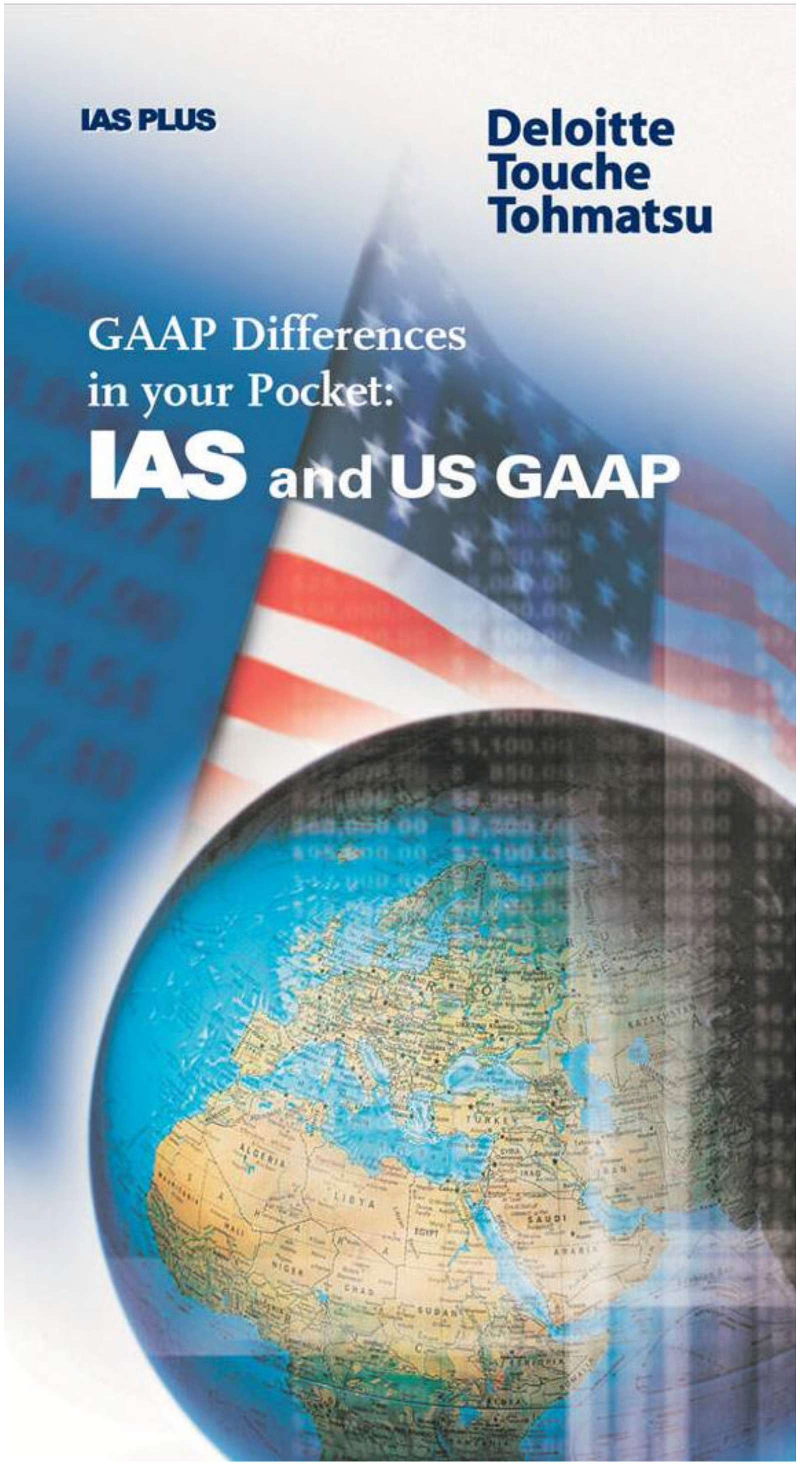
