

IAS Plus

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Published for our clients and staff globally



Key Differences Between IFRSs and US GAAP

This newsletter sets out some of the key differences between International Financial Reporting Standards (IFRSs) and United States generally accepted accounting principles (US GAAP), with a status note on what, if anything, is being done about each difference as of June 2004. The status note is based on our understanding of proposals or tentative decisions by the IASB or the FASB. Those proposals and tentative decisions are subject to revision. The differences (or non-inclusion of what, until recently, was a difference) reflect all IFRSs issued and revised through 4 June 2004, including those that do not become mandatory until 2005.

Of course, the significance of these differences – and others not included in this list – will vary with respect to individual companies depending on such factors as the nature of the company's operations, the industry in which it operates, and the accounting policy choices it has made. Reference to the underlying accounting standards and any relevant national regulations is essential in understanding the specific differences.

IASB-FASB Convergence Projects

The IASB and the FASB have jointly undertaken a short-term project to eliminate a variety of differences between IFRSs and US GAAP. This "convergence project" grew out of an agreement reached by the two boards in September 2002.

Some of the differences that are being considered in this project are ones that arose as a result of new IFRSs or recent amendments to IASs. These include classification of liabilities, asset exchanges, accounting changes, and financial instruments.

Other differences have arisen in statements recently issued by FASB. These include discontinued operations, provisions, and assets held for sale.

Still other differences are more long-standing but may be capable of resolution in a relatively short time. These include inventories; accounting policies, changes in estimates, and errors; assets held for disposal; income taxes; construction contracts; joint ventures; interim financial reporting; and research and development costs.

The two boards are also cooperating in a number of longer-term convergence projects. Issues include application of the purchase method of accounting for business combinations, concepts of revenue recognition, employee benefits, and comprehensive income.

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KEY DIFFERENCES BETWEEN IFRSs AND US GAAP AS OF JUNE 2004**IAS 1, Comparative prior year financial statements**

- **IFRS:** One year comparative financial information is required.
- **US:** US GAAP states that comparatives are “desirable”. SEC regulations generally require three years of comparative financial information (balance sheet two years).
- **Status:** Not currently being addressed.

IAS 1, Reporting ‘comprehensive income’

- **IFRS:** Statement of changes in equity is required. A grand total of ‘comprehensive income’ is permitted but not required. Comprehensive income is net income plus gains and losses that are recognised directly in equity rather than in net income.
- **US:** Must present grand total of ‘comprehensive income’. Can present in the income statement, statement of comprehensive income, or statement of changes in equity.
- **Status:** IASB’s Comprehensive Income project is likely result in a multi-column performance statement separating current income flows from remeasurements of previously recognised items. The grand total would be similar to FASB’s “comprehensive income”.

IAS 1, Classification of liabilities on refinancing

- **IFRS:** Noncurrent if refinancing is completed before balance sheet date.
- **US:** Noncurrent if refinancing is completed before date of issue of the financial statements.
- **Status:** FASB exposure draft proposing the IASB approach is expected in second quarter 2004.

IAS 1, Classification of liabilities due on demand due to violation of debt covenant

- **IFRS:** Noncurrent if the lender has granted a 12-month waiver before the balance sheet date.
- **US:** Noncurrent if the lender has granted a 12-month waiver before the date of issue of the financial statements.
- **Status:** FASB exposure draft proposing the IASB approach is expected in second quarter 2004.

IAS 1, Extraordinary items

- **IFRS:** Prohibited.
- **US:** Extraordinary items are permitted but restricted to infrequent, unusual, and rare items that affect profit and loss.
- **Status:** IASB abolished the category in its 2003 Improvements Project.

IAS 2, Whether the costs of idle capacity and spoilage can be included in inventory

- **IFRS:** Prohibited.
- **US:** Not prohibited.
- **Status:** FASB has issued an exposure draft proposing the IASB approach.

KEY DIFFERENCES BETWEEN IFRSs AND US GAAP AS OF JUNE 2004

IAS 2, Method for determining inventory cost

- **IFRS:** LIFO is prohibited.
- **US:** LIFO is permitted.
- **Status:** Not currently being addressed.

IAS 2, Reversal of inventory write-downs

- **IFRS:** Required, if certain criteria are met.
- **US:** Prohibited.
- **Status:** Not currently being addressed.

IAS 2, Measuring inventory at net realisable value even if above cost

- **IFRS:** Permitted only for producers' inventories of agricultural and forest products and mineral ores and for broker-dealers' inventories of commodities.
- **US:** Similar, but not restricted to producers and broker-traders.
- **Status:** IASB extended this to commodity broker-traders in its 2003 Improvements Project.

