CHAPTER 16

SIGNIFICANT DIFFERENCES BETWEEN IFRS AND US GAAP

LEARNING OUTCOMES

After studying this chapter, you will be able to:

- Understand the background of US GAAP and its issuing authority.
- Examine the significant differences between US GAAP and IFRS.

1. INTRODUCTION

International Financial Reporting Standard (IFRS) is currently accepted worldwide as a global standard. More than 150 countries worldwide have either adopted IFRS or converged towards IFRS. These countries currently require or permit the use of IFRS in the preparation of financial statements of the entities.

Most of the world's more significant capital markets now require IFRS, or some form thereof, for financial statements of public-interest entities. Major capital markets without an IFRS mandate are:

✓ The US, with no current plans to change for domestic registrants (full IFRS allowed for non-US filers);

✓ Japan, where voluntary adoption is allowed, but no mandatory transition date has been established;

✓ China's national standards are substantially converged with IFRS Standards, and China has committed to adopt IFRS Standards for reporting by at least some domestic companies although there is no timetable for completion of the process.

While use of IFRS in the US by public companies will not be required in the foreseeable future, IFRS remains or is becoming increasingly relevant to many US businesses. Companies will be affected by IFRS at different times and to a different degree, depending on factors such as size, industry, geographic makeup, mergers and acquisition activity and global expansion plans.

There are currently approximately 500 non-US filers with market capitalization of US$ 7 trillions that use IFRS in their US filings. Foreign private issuers operating in US, file their financial statements based on IFRS to the Securities and Exchange Commission (SEC) of the US. SEC accepts the same. However, public entities in the United States are required to apply U.S. GAAP in the preparation of their financial statements.

Before discussing the significant differences between IFRS and US GAAP, it is necessary to understand US GAAP and its issuing body.

2. FINANCIAL ACCOUNTING STANDARDS BOARD (FASB)

The **Financial Accounting Standards Board** (FASB) is a private, not-for-profit organization whose primary purpose is to develop generally accepted accounting principles in the United States (US GAAP). The FASB's mission for the private sector is similar to that of the Governmental Accounting Standards Board (GASB) for local and state governments in the United States. The FASB was created in 1973, replacing the Accounting Principles Board of the American Institute of Certified Public Accountants (AICPA). The FASB's mission is "to establish and improve financial accounting and reporting standards to provide useful information to investors and other users of financial reports and educate stakeholders on how to most effectively understand and implement those standards.."

The US Securities and Exchange Commission (SEC) has statutory authority to establish financial accounting and reporting standards for publicly held companies under the Securities Exchange Act of 1934. The SEC designated the FASB as the organization responsible for setting accounting standards for public companies in the US.

3. US GAAP AND ITS HISTORY

Generally Accepted Accounting Principles (GAAP) refers to accounting policies and procedures that are widely used in practice. Unlike India where accounting has its basis in law, US GAAP has evolved to be a collection of pronouncements issued by various accounting organisations. US GAAP are the accounting rules used to prepare financial statements for publicly traded companies and many private companies in the United States. GAAP for local and state governments operate under a different set of assumptions, principles and constraints, as determined by the GASB.

In the United States as well as in other countries practicing under the English common law system, the government does not set accounting standards, in the belief that the private sector has better knowledge and resources. The SEC has the ultimate authority to set US accounting and financial reporting standards for public (listed) companies. The SEC has delegated this responsibility to the private sector led by the FASB. Other private sector bodies including the American Institute of Certified Public Accountants (AICPA) and the FASB's Emerging Issues Task Force (EITF) also establish authoritative accounting standards in the United States. Interpretations of the Financial Accounting Standard Board (FIN) also provide implementation and interpretation guidance. The SEC has the statutory authority to establish GAAP for filings made with it. While allowing most of the standard settings to be done in the private sector, the SEC is still very active in both its oversight responsibility as well as establishing guidance and interpretations, as it believes appropriate. US GAAP have the reputation around the world of being more descriptive and detailed than accounting standards in other countries. Earlier a GAAP hierarchy had been established which contained four categories of accounting principles. The sources in the higher category carried more weight and were followed when conflicts arise.

4. ACCOUNTING STANDARDS CODIFICATION (ASC)

FASB completed its project to codify GAAP in 2009. At that time, all existing GAAP literature was officially withdrawn. Beginning 1 July 2009, all codified GAAP was placed in a single level of the hierarchy (the Codification does not codify non-authoritative US GAAP such as practice, textbooks, articles, and other similar content), so the formerly important distinctions among categories were eliminated.

According to FASB, this system should reduce the amount of time and effort required to solve an accounting research issue; mitigate the risk of non-compliance with standards through improved usability of the literature; provide accurate information with real-time updates as new standards are released; and assist the FASB with the research and convergence efforts required during the standard setting process.

Hence, effective from 1 July 2009, the FASB reorganised its standards into the FASB Accounting Standards Codification (ASC). ASC is an online research system representing the single source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB and applied by non-governmental entities. Rules and interpretive releases of the SEC under authority of Federal Securities laws are also sources of authoritative GAAP for SEC registrants. In addition to it, the SEC staff issues Staff Accounting Bulletins that represent practices followed by the staff in administering SEC disclosure requirements and it utilizes Staff Announcements and observer comments made at Emerging Issues Task Force meetings to publicly announce its views on certain accounting issues for SEC registrants.

Further, if the guidance for a transaction or event is not specified within a source of authoritative GAAP for that entity, an entity shall first consider accounting principles for similar transactions or events within a source of authoritative GAAP for that entity and then consider non-authoritative guidance from other sources. An entity shall not follow the accounting treatment specified in accounting guidance for similar transactions or events in cases in which those accounting principles either prohibit the application of the accounting treatment to the particular transaction or event or indicate that the accounting treatment should not be applied by analogy.

5. UNDERSTANDING OF US GAAP CODIFICATION

To increase the utility of the Codification for public companies, relevant portions of authoritative content issued by the SEC and selected SEC staff interpretations and administrative guidance are being included for reference in the Codification. The sources include Regulation S-X, Financial Reporting Releases (FRR)/Accounting Series Releases (ASR), Interpretive Releases (IR), and SEC staff guidance in Staff Accounting Bulletins (SAB), EITF Topic D, and SEC Staff Observer comments. The Codification does not, however, incorporate the entire population of SEC rules, regulations, interpretive releases, and staff guidance, such as content related to matters outside of the basic financial statements, including Management's Discussion and Analysis (MD&A), or to auditing or independence matters.

Researching GAAP demands familiarity with, and access to, the ASC issued by FASB. Understanding the structure of the Codification is of great importance to all who have a need to understand GAAP and to research and apply GAAP to specific facts and circumstances.

The Codification content is arranged within Topics, Subtopics, Sections, and Subsections. All accountants should quickly develop a facility to navigate through this material.

Topics represent a collection of related guidance. For example, Leases is a Topic. The Topics reside in areas which can be categorized as follows:

1. The General Principles Area (Topic Codes 105–199) relates to broad conceptual matters.
2. The Presentation Area (Topic Codes 205–299) addresses how information is presented in the financial statements. It does not address other aspects of financial accounting such as recognition, measurement, or derecognition for individual financial statement accounts.
3. The Assets, Liabilities, and Equity Areas (Topic Codes 305–399, 405–499, and 505–599, respectively) contain guidance about specific individual balance sheet accounts (e.g., cash, accounts payable, additional paid-in capital).
4. The Revenue and Expenses Areas (Topic Codes 605–699 and 705–799, respectively) contain guidance about specific individual income statement accounts (e.g., sales revenue, employee compensation).
5. The Broad Transactions Area (Topic Codes 805–899) contains guidance about multiple financial statement accounts and its Topics are generally transaction-oriented (e.g. business combinations, derivatives, nonmonetary transactions).
6. The Industry Area (Topic Codes 905–999) contains guidance about specific industries or types of activity.

Sub-topics represent subsets of a topic and are typically identified by type or by scope. For example, operating leases and capital leases are two separate subtopics of the leases topic, distinguished by type of lease. Each topic contains an overall subtopic that generally represents the pervasive guidance for the topic. Each additional subtopic represents incremental or unique guidance not contained in the overall subtopic.

Sections represent the nature of the content in a subtopic - for example, recognition, measurement, disclosure, and so forth. The sectional organization for all subtopics is the same. In a manner similar to that used for topics, sections correlate closely with sections of individual International Financial Reporting Standards.

Sections are further broken down into subsections, paragraphs, and subparagraphs, depending on the specific content of each section.

FASB has developed a classification system specifically for the Codification. The following is the structure of the classifications system: XXX-YY-ZZ-PP, where XXX = topic, YY = subtopic, ZZ = section and PP = paragraph. An "S" preceding the section number denotes SEC guidance.

Standards are composed of two items: the standard (similar to existing standards with a Basis for Conclusions) and an appendix of Codification Update instructions. The title of the combined set of standard and instructions will be Codification Update YYYY-XX, where YYYY is the year issued and XX is the sequential number for each update.

6. COMPONENTS OF FINANCIAL STATEMENTS AS PER US GAAP

A full set of financial statements for a period shall comprise of the following:

a. Financial position at the end of the period

b. Earnings (net income) for the period, (which may be presented as a separate statement or within a continuous statement of comprehensive income)

c. Comprehensive income (total non-owner changes in equity) for the period in one statement or two separate but consecutive statements (if the reporting entity is required to report comprehensive income)

d. Cash flows during the period

e. Investments by and distributions to owners during the period.

In any one year it is ordinarily desirable that the statement of financial position, the income statement, and the statement of changes in equity be presented for one or more preceding years, as well as for the current year.

Prior-year figures shown for comparative purposes shall in fact be comparable with those shown for the most recent period. Any exceptions to comparability shall be clearly brought out.

Notes to financial statements, explanations, and accountants' reports containing qualifications that appeared on the statements for the preceding years shall be repeated, or at least referred to, in the comparative statements to the extent that they continue to be of significance.

The presentation of comparative financial statements in annual and other reports enhances the usefulness of such reports and brings out more clearly the nature and trends of current changes affecting the entity. Such presentation emphasizes the fact that statements for a series of periods are far more significant than those for a single period.

Hope the structure and hierarchy of the US GAAP is clear from the above paragraphs. Let us now discuss, the comparison between US GAAP and IFRS, which will help the students to grasp some of the major differences between IFRS and US GAAP. More emphasis is placed on recognition, measurement, and presentation guidelines, and less emphasis is placed on disclosure requirements. Further, this chapter list outs the differences between IFRS and US GAAP that are significant.

7. SIGNIFICANT DIFFERENCES BETWEEN IFRS AND US GAAP

7.1 First Time Adoption

IFRS 1, First-Time Adoption of International Financial Reporting Standards, is the standard that is applied during preparation of a company's first IFRS-based financial statements. IFRS 1 was created to help companies transition to IFRS and provides practical accommodations intended to make first-time adoption cost-effective. It also provides application guidance for addressing difficult conversion topics. The key principle of IFRS 1 is full retrospective application of all IFRS standards that are effective as of the closing balance sheet or reporting date of the first IFRS financial statements. Full retrospective adoption can be very challenging and burdensome. To ease this burden, IFRS 1 gives certain optional exemptions and certain mandatory exceptions from retrospective application. The transition to IFRS can be a long and complicated process with many technical and accounting challenges to consider. Experience with conversions in Europe and Asia indicates there are some challenges that are consistently underestimated by companies making the change to IFRS, including:

✓ **Consideration of data gaps** — Preparation of the opening IFRS balance sheet all of the related footnote disclosures may require the calculation or collection of information that was not previously required under US GAAP. Companies should plan their transition and identify the differences between IFRS and US GAAP early so that all of the information required can be collected and verified in a timely manner. Likewise, companies should identify differences between local regulatory requirements and IFRS. This could impact the amount of information-gathering necessary. For example, certain information required by the SEC but not by IFRS (e.g., a summary of historical data) can still be presented, in part, under US GAAP but must be clearly labeled as such, and the nature of the main adjustments to comply with IFRS must be discussed. Other incremental information required by a regulator might need to be presented in accordance with IFRS. For example, the SEC in certain instances requires two years of comparative IFRS financial statements, whereas IFRS would require only one.