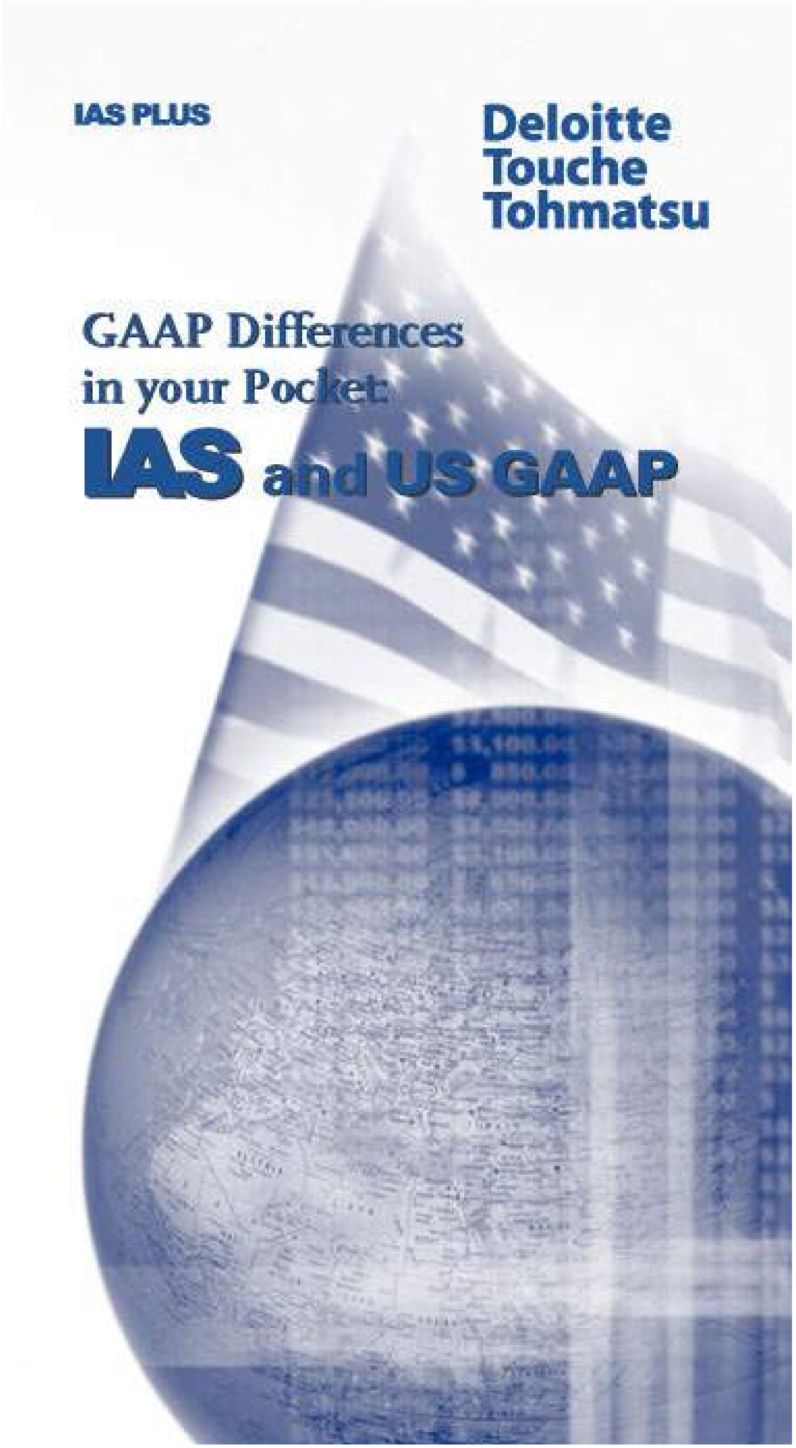


