FREQUENTLY ASKED QUESTIONS

US GAAP

FINANCIAL STATEMENTS

What are the complete set of financial statements presented under US GAAP?

The following are presented as a complete set of financial statements:
a) a statement of financial position;
b) a statement of comprehensive income;
c) a statement of cash flows; and
d) notes, including accounting policies.
e) Changes in equity may be presented either within a separate statement (like IFRS) or in the notes to the financial statements (unlike IFRS).

How are Financial Statements generally prepared?

Financial statements are generally prepared on a going concern basis (i.e. the usual requirements of US GAAP apply) unless liquidation is imminent.

Liquidation is 'imminent' when a plan for liquidation:

- has been approved by those with the authority to make such a plan effective, and the likelihood is remote that:
  - execution of the plan will be blocked by other parties (e.g., by shareholders); or
  - the entity will return from liquidation; or
- is imposed by other forces (e.g. involuntary bankruptcy) and the likelihood is remote that the entity will return from liquidation.

If liquidation is imminent, then there are specific requirements for measurement, recognition, and disclosures under US GAAP.

What is the comparative information provided under US GAAP?

Comparative information

ASC 205 emphasizes the principle of comparability and the importance of consistency to comparability. To the extent they remain significant, notes to financial statements should be repeated in comparative statements or referred to as the case may be.

For non-SEC registrants' financial statements for the comparative period are encouraged but not required; however, in general comparative information for the preceding period is presented.

SEC registrants filing financial statements in accordance with US GAAP are required to present statements of earnings, statements of comprehensive income (if presented as a separate financial statement), statements of equity and statements of cash flows for each of the most recent three years (two years for 'smaller reporting companies').

SEC registrants are required to present statements of financial position for each of the most recent two years (one year for "smaller reporting companies")

A statement of financial position as at the beginning of the earliest comparative period is not required in any circumstances.

What is the detailed information required to be presented under Statement of changes in equity?

Statement of changes in equity Information on changes in equity

The following information is presented in respect of changes in equity:

- net income and total comprehensive income for the period, showing separately for net income and OCI the amounts attributable to owners of the parent and to NCI;
- for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with the Codification Topic on accounting policies, changes in estimates and errors; and
- for each component of equity, a reconciliation between the carrying amount at the beginning and at the end of the period, separately disclosing changes resulting from:

  - profit or loss;

  - OCI; and

  - transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control.

INVENTORIES

How are inventories valued under US GAAP?

Inventories whose cost is based on the last-in, first out (LIFO) or retail inventory methods are measured at the lower of cost and market. Other inventories are measured at the lower of cost and net realisable value.

'Net realisable value' is the estimated selling price less the estimated costs of completion and sale. Unlike IFRS Standards, 'market value' is current replacement cost limited by net realisable value (ceiling) and net realisable value less a normal profit margin (floor).

What are the elements of costs included in valuation of inventories?

Cost includes all direct expenditure to get inventory ready for sale, including attributable overheads.
Unlike IFRS, asset retirement obligations (decommissioning costs) incurred through the production of inventory are added to the carrying amount of the related item of property, plant, and equipment.
The cost of inventory is generally recognised as an expense when the inventory is sold.
A write-down of inventory to net realisable value (or market) is not reversed for subsequent recoveries in value unless it relates to changes in exchange rates.

What are the methods used in valuation of inventories?

The cost of inventory may be determined using the LIFO method in addition to the first-in, first-out (FIFO) or weighted-average cost method.

CASH FLOW STATEMENT

What do cash flow statements present under US GAAP?

According to ASC 230, a statement of cash flows is a required part of a complete set of financial statements for business enterprises and nor-for-profit organizations.
The statement of cash flows presents cash flows during the period, classified by operating, investing and financing activities.

What dose cash equivalent include under US GAAP?

Cash equivalents are short-term, highly liquid investments that have both of the following characteristics:

- readily convertible to known amounts of cash,
- near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Unlike IFRS, bank overdrafts are classified as liabilities and included in financing activities.

How are cash flows from operating activities presented?

Cash flows from operating activities may be presented using either the direct method or the indirect method. Like IFRS, if the indirect method is used, then an entity presents a reconciliation of income to net cash flows from operating activities; unlike IFRS, the starting point of the reconciliation is required to be net income.

How are cash flows from financing and investing activities presented?

Financing and investing cash flows are generally reported on gross basis.

How is interest and dividends classified under cash flow statements?

Interest received and paid (net of interest capitalised) and dividends received from previously undistributed earnings are required to be classified as operating activities. Also, unlike IFRS, dividends paid are required to be classified as financing activities.

How are Income taxes classified under cash flows statements?

Income taxes are generally required to be classified as operating activities.

How are foreign currency cash flows translated and presented under cash flow statements?

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

ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERRORS

How are accounting policies treated under US GAAP?

Accounting Policies

ASC 235 stipulates management to adopt accounting principles and methods of applying them that are the most appropriate in the circumstances to present fairly, financial position, cash flows, and results of operations in accordance with the generally accepted accounting principles.
Selected accounting principles adopted by an entity are applied consistently to all similar items

Accounting policy changes are generally made by adjusting opening equity and comparatives unless this is impracticable.

What are the commonly disclosed accounting policies?

Some of the commonly disclosed accounting policies are summarized below.

- Accounting period
- Nature of operations
- Use of estimates
- Going concern concept
- Fair value elections, methods, assumptions and inputs used
- Property, Plant and Equipments
- Depreciation methods
- Combined financial statements and principles of business combination

- Comprehensive income
- Inventories
- Income taxes – including deferred tax liabilities and assets
- Investments
- Financial Instruments
- Derivatives
- Hedging activities
- Discontinuing operations
- Foreign operations
- Capitalization of interest
- Change in Accounting policies
- Goodwill
- Intangibles and principles of amortization
- Revenue from contract with customers
- Revenue recognition on leasing operations
- Research and Development costs
- Start-up costs
- Shipping and handling costs
- Provisions, contingent liabilities and contingent assets
- Environmental costs
- Earnings per shares
- Warranties

How are Accounting estimates treated under US GAAP?

