFRS

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

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

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

The revisions include changes in the titles of some of the financial statements, for example, the balance sheet is renamed a statement of financial position. The new titles will be used in accounting standards, but are not mandatory for use in financial statements.

This Standard is applicable for annual periods beginning on or after 1 January 2009. Earlier application is permitted.

Imminent changes – Indian GAAP

ICAI has decided that IFRSs should be adopted for public interest entities from the accounting periods commencing on or after April 1, 2011.

Financial statements

General requirements

Compliance

IFRS

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

US GAAP

SEC registrants should comply with **US GAAP**, and the SEC's rules and regulations and financial interpretations.

Also refer to page 29 for an update.

Indian GAAP

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

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

Components of financial statements

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

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

1 **IFRS**: Either a statement of changes in shareholders' equity or a SoRIE is presented as a primary statement. For certain pensions accounting, it is mandatory to present a SoRIE as a primary statement. Where a SoRIE is presented as a primary statement, supplemental equity information is displayed in the notes. Recognised income and expense can be separately highlighted in the statement of changes in shareholders' equity if a SoRIE is not presented as a primary statement.

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

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

4 Except for certain entities, such as investment companies and defined benefit plans.

Comparatives

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

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

The general requirement for non-public entities and in certain circumstances for foreign private issuers is one year of comparatives for all numerical information in the financial statements.

Indian GAAP One year of comparatives is required for all numerical information in the financial statements, with limited exceptions in disclosures.

Preparation and presentation

IFRS Financial statements are presented on a consolidated basis. In limited circumstances or on a voluntary basis, an entity may present single-entity parent company (standalone) financial statements along with its consolidated financial statements.

US GAAP Similar to **IFRS**.

Indian GAAP Financial statements are presented on a single-entity parent company (standalone) basis. It is not mandatory to prepare consolidated financial statements but must use the consolidation standard if prepared. Pursuant to the listing agreement with stock exchanges, public listed companies are required to present consolidated financial statements along with their standalone annual financial statements.

Balance sheet

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

Format

IFRS Entities present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of their balance sheets except when a liquidity presentation provides more relevant and reliable information. All assets and liabilities are presented broadly in order of liquidity in such cases. Otherwise there is no prescribed balance sheet format, and management may use judgment regarding the form of presentation in many areas. However, as a minimum, **IFRS** requires presentation of the following items on the face of the balance sheet:

- Assets: PPE, investment property, intangible assets, financial assets, investments accounted for using the equity method, biological assets, inventories, trade and other receivables, current tax assets, deferred tax assets, cash and cash equivalents, and the total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with IFRS 5; and
- Equity and liabilities: issued share capital and other components of shareholders' equity, minority interests (presented within equity), financial liabilities, provisions, current tax liabilities, deferred tax liabilities, trade and other payables, and liabilities included in disposal groups classified as held for sale in accordance with IFRS 5.

US GAAP Generally presented as total assets balancing to total liabilities and shareholders' equity. Items presented on the face of the balance sheet are similar to **IFRS** but are generally presented in decreasing order of liquidity. The balance sheet detail should be sufficient to enable identification of material components. Public entities should follow specific SEC guidance.

Indian GAAP Accounting standards do not prescribe a particular format, except certain items should be presented on the face of the balance sheet. The Companies Act prescribes a format of the balance sheet and requires presentation of the following items on the face of the balance sheet.

- Sources of Funds: Share capital, Reserves and surplus, Secured loans, Unsecured loans, Minority interest, Deferred tax liabilities, net; and
- Application of Funds: Fixed assets, Investments, Current assets, loans and advances (inventories, sundry debtors, cash and bank balances, loans and advances, other current assets) less Current liabilities and provisions, Deferred tax assets, net, Miscellaneous expenditure.

Other industry regulations prescribe industry-specific formats of the balance sheet.

Current/non-current distinction (general)

IFRS The current/non-current distinction is required (except when a liquidity presentation is more relevant). Where the distinction is made, assets are classified as current assets if they are: held for sale or consumed in the normal course of the entity's operating cycle; or cash or cash equivalents. Both assets and liabilities are classified as current where they are held for trading or expected to be realised within 12 months of the balance sheet date. Interest-bearing liabilities are classified as current when they are due to be realised or settled within 12 months of the balance sheet date, even if the original term was for a period of more than 12 months. An agreement to refinance or reschedule payments on a long-term basis that is completed after the balance sheet date does not result in non-current classification of the financial liabilities even if executed before the financial statements are issued.

US GAAP Management may choose to present either a classified or non-classified balance sheet. The requirements are similar to **IFRS** if a classified balance sheet is presented. The SEC provides guidelines for the minimum information to be included by registrants. Liabilities may be classified as non-current as of the balance sheet date provided that agreements to refinance or to reschedule payments on a long-term basis (including waivers for certain debt covenants) are completed before the financial statements are issued.

Indian GAAP No strict distinction between current and non-current. Companies follow formats prescribed by the Companies Act or industry regulations.

Offsetting assets and liabilities

IFRS Assets and liabilities cannot be offset, except where specifically permitted by a standard. Financial assets and financial liabilities are offset where an entity has a legally enforceable right to offset the recognised amounts and intends to settle transactions on a net basis or to realise the asset and settle the liability simultaneously. A master netting agreement, in the absence of the intention to settle net or realise the asset and liability simultaneously, is not sufficient to permit net presentation of derivative financial instruments even if it creates a legally enforceable right of offset. Generally, however, an entity's right of offset under a master netting agreement is conditional and enforceable only on the occurrence of some future event and to offset a financial asset and a financial liability an entity must have a currently enforceable legal right to offset the recognised amounts. Thus, master netting arrangements generally do not meet the conditions of offsetting.

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

Indian GAAP In absence of specific guidance practice varies.

Other balance sheet classification

IFRS Minority interests are presented as a component of equity.

US GAAP Minority interests cannot be presented as equity.

Indian GAAP Minority interests are presented separately from liabilities and equity.

Income statement

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

Format

IFRS

There is no prescribed format for the income statement. The entity should select a method of presenting its expenses by either function or nature; this can either be, on the face of the income statement, as is encouraged, or in the notes. Additional disclosure of expenses by nature is required if functional presentation is used. **IFRS** requires, as a minimum, presentation of the following items on the face of the income statement:

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

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

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

US GAAP

Presentation in one of two formats. Either:

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

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

Indian GAAP

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

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

Exceptional (significant) items

IFRS

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

US GAAP

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

Indian GAAP

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

Extraordinary items

IFRS

Disclosure of items as extraordinary item is prohibited.

US GAAP

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

Indian GAAP

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

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

Presentation

IFRS

Entities that present a statement of recognised income and expense (SoRIE) are prohibited from presenting a statement of changes in shareholder's equity as a primary statement; supplemental equity information is provided in a note. Recognised income and expense can be separately highlighted in the statement of changes in shareholders' equity if a SoRIE is not presented as a primary statement. Entities that choose to recognise actuarial gains and losses from post-employment benefit plans in full in equity in the period in which they occur are required to present a SoRIE. A SoRIE should show: (a) profit or loss for the period; (b) each item of income and expense for the period recognised directly in equity, and the total of these items; (c) total income and expense for the period (calculated as the sum of (a) and (b)), showing separately the total amounts attributable to equity holders of the parent and to minority interest; and (d) for each component of equity, the effects of changes in accounting policies and corrections of errors recognised in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors.

US GAAP

One of three possible formats may be used:

- a single primary statement of income, other comprehensive income and accumulated other comprehensive income containing both net income, other comprehensive income and a roll-forward of accumulated other comprehensive income;
- a two-statement approach (a statement of comprehensive income and accumulated other comprehensive income, and a statement of income); or
- a separate category highlighted within the primary statement of changes in stockholders' equity (as under **IFRS**).

The cumulative amounts are disclosed for each item of comprehensive income (accumulated other comprehensive income). The SEC will accept the presentation prepared in accordance with **IFRS** without any additional disclosures.

Indian GAAP

Not required.

Format

IFRS

The total of income and expense recognised in the period comprises net income. The following income and expense items are recognised directly in equity:

- fair value gains/(losses) on land and buildings, intangible assets, available-for-sale investments and certain financial instruments;
- foreign exchange translation differences;
- the cumulative effect of changes in accounting policy;
- changes in fair values of certain financial instruments if designated as cash flow hedges, net of tax, and cash flow hedges reclassified to income and/or the relevant hedged asset/liability; and
- actuarial gains and losses on defined benefit plans recognised directly in equity (if the entity elects the option available under IAS 19, Employee Benefits, relating to actuarial gains and losses).

US GAAP

Similar to **IFRS**, except that revaluations of land and buildings and intangible assets are prohibited under **US GAAP.** Actuarial gains and losses (when amortised out of accumulated other comprehensive income) are recognised through the income statement.

Indian GAAP

Not applicable.

Statement of changes in share (stock) holders' equity

IFRS

Presented as a primary statement unless a SoRIE is presented as a primary statement. Supplemental equity information is presented in the notes when a SoRIE is presented (see discussion under 'Presentation' above). In addition to the items required to be in a SoRIE, it should show capital transactions with owners, the movement in accumulated profit and a reconciliation of all other components of equity. Certain items are permitted to be disclosed in the notes rather than in the primary statement.

US GAAP

Similar to **IFRS**, except that **US GAAP** does not have a SoRIE, and SEC rules permit the statement to be presented either as a primary statement or in the notes.

Indian GAAP

No separate statement is required. Changes in shareholders' equity are disclosed in separate schedules of 'Share capital' and 'Reserves and surplus'.

Cash flow statement

Exemptions

IFRS No exemptions.

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

Indian GAAP Required for enterprises listed or in the process of listing, banks, financial institutions, insurance companies, all enterprises whose turnover exceeds Rs. 500 million or having borrowings in excess of Rs. 100 million at any time during the accounting period, and their holding and subsidiary.

Direct/indirect method

IFRS Inflows and outflows of 'cash and cash equivalents' are reported in the cash flow statement. The cash flow statement may be prepared using either the direct method (cash flows derived from aggregating cash receipts and payments associated with operating activities) or the indirect method (cash flows derived from adjusting net income for transactions of a non-cash nature such as depreciation). The indirect method is more common in practice. Non-cash investing and financing transactions are to be disclosed.

US GAAP The cash flow statement provides relevant information about 'cash receipts' and 'cash payments'. Similar to **IFRS**, either the direct method or indirect method may be used. The latter is more common in practice. A reconciliation of net income to cash flows from operating activities is disclosed if the direct method is used. Significant non-cash transactions are disclosed.

Indian GAAP Similar to **IFRS**. However, only indirect method is prescribed for listed enterprises and direct method is prescribed for insurance companies.

Definition of cash and cash equivalents

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

US GAAP The definition of cash equivalents is similar to that in **IFRS**, except bank overdrafts are not included in cash and cash equivalents; changes in the balances of overdrafts are classified as financing cash flows, rather than being included within cash and cash equivalents.

Indian GAAP Similar to **US GAAP**.

Format

IFRS Cash flows from operating, investing and financing activities are classified separately.

US GAAP Whilst the headings are the same as **IFRS,** there is more specific guidance on items that are included in each category as illustrated in the below table.

Indian GAAP Same as **IFRS**.

Classification of specific items

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

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

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

[2] **US GAAP** has specific rules regarding the classification of the tax benefit associated with share-based compensation arrangements.

Changes in accounting policy and other accounting changes

Changes in accounting policy

IFRS Changes in accounting policy are accounted for retrospectively. Comparative information is restated, and the amount of the adjustment relating to prior periods is adjusted against the opening balance of retained earnings of the earliest year presented. Effect of retrospective adjustments on equity items is presented separately in the SoRIE and SoCIE (see 'Statements of recognised income'). An exemption applies when it is impracticable to change comparative information.

Policy changes made on the adoption of a new standard are accounted for in accordance with that standard's transition provisions. The method described above is used if transition provisions are not specified.

US GAAP Similar to **IFRS**.

Indian GAAP The cumulative amount of the change is recognised and disclosed in the income statement in the period of the change. Transition provisions of certain new standards require adjustment of the cumulative amount of the change to opening retained earnings (reserves).

Correction of errors

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

US GAAP Similar to **IFRS**, reported as a prior-period adjustment; restatement of comparatives is mandatory.

Indian GAAP Reported as a prior-period adjustment separately in the income statement in a manner that its impact on the income statement can be perceived. Restatement of comparatives is prohibited.

Changes in accounting estimates

IFRS Changes in accounting estimates are accounted for in the income statement when identified.

US GAAP Similar to **IFRS**.

Indian GAAP Similar to **IFRS**. However, the impact of change in depreciation method is determined by retrospectively computing depreciation under the new method and is recorded in the period of change; whereas on revision of asset life, the unamortized depreciable amount is charged over the revised remaining asset life.

Recent proposals – US GAAP

In July 2007, the SEC issued a proposed rule that would allow foreign private issuers that prepare financial statements in accordance with the English-language version of **IFRS** as published by the IASB to file those financial statements with the SEC without reconciling them to **US GAAP**. The proposed amendments state that such financial statements would need to include an explicit statement asserting that they are in compliance with **IFRS** as published by the IASB. The proposed amendment would not apply to issuers that use a jurisdictional or other variation of **IFRS** in which the financial statements would be different compared to financial statements prepared under **IFRS** as published by the IASB. Further, Audit opinions filed with an FPI's **IFRS** financial statements must explicitly state that the statements were prepared in accordance with **IFRS** as issued by the IASB. On November 15, 2007, Securities & Exchange Commission (SEC) unanimously approved the above proposal and consequent amendments to its rules and forms. When effective, this ruling will apply to those FPIs for fiscal years ending after November 15, 2007.

Recent proposals – US GAAP

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

REFERENCES: **IFRS**: IAS 1, IAS 7, IAS 8, IAS 21, IAS 29, IAS 32, SIC-30.

US GAAP: CON 1-7, FAS 16, FAS 52, FAS 95, FAS 130, FAS 141, FAS 154, APB 28, APB 30, ARB 43, SEC Regulation S-X, FIN 39

Indian GAAP: Companies Act, AS 1, AS 3, AS 5, AS 6, AS 10, AS 11.

