

Comparative Study
On
IGAAP, USGAAP
&
IFRS



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A COMPARISON IGAAP - US GAAP – IFRS

True & Fair View: Under IFRS and IGAAP framework, there is an assumption that adoption of IFRS /IGAAP leads to a true and fair presentation, there is no such assumption under US GAAP.

Prudence Vs Rules: US GAAP essentially takes the cook book approach to set detailed accounting rules as compared to IFRS approach of setting a broad accounting principles and guidelines. Accounting principles in UG on a particular subject is scattered across various pronouncements whereas in IFRS it is concentrated in one or few accounting standards.

Comparative Position: Under IGAAP and IFRS, comparative financial figures are to be provided for one previous years, whereas under USGAAP (SEC requirement for listed companies) comparatives are to be provided for two previous years except for Balance Sheet.

Over-riding of Standards – IFRS permits that a company may withhold application of IFRS in extremely rare situation, where it is felt that application of IFRS would defeat the very objective of Financial reporting. Disclosure must be made for reason for override. No such override is generally permitted under IGAAP and US GAAP.

Reporting Elements - IFRS prescribes the minimum structure and content of financial statement including Statement of Changes in equity (in addition to Balance sheet, Income statement, Cash flow statement , notes comprising significant accounting Policy and other explanatory notes). Under US GAAP in addition to statement of changes in Equity, Statement of Comprehensive Income is required.

Both of these statements are NOT required under IGAAP.

FINANCIAL STATEMENTS

Indian GAAP: Balance sheet, Profit and loss account and Cash flows statement* (*only in case of listed companies). Comparative financial statements of previous period necessary

US GAAP: Balance sheet, Income statement, Statement of stockholders' equity and statement of cash flows. Balance sheet for two years and Income statement, Statement of stockholders' equity and Cash flows statement for three years* (*two years for non-listed companies)

IFRS: Balance sheet, Income statement, Statement of changes in equity, cash flows statement and accounting policies and notes. Comparative information for previous period necessary.

Balance Sheet

Basis of Difference	IFRS	USGAAP	IGAAP
Format	IFRS does not prescribe any format, but stipulates minimum line items like PPE, Investment property, Intangible assets, Financial assets, Biological assets, inventory, receivables, etc.	US GAAP also does not prescribe any format, but Rule S-X of SEC stipulates for listed companies minimum line items to be disclosed either on face of Balance sheet or Notes to Accounts.	IGAAP provides two format of Balance Sheet- Horizontal and Vertical format (Part I of schedule VI to the Companies Act, 1956).
Order	Under IFRS, line items are presented in increasing order of liquidity.	Under US GAAP, items in assets and liabilities are presented in decreasing order of liquidity.	In IGAAP, line items are presented in increasing order of liquidity.
Consolidation	Consolidation of Financial statements of subsidiaries is not compulsory until it is required under some other law or regulation	Under US GAAP consolidation of results of Subsidiaries and Variable interest entity (FIN 46R) is compulsory	It is not mandatory for companies to prepare CFS under AS 21. However, listed enterprises are mandatorily required by listing agreement of SEBI to prepare and present CFS.
Current/Non-Current	An organisation has an option to adopt Current or Non current classification of assets and liabilities	Bifurcation into current & non-current items is compulsorily required.	No such requirement

Income Statement

Basis of Difference	IFRS	USGAAP	IGAAP
Format	IFRS does not prescribe any standard format for income statement but prescribes minimum disclosure includes revenue, finance costs, share of post tax results of JV and associates using equity method.	There is no prescribed format, SEC guidelines Rule S-X prescribe minimum line items to be shown on the face of income statement & suggest 2 alternatives a) a single step format where expenses are classified by function and b) a Multiple step format where Cost of sales is deducted from sales	Under Indian GAAP no format is prescribed, but minimum line items have been specified in Part II of schedule VI to Companies Act, 1956 including Aggregate Turnover, Gross Service revenue for Commission paid to Sole selling agent, Brokerage and discount on sales etc.
Prior Period Items	A prior period item/error should be corrected by retrospective effect by restatement of opening balance of assets, liabilities or equities	Mandates retrospective application of error and requires restatement of comparative opening balance with suitable footnote disclosure.	Requires separate disclosure of prior period in the current financial statement & no restatement of retained earnings are required.
Discounting	IFRS provides that where the inflow of cash is significantly deferred without interest, discounting is needed.	US GAAP also permits discounting in certain cases for instance discounting is done in case of loans, debentures, bonds and upfront fees	There is no concept of discounting under IGAAP.
Change in accounting policy	IFRS requires retroactive application for the earliest period practical and adjustment of opening retained earning.	Requires prospective application of change in accounting policy and proforma disclosure of effect	Under IGAAP, effect for change in accounting policy is given with prospective effect, if the same is

		on income before extraordinary items on the face of income statement as separate section. Only in specific case retrospective is applicable	material.
Bifurcation of Cost	There is no specific provision in this regard	Total cost is required to be shown separately under: a) Cost of Sales b) Selling and Administration c) R & D	There is no specific provision in this regard. There are certain disclosure requirements under varied AS which should be complied.
Extra ordinary Events	Disclosure is prohibited	Nature should be both: a) Infrequent b) Unusual Disclosed separately on the face of Income Statement net of Taxes after results from operations	Distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly. The nature and the amount of each extraordinary item should be separately disclosed in the statement of P & L in a manner that its impact on current profit or loss can be perceived.