✓ **Consolidation of additional entities**—IFRS consolidation principles differ from those of US GAAP in certain respects and those differences might cause some companies either to deconsolidate entities or to consolidate entities that were not consolidated under US GAAP. Subsidiaries that previously were excluded from the consolidated financial statements may be required to be consolidated as if they were first-time adopters on the same date as the parent. Companies also will have to consider the potential data gaps of investees to comply with IFRS informational and disclosure requirements.

✓ **Consideration of accounting policy choices**—a number of IFRS standards allow companies to choose between alternative policies. Companies should select carefully the accounting policies to be applied to the opening balance sheet and have a full understanding of the implications to current and future periods. Companies should take this opportunity to evaluate their IFRS accounting policies with a "clean sheet of paper" mind-set. Although many accounting requirements are similar between US GAAP and IFRS, companies should not overlook the opportunity to explore alternative IFRS accounting policies that might better reflect the economic substance of their transactions and enhance their communications with investors.

7.2 Revenue recognition

US GAAP revenue recognition guidance is extensive and includes a significant number of standards issued by FASB, EITF, AICPA and SEC. The guidance tends to be highly detailed and is often industry-specific. While the FASB's codification has put authoritative US GAAP in one place, it has not impacted the volume and/or nature of the guidance. IFRS has one primary revenue standard (namely IFRS 15). The broad principles laid out in IFRS are generally applied without further guidance or exceptions for specific industries.

S.No.	Subject matter	US GAAP	IFRS
1.	***Collectability threshold***	Probable is defined as "likely to occur," which is generally considered a 75%-80% threshold. ASC 606 contains more guidance on accounting for non-refundable consideration received if a contract fails the collectability assessment.	IFRS defines probable as "more likely than not," which is greater than 50%.
		It is probable that the entity will collect ***substantially all of the consideration*** to which it will be entitled in exchange for the goods or services that will be transferred to the customer.	It is probable that the entity will collect the ***consideration*** to which it will be entitled in exchange for the goods or services that will be transferred to the customer.
2.	***Non-cash consideration***	ASC 606 states that non-cash consideration should be measured at contract inception and addresses	IFRS 15 has not addressed non-cash consideration. Given the lack of non-cash consideration guidance in

S.No.	Subject matter	US GAAP	IFRS
		how to apply the variable consideration guidance to contracts with non-cash consideration. Non-cash consideration paid to a customer is recognized as contra-revenue, unless it is payment for a distinct good or service. This is true even if such payments are in the form of share-based payments, which would be valued as non-cash consideration following ASC 606.	IFRS 15, these types of share-based payments would be valued following guidance in IFRS 2.
3.	***Licenses of intellectual property***	ASC 606 specifies that an entity should consider the nature of its promise in granting a license (i.e., whether the license is a right to access or right to use intellectual property) when applying the general revenue recognition model to a combined performance obligation that includes a license and other goods or services. ASC 606 defines two categories of intellectual property – functional and symbolic – for purposes of assessing whether a license is a right to access or a right to use intellectual property.	IFRS 15 does not contain the same specific guidance. Under IFRS 15, the nature of a license is determined based on whether the entity's activities significantly change the intellectual property to which the customer has rights.

S.No.	Subject matter	US GAAP	IFRS
		ASC 606 was amended to use different words to explain that a contract could contain multiple licenses that represent separate performance obligations, and that contractual restrictions of time, geography, or use within a single license are attributes of the license. ASC 606 also includes additional examples to illustrate these concepts.	IFRS 15 was not amended and does not include the same additional examples.
		ASC 606 specifies that an entity cannot recognize revenue from the renewal of a license of intellectual property until the beginning of the renewal period.	IFRS 15 does not contain this specific guidance.
4.	***Practical expedients at transition***	ASC 606 provides a "use of hindsight" practical expedient intended to simplify the transition for contracts modified multiple times prior to the initial application of the standard. An entity applying the expedient will determine the transaction price of a contract at the date of initial application and perform a single, standalone selling price allocation (with the benefit of hindsight) to all of the satisfied and unsatisfied performance	IFRS 15 provides a similar "use of hindsight" practical expedient; however, entities can choose to apply the expedient either at the beginning of the earliest period presented or at the date of initial application.

S.No.	Subject matter	US GAAP	IFRS
		obligations in the contract from inception. ASC 606 permits entities using the modified retrospective transition approach to apply the new standard to either all contracts or only contracts that are not yet complete as of the date of initial application. The US GAAP standard defines a completed contract as a contract for which all (or substantially all) of the revenue was recognized in accordance with legacy revenue guidance before the date of initial application.	IFRS 15 permits entities to apply the new standard either to all contracts or only contracts that are not yet complete as of the date of initial application under the modified retrospective transition approach. The IFRS standard defines a completed contract as a contract for which the entity has transferred all of the goods or services identified in accordance with legacy revenue guidance. IFRS 15 also permits entities using the full retrospective transition approach to not restate contracts that are completed contracts as of the beginning of the earliest period presented.
5.	***Policy choice for shipping and handling activities***	ASC 606 allows entities to elect to account for shipping and handling activities that occur after the customer has obtained control of a good as a fulfillment cost rather than an additional promised service.	IFRS 15 does not provide this election. IFRS reporters (and US GAAP reporters that do not make this election) are required to consider whether shipping and handling services give rise to a separate performance obligation.
6.	***Presentation of taxes collected from customers***	ASC 606 allows entities to make an accounting policy election to present all taxes	IFRS 15 does not provide this election. IFRS reporters (and US GAAP reporters that

S.No.	Subject matter	US GAAP	IFRS
		collected from customers on a net basis.	do not make this election) must evaluate each type of tax on a jurisdiction-by-jurisdiction basis to determine which amounts to exclude from revenue (as amounts collected on behalf of third parties) and which amounts to include.
7.	***Interim disclosure requirements***	The FASB amended its interim disclosure standard to require disaggregated revenue information and added interim disclosure requirements relating to contract balances and remaining performance obligations (for public companies only).	The IASB amended its interim disclosure standard to require interim disaggregated revenue disclosures but did not add additional disclosures.
8.	***Impairment loss reversal***	Consistent with other US GAAP impairment guidance, ASC 340-40, Other Assets and Deferred Costs— Contracts with Customers, does not permit entities to reverse impairment losses recognized on contract costs.	Consistent with other IFRS impairment guidance, IFRS 15 requires impairment losses to be reversed in certain circumstances similar to the existing standard on impairment of assets.

7.3 Assets—Non-Financial Assets

S.No.	Subject matter	US GAAP	IFRS
1.	***Impairment of long-lived assets held for use***	US GAAP requires a two-step impairment test and measurement model as follows:	IFRS uses a one-step impairment test.

S.No.	Subject matter	US GAAP	IFRS
		Step 1 — The carrying amount is first compared with the undiscounted cash flows. If the carrying amount is lower than the undiscounted cash flows, no impairment loss is recognized, although it might be necessary to review depreciation (or amortization) estimates and methods for the related asset. Step 2 — If the carrying amount is higher than the undiscounted cash flows, an impairment loss 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 in an orderly transaction between market participants at the measurement date (an exit price). Fair value should be based on the assumptions of market participants and not those of the reporting entity. Changes in market interest rates are not considered impairment indicators.	The carrying amount of an asset is compared with the recoverable amount. The recoverable amount is the higher of (1) the asset's fair value less costs of disposal or (2) the asset's value in use. In practice, individual assets do not usually meet the definition of a CGU. As a result, assets are rarely tested for impairment individually but are tested within a group of assets. Fair value less costs of disposal represents 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 less costs of disposal. Value in use represents entity-specific or CGU-specific future pretax cash flows discounted to present value by using a pretax, market-determined rate that reflects the current assessment of the time value of money and the risks specific to the asset or CGU for which the cash flow estimates have not been adjusted. Changes in market interest rates can potentially trigger impairment

S.No.	Subject matter	US GAAP	IFRS
		The reversal of impairments is prohibited.	and, hence, are impairment indicators. If certain criteria are met, the reversal of impairments, other than those of goodwill, is permitted. For non-current, non-financial assets (excluding investment properties and biological assets) carried at fair value instead of depreciated cost, losses related to the revaluation are recorded in OCI to the extent of prior upward revaluations, with any further losses being reflected in the income statement.
2.	***Impairment of long-lived assets held for sale***	US GAAP requires a disposal group to include items associated with accumulated other comprehensive income. This includes any cumulative translation adjustment, which is considered part of the carrying amount of the disposal group	Under IFRS 5, a disposal group generally should not include amounts that have been recognized in OCI and accumulated in equity for the purpose of calculating impairment. OCI balances that recycle should only be recognized in the income statement when the disposal group is sold.
3.	***Acquired research and development assets***	Research and development of intangible assets acquired in an asset acquisition are capitalized only if they have an alternative future use. For an asset to have alternative future use, it must be reasonably expected (greater than a 50% chance) that an entity will achieve	The price paid reflects expectations about the probability that the future economic benefits of the asset will flow to the entity. The probability recognition criterion is always assumed to be met for separately acquired intangible assets.

S.No.	Subject matter	US GAAP	IFRS
		economic benefit from such alternative use and further development is not needed at the acquisition date to use the asset.	
4.	***Indefinite-lived intangible assets—level of assessment for impairment testing***	Separately recorded indefinite-lived intangible assets, whether acquired or internally developed, shall be combined into a single unit of accounting for purposes of testing impairment if they are operated as a single asset and, as such, are essentially inseparable from one another. Indefinite-lived intangible assets may be combined only with other indefinite lived intangible assets; they may not be tested in combination with goodwill or with a finite-lived asset. US GAAP provides a number of indicators that an entity should consider to determine if indefinite lived intangible assets should be combined for impairment testing purposes.	As most indefinite-lived intangible assets (e.g., brand name) do not generate cash flows independently of other assets, it might not be possible to calculate the value in use for such an asset on a standalone basis. Therefore, it is necessary to determine the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets, (known as a CGU), in order to perform the test.
5.	***Indefinite-lived intangible assets—impairment measurement***	Impairments of indefinite-lived intangible assets are measured by comparing fair value to carrying amount.	Indefinite-lived intangible asset impairments are calculated by comparing the recoverable amount to the carrying amount (see above for determination of level of assessment).

S.No.	Subject matter	US GAAP	IFRS
			The recoverable amount is the higher of fair value less costs of disposal or value in use. The value in use calculation uses the present value of future cash flows.
6.	***Impairments of software costs to be sold, leased, or otherwise marketed***	When assessing potential impairment, at least at each balance sheet date, the unamortized capitalized costs for each product must be compared with the net realizable value of the software product. The amount by which the unamortized capitalized costs of a software product exceed the net realizable value of that asset shall be written off. The net realizable value is the estimated future gross revenue from that product reduced by the estimated future costs of completing and disposing of that product. The net realizable value calculation does not utilize discounted cash flows.	Under IFRS, intangible assets not yet available for use are tested annually for impairment because they are not being amortized. Once such assets are brought into use, amortization commences, and the assets are tested for impairment when there is an impairment indicator. The impairment is calculated by comparing the recoverable amount (the higher of either (1) fair value less costs of disposal or (2) value in use) to the carrying amount. The value in use calculation uses the present value of future cash flows.
7.	***Depreciation***	US GAAP generally does not require the component approach for depreciation. While it would generally be expected that the appropriateness of significant assumptions within the financial	IFRS requires that separate significant components of property, plant, and equipment with different economic lives be recorded and depreciated separately. The guidance includes a requirement to review residual values and useful lives at each balance sheet date.