Accounting estimates

Changes in accounting estimates are accounted for prospectively.

How are Accounting errors treated?

Errors

Errors are corrected by restating opening equity and comparatives, like IFRS; however, unlike IFRS, there is no impracticability exemption.
Unlike IFRS, a statement of financial position as at the beginning of the earliest comparative period is not required in any circumstances.

EVENTS AFTER THE REPORTING PERIOD

What is the treatment of events after the reporting period?

Events after the reporting period

The financial statements are adjusted to reflect events that occur after the reporting date if those events provide evidence of conditions that existed at the reporting date.
However, unlike IFRS, the period to consider goes to the date on which the financial statements are issued for public entities and to the date on which the financial statements are available to be issued for certain non-public entities.

How are adjusting events treated?

Adjusting events

Financial statements are generally not adjusted for events that are a result of conditions that arose after the reporting date.

However, unlike IFRS, there is no exception for when the going concern assumption is no longer appropriate, although disclosures are required.
Also, unlike IFRS, SEC registrants adjust the statement of financial position for a share dividend, share split or reverse share split occurring after the reporting date.

How are non-adjusting events treated?

Non-adjusting events:

Events that are indicative of the conditions that arose after the SOFP date. An entity does not adjust the amounts recognized in the financial statements but needs to disclose the nature of the event and an estimate of the financial effect.

There is no specific requirement to adjust the financial statements when a subsequent event occurs indicating that the going concern basis of preparation is not appropriate; instead, disclosures are required.

INCOME TAXES

What is the treatment of current Income Taxes under US GAAP?

Current tax is defined as the amount of income tax payable / (recoverable) in respect of taxable profit / (tax loss) for the period.

Income tax payable for current and prior periods are recognized as a liability.

Income tax recoverable or overpaid for current and prior periods is recognized as an asset.

What is meant by temporary difference?

A difference between carrying amount of assets and liabilities in the balance sheet and the tax base of assets and liabilities is termed as “temporary difference”.

Taxable temporary differences, that will result in taxable amounts in determining taxable profit / (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled

Deductible temporary differences, that will result in amounts that are deductible in determining taxable profit / (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled including unused tax losses carried forward and unused tax credits carried
forward.

How are deferred tax liabilities and assets treated?

A deferred tax asset or liability arises if recovery / (settlement) of assets /(liabilities) affects the amount of future tax payments.

US GAAP mandates an entity to recognize deferred tax liability in full.
A deferred tax liability is not recognised if it arises from the initial recognition of goodwill.
There is no exemption from recognizing a deferred tax asset or liability for the initial recognition of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither accounting profit nor taxable profit.

PROPERTY, PLANT AND EQUIPMENT

How is Property, Plant and Equipment treated?

Property, Plant and Equipment

According to ASC 360-10-30-1 Property, plant, and equipment is initially recognized at historical cost. Upon acquisition, the reporting entity should measure and capitalize all the historical costs necessary to deliver the asset to its intended location and prepare it for its productive use. These would include delivery and asset preparation costs illustrated below.

- Sales, use, excise and other taxes imposed on purchases
- Import duties
- Finder's fees
- Freight costs and related shipping insurance
- Storage and handling costs
- Installation and set-up costs
- Testing and breaking-in costs
- Foundations and other costs related to providing proper support for the asset
- Costs of reconditioning assets that are purchased in order to prepare them for use.

Subsequent to initial recognition, property, plant and equipment are carried at:

Cost less accumulated depreciation and any accumulated impairment loss,
Unlike IFRS, the revaluation of property, plant and equipment is not permitted.

How are depreciation and impairment recognized?

According to ASC 360-10-35-4, the costs of property, plant and equipment are allocated to the periods of their expected useful life through depreciation or depletion.

Depreciation is applied on component basis, which means, each part of an item of property, plant and equipment with a significant cost in relation to the total cost of the item is depreciated separately.
Component accounting is permitted but not required. When component accounting is used, its application may differ from IFRS.

What are the depreciation methods used under US GAAP?

Types of depreciation methods are shown below.

Depreciation based on a function of time:

- Straight line
- Accelerated methods
  - Declining balance
  - Double-declining balance
  - Sun-of-the-year digits

Depreciation based on activity:

- Units of production

Other methods:

- Group or composite methods

What are the provisions related to impairment of assets?

Impairment is recognized on "Impairment of assets"

The impairment provisions of ASC 360-10 are generally split between:

- Long-lived assets classified as held and used and

- Long-lived assets classified as held for sale (ASC 360-10-35-15).

Under long-lived assets classified as held and used, impairment losses are only recognized when the carrying amount of the impaired asset (or asset group) is not recoverable and exceeds its fair value. Recoverability is ascertained by comparing the carrying amount of the asset (or asset group) on the date it is being evaluated for recoverability to the sum of the undiscounted cash flows expected to result from its use and eventual disposition. Impairment loss is measured by the amount by which the carrying amount exceeds its fair value. The steps to evaluate this are:

- Determine when to use the recoverability test – indicators of impairment
- Test for recoverability
- Measure impairment
- Allocate the loss
- Recognize the new cost basis
- Report and disclose

ASC 360 includes the concept of asset group, defined as the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities (ASC 360-10-35-23).

An asset group could be:

- The whole company
- An operating segment
- A reporting unit
- A business
- A part of a business

Compensation for the loss or impairment of property, plant and equipment, to the extent of losses and expenses recognised, is recognised in profit or loss when receipt is likely to occur.