CASH FLOW STATEMENT

Basis of Difference	IFRS	USGAAP	IGAAP
Exemptions	No exemptions	Limited exemptions for certain investment entities	Unlisted enterprises, enterprises with a turnover less than Rs.500 million and those with borrowings less than Rs.100 million
Direct/Indirect Method	Both allowed	Both allowed	Both allowed. Listed companies- Indirect method Insurance companies- Direct Method
Periods to be presented	2 years	3 years	2 years
Interest paid	Operating and financing activity	Operating activity (to be disclosed by way of a note)	Financing. In case of a financial enterprise, operating activities
Interest received	Operating or investing activity	Operating activity	Investing. In the case of a financial enterprise, operating activity.
Dividends paid	Operating or financing	Financing	Financing
Tax payments	Operating	Operating (to be disclosed by way of a note)	Operating
Dividends received	Operating or investing	Operating	Investing. In the case of a financial enterprise, operating activity.

SHAREHOLDERS' EQUITY

Repurchase of own shares:

IGAAP

Entity may purchase its own shares provided it is in consonance with the complex legal requirements stipulated in the Companies Act and SEBI guidelines.

The excess of cost over par value may be adjusted against free reserves and securities premium

Also, such shares are required to be **cancelled**, i.e. cannot be kept in treasury.

US GAAP

Repurchased for retiring stock, excess of cost over par value may be Charged entirely to retained earnings; or allocated between retained earnings and additional paid-in-capital (APIC); or charged entirely to APIC

When stock repurchased for purposes other than retiring stock, the cost of acquired stock may be shown separately as a deduction from equity; or treated the same as retired stock

IFRS

Similar to US GAAP. Repurchased stock is shown as a deduction from equity

Statement of Changes in Shareholders' Equity

	Comm on Stock	Additional Paid in Capital	Retained Earnings	Treasury Stock(i.e. Buy Back)	Cumu lative Transl ation adjust ment	Accumulated other comprehensive income	Tot al
Balance at the beginning of the year							
Net income							
Other comprehensive income							
Dividend paid							
Cumulative translation adjustment							
Stock options							
Balance as at the end of the year							

Statement of changes in shareholders equity:

Indian GAAP – 2 years

Not Applicable. Share capital and reserves are disclosed by way of a schedule

IFRS – 2 years

Primary statement Shows capital transactions with owners, movement in accumulated profits and reconciliation of equity. Other Comprehensive Income may be shown as a part of it

US GAAP – 3 years

May be shown as a part of notes to accounts shows capital transactions with owners, movement in accumulated profits and reconciliation of equity. Other Comprehensive Income may be shown as a part of it

Dividend on equity shares**IGAAP**

Presented as a appropriation of profits

Dividends are accounted in the year when Proposed.

US GAAP

Presented as a deduction in the statement of changes in shareholders' equity

Cash Dividends are accounted in the year when Declared. Only in case of Stock dividend adjustments is done in accounts..

IFRS

Presented as a deduction in the statement of changes in shareholders' equity

Dividends are accounted in the year when Declared

INVESTMENTS

IGAAP : AS 13

Investments are assets held by an enterprise for earning income by way of dividends, interest, and rentals, for capital appreciation, or for other benefits to the investing enterprise. Assets held as stock-in-trade are not 'investments'

(A) Current Investments – Lower of Cost or Fair Value

(B) Long term Investments. – At cost. If Permanent decline then reduce the carrying value to declined FMV.

All changes in carrying value is taken to P&L

Reclassification – Long term to Current – at lower of cost and carrying amount

Reclassification – Current to Long term – at lower of cost and Fair Value

INVESTMENTS :US GAAP

(A) Held to Maturity – *At Cost*. (with discount or premium amortized over the effective yield basis). *Most Restrictive category*. securities can be so classified if there is positive intent and ability to hold (maintain the securities) till maturity.

(B) Available for Sale. – *At FMV*. Unrealized gain / loss due to Fair value are accounted under OCI. In case of Permanent decline, the reduction is taken to income

statement.

(C) Trading Securities – *AT FMV*. Unrealized gains and losses are entirely taken to Income Statement.

Investment in unlisted securities is valued at cost .There are very stringent limitations on reclassification of Investments.

IF "HTM" securities are sold, use of this category is prohibited

Provision for diminution (in value of the long-term investment) created in earlier years cannot be reversed, whereas in Indian GAAP it can be reversed.