Our Mission: To Help Our Clients and Our People Excel

This guide is one of a series of publications intended to assist users in understanding International Accounting Standards. These include:

International Accounting Standards: *A Guide to Preparing Accounts*	3rd Edition. Written by Deloitte & Touche, United Kingdom. Published by ABG Professional Information: www.abgweb.com.
International Accounting Standards - *A Practical Guide to Financial Reporting*	2nd Edition. Model financial statements and presentation and disclosure checklists prepared under IAS. Published by Deloitte Touche Tohmatsu.
IAS In Your Pocket	2nd Edition. An 80-page pocket-sized guide with summaries of all IASB Standards and Interpretations, updates on agenda projects, and other useful IASB-related information.
IAS Plus Newsletter	A quarterly newsletter on recent developments in International Accounting Standards and accounting updates for individual countries. To subscribe visit our IAS Plus website.
www.iasplus.com	Our IAS Plus website provides up-to-date news on IAS developments as well as summaries of IFRS and Interpretations and reference materials for download.
Financial Instruments – Applying IAS 32 and IAS 39	Related summaries, guidance, examples, and US GAAP comparisons. Published by Deloitte Touche Tohmatsu.



Printed in Hong Kong
HK050-02

In recent years there has been a clear trend towards International Accounting Standards (now known as International Financial Reporting Standards – IFRS) as the single body of internationally accepted accounting standards. This movement affects the environment in which all companies operate, including those in the United States.

Globally, thousands of companies will be moving to IFRS as their primary basis of financial reporting over the next several years. In Europe, for example, the European Commission recently issued a regulation that, with a few exceptions, requires all publicly listed companies domiciled within the European Union to prepare their consolidated financial statements in accordance with IFRS by 2005. This requirement will affect approximately 7,000 enterprises, including the subsidiaries, associates and joint ventures of these entities. Another example is Australia, where the government is considering a proposal that IFRS be adopted as Australian GAAP.

Other key developments surrounding the use and acceptability of IFRS include the restructuring of the International Accounting Standards Committee, the US Securities and Exchange Commission's Concept Release, *International Accounting Standards*, and the endorsement of International Accounting Standards by both the International Organization of Securities Commissions and the Basel Committee. These developments have enhanced the credibility of IFRS, resulting in their increased use.

Companies in the United States are becoming increasingly affected by IFRS. Additionally, the work of the International Accounting Standards Board (the IASB, formerly the Board of the International Accounting Standards Committee) will affect the nature and scope of national standard-setters, including the US Financial Accounting Standards Board – FASB.

Convergence

The primary focus of the IASB is convergence of accounting standards worldwide. In order to facilitate convergence of accounting standards, the IASB has seven members who serve as official liaisons to national standard-setters. Countries with formal liaisons are Australia (including New Zealand), Canada, France, Germany, Japan, the United Kingdom, and the United States.

The liaison function is significant because the IASB, unlike its predecessor (the IASC Board), is now formally linked to national standard-setters. As a result, the liaison Board members maintain close contact with their respective national standard-setters and are responsible for coordinating agendas and ensuring that the IASB and national bodies are working towards convergence.

This Publication

This publication summarises some of the differences between IFRS and US GAAP. The summary does not attempt to capture all of the differences between IFRS and US GAAP that exist or may be material to a particular company's financial statements. In this publication we have focused on differences that are commonly found in practice. Reference to the underlying accounting standards and any relevant national regulations is essential in understanding the specific differences.

DELOITTE TOUCHE TOHMATSU

Ken Wild, Global Leader
International Accounting Standards

John T. Smith, Leader
IAS Centre of Excellence – The Americas

July 2002

The following table sets out some of the differences between International Financial Reporting Standards (IFRS) and United States GAAP. The significance of these differences – and others not included in this list – will vary with respect to individual companies depending on such factors as the nature of the company's operations, the industry in which it operates, and the accounting policy choices it has made. Reference to the underlying accounting standards and any relevant national regulations is essential in understanding the specific differences.