Consolidated financial statements

Preparation

IFRS Parent entities prepare consolidated financial statements that include all subsidiaries. An exemption applies to a parent:

- that is itself wholly owned or if the owners of the minority interests have been informed about and do not object to the parent not presenting consolidated financial statements;
- the parent's securities are not publicly traded nor is it in the process of issuing securities in public securities markets; and
- the immediate or ultimate parent publishes consolidated financial statements that comply with **IFRS**.

US GAAP There is no exemption for general purpose financial statements. Consolidated financial statements are presumed to be more meaningful and are required for SEC registrants. Specific rules apply for certain industries.

Indian GAAP Consolidated financial statements are mandatory for public listed companies, whereas optional for other entities.

Consolidation model and subsidiaries

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

IFRS Focuses on the concept of control in determining whether a parent/subsidiary relationship exists. Control is the parent's ability to govern the financial and operating policies of a subsidiary to obtain benefits. Control is presumed to exist when a parent owns, directly or indirectly through subsidiaries, more than one half of an entity's voting power. Control also exists when a parent owns half or less of the voting power but has legal or contractual rights to control the majority of the entity's voting power or board of directors. A parent could have control over an entity in circumstances where it holds less than 50% of the voting rights of an entity and no legal or contractual rights by which to control the majority of the entity's voting power or board of directors (de facto control). Currently exercisable potential voting rights should also be considered to determine whether control exists.

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

US GAAP Uses a bipolar consolidation model. All consolidation decisions are evaluated first under the variable interest entity (VIE) model. If the entity is a VIE, management should follow the **US GAAP** guidance below, under 'Special purpose entities'.

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

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

Indian GAAP Currently exercisable potential voting rights are not considered to determine whether control exists. Further, Control is defined as ownership of more than one-half of the voting rights or control of the composition of the board of directors or a governing body so as to obtain economic benefits from its activities.

Special purpose entities

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

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

Post-employment benefit plans or other long-term employee benefit plans to which IAS 19, Employee Benefits, applies are excluded from this requirement.

US GAAP The consolidation of an SPE is required by its primary beneficiary when the SPE meets the definition of a VIE and the primary beneficiary has a variable interest in the entity that will cause it to absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both. There are several scope exceptions to this rule (such as pension, post-retirement or post-employment plans). Specific criteria also permit the transfer of financial assets to an SPE that is not consolidated by the transferor. The SPE should be a qualifying SPE (QSPE, as defined), and the assets should be financial assets (as defined).

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

Subsidiaries excluded from consolidation

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

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

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

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

Uniform accounting policies

IFRS Consolidated financial statements are prepared using uniform accounting policies for like transactions and events in similar circumstances for all of the entities in a group.

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

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

Reporting periods

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

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

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

REFERENCES: **IFRS**: IAS 27, SIC-12, IFRS 5.

US GAAP: ARB 51, FAS 94, FAS 144, SAB 51, SAB 84, EITF 96-16, FIN 46.

Indian GAAP: AS 21, ASI 8, Guidance note on Employee Share Based Payments.

Investments in associates

Definition

IFRS An associate is an entity over which the investor has significant influence – that is, the power to participate in, but not control, an associate's financial and operating policies. Participation by an investor in the entity's financial and operating policies via representation on the entity's board demonstrates significant influence. A 20% or more interest by an investor in an entity's voting rights leads to a presumption of significant influence.

US GAAP Similar to **IFRS**, although the term 'equity investment' rather than 'associate' is used. **US GAAP** does not include unincorporated entities, although these would generally be accounted for in a similar way.

Indian GAAP Similar to **IFRS**.

Presentation of associate results

IFRS In consolidated financials: Equity method is used; wherein share of post-tax result is disclosed in the income statement. In standalone financials: Investment in associate is carried at cost or at fair value in accordance with IAS 39.

US GAAP In consolidated financials: similar to **IFRS**. In standalone financials: Investment in associate is carried at cost or equity method.

Indian GAAP In consolidated financials: similar to **IFRS**. However, in absence of a subsidiary, an entity may not prepare consolidated financial statements and not account the associate under the equity method. In standalone financials: Investment in associate is carried at cost less impairment.

Equity method

IFRS An investor accounts for an investment in an associate using the equity method. The investor presents its share of the associate's post-tax profits and losses in the income statement. The investor recognises in equity its share of changes in the associate's equity that have not been recognised in the associate's profit or loss. The investor, on acquisition of the investment, accounts for the difference between the cost of the acquisition and investor's share of fair value of the net identifiable assets as goodwill. The goodwill is included in the carrying amount of the investment.

The investor's investment in the associate is stated at cost, plus its share of post-acquisition profits or losses, plus its share of post-acquisition movements in reserves, less dividends received. Losses that reduce the investment to below zero are applied against any long-term interests that, in substance, form part of the investor's net investment in the associate – for example, preference shares and long-term receivables and loans. Losses recognised in excess of the investor's investment in ordinary shares are applied to the other components in reverse order of priority in a winding up. Further losses are provided for as a liability only to the extent that the investor has incurred legal or constructive obligations to make payments on behalf of the associate.

Disclosure of information is required about the revenues, profits or losses, assets and liabilities of associates.

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

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

Indian GAAP Similar to **IFRS** if the equity method is applied, except that:

- goodwill is the difference between the cost of the acquisition and investor's share in the associate's book value of the net assets
- disclosure of information is required about the goodwill, and associates cannot be carried at fair value .

Further, equity method is not applied when

- the investment is acquired and held exclusively with a view to its subsequent disposal in the near future (being not more than 12 months); or
- the associate operates under severe long-term restrictions which significantly impair its ability to transfer funds to the investor.

Accounting policies

IFRS An investor's financial statements are prepared using uniform accounting policies for like transactions and events; adjustments are made to the associate's policies to conform to that of the investor.

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

Indian GAAP Similar to **IFRS**. If it is not practicable to do so, that fact is disclosed along with a brief description of the differences between the accounting policies.

Impairment

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

US GAAP The impairment test under **US GAAP** is different to **IFRS**. Equity investments are considered impaired if the decline in value is considered to be other than temporary. As such, it is possible for the fair value of the equity method investment to be below its carrying amount, as long as that decline is temporary. If another-than-temporary impairment is determined to exist, the investment is written down to fair value.

Indian GAAP Impairment test on investment is applied for decline in value considered other than temporary.

Investments in joint ventures

Definition

IFRS A joint venture is defined as a contractual agreement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control of an economic activity. Unanimous consent of the parties sharing control is required.

US GAAP A corporate joint venture is defined as a corporation owned and operated by a small group of businesses as a separate and specific business or project for the mutual benefit of the members of the group.

Indian GAAP Similar to **IFRS**, except that unanimous consent of parties is not required. Where a joint venture meets the definition of a subsidiary under AS 21, Consolidation, it is to be treated as subsidiary and not a joint venture.

Types of joint venture

IFRS Distinguishes between three types of joint venture:

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

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

Indian GAAP Similar to **IFRS**.

Jointly controlled entities

IFRS

In standalone financials: Investment in joint venture is carried at cost or at fair value (IAS 39)

In consolidated financials: Either the proportionate consolidation method or the equity method is allowed. Proportionate consolidation requires the venturer's share of the assets, liabilities, income and expenses to be either combined on a line-by-line basis with similar items in the venturer's financial statements, or reported as separate line items in the venturer's financial statements.

US GAAP

In standalone financials: Investment in joint venture is carried at cost or equity method.

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

Indian GAAP

In standalone financials: Investment in joint venture is carried at cost less impairment.

In consolidated financials: proportional consolidation is used. However, in absence of a subsidiary, an entity may not prepare consolidated financial statements and not account them under the proportional consolidation method. Further, Proportionate consolidation method is not used in the venturer's consolidated financial statements when an interest in a jointly controlled entity

- is acquired and held exclusively with a view to its subsequent disposal in the near future;
- operates under severe long-term restrictions which significantly impair its ability to transfer funds to the investor.

Contributions to a jointly controlled entity

IFRS

A venturer that contributes non-monetary assets, such as shares or non-current assets, to a jointly controlled entity in exchange for an equity interest in the jointly controlled entity recognises in its consolidated income statement the portion of the gain or loss attributable to the equity interests of the other venturers, except when:

- the significant risks and rewards of the contributed assets have not been transferred to the jointly controlled entity;
- the gain or loss on the assets contributed cannot be measured reliably; or
- the contribution transaction lacks commercial substance.

US GAAP

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

Indian GAAP

Similar to **IFRS**. However, the exceptions in **IFRS** have not been expressly clarified in the standard.

Jointly controlled operations

IFRS

A venturer recognises in its financial statements:

- the assets that it controls;
- the liabilities it incurs;
- the expenses it incurs; and
- its share of income from the sale of goods or services by the joint venture.

US GAAP

Equity accounting is appropriate for investments in unincorporated joint ventures. The investor's pro-rata share of assets, liabilities, revenues and expenses are included in their financial statements in specific cases where the investor owns an undivided interest in each asset of a non-corporate joint venture.

Indian GAAP

Similar to **IFRS**.

Jointly controlled assets

IFRS A venturer accounts for its share of the jointly controlled assets, liabilities, income and expenses, and any liabilities and expenses it has incurred.

US GAAP Not specified. However, proportionate consolidation is used in certain industries to recognise investments in jointly controlled assets.

Indian GAAP Similar to **IFRS**.

REFERENCES: **IFRS**: IAS 1, IAS 28, IAS 31, SIC-13 , IAS 36, IAS 39.
US GAAP: APB 18, FAS 153, FIN 35.
Indian GAAP: AS 23, AS 27.

Employee share trusts (including employee share ownership plans)

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

Accounting

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

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

Indian GAAP Employee share trusts are not consolidated.

REFERENCES: **IFRS**: IAS 32, SIC-12.
US GAAP: FAS 123-R, SOP 93-6, FAS 159.
Indian GAAP: SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, Guidance Note on Accounting for Employee Share Based Payments.

Business combinations

Recent changes – IFRS and US GAAP

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

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

Types

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

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

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

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

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

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

Acquisitions

Date of acquisition

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

US GAAP Similar to **IFRS**.

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

Cost of acquisition

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

IFRS Shares issued as consideration are recorded at their fair value as at the date of the exchange - where control is achieved in a single transaction the date of exchange will be the date on which the acquirer obtains control over the acquiree’s net assets and operations. The published price of a share at the date of exchange is the best evidence of fair value in an active market.

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

Indian GAAP Shares issued as consideration are recorded at fair value, which in appropriate cases may be determined/fixed by statutory authorities.

Contingent consideration

IFRS If part of the purchase consideration is contingent on a future event, such as achieving certain profit levels, **IFRS** requires an estimate of the amount to be included as part of the cost at the date of the acquisition if it is probable that the amount will be paid and can be reliably measured. Any revision to the estimate is adjusted against goodwill. Additional consideration to be paid contingent on the continued employment of a former owner/manager is evaluated based on facts and circumstances as to which part, if any, should be included in the cost of the acquisition and which part should be recognised as compensation expense over the service period.

US GAAP The additional cost is not generally recognised until the contingency is resolved or the amount is determinable. If the contingent consideration is based on earnings, any additional revision to the estimate is recognised as an adjustment to goodwill. If the contingent consideration is based on security prices, the issuance of additional securities or distribution of other consideration generally does not change the recorded cost of an acquired entity. Additional consideration to be paid for the continued employment of a former owner/manager is accounted for similarly to **IFRS**.

Indian GAAP The additional cost is included in consideration at the date of acquisition if the payment is probable and a reasonable estimate of the amount can be made. In all other cases, the adjustment is recognised in the income statement when the amount becomes determinable.

Recognition and measurement of identifiable assets and liabilities acquired

IFRS and **US GAAP** require separate recognition, by the acquirer, of the acquiree’s identifiable assets, liabilities and contingent liabilities that existed at the date of acquisition. These assets and liabilities are generally recognised at fair value at the date of acquisition. However, both **IFRS** and **US GAAP** have exceptions to the fair value measurement principle for certain assets and liabilities.

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

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

Intangible assets

IFRS An intangible asset is recognised separately from goodwill if it represents contractual or legal rights or is capable of being separated or divided and sold, transferred, licensed, rented or exchanged. Acquired in-process research and development (R&D) is recognised as a separate intangible asset if it meets the definition of an intangible asset and its fair value can be measured reliably. Non-identifiable intangible assets are subsumed within goodwill.

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

Indian GAAP An intangible asset is recognised in amalgamations accounted under the purchase method using the fair value, if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and the cost of the asset can be measured reliably. However, the fair value of intangible assets with no active market is reduced to the extent of capital reserve, if any, arising on the amalgamation.

Restructuring provisions

IFRS The acquirer may recognise restructuring provisions as part of the acquired liabilities only if the acquiree has an existing liability at the acquisition date for a restructuring recognised in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets.

US GAAP The acquirer may recognise a restructuring provision at the acquisition date if specific criteria are met. Management begins to assess and formulate a plan to exit an activity of the acquired entity as of the acquisition date. The plan should be completed in detail as soon as possible, but no more than one year after the date of the business combination. Management should communicate the termination or relocation arrangements to the employees of the acquired company. The restructuring provision should meet the definition of a liability in order to be recorded.

Indian GAAP The acquirer may recognise a restructuring provision at the acquisition date in amalgamation accounted under the purchase method using the fair value, only when an enterprise has a present obligation as a result of a past event, there is a probable obligation to settle the liability and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities

IFRS The acquiree's contingent liabilities are recognised separately at the acquisition date as part of allocating the cost, provided their fair values can be measured reliably.

US GAAP The acquiree's contingent liabilities are recognised at the acquisition date only if probable and management can make a reasonable estimate of settlement amounts.

Indian GAAP Not recognised.

Minority interests at acquisition

IFRS Where an investor acquires less than 100% of a subsidiary, the minority (non-controlling) interests are stated on the investor's balance sheet at the minority's proportion of the net fair value of acquired assets, liabilities and contingent liabilities assumed.

US GAAP The minority interests are valued at their historical book value. Fair values are assigned only to the parent company's share of the net assets acquired.

Indian GAAP The minority interests are valued at their historical book value.