IAS 7, Classification of interest received and paid in the cash flow statement

- **IFRS:** May be classified as an operating, investing, or financing activity.
- **US:** Must be classified as an operating activity.
- **Status:** Not currently being addressed.

IAS 7, Inclusion of overdrafts in cash

- **IFRS:** Included if they form an integral part of an entity's cash management.
- **US:** Excluded.
- **Status:** Not currently being addressed.

IAS 8, Non-mandated changes in accounting policy

- **IFRS:** Must restate prior financial statements, unless impracticable.
- **US:** Generally include the cumulative effect in net profit and loss in the current financial statements (but restate for LIFO, extractive industries, long-term contracts, IPOs).
- **Status:** FASB has issued an exposure draft that would adopt the IASB approach.

IAS 8, Change in depreciation method for existing assets

- **IFRS:** Change in estimate (prospective).
- **US:** Change in accounting policy (cumulative effect in net profit or loss).
- **Status:** FASB has issued an exposure draft proposing to adopt the IASB approach (change in estimate).

IAS 11, Construction contracts when the percentage of completion cannot be determined

- **IFRS:** Cost recovery method.
- **US:** Completed contract method.
- **Status:** Not currently being addressed.

KEY DIFFERENCES BETWEEN IFRSs AND US GAAP AS OF JUNE 2004

IAS 12, Recognition of taxable temporary differences that arise from the initial recognition of an asset or liability in a transaction that is (a) not a business combination and (b) does not affect accounting profit or taxable profit

- **IFRS:** Deferred tax not recognised. Nor are changes in this unrecognised deferred tax asset or liability subsequently recognised.
- **US:** No similar 'initial recognition exemption'.
- **Status:** FASB and IASB are addressing some IAS 12/SFAS 109 differences in their short-term convergence projects.

IAS 12, Other specific exemptions to the basic principle that a deferred tax is recognised for all temporary differences

- **IFRS:** Does not have exemptions comparable to those in US GAAP as noted below.
- **US:** US GAAP has some special exemptions from providing deferred tax including leveraged leases (tax consequences are incorporated directly into the lease accounting measurements), most undistributed earnings of subsidiaries, and intangible development costs in the oil and gas industry.
- **Status:** FASB and IASB are addressing some IAS 12/SFAS 109 differences in their short-term convergence projects.

IAS 12, Tax rate for measuring deferred tax assets and liabilities

- **IFRS:** Use enacted or 'substantially enacted' tax rate.
- **US:** Use enacted tax rate.
- **Status:** IASB will retain 'substantially enacted' but clarify that it means 'virtually certain'.

IAS 12, Measurement of deferred tax on undistributed earnings of a subsidiary

- **IFRS:** Must use rate applicable to undistributed profits.
- **US:** Use the higher of the tax rate applicable to distributed profits and the tax rate applicable to undistributed profits.
- **Status:** FASB and IASB are addressing some IAS 12/SFAS 109 differences in their short-term convergence projects.

IAS 12, Recognition of deferred tax assets

- **IFRS:** Recognised only if realisation of tax benefit is 'probable'.
- **US:** Always recognised, but a valuation allowance is provided unless realisation is 'more likely than not'. Further, applying the 'more likely than not' criterion through use of a valuation allowance results in disclosure differences between IAS 12 and SFAS 109.
- **Status:** While in the past different interpretations of 'probable' and 'more likely than not' may also have led to differences in the recognition of deferred tax assets, such differences should no longer arise because, in IFRS 3, the IASB has defined 'probable' as 'more likely than not'. FASB and IASB are addressing some IAS 12/SFAS 109 differences in their short-term convergence projects.

KEY DIFFERENCES BETWEEN IFRSs AND US GAAP AS OF JUNE 2004

IAS 12, Changes in deferred taxes that were originally charged or credited to equity ('backwards tracing')

- **IFRS:** Both IAS 12 and SFAS 109 require that the tax effects of items credited or charged directly to equity during the current year also be allocated directly to equity. A deferred tax item originally recognised by a charge or credit to shareholders' equity may change either from changes in assessments of recovery of deferred tax assets or from changes in tax rates, laws, or other measurement attributes. Consistent with the initial treatment, IAS 12 requires the resulting change in deferred taxes also be charged or credited directly to equity.
- **US:** SFAS 109 requires allocation to current year income.
- **Status:** FASB and IASB are addressing some IAS 12/SFAS 109 differences in their short-term convergence projects.

IAS 12, Classification of deferred tax assets and liabilities

- **IFRS:** Always non-current.
- **US:** Classification is split between the current and non-current components based on the classification of the underlying asset or liability.
- **Status:** FASB and IASB are addressing some IAS 12/SFAS 109 differences in their short-term convergence projects.