S.No.	Subject matter	US GAAP	IFRS
		statements would be reassessed each reporting period, there is no explicit requirement for an annual review of residual values. An entity should evaluate the remaining useful life of an intangible asset at each reporting period to determine whether events or circumstances may indicate that a revision to the useful life (presumably shorter) is warranted to reflect the remaining expected use of the asset.	
8.	***Overhaul costs***	US GAAP permits alternative accounting methods for recognizing the costs of a major overhaul. Costs representing a replacement of an identified component can be (1) expensed as incurred, (2) accounted for as a separate component asset, or (3) capitalized and amortized over the period benefited by the overhaul	IFRS requires capitalization of the costs of a major overhaul representing a replacement of an identified component. Consistent with the componentization model, the guidance requires that the carrying amount of parts or components that are replaced be derecognized.
9.	***Borrowing costs***	Capitalization of interest costs is required while a qualifying asset is being prepared for its intended	Borrowing costs directly attributable to the acquisition, construction, or production of a qualifying asset are required to be

S.No.	Subject matter	US GAAP	IFRS
		use. The guidance does not require that all borrowings be included in the determination of a weighted-average capitalization rate. Instead, the requirement is to capitalize a reasonable measure of cost for financing the asset's acquisition in terms of the interest cost incurred that otherwise could have been avoided.	capitalized as part of the cost of that asset. The guidance acknowledges that determining the amount of borrowing costs directly attributable to an otherwise qualifying asset might require professional judgment. Having said that, the guidance first requires the consideration of any specific borrowings and then requires consideration of all general borrowings outstanding during the period.
		Eligible borrowing costs do not include exchange rate differences from foreign currency borrowings. Also, generally, interest earned on invested borrowed funds cannot offset interest costs incurred during the period.	Eligible borrowing costs include exchange rate differences from foreign currency borrowings.
		An investment accounted for by using the equity method meets 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.	In broad terms, a qualifying asset is one that necessarily takes a substantial period of time to get ready for its intended use or sale. Investments accounted for under the equity method would not meet the criteria for a qualifying asset.
10.	***Inventory costing***	A variety of inventory costing methodologies such	A number of costing methodologies such as FIFO or weighted-average

S.No.	Subject matter	US GAAP	IFRS
		as LIFO, FIFO, and/or weighted-average cost are permitted. For companies using LIFO for US income tax purposes, the book / tax conformity rules also require the use of LIFO for book accounting/reporting purposes. Reversals of write-downs are prohibited.	costing are permitted. The use of LIFO, however, is precluded. Reversals of inventory write-downs (limited to the amount of the original write-down) are required for subsequent recoveries.

7.4 Assets—Financial Assets

S.No.	Subject matter	US GAAP	IFRS
1.	***Determining the overall appropriate classification model***	To determine the appropriate accounting treatment for a financial interest not consolidated or accounted for under the equity method, a reporting entity should first determine whether the interest meets the definition of a security, which, to a large extent, is a legal determination. If the entity determines that an interest meets the definition of a security, it should then determine whether that security meets the definition of an equity or debt security based on the definitions in	For financial assets that are not consolidated or accounted for using the equity method, an entity first considers whether the financial asset is an investment in an equity instrument by evaluating the classification of the instrument from the perspective of the issuer under IAS 32. If the financial asset is an investment in an equity instrument, the entity should follow the guidance for equity instruments. If the financial asset is not an investment in an equity instrument, the entity

S.No.	Subject matter	US GAAP	IFRS
		ASC 321 and ASC 320 and follow the measurement models described in those sections unless industry-specific guidance applies. If the entity determines that the interest does not meet the definition of an equity security, it may still have to follow the guidance in ASC 321 if the interest is in the form of an investment in a partnership, unincorporated joint venture, or LLC. If the entity determines that the interest is not a security, and does not represent a partnership or similar interest, other guidance would apply. For example, for trade account receivables, loans, and other similar assets, ASC 310 would generally be applicable, unless the entity follows industry-specific guidance.	should follow the guidance for debt investments. There is one exception to this rule, which applies to instruments that are classified as equity under the "puttable instruments" provisions of IAS 32, such as investments in mutual funds. An entity should follow the guidance for debt investments for these instruments (even when they are presented as equity from the issuer's perspective).
2.	***Loans and receivables—classification***	The classification and accounting treatment of loans and receivables generally depends on whether the asset in question meets the	Classification under IFRS 9 of all debt investments including debt securities, loans, and receivables is based on a single model, which is driven by:

S.No.	Subject matter	US GAAP	IFRS
		definition of a debt security. To meet the definition of a security, the asset is required to be of a type commonly available on securities exchanges or in markets, or, when represented by an instrument, is commonly recognized in any area in which it is issued or dealt in as a medium for investment. Loans and receivables are also evaluated for embedded derivative features, which could require separate fair value accounting. Receivables. Loans are generally: □ Classified as loans held for investment, in which case they are measured at amortized cost, □ Classified as loans held for sale, in which case they are measured at the lower of cost or fair value (market), or □ Carried at fair value if the fair value option is elected.	□ The entity's business model for managing the assets, and □ The instrument's characteristics (i.e., the Solely Payment of Principal and Interest (SPPI) test). The business model determination is not made at the individual asset level; rather, it is performed at a higher level of aggregation. An entity can have different business models for different portfolios. Business practices, such as factoring, might affect the business model (and hence, classification and measurement). Under the SPPI test, an entity needs to determine whether the contractual cash flows of the financial asset represent solely payments of principal and interest. Contractual features that introduce exposure to risks or volatility unrelated to a basic lending arrangement, such as exposure to changes in equity or commodity prices, do not give rise to contractual cash flows that are SPPI. The financial asset should be subsequently measured at amortized cost if both of the following conditions are met: □ The financial asset is held within a "hold to collect"

S.No.	Subject matter	US GAAP	IFRS
			business model. Although the objective of an entity's business model might be to hold financial assets in order to collect contractual cash flows, the entity does not necessarily need to hold all of those instruments until maturity; and □ The contractual terms of the financial asset give rise, on specified dates, to cash flows that are SPPI. A financial asset should be subsequently measured at FVOCI if both of the following conditions are met: □ The financial asset is held within a business model whose objective is achieved by both holding financial assets in order to collect contractual cash flows and selling financial assets; and □ The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI. If the financial asset is measured at FVOCI, movements in fair value are recorded through OCI. However, interest income computed using the effective interest method,

S.No.	Subject matter	US GAAP	IFRS
			foreign exchange gains and losses, impairment losses, and gains and losses arising on derecognition of the asset, are recognized in profit or loss. If the financial asset does not pass the business model assessment or SPPI test, it is measured at FVTPL. This is the residual measurement category under IFRS 9.
3.	***Foreign exchange gains/losses on debt instruments***	The total change in fair value of available-for- sale debt securities—net of associated tax effects—is recorded within other comprehensive income (OCI). Any component of the overall change in fair market value that may be associated with foreign exchange gains and losses on an available-for-sale debt security is treated in a manner consistent with the remaining overall change in the instrument's fair value.	For debt instruments measured at FVOCI, the total change in fair value is bifurcated, with the portion associated with foreign exchange gains/losses on the amortized cost basis separately recognized in the income statement. The remaining portion of the total change in fair value (except for impairment losses) is recognized in OCI, net of tax effect.
4.	***Embedded derivatives in financial assets***	When the terms of a financial asset involve returns that vary in timing or amounts, the asset should be evaluated to determine if there are any embedded derivatives that	A financial asset that is within the scope of IFRS 9 is not assessed for embedded derivatives because the SPPI test is applied to the entire hybrid contract to determine the

S.No.	Subject matter	US GAAP	IFRS
		should be accounted for separately and measured at fair value through profit or loss.	appropriate measurement category. If an entity fails the SPPI test, the entire instrument is measured at FVTPL.
5.	***Reclassifications***	Changes in classification between trading, available-for-sale, and held-to maturity categories can occur only when justified by the facts and circumstances within the concepts of ASC 320. Given the nature of a trading security, transfers into or from the trading category should be rare. For loans, reclassification between the held for sale and held for investment categories should generally occur at the point the intent changes.	Once the initial classification has been determined, reclassification of investments in debt instruments is only permitted when an entity changes its business model for managing the financial assets. Changes to the business model are expected to be infrequent; the change is determined by the entity's senior management as a result of external or internal changes. It must be significant to the entity's operations and should be evident to external parties. Changes in intention related to particular financial assets (even in circumstances of significant changes in market conditions) and transfers of financial assets between parts of the entity with different business models, are examples for circumstances that are not considered changes in business model. For equity investments, the initial election to present fair value changes in OCI is irrevocable.
6.	***Impairment principles—Equity investments***	For equity investments without readily determinable fair values, for which the	There are no impairment requirements for investments in equity investments.

S.No.	Subject matter	US GAAP	IFRS
		"measurement alternative" was elected, there is a single-step impairment model. An entity is required to perform a qualitative assessment at each reporting period to identify impairment. When a qualitative assessment indicates that an impairment exists, the entity will need to estimate the fair value of the investment and recognize in current earnings an impairment loss equal to the difference between the fair value and the carrying amount of the equity investment. The impairment charge is a basis adjustment, which reduces the carrying amount of the equity investment to its fair value; it is not a valuation allowance. For equity investments with readily determinable fair values measured at FVTPL, all decreases in value are reflected in profit and loss, eliminating the need for an impairment assessment.	For those equity investments measured at FVTPL all decreases in value are reflected in profit and loss, eliminating the need for an impairment assessment. For those equity investments measured at FVOCI, all changes in fair value are recorded through OCI with no subsequent reclassification to profit or loss.

S.No.	Subject matter	US GAAP	IFRS
7.	*Impairments—reversal of losses*	Impairments of loans held for investment are permitted to be reversed; however, the carrying amount of the loan can at no time exceed the recorded investment in the loan. Reversals of impairment losses for debt securities classified as available-for-sale or held-to-maturity securities are prohibited. Rather, any expected recoveries in future cash flows are reflected as a prospective yield adjustment.	The amount of ECL or reversal that is required to adjust the loss allowance at the reporting date to the amount necessary under IFRS 9 is recognized in the income statement as an impairment loss or gain.

7.5 Liabilities and Equities

S.No.	Subject matter	US GAAP	IFRS
1.	*Tax base of an asset or a liability*	Tax base is based upon the relevant tax law. It is generally determined by the amount that is depreciable for tax purposes or deductible upon sale or liquidation of the asset or settlement of the liability.	Tax base is based on the tax consequences that will occur based upon how an entity is expected to recover or settle the carrying amount of assets and liabilities. The carrying amount of assets or liabilities can be recovered or settled through use or through sale. Assets and liabilities may also be recovered or settled through use and through sale together. In

S.No.	Subject matter	US GAAP	IFRS
			that case, the carrying amount of the asset or liability is bifurcated, resulting in more than a single temporary difference related to that item.
2.	***Initial recognition of an asset or a liability***	A temporary difference may arise on initial recognition of an asset or liability. In asset purchases that are not business combinations, a deferred tax asset or liability is recorded with the offset generally recorded against the assigned value of the asset. The amount of the deferred tax asset or liability is determined by using a simultaneous equations method. An exemption exists from the initial recognition of temporary differences in connection with transactions that qualify as leveraged leases under the historical lease-accounting guidance in ASC 840. While the new lease guidance in ASC 842 does not permit any new leases to be classified as leveraged leases, existing leases that met the definition in ASC 840 at inception are grandfathered and, assuming they are not modified,	An exception exists that deferred taxes should not be recognized on the initial recognition of an asset or liability in a transaction which is not a business combination and affects neither accounting profit nor taxable profit/loss at the time of the transaction. No special treatment of leveraged leases exists under IFRS.