Goodwill

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

IFRS Goodwill is not amortised but reviewed for impairment annually and when indicators of impairment arise, at the cash-generating-unit (CGU) level, or group of CGUs, as applicable. CGUs may be aggregated for purposes of allocating goodwill and testing for impairment. Groupings of CGUs for goodwill impairment testing cannot be larger than a segment.

US GAAP Similar to **IFRS**. Goodwill is not amortised but reviewed for impairment at least annually at the reporting unit level. Goodwill is assigned to an entity's reporting unit (ie, an operating segment) or one level below (ie, a component). The level of testing may be higher than under **IFRS**.

Indian GAAP Goodwill arising on amalgamation is amortised over its useful life not exceeding 5 years unless longer period can be justified. For goodwill arising on consolidation or on business acquisitions (assets and liabilities only); practice varies with no amortisation versus amortisation over its useful life not exceeding 10 years. Goodwill is reviewed for impairment at the CGU level whenever there is a trigger or indication of impairment.

Impairment

IFRS A one-step impairment test is performed. The recoverable amount of the CGU (ie, the higher of its fair value less costs to sell and its value in use) is compared to its carrying amount. The impairment loss is recognised in operating results as the excess of the carrying amount over the recoverable amount. Impairment is allocated first to goodwill. Allocation is made on a pro rata basis to the CGU's other assets if the impairment loss exceeds the book value of goodwill.

US GAAP A two-step impairment test is required:

1) The fair value and the carrying amount of the reporting unit including goodwill is compared. Goodwill is considered to be impaired if the fair value of the reporting unit is less than the carrying amount; and
2) If goodwill is determined to be impaired based on step one, then goodwill impairment is measured as the excess of the carrying amount of goodwill over its implied fair value. The implied fair value of goodwill is determined by calculating the fair value of the various assets and liabilities included in the reporting unit in the same manner as goodwill is determined in a business combination. The impairment charge is included in operating income. The loss recognised cannot exceed the carrying amount of goodwill.

Indian GAAP Similar to **IFRS**. However, specific differences exist in timing of impairment testing (reviewed whenever an indication of impairment exists), allocation of goodwill to a CGU (bottom-up and then top-down test performed) and hence certain differences in measurement, etc. In addition to this, reversal of an impairment loss for goodwill is permitted when the impairment loss was caused by a specific external event of an exceptional nature that is not expected to recur and subsequent external events have occurred that reverse the effect of that earlier event.

Negative goodwill

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

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

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

Any negative goodwill remaining is recognised as an extraordinary gain.

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

Subsequent adjustments to assets and liabilities

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

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

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

Deferred tax recognised after initial purchase accounting

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

US GAAP Subsequent recognition of a deferred tax asset for which a valuation allowance was established on the acquisition date reduces goodwill, then reduces intangible assets, and finally reduces tax expense. Subsequent establishment of a valuation allowance (after the allocation period) related to a deferred tax asset recognised on an acquisition is recorded as expense.

Indian GAAP If a deferred tax asset relating to the amalgamating entity is identified but not recognised at the time of the amalgamation and is subsequently recognised in the acquirer's first annual balance sheet, the deferred tax asset is recognised by adjusting:

- goodwill/ capital reserve for amalgamation accounted under the purchase method (using fair value or predecessor basis), whereas,
- revenue reserves for amalgamation accounted under the pooling of interests method.

Any adjustment subsequent to the first annual balance sheet date is routed through the income statement.

Pooling (uniting) of interests method

Both **IFRS** and **US GAAP** prohibit the use of this method of accounting if the transaction meets the definition of a business combination and the combination is within the scope of the relevant standards.

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

Business combinations involving entities under common control

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

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

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

Partial disposals of subsidiaries with control retained

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

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

Indian GAAP Similar to **IFRS** except that the concept of economic entity does not exist.

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

IFRS The acquiree's identifiable assets, liabilities and contingent liabilities are remeasured to fair value at the date of the transaction giving rise to control. Each significant transaction is treated separately for the purpose of determining the cost of the acquisition and the amount of goodwill. Any existing goodwill is not remeasured. The adjustment to any previously held interests of the acquirer in the acquiree's identifiable assets, liabilities and contingent liabilities is treated as a revaluation.

US GAAP Similar to **IFRS**, each significant transaction is treated separately for the purposes of determining the cost of the acquisition and the amount of the related goodwill. However, any previous interest in the acquirer's net assets is not restated, resulting in the accumulation of portions of fair values at different dates.

Indian GAAP Similar to **US GAAP**, except that the assets and liabilities are carried at their existing book values and not at fair value.

Recent proposals – IFRS and US GAAP

The IASB and the FASB issued exposure drafts (EDs) of proposed amendments to IFRS 3, Business Combinations, and FAS 141R, Business Combinations, in June 2005. The comment periods ended in October 2005. Both EDs propose a number of significant changes to the financial reporting for business combinations. According to the IASB's work plan, the effective date of a new **IFRS** will be no earlier than for financial periods beginning 1 July 2009. The two boards plan to issue their respective standards simultaneously.

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

Revenue recognition

Revenue

Definition

IFRS Income is defined in the IASB's Framework as including revenues and gains. The standard IAS 18, Revenue, defines revenue as the gross inflow of economic benefits during the period arising from the ordinary activities of an entity when the inflows result in an increase in equity, other than increases relating to contributions from equity participants.

US GAAP Revenue is defined by the Concept Statement to represent actual or expected cash inflows (or the equivalent) that have occurred or will result from the entity's major ongoing operations.

Indian GAAP Income is defined in the Framework to include revenues and gains. The accounting standard on revenue recognition defines revenue as the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends. Revenue is measured by the charges made to customers or clients for goods supplied and services rendered to them and by the charges and rewards arising from the use of resources by them. In an agency relationship, the revenue is the amount of commission and not the gross inflow of cash, receivables or other consideration.

Measurement

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

Revenue recognition

IFRS Specific criteria for the sale of goods, the rendering of services, and interest, royalties and dividends need to be met in order to recognise revenue. The revenue recognition criteria common to each of these are the probability that the economic benefits associated with the transaction will flow to the entity and that the revenue and costs can be measured reliably.

Additional recognition criteria apply to revenue arising from the sale of goods as shown in the table below. Interest revenue is recognised on a basis that takes into account the asset's effective yield. Royalties are recognised on an accrual basis. Dividends are recognised when the shareholder's right to receive payment is established.

US GAAP The guidance is extensive and this may lead to significant differences in practice. There are a number of different sources of revenue recognition guidance, such as FAS, SABs, SOPs, EITFs and AAERs. **US GAAP** focuses more on revenues being realised (either converted into cash or cash equivalents, or the likelihood of its receipt being reasonably certain) and earned (no material transaction pending and the related performance has occurred). Revenue recognition involves an exchange transaction – ie, there should be no revenue recognition unless and until an exchange has taken place. Additional guidance for SEC registrants sets out criteria that an entity should meet before revenue is realised and earned (compared to **IFRS** in the table below). SEC pronouncements also provide guidance related to specific revenue recognition situations.

Indian GAAP Similar to **IFRS**, except that in certain circumstances, revenue from the rendering of services is recognised only on completion of service. Further, unlike **IFRS**, the accounting standard on revenue recognition does not provide guidance on measurement of revenue.

Revenue recognition criteria for the sale of goods

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

Specific revenue recognition issues

Sales of services

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

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

Indian GAAP Similar to **IFRS**.

Multiple-element arrangements

IFRS The recognition criteria are usually applied to the separately identifiable components of a transaction in order to reflect the substance of the transaction. However, the recognition criteria are applied to two or more transactions together when they are linked in such a way that the whole commercial effect cannot be understood without reference to the series of transactions as a whole. Beyond this, there is no further detailed guidance within **IFRS** other than for customer loyalty programmes.

US GAAP Revenue arrangements with multiple deliverables are divided into separate units of accounting if the deliverables in the arrangement meet specified criteria outlined in EITF 00-21. The arrangement's consideration is allocated among the separate units of accounting based on their relative fair values. Applicable revenue recognition criteria are considered separately for separate units of accounting.

Indian GAAP No specific guidance but increasingly practice is similar to **IFRS**.

Multiple-element arrangements – software revenue recognition

IFRS No specific software revenue recognition guidance exists. Fees from the development of customised software are recognised as revenue by reference to the stage of completion of the development, including completion of services provided for post-delivery customer support service.

US GAAP Unlike **IFRS**, **US GAAP** provides specific guidance on software revenue recognition for software vendors, in particular for multiple-element arrangements. A value is established for each element of a multiple-element arrangement, based on vendor-specific objective evidence (VSOE) or other evidence of fair value. VSOE is generally limited to the price charged when elements are sold separately. Consideration is allocated to separate units based on their relative fair values; revenue is recognised as each unit is delivered.

Indian GAAP No specific guidance but increasingly practice is similar to **IFRS**. In other cases, revenue is recognised based on the billing milestones agreed in the contract.

Multiple-element arrangements – customer loyalty programmes

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

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

Indian GAAP No specific guidance.

Construction contracts

Scope

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

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

Indian GAAP Similar to **IFRS**.

Percentage-of-completion method

IFRS When the outcome of the contract can be measured estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. The criteria necessary for a cost-plus contract to be reliably measurable are less restrictive than for a fixed-price contract. The zero-profit method is used when the final outcome cannot be estimated reliably. This recognises revenue only to the extent of contract costs incurred that are expected to be recovered. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. IFRS provides limited guidance on the use of estimates.

US GAAP Two different approaches are allowed:

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

Losses are recognised when incurred or when the expected contract costs exceed the expected contract revenue, regardless of which accounting method is used. **US GAAP** provides detailed guidance on the use of estimates.

Indian GAAP Similar to **IFRS**.

Completed contract method

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

Combining contracts and segmenting a contract

IFRS	A group of contracts are combined and treated as a single contract when they are negotiated as part of a package and other specified conditions are met. Where a contract relates to the construction of more than one asset, the construction of each asset is treated as a separate construction contract if it is part of a separate proposal that could be accepted or rejected separately and revenues and costs for that asset can be clearly identified.
US GAAP	Combining contracts is permitted but not required.
Indian GAAP	Similar to **IFRS**.
REFERENCES:	**IFRS**: IAS 11, IAS 18. IFRIC 13 **US GAAP**: CON 5, SAB 104, SOP 81-1, SOP 97-2, EITF 99-17, EITF 00-21, FTB 90-1. **Indian GAAP**: AS 7 (Revised 2002), AS 9

Expense recognition

Expenses

Specific expense recognition issues

Interest expense

IFRS Interest expense is recognised on an accrual basis using the effective interest method. Directly attributable transaction costs and any discount or premium arising on the issue of a debt instrument is amortised using the effective interest method. The effective interest rate is the rate that discounts the estimated future cash payments through the expected life of the debt instrument to the initial carrying amount of the debt instrument.

US GAAP Similar to **IFRS**; however, the contractual life of the debt instrument is generally used in practice.

Indian GAAP Interest expense is recognised on an accrual basis. However, there is no specific guidance on discounts and premiums and practice varies with respect to their recognition.

Employee benefits – pensions

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

Defined contribution plans

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

Defined benefit plans

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

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

ITEM	IFRS	US GAAP	Indian GAAP
Determination of pension and other post-retirement expense	Projected unit credit method used.	Similar to **IFRS.**	Similar to **IFRS**.
Discount rate for obligations	Based on market yields for high-quality corporate bonds. Government bond yields used where there is no deep market in high-quality corporate bonds.	Similar to **IFRS**, except that the standard is worded to convey that rates used are to be based on high quality fixed investment which includes high-quality corporate bonds.	With the adoption of AS 15 (Revised), government bond market yields with similar maturities are used. Earlier, there was no specific guidance.

ITEM	IFRS	US GAAP	Indian GAAP
Valuation of plan assets	Measured at fair value or using discounted cash flows if market prices unavailable.	Measured at fair value in accordance with FAS 157. Hence, plan assets should reflect an exit price, representing the price at which an asset could be sold to another party in a hypothetical transaction.	With the adoption of AS 15 (Revised), guidance is similar to **IFRS**. Earlier, there was no specific guidance.
Recognition of asset or liability in respect of a defined benefit plan	The amount recognised as a defined benefit asset (or liability) is the present value of the defined benefit obligation less the fair value of plan assets, plus or minus actuarial gains and losses not yet recognised as a result of the application of the 'corridor' approach (see below) and unrecognised past service cost.	The funded status of the defined benefit plan (that is, present value of the defined benefit obligation less the fair value of plan assets) is recognised in the balance sheet. All actuarial gains and losses and past service costs are recognised on the balance sheet, with a corresponding entry to accumulated other comprehensive income (AOCI).	Similar to **IFRS** except that actuarial gains and losses are recognised fully in the year of their occurrence as a part of present value of defined benefit obligation.
Bases of charge to income statement	The expense will be made up of service cost, interest cost, expected return on assets, recognised actuarial gains/losses, recognised past service costs, curtailment or settlement impacts and any impact of the asset ceiling. Actuarial gains/losses and the impact of the asset ceiling will be recognised either in the SoRIE or the income statement depending on the chosen policy for actuarial gains/losses. **IFRS** does not prescribe where in the income statement each element of pension expense is recognised but requires disclosure of the line item in which each component is recorded	Similar to **IFRS** except that in general the net expense is recognised as a single component in employee costs.	Similar to **IFRS** except that actuarial gains/ losses are recognised as and when they occur.

ITEM	IFRS	US GAAP	Indian GAAP
Recognition of actuarial gains and losses	Recognised immediately or amortised into profit or loss over expected remaining working lives of participating employees. At a minimum, a net gain/loss in excess of 10% of the greater of the defined benefit obligation or the fair value of plan assets at the beginning of the year is amortised over expected remaining working lives (the 'corridor' method). An entity can adopt a policy of recognising actuarial gains and losses in full in the period in which they occur and recognition may be outside of the income statement; a statement of recognised income and expense is presented (the SoRIE option) if this option is chosen. Amounts recognised in the SoRIE are not subsequently recognised in the income statement.	Amounts recognised within AOCI in order to reflect the funded status of defined benefit plan on the balance sheet are amortised out of AOCI into the income statement on a basis that is similar to **IFRS**, except that actuarial gains and losses are amortised over the remaining life expectancy of the plan participants if all or almost all plan participants are inactive. The SoRIE option under **IFRS** is not permitted under **US GAAP**.	Recognised immediately in the income statement.
Balance sheet asset limitation	Asset limited to the lower of: a) the asset resulting from applying the standard; and b) the total of any unrecognised actuarial losses and past-service cost, and the present value of any available refunds from the plan or reduction in future contributions to the plan.	No similar requirement.	With the adoption of AS 15 (Revised), asset limited to the lower of: a) the asset resulting from applying the standard, and b) the present value of any available refunds from the plan, or reduction in future contributions to the plan. Earlier, contributions in excess of actuarial valuation were treated as prepayment.
Recognition of minimum pension liability	Not required.	Additional minimum liability required when the accumulated benefit obligation exceeds the fair value of the plan assets. It is increased by any prepaid pension asset and decreased by any accrued pension liability previously recognised.	Not required.

