Financial Reporting Insights

U.S. GAAP to IFRS Comparisons

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1. Foreword

The International Accounting Standards Board (IASB) is the primary setter of accounting standards globally. The IASB is responsible for issuance of International Financial Reporting Standards (IFRS). IFRS Standards comprise:

- IFRS issued by the IASB
- International Accounting Standards (IAS)
- Interpretations developed by the IFRS Interpretations Committee (IFRIC) and its predecessor, the Standing Interpretations Committee (SIC)

In the United States, the Financial Accounting Standards Board (FASB) is the primary setter of accounting standards. The standards are issued in the form of Accounting Standards Updates (ASUs), which are then codified as Topics in the FASB's Accounting Standards Codification (ASC). Additionally, the FASB's Emerging Issues Task Force (EITF) operates in a capacity similar to IFRIC, and considers interpretive issues. If the EITF reaches a final consensus on an interpretive issue, that consensus is approved by the FASB and issued as an ASU.

Historical perspective

The FASB and the IASB entered into a bilateral convergence project in 2002. Since that time, the Boards have made significant progress towards convergence. For example, the Boards have issued substantially converged standards on:

- Business combinations (IFRS 3 and ASC 805)
- Revenue recognition (IFRS 15 and ASC 606)
- Fair value measurement (IFRS 13 and ASC 820)
- Stock-based compensation (IFRS 2 and ASC 718)

While the Securities and Exchange Commission (SEC) has maintained a position supporting convergence over the years, they have still not decided to incorporate IFRS into the U.S. financial reporting system.

Despite this, we believe that fluency in IFRS is important for practitioners and investors. IFRS continues to gain international acceptance in the world's capital markets. At the time of this writing, IFRS (or some form thereof) is required for financial statements of public-interest entities in 147 jurisdictions around the world. The United States remains as the primary market that does not either require or permit use of IFRS by publicly accountable entities. Only foreign registrants are allowed to report under IFRS as issued by the IASB, while domestic registrants must use U.S. GAAP. Other major capital markets that do not require IFRS include Japan (which permits, but does not require adoption), and China (which has standards that are somewhat converged with IFRS).

Although the United States does not have plans to require use of IFRS, entities within the U.S. find themselves being affected by IFRS in a multitude of circumstances, including (but not limited to):

- U.S. entities that are subsidiaries or investees of parent companies that issue financial statements in accordance with IFRS are likely to find themselves reporting to their parent entities under IFRS.
- U.S. entities with subsidiaries or investments in entities that report under IFRS would benefit from an understanding of IFRS.

- U.S. entities that are considering acquisitions of entities that prepare financial statements in accordance with IFRS would need to understand IFRS to assess the target entity's financial condition and performance.

This document assists in identifying the significant differences between U.S. GAAP and IFRS that we frequently encounter in practice. It does not discuss all of the differences between U.S. GAAP and IFRS. The significance or materiality of any difference depends on a number of quantitative and qualitative factors and can vary widely from one entity to another.

Additionally, this document generally does not address the IASB's IFRS for Small- and Medium-Sized Entities (IFRS for SMEs). With respect to U.S. GAAP, although certain Private Company Council (PCC) alternatives are mentioned, the PCC alternatives were not an area of focus in this document.

2. Financial assets - recognition and measurement

2.1 Introduction

The guidance related to the recognition and measurement of financial assets in U.S. GAAP is included in the ASC 310, *Receivables*; ASC 320, *Investments – Debt Securities*; ASC 321, *Investments - Equity Securities;* ASC 326, *Financial Instruments – Credit Losses*; ASC 815, *Derivatives and Hedging;* and ASC 825, *Financial Instruments*. In IFRS, the guidance related to the recognition and measurement of financial assets is included in IFRS 9, *Financial Instruments*.

2.2 Comparison

The significant differences between U.S. GAAP and IFRS with respect to the recognition and measurement of financial assets are summarized in the following table.