IAS	Topic	IFRS	US GAAP
–	General approach	Principle-based standards with limited application guidance.	Rule-based standards with more specific application guidance.
–	Ability to make choices	Generally more choices.	Generally fewer choices.
1	Financial statement presentation	Specific line items required.	Certain standards require specific presentation of certain items. Public companies are subject to SEC rules and regulations, which require specific line items.

COMPARISON OF IAS AND US GAAP

IAS	Topic	IFRS	US GAAP
1	Comparative prior year financial statements	One year comparative financial information is required.	US GAAP states that comparatives are "desirable". Generally at least one year of comparative financial information is presented. Public companies are subject to SEC rules and regulations, which generally require two years of comparative financial information.
1	Reporting a separate line item for "total comprehensive income"	Permitted, but not required.[1]	Required.
1	Departure from a Standard when compliance would be misleading	Permitted in "extremely rare" circumstances "to achieve a fair presentation".	Not directly addressed in U.S. GAAP literature, although an auditor may conclude that by applying a certain GAAP requirement the financial statements are misleading, thereby allowing for an "override".
2	Reversal of inventory write-downs	Required, if certain criteria are met.	Prohibited.
2	Basis of inventory	Carried at the lower of cost and net realisable value (NRV).	Carried at the lower of cost and market (market is the lower of replacement cost and NRV minus normal profit margin).

IAS	Topic	IFRS	US GAAP
7	Classification of interest received and paid in the cash flow statement	May be classified as an operating, investing, or financing activity.	Must be classified as an operating activity.
8	Correction of errors	May either restate prior financial statements or include the cumulative effect in net profit and loss in the current financial statements.[1]	Must restate prior financial statements.
8	Non-mandated changes in accounting policy	May either restate prior financial statements or include as a cumulative effect in net profit and loss in the current financial statements.[1]	Generally include the cumulative effect in net profit and loss in the current financial statements (but restate for LIFO, extractive industries, long-term contracts, IPOs).
8	Change in depreciation method for existing assets	Change in estimate (prospective).	Change in accounting policy (cumulative effect in net profit or loss).
11	Construction contracts when the percentage of completion cannot be determined	Cost recovery method.	Completed contract method.
12	Classification of deferred tax assets and liabilities	Always non-current.	Classification is split between the current and non-current components.

IAS	Topic	IFRS	US GAAP
12	Subsequent recognition of a deferred tax asset after a business combination	First reduce goodwill to zero, with any excess credited to net profit or loss.	First reduce goodwill to zero, then any other intangible assets to zero, with any excess credited to net profit or loss.
12	Reconciliation of actual and expected tax expense	Required for all companies.	Required for public companies only. Non-public companies must disclose the nature of the reconciling items but not amounts.
12	Recognition of tax benefits related to employee share options	Credited to equity only to the extent that it arises from a transaction recognised in equity.	Credited to equity.
12	Impact of temporary differences related to intercompany profits	Deferred tax effect is recognised.	Deferred tax effect is not recognised.
14	Basis of reportable segments	Lines of business and geographical areas.	Components for which information is reported internally to top management, which may or may not be based on lines of business or geographical areas.

IAS	Topic	IFRS	US GAAP
14	Types of segment disclosures	Required disclosures for both "primary" and "secondary" segments.	Only one basis of segmentation, although certain "enterprise-wide" disclosures are required such as revenue from major customers and revenue by country.
14	Accounting basis for reportable segments	Amounts are based on IFRS GAAP measures.	Amounts are based on whatever basis is used for internal reporting purposes.
14	Segment result	Defined segment result.	No definition of segment result.
16	Major inspection or overhaul costs	May be accounted for as a separate component of an asset.	Generally expensed.
16	Basis of property, plant, and equipment	May use either fair value or historical cost.	Generally required to use historical cost.
17	Minimum lease payments	Include guarantees of third party debt related to the leased assets.	Exclude guarantees of third party debt in minimum lease payments.
17	Present value of minimum lease payments	Generally would use the implicit rate in the lease to discount minimum lease payments.	Generally would use the incremental borrowing rate to discount minimum lease payments.
17	Initial direct costs (lessors)	Either expense or amortise over the lease term.[1]	Amortise.
17	When is "sale and leaseback accounting" appropriate	General guidance.	Very specific rules, particularly related to sale and leaseback transactions involving real estate.