ITEM	IFRS	US GAAP	Indian GAAP
Past-service cost	Positive and negative past-service cost recognised in the income statement over remaining vesting period. Where benefits have already vested, past-service cost is recognised immediately.	Positive prior-service costs for current and former employees are recognised out of AOCI and into income over the period during which the employer expects to receive an economic benefit from the increased pension benefit, which is typically the remaining service periods of active employees. Negative prior-service costs first offset previous positive prior-service costs, with the excess recognised in income in the same manner as positive prior-service cost.	Similar to **IFRS**.
Multi-employer plans	If it is a defined benefit plan, it is accounted for as such, unless sufficient information is not available. If there is a contractual agreement between the multi-employer plan and its participants, and the plan is accounted for as a defined contribution plan, the asset or liability that arises from the contractual agreement and the resulting income or expense in profit or loss are recognised.	Defined contribution accounting used.	With the adoption of AS 15 (Revised), guidance is similar to **IFRS**. Earlier, there was no specific guidance.
Subsidiary's defined benefit pension plan forming part of a group plan	Plans with participating entities under common control are not multi-employer plans. If there is a contractual arrangement between the subsidiary and the parent, the subsidiary accounts for the benefit costs on that basis; otherwise the contribution payable for the period is recognised as an expense, except for the sponsoring employer, which must apply defined benefit accounting for the plan as a whole.	The subsidiary accounts for its participation in an overall group plan as a participant in a defined contribution (multi-employer) plan.	With the adoption of AS 15 (Revised), (i) in case of an agreement, the subsidiary would recognise net defined benefit cost so charged, or else (ii) the cost is recognised by legal sponsor and other entities would recognise a cost equal to their contributions. Earlier, there was no specific guidance.

ITEM	IFRS	US GAAP	Indian GAAP
Curtailment definition	A curtailment occurs either when an entity is demonstrably committed to making a material reduction in the number of employees covered by the plan or when it amends the terms of the plan such that a material element of future service by current employees will no longer qualify for benefits, or will qualify only for reduced benefits.	A curtailment eliminates, rather than reduces, the accrual of benefits for some or all of employees' future services.	With the adoption of AS 15 (Revised), a curtailment occurs either when an entity has a present obligation arising from a statutory or regulatory requirement or otherwise to making a material reduction in the number of employees covered by the plan or when it amends the terms of the plan such that a material element of future service by current employees will no longer qualify for benefits, or will qualify only for reduced benefits.

REFERENCES: **IFRS**: IAS 19, IAS 39, IAS 37, IFRIC 14
US GAAP: APB 12, APB 21, FAS 87, FAS 88, FAS 106, FAS 157, FAS 158.
Indian GAAP: AS 15 (Revised 2005)

Share-based payment transactions

For **Indian GAAP**, although there is no accounting standard, the guidance in this section is based on both the Guidance Note issued by the ICAI and the SEBI guidelines as applicable to public listed companies.

Recognition

IFRS The fair value of shares and options awarded to employees is recognised over the period to which the employees' services relate. The award is presumed to be for past services if it is unconditional and vests immediately. Where shares or options are awarded to non-employees in exchange for goods or services, the fair value of those goods or services is recognised when the goods are obtained or as the services are received.

US GAAP The fair value of the share-based compensation is recognised over the requisite service period, which may be explicit, implicit or derived depending on the terms of the awards (service condition, market condition, performance condition or a combination of conditions). All non-employee transactions in which goods or services are received in exchange for equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. In general, under both **US GAAP** and **IFRS**, compensation cost would be recognised over a similar period.

Indian GAAP The requirement in the Guidance Note is similar to **IFRS** for share based payments to employees. However, the SEBI guidelines require that the 'cost' be recognised and amortised on a straight-line basis over the vesting period.

Employee share-based payment transactions

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

US GAAP Similar conceptual model. Nevertheless, many detailed application differences exist, such as the definition of grant date, the classification of awards between equity-settled awards and cash-settled awards and the attribution of expense with graded vesting.

Indian GAAP Under both the Guidance Note and the SEBI Guidelines, entities have a choice of accounting methods for determining the costs of benefits arising from employee share compensation plans. They may either follow an intrinsic value method or a fair value method. The Guidance Note prefers fair value method.

Under the intrinsic value method, the compensation cost is the difference between the market price of the share at the measurement date and the price to be contributed by the employee (exercise price). Usually the measurement date is the date of grant. This method is widely used in practice. The fair value method is based on the fair value of the option at the date of grant. This is estimated using an option-pricing model. If an entity chooses to follow the intrinsic value method, the Guidance Note recommends disclosing the impact on net results and earnings per share, as if the fair value method was applied.

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

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

Non-employee share-based payment transactions

IFRS	IFRS 2 requires an equity-settled share-based payment transaction with non-employee to be determined by reference to the fair value of the goods or services acquired by the entity. In rare cases, if the entity cannot estimate reliably the fair value of the goods where or services received, it should measure the goods or services received by reference to the fair value of the equity instruments granted. Where the identifiable fair value of the goods or services received is less than the fair value of the equity instruments issued, there is a presumption that unidentifiable goods or services have also been received. Identifiable goods or services acquired in a share-based payment transaction are recognised when they are received. Unidentifiable goods or services are measured at grant date fair value.
US GAAP	All non-employee transactions in which goods or services are received in exchange for equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. The fair value of the equity instruments is used in most cases because a direct measurement based on the fair value of the goods and services is generally considered unreliable. The measurement date of an equity award is fixed on the earlier of (a) the date on which a performance commitment is reached, and (b) the date on which performance is complete.
Indian GAAP	No specific guidance. All non-cash share-based payment transactions are disclosed.

REFERENCES: **IFRS**: IAS 19, IAS 37, IFRS 2, IFRIC 11.
US GAAP: FAS 123-R, FIN 44, EITF D-83, EITF 96-18, EITF 00-16.
Indian GAAP: Employee Stock Option Scheme and Employee Stock Purchase Scheme Guidelines, 1999 issued by SEBI, Guidance Note on Employee Share Based Payments.

Compensated absences

These benefits may accumulate over the employee's service period. For a benefit that is attributable to an accumulating right, all three **IFRS**, **US GAAP** and **Indian GAAP** frameworks generally recognise the liability, as the employee provides the service that gives rise to the right to the benefit.

Termination benefits

IFRS

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

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

US GAAP

Specific guidance is provided on post-employment benefits – for example, salary continuation, termination benefits, training and counselling. As a result of **US GAAP** distinguishing between four types of termination benefits (with three timing methods for recognition), this could lead to differences when compared to **IFRS**:

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

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

Indian GAAP

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

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

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

REFERENCES:

IFRS: IAS 19.
US GAAP: FAS 43, FAS 88, FAS 112, FAS 146, EITF 88-1.
Indian GAAP: AS 15 (Revised 2005)

Assets

Historical cost or valuation

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

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

Indian GAAP Historical cost convention is followed.

Intangible assets

Recognition – separately acquired intangibles[1]

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

US GAAP Similar to **IFRS**.

Indian GAAP Similar to **IFRS**.

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

Recognition – additional criteria for internally generated intangibles

IFRS The costs associated with the creation of intangible assets are classified between the research phase and development phase. Costs in the research phase are always expensed. Costs in the development phase are capitalised if, and only if, all of the following are demonstrated:

- the technical feasibility of completing the intangible asset;
- the intention to complete the intangible asset;
- the ability to use or sell it;
- how the intangible asset will generate future economic benefits – the entity should demonstrate the existence of a market or, if for internal use, the usefulness of the intangible asset;
- the availability of adequate resources to complete the development; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Development costs initially recognised as an expense cannot be capitalised in a subsequent period.

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

Indian GAAP Similar to **IFRS**.

Recognition – website development costs

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

US GAAP Similar to **IFRS**.

Indian GAAP Similar to **IFRS**.

Measurement – acquired intangibles

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

Measurement – internally generated intangibles

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

Subsequent measurement – acquired and internally generated intangibles

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

Amortisation – acquired and internally generated intangibles

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

Impairment – acquired and internally generated intangibles

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

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

Property, plant and equipment

Recognition

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

US GAAP Similar to **IFRS**.

Indian GAAP Similar to **IFRS**.

Initial measurement

IFRS PPE, at initial measurement, comprises the purchase price plus costs directly attributable to bringing the asset to the location and working condition necessary for it to be capable of operating in the way management intends. Start-up and pre-production costs are not capitalised unless they are a necessary part of bringing the asset to its working condition. The following are also included in the initial measurement of the asset:

- the costs of site preparation;
- initial delivery and handling costs;
- installation and assembly costs;
- costs of employee benefits arising from construction or acquisition of the asset;
- costs of testing whether the asset is functioning properly;
- professional fees;
- fair value gains/losses on qualifying cash flow hedges relating to the purchase of PPE in a foreign currency (see p81); and
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which PPE is located.

Further, the entity must include borrowing costs incurred during the period of acquiring, constructing or producing the asset for use (see p55).

Government grants received in connection with acquisition of PPE may be offset against the cost (see p73).

US GAAP Similar to **IFRS**, except that hedge gains/losses on qualifying cash flow hedges are not included. Relevant borrowing costs are included if certain criteria are met. Consistent with **IFRS**, the fair value of a liability for an asset retirement obligation is recognised in the period incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalised as part of the asset's carrying amount.

Indian GAAP Similar to **IFRS**, except that there is no specific guidance on the measurement of gains/losses on qualifying cash flow hedges and capitalisation of dismantling and site restoration costs. Relevant borrowing costs, if certain criteria are met, and exchange difference arising on restatement and settlement of certain foreign exchange liabilities are capitalised. However, the capitalisation of exchange difference has been discontinued for accounting periods beginning on or after December 7, 2006.

Subsequent expenditure

IFRS Subsequent maintenance expenditure is expensed as incurred. Replacement of parts may be capitalised when general recognition criteria are met. The cost of a major inspection or overhaul occurring at regular intervals is capitalised where the recognition criteria are satisfied. The net book value of any replaced component would be expensed at the time of overhaul.

US GAAP Similar to **IFRS**.

Indian GAAP Similar to **IFRS**, except that the replaced components are charged to income.

Depreciation

IFRS The depreciable amount of an item of PPE (cost or valuation less residual value) is allocated on a systematic basis over its useful life, reflecting the pattern in which the entity consumes the asset's benefits. Additionally, an entity is required to depreciate separately the significant parts of PPE if they have different useful lives. For example, it may be appropriate to depreciate separately the airframe and engines of an aircraft. Any change in the depreciation method used is treated as a change in accounting estimate, reflected in the depreciation charge for the current and prospective periods. The depreciation methods are reviewed periodically; residual values and useful lives are reviewed at each balance sheet date.

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

Indian GAAP The depreciable amount of an item of PPE is allocated on a systematic basis over its useful life, but a governing statute may provide rates for depreciation, where those rates would prevail. However, where the useful life determined by management is shorter than that envisaged under the relevant statute, the depreciation is computed by applying a higher rate. For example, a company provides depreciation at the rates specified in Schedule XIV of the Companies Act or as determined based on estimated useful lives of assets, whichever is higher.

Further, the impact of change in depreciation method is determined by retrospectively computing depreciation under the new method and is recorded in the period of change; whereas on revision of asset life, the unamortized depreciable amount is charged over the revised remaining asset life.

Subsequent measurement

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

The increase of an asset's carrying amount as a result of a revaluation is credited directly to equity under the heading 'revaluation surplus', unless it reverses a revaluation decrease for the same asset previously recognised as an expense. In this case it is recognised in the income statement. A revaluation decrease is charged directly against any related revaluation surplus for the same asset; any excess is recognised as an expense.

US GAAP PPE is carried at cost less accumulated depreciation and impairment losses. Revaluations are not permitted. Consistent with **IFRS**, impairment testing is performed whenever events or changes in circumstances suggest the carrying value of an asset is not recoverable.

Indian GAAP Similar to **IFRS**. However, there would be dip in charge to the income statement when compared to **IFRS** on an overall basis due to compensating transfer (attributable to the depreciation suffered on revalued part of the asset) made from revaluation reserve to income statement under **Indian GAAP**; a similar transfer (optional) is made directly to equity in case of **IFRS**, Frequency of revaluation is not addressed by the Guidance Note which governs revaluation of fixed assets.

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

Recent proposals – Indian GAAP

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

(i) Capitalisation of costs of major inspections or overhauls as part of the respective asset, instead of expensing as incurred, at present. The costs so capitalized would be charged to the profit and loss by way of a depreciation charge over the remaining useful lives of the respective assets;

(ii) Prescription of a more refined and conceptually superior approach with regard to revaluation of property, plant and equipment (PPE). The key features of this approach is that an entity has to opt for cost or revaluation model and if revaluation model is adopted:

- Revaluation needs to be done on an entire class of PPE to which that item belongs,
- Depreciation charge is recorded based on revalued amounts and it should not nullify the impact of revaluation in the income statement by withdrawing an equivalent amount from the revaluation reserve, and
- Frequency of revaluation should be on a regular basis so that the carrying amounts of the items revalued do not materially differ from their fair value at the balance sheet date;

(iii) Enhanced disclosures as compared to the existing versions of AS 10 and AS 6.

(iv) Consequential amendments by way of a limited revision to AS 2 (Revised) *Valuation of Inventories* like:

An enterprise may purchase inventories on deferred settlement terms. When the arrangement effectively contains a financing element, that element, for example a difference between the purchase price for normal credit terms and the amount paid, is recognised as interest expense over the period of the financing.