	U.S. GAAP	IFRS
Relevant guidance	ASC 310, ASC 320, ASC 321, ASC 326, ASC 815 and ASC 825	IFRS 9
Loans and receivables – classification and measurement categories	An entity may elect to measure its loans or receivables at fair value with changes in fair value recorded in net income (the fair value option FVO)). If the FVO is not elected, loans and receivables are classified based on management's intent as follows: • Held-for-investment: Measured at amortized cost • Held-for-sale: Measured at the lower of cost or fair value	Like U.S. GAAP, an entity may elect the FVO, in which case the loan or receivable is measured at fair value with changes in fair value recorded in profit or loss. If the FVO is not elected, loans and receivables are classified based on the entity's business model for managing those assets and the asset's contractual cash flow characteristics. The following classification categories and measurement attributes are used: • Amortized cost: A financial asset is classified as amortized cost if the asset is held within a business model whose objective is achieved by collecting contractual cash flows and the asset's contractual cash flows are comprised of solely payments of principal and interest (SPPI). • Fair value with changes in fair value through other comprehensive income (FVTOCI): A financial asset is classified as FVTOCI if the asset is held within a business model whose objective is achieved by collecting contractual cash flows and selling financial assets and the

	U.S. GAAP	IFRS
		asset's contractual cash flows are comprised of SPPI. • Fair value with changes in fair value through profit or loss (FVTPL): A financial asset is classified as FVTPL if the asset's contractual cash flows are not comprised of SPPI, or the asset does not otherwise qualify to be classified at amortized cost or FVTOCI based on the related business model.
Loans and receivables – impairment loss	Impairment losses on loans and receivables carried at amortized cost are recognized immediately to reflect the entity's current estimate of lifetime expected credit losses (ECLs). ECLs should include a measure for the expected risk of loss even if the risk of loss is remote. Certain exceptions apply. The ECL allowance considers historical loss experience, current conditions, and reasonable and supportable forecasts.	For loans and receivables that are not classified as FVTPL, impairment losses are recognized immediately based on an ECL model. The ECL model uses two measurement bases: a 12-month ECL and a lifetime ECL for assets whose credit risk has increased significantly since the asset's initial recognition.
Debt securities – classification and measurement categories	An entity may elect the FVO, in which case the debt security is measured at fair value with changes in fair value recorded in net income (FVTNI). If the FVO is not elected, debt securities are classified in one of three categories as follows: • Trading: This classification is required for debt securities acquired with the intent to sell within hours or days. However, an entity is not precluded from using this classification for securities it plans to hold for a longer period. • Held-to-maturity (HTM): This classification is for debt securities that the reporting entity has both the positive intent and ability to hold until maturity. • Available-for-sale (AFS): A debt security that is not classified as	The classification and measurement categories for debt securities are the same as those for loans and receivables. See "Loans and receivables – classification and measurement categories" above.

	U.S. GAAP	IFRS
	either Trading or HTM is classified as AFS. Debt securities are measured based on their classification as follows: • Trading: FVTNI • HTM: Amortized cost • AFS: Fair value with changes in fair value recorded in other comprehensive income (OCI)	
AFS debt securities measured at FVOCI – foreign exchange gains or losses	The foreign currency gain or loss on the debt security is part of the full change in fair value that is recorded in OCI.	The portion of the change in the fair value of the debt security that is attributable to foreign exchange gains or losses is recorded in net income.
Debt securities – impairment loss	Impairment losses reported in an allowance account of the statement of financial position are recognized as follows: • HTM: Impairment losses reflect the entity's current estimate of lifetime ECL similar to loans and receivables. • AFS: An impairment exists when the fair value of the security is less than its amortized cost and any one of the following exist: ○ The entity intends to sell the security. ○ It is more likely than not that the entity will be required to sell the security before it recovers its amortized cost basis. ○ A credit loss exists. However, the credit loss on the AFS security is limited to the amount by which its fair value is below its amortized cost.	The determination, quantification and recognition of impairment loss for debt securities that are not classified as FVTPL are the same as those for loans and receivables that are not classified as FVTPL. See "Loans and receivables – impairment loss."
Debt securities – impairment loss reversal	Impairment losses may be reversed through an allowance account to reflect the current estimate of lifetime ECLs.	Impairment losses on debt securities may be reversed through an allowance