S.No.	Subject matter	US GAAP	IFRS
		continue to follow the prior accounting.	
3.	*Recognition of deferred tax assets*	Deferred tax assets are recognized in full, but are then reduced by a valuation allowance if it is considered more likely than not that some portion of the deferred tax assets will not be realized.	Deferred tax assets are recognized to the extent that it is probable (or "more likely than not") that sufficient taxable profits will be available to utilize the deductible temporary difference or carry forward of unused tax losses or tax credits..
4.	*Deferred taxes for exchange rate changes or tax indexing*	No deferred taxes are recognized for differences related to nonmonetary assets and liabilities that are remeasured from local currency into their functional currency by using historical exchange rates (if those differences result from changes in exchange rates or indexing for tax purposes).	Deferred taxes should be recognized for the difference between the carrying amount determined by using the historical exchange rate and the relevant tax base, which may have been affected by exchange rate changes or tax indexing.
5.	*Inter-company transactions*	For purposes of the consolidated financial statements, any tax impacts to the seller as a result of an intercompany sale or transfer are deferred until the asset is sold to a third-party or otherwise recovered (e.g., written down). In addition, the buyer is prohibited from recognizing a deferred tax asset resulting from the difference between the tax basis and	There is no exception to the model for the income tax effects of transferring assets between the entities in the consolidated groups. Any tax impacts to the consolidated financial statements as a result of the intercompany transaction are recognized as incurred. If the transfer results in a change in the tax base of

S.No.	Subject matter	US GAAP	IFRS
		consolidated carrying amount of the inventory.	the asset transferred, deferred taxes resulting from the intra group sale are recognized at the buyer's tax rate.
6.	***Change in tax laws and rates***	US GAAP requires the use of enacted rates when calculating current and deferred taxes.	Current and deferred tax is calculated using enacted or substantively enacted rates.
7.	***Interim reporting***	In general, the interim tax provision is determined by applying the estimated annual worldwide effective tax rate for the consolidated entity to the worldwide consolidated year-to-date pretax income.	The interim tax provision is determined by applying an estimated average annual effective tax rate to interim period pretax income. To the extent practicable, a separate estimated average annual effective tax rate is determined for each material tax jurisdiction and applied individually to the interim period pretax income of each jurisdiction.
8.	***Separate financial statements***	The consolidated current and deferred tax amounts of a group that files a consolidated tax return should be allocated among the group members when they issue separate financial statements using a method that is systematic, rational and consistent with the broad principles of ASC 740. An acceptable method is the "separate return" method. It	There is no specific guidance under IFRS on the methods that can be used to allocate current and deferred tax amounts of a group that files a consolidated tax return among the group members when they issue separate financial statements.

S.No.	Subject matter	US GAAP	IFRS
		is also acceptable to modify this method to allocate current and income taxes using the "benefits for- loss" approach.	
9.	*Levies*	Specific guidance does not exist within US GAAP. Levies and their related fines and penalties follow the guidance in ASC 450 unless other guidance established for the specific obligation exists (e.g., environmental).	Levies are defined as a transfer of resources imposed by a government on entities in accordance with laws and/or regulations, other than those within the scope of other standards (such as IAS 12); and fines or other penalties imposed for breaches of laws and/or regulations. The obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The fact that an entity is economically compelled to continue operating in a future period or prepares its financial statements under the going concern principle, does not create an obligation to pay a levy that will arise from operating in the future. A liability to pay a levy is recognised when the obligating event occurs, at a point in time or

S.No.	Subject matter	US GAAP	IFRS
			progressively over time, and an obligation to pay a levy triggered by a minimum threshold is recognised when the threshold is reached.
10.	***Written put option on the issuer's own shares***	A financial instrument—other than an outstanding share—that at inception (1) embodies an obligation to repurchase the issuer's equity shares or is indexed to such an obligation, and (2) requires or may require the issuer to settle the obligation by transferring assets shall be classified as a financial liability (or an asset, in some circumstances). Examples include written put options on the issuer's equity shares that are to be physically settled or net cash settled. ASC 480 requires written put options to be measured at fair value, with changes in fair value recognized in current earnings.	If the contract meets the definition of an equity instrument (because it requires the entity to purchase a fixed amount of its own shares for a fixed amount of cash), any premium received or paid must be recorded in equity. Therefore, the premium received on such a written put is classified as equity (whereas under US GAAP, the fair value of the written put is recorded as a financial liability). In addition, the issuer records a financial liability for the discounted value of the amount of cash that the entity may be required to pay. The financial liability is recorded against equity.
11.	***Initial measurement of a liability with a related party***	When an instrument is issued to a related party at off-market terms, one should consider which model the instrument falls within the scope of as well as the facts and circumstances of the	When an instrument is issued to a related party, the financial liability initially should be recorded at fair value, which may not be the

S.No.	Subject matter	US GAAP	IFRS
		transaction (i.e., the existence of unstated rights and privileges) in determining how the transaction should be recorded. There is, however, no requirement to initially record the transaction at fair value. The presumption in ASC 850 that related party transactions are not at arm's length and the associated disclosure requirements also should be considered.	value of the consideration received. The difference between fair value and the consideration received (i.e., any additional amount lent or borrowed) is accounted for as a current-period expense, income, or as a capital transaction based on its substance.
12.	***Non-recourse liabilities***	US GAAP provides an alternative measurement for CFEs that allows the use of the more observable of the fair value of the financial assets or the fair value of the financial liabilities of the CFE to measure both the financial assets and the financial liabilities. This eliminates the measurement difference that may exist when financial assets and financial liabilities of the CFE are measured at fair value independently.	IFRS does not provide a separate measurement approach for nonrecourse liabilities. Financial assets and liabilities follow their respective classification and measurement models.
13.	***Measurement of provisions***	A single standard does not exist to determine the measurement of obligations. Instead, entities must refer to guidance established for specific obligations (e.g., environmental or	The amount recognized should be the best estimate of the expenditure required (the amount an entity would rationally pay to settle or transfer to a third party

S.No.	Subject matter	US GAAP	IFRS
		restructuring) to determine the appropriate measurement methodology. Pronouncements related to provisions do not necessarily have settlement price or even fair value as an objective in the measurement of liabilities, and the guidance often describes an accumulation of the entity's cost estimates. When no amount within a range is a better estimate than any other amount, the low end of the range is accrued.	the obligation at the balance sheet date). Where there is a continuous range of possible outcomes and each point in that range is as likely as any other, the midpoint of the range is used.
14.	***Discounting of provisions***	For losses that meet the accrual criteria of ASC 450, an entity will generally record them at the amount that will be paid to settle the contingency, without considering the time that may pass before the liability is paid. Discounting these liabilities is acceptable when the aggregate amount of the liability and the timing of cash payments for the liability are fixed or determinable. Entities with these liabilities that are eligible for discounting are not, however, required to discount those liabilities; the decision to	IFRS requires that the amount of a provision be the present value of the expenditure expected to be required to settle the obligation. The anticipated cash flows are discounted using a pretax 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. Provisions shall be reviewed at the end of

S.No.	Subject matter	US GAAP	IFRS
		discount is an accounting policy choice. The classification in the statement of operations of the accretion of the liability to its settlement amount is an accounting policy decision that should be consistently applied and disclosed. When discounting is applied, the discount rate applied to a liability should not change from period to period if the liability is not recorded at fair value. There are certain instances outside of ASC 450 (e.g., in the accounting for asset retirement obligations) where discounting is required.	each reporting period and adjusted to reflect the current best estimate. The carrying amount of a provision increases in each period to reflect the passage of time with said increase recognized as a borrowing cost.
15.	*Onerous contracts*	Provisions are not recognized for unfavorable contracts unless the entity has ceased using the rights under the contract (i.e., the cease-use date). One of the most common examples of an unfavorable contract has to do with leased property that is no longer in use. With respect to such leased property, estimated sublease rentals are to be considered in a measurement of the provision to the extent such rentals could reasonably be obtained for	Provisions are recognized when a contract becomes onerous regardless of whether the entity has ceased using the rights under the contract. When an entity commits to a plan to exit a lease property, sublease rentals are considered in the measurement of an onerous lease provision only if management has the right to sublease and such sublease income is probable.

S.No.	Subject matter	US GAAP	IFRS
		the property, even if it is not management's intent to sublease or if the lease terms prohibit subleasing. Incremental expense in either instance is recognized as incurred.	IFRS requires recognition of an onerous loss for executory contracts if the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

7.6 Consolidation

S.No.	Subject Matter	US GAAP	IFRS
1.	***Consolidation model***	All consolidation decisions are evaluated first under the Variable Interest Entity (VIE) model. US GAAP requires an entity with a variable interest in a VIE to qualitatively assess the determination of the primary beneficiary of the VIE. In applying the qualitative model, an entity is deemed to have a controlling financial interest if it meets both of the following criteria: □ Power to direct activities of the VIE that most significantly impact the VIE's economic performance (power criterion) □ Obligation to absorb losses from or right to receive benefits of the VIE that could potentially be	IFRS focuses on the concept of control in determining whether a parent-subsidiary relationship exists. An investor controls an investee when it has all of the following: □ Power, through rights that give it the current ability, to direct the activities that significantly affect (the relevant activities that affect) the investee's returns □ Exposure, or rights, to variable returns from its involvement with the investee (returns must vary and can be positive, negative, or both)

S.No.	Subject Matter	US GAAP	IFRS
		significant to the VIE (losses/benefits criterion) In assessing whether an enterprise has a controlling financial interest in an entity, it should consider the entity's purpose and design, including the risks that the entity was designed to create and pass through to its variable interest holders. Only one enterprise, if any, is expected to be identified as the primary beneficiary of a VIE. Although more than one enterprise could meet the losses/benefits criterion, only one enterprise, if any, will have the power to direct the activities of a VIE that most significantly impact the entity's economic performance. Increased skepticism should be given to situations in which an enterprise's economic interest in a VIE is disproportionately greater than its stated power to direct the activities of the VIE that most significantly impact the entity's economic performance. As the level of disparity increases, the level of skepticism about an enterprise's lack of power is expected to increase.	□ The ability to use its power over the investee to affect the amount of the investor's returns In assessing control of an entity, an investor should consider the entity's purpose and design to identify the relevant activities, how decisions about the relevant activities are made, who has the current ability to direct those activities, and who is exposed or has rights to the returns from those activities. Only substantive rights can provide power. The greater an investor's exposure to variability of returns, the greater its incentive to obtain rights to give it power, i.e., it is an indicator of power and is not by itself determinative of having power. When an entity is controlled by voting rights,

S.No.	Subject Matter	US GAAP	IFRS
		All other entities are evaluated under the voting interest model. Unlike IFRS, only actual voting rights are considered. Under the voting interest model, control can be direct or indirect. In certain unusual circumstances, control may exist with less than 50 percent ownership, when contractually supported. The concept is referred to as effective control.	control is presumed to exist when a parent owns, directly or indirectly, more than 50 percent 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 either the majority of the entity's voting power or the board of directors. Control may exist even in cases where an entity owns little or none of a structured equity. The application of the control concept requires, in each case, judgment in the context of all relevant factors.
2.	***Accounting policies and reporting periods***	Consolidated financial statements are prepared by using uniform accounting policies for all of the entities in a group. Limited exceptions exist when a subsidiary has specialized industry accounting principles. Retention of the specialized accounting policy in consolidation is permitted in such cases. The consolidated financial statements of the parent and the subsidiary are usually drawn up at the same reporting date. However, the	Consolidated financial statements are prepared by using uniform accounting policies for like transactions and events in similar circumstances for all of the entities in a group. The consolidated financial statements of the parent and the subsidiary are usually drawn up at the same reporting date.