Non-current assets held for sale

IFRS A non-current asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The asset should be available for immediate sale in its present condition, and its sale should be highly probable. Specific criteria must be met to demonstrate that the sale is highly probable Once classified as held for sale, the asset is measured at the lower of its carrying amount and fair value less costs to sell with any loss being recognised in the income statement. These assets are not depreciated or amortised during the selling period. They are presented separately from other assets in the balance sheet.

US GAAP Similar to **IFRS**.

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

REFERENCES: **IFRS**: IFRS 5.
US GAAP: FAS 144.
Indian GAAP: AS 10, AS 24.

Leases – lessor accounting

Classification

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

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

INDICATOR	IFRS and Indian GAAP	US GAAP
Normally leads to a finance lease		
Ownership is transferred to the lessee at the end of the lease term	Indicator of a finance lease.	Finance lease accounting required.
A bargain purchase option exists	Indicator of a finance lease.	Finance lease accounting required.

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

Recognition of the investment in the lease

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

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

Operating leases

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

IFRS and **US GAAP** require the lessor to recognise the aggregate cost of incentives given as a reduction of rental income over the lease term on a straight-line basis. **Indian GAAP** does not provide specific guidance on this issue; however a treatment similar to **IFRS** would be followed in practice.

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

Impairment of long-lived assets held for use

Recognition and measurement

IFRS An entity should assess at each reporting date whether there are any indications that an asset may be impaired. The asset is tested for impairment if there is any such indication. An impairment loss is recognised in the income statement when a non-revalued asset's carrying amount exceeds its recoverable amount. Where the asset is carried at valuation the impairment loss is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset and any excess is recognised in the income statement. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. Value in use represents the future cash flows to be derived from the particular asset, discounted to present value using a pre-tax market-determined rate that reflects the current assessment of the time value of money and the risks specific to the asset for which the cash flow estimates have not been adjusted. Fair value less cost to sell represents the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

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

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

Reversal of impairment loss

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

US GAAP Impairment losses cannot be reversed for assets to be held and used.

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

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

Capitalisation of borrowing costs

Recognition

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

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

Indian GAAP Similar to **IFRS**, however, there is no choice but to capitalise borrowing costs. A period of twelve months is considered as substantial period of time unless a shorter or longer period can be justified.

Measurement

IFRS The amount of interest eligible for capitalisation is either the actual costs incurred on a specific borrowing or an amount calculated using the weighted average method, considering all the general borrowings outstanding during the period for that entity. Interest can include foreign exchange differences but under tightly defined conditions. Any interest earned on temporary investment of funds borrowed to finance the asset's production is netted and the interest capitalised. Capitalisation of interest ceases once the asset is ready for its intended use or sale. To the extent borrowing costs are not specific, while applying the capitalisation rate (usually weighted average rate) the amount of borrowing costs capitalised during a period may not exceed the amount of borrowing costs incurred during that period.

US GAAP Similar to **IFRS**, except that foreign exchange differences and interest earned on funds borrowed to finance the production of the asset cannot be netted against interest, except for certain governmental or private entities that finance qualifying assets through tax-exempt borrowings. In these cases, interest costs to be capitalised are required to be reduced by related interest income.

Indian GAAP Similar to **IFRS**.

Recent proposals – IFRS

The IASB has revised IAS 23, Borrowing Costs. This will require the capitalisation of borrowing cost, to the extent they are directly attributable to the acquisition, production or construction of a qualifying asset. The existing option of immediate recognition of those borrowing costs as an expense will be removed. An entity shall apply the Standard for annual periods beginning on or after 1 January 2009. Earlier application is permitted.

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

Investment property

Definition

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

US GAAP No specific definition.

Indian GAAP Property (land and buildings) not intended to be occupied substantially for use by, or in the operations of, the investing enterprise.

Initial measurement

IFRS The same cost-based measurement is used for acquired and self-constructed investment property. The cost of a purchased investment property comprises its purchase price and any directly attributable costs, such as professional fees for legal services, property transfer taxes and other transaction costs. Self-constructed property is accounted for as PPE until construction is complete; then it becomes an investment property. Property acquired under finance or operating lease can also be classified as investment property. Specific rules exist for accounting for property acquired under an operating lease as investment property.

US GAAP The historical cost model is used for most real-estate companies and operating companies. Investor entities such as many investment companies, insurance companies separate accounts, bank-sponsored real-estate trusts and employee benefit plans that invest in real-estate carry their investments at fair value.

Indian GAAP Accounted as long-term investment. No detailed guidance, however, practice similar to **IFRS** would follow.

Subsequent measurement

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

US GAAP The depreciated cost model is applied for real estate companies and operating companies. Investor entities measure their investments at fair value.

Indian GAAP Investment property is treated as long-term investment and carried at cost less depreciation and provision for diminution in investment, which is other than temporary, is made. Reversal of diminution provision is permitted.

Transfers to/from investment property

IFRS There is detailed guidance for subsequent classification where there is a change in use of the investment property. Investment property to be sold is re-classified as inventories; investment property to be owner-occupied is reclassified as PPE.

US GAAP Not applicable.

Indian GAAP No specific guidance.

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

Inventories

Definition

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

Measurement

IFRS Inventories are carried at the lower of cost or net realisable value (sale proceeds less all further costs to bring the inventories to completion). Reversal (limited to the amount of the original write-down) is required for a subsequent increase in value of inventory previously written down.

US GAAP Broadly consistent with **IFRS**, in that the lower of cost and market value is used to value inventories. Market value is defined as being current replacement cost subject to an upper limit of net realisable value (i.e., estimated selling price in the ordinary course of business less reasonably predictable costs of completion and disposal) and a lower limit of net realisable value less a normal profit margin. Reversal of a write-down is prohibited, as a write-down creates a new cost basis.

Indian GAAP Similar to **IFRS**.

Formulae for determining cost

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

Consistency of the cost formula for similar inventories

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

US GAAP Similar to **IFRS**.

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

Allocation of fixed overheads

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

US GAAP Similar to **IFRS**.

Indian GAAP Similar to **IFRS**.

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

Biological assets

IFRS	Biological assets are measured on initial recognition and at each balance sheet date at their fair value less estimated point-of-sale costs. All changes in fair value are recognised in the income statement in the period in which they arise.
US GAAP	Not specified – historical cost is generally used.
Indian GAAP	No specific guidance.

REFERENCES: **IFRS**: IAS 41.

Financial assets

IFRS outlines the recognition and measurement criteria for all financial assets defined to include derivatives. The guidance in **IFRS** is broadly consistent with **US GAAP**. Recently ICAI has issued AS 30 Financial Instruments: Recognition and Measurement and AS 31 Financial Instrument: Presentation (under **Indian GAAP**) which has not been discussed here but the new guidance is similar to **IFRS**.

Definition

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

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

Recognition and initial measurement

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

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

Classification	IFRS	US GAAP
Financial assets at fair value through profit or loss		
Two sub-categories: financial assets held for trading (see below), and those designated to the category at inception.	An irrevocable decision to classify a financial asset at fair value, with changes in fair value recognised in the income statement, provided it results in more relevant information because either: • it eliminates or significantly reduces a measurement or recognition inconsistency; • a group of financial assets, financial liabilities or both is managed and performance is evaluated on a fair value basis; or • the contract contains one or more 'substantive' embedded derivatives.	Irrevocable decision to designate financial assets at fair value with changes in fair value recognised in the income statement. Unlike **IFRS**, this decision is not restricted to specific circumstances.
Held-for-trading financial assets		
Debt and equity securities held for sale in the short term. Includes non-qualifying hedging derivatives.[2]	The intention should be to hold the financial asset for a relatively short period, or as part of a portfolio for the purpose of short-term profit-taking.	Similar to **IFRS**. Frequent buying and selling usually indicates a trading instrument.

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

[2] Qualifying hedging derivatives are classified separately.

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

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

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

Reclassification of assets between categories

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

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

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

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

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

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

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

Indian GAAP Transfer from long-term to current category is made at lower of cost and carrying amount at the date of transfer; whereas transfer from current to long-term category is made at lower of cost and fair value at the date of transfer. Banking regulations provide separate guidelines for transfers. Accounting standard on recognition and measurement of financial instrument, AS 30 will significantly effect the treatment under **Indian GAAP** going forward and reduce differences with **IFRS** and **US GAAP**.

Impairment

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

IFRS Entities should consider impairment when there is an indicator of impairment. A decline in the fair value of a financial asset below its cost that results from the increase in the risk-free interest rate is not necessarily evidence of impairment. An impairment of a security does not establish a new cost basis.

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

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

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

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

Derecognition

IFRS

An entity consolidates any subsidiaries including SPEs before applying the derecognition tests to the consolidated entity. The entity then considers whether it has transferred the contractual rights to the cash flows or entered into a so-called 'pass-through arrangement'. In such cases, an analysis of the risks and rewards of the asset is required. The entity derecognises the asset if an entity transfers substantially all the risks and rewards of ownership of the asset (for example, an unconditional sale of a financial asset). It continues to recognise the asset (the transaction is accounted for as a collateralised borrowing) if it retains substantially all the risks and rewards of ownership of the asset. If an entity neither transfers nor retains substantially all the risks and rewards of ownership of the asset, it needs to determine whether it has retained control of the asset. Control is based on the transferee's practical ability to sell the asset. The asset is derecognised if the entity has lost control. If the entity has retained control, it continues to recognise the asset to the extent of its continuing involvement.

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

US GAAP

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

1) legal isolation of the transferred asset from the transferor – assets have to be isolated from the transferor and beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership;

2) the ability of the transferee to pledge or sell the asset – the transferee has to be able to pledge or exchange the transferred asset free from constraint; and

3) no right or obligation of the transferor to repurchase – the transferor cannot maintain effective control through a right or obligation to repurchase or redeem assets or a right to purchase or redeem 'not readily obtainable' assets (except for 'clean-up' call).

Indian GAAP

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

REFERENCES:

IFRS: IAS 39, SIC-12.
US GAAP: FAS 114, FAS 115, FAS 133, FAS 140, FAS 155, FAS 157, FAS 159.
Indian GAAP: AS 13, Guidance Note on Accounting for Securitisation.

Liabilities

Provisions

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

Recognition

IFRS

A provision is recognised when:

- the entity has a present obligation to transfer economic benefits as a result of past events;
- it is probable (more likely than not) that such a transfer will be required to settle the obligation; and
- a reliable estimate of the amount of the obligation can be made.

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

US GAAP

Similar to **IFRS**, although ‘probable’ is a higher threshold under **US GAAP** than ‘more likely than not’ under **IFRS**.

Indian GAAP

Similar to **IFRS**. Constructive obligations are not considered for recognising provisions; however, provision is to be created in respect of obligations arising from normal business practice or to maintain good business relations or to act in an equitable manner.

Measurement

IFRS

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. The anticipated cash flows are discounted using a pre-tax discount rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability (for which the cash flow estimates have not been adjusted) if the effect is material. If a range of estimates is predicted and no amount in the range is more likely than any other amount in the range, the ‘mid-point’ of the range is used to measure the liability.

US GAAP

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

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

Indian GAAP

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

Restructuring provisions

IFRS

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

US GAAP

Similar to **IFRS**. However, **US GAAP** prohibits the recognition of a liability based solely on an entity’s commitment to a plan. Recognition of a provision for one-time termination benefits requires communication of the details of the plan to the affected employees.

Indian GAAP

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

Onerous contracts

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

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

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

REFERENCES: **IFRS**: IAS 37.
US GAAP: FAS 5, EITF 88-10, FAS 143, FAS 146, SOP 96-1.
Indian GAAP: AS 29

Decommissioning, restoration and similar liabilities (asset retirement obligations)

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

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

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

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

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

REFERENCES: **IFRS:** IAS 16, IAS 37, IFRIC 1.
US GAAP: FAS 143, FIN 47.
Indian GAAP: AS 29.

Contingencies

Contingent asset

IFRS	A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the entity's control. An asset is recognised only when the realisation of the associated benefit, such as an insurance recovery, is virtually certain.
US GAAP	Similar to **IFRS**, but the threshold for recognising insurance recoveries is lower. The recovery is required to be probable (the future event or events are likely to occur) rather than virtually certain as under **IFRS**.
Indian GAAP	Similar to **IFRS**, except that certain disclosures as specified under **IFRS** are not required.

Contingent liability

IFRS	A contingent liability is a possible obligation whose outcome will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events outside the entity's control. It can also be a present obligation that is not recognised because it is not probable that there will be an outflow of economic benefits, or the amount of the outflow cannot be reliably measured. Contingent liabilities are disclosed unless the probability of outflows is remote. Probable is defined as more likely than not.
US GAAP	Similar to **IFRS**, an accrual for a loss contingency is required if it is probable that there is a present obligation resulting from a past event and an outflow of economic resources is reasonably estimable. Probable is defined as likely to occur rather than more likely than not as under **IFRS**.
Indian GAAP	Similar to **IFRS**.

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

Deferred tax

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

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

Issue	IFRS	US GAAP	Indian GAAP
Investments in subsidiaries – treatment of undistributed profit	Deferred tax is recognised except when the parent is able to control the distribution of profit and it is probable that the temporary difference will not reverse in the foreseeable future.	Deferred tax is required on temporary differences arising after 1992 that relate to investments in domestic subsidiaries, unless such amounts can be recovered tax-free and the entity expects to use that method. No deferred taxes are recognised on undistributed profits of foreign subsidiaries that meet the indefinite reversal criterion.	Deferred tax is not recognised as deferred taxes are aggregated from standalone financial statements of all consolidating entities and no adjustment is made on consolidation.
Investments in joint ventures – treatment of undistributed profit	Deferred tax is recognised except when the venturer can control the sharing of profits and if it is probable that the temporary difference will not reverse in the foreseeable future.	Deferred tax is required on temporary differences arising after 1992 that relate to investment in domestic corporate joint ventures. No deferred taxes are recognised on undistributed profits of foreign corporate joint ventures that meet the indefinite reversal criterion.	As for subsidiaries
Investments in associates – treatment of undistributed profit	Deferred tax is recognised except when the investor can control the sharing of profits and it is probable that the temporary difference will not reverse in the foreseeable future.	Deferred tax is recognised on temporary differences relating to investments in investees.	As for subsidiaries
Uncertain tax positions	While not specifically addressed within **IFRS**, an entity reflects the tax consequences that follow from the manner in which it expects, at the balance sheet date, to pay to (recovered from) the taxation authorities. The tax position is measured using either an expected value approach or a single best estimate of the most likely outcome. The cumulative probability model is not permitted under **IFRS**.	A tax benefit from an uncertain tax position may be recognised only if it is more likely than not that the tax position is sustainable based on its technical merits. The tax position is measured, using the cumulative probability model, as the largest amount of tax benefit that is greater than 50% likely of being realised upon ultimate settlement.	Similar to **IFRS**.