How is gain or loss on de-recognition of an item of property, plant and equipment is treated?

The gain or loss on de-recognition of an item of property, plant and equipment is the difference between the net disposal proceeds, if any, and the carrying amount of the item and it is included in profit or loss.

EMPLOYEE BENEFITS

How are employee benefits treated under US GAAP?

Employee benefits

US GAAP does not provide specific guidance on short term employee benefits other than compensated absences. However, accrual accounting principles are generally applied in accounting for short-term employee benefits.

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

How is defined contribution plan treated?

Defined contribution plan

Similar to IFRS, a ‘defined contribution plan’ is a post-retirement benefit plan under which the employer pays specified contributions into a separate entity and has no further obligations.
Contributions to a defined contribution plan are accounted for on an accrual basis.

How is defined benefit plan treated?

Defined benefit plan

All other post-retirement plans are 'defined benefit plans'. However, unlike IFRS, other postemployment benefit plans do not have to be classified as either defined contribution or defined benefit plans.

Accounting for defined benefit plans involves the following steps:
- determining the present value of the defined benefit obligation by applying an actuarial valuation method, which differs in some respects from IFRS;
- deducting the fair value of any plan assets, like IFRS;
- unlike IFRS, there is no adjustment for any effect of limiting a net defined benefit asset to the asset ceiling; and
- determining service costs, net interest and remeasurements of the net defined benefit liability (asset), which in a number of cases differ from IFRS in terms of measurement, recognition and presentation.

How are curtailment gains and losses treated?

Curtailment gains are recognised when they occur. Also, unlike IFRS, curtailment losses are recognised when they are probable.

How are expenses on long term benefits treated?

The expense for long-term employee benefits is accrued over the service period; however, the computation may differ from IFRS. US GAAP does not distinguish between long- and short-term employee benefits.

How are termination benefits treated?

Termination benefits are categorized into different types of benefits: ongoing benefit arrangements, contractual terminations, special terminations and one-time terminations.

GOVERNMENT GRANTS

What is the accounting treatment related to Government grants?

Accounting for Government grants and disclosure of government assistance

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

A non-monetary asset received through grants of contribution is generally recognised at fair value.

Interest may not always be imputed on low-interest or interest-free loans from a government.

FOREIGN CURRENCY TRANSACTIONS

How are foreign currency transactions treated?

Foreign currency transactions

According to ASC 830, foreign currency transactions are those transactions whose terms are denominated in a currency other than the reporting entity's functional currency. Foreign currency transactions arise when an enterprise

- Buys or sells goods or services on credit whose prices are denominated in foreign currency,
- Borrows or lends funds and the amounts payable or receivable are denominated in foreign currency,
- Is a party to an unperformed forward exchange contract, or

- For other reasons, acquires or disposes of assets or incurs or settles liabilities denominated in foreign currency.

A foreign currency transaction is recorded initially in the functional currency, by applying to the foreign currency amount, the spot exchange rate between the functional currency and the foreign currency at the date of transaction. Functional currency is the currency of the primary economic environment in which the entity operates. For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used.

Hence at each Balance Sheet date:
- Foreign currency monetary items are translated using the closing rate
- Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.
- Non-monetary items that are measured in fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.
- Income statement items may be translated using an average rate
- Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at initial recognition are recognized in profit or loss.
- Exchange differences arising on a monetary item that forms part of an entity's net investment in a foreign operation are recognized as a separate component of equity in the financial statements that include the foreign operation and the reporting entity.
- Such exchange differences are recognized in profit or loss on disposal of the net investment

How are foreign operations translated for consolidation purposes?

Foreign operations

The financial statements of foreign operations are translated for consolidation purposes as follows: assets and liabilities are translated at the current exchange rate; income and expenses are translated at actual rates or appropriate averages; equity components (excluding current-year movements, which are translated at the actual rates) are not retranslated.
Exchange differences arising on the translation of the financial statements of a foreign operation are recognised in OCI and accumulated in a separate component of equity (accumulated OCI). The amount attributable to any NCI is allocated to and recognised as part of NCI, like IFRS.

On disposal of the foreign operation, all exchange differences deferred in the separate component of equity relating to that operation, are recognized in profit or loss

Goodwill and fair value adjustments arising on the acquisition of a foreign operation should be treated as assets and liabilities of the foreign operation and are expressed in the functional currency of the foreign operation and translation would be at closing rate.

If an equity-method investee that is a foreign entity is disposed of in its entirety, then the exchange differences recognised in accumulated OCI are reclassified in their entirety to profit or loss, like IFRS.

Unlike IFRS, if the equity-method investee is a foreign entity and is not disposed of in its entirety, then a proportionate amount is reclassified to profit or loss, and the remaining amount is generally transferred to the carrying amount of the investee.

BORROWING COSTS

What are the elements of borrowing costs?

Borrowing costs

Borrowing costs include
- Interest on bank overdrafts and borrowings
- Finance charges on finance leases and

- Exchange differences on foreign currency borrowings where they are regarded as an adjustment to interest costs

What is a qualifying asset?

A qualifying asset is an asset that takes a substantial period of time to get ready for its intended use. It can be property, plant and equipment and investment property during the construction period, intangible assets during the development period, or "made-to-order" inventories.
Property, plant and equipment internally developed intangible assets and investment property can be qualifying assets.
Financial assets, inventories that are manufactured or otherwise produced over a short period of time and contract assets that represent a conditional right to a financial asset are not qualifying assets.

Like IFRS, property, plant and equipment (including what would be investment property under IFRS) can be a 'qualifying asset'. Unlike IFRS, an equity-method investment might be a qualifying asset.

However, like IFRS, other investments cannot be qualifying assets.

Unlike IFRS, internally developed intangible assets generally do not qualify for capitalization and therefore will not be qualifying assets.