S.No.	Subject Matter	US GAAP	IFRS
		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. Recognition is given, by disclosure or adjustment, to the effects of intervening events that would materially affect consolidated financial statements	However, the subsidiary accounts as of a different reporting date can be consolidated, provided the difference between the reporting dates is no more than three months. Adjustments are made to the financial statements for significant transactions that occur in the gap period.
3.	***Potential voting rights***	Potential voting rights are generally not considered in the assessment of whether an investor has significant influence.	Potential voting rights are considered in determining whether the investor exerts significant influence over the investee. Potential voting rights are important in establishing whether the entity is an associate. Potential voting rights are not, however, considered in the measurement of the equity earnings recorded by the investor.
4.	***Definition and types of joint ventures***	The term joint venture refers only to jointly controlled entities, where the arrangement is carried on through a separate entity. A corporate joint venture is defined as a corporation owned and operated by a small group of businesses as	A joint arrangement is 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.

S.No.	Subject Matter	US GAAP	IFRS
		a separate and specific business or project for the mutual benefit of the members of the group. Most joint venture arrangements give each venturer (investor) participating rights over the joint venture (with no single venturer having unilateral control), and each party sharing control must consent to the venture's operating, investing, and financing decisions.	Unanimous consent is required for the relevant activities of the parties sharing control, but not necessarily of all parties in the venture. IFRS classifies joint arrangements into two types: ✓ Joint operations, which give parties to the arrangement direct rights to the assets and obligations for the liabilities ✓ Joint ventures, which give the parties rights to the net assets or outcome of the arrangement
5.	***Accounting for joint arrangements***	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 for VIE is applied. Joint ventures often have a variety of service, purchase, and/or sales agreements, as well as funding and other arrangements that may affect the entity's status as a VIE. Equity interests are often split 50- 50 or near 50-50, making non-equity interests (i.e., any	The classification of a joint arrangement as a joint venture or a joint operation determines the investor's accounting. An investor in a joint venture must account for its interest using the equity method in accordance with IAS 28. An investor in a joint operation accounts for its share of assets, liabilities, income and expenses based on its direct rights and obligations.

S.No.	Subject Matter	US GAAP	IFRS
		variable interests) highly relevant in consolidation decisions. Careful consideration of all relevant contracts and governing documents is critical in the determination of whether a joint venture is within the scope of the variable interest model and, if so, whether consolidation is required. If the joint venture is not a VIE, venturers apply the equity method to recognize the investment in a jointly controlled entity. Proportionate consolidation is generally not permitted except for unincorporated entities operating in certain industries. A full understanding of the rights and responsibilities conveyed in management, shareholder, and other governing documents is necessary.	If the joint operation constitutes a business, the investor must apply the relevant principles on business combination accounting contained in IFRS 3, Business Combinations, and other standards, and disclose the related information required under those standards. A joint operator that increases its interest in a joint operation that constitutes a business should not remeasure previously held interests in the joint operation when joint control is retained. Similarly, when an entity that has an interest (but not joint control) obtains joint control, previously held interests are not remeasured.
6.	***Equity method of accounting— exemption from applying the equity method***	Equity method investments are considered financial assets and therefore are eligible for the fair value accounting option. An entity can measure an investment in associates or joint ventures at	An entity can only elect fair value through profit or loss accounting for equity method investments held by venture capital organizations, mutual funds, unit trusts, and similar entities, including

S.No.	Subject Matter	US GAAP	IFRS
		fair value through profit or loss, regardless of whether it is a venture capital or similar organization.	investment-linked insurance funds. If an associate or joint venture is an investment entity, the equity method of accounting is applied by either (1) recording the results of the investment entity that are at fair value or (2) undoing the fair value measurements of the investment entity. In other instances, an entity must apply the equity method to its investments in associates and joint ventures unless it is exempt from preparing consolidated financial statements.
7.	***Equity method of accounting—classification as held for sale***	Under US GAAP, equity method investments are not classified as held for sale. An investor applies equity method accounting until significant influence is lost.	If an equity method investment meets the held for sale criteria in accordance with IFRS 5, an investor records the investment at the lower of its (1) fair value less costs to sell or (2) carrying amount as of the date the investment is classified as held for sale.
8.	***Accounting for investments in qualified affordable housing projects***	An investor that owns a passive investment in limited liability entities that manage or invest in qualified affordable housing projects can use the proportional amortization	IFRS does not contain any guidance specific to accounting for investments in qualified affordable housing projects.

S.No.	Subject Matter	US GAAP	IFRS
		method if certain conditions are met. Under the proportional amortization method, the initial cost of the investment is amortized in proportion to the tax benefits received over the period that the investor expects to receive the tax credits and other benefits. Both the amortization expense determined under the proportional amortization method and the tax benefits received will be recognized as a component of income taxes. Use of the proportional amortization method for investments that meet the requisite conditions is an accounting policy election. Once elected, the proportional amortization method should be applied to all qualifying investments.	

7.7 Business Combinations

S.No.	Subject matter	US GAAP	IFRS
1.	*Definition of control*	Consolidation decisions are evaluated first under the variable interest entity model. Qualitatively assess if the variable interest meets both criteria:	An investor has control over an investee when all of the following elements are present: ✓ Power over the investee

S.No.	Subject matter	US GAAP	IFRS
		✓ Power to direct activities that most significantly impact economic performance ✓ Potential to receive significant benefits or absorb significant losses All other entities are evaluated under the voting interest model.	✓ Exposure, or rights, to variable returns from its involvement with the investee ✓ Ability to use power to affect the returns
2.	***Acquired contingencies***	Acquired assets and liabilities subject to contingencies are recognized at fair value if fair value can be determined during the measurement period. If fair value cannot be determined, companies should typically account for the acquired contingencies using existing guidance. If recognized at fair value on acquisition, an acquirer should develop a systematic and rational basis for subsequently measuring and accounting for assets and liabilities arising from contingencies depending on their nature.	The acquiree's contingent liabilities are recognized at the acquisition date provided their fair values can be measured reliably. The contingent liability is measured subsequently at the higher of the amount initially recognized less, if appropriate, cumulative amortization recognized under the revenue guidance (IFRS 15) or the best estimate of the amount required to settle (under the provisions guidance—IAS 37). Contingent assets are not recognized.

S.No.	Subject matter	US GAAP	IFRS
3.	***Non-controlling interests***	Non-controlling interests are measured at fair value.	Entities have an option, on a transaction-by-transaction basis, to measure non-controlling interests at their proportion of the fair value of the identifiable net assets (ie excluding goodwill). This option applies only to instruments that represent present ownership interests and entitle their holders to a proportionate share of the net assets in the event of liquidation. All other components of non-controlling interest are measured at fair value unless another measurement basis is required by IFRS. The use of fair value option results in full goodwill being recorded on both the controlling and non-controlling interest consistent with US GAAP.
4.	***Combinations involving entities under common control***	Combinations of entities under common control are generally recorded at predecessor cost, reflecting the transferor's carrying amount of the assets and liabilities transferred.	IFRS does not specifically address such transactions. In practice, entities develop and consistently apply an accounting policy; management can elect to apply the acquisition

S.No.	Subject matter	US GAAP	IFRS
		When an entity receives a business from an entity under common control, the transaction is reflected retrospectively.	method of accounting or the predecessor value method to a business combination involving entities under common control. The accounting policy can be changed only when criteria for a change in an accounting policy are met in the applicable guidance in IAS 8 (i.e., it provides more reliable and more relevant information). Entities will also need to elect an accounting policy to record businesses obtained through common control transactions on either a retrospective or prospective basis.
5.	***Identifying the acquirer***	The acquirer is determined by reference to ASC 810 –10, under which generally the party that holds greater than 50 percent of the voting shares has control, unless the acquirer is the primary beneficiary of a variable interest entity in accordance with ASC 810.	The acquirer is determined by reference to the consolidation guidance, under which generally the party that holds greater than 50 percent of the voting rights has control. In addition, control might exist when less than 50 percent of the voting rights are held, if the acquirer has the power to most significantly affect the variable returns of the entity in

S.No.	Subject matter	US GAAP	IFRS
			accordance with IFRS 10.
6.	***Measurement period adjustment***	An acquirer has up to one year from the acquisition date (referred to as the measurement period) to finalize the accounting for a business combination. If during the measurement period, the measurements are not finalized as of the end of a reporting period, the acquirer should record the cumulative impact of measurement period adjustments made to provisional amounts in the period that the adjustment is determined. However, the acquirer should present separately on the face of the income statement or disclose in the notes the portion of the adjustment to each income statement line items that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date.	An acquirer has up to one year from the acquisition date (referred to as the measurement period) to finalize the accounting for a business combination. An acquirer should retrospectively record measurement period adjustments made to provisional amounts as if the accounting was completed at the acquisition date. The acquirer should revise comparative information for prior periods presented in the financial statements as needed, including making any change in depreciation, amortization, or other income effects recognized in completing the initial accounting.

7.8 Share-based payments

S.No.	Subject matter	US GAAP	IFRS
1.	*Scope*	ASC 718, *Compensation—Stock Compensation*, applies to awards granted to employees and through Employee Stock Ownership Plans. ASC 505-50 (and not ASC 718) applies to grants to non-employees. The guidance focuses on the legal definition of an employee with certain specific exceptions.	IFRS 2, *Share-based payments*, includes accounting for all employee and nonemployee arrangements. Furthermore, under IFRS, the definition of an employee is broader than the US GAAP definition. IFRS focuses on the nature of the services provided and treats awards to employees and others providing employee-type services similarly. Awards for goods from vendors or nonemployee-type services are treated differently.
2.	***Measurement of awards granted to employees by non-public companies***	**Equity-classified** The guidance allows non-public companies to measure stock-based compensation awards by using the fair value method (preferred) or the calculated-value method. **Liability-classified** The guidance allows nonpublic companies to make an accounting policy decision on how to measure stock-based	IFRS does not include such alternatives for nonpublic companies and requires the use of the fair-value method in all circumstances.

S.No.	Subject matter	US GAAP	IFRS
		compensation awards that are classified as liabilities. Such companies may use the fair value method, calculated-value method, or intrinsic-value method.	
3.	***Measurement of awards granted to non-employees***	ASC 505-50 states that the fair value of an equity instrument issued to a nonemployee should be measured as of the date at which either (1) a commitment for performance by the counterparty has been reached, or (2) the counterparty's performance is complete. Non-employee transactions should be measured based on the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable.	Transactions with parties other than employees (or those providing employee-type services) should be measured at the date(s) on which the goods are received or the date(s) on which the services are rendered. The guidance does not include a performance commitment concept. Non-employee transactions are generally measured at the fair value of the goods or services received, since it is presumed that it will be possible to reliably measure the fair value of the consideration received. If an entity is not able to reliably measure the fair value of the goods or services received (i.e., if the presumption is overcome), the fair value of the award should be measured indirectly by reference to the fair value of the equity instrument granted as consideration. When the presumption is not overcome, an entity is also required to account for any

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			unidentifiable goods or services received or to be received. This would be the case if the fair value of the equity instruments granted exceeds the fair value of the identifiable goods or services received and to be received.
4.	***Classification of certain instruments as liabilities or equity***	ASC 718 contains guidance on determining whether to classify an award as equity or a liability. ASC 718 also references the guidance in ASC 480, Distinguishing Liabilities from Equity, when assessing classification of an award. In certain situations, puttable shares may be classified as equity awards, as long as the recipient bears the risks and rewards normally associated with equity share ownership for a reasonable period of time (defined as 6 months). Liability classification is required when an award is based on a fixed monetary amount settled in a variable number of shares.	IFRS 2 follows a similar principle of equity / liability classification as ASC 718. However, while IAS 32 has similar guidance to ASC 480, arrangements subject to IFRS 2 are out of the scope of IAS 32. Therefore, equity/liability classification for share-based awards is determined wholly on whether the awards are ultimately settled in equity or cash, respectively. Puttable shares are always classified as liabilities, even if the put cannot be exercised for an extended period of time. Share-settled awards are classified as equity awards even if there is variability in the number of shares due to a fixed monetary value to be achieved.
5.	***Awards with conditions other***	If an award contains conditions other than	If an award of equity instruments contains