Issue	IFRS	US GAAP	Indian GAAP
Share-based compensation	If a tax deduction exceeds cumulative share-based compensation expense, deferred tax calculations based on the excess deduction are recorded directly in equity. If the tax deduction is less than or equal to cumulative share-based compensation expense, deferred taxes arising are recorded in income. The unit of accounting is an individual award. If changes in the stock price impact the future tax deduction, the measurement of the deferred tax asset is based on the current stock price.	If the tax benefit available to the issuer exceeds the deferred tax asset recorded, the excess benefit (known as a 'windfall' tax benefit) is credited directly to shareholders' equity. If the tax benefit is less than the deferred tax asset, the shortfall is recorded as a direct charge to shareholders' equity to the extent of prior windfall tax benefits, and as a charge to tax expense thereafter. Changes in the stock price do not impact the deferred tax asset or result in any adjustments prior to settlement or expiration. They will, however affect the actual future tax deduction (if any).	Deferred tax is not recognised as it is treated as a permanent difference.
Measurement of deferred tax			
Tax rates	Tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Rate used is the applicable rate for expected manner of recovery – eg, dependent on whether asset is to be used or sold – or a combination of these.	Use of substantively enacted rates is not permitted. Tax rate and tax laws used must have been enacted. Similar to **IFRS**.	Similar to **IFRS**.
Recognition of deferred tax assets	A deferred tax asset is recognised if it is probable (more likely than not) that sufficient taxable profit will be available against which the temporary difference can be utilised.	A deferred tax asset is recognised in full but is then reduced by a valuation allowance if it is more likely than not that some or all of the deferred tax asset will not be realised.	Deferred tax assets is recognised (a) if realisation is virtually certain for entities with tax losses carry-forward, whereas (b) if realisation is reasonably certain for entities with no tax losses carry- forward.
Recognition of asset on minimum alternative tax (MAT) credit carry-forward.	It is recognised as a deferred tax asset if it is probable (more likely than not) that MAT credit can be used in future years to reduce the regular tax liability.	It is recognised as a deferred tax asset in full, but is then reduced by a valuation allowance, if it more likely than not that MAT credit cannot be used in future years to reduce the regular tax liability.	It is considered as prepaid tax and recognised as an asset (not as a deferred tax asset) when and to the extent there is convincing evidence that MAT credit will be used in future years to reduce the regular tax liability.
Discounting	Prohibited.	Prohibited.	Prohibited.

Issue	IFRS	US GAAP	Indian GAAP
Business combinations – acquisitions			
Step-up of acquired assets/liabilities to fair value	Deferred tax is recorded unless the tax base of the asset is also stepped up.	Similar to **IFRS**.	Deferred taxes are aggregated from stand-alone financial statements of all consolidating entities and no adjustment is made on consolidation.
Previously unrecognised tax losses of the acquirer	A deferred tax asset is recognised if the recognition criteria for the deferred tax asset are met as a result of the acquisition. Offsetting credit is recorded in income.	Similar to **IFRS**, except the offsetting credit is recorded against goodwill.	Similar to **IFRS**.
Tax losses of the acquiree (initial recognition)	Similar requirements as for the acquirer except the offsetting credit is recorded against goodwill.	Similar to **IFRS**.	For entity acquired and held as a subsidiary, offsetting credit is recorded in income statement. For entity acquired and amalgamated, similar to **IFRS**.
Subsequent resolution of income tax uncertainties in a business combination	If the resolution is more than one year after the year in which the business combination occurred, the result is recognised in the income statement.	The subsequent resolution of any tax uncertainty relating to a business combination is recorded against goodwill.	All adjustments are recorded in income statement.
Subsequent recognition of deferred tax assets that were not 'probable' at the time of the business combination	A deferred tax asset that was not considered probable at the time of the business combination but later becomes probable is recognised. The adjustment is to income tax expense with a corresponding adjustment to goodwill. The income statement shows a debit to goodwill expense and a credit to income tax expense. There is no time limit for recognition of this deferred tax asset.	The subsequent resolution of any tax uncertainty relating to a business combination is recorded first against goodwill, then non-current intangibles and then income tax expense. There is no time limit for recognition of this deferred tax asset.	For entity acquired and held as a subsidiary, no adjustment is recorded on consolidation. For entity acquired and amalgamated, similar to **IFRS**. However, if the recognition of deferred tax asset is done after the first annual balance sheet date following the combination, the corresponding effect of any subsequent recognition is routed through the income statement.
Presentation of deferred tax			
Offset of deferred tax assets and liabilities	Permitted only when the entity has a legally enforceable right to offset and the balance relates to tax levied by the same authority.	Similar to **IFRS**.	Similar to **IFRS**.

Issue	IFRS	US GAAP	Indian GAAP
Current/non-current	Deferred tax assets and liabilities are classified net as non-current on the balance sheet, with supplemental note disclosure for: (a) the components of the temporary differences, and (b) amounts expected to be recovered within 12 months and more than 12 months of the balance sheet date.	Deferred tax assets and liabilities are either classified as current or non-current, based on the classification of the related non-tax asset or liability for financial reporting. Tax assets not associated with an underlying asset or liability are classified based on the expected reversal period.	Deferred tax asset, net, is disclosed after 'Net current assets'; whereas deferred tax liability, net, is disclosed after 'Unsecured loans'.
Minimum alternative tax credit caryforward	Disclosed along with any other deferred tax amount.	Similar to **IFRS.**	Disclosed as "MAT credit entitlement" within "Loans and Advances", with a corresponding credit to the income statement and presented as a separate line item therein. MAT credit utilised is shown as a deduction from "Provision for Taxation" on the liabilities side of the Balance Sheet.
Reconciliation of actual and expected tax expense	Required. Computed by applying the applicable tax rates to accounting profit, disclosing also the basis on which the applicable tax rates are calculated.	Required for public companies only. Calculated by applying the domestic federal statutory tax rates to pre-tax income from continuing operations.	Not required.

REFERENCES: **IFRS**: IAS 1, IAS 12, IFRS 3.
US GAAP: FAS 109, FIN 48.
Indian GAAP: AS 22, Guidance Note on Accounting for Credit Available in respect of Minimum Alternative Tax under the Income Tax Act, 1961

Government grants

IFRS Grants are recognised once there is reasonable assurance that both, the conditions for their receipt will be met and the grant will be received. Revenue-based grants are deferred in the balance sheet and released to the income statement to match the related expenditure that they are intended to compensate. Capital-based grants are deferred and matched with the depreciation on the asset for which the grant arises.

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

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

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

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

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

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

Grants – agricultural assets

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

US GAAP Not specified.

Indian GAAP Not specified.

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

Leases – lessee accounting

Classification

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

Finance leases

IFRS Requires recognition of an asset held under a finance lease (see classification criteria on p57) with a corresponding obligation for future rentals, at an amount equal to the lower of the fair value of the asset and the present value of the future minimum lease payments (MLPs) at the inception of the lease. The asset is depreciated over its useful life or the lease term if shorter. However, this is only permitted if there is no reasonable certainty of the lessee obtaining ownership of the asset. The interest rate implicit in the lease is normally used to calculate the present value of the MLPs. The lessee's incremental borrowing rate may be used if the implicit rate is unknown. Rental payments are allocated between repayment of capital and interest expense. Interest is calculated to give a constant periodic rate of interest on the remaining balance of the liability.

US GAAP Similar to **IFRS**, except that the lessee's incremental borrowing rate is used to calculate the present value of the MLPs, excluding the portion of payments representing executory costs, unless it is practicable to determine the rate implicit in the lease and the implicit rate is lower than the incremental borrowing rate. If the incremental borrowing rate is used, the amount recorded as the asset and obligation is limited to the fair value of the leased asset. Asset amortisation is consistent with **IFRS**.

Indian GAAP Similar to **IFRS**.

Operating leases

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

Incentives

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

Sale and leaseback transactions

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

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

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

Financial liabilities

Definition

IFRS and **US GAAP** define a financial liability in a similar way, to include a contractual obligation to deliver cash or a financial asset to another entity, or to exchange financial instruments with another entity under conditions that are potentially unfavourable.

Classification

IFRS

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

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

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

Preferred shares that are not redeemable, or that are redeemable solely at the option of the issuer, and for which distributions are at the discretion of the issuer, are classified as equity. Preferred shares requiring the issuer to redeem for a fixed or determinable amount at a fixed or determinable future date and for which distributions are not at the discretion of the issuer, are classified as liabilities. However, if dividends are discretionary, the instrument is treated as a compound instrument with a debt and equity component. Preferred shares where the holder has the option of redemption and for which distributions are not at the discretion of the issuer are also classified as liabilities; in addition there is an embedded put option which may have to be accounted for separately.

US GAAP

Differences in classification occur in practice as a result of the different models. Under **US GAAP**, the following types of instrument are classified as liabilities under FAS 150:

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

Specific SEC guidance provides for the classification of certain redeemable instruments that are outside the scope of FAS 150 as mezzanine equity (ie, outside of permanent equity). However, **IFRS** does not provide for the classification of an instrument as mezzanine equity.

Indian GAAP

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

Convertible debt

IFRS

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

US GAAP

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

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

Measurement

IFRS There are two categories of financial liabilities: those that are recognised at fair value through profit or loss (includes trading), and all others. Financial liabilities aside from those that are trading can only be designated at fair value through profit or loss provided they meet certain criteria. All other (non-trading) liabilities are carried at amortised cost using the effective interest method.

Convertible debt is measured at fair value on initial recognition, which is usually the consideration received plus incremental and directly attributable costs of issuing the debt.

US GAAP Similar to **IFRS**. However, incremental and directly attributable costs of issuing debt are deferred as an asset and amortised using the effective interest method. There are also specific measurement criteria for certain financial instruments. Entities can generally use the fair value option to designate at initial recognition a financial liability at fair value through profit or loss, except for certain specific financial instruments such as demand deposits.

Indian GAAP No specific guidance. Generally, liabilities are recorded at face value.

Derecognition of financial liabilities

IFRS A financial liability is derecognised when: the obligation specified in the contract is discharged, cancelled or expires; or the primary responsibility for the liability is legally transferred to another party. A liability is also considered extinguished if there is a substantial modification in the terms of the instrument - for example, where the discounted present value of new cash flows differs from the previous cash flows by at least 10%.

The difference between the carrying amount of a liability (or a portion thereof) extinguished or transferred and the amount paid for it should be recognised in net profit or loss for the period.

US GAAP Similar to **IFRS**, a financial liability is derecognised only if it has been extinguished. Extinguishment means paying the creditor and being relieved of the obligation or being legally released from the liability either judicially or by the creditor, or as a result of a substantial modification in terms (10% or greater change in discounted present value of cash flows).

Indian GAAP No specific guidance. In practice, treatment would be similar to **IFRS** based on substance of the transaction, however, 10% criteria may not be applied.

Recent proposals – IFRS

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

Recent proposals – Indian GAAP

The Council of ICAI at its meeting held on October 10-12, 2007, approved the Accounting Standard (AS) 30, *Financial Instruments: Recognition and Measurement* and Accounting Standard (AS) 31, *Financial Instruments: Presentation*. These Accounting Standards will come into effect in respect of accounting periods commencing on or after 1-4-2009 and will be recommendatory in nature for a period of two years. As a consequence of issuance of AS 30, limited revisions to eight Accounting Standards, viz., AS 2, AS 11 (revised 2003), AS 21, AS 23, AS 26, AS 27, AS 28 and AS 29 have also been made. The approved Standards and the consequential limited revisions have not yet issued. However, the same has not been notified by Central Government in the Companies Accounting Standard Rules, 2006.

AS 30 establishes principles for recognition, derecognition and measurement of financial instruments. For the purpose of the Standard, financial instruments are classified into financial assets or financial liabilities at fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets and other financial liability. AS 30 also establishes principles for hedge accounting. AS 31 primarily establishes principles for presenting financial instruments as liabilities or equity and related principles of interest, dividends, losses and gains. The principles in this Standard complement the principles established in AS 30. As 30 and AS 31 are based on the corresponding International Accounting Standards, viz., IAS 39, *Financial Instruments: Recognition and Measurement* and IAS 32, *Financial Instruments: Presentation*, respectively. There are no material differences between AS 30 and IAS 39, and AS 31 and IAS 32. Accounting Standard corresponding to IFRS 7, Financial Instruments: Disclosures, is still under preparation and will also be issued in near future.

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

Equity

Equity instruments

Recognition and classification

IFRS An instrument is classified as equity when it does not contain an obligation to transfer economic resources. Preference shares that are not redeemable, or that are redeemable solely at the option of the issuer, and for which distributions are at the issuer's discretion, are classified as equity. Only derivative contracts that result in the delivery of a fixed amount of cash, or other financial asset for a fixed number of an entity's own equity instruments, are classified as equity instruments. All other derivatives on the entity's own equity are accounted for as derivatives.

US GAAP Unlike **IFRS**, certain derivatives on an entity's own shares that are or may be net share-settled can be classified as equity.

Indian GAAP The Companies Act defines an equity share capital as all share capital which is not a preference share capital. A preference capital is defined as a share capital (a) that with respect to dividends carry a preferential right to be paid a fixed amount or an amount calculated at a fixed rate and (b) that with respect to capital carries a preferential right to be repaid on a winding up or repayment of capital.

Purchase of own shares

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

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

Indian GAAP An entity is permitted to repurchase its own shares only under limited circumstances subject to the legal requirements stipulated in the Companies Act. On repurchase, such shares are required to be cancelled, i.e. cannot be kept as treasury stock.