	U.S. GAAP	IFRS
		account and profit and loss based on expectation of loss.
Equity investments – classification and measurement categories	Equity securities other than those excluded from the scope of ASC 321 (e.g., equity method investees) are measured at FVTNI. If fair value is not readily determinable and certain conditions are met, entities can use the net asset value (NAV) per share as a practical expedient to estimate the fair value of investments in certain funds (e.g., private equity funds, real estate funds, hedge funds). For equity investments that do not have a readily determinable fair value and do not qualify for the NAV practical expedient, an entity may elect the "measurement alternative." Under the measurement alternative, the equity investment is recorded at cost, plus or minus observable price changes, less impairment. Adjustments for observable price changes and impairment are recorded in net income. The measurement alternative is elected on a security-by-security basis.	Equity investments other than those excluded from the scope of IFRS 9 (e.g., equity method investees) are measured at FVTPL. This is because the contractual cash flows of an equity investment are not SPPI. Nonetheless, an entity can irrevocably elect to present the changes in the fair value of a non-derivative equity investment in OCI (with no subsequent reclassification to profit or loss) if the entity is not holding it for trading purposes. This election is made on an instrument-by-instrument basis. IFRS does not permit a measurement alternative.
Equity investments – impairment	For equity investments for which the measurement alternative has been elected, an impairment loss is recorded in net income based on a qualitative assessment. If a qualitative analysis indicates impairment exists, the fair value of the security will need to be estimated, and any excess of the carrying value of the security over its fair value is recognized in net income. No consideration is given to whether the impairment is permanent or temporary.	Impairment is not relevant for equity investments in the scope of IFRS 9 because such investments are recorded at fair value with changes in fair value recorded in profit and loss, unless the entity makes an irrevocable election to report the changes in fair value through OCI.
Embedded derivatives	Unless certain exceptions apply, a derivative embedded in a financial asset is bifurcated from its host contract and accounted for as a separate derivative and measured at FVTNI if:	A derivative embedded in a financial asset is not recorded separately. The hybrid instrument in which it is embedded is classified and measured based on its related business model

	U.S. GAAP	IFRS
	• The economic characteristics and risks of the embedded derivative are not clearly and closely related to the economic risks and characteristics of the host contract. • The hybrid instrument is not remeasured at fair value under otherwise applicable U.S. GAAP. • The embedded derivative meets the definition of a derivative in ASC 815.	and its contractual cash flows in their entirety.

These are the significant differences between U.S. GAAP and IFRS with respect to the recognition and measurement of financial assets. Refer to ASC 310, ASC 320, ASC 321, ASC 326, ASC 815, ASC 825 and IFRS 9 for the specific requirements applicable to accounting for the recognition and measurement of financial assets. Also, for U.S. GAAP, refer to RSM's *A guide to accounting for investments, loans and receivables*.

3. Inventory

3.1 Introduction

The guidance related to accounting for inventory in U.S. GAAP is included in the ASC Topic 330, *Inventory*. In IFRS, the guidance related to accounting for inventory is included in IAS 2, *Inventories*.

3.2 Comparison

The significant differences between U.S. GAAP and IFRS with respect to accounting for inventory are summarized in the following table.