IAS 12, Subsequent recognition of a deferred tax asset after a business combination

- **IFRS:** First reduce goodwill to zero; excess credited to net profit or loss.
- **US:** First reduce goodwill to zero; then any other intangible assets to zero; excess credited to net profit or loss.
- **Status:** FASB and IASB are addressing some IAS 12/SFAS 109 differences in their short-term convergence projects.

IAS 12, Reconciliation of actual and expected tax expense

- **IFRS:** Computed by applying the applicable tax rate(s) to accounting profit, disclosing also the basis on which the applicable tax rate(s) are computed.
- **US:** Computed by applying the domestic federal statutory tax rates to pre-tax income from continuing operations. Non-public companies must disclose the nature of the reconciling items but not amounts.
- **Status:** FASB and IASB are addressing some IAS 12/SFAS 109 differences in their short-term convergence projects.

IAS 12, Recognition of tax benefits related to share-based payment

- **IFRS:** Credited to equity only to the extent that the tax benefits exceed compensation expense.
- **US:** Credited to equity.
- **Status:** FASB and IASB are addressing some IAS 12/SFAS 109 differences in their short-term convergence projects.

KEY DIFFERENCES BETWEEN IFRSs AND US GAAP AS OF JUNE 2004**IAS 12, Recognition of tax benefits related to share-based payment**

- **IFRS:** Deferred tax is computed based on the expected applicable tax deduction.
- **US:** Deferred tax is computed based on the GAAP expense recognised and trued up at realisation of the tax benefit.
- **Status:** The FASB exposure draft on share-based payment proposes the IAS 12 approach.

IAS 12, Impact of temporary differences related to intercompany profits

- **IFRS:** Deferred tax effect is recognised at the buyer's tax rate.
- **US:** Deferred tax effect is recognised at the seller's tax rate.
- **Status:** FASB and IASB are addressing some IAS 12/SFAS 109 differences in their short-term convergence projects.

IAS 14, Basis of reportable segments

- **IFRS:** Lines of business and geographical areas.
- **US:** Components for which information is reported internally to top management, which may or may not be based on lines of business or geographical areas.
- **Status:** IASB will solicit the views of financial analysts before reconsidering IAS 14.

IAS 14, Types of segment disclosures

- **IFRS:** Required disclosures for both 'primary' and 'secondary' segments.
- **US:** Only one basis of segmentation, although certain "enterprise-wide" disclosures are required such as revenue from major customers and revenue by country.
- **Status:** IASB will solicit the views of financial analysts before reconsidering IAS 14.

IAS 14, Accounting basis for reportable segments

- **IFRS:** Amounts are based on IFRS GAAP measures.
- **US:** Amounts are based on whatever basis is used for internal reporting purposes.
- **Status:** IASB will solicit the views of financial analysts before reconsidering IAS 14.

IAS 14, Segment result

- **IFRS:** Defined segment result.
- **US:** No definition of segment result.
- **Status:** IASB will solicit the views of financial analysts before reconsidering IAS 14.

IAS 16, Basis of property, plant, and equipment

- **IFRS:** May use either revalued amount or historical cost. Revalued amount is fair value at date of revaluation less subsequent accumulated depreciation and impairment losses.
- **US:** Generally required to use historical cost.
- **Status:** Revalued amount continues to be an accounting policy choice under the IASB's 2003 revisions to IAS 16.

KEY DIFFERENCES BETWEEN IFRSs AND US GAAP AS OF JUNE 2004

IAS 16, Major inspection or overhaul costs

- **IFRS:** Generally accounted for as part of the cost of an asset.
- **US:** Generally expensed.
- **Status:** The December 2003 revision to IAS 16 removed the requirement (formerly in SIC 23) that the inspection or overhaul component of an asset must have been separately identified and accounted for at acquisition.

IAS 16, Gains and losses on exchanges of similar non-current assets

- **IFRS:** Gain or loss recognised.
- **US:** Gain or loss recognition is prohibited.
- **Status:** FASB has issued an exposure draft proposing to adopt the IASB approach.

IAS 17, Leasehold interest in land

- **IFRS:** May be accounted for as investment property under IAS 40 if held for investment and if measured at fair value with value changes in profit or loss. Otherwise treated as a prepayment.
- **US:** Always treated as a prepayment.
- **Status:** IASB is starting a comprehensive leases project.

IAS 17, Minimum lease payments

- **IFRS:** Include third-party guarantees related to the leased assets in minimum lease payments.
- **US:** Exclude third-party guarantees from minimum lease payments.
- **Status:** IASB is starting a comprehensive leases project.

IAS 17, Present value of minimum lease payments

- **IFRS:** Generally would use the implicit rate in the lease to discount minimum lease payments.
- **US:** Generally would use the incremental borrowing rate to discount minimum lease payments.
- **Status:** IASB is starting a comprehensive leases project.