What is the treatment of capitalization of borrowing costs?

Where funds are borrowed specifically, costs eligible for capitalization are the actual costs incurred less any income earned on the temporary investments of such borrowings.

Where funds are part of a general pool, the eligible amount is determined by applying a capitalization rate to the expenditure of that asset. The capitalization rate will be the weighted average of the borrowing costs applicable to the general pool.

Capitalization of borrowing costs should commence when the expenditure is being incurred and activities are in progress to prepare the asset for its intended use or sale.

Capitalization should be suspended during periods in which active development is interrupted.

Capitalization should cease when substantially all of the activities necessary to prepare the asset for its intended use or sale are completed.

Interest costs may include interest calculated using the effective interest method and certain other interest charges; but not foreign exchange differences, unlike IFRS.

RELATED PARTY TRANSACTIONS

What is the treatment of related party transactions as part of disclosure requirement?

Related party disclosures

Related party transactions require disclosures to draw attention to the possibilities that the financial position and financial performance of an entity may have been affected by the existence of related party and by transactions and outstanding balances with such related parties.

A related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether price is charged

Related party transactions require the following disclosures:

- Nature of relationships between parents and subsidiaries, even if there were no transactions between those related parties

- The name of the entity's parent and if different, the ultimate controlling party
- Compensation of key management personnel
- If there have been any transactions between related parties, nature of relationship and information about transactions and outstanding balances with related parties

However, unlike IFRS, there is no requirement to disclose related party relationships between a parent and its subsidiaries if there have been no transactions between them.

INVESTMENT IN ASSOCIATES AND JOINT VENTURES

What is the treatment under US GAAP related to investment in Associates and Joint Ventures?

Investment in Associates and Joint Ventures

According to US GAAP, 'significant influence' is the ability to significantly influence the operating and financial policies of an investee but is not control over the investee. The term 'equity-method investee' is used to describe what would be an associate under IFRS.

An investment in the associates is accounted for using Equity method. It is applied as below:

- Initial measurement is applied at excluding borrowing cost as mentioned above.
- Subsequent measurement is adjusted for post- acquisition change in the investor's share of
    - a) net assets of the associate share of profit or loss included in income statement and
    - b) the share of other change included in equity

Procedures for equity method are similar to consolidation procedures. These are:

- elimination of intra group profits and losses arising out of transactions between investor and investee
- identification of goodwill portion of the purchase price
- amortization of goodwill
- adjustments for the effect of cross holdings
- adjustment for depreciation of depreciable assets, based on their fair values
- using uniform accounting policies
- Difference between the reporting date of the investor and reporting date of the associate must not be more than three months

When an equity-method investee incurs losses, the carrying amount of the investor's interest is reduced but not to below zero.

Similar to IFRS, further losses are generally recognised by the investor only to the extent that the investor has an obligation to fund losses. However, unlike IFRS, further losses are also recognised if the investee is expected to return to profitability imminently, or if a subsequent further investment in the investee is in substance the funding of such losses.

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

Unlike IFRS, if an equity-method investee becomes an investment, then any retained investment is measured based on the investor's carrying amount of the investment (see forthcoming requirements).

HYPER INFLATIONARY ECONOMY

What is the treatment related to financial reporting in hyperinflationary economies under US GAAP?

Financial reporting in hyperinflationary economies

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

When an economy becomes highly inflationary, an entity remeasures its financial statements prospectively in the reporting period following the three-year period in which the cumulative inflation rate exceeds 100 percent.

The financial statements of a foreign operation in a highly inflationary economy are remeasured as if the parent's reporting currency was its functional currency.

When an economy ceases to be highly inflationary an entity changes its functional currency from the non-highly inflationary reporting currency to the local currency and restates the functional currency accounting bases of non-monetary assets and liabilities in the annual period *following* the three-year period in which the cumulative inflation rate is no longer in excess of 100 percent.

EARNINGS PER SHARE

What is the treatment related to Earnings per Share?

Earnings per share

Prescribes principles for the determination and presentation of earnings per share, so as to improve performance comparisons between reporting entities in the same reporting period and between different reporting periods for the same entity.

It applies to entities whose ordinary shares or potential ordinary shares are publicly traded and to entities that are in the process of issuing ordinary shares or potential ordinary shares in public markets.

Basic earnings per share

It is calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period.

The profit or loss attributable to the parent entity is adjusted for the after-tax amounts of preference dividend, differences on the settlement of preference shares and other similar effects of preference shares classified as equity.

Diluted Earnings per share

Unlike IFRS, the computation of diluted EPS for year-to-date (including annual) periods is based on the weighted average of incremental shares included in each interim period resulting in the year-to-date period, considering previously anti-dilutive instruments and their dilution in the year-to-date period, in certain circumstances.

INTERIM FINANCIAL REPORTING

What is the treatment related to Interim Financial reporting under US GAAP?

Interim Financial reporting

Similar to IFRS, at least the following are presented in condensed interim financial statements:

- condensed statement of financial position,
- condensed statement of comprehensive income,

- condensed statement of cash flows, and
- selected explanatory notes.

However, a condensed statement of changes in equity is not required.

Unlike IFRS, each interim period is viewed as an integral part of the annual period to which it relates.

Similar to IFRS, income tax expense for an interim period is based on an estimated average annual effective income tax rate. However, US GAAP has more detailed guidance than IFRS.

The accounting policies applied in the interim financial statements are generally those that will be applied in the next annual financial statements.

PROVISION, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

How are provisions, contingent liabilities and contingent assets treated under US GAAP?

Provisions, contingent liabilities, and contingent assets

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

A provision is measured using a 'reasonable estimate', which differs in some respects from IFRS Standards.