Dividends on ordinary equity shares

IFRS Presented as a deduction in the statement of changes in shareholders' equity in the period when authorised by shareholders. Dividends are accounted in the year when declared.

US GAAP Similar to **IFRS**.

Indian GAAP Presented as an appropriation to the income statement. Dividends are accounted in the year when proposed.

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

Derivatives and hedging

Derivatives

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

Definition

IFRS A derivative is a financial instrument:

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

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

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

Initial measurement

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

Subsequent measurement

IFRS and **US GAAP** require subsequent measurement of all derivatives at their fair values, with changes recognised in the income statement except for derivatives used in cash flow or net investment hedges. However, under **IFRS**, a derivative that is linked to and should be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured is carried at cost less impairment until settlement.

Under **Indian GAAP**, forward exchange contracts intended for trading or speculation purposes are carried at fair value with unrealised gains and losses recognised in the income statement, else, the premium or discount is amortised over the life of the contract and the exchange difference on such contracts is recognised in the income statement in the reporting period in which the exchange rate changes. Exchange difference is ((1) the foreign currency amount of the derivative contract translated at the exchange rate at the reporting date, or the settlement date where the transaction is settled during the reporting period, and (2) the same foreign currency amount translated at the latter of the date of inception of the forward exchange contract and the last reporting date) Equity index options and equity stock options are carried at lower of cost or market value. With effect form fiscal years beginning 1 April 2008, forward exchange contracts to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction would be accounted similar to foreign exchange contracts not held for speculation or trading as discussed above. Prior to this, there was no specific guidance for forward exchange contracts to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction.

Embedded derivatives

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

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

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

Hedge accounting

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

Criteria for hedge accounting

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

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

Hedged items

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

IFRS	US GAAP
Held-to-maturity investments cannot be designated as a hedged item with respect to interest-rate risk or prepayment risk	Similar to **IFRS**.
If the hedged item is a financial asset or liability, it may be a hedged item with respect to the risks associated with only a portion of its cash flows or fair value provided that effectiveness can be measured.	The designated risk is the risk of changes in: the overall fair value or cash flow; market interest rates; foreign currency exchange rates; or the creditworthiness of the 'obligor'. Portions of risk cannot be designated as the hedged risk.
If the hedged item is a non-financial asset or liability, it may be designated as a hedged item only for foreign currency risk, or in its entirety for all risks because of the difficulty of isolating other risks.	Similar to **IFRS**.
If similar assets or similar liabilities are aggregated and hedged as a group, the change in fair value attributable to the hedged risk for individual items should be proportionate to the change in fair value for the group.	Similar to **IFRS**.
A firm commitment to acquire a business cannot be a hedged item, except for foreign exchange risk, because the other risks that are hedged cannot be specifically identified and measured.	The hedged item cannot be related to: a business combination; the acquisition or disposition of subsidiaries; a minority interest in one or more consolidated subsidiaries; or investments accounted for using the equity method. The foreign exchange risk in a firm commitment to acquire a business cannot be a hedged item.

Hedging instruments

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

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

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

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

Hedge relationships

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

IFRS Recognises the following types of hedge relationships:

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

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

US GAAP Similar to **IFRS**. However, **IFRS** permits the basis of a non-financial asset or liability to be adjusted in a cash flow hedge that results in the recognition of a non-financial asset or liability.

Fair value hedges

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

US GAAP Similar to **IFRS**.

Cash flow hedges

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

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

Hedges of net investments in foreign operations

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

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

REFERENCES: **IFRS**: IAS 39, IFRS 7, IFRIC 9.
US GAAP: FAS 133, FAS 137, FAS 138, FAS 149, FAS 155, EITF D-102, FIN 37.
Indian GAAP: AS 11 (Revised 2003), GN on Accounting for Equity Index and Equity Stock Futures and Options.

Other accounting and reporting topics

Foreign currency translation

Functional currency – definition and determination

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

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

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

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

Translations – the individual entity

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

- Translation of transactions denominated in foreign currency is at the exchange rate in operation on the date of the transaction;
- Monetary assets and liabilities denominated in foreign currency are re-translated at the closing (year-end) rate;
- Non-monetary foreign currency assets and liabilities are translated at the appropriate historical rate;
- Non-monetary items denominated in a foreign currency and carried at fair value are reported using the exchange rate that existed when the fair value was determined (**IFRS** and **Indian GAAP**);
- Income statement amounts are translated using historical rates of exchange at the date of transaction or an average rate as a practical alternative, provided the exchange rate does not fluctuate significantly; and
- Exchange gains and losses arising from an entity's own foreign currency transactions are reported as part of the profit or loss for the year, except that exchange gains and losses on certain foreign currency liabilities are capitalised to PPE under **Indian GAAP**. However, the capitalisation of exchange difference has been discontinued from accounting periods beginning on or after December 7, 2006; this includes the exchange differences arising on purchase of fixed assets acquired from outside India in foreign currency. This includes foreign currency gains and losses on available-for-sale debt securities (**IFRS** only) as well as long-term loans, which in substance form part of an entity's net investment in a foreign operation.

Translation – consolidated financial statements

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

Tracking of translation differences in equity

IFRS Translation differences in equity are separately tracked and the cumulative amounts disclosed. The appropriate amount of cumulative translation difference relating to an entity is transferred to the income statement on disposal or liquidation of that foreign operation and included in the gain or loss on sale. For a partial disposal, the proportionate share of the related cumulative translation difference is included in the gain or loss. The payment of a dividend out of pre-acquisition profits constitutes a return of the investment and is regarded as a partial disposal. The sale of a second-tier subsidiary generally triggers the release of the CTA account. Repayment of permanent advances triggers the release of CTA.

US GAAP Similar to **IFRS;** however, gains and losses are transferred to the income statement only upon sale or complete or substantially complete liquidation of the investment. The CTA account should generally not be released into earnings when a first-tier foreign subsidiary sells or liquidates a second-tier subsidiary because the first-tier subsidiary still contains investments in foreign assets. This principle may be overcome in certain cases. Repayment of permanent advances does not result in release of CTA unless it constitutes a substantially complete liquidation of the foreign entity.

Indian GAAP Similar to **IFRS**.

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

IFRS Translated at closing rates.

US GAAP Similar to **IFRS**.

Indian GAAP Similar to **IFRS**.

Translation of fixed assets and available for sale debt investments

IFRS Foreign currency impacts of revaluations of fixed assets are recorded directly in equity. Exchange differences on available-for-sale ("AFS") debt securities resulting from changes in amortized cost are recognized in income statement (same amount as if the bond is classified as held-to-maturity) and other changes (i.e. the difference) in the carrying amount are recognized in equity.

US GAAP **US GAAP** does not allow revaluations of fixed assets except in a business combination. As a result, foreign currency movements can not be recorded in equity.
The entire change in the fair value of AFS debt securities is recorded in equity (including the portion attributable to changes in exchange rates)

Indian GAAP No specific guidance

Presentation currency

IFRS Assets and liabilities are translated at the exchange rate at the balance sheet date when financial statements are presented in a currency other than the functional currency. Income statement items are translated at the exchange rate at the date of the transaction or, if the exchange rates do not fluctuate significantly, at average rates.

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

Indian GAAP It assumes an entity normally uses the currency of the country in which it is domiciled in presenting its financial statements. If a different currency is used, requires disclosure of the reason for using a different currency.

Foreign currency translation – hyperinflationary economy

Definition

IFRS Hyperinflation is indicated by characteristics of the economic environment of a country. These characteristics include: the general population's attitude towards the local currency; prices linked to a price index; and the cumulative inflation rate over three years is approaching or exceeds 100%.

US GAAP Similar to **IFRS**; however, the prescribed test for a highly inflationary economy is cumulative inflation of approximately 100% or more over a three-year period. Historical inflation rate trends and other pertinent economic factors are also considered if the cumulative inflation rate is high but less than 100%.

Indian GAAP There is no specific guidance on foreign currency translation in a hyperinflationary economy.

Functional currency – hyperinflationary economy

IFRS Entities that have the currency of a hyperinflationary economy as the functional currency use that currency for measurement of transactions. The financial statements for current and prior periods are remeasured at the measurement unit current at the balance sheet date in order to present current purchasing power.

US GAAP Does not generally permit inflation-adjusted financial statements; the use of the reporting currency (US dollar) as the functional currency is required. However, SEC rules provide an accommodation allowing foreign issuers that use **IFRS** to omit quantification of any differences that would have resulted from the application of FAS 52, Foreign Currency Translation.

Indian GAAP There is no specific guidance on foreign currency translation in a hyperinflationary economy.

Presentation currency – hyperinflationary economy

IFRS The results and financial position of an entity whose functional currency is the currency of a hyperinflationary economy are translated into a different presentation currency using the following procedure:

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

US GAAP Not applicable, because the currency of a hyperinflationary economy is not used for measuring its transactions in the hyperinflationary economy.

Indian GAAP There is no specific guidance on foreign currency translation in a hyperinflationary economy.

REFERENCES: **IFRS**: Framework, IAS 21, IAS 29.
US GAAP: FAS 52, FIN 37, EITF 96-15.
Indian GAAP: AS 11 (Revised 2003)

Earnings per share

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

Basic EPS

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

US GAAP Similar to **IFRS**.

Indian GAAP Similar to **IFRS**.

Diluted EPS

IFRS For diluted EPS, earnings are adjusted for the after-tax amount of dividends, interest and any other impact resulting from the assumed conversion of dilutive potential ordinary shares; diluted shares are also adjusted for any assumed conversions. A conversion is deemed to have occurred at the beginning of the period or the date of the issue of potential dilutive ordinary shares, if later. There is no '*de minimis*' dilution threshold below which diluted EPS need not be disclosed. The effects of anti-dilutive potential equity shares are ignored in calculating diluted earnings per share.

US GAAP Similar in principle to **IFRS**, however, differences arise in the detailed calculation of diluted EPS.

Indian GAAP Similar to **IFRS**, except in certain circumstances e.g. advance share application money received is treated as dilutive potential equity shares.

Diluted EPS – share options

IFRS The 'treasury share' method is used to determine the effect of share options and warrants. The assumed proceeds from the issue of the dilutive options and warrants are regarded as having regarded been received from issuing shares at fair value. The difference between the number of shares to be issued on exercise of options and the number of shares that would have been issued at fair value is treated as an issue of ordinary shares for no consideration (ie, a bonus issue) and is factored into the denominator used to calculate diluted EPS.

US GAAP Differences to **IFRS** may arise when applying the treasury stock (share) method in year-to-date computations, the number of incremental shares to be included in the denominator is determined by computing a year-to-date weighted average of the number of incremental shares included in each quarterly diluted EPS computation.

Indian GAAP Similar to **IFRS**.

Diluted EPS – contingently issuable shares

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

US GAAP Similar to IFRS.

Indian GAAP Similar to **IFRS**

Recent proposals – US GAAP

The FASB issued an exposure draft in December 2003 proposing revisions to FAS 128, Share-based Payment, designed to converge the computations of basic and diluted EPS with **IFRS**. The ED proposed changes to the treasury stock method to eliminate the averaging of quarterly computations, and new computational guidance covering mandatorily convertible instruments, contracts that may be settled in cash or shares and contingently issuable shares. The FASB issued a revised ED for FAS 128 in September 2005, proposing further changes to the treasury stock method to include in assumed proceeds the carrying amount of certain instruments classified as liabilities that may be settled in shares. As the IASB and the FASB reached different conclusions in redeliberating the revised ED, the FASB expects to issue a third ED in the latter half of 2007 containing a converged solution.

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

Related-party disclosures

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

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

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

Relationships

IFRS Principal Owners (owners of record or known beneficial owners of more than 10 percent of the voting interests of the enterprise) are not included in the definition of related parties.

US GAAP Principal owners are considered related parties.

Indian GAAP Principal owners are considered related parties.

Disclosures

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

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

US GAAP Similar to **IFRS**, except that disclosure of compensation of key management personnel is not required within the financial statements. There is no specific requirement for disclosure of any allowance for doubtful debts and any amounts written off during the period with a related party.

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

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

Recent proposals – IFRS

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

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

Segment reporting

All three frameworks have specific requirements about the identification, measurement and disclosure of segment information.

Following the issue of IFRS 8, Operating Segments, the requirements under **IFRS** and **US GAAP** are very similar. Set out below is a summary of the **IFRS** requirements. The requirements of **US GAAP** are identical in many areas and similar in the others. Differences, if any, under **Indian GAAP** have been indicated.

General requirements

Scope

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

Format

Based on operating segments and the way the chief operating decision-maker evaluates financial information for the purposes of allocating resources and assessing performance.

Identification of segment

- **General approach***:* based on the internally reported operating segments. However, Under **Indian GAAP**, based on profile of risks and returns and internal reporting structure.
- **Aggregation of similar operating segments**: specific aggregation criteria are given to determine whether two or more operating segments are similar
- **Threshold for reportable segments**: revenue, results or assets are 10% or more of all segments. If revenue of reported segments is below 75% of the total, additional segments are reported until the 75% threshold is reached.

Measurement

- **Accounting policies for segments:** those adopted for internal reporting to the chief operating decision-maker for the purposes of allocating resources and assessing performance. However, Under **Indian GAAP**, Policies adopted for financial statements are to used. Entities may disclose additional segment data based on internal accounting policies.

Main disclosures

- **Factors used to identify reportable segments***:* disclosure required includes basis of organisation (for example, based on products and services, geographical areas, regulatory environments) and types of product and service from which each segment derives its revenues.
- **Profit and assets for each reportable segment**: required for all three GAAPs.
- **Components of profit of each reportable segment:** required if included in the measure of segment profit or loss reviewed by the chief operating decision-maker, or are otherwise regularly provided to the chief operating decision-maker, even if not included in that measure of segment profit or loss:
  - third-party revenues;
  - inter-segment revenues;
  - interest income;
  - interest expense;
  - depreciation and amortisation;
  - material items of income and expense disclosed in accordance with IAS 1;
  - share of results from equity accounting;
  - income tax expense;
  - material non-cash items other than depreciation and amortisation.
- **Liabilities of reportable segment**: required if regularly reported to chief operating decision-maker. Under **Indian GAAP**, Liabilities should be reported as a part of segment disclosures.
- **Other items to be disclosed by reportable segment**: investments accounted for by equity method and additions to certain non-current assets (principally PPE and intangible assets) where included in the assets

reported to the chief operating decision-maker or are otherwise regularly reported to the chief operating decision-maker. Under **Indian GAAP**, same needs to be disclosed for identified reportable segments.