IAS 17, Tax benefits relating to leveraged leases

- **IFRS:** The tax consequences of a leveraged lease are recognised in measuring income tax expense.
- **US:** The tax consequences of a leveraged lease are incorporated directly into the pre-tax lease accounting calculations.
- **Status:** IASB is starting a comprehensive leases project.

IAS 17, Recognition of a gain on a sale and leaseback transaction where the leaseback is an operating lease

- **IFRS:** The gain is recognised immediately.
- **US:** The gain is amortised over the lease term.
- **Status:** IASB is starting a comprehensive leases project.

KEY DIFFERENCES BETWEEN IFRSs AND US GAAP AS OF JUNE 2004

IAS 17, Disclosure of lease maturities

- **IFRS:** Less detailed disclosure.
- **US:** More detailed disclosure.
- **Status:** IASB is starting a comprehensive leases project.

IAS 17, Right to virtually 100% of the output from land or depreciable assets for a specified period of time

- **IFRS:** Executory contract. Not a lease.
- **US:** Must be accounted for as a lease.
- **Status:** IASB is starting a comprehensive leases project. Also, this is addressed in part in IFRIC Draft Interpretation 3 *Determining Whether an Arrangement Contains a Lease*.

IAS 18, Revenue recognition guidance

- **IFRS:** General principles that are consistent with US GAAP but contain limited detailed or industry specific guidance.
- **US:** More specific guidance, particularly industry-specific issues. In addition, public companies must follow more detailed guidance provided by the SEC.
- **Status:** A joint IASB/FASB project on revenue recognition concepts is under way.

IAS 18, Up-front non-refundable revenue, such as connection fees and developers' advance payments

- **IFRS:** If the up-front fee is in exchange for products delivered or services performed – and, therefore, substantial risks and rewards have been transferred to the buyer in a separate transaction – revenue is recognised on completion of the up-front services. Otherwise it is amortised over the expected customer service period.
- **US:** Amortisation over the expected customer service period. Direct incremental costs are similarly deferred.
- **Status:** A joint IASB/FASB project on revenue recognition concepts is under way.

IAS 19, Termination benefits

- **IFRS:** No distinction between 'special' and other termination benefits. Termination benefits recognised when the employer is demonstrably committed to pay.
- **US:** Recognise special (one-time) termination benefits when employees accept the offer and the amount can be reasonably estimated. Recognise contractual termination benefits when it is probable that employees will be entitled and the amount can be reasonably estimated.
- **Status:** Not currently being addressed.

IAS 19, Recognition of past service costs related to benefits that have vested

- **IFRS:** Recognised immediately.
- **US:** Amortised over the remaining service period or life expectancy.
- **Status:** Not currently being addressed.

KEY DIFFERENCES BETWEEN IFRSs AND US GAAP AS OF JUNE 2004

IAS 19, Multi-employer plan that is a defined benefit plan

- **IFRS:** Should be accounted for as a defined benefit plan if necessary information is available, otherwise as a defined contribution plan.
- **US:** Accounted for as a defined contribution plan.
- **Status:** IFRIC Draft Interpretation D6 proposes to clarify under what circumstances sufficient information is available to apply defined benefit accounting.

IAS 19, Minimum liability recognition for benefits under defined benefit plans

- **IFRS:** No minimum liability requirement.
- **US:** At a minimum, the unfunded accumulated benefit obligation is recognised.
- **Status:** Not currently being addressed.

IAS 19, Limitation on recognising pension assets

- **IFRS:** Pension assets cannot be recognised in excess of the net total of unrecognised past service cost and actuarial losses plus the present value of benefits available from refunds or reduction of future contributions to the plan.
- **US:** No such limitation on the amount that can be recognised.
- **Status:** Not currently being addressed.

IAS 19, Timing of recognition of curtailment gains

- **IFRS:** Both curtailment gains and losses are recognised when the entity is demonstrably committed and a curtailment has been announced.
- **US:** A curtailment gain is not recognised until the related employees terminate or the plan suspension or amendment is adopted, which could be at a later period than demonstrable commitment and announcement.
- **Status:** Not currently being addressed.

IAS 19, Measurement of a curtailment

- **IFRS:** A curtailment gain or loss comprises (a) the change in the present value of the defined benefit obligation, (b) any resulting change in fair value of the plan assets, and (c) a pro rata share of any related actuarial gains and losses, unrecognised transition amount, and past service cost that had not previously been recognised.
- **US:** Unrecognised actuarial gains and losses arising subsequent to transition are not affected by a curtailment, while the amount of the gain or loss would be offset by any portion of the unrecognised transition asset or liability.
- **Status:** Not currently being addressed.