IAS	Topic	IFRS	US GAAP
17	Recognition of a gain on a sale and leaseback transaction where the leaseback is an operating lease	The gain is recognised immediately.	The gain is amortised over the lease term.
17	Disclosure of lease maturities	Less detailed disclosure.	More detailed disclosure.
18	Revenue recognition guidance	General revenue recognition principles are provided that are consistent with US GAAP but contain limited detailed or industry specific guidance.	More specific guidance exists on revenue recognition particularly relating to industry specific issues. In addition, public companies must follow more detailed guidance provided by the SEC.
19	Accounting for share options (stock compensation)	No guidance on the recognition and measurement of share options. Certain disclosures are required (not including the fai r value of options granted).	Share options issued from a variable plan or to non-employees are expensed. Share options issued from a fixed plan are recognised either at their intrinsic value (generally zero) or fair value. If intrinsic value is used, then certain disclosures are required, including the fair value of options granted.

IAS	Topic	IFRS	US GAAP
19	Termination benefits	No distinction between "special" and other termination benefits. Termination benefits recognised when the employer is demonstrably committed to pay.	Recognise special (one-time) termination benefits when employees accept the offer and the amount can be reasonably estimated. Recognise contractual termination benefits when it is probable that employees will be entitled and the amount can be reasonably estimated.
19	Recognition of past service costs related to vested employees	Recognised immediately.	Amortised over the remaining service period or life expectancy.
19	Multiemployer plans	May be considered defined benefit plans.	Always considered defined contribution plans.
19	Minimum liability recognition for benefits under defined benefit plans	No minimum liability requirement.	At a minimum, the unfunded accumulated benefit obligation is recognised.
19	Pension assets	Limitation on the amount that can be recognised.	No limitation on the amount that can be recognised.
21	Translation of fair value adjustments and goodwill relating to a prior business combination	May use either current or historic exchange rate.[1]	Must use current exchange rate.

IAS	Topic	IFRS	US GAAP
21	FX differences on monetary items resulting from a non-hedgeable severe devaluation	Sometimes added to the cost of an asset.[1]	Always in net income.
22	Method of accounting for business combinations	Pooling (uniting) of interests required if the acquirer cannot be identified. Otherwise acquisition (purchase) accounting must be used.[2]	All business combinations must be accounted for as purchases.
22	Recognising a restructuring liability as part of a purchase business combination	May be recognised in limited circumstances.[2]	Generally not recognised.
22	Purchased in-process R&D	Capitalise and amortise over the estimated useful life, which is presumed to be 20 years or less.[2]	Expense.
22	Goodwill	Must capitalise and amortise goodwill over its estimated useful life, which is presumed to be 20 years or less, subject to an impairment test.[2]	Must capitalise, but not amortise, subject to an impairment test.

IAS	Topic	IFRS	US GAAP
22	Measuring the minority interest portion of acquired assets and liabilities in a purchase business combination	May measure at either fair value or historical cost.[2]	Must measure at historical cost.
22	Adjustment period for subsequently recognised assets and liabilities in a purchase business combination	Through the end of the first full year after acquisition.[2]	One year from the acquisition date.
22	Negative goodwill	Initially offset against any expected future losses, then amortise any amounts not exceeding the value of acquired non-monetary assets, any excess is included in net profit or loss.[2]	Initially allocate on a pro-rata basis against the carrying amounts of certain acquired non-financial assets, with any excess recognised as an extraordinary gain.
22	Combinations of entities under common control	Not addressed.	Pooling of interests method.
23	Borrowing costs related to assets that take a substantial time to complete	May either capitalise as part of the asset's basis or expense.	Must capitalise as part of the asset's basis.