Under the legal doctrine of promissory estoppel, a constructive obligation may arise when an entity's actions create reasonable expectations of third parties that it will accept and discharge certain responsibilities, which is narrower than the concept under IFRS. In addition, unlike IFRS, constructive obligations are recognised only if this is required by a specific topic/subtopic.

Provisions are not discounted except in limited cases, in which case the specific requirements may differ from IFRS Standards.

A liability for contract termination costs is recognised only when the contract has been terminated pursuant to its terms or the entity has permanently ceased using the rights granted under the contract.

Unlike IFRS, there is no general requirement to recognise a loss for onerous contracts.

Unlike IFRS, 'loss contingencies' are uncertain obligations, both recognised and unrecognized.

Contingent liabilities are recognised in a business combination only when the acquisition date fair value is determinable within the measurement period, or if the contingency is likely to occur and the amount is reasonably estimable.

Under contingent assets a recovery is recognised when it is likely to occur (which is a lower threshold than 'virtually certain' under IFRS Standards) to the extent that it reimburses a provision.

INTANGIBLE ASSETS

How are intangible assets recognised and measured under US GAAP?

Intangible assets

Prescribes the accounting treatment of intangible assets

An intangible asset is initially recognized at cost if all of the following criteria are met:

- The asset is identifiable and controlled by the entity
- It is probable that future economic benefits that are attributable to the asset will flow to the entity and
- The cost of the asset can be measured reliably.

Internally generated goodwill, brands, mastheads, publishing titles, customer lists and similar items are not recognized as assets and are expensed.
The revaluation of intangible assets is not permitted.
Unlike IFRS, both internal research and development (R&D) expenditure is expensed as it is incurred. Special capitalization criteria apply to software developed for internal use, software developed for sale to third parties and motion picture film costs, which differ from the general criteria under IFRS.

An entity assesses whether the useful life of an intangible asset is finite or indefinite.

An indefinite useful life means the asset is expected to generate net cash flows without any foreseeable limit to its period of operation.

The intangible asset with a finite life is amortized on a systematic basis over its useful life.

An intangible asset with indefinite useful life is not amortized but tested for impairment at least annually.

The gain or loss on de-recognition of an intangible asset is the difference between the net disposal proceeds and the carrying amount of the item and is recognized in profit or loss.

Advertising and promotional expenditure is generally expensed as it is incurred, like IFRS, or deferred until the advertisement is shown, unlike IFRS.

INVESTMENT PROPERTIES

How are investment properties recognized and measured under US GAAP?

Investment property

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

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

Investment property is initially recognized at cost comprising the purchase price and directly attributable transaction costs.

General administrative expenses and startup costs are excluded.

Subsequent to initial recognition all investment property is measured using the cost model as property, plant and equipment.

Investment property is accounted for as property, plant and equipment, and there are no transfers to or from an 'investment property' category.

AGRICULTURE

How are growing crops and animals treated under US GAAP?

Agriculture

Growing crops and animals being developed for sale are classified as inventory and are measured on a cost basis. Also, other livestock such as production animals (dairy cattle, sheep and breeding stock) are accounted for as property, plant and equipment and are measured on a cost basis.

No reclassification or remeasurement occurs at the point of harvest.

Unlike IFRS, harvested crops and animals held for sale are measured at net realisable value if certain criteria are met, or continue to be measured on a cost basis.

SHARE BASED PAYMENTS

How are equity-settled share-based payment transactions treated?

Equity-settled share-based payment transaction

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

Unlike IFRS, for public entities, equity-classified transactions with non-employees are generally measured based on the grant-date fair value of the equity instruments granted. For public entities, the measurement date is the grant date, which may differ from IFRS Standards. Also, unlike IFRS, for non-public entities, awards to non-employees are accounted for using the non-employee model, which generally requires remeasurement of the awards throughout the service period rather than the modified grant date method used for employee awards.

Option should be measured on the basis of

a) market price of any equivalent traded options

b) using an option pricing model in the absence of market prices

c) at intrinsic value if both a and b are not possible

How are cash-settled share-based payment transaction treated?

Cash-settled share-based payment transaction

- The entity should recognize an asset or an expense and a liability if the goods or services were received in a cash settled share-based payment transaction
- Until the liability is settled, the entity should re-measure the fair value of the liability at each reporting date and the date of settlement, with any changes in fair value recognized in profit or loss of the period

How are share based payment transactions with cash alternatives treated?

Share based payment transactions with cash alternatives

- Where the terms of arrangement provide the entity or the counterparty with a choice of settling the transaction in cash or other assets or by issuing equity instruments, the entity should account for that transaction as

a) cash-settled share-based payment

transaction to the extent the entity has incurred a liability to settle in cash or other assets, or

b) equity-settled share-based payment transaction if no such liability has been incu

BUSINESS COMBINATION

How are Business Combinations treated under US GAAP?

Business Combinations

Prescribes the financial reporting by an entity when it undertakes a business combination. A business combination is the bringing together of separate entities or businesses into one reporting entity.

All business combinations are accounted for by applying the *purchase method* which reflects the business combination from the perspective of the acquirer

The acquirer is the combining entity that obtains control of the other combining entities or businesses (the acquiree)

The acquirer measures the cost of a business combination as the aggregate of

- the fair values at the date of exchange of assets given, liabilities incurred or assumed and

  equity instruments issued by the acquirer, in exchange for control of the acquire, plus
- any cost directly attributable to the business combination. Any adjustment to the cost of the combination, that is contingent on future events, is included in the cost of the combination at the acquisition date if the adjustment is probable and can be measured reliably

The acquirer allocates the cost of the business combination by recognizing the acquiree's

- identifiable assets
- liabilities
- contingent liabilities

at fair value at the date of acquisition, except for non-current assets that are classified as held for sale. Such assets held for sale are recognized at fair value less costs to sell.