IAS 19, Recognising actuarial gains and losses, when they arise, directly in the statement of equity

- **IFRS:** Not currently permitted, but see Status below.
- **US:** Not permitted.
- **Status:** IASB has issued an exposure draft proposing to permit this.

KEY DIFFERENCES BETWEEN IFRSs AND US GAAP AS OF JUNE 2004

IAS 23, Borrowing costs related to assets that take a substantial time to complete

- **IFRS:** Capitalisation is an available accounting policy choice.
- **US:** Capitalisation is mandatory.
- **Status:** Not currently being addressed.
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IAS 23, Types of borrowing costs eligible for capitalisation

- **IFRS:** Includes interest, certain ancillary costs, and exchange differences that are regarded as an adjustment of interest.
- **US:** Generally includes only interest.
- **Status:** Not currently being addressed.

IAS 23, Income on temporary investment of funds borrowed for construction of an asset

- **IFRS:** Reduces borrowing cost eligible for capitalisation.
- **US:** Generally does not reduce borrowing cost eligible for capitalisation.
- **Status:** Not currently being addressed.

IAS 27, Basis of consolidation policy

- **IFRS:** Control (look to governance and risk and benefits).
- **US:** Majority voting rights, plus must consolidate a defined “Variable Interest Entity” in which the investor is the primary beneficiary based on a risks and rewards assessment.
- **Status:** IASB has on its agenda a project on consolidation including SPEs.

IAS 27, Special purpose entities (SPEs)

- **IFRS:** Consolidate if controlled. Generally follow the same principles as for commercial entities in determining whether or not control exists.
- **US:** Consolidate if certain criteria for ‘qualifying SPEs’ are not met. Generally look to whether or not the SPE has a sufficient level of equity ‘at risk’.
- **Status:** IASB has on its agenda a project on consolidation including SPEs.

IAS 27, Different reporting dates of parent and subsidiaries

- **IFRS:** Reporting date difference cannot be more than three months. Must adjust for any significant intervening transactions.
- **US:** Reporting date difference cannot be more than three months. Must disclose any significant intervening transactions.
- **Status:** IASB has on its agenda a project on consolidation including SPEs.

IAS 27, Different accounting policies of parent and subsidiaries

- **IFRS:** Must conform policies.
- **US:** No requirement to conform policies.
- **Status:** IASB has on its agenda a project on consolidation including SPEs.

KEY DIFFERENCES BETWEEN IFRSs AND US GAAP AS OF JUNE 2004**IAS 27, Accounting for investments in subsidiaries in parent-company financial statements**

- **IFRS:** Either cost method or use IAS 39, but not equity method.
- **US:** Equity method is allowed.
- **Status:** December 2003 revision to IAS 27 prohibited the equity method.

IAS 27, Presentation of minority interest

- **IFRS:** In equity.
- **US:** Outside of equity, between liabilities and equity.
- **Status:** FASB is reconsidering this issue as part of its convergence project.

IAS 28, Different reporting dates of investor and associate

- **IFRS:** Reporting date difference cannot be more than three months. Must adjust for any significant intervening transactions.
- **US:** Reporting date difference cannot be more than three months. Must disclose any significant intervening transactions.
- **Status:** Not currently being addressed.

IAS 28, Different accounting policies of investor and associate

- **IFRS:** Must conform policies.
- **US:** No requirement to conform policies.
- **Status:** Not currently being addressed.

IAS 28, Accounting for investments in associates in parent-company financial statements

- **IFRS:** Either cost method or use IAS 39, but not equity method.
- **US:** Equity method is allowed.
- **Status:** December 2003 revision to IAS 28 prohibited the equity method.

IAS 29, Adjusting financial statements of an entity that operates in a hyperinflationary economy

- **IFRS:** Adjust using a general price level index before translating.
- **US:** An entity that operates in a hyperinflationary economy must use the functional currency of its parent, rather than its own hyperinflationary currency, to prepare its financial statements.
- **Status:** Not currently being addressed.

IAS 31, Investments in joint ventures

- **IFRS:** May use either the equity method or proportionate consolidation.
- **US:** Generally use the equity method (except in construction and oil and gas industries).
- **Status:** Not currently being addressed.

KEY DIFFERENCES BETWEEN IFRSs AND US GAAP AS OF JUNE 2004

IAS 32, Classification of convertible debt instruments by the issuer

- **IFRS:** Split the instrument into its liability and equity components at issuance.
- **US:** Classify the entire instrument as a liability.
- **Status:** Not currently being addressed.

IAS 33, Disclosures of earnings per share

- **IFRS:** Basic and diluted income from continuing operations per share and net profit or loss per share.
- **US:** Basic and diluted income from continuing operations, discontinuing operations, extraordinary items, cumulative effect of a change in accounting policy, and net profit or loss per share.
- **Status:** IASB considered this as part of its Improvements Project.