IAS	Topic	IFRS	US GAAP
23	Types of borrowing costs eligible for capitalisation	Includes interest, certain ancillary costs, and exchange differences that are regarded as an adjustment of interest.	Generally includes only interest.
23	Income on temporary investment of funds borrowed for construction of an asset	Reduces borrowing cost eligible for capitalisation.	Generally does not reduce borrowing cost eligible for capitalisation.
27	Basis of consolidation policy	Control (look to governance and risk and benefits).	Majority voting rights.
27	Special purpose entities	Consolidate if "controlled". Generally follow the same principles for commercial entities in determining whether or not control exists.	Consolidate if certain criteria for "qualifying SPEs" are not met. Generally look to whether or not the SPE has a sufficient level of equity "at risk".
27	Impact of different accounting policies or reporting dates of parent and subsidiaries	Must either (a) conform accounting policies and reporting dates or, (b) if that is not practical, must adjust for any significant differences in policy and subsequent transactions or events.	No requirement to conform reporting dates or accounting policies. Need not adjust for any significant differences in policy or subsequent transactions or events.

IAS	Topic	IFRS	US GAAP
27	Enterprises that are temporarily controlled	Excluded from consolidation only if acquired and held exclusively for disposal in the near future.	Must be consolidated.
28	Impact of different accounting policies or reporting dates of investor and associate (or investee)	Must either (a) conform accounting policies and reporting dates or (b) if that is not practical, must adjust for any significant differences in policy and subsequent transactions or events.	No requirement to conform reporting dates or accounting policies. Need not adjust for any significant differences in policy or subsequent transactions or events.
28	Losses in excess of equity investment	Are recognised to the extent there is an obligation to fund such amounts.	Are used to reduce the basis of other investments such as loans to the investee.
29	Hyperinflation	Would adjust the subsidiary financial statements for the general effects of inflation, with the gain or loss on net monetary position in net income (that is, the restate and translate method).	Would remeasure the subsidiary accounts using the "functional currency" of the parent.
31	Investments in joint ventures	May use either the equity method or proportionate consolidation.	Generally use the equity method (except in construction and oil and gas industries).
32	Classification of convertible debt instruments	Split the instrument into its liability and equity components.	Classify the entire instrument as a liability.

COMPARISON OF IAS AND US GAAP

IAS	Topic	IFRS	US GAAP
32	Classification of mandatorily redeemable preferred shares (stock)	Liability.	Presented between liabilities and equity (sometimes called the "mezzanine").
33	Disclosures of earnings per share	Basic and diluted net profit or loss per share. [1]	Basic and diluted income from continuing operations, discontinuing operations, extraordinary items, cumulative effect of a change in accounting policy, and net profit or loss per share.
33	Base for measuring anti-dilution	Net profit or loss per share.[1]	Income from continuing operations per share.
35	Initial disclosure trigger for discontinuing operation	Public announcement of a disposal plan.	Internal agreement on a disposal plan.
36	Impairment "trigger"	Impairment is triggered if an asset's carrying amount exceeds the higher of the asset's value-in-use (discounted present value of the asset's expected future cash flows) and net selling price.	Impairment is triggered if an asset's carrying amount exceeds the expected future cash flows to be derived from the asset on an undiscounted basis.
36	Measurement of impairment loss	Based on the recoverable amount (the higher of the asset's value-in-use and net selling price).	Based on fair value.