Similar to IFRS, goodwill is measured as a residual and is recognised as an asset. Like IFRS, if the residual is a deficit (bargain purchase gain), then it is recognised in profit or loss after reassessing the values used in the acquisition accounting.

Goodwill is subsequently carried at cost less any accumulated impairment losses.

The standard also specifies the accounting treatment for

- business combinations that are achieved in stages
- where the fair values can only be determined provisionally in the period of acquisition,
- where deferred tax assets are recognized after the accounting for the acquisition is complete
- for previously recognized goodwill, negative goodwill, and intangible assets.

Under US GAAP, the acquirer in a common control transaction applies book value accounting in its consolidated financial statements.
The transferor losing control in a common control transaction that is not a spin-off applies the general guidance on loss of control in its consolidated financial statements.
Unlike IFRS, the transferor in a common control transaction that is a spin-off applies book value accounting in its consolidated financial statements.

NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

How are non-current assets held for sale recognized and measured under US GAAP?

Assets held for sale

A non-current asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction (as the asset is available for immediate sale and its sale is highly probable) rather than through continuing use.

According to ASC 205-20-45-IE, a component or group of components is classified as held for sale in the period in which all of the following occur:

- Management commits a plan to sell the entity
- The entity to be sold is available for immediate sale
- The entity has taken action to complete the plan, including a program to find a buyer or other actions
- The sale or transfer of the entity to be sold is probable and is expected to be recognized as a completed sale within one year, unless there is occurrence of events beyond the entity's control
- The entity to be sold is being actively marketed at a price that is reasonable in relation to its fair value, indicating the entity's intent and ability to sell the business vertical and the vertical or entity to be sold is available for immediate sale
- Actions required to complete the plan to sell make it unlikely that the plan will be withdrawn or changed in any significant way.

Similar to IFRS, long-lived assets (or disposal groups) held for sale are measured at the lower of their carrying amount and fair value less costs to sell and are presented separately in the statement of financial position.

Similar to IFRS, assets held for sale are not amortized or depreciated. However, unlike IFRS Standards, assets to be distributed to owners continue to be depreciated or amortized.

An impairment loss on write down of the asset to fair value less costs to sell is charged to profit or loss.

How are non-current assets under discontinued operations recognized and measured under US GAAP?

Discontinued operations

ASC 205-20 prescribes when a disposal should be presented as a discontinued operation.

Unlike IFRS, a discontinued operation is either

- a component of an entity that has been disposed of, meets the criteria to be classified as held for sale, or has been abandoned/spun-off; and represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results;
- a group of components of an entity, or
- a business or non-profit entity that, on acquisition, meets the criteria to be classified as held-for-sale.

The guidance describes a discontinued operation as a disposal of a component or group of components that:

- is disposed of by sale, classified as held for sale, or disposed by other than sale (abandonment, exchange or distribution to owner) and
- represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results (ASC 205-20-45-1B)

Similar to IFRS, discontinued operations are presented separately in the statements that report profit or loss and cash flows.

Similar to IFRS, the comparative statements that report profit or loss and cash flows are re-presented for discontinued operations.

OPERATING SEGMENTS

What is the scope of Operating Segments under US GAAP?

Operating Segments

Applies to separate or individual financial statements of an entity and to the consolidated financial statements of a group with a parent:

- whose debt or equity instruments are traded in a public market or
- that files or in the process of filing, its consolidated financial statements with

a securities commission or other regulatory organization for issuing any class of instruments in a public market.

What do we mean by Operating Segments?

Operating segment

An operating segment is a component of an entity that

- engages in business activities from which it may earn revenues and incur expenses
- whose operating results are reviewed regularly by the entity's chief operating decision maker to decide resources to be allocated to the segment and assess its performance and
- for which discrete financial information is available

What are Reportable segments and what are the parameters for reporting it?

Reportable segment

These are operating segments or aggregations of operating segments that meet the specified criteria:

- its reported revenue, both from external customers and inter segment sales and transfers is 10% or more of the combined revenue, internal and external, of all operating segments or
- the absolute measure of its reported profit or loss is 10% or more of the greater, in absolute amount, of
  - the combined reported profit of all operating segments that did not report a loss and
  - the combined reported loss of all operating segments that reported a loss; or
- its assets are 10% or more of the combined assets of all operating segments
- If the total external revenue reported by operating segments constitutes less than 75 % of the entity's revenue. Additional operating segments must be identifiable as reportable segments until at least 75% of the entity's revenue is included in reportable segments.

FINANCIAL INSTRUMENTS

How are Financial Instruments defined under US GAAP?

Financial Instruments

'Financial instrument' is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial instruments include a broad range of financial assets and financial liabilities. They include both primary financial instruments (e.g., cash, receivables, debt and shares in another entity) and derivative financial instruments (e.g. options, forwards, futures, interest rate swaps and currency swaps).

US GAAP does not define a financial guarantee contract. Instead, US GAAP provides guidance on when to account for a financial guarantee contract as a derivative or as a guarantee.

A loan commitment is a firm commitment to provide credit under prespecified terms and conditions. Loan commitments are fully or partially in the scope of the financial instruments standard.

How are derivatives defined under US GAAP?

Under US GAAP, apart from the definition in IFRS, a derivative:

– requires or permits net settlement;
– can readily be settled net through a market mechanism outside the contract; or
– provides for delivery of an asset that is readily convertible into cash.

What are embedded derivatives?

An 'embedded derivative' is a component of a hybrid contract that affects the cash flows of the hybrid similar to a stand-alone derivative instrument. A hybrid instrument also includes a non-derivative host contract that may be a financial or a non-financial contract. The requirements on separation of embedded derivatives do not apply when the host contract is a financial asset.