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	than service, performance, or market conditions	service, performance, or market conditions (referred to as "other" conditions), it is classified as a liability award.	conditions other than service or performance (which can include market) vesting conditions, it can still be classified as an equity-settled award. Such conditions may be non-vesting conditions. Non-vesting conditions are taken into account when determining the grant date fair value of the award.
6.	***Awards with a performance target met after the requisite service period is completed***	A performance target that may be met after the requisite service period is complete is a performance vesting condition, and cost should be recognized only if the performance condition is probable of being achieved.	A performance target that may be met after the requisite service period is a non-vesting condition and is reflected in the measurement of the grant date fair value of an award.
7.	***Service-inception date, grant date, and requisite service***	The guidance provides specific definitions of service-inception date, grant date, and requisite service, which, when applied, will determine the beginning and end of the period over which compensation cost will be recognized. Additionally, the grant date definition includes a requirement that the employee begins to be affected by the risks and rewards of equity ownership at that date.	IFRS does not include the same detailed definitions. The difference in the grant date definition is that IFRS does not require the employee to begin to be affected by the risks and rewards of equity ownership to have a grant date. Furthermore, the IFRS definition of the start of the service period does not have the same explicit requirements as the US GAAP definition of service inception date, which could result in earlier recognition of compensation

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			cost under IFRS when the grant date is delayed.
8.	***Attribution—awards with service conditions and graded-vesting features***	Companies are permitted to make an accounting policy election regarding the attribution method for awards with service-only conditions and graded vesting features. The choice in attribution method (straight-line or accelerated tranche by tranche) is not linked to the valuation method that the company uses. For awards with graded vesting and performance or market conditions, the accelerated graded vesting attribution approach is required.	Companies are not permitted to choose how the valuation or attribution method is applied to awards with graded-vesting features. Companies should treat each installment of the award as a separate grant. This means that each installment would be separately measured and attributed to expense over the related vesting period, which would accelerate the expense recognition.
9.	***Certain aspects of modification accounting***	An improbable to probable "Type III" modification can result in recognition of compensation cost that is more or less than the fair value of the award on the original grant date. When a modification makes it probable that a vesting condition will be achieved, and the company does not expect the original vesting conditions to be achieved, a new measurement date is established. The grant-date fair value of the	Under IFRS, if the vesting conditions of an award are modified in a manner that is beneficial to the employee, this would be accounted for as a change in only the number of awards that are expected to vest (from zero to a new amount), and the award's full original grant-date fair value would be recognized for the awards over the remainder of the service period. That result is the same as if the modified vesting condition had been in effect on the grant date.

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		award would not be a floor for the amount of compensation cost recognized.	
10.	***Accounting for forfeitures***	Companies make an entity-wide accounting policy election (independent elections for employee and non-employee awards) to account for award forfeitures as they occur or by estimating expected forfeitures as compensation cost is recognized.	IFRS does not allow a similar policy election; forfeitures must be estimated.
11.	***Derived service period***	US GAAP contains the concept of a derived service period. Where an award is fully vested and deep out of the money at the grant date but allows employees only a limited amount of time to exercise their awards in the event of termination, US GAAP presumes that employees must provide some period of service to earn value from the award. Because there is no explicit service period stated in the award, a derived service period must be determined by reference to a valuation technique. The expense for the award would be	IFRS does not define a derived service period for fully vested, deep-out-of- the money awards. Therefore, the related expense for such an award would be recognized in full at the grant date because the award is fully vested at that date.

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		recognized over the derived service period and reversed if the employee does not complete the requisite service period.	
12.	***Accounting for income tax effects***	The US GAAP model for accounting for income taxes requires companies to record deferred taxes as compensation cost is recognized, as long as that particular type of instrument ordinarily would result in a future tax deduction. The measurement of the deferred tax asset is based on the amount of compensation cost recognized for book purposes. Changes in the stock price do not impact the deferred tax asset or result in any adjustments prior to settlement or expiration. Upon settlement or expiration, excess tax benefits and tax deficiencies (the difference between the recorded deferred tax asset and the tax benefit of the actual tax deduction) are recognized within income tax expense.	The measurement of the deferred tax asset in each period is based on an estimate of the future tax deduction, if any, for the award measured at the end of each reporting period (based on the current stock price if the tax deduction is based on the future stock price). When the expected tax benefits from equity awards exceed the recorded cumulative recognized expense multiplied by the tax rate, the tax benefit up to the amount of the tax effect of the cumulative book compensation expense is recorded in the income statement; the excess is recorded in equity. When the expected tax benefit is less than the tax effect of the cumulative amount of recognized expense, the entire tax benefit is recorded in the income statement.

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13.	***Tax withholding arrangements—impact to classification***	An award containing a net settled tax withholding clause could be equity classified as long as the arrangement limits tax withholding to the maximum individual statutory tax rate in a given jurisdiction. If tax withholding is permitted at some higher rate, then the entire award (not solely the excess) would be classified as a liability.	IFRS has an exception similar to US GAAP. However, there will still be a difference if the withholding limit is exceeded, as only the excess number of equity instruments that can be withheld would be separated and accounted for as a cash-settled share-based payment under IFRS.
14.	***Valuation—Guidance on expected volatility and expected term***	SAB Topic 14 includes guidance on expected volatility and expected term, which includes (1) guidelines for reliance on implied volatility and (2) the "simplified method" for calculating the expected term for qualifying awards. Non public entities may use a practical expedient for determining the expected term similar to the simplified method.	IFRS does not include comparable guidance.
15.	***Recognition of social charges (e.g., payroll taxes)***	A liability for employee payroll taxes on employee stock-based compensation should be recognized on the date of the event triggering the measurement and payment of the tax (generally the exercise	Social charges, such as payroll taxes levied on the employer in connection with stock-based compensation plans, are expensed in the income statement when the related share-based compensation expense is recognized.

S.No.	Subject matter	US GAAP	IFRS
		date for a non-qualified option or the vesting date for a restricted stock award).	The guidance in IFRS for cash-settled share-based payments would be followed in recognizing an expense for such charges.
16.	***Employee stock purchase plans (ESPP)***	ESPPs are compensatory if terms of the plan: ✓ Either (1) are more favorable than those available to all shareholders, or (2) include a discount from the market price that exceeds the percentage of stock issuance costs avoided (discount of 5 percent or less is a safe harbor); ✓ Do not allow all eligible employees to participate on an equitable basis; or ✓ Include any option features (e.g., look-backs). In practice, most ESPPs are compensatory; however, plans that do not meet any of the above criteria are non-compensatory.	ESPPs are always compensatory and treated like any other equity-settled share-based payment arrangement. IFRS does not allow any safe-harbor discount for ESPPs.
17.	***Group share-based payment transactions***	Generally, push-down accounting of the expense recognized at the parent level would apply to the	For the separate financial statements of the subsidiary, equity or liability classification is determined based on the

S.No.	Subject matter	US GAAP	IFRS
		separate financial statements of the subsidiary. For liability-classified awards settled by the parent company, the mark to market expense impact of these awards should be pushed down to the subsidiary's books each period, generally as a capital contribution from the parent. However, liability accounting at the subsidiary may be appropriate, depending on the facts and circumstances.	nature of the obligation each entity has in settling the awards, even if the award is settled in parent equity. The accounting for a group cash-settled share-based payment transaction in the separate financial statements of the entity receiving the related goods or services when that entity has no obligation to settle the transaction would be as an equity-settled share based payment. The group entity settling the transaction would account for the share-based payment as cash settled. The accounting for a group equity settled share-based payment transaction is dependent on which entity has the obligation to settle the award. For the entity that settles the obligation, a requirement to deliver anything other than its own equity instruments (equity instruments of a subsidiary would be "own equity" but equity instruments of a parent would not) would result in cash settled (liability) treatment. Therefore, a subsidiary that is obligated to issue its parent's equity would treat the arrangement as a liability,

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			even though in the consolidated financial statements the arrangement would be accounted for as an equity-settled share based payment. Conversely, if the parent is obligated to issue the shares directly to employees of the subsidiary, then the arrangement should be accounted for as equity-settled in both the consolidated financial statements and the separate standalone financial statements of the subsidiary.

7.9 Derivatives and Hedging

S.No.	Subject matter	US GAAP	IFRS
1.	***Net settlement provisions***	To meet the definition of a derivative, a financial instrument or other contract must require or permit net settlement. The scope of ASC 815 excludes instruments linked to unlisted equity securities when such instruments fail the net settlement requirement and are, therefore, not accounted for as derivatives.	IFRS does not include a requirement for net settlement within the definition of derivative. It only requires settlement at a future date. Contracts on equity instruments must be measured at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value. That may be the case if insufficient more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.

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		An option contract between an acquirer and a seller to buy or sell stock of an acquire at a future date that results in a business combination may not meet the definition of a derivative as it may fail the net settlement requirement (e.g., the acquiree's shares are not listed so the shares may not be readily convertible to cash).	An option contract between an acquirer and a seller to buy or sell stock of an acquiree at a future date that results in a business combination would be considered a derivative under IFRS 9 for the acquirer; however, the option may be classified as equity from the seller's perspective.
2.	***Own use versus normal purchase normal sale (NPNS)***	There are many factors to consider in determining whether a contract related to non financial items can qualify for the Normal Purchase Normal Sale (NPNS) exception. If a contract meets the requirement of the NPNS exception, then the reporting entity must document that it qualifies in order to apply the NPNS exception— otherwise, it will be considered a derivative.	Similar to US GAAP, there are many factors to consider in determining whether a contract related to non financial items qualifies for the "own use" exception. While US GAAP requires documentation to apply the NPNS exception, IFRS requires a contract to be accounted for as own use (i.e., not accounted for as a derivative) if the own use criteria are satisfied. However, IFRS 9 provides a fair value option for own use contracts in situations in which the use of the option would eliminate or significantly reduce an accounting mismatch. For example, an entity in the utility industry that hedges its physically settled contracts with energy derivatives could use the option for the physically settled contracts to reduce the measurement inconsistency

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			between these contracts and the energy derivatives, and thus achieve offsetting effects without the need to apply hedge accounting. This fair value option is irrevocable and only available at inception.
3.	***Embedded derivatives: hosts and reassessment***	If a hybrid instrument (such as financial asset or liability, insurance or lease) contains an embedded derivative that is not clearly and closely related at inception, and it is not bifurcated (because it does not meet the definition of a derivative), it must be continually reassessed to determine whether bifurcation is required at a later date. Once it meets the definition of a derivative, the embedded derivative is bifurcated and measured at fair value with changes in fair value recognized in earnings. Similarly, the embedded derivative in a hybrid instrument that is not clearly and closely related at inception and is bifurcated must also be continually reassessed to determine whether it subsequently fails to meet the definition of a derivative. Such an embedded derivative should cease to be bifurcated	A financial asset that is within the scope of IFRS 9 is not assessed for embedded derivatives because the solely payment of principal and interest (SPPI) test is applied to the entire hybrid contract to determine the appropriate measurement category. IFRS precludes reassessment of embedded derivatives after inception of the contract unless there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