INVESTMENTS: IFRS

(A) Held to Maturity – *At Cost*. (with discount or premium amortized over the effective yield basis). *Most Restrictive category*. securities can be so classified if there is positive intent and ability to hold (maintain the securities) till maturity.

(B) Available for Sale. – *At FMV*. Unrealized gain / loss due to Fair value are accounted under OCI. In case of Permanent decline, the reduction is taken to income statement.

(C) Trading Securities – *AT FMV*. Unrealized gains and losses are entirely taken to Income Statement.

Investment in unlisted securities can be valued at FMV.

There are very stringent limitations on reclassification of Investments.

IF "HTM" securities are sold, use of this category is prohibited for next two years

CONSOLIDATION - SUBSIDIARIES

Indian GAAP

Based on controlling interest, control directly or indirectly through subsidiary (ies), by the virtue of holding the majority of voting shares or control over the board of directors.

IFRS

Based on voting control or power to govern.

The existence of currently exercisable **potential voting rights** is also taken into consideration. SPEs also need to be consolidated.

US GAAP

Controlling interest through majority ownership of voting shares or by contract. Consolidate **variable interest entities (VIEs)** in which a parent does not have voting control but absorbs the majority of losses or returns.

CONSOLIDATION : VARIABLE INTEREST ENTITIES(VIE)

US GAAP – FIN 46(R)

VIE is an entity which satisfies any of the following conditions:

- The **equity investment** at risk is not sufficient to permit that entity to finance its activities without additional subordinated financial support
- Equity investors **lack** either **(a) voting control**, or **(b) an obligation to absorb expected losses**, or **(c) the right to receive expected residual returns**
- Equity investors have voting rights that are not proportionate to their economic interest, and activities of the entity involve or are conducted on behalf of an investor with disproportionately small voting interest.

A **VIE** is a thinly capitalized and is not self supportive entity.

The **primary beneficiary** (i.e one absorbing more than half of expected losses or receiving more than half of expected residual returns) needs to consolidate the VIE.

Exclusions from Consolidation – Subsidiaries – IFRS

Under IFRS, a parent may avoid consolidation if the parent is a wholly owned subsidiary or a partially owned subsidiary of another entity and its other owners, including those not entitled to vote, have been informed about and do not object to the parent not preparing consolidated financial statements the parent is neither listed nor it is in the process of listing the ultimate or any intermediate parent of the parent produces IFRS compliant consolidated financial statements

Recent Changes

Temporary control (unless the intended period of holding is less than 12 months) is *not* a justification for non consolidation.

Severe long term restrictions to transfer funds to the parent are not a justification for non-consolidation.

IMPAIRMENT OF ASSETS

Difference Criterion	IFRS and IGAAP	US GAAP
Timing of impairment review	Annually	Whenever events or changes in circumstances indicate that the carrying amount may not be recovered
Asset is impaired if	Recoverable amount < Carrying amount	Fair value < Carrying amount
Recoverable amount/ Fair Value	Recoverable amount is higher of <ul style="list-style-type: none">• Net Selling Price• Value in use	Fair Value is the amount at which an asset or liability could be bought or settled in a current transaction between willing parties
Cash flows for calculating value in use/ fair value	Use discounted cash flows for calculating the value in use	Use discounted cash flows for calculating the fair value
Reversal of impairment loss	Whenever there is a change in the economic conditions	Prohibited

BUSINESS COMBINATION

Indian GAAP:

If the combination satisfies the specified conditions, it is an amalgamation in the form of a merger (Pooling of Interest Method), else an amalgamation in the nature of purchase.

Pooling of Interest Method and Purchase Method allowed

US GAAP:

Acquisition of net assets that constitute a business or controlling equity interests of entities.

Prohibits Pooling of Interest.

IFRS:

Bringing together of separate entities or operations into one reporting entity.

Prohibits Pooling of Interest.

Issues	IFRS	USGAAP	IGAAP
Date of acquisition	When control is transferred	When assets received or equity issued	Date specified by the court or the purchase agreement
Valuation of assets and liabilities	Fair value	Fair value	In pooling of interests method-book value In purchase method-book value or fair value
Treatment of goodwill	Capitalize and test for impairment	Capitalize and test for impairment	Estimate the useful life and amortize accordingly
Negative goodwill	Recognized in the income statement	Reduce fair value of non-monetary assets	Disclose as capital reserve
Reverse acquisition	Acquisition accounting is based on substance. Accordingly legal acquirer is treated as acquiree and legal acquiree is treated as acquirer	Similar to IFRS	Acquisition accounting is based on form. Legal Acquirer is treated as acquirer and legal acquiree is treated as acquiree for legal as well as accounting purpose.

INTERNALLY GENERATED INTANGIBLE ASSETS

Issues	IFRS	USGAAP	IGAAP
Research Cost	Charge off	Charge off	Charge off
Development Cost	Capitalize if criterion is met	Charge off	Capitalize if criterion is met