Financial assets and financial liabilities, including derivative instruments, are recognised in the statement of financial position when the entity becomes a party to the instrument. However, purchases and sales of financial assets are recognised and derecognized using either trade date or settlement date accounting.

However, unlike IFRS, the US GAAP guidance on separation of embedded derivatives also applies to all hybrid contracts with financial asset hosts.

Under US GAAP, instruments with characteristics of both liability and equity are not always split between their liability and equity components; and when they are, the basis of separation may differ from IFRS.

What are financial assets? How are they measured and reclassified?

Financial Assets

US GAAP does not have classification categories that are broadly applied to all financial assets. However, US GAAP does have classification categories for certain financial assets.
Debt securities are classified as:

held-for-trading,
available-for-sale or held-to-maturity, unlike IFRS.

Also, loans are either classified as

held-for-sale or
held-for-investment.

Under US GAAP, debt securities classified as held-to-maturity, loans and trade receivables classified as held-for-investment are measured at amortized cost.

Under US GAAP, there is no prescribed 'FVOCI' classification for financial assets. Debt securities that are not classified as held-for-trading or held-to-maturity are classified as available-for-sale. Available-for-sale debt securities are measured at fair value, like IFRS.

Under US GAAP, an entity may not elect to present in OCI changes in the fair value of any investments in equity securities.

Under US GAAP, on initial recognition of financial assets, certain financial assets can be irrevocably designated as at FVTPL. However, the eligibility criteria and financial assets to which the fair value option can be applied differ from IFRS in certain respects.

Under US GAAP, certain financial assets (i.e., debt securities, loans and trade receivables) may be reclassified if there are changes in management's intent and ability with respect to holding the financial assets.
The requirements for reclassification of these financial assets differ from IFRS and the frequency of reclassifications may also differ. Under US GAAP, the circumstances in which transfers of debt securities into and out of the held-for-trading category would be permitted are expected to be rare.

What are financial liabilities? How are they measured and reclassified?

Financial Liabilities
Under US GAAP, classification categories for financial liabilities are not prescribed. However, similar to IFRS, financial liabilities that are not measured at fair value are generally measured at amortized cost.

Under US GAAP, there is no sub-categorization of financial liabilities as held-for-trading. Like IFRS Standards, financial liabilities may be designated as at FVTPL. However, the eligibility criteria for fair value option designation differ from IFRS Standards in certain respects.

Reclassification of financial liabilities is not permitted.

What is the derecognition model on transfer of financial assets?

In accordance with US GAAP, the derecognition model for transfers of financial assets focuses on surrendering control over the transferred assets; the transferor has 'surrendered' control over transferred assets only if certain conditions are met.

Also, there is specific guidance on the modification of terms in respect of convertible debt and troubled debt restructuring.

How is hedge accounting defined under US GAAP?

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

There are three hedge accounting models: fair value hedges of fair value exposures; cash flow hedges of cash flow exposures; and net investment hedges of foreign currency exposures on net investments in foreign operations.

What are the disclosure requirements related to financial instruments?

Under US GAAP, the overriding principle is to disclose sufficient information to enable users of financial statements to evaluate the
significance of financial instruments for an entity's financial position and performance. However, the specific requirements differ from IFRS.

Risk disclosure requirements differ for public and non-public entities under US GAAP. Public entities are required to disclose qualitative and quantitative information; however, the specific disclosure requirements differ from IFRS. The disclosure requirements for non-public entities are primarily qualitative and much less detailed than for public entities under US GAAP or
under IFRS Standards.

CONSOLIDATED FINANCIAL STATEMENTS

What are the provisions related to Consolidated Financial Statements under US GAAP?

Consolidated Financial Statements

Unlike IFRS, consolidation is based on a controlling financial interest model, which differs in certain respects from IFRS.

- For non-variable interest entities, 'control' is the power to govern the financial and operating policies of an entity.
- For variable interest entities (VIEs), 'control' is the power to direct the activities that most significantly impact the VIE's economic performance and either the obligation to absorb losses of the VIE, or the right to receive benefits from the VIE, that could potentially be significant to the VIE.

Under US GAAP, in assessing power over a VIE, the explicit factors to consider are more extensive than those noted under IFRS Standards. Such factors are not relevant for non-VIEs, unlike IFRS Standards.

US GAAP does not define returns for the purpose of determining whether an investor has control over a VIE. Nevertheless, the primary beneficiary in a VIE must have the obligation to absorb losses of the VIE, or rights to receive benefits from the VIE, that could potentially be significant to the VIE.

Under US GAAP, in assessing control, an investor considers 'substantive' kick-out rights and participating rights held by others, which is narrower than the guidance under IFRS.

The difference between the reporting date of a parent and its subsidiary cannot be more than about three months. However, unlike IFRS, use of the same reporting date need not be impracticable; adjustments may be made for the effects of significant transactions and events between these dates, or disclosures regarding those effects are provided.

Uniform accounting policies are used throughout the group.

Unlike IFRS, NCI are generally measured initially at fair value.

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

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

Profit or loss and comprehensive income for the period are allocated between shareholders of the parent and NCI.

Intra-group transactions are eliminated in full.

On the loss of control of a subsidiary, the assets, and liabilities of the subsidiary and the carrying amount of the NCI are derecognized. The consideration received and any retained interest (measured at fair value) are recognised. Amounts recognised in OCI are reclassified as required by other IFRS standards. Any resulting gain or loss is recognised in profit or loss.

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

What are the provisions related to Joint Arrangements?

Joint Arrangements

Under US GAAP, there is no definition of a 'joint arrangement', and the accounting depends on the type of venture being carried on jointly.

Under US GAAP, jointly controlled activity conducted with the use of a legal entity might be a joint venture or simply an equity-method investee

Under US GAAP, there is no concept of a 'joint operation', and the accounting depends on the type of venture being carried on.