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		at the point at which it fails to meet the requirements for bifurcation. An embedded derivative that is clearly and closely related is not reassessed subsequent to inception for the “clearly and closely related” criterion. For nonfinancial host contracts, the assessment of whether an embedded foreign currency derivative is clearly and closely related to the host contract should be performed only at inception of the contract.	
4.	***Non financial host contracts—currencies commonly used***	US GAAP requires bifurcation of a foreign currency embedded derivative from a non financial host unless the payment is denominated in (1) the functional currency of a substantial party to the contract, (2) the currency in which the price of the good or service is routinely denominated in in international commerce (e.g., US dollar for crude oil transactions), or (3) the local currency of a substantial party to the contract, (4) a foreign currency used because a substantial party to the contract uses the currency as if it were the functional currency because it operates in a hyper-inflationary environment.	Criteria (1) and (2) cited for US GAAP also apply under IFRS. However, bifurcation of a foreign currency embedded derivative from a nonfinancial host is not required if payments are denominated in a currency that is commonly used in contracts to purchase or sell such nonfinancial items in the economic environment in which the transaction takes place, provided the host contract is not leveraged and does not contain an option feature. For example, Company X, in Russia (functional currency and local currency is Russian ruble), sells timber to another Russian company (with a ruble functional currency) in euros. Because the euro is a currency commonly used in Russia, bifurcation of a

S.No.	Subject matter	US GAAP	IFRS
			foreign currency embedded derivative from the nonfinancial host contract would not be required under IFRS.
5.	***Calls and puts in debt instruments***	Multiple tests are required to evaluate whether an embedded call or put (i.e., a feature that can accelerate repayment of principal of a debt instrument) is clearly and closely related to the debt host. If any of the conditions outlined in the following tests occurs, the call or put is not clearly and closely related to the debt host and bifurcation is generally required. Test 1—Upon exercise of the call or put, a debt instrument's settlement amount changes based on anything other than interest rates or credit risk. Test 2—A debt instrument involves a substantial premium or discount and the call or put that can accelerate repayment of principal is contingently exercisable. Test 3—If the only underlying is an interest rate or interest rate index and either (a) there is a substantial premium or discount (but the put or call is not contingently exercisable), or (b) there is no substantial premium or discount, an additional test is required. If	Calls, puts, or prepayment options embedded in a hybrid debt instrument are closely related to the debt host instrument if either (1) the exercise price approximates the amortized cost on each exercise date or (2) the exercise price of a prepayment option reimburses the lender for an amount up to the approximate present value of the lost interest for the remaining term of the host contract. Once determined to be closely related as outlined above, these features do not require bifurcation.

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		the debt instrument can either (a) be settled in such a way that the holder would not recover substantially all of its recorded investment or (b) the embedded derivative would both (1) at least double the holder's initial rate of return and (2) the resulting rate of return would be double the then current market rate of return, then the call or put is not clearly and closely related. However, certain exceptions are provided for this test.	
6.	***Day one gains and losses***	In some circumstances, the transaction price is not equal to fair value, usually when the market in which the transaction occurs differs from the market where the reporting entity could transact. For example, banks can access wholesale and retail markets; the wholesale price may result in a day one gain compared to the transaction price in the retail market. In these cases, entities must recognize day one gains and losses even if some inputs to the measurement model are not observable.	Day one gains and losses are recognized only when the fair value is evidenced by comparison with other observable current market transactions in the same instrument or is based on a valuation technique whose variables include only data from observable markets
7.	***Cash flow hedges with purchased options***	US GAAP permits an entity to assess effectiveness based on total changes in the purchased option's cash flows (that is, the assessment will include the	Under IFRS, when hedging one-sided risk via a purchased option in a cash flow hedge of a forecasted transaction, only the

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		hedging instrument's entire change in fair value). As a result, the entire change in the option's fair value (including time value) may be deferred in equity based on the level of effectiveness. Alternatively, the hedge relationship can exclude time value from the hedging instrument such that effectiveness is assessed based on intrinsic value.	intrinsic value of the option is deemed to be reflective of the one-sided risk of the hedged item. Therefore, in order to achieve hedge accounting with purchased options, an entity is required to separate the intrinsic value and time value of the purchased option and designate as the hedging instrument only the changes in the intrinsic value of the option. As a result, for hedge relationships where the critical terms of the purchased option match the hedged risk, generally, the change in intrinsic value will be deferred in equity while the change in time value will be recorded in the income statement.
8.	***Fair value hedge of interest rate risk in a portfolio of dissimilar items***	US GAAP does not allow a fair value hedge of interest rate risk in a portfolio of dissimilar items	IFRS allows a fair value hedge of interest rate risk in a portfolio of dissimilar items whereby the hedged portion may be designated as an amount of a currency, rather than as individual assets (or liabilities). Furthermore, an entity is able to incorporate changes in prepayment risk by using a simplified method set out in the guidance, rather than specifically calculating the fair value of the prepayment option on a (pre payable) item-by-item basis.

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			In such a strategy, the change in fair value of the hedged item is presented in a separate line in the balance sheet and does not have to be allocated to individual assets or liabilities.
9.	***Firm commitment to acquire a business***	US GAAP specifically prohibits a firm commitment to enter into a business combination, or acquire or dispose of a subsidiary, minority interest, or equity method investee, from qualifying as a hedged item for hedge accounting purposes (even if it is with respect to foreign currency risk).	An entity is permitted to hedge foreign exchange risk to a firm commitment to acquire a business in a business combination only for foreign exchange risk.
10.	***Foreign currency risk and location of hedging instruments***	Under the guidance, either the operating unit that has the foreign currency exposure is a party to the hedging instrument or another member of the consolidated group that has the same functional currency as that operating unit is a party to the hedging instrument. However, for another member of the consolidated group to enter into the hedging instrument, there may be no intervening subsidiary with a different functional currency.	For foreign currency hedges of forecasted transactions, IFRS does not require the entity with the hedging instrument to have the same functional currency as the entity with the hedged item. At the same time, IFRS does not require that the operating unit exposed to the risk being hedged within the consolidated accounts be a party to the hedging instrument. As such, IFRS allows a parent company with a functional currency different from that of a subsidiary to hedge the subsidiary's transactional foreign currency exposure. The same flexibility regarding location of the hedging

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			instrument applies to net investment hedges.
11.	***Private Company Council (US) and Small Medium Enterprises (SME) (IFRS)***	ASU 2014-03 provides private companies, other than financial institutions, not-for-profit entities, and employee benefit plans with an accounting alternative intended to make it easier for certain interest rate swaps to qualify for hedge accounting. Under the simplified hedge accounting approach, an eligible private company would be able to apply hedge accounting to its receive-variable, pay-fixed interest rate swaps as long as certain conditions are met. Existing guidance would be simplified in that a company electing this alternative would be able to (1) assume the cash flow hedge has no ineffectiveness, (2) delay completing its necessary hedge documentation, and (3) recognize the interest rate swap at its settlement value, which excludes non-performance risk, instead of at its fair value.	The IASB issued IFRS for SMEs in 2009 for non-public entities, under which hedge accounting may be applied to a limited number of risks and hedging instruments. Although no quantitative effectiveness test is required, there must be an expectation that the hedge relationship will be highly effective. The hedge relationship must be designated and documented at inception. All derivative instruments are recognized at fair value.
12.	***Hedging more than one risk***	US GAAP does not allow a single hedging instrument to hedge more than one risk in two or more hedged items.	IFRS permits designation of a single hedging instrument to hedge more than one risk in two or more hedged items.

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		US GAAP does not permit creation of a hypothetical component in a hedging relationship to demonstrate hedge effectiveness in the hedging of more than one risk with a single hedging instrument.	A single hedging instrument may be designated as a hedge of more than one type of risk if the risks hedged can be identified clearly, the effectiveness of the hedge can be demonstrated, and it is possible to ensure that there is specific designation of the hedging instrument and different risk positions. In the application of this guidance, a single swap may be separated by inserting an additional (hypothetical) leg, provided that each portion of the contract is designated as a hedging instrument in a qualifying and effective hedge relationship.

7.10 Leases

S.No.	Subject matter	US GAAP	IFRS
1.	***Embedded leases and scope of the leasing guidance***	ASC 842 has a scope exception that excludes all types of intangible assets, leases of inventory, and leases of assets under construction from its scope. A lessee can make a policy election by class of underlying asset for leases that are short term in nature (i.e., a lease without a purchase option, and with a lease term of 12 months or less). A "short-term" lease that includes extension options may still qualify as a	Under IFRS 16, a lessee may, but is not required to, apply lease accounting to leases of intangible assets other than rights held under licensing agreements within the scope of IAS 38, Intangible Assets. Under IFRS 16, a lessor is required to apply lease accounting to leases of intangible assets other than licenses of intellectual property within the scope of IFRS 15. Similar to US GAAP, however, upon exercise of

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		short-term lease, provided the lease term, as defined, is no longer than 12 months. Upon exercise of an extension that was not included in the determination of the original lease term, a lease may still qualify for the short term lease exemption if the lease term is no longer than 12 months from the expiration of the original lease term. Entities may be able to establish reasonable capitalization thresholds below which assets and liabilities related to a lease are not recognized, similar to accounting policies in other areas of US GAAP.	an extension not included in the determination of the original lease term, a lease would qualify for the short-term lease exemption only if the remaining lease term is no longer than 12 months at the date of the extension of the lease (i.e., when the lessee notifies the lessor of its decision to extend). IFRS 16 provides an additional policy election for lessees, on a lease-by-lease basis, to exclude leases of low-value assets from the initial recognition requirements. IFRS 16 does not define the term "low value," but the Basis for Conclusions explains that the Board had in mind assets of a value of USD 5,000 or less when new.
2.	***Separating components and combining contracts***	Under ASC 842, a lessee or lessor accounts for the right to use land as a separate lease component from the right to use a building unless the accounting effect of doing so would be insignificant. Lessors can elect, by class of asset, to not separate non lease components from associated lease components under qualifying circumstances. If elected, the lessor would	For a lease of land and building under IFRS, a lessor is required to assess the land separate from the building unless the land element is immaterial to the lease. If lease payments cannot be allocated reliably between land and building, the lease is classified as a finance lease unless it is clear that both elements are operating leases. (Note that this would not apply to

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		account for the combined component as either an operating lease under ASC 842, or under the guidance for the nonlease component (e.g., as revenue under ASC 606) depending on which is the predominant component.	lessees as lessees do not classify leases.) Under IFRS 16, lessors are required to separate lease and nonlease components. Unlike US GAAP, there is no election available.
		Under ASC 842, both lessors and lessees have explicit guidance on allocating consideration between lease and non-lease components. Specifically, both fixed and variable lease payments are allocated between all components based on their relative standalone values (absent appropriately applying applicable practical expedients to combine lease and non-lease components). Lessees and lessors would also allocate consideration that arise from optional subsequent purchases of non-lease components under an arrangement or combined contracts.	IFRS 16 also requires lessors and lessees to allocate consideration based on relative standalone prices. However, IFRS is not as prescriptive as US GAAP as it relates to whether both fixed and variable payments are each allocated to all components within the arrangements. For example, if an arrangement contains fixed payments that are equal to the standalone rents for the lease component, and variable payments that are equal the standalone price of a non-lease service component (e.g., maintenance of the leased asset), a lessee could elect to assign all the fixed payments to the lease, and all the variable payments to the non-lease maintenance service.

S.No.	Subject matter	US GAAP	IFRS
3.	***Lessee accounting – Classification***	Under ASC 842, a lessee can have either a finance or operating lease. If any of the following classification criteria are met, the lease is a finance lease. □ The lease transfers ownership of the underlying asset to the lessee by the end of the lease term. □ The lease grants the lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise. □ The lease term is for major part of the remaining economic life of the underlying asset. However, if the commencement date falls at or near the end of the economic life of the underlying asset, this criterion will not be used for lease classification purposes. □ The present value of the sum of lease payments and any residual value guaranteed by the lessee that is not already reflected in lease payments equals or exceeds substantially all	In contrast, under IFRS 16, lessees have only one lease classification, which is similar to the finance lease classification under US GAAP.