IAS 33, Calculation of year-to-date (YTD) diluted EPS

- **IFRS:** Apply the treasury stock method on a YTD basis, that is, do not average the individual interim period calculations.
- **US:** Average the individual interim period incremental shares.
- **Status:** FASB has issued an exposure draft proposing to adopt the IASB approach.

IAS 33, Contracts that may be settled in ordinary shares or in cash, at issuer's option

- **IFRS:** Assume always that the contracts will be settled in shares.
- **US:** Include based on rebuttable presumption that the contracts will be settled in shares.
- **Status:** In its Improvements exposure draft, IASB had proposed to adopt the US approach. However, after considering comments on the Improvements ED, the IASB reverted to the above position.

IAS 34, Interim reporting – revenue and expense recognition

- **IFRS:** Interim period is a discrete reporting period (with certain exceptions).
- **US:** Interim period is an integral part of the full year (with certain exceptions).
- **Status:** Not currently being addressed.

IAS 36, Indication of impairment

- **IFRS:** Impairment is indicated, and a detailed calculation must be performed, if an asset's carrying amount exceeds the higher of the asset's value-in-use (discounted present value of the asset's expected future cash flows) and fair value less costs to sell.
- **US:** Impairment is indicated, and a detailed calculation must be performed, if an asset's carrying amount exceeds the expected future cash flows to be derived from the asset on an undiscounted basis.
- **Status:** Not currently being addressed.

IAS 36, Measurement of impairment loss

- **IFRS:** Based on the recoverable amount (the higher of the asset's value-in-use and fair value less costs to sell).
- **US:** Based on fair value.
- **Status:** Not currently being addressed.

KEY DIFFERENCES BETWEEN IFRSs AND US GAAP AS OF JUNE 2004

IAS 36, Measuring the residual value of an asset

- **IFRS:** Current net selling price assuming the asset were already of the age and in the condition expected at the end of its useful life.
- **US:** Generally the discounted present value of expected proceeds on future disposal.
- **Status:** Not currently being addressed.

IAS 36, Level of impairment testing for goodwill

- **IFRS:** Cash generating unit (CGU) or group of CGUs that represent the lowest level at which goodwill is monitored for internal management purposes – but not larger than a business or geographical segment.
- **US:** Reporting unit – either a business segment or one organisational level below.
- **Status:** Not currently being addressed.

IAS 36, Calculating impairment of goodwill

- **IFRS:** One-step: compare recoverable amount of a CGU (higher of (a) fair value less costs to sell and (b) value in use) to carrying amount.
- **US:** Two steps: 1. Compare FV of the reporting unit with its carrying amount including goodwill. If FV is greater than carrying amount, no impairment (skip step 2). 2. Compare implied FV of goodwill with carrying amount.
- **Status:** Not currently being addressed.

IAS 36, Impairment of indefinite-life intangible assets

- **IFRS:** Goodwill and other indefinite-life intangible assets are included in a cash generating unit (CGU). The CGU is tested for impairment.
- **US:** Goodwill is included in the CGU. Other indefinite-life intangible assets are tested separately.
- **Status:** Not currently being addressed.

IAS 36, Subsequent reversal of an impairment loss

- **IFRS:** Required, if certain criteria are met. No reversal of impairments of goodwill.
- **US:** Prohibited.
- **Status:** Not currently being addressed.

IAS 37, Measurement of provisions

- **IFRS:** Best estimate to settle the obligation, which generally involves the expected value method. Discounting required.
- **US:** Low end of the range of possible amounts. Some provisions are not discounted.
- **Status:** Not currently being addressed.

IAS 37, Measurement of decommissioning provisions

- **IFRS:** When initially recognised, use the current, risk-adjusted rate to discount the provision. Adjust the rate at each reporting date.
- **US:** When initially recognised, use the current, risk-adjusted rate to discount the provision. Do not adjust the rate in future periods.
- **Status:** IFRIC 1 clarified the IFRS approach. Not currently being addressed.

KEY DIFFERENCES BETWEEN IFRSs AND US GAAP AS OF JUNE 2004**IAS 37, Recognition of restructuring provisions**

- **IFRS:** Recognise if a detailed formal plan is announced or implementation of such a plan has started.
- **US:** Recognise when a transaction or event occurs that leaves an entity little or no discretion to avoid the future transfer or use of assets to settle the liability. An exit or disposal plan, by itself, does not create a present obligation to others for costs expected to be incurred under the plan.
- **Status:** IASB is addressing this in its short-term convergence project.

IAS 37, Disclosures that may prejudice seriously the position of the entity in a dispute

- **IFRS:** “In extremely rare cases” amounts and details need not be disclosed, but disclosure is required of the general nature of the dispute and why the details have not been disclosed.
- **US:** Disclosure is required.
- **Status:** Not currently being addressed.