According to US GAAP, a 'joint venture' is a joint activity carried on through a separate entity (e.g. a corporation or partnership), and there is some diversity in practice when interpreting the definition.

Under US GAAP, joint operations are conducted without a legal entity, the accounting depends on the type of venture being carried on. Investors in a corporate joint venture generally account for the investment under the equity method.

What are the disclosure requirements related to Consolidated Financial Statements?

Consolidated financial statements: Disclosure requirements

Under US GAAP, there is no provision that deals with the disclosure of information about an entity's interests in other entities.

The disclosure requirements related to the composition of the group and the interests of NCI in the group's activities and cash flows are not as extensive as under IFRS.

US GAAP does not explicitly require disclosure about an entity's interests in joint arrangements. While disclosures are required about corporate joint ventures and other equity-method investees that are material in aggregate, the overall approach to disclosure may result in differences from International Financial Reporting Standards in practice.

FAIR VALUE

What is the treatment of Fair Value across US GAAP standards?

Fair value measurement

Many of the fair value requirements are largely consistent with valuation practices that already operate today. However, it introduces a few changes:

- the introduction of a fair value hierarchy for non-financial assets and liabilities, for financial instruments.
- a requirement for the fair value of all liabilities, including derivative liabilities, to be determined based on the assumption that the liability will be transferred to another party rather than otherwise settled or extinguished.
- the removal of the requirement to use bid and ask prices for actively quoted financial assets and financial liabilities respectively. Instead, the most representative price within the bid-ask spread is used; and
- the introduction of additional disclosures related to fair value

REVENUE FROM CONTRACTS WITH CUSTOMERS

What is the principle of recognition of revenue for contracts with customers?

Recognition of revenue on contracts with customers:

In accordance with ASC 606, the base principle is that an entity shall recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

A five-step model is used to implement the core 'transfer of control' principle that is used to determine when to recognise revenue, and at what amount.

Step 1: identify the contract - an entity accounts for a contract under the model when it is legally enforceable and specific
criteria are met (AS 606-10-25-1 through 25-13)

Step 2: identify the performance obligations in the contract, an entity breaks down the contract into one or more distinct
performance obligations. (ASC 606-10-25-14 through 25-22)

Step 3: determine the transaction price - an entity determines the amount of consideration to which it expects to be entitled in exchange for transferring goods or services to a customer. (ASC 606-10-32-2 through 32-27)

Step 4: allocate the transaction price to the performance obligations in the contract - an entity generally allocates the transaction price to each performance obligation in proportion to its stand-alone selling price.(ASC 606-10-32-28 through 41)

Step 5: recognise revenue - an entity recognizes revenue when or as it satisfies a performance obligation by transferring a
good or service to a customer, either at a point in time or over time. (ASC 606-10-25-23 through 25-30) A good or service is transferred when or as the customer obtains control of it.

How do we ensure that a contract is within the scope of ASC 606 to be considered for revenue?

The qualifications of a contract to be within ASC 606, are as follows:

- the contract creates enforceable rights and obligations and
- meet the five criteria listed in ASC 606-10-25-1 as under:
  - the contract has approval and commitment of the parties,
  - the rights of the parties are identifiable,
  - payment terms are identifiable,
  - the contract has commercial substance,
  - Collectibility of consideration is probable.

How is performance obligation defined under ASC 606?

A performance obligation is a promise in a contract with a customer to transfer to the customer either:

- A good or service (or a bundle of goods and services) that is distinct
- A series of goods and services that are substantially the same and that have the same pattern of transfer to the customer (ASC 606-10-20)

LEASES

What is the core concept of lease under US GAAP?

Leases

The objective is to report information that

(a) faithfully represents lease transactions and

(b) provides a basis for users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. To meet that objective, a lessee should recognize assets and liabilities arising from a lease.

The standard talks about a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. Consequently, a lessee recognizes depreciation of the right-of-use asset and interest on the lease liability. The depreciation would usually be on a straight-line basis. In the statement of cash flows, a lessee separates the total amount of cash paid into principal (presented within financing activities) and interest (presented within either operating or financing activities) in accordance with IAS 7.

Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. The initial lease asset equals the lease liability in most cases.

The lease asset is the right to use the underlying asset and is presented in the statement of financial position either as part of property, plant and equipment or as its own line item.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently

US GAAP provides specific guidance on accounting for lease modifications by lessees and lessors, which differs in some respects from IFRS Standards. In addition, there is a practical expedient for COVID-19-related rent concessions, which differs in some respects from IFRS Standards, including that it also applies to lessors.

Also, unlike IFRS, additional considerations apply if there is a seller-lessee repurchase option or if the leaseback would be classified as a finance lease by the seller-lessee (sales-type lease by the buyer-lessor).

INSURANCE CONTRACTS

What is the treatment of Insurance contracts under US GAAP?

Insurance contracts

Unlike IFRS, the insurance literature applies to all insurance contracts that are issued by an insurance company; there are no specific requirements for other entities that accept significant insurance risk.

An 'insurance contract' is a contract that provides economic protection from identified risks occurring or discovered within a specific period, which differs from IFRS in certain respects.

Unlike IFRS, insurance companies comply with the accounting policies specified in the insurance literature.

Unlike IFRS, US GAAP requires an expanded presentation of the fair value of insurance contracts acquired in a business combination.

Under US GAAP, derivatives that are embedded in insurance contracts and meet certain criteria should be separated from the host insurance contract and accounted for as if they were stand-alone derivatives.

Unlike IFRS, US GAAP does not have a broad unbundling concept for insurance contracts.

Unlike IFRS, the term 'liability adequacy test' is not used, and instead a form of premium deficiency testing is required, which generally meets the minimum requirements of IFRS Standards for a liability adequacy test.