S.No.	Subject matter	US GAAP	IFRS
		of the fair value of the underlying asset. The underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term.	
4.	***Lessee accounting – Balance sheet***	To determine the incremental borrowing rate, US GAAP requires the use of a collateralized rate for an amount equal to the lease payments.	IFRS requires use of a borrowing rate with a similar security to borrow a similar value to the right-of-use asset. The rate should reflect the amount that the entity could borrow to acquire an asset of similar value to the right-of-use asset, rather than to acquire the entire underlying asset. Thus, the incremental borrowing rate under IFRS 16 would be more considerate of a company's typical borrowing practices (e.g., loan to value considerations). Under IFRS, if an entity has elected to apply the fair value model under IAS 40, the lessee would also apply that model to subsequently measure the right-of use assets that meet the definition of investment property. Additionally, if the right-of-use assets relate to a class of property, plant, and equipment measured

S.No.	Subject matter	US GAAP	IFRS
			using the revaluation model under IAS 16, that class of right-of-use asset may also be measured using the revaluation model, if elected.
5.	***Lessee accounting – Income statement***	Under ASC 842, for operating leases, the amortization of the right-of-use asset and interest expense related to the lease liability are recorded together as lease expense to produce a straight-line recognition effect in the income statement.	Under IFRS 16, lessees account for all leases like finance leases in ASC 842. Under IFRS, if an entity has elected to apply the fair value model under IAS 40, the lessee would also apply that model to subsequently measure the right-of use assets that meet the definition of investment property. The change in fair value will be recognized in the income statement.
6.	***Lessor accounting – Classification***	Under ASC 842, a lease is classified as a finance lease if it meets any one of the lease classification criteria. Under ASC 842, a lessor cannot recognize a sales-type lease when collectibility of the lease payments is not probable. The classification of a lease is performed at lease commencement under ASC 842. Lessors should apply the sales-type lease	IFRS 16 refers to the criteria used for lessor classification as "examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease." IFRS 16 does not require the collection of the lease payments to be probable for a lease to be classified as a finance lease. The classification of a lease is performed at the lease

S.No.	Subject matter	US GAAP	IFRS
		classification guidance, even for transactions that contain relatively little fixed consideration. Because a lessor cannot include many variable payments in the measurement of its net investment in a lease, such sales-type leases may result in a lessor recognizing a “Day 1” loss (because lessors would derecognize the entire “sold” asset but would not recognize a receivable for most variable payments). Under US GAAP, the specialized accounting for leveraged leases in ASC 840 was not carried forward to ASC 842. There is, however, transition relief in ASC 842 to continue to account for leveraged leases entered into before adoption of ASC 842.	inception date under IFRS 16. Under IFRS 16, variable lease payments could mean that the lessor does not transfer the risks and rewards of ownership. As a result, such leases may be classified as operating leases, and the asset would not be derecognized, unlike US GAAP. There are no leveraged leases under IFRS 16. The leveraged lease concept did not exist under IAS 17, so there is no transition relief.
7.	***Lessor accounting – Income statement***	To recognize profit at the commencement date of a finance lease, ASC 842 requires the lessor to transfer control of the asset to the lessee (a third-party provided residual value guarantee is not a factor in this determination). ASC 842 contains explicit guidance regarding the collectability of lease	Transfer of control is not a requirement under IFRS 16 to recognize profit under a finance lease for manufacturer and dealer lessors. IFRS 16 does not contain guidance around the

S.No.	Subject matter	US GAAP	IFRS
		payments. If collectability is not deemed probable at lease commencement, a lessor would not recognize a sales-type lease and would not recognize lease income in excess of its cash receipts. Impairment of a net investment in a lease, including any unguaranteed residual value, is governed by the applicable credit loss standards (ASC 310 or ASC 326).	collectability of lease payments. Impairment of a net investment in a lease, excluding any unguaranteed residual value, is governed by the credit loss guidance in IFRS 9. Lessors review unguaranteed residual values under the explicit guidance in IFRS 16. In case of a reduction in the value, the income allocation over the lease term is revised and any reduction with respect to amounts already accrued would be recognized immediately.
8.	***Lease re-assessments and modifications***	Under ASC 842, a change in the lease payments that occurs as a result of a change in an index or rate is not a reassessment and remeasurement event. When a modification decreases the scope of a lease other than to shorten the lease (e.g., reduces the amount of space leased), both standards require the	Under IFRS, a change in the lease payments that occurs as a result of a change in an index or rate triggers a reassessment and remeasurement of the lease. Under IFRS, when a modification decreases the scope of a lease, the lessee adjusts the right-of-use asset by the reduction in the

S.No.	Subject matter	US GAAP	IFRS
		lessee to remeasure the lease liability, adjust the right-of-use asset, and recognize a gain or loss. When calculating the gain or loss under ASC 842, the lessee may adjust the right-of use asset by either the reduction in the right of use, or by the percentage change in the premodification lease liability. A lessee recognizes the change in lease liability resulting from a modification that shortens the lease term (other than through the exercise of a pre-existing contractual option) as a corresponding change in the right-of-use asset and records a gain or loss when the right-of use asset is reduced to zero.	right of use to calculate the gain or loss. A lessee accounts for a modification that shortens the lease term in the same manner as any other modification that decreases the scope of a lease, i.e., it calculates and recognizes a gain or loss.
9.	***Sublease transactions***	When classifying a sublease, the asset analyzed under ASC 842 is the underlying asset. For example, if an entity is the lessee in a five-year lease of an office building and then enters into a sublease for the entire five-year lease term, under US GAAP, the entity compares	Under IFRS 16, when classifying a sublease, the asset analyzed is the right-of-use asset from the head lease. For example, if an entity is the lessee in a five-year lease of an office building and then enters into a sublease for the entire five-year lease term, under IFRS, the entity compares

S.No.	Subject matter	US GAAP	IFRS
		the sublease to the underlying building.	the sublease to the five-year right-of-use asset.
10.	***Sale and leaseback transactions***	Under ASC 842, the seller-lessee's gain recognized at the sale date will be measured as the difference between the adjusted sale proceeds (total proceeds less any financing component) and the book value of the asset transferred. The right of use asset arising from the leaseback is measured under the normal ASC 842 principles. ASC 842 contains guidance for build-to suit accounting for the lessee. The criteria focus on control during the construction period.	Under IFRS 16, the gain (or loss) is limited to the proportion of the total gain (or loss) that relates to the rights transferred to the buyer-lessor. The right-of-use asset arising from the leaseback is measured as the proportion of the previous carrying amount of the asset that relates to the right of use retained. IFRS 16 does not contain guidance for build-to-suit accounting for lessees during construction period.
11.	***Presentation and disclosure***	ASC 842 prohibits right-of-use assets and lease liabilities related to operating leases from being presented in the same balance sheet line item as those arising from finance leases. ASC 842 requires presentation of operating lease expense within income from continuing operations. Under ASC 842, lessees will typically present payments under operating leases	This requirement does not exist under IFRS, since there is no lease classification for lessees. Under IFRS, amortization and interest expense are required to be presented in separate line items by the lessee. Under IFRS, amortization and interest are presented separately in the cash flow

S.No.	Subject matter	US GAAP	IFRS
		within operating activities in the cash flow statement, since interest and depreciation are not presented in the income statement for operating leases.	statement and follow their respective classification guidance.
		ASC 842 contains incremental guidance and accounting elections related to how lessors should account for lessor costs (such as property taxes and insurance of the leased asset) that are paid for directly by a lessee. There are practical expedients that allow lessors to report certain of these costs on a net basis.	There is no specific guidance under IFRS for these items.

References / Sources:

Website of IASB

Website of FASB

Website of PWC

TEST YOUR KNOWLEDGE

Questions

1. MR Ltd. prepares its financial statements under IFRS as well as US GAAP. For the purpose of its financial reporting for the year ended 31st March, 2018, it has following two questions for which it seeks your advice:

   (i) During the year ended 31st March, 2018, MR Ltd. entered into an agreement with the promoters of XYZ Ltd. to acquire 18% equity stake in XYZ Ltd. As per the agreement, MR Ltd. has an option to purchase additional 5% equity stake in XYZ Ltd. from the promoters. As on 31st March 2018, the right of MR Ltd. to purchase additional 5% equity interest is exercisable. The equity shareholders are entitled to vote in the general meetings of XYZ Ltd. in proportion of the equity stake held by them.

   Should the additional 5% equity interest be considered by MR Ltd. in the assessment of whether it has significant influence on XYZ Ltd. as on 31st March, 2018? Select the correct answer from the below mentioned options:

   (A) Under US GAAP as well as IFRS, the additional 5% equity interest should be considered in the evaluation.

   (B) Under US GAAP as well as IFRS, the additional 5% equity interest should not be considered in the evaluation.

   (C) Under US GAAP, the additional 5% equity interest should not be considered in the evaluation; under IFRS, the additional 5% equity interest should be considered in the evaluation.

   (D) Under US GAAP, the additional 5% equity interest should be considered in the evaluation; under IFRS, the additional 5% equity interest should not be considered in the evaluation.

2. On 1st January, 2018, MR Ltd. classified one of its associates, ABC Ltd., as held for sale. Prior to such classification, the associate was accounted using equity method in US GAAP as well as IFRS. Following information is provided to you in relation to investment in ABC Ltd.:

Particulars	₹ in lakh
Carrying value of investment as per equity method of accounting as on 1st January, 2018	48
Carrying value of investment as per equity method of accounting as on 31st March, 2018	53

Fair value of investment as on 1st January, 2018	87
Fair value of investment as on 31st March, 2018	95
Estimated cost to sell the investment as on 1st January, 2018	2
Estimated cost to sell the investment as on 31st March, 2018	3

At what amount should the investment in ABC Ltd. be measured as on 31st March, 2018? Select the correct answer from the below mentioned options:

(A) Under US GAAP, at ₹ 53 lakh; under IFRS, at ₹ 48 lakh.

(B) Under US GAAP, at ₹ 95 lakh; under IFRS, at ₹ 48 lakh.

(C) Under US GAAP, at ₹ 53 lakh; under IFRS, at ₹ 95 lakh.

(D) Under US GAAP, at ₹ 93 lakh; under IFRS, at ₹ 95 lakh.

3. Under the above same circumstances, what would be the useful life of the asset for the purpose of depreciation if the said company is following US GAAP?

(A) 9 years of composite useful life

(B) 7 years useful life for the engine, 3 years useful life for the tyres, and 9 years useful life to be applied for the balance cost of the jet.

(C) 3 years useful life, based on conservatism (the lowest useful life of all the part of the jet).

(D) 7 years useful life, based on simple average of useful lives of all major components of the jet.

4. Dharam Limited has a subsidiary in USA consequently which adopts US GAAP. It has valued its inventory under LIFO method for Income Tax purposes. Discuss its implication both from the point of view of US GAAP and also from the point of view of its consolidation with the parent company which follows IFRS.

Answers

1. Option (C): Under US GAAP, the additional 5% equity interest should not be considered in the evaluation; under IFRS, the additional 5% equity interest should be considered in the evaluation.

2. Option (A): Under US GAAP, at ₹ 53 lakh; under IFRS, at ₹ 48 lakh.

3. Option (A) : 9 years of composite useful life

4. Under US GAAP, a variety of inventory costing methodologies such as LIFO, FIFO, and/or weighted-average cost are permitted. For companies using LIFO for US income tax purposes, the book/tax conformity rules also require the use of LIFO for book accounting/reporting purposes. However, as per IFRS the use of LIFO is precluded.

Further, as per para 19 of IFRS 10, a parent shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances. As per para B87 of the standard, if a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to that group member's financial statements in preparing the consolidated financial statements to ensure conformity with the group's accounting policies.

Since Dharam Ltd. is a parent company who will be preparing the consolidated financial statements as per IFRS, it has to remeasure the inventory of USA based subsidiary company as per the inventory method and accounting policies followed by Dharam Ltd.