IAS 38, Development costs

- **IFRS:** Capitalise, if certain criteria are met.
- **US:** Expense (except for certain website development costs and certain costs associated with developing internal use software).
- **Status:** FASB may address this in its short-term convergence project.

IAS 38, Subsequent expenditure on purchased in-process R&D

- **IFRS:** Capitalised if it meets the definition of development.
- **US:** Expense.
- **Status:** Not currently being addressed.

IAS 38, Revaluation of intangible assets

- **IFRS:** Permitted only if the intangible asset trades in an active market.
- **US:** Generally prohibited.
- **Status:** Not currently being addressed.

IAS 39, Option to designate any financial asset or financial liability to be measured at fair value through profit or loss

- **IFRS:** Option is allowed.
- **US:** No such option.
- **Status:** This option was added in the December 2003 revisions to IAS 39.

IAS 39, Investments in unlisted equity instruments

- **IFRS:** Measured at fair value if reliably measurable; otherwise at cost.
- **US:** Measured at cost.
- **Status:** Not currently being addressed.

KEY DIFFERENCES BETWEEN IFRSs AND US GAAP AS OF JUNE 2004

IAS 39, Reclassification of financial instruments into or out of the trading category

- **IFRS:** Prohibited.
- **US:** Reclassification is required from available-for-sale into trading if the asset is put in a portfolio with a pattern of short-term profit taking. No reclassification from trading to available-for-sale.
- **Status:** Not currently being addressed.

IAS 39, Effect of selling investments classified as held-to-maturity

- **IFRS:** Prohibited from using held-to-maturity classification for the next two years.
- **US:** Prohibited from using held-to-maturity classification (no two year limit).
- **Status:** Not currently being addressed.

IAS 39, Derecognition of financial assets

- **IFRS:** Combination of risks and rewards and control approach. Can derecognise part of an asset. No 'isolation in bankruptcy' test.
- **US:** Risks and rewards approach, with a focus on legal isolation. No partial derecognition.
- **Status:** This is a subject that both Boards are likely to address in the future.

IAS 39, Use of 'Qualifying SPEs'

- **IFRS:** No such category of SPEs.
- **US:** Allowed.
- **Status:** In January 2003, FASB issued Interpretation 46 on consolidation of SPEs that are not QSPEs. IASB has begun a project on consolidation, including special purpose entities.

IAS 39, Offsetting amounts due from and owed to two different parties

- **IFRS:** Allowed if a legal set-off agreement exists.
- **US:** Prohibited.
- **Status:** Not currently being addressed.

IAS 39, Use of 'partial-term hedges' (hedge of a fair value exposure for only a part of the term of a hedged item)

- **IFRS:** Allowed, provided that effectiveness can be demonstrated.
- **US:** Prohibited.
- **Status:** Not currently being addressed.

IAS 39, Assuming perfect effectiveness of a hedge if critical terms match

- **IFRS:** Prohibited. Must always measure effectiveness.
- **US:** Allowed for hedge of interest rate risk in a debt instrument if certain conditions are met. Known as the 'shortcut method'.
- **Status:** Not currently being addressed.

KEY DIFFERENCES BETWEEN IFRSs AND US GAAP AS OF JUNE 2004

IAS 39, Use of 'basis adjustment'▪ **IFRS:**

- Fair value hedge: Required.
- Cash flow hedge of a financial asset: Same as US GAAP.
- Cash flow hedge of a non-financial asset: Choice of US GAAP or basis adjustment.

▪ **US:**

- Fair value hedge: Required.
- Cash flow hedge: Gain/loss on hedging instrument that had been reported in equity remains in equity and is amortised over the same period as the asset.
- **Status:** Not currently being addressed.

IAS 39, Macro hedging

- **IFRS:** Fair value hedge accounting treatment for a portfolio hedge of interest rate risk is allowed if certain specified conditions are met.
- **US:** Hedge accounting treatment is prohibited, though similar results may be achieved by designating specific assets or liabilities as hedged items.
- **Status:** FASB does not have a project to address macro hedging.

IAS 39, Subsequent reversal of an impairment loss

- **IFRS:** Required for loans and receivables, held-to-maturity (HTM), and available-for-sale (AFS) debt instruments, if certain criteria are met.
- **US:** Prohibited for HTM and AFS.
- **Status:** Not currently being addressed.

IAS 40, Measurement basis of investment property

- **IFRS:** Choice of (a) cost-depreciation-impairment model or (b) fair value with value changes through profit or loss model.
- **US:** Generally required to use historical cost with depreciation and impairment.
- **Status:** Not currently being addressed.