- **Major customers**: total revenue is disclosed, as well as the relevant segment that reported the revenues, for each external customer greater than or equal to 10% of consolidated revenue. Under **Indian GAAP**, there are no such requirements.
- **Geographical information:** third-party revenues from and certain non-current assets (principally PPE and intangible assets) located in country of domicile and all foreign countries (in total and, if material, by country) are disclosed.
- **Third-party revenues:** also disclosed for each product and service if this has not already been disclosed.
- **Reconciliations of segment to the corresponding totals of the entity:** reconciliations of total segment revenue, total segment measures of profit or loss, total segment assets, total segment liabilities and any other significant segment totals is required.

REFERENCES: **IFRS**: IFRS 8.
US GAAP: FAS 131.
Indian GAAP: AS 17.

Discontinued operations

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

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

Issue	IFRS	US GAAP	Indian GAAP
	on the face of the income statement or in the notes for both current and prior periods.		
Ending date of disclosure	Until completion of the discontinuance.	Similar to **IFRS**.	Similar to **IFRS**.
Comparatives	Income statement re-presented for effects of discontinued operations but not balance sheet.	Similar to **IFRS**.	Similar to **IFRS**.

REFERENCES: **IFRS**: IFRS 5.
US GAAP: FAS 144, FAS 95, EITF 03-13.
Indian GAAP: AS 24.

Post-balance-sheet events

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

Adjusting events after the balance sheet date

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

US GAAP Similar to **IFRS,** referred to as 'Type 1' events. However, see refinancing and rescheduling of debt payments on page 77.

Indian GAAP Similar to **IFRS**.

Non-adjusting events after the balance sheet date

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

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

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

Announcement of a dividend relating to the financial year just ended

IFRS This is a non-adjusting event.

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

Indian GAAP Dividend proposed relating to the financial year just ended is adjusted in the financial statements even though it is subject to shareholders' approval.

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

Interim financial reporting

Stock exchange requirements

IFRS — **IFRS** does not require public entities to produce interim statements but encourages interim reporting – see 'Additional guidance' below.

US GAAP — Similar to **IFRS**, the FASB does not mandate interim statements. However, if required by the SEC, domestic US SEC registrants should follow APB 28 and comply with the specific financial reporting requirements in Regulation S-X applicable to quarterly reporting.

Indian GAAP — The standard on interim financial reporting does not require entities to present interim financial reports, however, if an entity is required or elects to present interim financial report, it needs to comply with the standard.

Pursuant to the listing agreement, all the listed companies in India are required to furnish interim financial results on a quarterly basis in a format prescribed in the listing agreement.

Additional guidance

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

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

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

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

Abbreviations

IAS – International Accounting Standard

IASB – International Accounting Standards Board

IFRIC – International Financial Reporting Interpretations Committee

IFRS – International Financial Reporting Standards

SIC – Interpretations by Standing Interpretations Committee

SoRIE – Statement of Recognised Income and Expense

AICPA – American Institute of Certified Public Accountants

APB – Accounting Principles Board Opinions

APIC – Additional Paid-in Capital (Share Premium)

ARB – Accounting Research Bulletins

ASR – Accounting Series Release

AU – Codification of Statements on Auditing Standards

CON – Statement of Financial Accounting Concepts

DIG – Derivatives Implementation Group

EITF – Emerging Issues Task Force

FAS – Statement of Financial Accounting Standards

FASB – Financial Accounting Standards Board

FIN – FASB Interpretations

FTB – FASB Technical Bulletins

OCI – Other Comprehensive Income

PCAOB – Public Company Accounting Oversight Board

SAB – SEC Staff Accounting Bulletin

SEC – Securities and Exchange Commission of United States

SOP – AICPA Statement of Position

SoX – Sarbanes Oxley Act, 2002

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

AS – Accounting Standard

ASB – Accounting Standards Board of India

ASI – Accounting Standard Interpretation

GN – Guidance Notes

ICAI – The Institute of Chartered Accountants of India

Indian GAAP - Generally Accepted Accounting Principles in India

SEBI – The Securities and Exchange Board of India

Index

Subject	Page
Accounting estimates, changes in	29
Accounting policies, changes in	29
Acquisitions	37
Associates	32
Balance sheet	24
Biological assets	62
Business combinations	36
Business combinations – subsequent adjustments	39
Capitalisation of borrowing costs	59
Cash equivalents	28
Cash flow statement	28
Common control transactions	40
Components of financial statements	23
Comparatives	24
Comprehensive income	27
Computer software	43
Conceptual framework	21
Consolidation of subsidiaries	30
Construction contracts	44
Contingencies	68
Contingent consideration	37
Convertible debt	76
Debt securities	66
Deferred tax	69
Depreciation	56
Derecognition of financial assets/liabilities	65, 77
Derivatives	79
Discontinuing/ discontinued operations	89
Dividends	78
Earnings per share	84
Employee benefits – compensated absences	51
Employee benefits – pensions	46
Employee benefits – termination benefits	52
Employee share compensation	50
Employee share ownership plans (ESOPs)	35
Equity instruments	78
Equity method of accounting	32
Exceptional items	26
Expenses	46
Extraordinary items	26
Financial assets	62
Financial instruments	62, 76, 79

Subject	Page
Financial liabilities	76
Financial statements – contents and presentation	23
First-time adoption of accounting framework	21
Foreign currency translation	84
Foreign currency – hyperflationary economy	83
Functional currency	83
Goodwill	38
Government grants	73
Hedge accounting	80
Historical cost	21
Impairment	33, 39, 54, 59, 64
Income statement	26
Intangible assets	38, 53
Intangible assets – website development costs	53
Interest expense	46
Interim financial reporting	91
Inventories	61
Investment property	60
Joint ventures	33
Leases – classification	57
Leases – lessee accounting	74
Leases – lessor accounting	57
Leases – sale and leaseback	75
Minority interests	38
Negative goodwill	39
Non-current assets held for sale	57
Post balance sheet events	90
Preference (preferred) shares	76
Property, plant and equipment	55
Proportionate consolidation	34
Provisions	66
Purchase method	37
Purchase of own shares	78
Related-party transactions	86
Research and development costs	53
Restructuring provisions	66
Revenue recognition	42
Segment reporting	87
Software	43
Special purpose entities	30
Statement of changes in shareholders' equity	27
Statement of recognised income and expense	27
Subsidiaries	30
Treasury shares	78
Uniting of interests	37, 40

Notes

About PricewaterhouseCoopers

PricewaterhouseCoopers Pvt. Ltd., India (PwC) is one of the largest and most reputed professional services organisation in the country, providing industry-focused services to public and private clients. PwC specialists from the tax and advisory teams connect their thinking, experience and solutions to build public trust and enhance value for clients and their stakeholders.

The Global Capital Markets Group

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

The GCMG has been serving Indian companies over the last 11 years in their endeavour to access overseas capital markets and in applying US GAAP or IFRS. With a global set-up, we combine our knowledge of local business practices and draw upon expertise from our colleagues around the world to suit an engagement. This gives us an unparalleled understanding of the issues and solutions that will work for companies from any industry and with every conceivable financial structure.

Within PricewaterhouseCoopers, the GCMG works closely at the global level with the SEC-FPI Services Group, a team of professionals based in the United States, specialists in all facets of U.S. accounting and reporting. The SEC-FPI Services Group is staffed by renowned cross-border filing experts some of whom have worked with the US SEC in this space. The SEC-FPI Services Group provides technical support to the GCMG on complex or unusual issues regarding US GAAP, US SEC reporting and other related matters. The GCMG also works closely with the Global Accounting Consulting Services (Global ACS), based in London, for consultative support on IFRS and related matters.

Our Services

As you deal with the challenges of managing your business during an offering, listing or conversion project, we can team up with you to anticipate and resolve complex technical accounting and SEC registration or other regulatory process issues that could pose serious challenges to your project or cause you to incur costly delays.

The GCMG has tools that can be used in assisting you in applying US GAAP or IFRS to make the change a smooth process. The result of such tools can provide the management and/ or key stakeholders with focused insights on the people, process, organizational and technical issues associated with the process. These can also help you to make an informed assessment of your readiness and plan the way forward.

Our intimate knowledge of the US SEC, international accounting rules and complex multi-national project management expertise enable us to support clients in six key areas of activity:

- raising capital from an public offering, private placement and debt sources;
- assisting organizations in meeting Generally Accepted Accounting Principles (GAAP) requirements to prepare them for a listing, an acquisition or to raise capital;
- assisting the acquirer/target companies in their corporate acquisition/exit plans by evaluating the financial accounting impact of any merger or acquisition and at the initial stages of the transaction in converting the financial statements of the target to the GAAP of the acquirer;
- ongoing reporting for overseas registrants and their subsidiaries based in India;
- implementation support for US GAAP or IFRS by way of technical advisory on GAAP requirements and/or an impact study using reconciliation; and
- providing training in enhancing knowledge of GAAP within an organisation.

Offices in India

Please contact your local PricewaterhouseCoopers office to discuss how we can team up with you.

Bangalore

Tower 'D', The Millenia
1&2 Murphy Road, Ulsoor,
Bangalore – 560 008
Telephone: +91-80 4079 4000/7000
+91-80-4079 5000 Assurance
+91-80-4079 6000 Tax
Fax: +91-80-4079 4222

Bhubaneswar

IDCOL House, Sardar Patel Bhawan
Block III, Ground Floor, Unit 2
Bhubaneswar 751 009
Telephone: +91-674-253-2459/ 0370
Fax: +91-674-253-1674

Chennai

PwC Centre
32, Khader Nawaz Khan Road
Nungambakkam
Chennai 600 006
Telephone: +91-44-4228-5000
Fax: +91-44-4228-5100

Hyderabad

#8-2-293/82/A/1131A
Road No. 36, Jubliee Hills
Hyderabad – 500 034
Telephone +91-40 6624-6600
Fax: +91 -40-6624-6400

Kolkata

Plot No. Y 14, Block EP Sec.V
Salt lake Electronic Complex
Kolkatta, West Bengal – 700 091.
Telephone: +91-33-2357 9100/7600/9260
Fax: +91-33-2357-3394/95

Mumbai

252, Veer Savarkar Marg
Shivaji Park, Dadar
Mumbai 400 028
Telephone: +91-22-6669-1500
Fax: +91-22-6654-7804/5

New Delhi

7th & 8th floor,
Cyber City Building no – 8,
Block – B, Phase II,
Gurgaon – 122002 (Haryana)
Telephone: +91-11-4620-000
Fax: +91-124-4620-620

Pune

Muttha Towers, 5th floor,
Suite No. 8, Off. Airport Road,
Yerawada, Pune 411 006
Telephone: +91-9520-4100-4444
Fax: 91-9520-4100 6161

Inquiries

We value your feedback. If you have any questions or need further information on any issues discussed in Similarities and Differences – A Comparison of IFRS, US GAAP and Indian GAAP, please contact:

Sanjay Hegde
PricewaterhouseCoopers
252, Veer Savarkar Marg,
Shivaji Park, Dadar,
Mumbai 400 028, INDIA
+91-22-6669-1313 (D) +91-98-2006-2484 (Cell)
sanjay.hegde@in.pwc.com

This publication is available online at

www.pwc.com/india

Acknowledgements

Our sincere thanks to **Sunder Iyer**, **Shrenik Baid**, **Rakesh Agarwal, Urvesh Thakkar, Arpit Mundra, Vinod Shenoy** of the Global Capital Markets Group and **Thomas Mathew**, **Munish Saraogi** from Assurance Group for their efforts in leading the development of this edition of the publication, including designing this publication. We are also grateful to the following individuals for their contributions:

Khazat Kotwal
Arvind Daga
Nitin Khullar
Subbalakshmi Kartik
Pratiq Shah
Mayank Gupta
Phillip Alphonse
Rosy Fernandes
Rahul Chattopadhya
Gaurav Vohra
Tirumala Raghava
Ashish Taksali
Sharad Sharma
Anuradha Sanghavi
Amit Bajaj

PricewaterhouseCoopers' publications and tools

PricewaterhouseCoopers has a range of tools and publications to help companies apply IFRS and US GAAP (see also the inside front cover).

IFRS Manual of Accounting 2008

Provides expert practical guidance on how groups should prepare their consolidated financial statements in accordance with IFRS. Comprehensive publication including hundreds of worked examples, extracts from company reports and model financial statements.

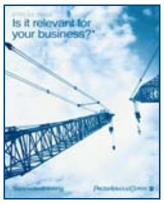
COMPERIO ®

Comperio is one-stop instant access point to a comprehensive collection of technical financial reporting and assurance literature. It provides a fast and effective way of finding answers to your IFRS and US GAAP questions. It also contains PwC's IFRS and corporate governance publications, and Applying IFRS.

Visit our website:
www.pwc.com/comperio

Making the change to IFRS

This 12-page brochure provides a high-level overview of the key issues that companies need to consider in making the change to IFRS



IFRS for SMEs – Is it relevant for your business?

It outlines why some unlisted SMEs have already made the change to IFRS and illustrates what might be involved in a conversion process.

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

The GCMG has been serving Indian companies over the last 11 years in their endeavor to access overseas capital markets and in applying US GAAP or IFRS. With a global set-up, we combine our knowledge of local business practices and draw upon expertise from our colleagues around the world to suit an engagement. This gives us an unparalleled understanding of the issues and solutions that will work for companies from any industry and with every conceivable financial structure.

As you deal with the challenges of managing your business during an offering, listing or conversion project, we can team up with you to anticipate and resolve complex technical accounting and SEC registration or other regulatory process issues that could pose serious challenges to your offering or cause you to incur costly delays.

Write to us for further information or additional copy of the CD or a printed version of this Monograph. Alternatively, this is also available online at www.pwc.com/india www.pwc.com/india

PRICEWATERHOUSECOOPERS