IAS	Topic	IFRS	US GAAP
36	Subsequent reversal of an impairment loss	Required, if certain criteria are met.	Prohibited.
37	Probability threshold for recognising a provision (liability)	"More likely than not", that is, more than 50% probable.	"Probable", which generally is higher than a 50% probability.
37	Measurement of provisions	Best estimate to settle the obligation, which generally involves the expected value method. Discounting required.	Low end of the range of possible amounts. Some provisions are not discounted.
37	Disclosures that may prejudice seriously the position of the enterprise in a dispute	"In extremely rare cases" amounts and details need not be disclosed, but disclosure is required of the general nature of the dispute and the fact that, and reason why, the information has not been disclosed.	Disclosure is required.
38	Development costs	Capitalise, if certain criteria are met.	Expense.
38	Purchased intangibles (other than in-process R&D)	Capitalise and amortise over the estimated useful life, which is presumed to be 20 years or less.[2]	Capitalise. Amortise if the asset has a finite life. Do not amortise if the asset has an indefinite life, but test regularly for impairment.

IAS	Topic	IFRS	US GAAP
38	Revaluation of intangible assets	Permitted only if the intangible asset trades in an active market.	Generally prohibited.
39	Change in value of non-trading investment	Recognise either in net profit or loss or in equity (with recycling).[3]	Recognise in equity (with recycling).
39	Accounting for hedges of a firm commitment	Cash flow hedge.[3]	Fair value hedge.
39	Use of partial-term hedges	Allowed.	Prohibited.
39	Effect of selling investments classified as held-to-maturity	Prohibited from using held-to-maturity classification for the next two years.	Prohibited from using held-to-maturity classification (no two year limit).
39	Use of "basis adjustment"	Gain/loss on hedging instrument that had been reported in equity becomes an adjustment of the carrying amount of the asset.[3]	Gain/loss on hedging instrument that had been reported in equity remains in equity and is amortised over the same period as the asset.
39	Derecognition of financial assets	No "isolation in bankruptcy" test.[3]	Derecognition prohibited unless the transferred asset is beyond the reach of the transferor even in bankruptcy.
39	Subsequent reversal of an impairment loss	Required, if certain criteria are met.[3]	Prohibited.
39	Use of "Qualifying SPEs"	Prohibited.	Allowed.

IAS	Topic	IFRS	US GAAP
40	Measurement basis of investment property	May use either fair value or historical cost.	Generally required to use historical cost.

Endnotes:

[1]This topic is being addressed as part of the IASB's Improvements Project.
[2]This topic is being addressed as part of the IASB's Business Combinations Project.
[3]This topic is being addressed as part of the IASB's IAS 39 Amendments Project.

Deloitte Touche Tohmatsu is one of the world's leading professional services organisations, delivering world-class assurance and advisory, tax, and consulting services through its national practices. More than 95,000 people in 140 countries serve over one-quarter of the world's largest companies, as well as large national enterprises, public institutions, and successful fast-growing global growth companies.

In addition to complete geographic coverage, Deloitte Touche Tohmatsu offers clients deep industry strengths and outstanding services delivered consistently throughout the world. Our integrated teams of internationally experienced professionals are well versed in addressing today's challenges linked to globalisation and the network economy. Our mission is to help our clients and our people excel.

Our IAS contact people:

DELOITTE TOUCHE TOHMATSU IAS GLOBAL OFFICE

Ken Wild, Global IAS Leader kwild@deloitte.co.uk
Paul Pacter paupacter@deloitte.com.hk

IAS CENTRES OF EXCELLENCE

Americas:
John T. Smith iasplusamericas@deloitte.com
Asia-Pacific:
Stephen Taylor iasplus@deloitte.com.hk
Europe-Africa:
Graeme Berry, Johannesburg iasplus@deloitte.co.za
Stig Enevoldsen, Copenhagen iasplus@deloitte.dk
Veronica Poole, London iasplus@deloitte.co.uk
Laurence Rivat, Paris iasplus@deloitte.fr

This booklet is available in electronic form at www.iasplus.com.

www.deloitte.com
www.iasplus.com
info@iasplus.com