IAS 41, Measurement basis of agricultural crops, livestock, orchards, forests

- **IFRS:** Fair value with value changes recognised in net profit or loss.
- **US:** Historical cost is generally used. However, fair value less costs to sell is used for harvested crops and livestock held for sale.
- **Status:** Not currently being addressed.

IFRS 1, First-time adoption

- **IFRS:** Full retrospective application of IFRSs in force at the time of adoption.
- **US:** No specific standard. Practice is generally full retrospective application unless the transition provisions in a specific standard require otherwise.
- **Status:** Not currently being addressed.

KEY DIFFERENCES BETWEEN IFRSs AND US GAAP AS OF JUNE 2004

IFRS 2, Recognising an expense for share-based payment

- **IFRS:** Expense recognised based on the fair value of share-based payment given for goods or services including employee services.
- **US:** For most employee share options, the entity can choose (a) expense recognition similar to IFRS 2 or (b) expense recognition based on the intrinsic value at grant date (which generally is zero).
- **Status:** FASB has recently agreed to propose the IFRS 2 approach.

IFRS 3, Date on which consideration in a business combination is measured

- **IFRS:** Acquisition date (date on which control passes).
- **US:** Consummation (closing) date.
- **Status:** IASB considered this in developing IFRS 3. The IASB and the FASB are working jointly on a project on procedures for acquisition accounting.

IFRS 3, Recognising a liability for a planned post-acquisition restructuring

- **IFRS:** Only if acquiree already recognised a provision under IAS 37.
- **US:** Can be recognised if a plan to exit an activity or terminate employees is begun before acquisition (must be finalised within one year after acquisition).
- **Status:** IASB considered this in developing IFRS 3.

IFRS 3, Recognising contingent liabilities as acquired liabilities in a business combination

- **IFRS:** Recognise if fair value is reliably measurable.
- **US:** Recognise if either fair value is reliably measurable or payment is probable and reasonably estimable under SFAS 5.
- **Status:** IFRS 3 approach is close to the US approach.

IFRS 3, Measuring minority interest

- **IFRS:** Minority's percent of fair values.
- **US:** Minority's percent of carrying amount (book values) on acquired company's books.
- **Status:** The IASB and the FASB are working jointly on a project on procedures for acquisition accounting.

IFRS 3, Purchased in-process R&D

- **IFRS:** Under IFRS 3, can be recognised as an acquired finite-life intangible asset (and therefore amortised), or as part of goodwill if not separately measurable (and therefore not amortised but subject to an annual impairment test).
- **US:** Expense.
- **Status:** FASB is considering whether to move to the IASB model.

IFRS 3, Negative goodwill

- **IFRS:** Recognise immediately as a gain.
- **US:** Initially allocate on a pro rata basis against the carrying amounts of certain acquired non-financial assets, with any excess recognised as an extraordinary gain.
- **Status:** FASB is considering whether to move to the IASB model.

KEY DIFFERENCES BETWEEN IFRSs AND US GAAP AS OF JUNE 2004**IFRS 3, Combinations of entities under common control**

- **IFRS:** Outside the scope of IFRS 3, though merger accounting (pooling of interests method) is generally used in practice.
- **US:** Pooling of interests method is required.
- **Status:** This is included in the scope of Phase II of IASB's business combinations project.

IFRS 4, Derivatives embedded in insurance contracts

- **IFRS:** An embedded derivative whose characteristics and risks are not closely related to the host contract and whose value is interdependent with the value of the insurance contract need not be separated out and accounted for as a derivative.
- **US:** Such derivatives must be accounted for separately.
- **Status:** Not currently being addressed.

IFRS 4, Rights and obligations under insurance contracts

- **IFRS:** IFRS 4 addresses recognition and measurement in only a limited way. It is an interim standard pending completion of a comprehensive project.
- **US:** FASB has adopted several comprehensive pronouncements, and other comprehensive industry accounting guides have been published.
- **Status:** The IASB is developing a comprehensive standard on accounting for rights and obligations under insurance contracts that is consistent with the IASB Framework definitions of assets and liabilities.

IFRS 5, Measurement of an asset when it is first classified as held for sale

- **IFRS:** Cumulative exchange difference remains in equity.
- **US:** Cumulative exchange difference is reclassified from equity to the asset(s) held for sale.
- **Status:** Not currently being addressed.

IFRS 5, Definition of a discontinued operation

- **IFRS:** A reportable business or geographical segment or major component thereof.
- **US:** A reportable segment, operating segment, reporting unit, subsidiary, or asset group (less restrictive than the IASB definition).
- **Status:** Not currently being addressed.

IFRS 5, Presentation of discontinued operations

- **IFRS:** Post-tax income or loss is required on the face of the income statement.
- **US:** Pre-tax and post-tax income or loss is required on the face of the income statement.
- **Status:** Not currently being addressed.

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