	U.S. GAAP	IFRS
Relevant guidance	ASC 330	IAS 2
Costing methods	Use of last-in first-out (LIFO) is permitted. First-in, first-out (FIFO), weighted-average cost and specific identification method are acceptable accounting methods for computing inventory costs.	Use of LIFO is prohibited. FIFO and weighted-average cost are acceptable accounting methods for computing inventory costs. Use of the specific identification method is appropriate and is required for inventory items that are not ordinarily interchangeable and earmarked for specific projects to produce goods or offer services.
Measurement	Inventory that is accounted for under LIFO or the retail inventory method is carried at the lower of cost or market, with market defined as replacement cost (provided the replacement cost is between the ceiling (represented by net realizable value) and the floor (net realizable value less normal profit margin). Inventory not accounted for under LIFO or the retail inventory method is carried at the lower of cost or net realizable value.	Regardless of method, inventory is carried at lower of cost or net realizable value.
Cost formula	The same cost formula is not required to be applied to all inventories that have a similar nature and use to the entity.	The same cost formula is required to be applied to all inventories that have a similar nature and use to the entity. For inventories with a different nature

	U.S. GAAP	IFRS
		or use, different cost formulas may be justified.
Reversal of writedowns	When an inventory writedown occurs, a new cost basis is established. Reversals of writedowns are prohibited, unless the recovery of value occurs in the year in which the writedown occurred.	Reversals of writedowns are required (up to the amount of previous writedowns) when the reasons for the writedown cease to exist or when changes in economic circumstances clearly indicate an increase in the net realizable value of the inventory.

These are the significant differences between U.S. GAAP and IFRS with respect to accounting for inventory. Refer to ASC 330 and IAS 2 for all of the specific requirements applicable to accounting for inventory.

4. Intangible assets other than goodwill and indefinite-lived intangible assets

4.1 Introduction

The guidance related to accounting for intangible assets other than goodwill in U.S. GAAP is primarily included in the ASC Topic 350, *Intangibles—Goodwill and Other*. Additional guidance related to specific types of intangible assets can be found in ASC 340-20, *Other Assets and Deferred Costs – Capitalized Advertising Costs*, and ASC 985-20, *Software – Costs of Software to Be Sold, Leased, or Marketed*. In IFRS, the guidance related to intangible assets other than goodwill is included in IAS 38, *Intangible Assets.*

4.2 Comparison

The significant differences between U.S. GAAP and IFRS with respect to the accounting for intangible assets other than goodwill are summarized in the following table.

	U.S. GAAP	IFRS
Relevant guidance	ASC 340-20, ASC 350 and ASC 985-20	IAS 38
Revaluations other than impairment considerations	Revaluations of intangible assets to fair value are prohibited. Intangible assets are recorded at their historical carrying values.	After their initial recognition, intangible assets (other than goodwill) may be revalued to fair value as an accounting policy election. However, because adoption of this election requires that fair value be determined by reference to an active market, it is rarely used. Note that any changes related to revaluations are recognized directly in equity and are required for similar classes of assets if an active market exists.
Internally-developed intangible assets	Costs of internally developing, maintaining or restoring intangible assets generally should be expensed as incurred. The recognition of internally-developed intangible assets is rare and usually only seen in the areas of patents and trademarks. With limited exceptions, research and development costs are expensed as incurred. While determining the accounting	Costs in the research phase are expensed as incurred. Costs in the development phase are capitalized if the entity can demonstrate all of the following: • The technical feasibility of completing the intangible asset so that it will be available for use or sale • The intention to complete the intangible asset and use or sell it

	U.S. GAAP	IFRS
	treatment of these costs, it is important to assess whether the asset has any alternative future use generating an economic benefit to the entity, as costs can be capitalized in that circumstance.	• The ability to use or sell the intangible asset • How the intangible asset will generate probable future economic benefits (the entity should demonstrate the existence of a market or, if for internal use, the usefulness of the intangible asset) • The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset • The ability to measure reliably the expenditures attributable to the intangible asset during its development
Advertising and promotional costs	Advertising and promotional costs are either expensed as incurred or deferred until the advertising takes place for the first time (policy election), with the exception of direct-response advertising associated with acquiring or renewing insurance contracts.	Advertising and promotional costs are expensed as incurred. A prepaid expense may be recorded as an asset when payment is made for the goods or services in advance of the entity obtaining access to the goods or receiving agreed-upon services.
Initial measurement of acquired in-process research and development costs	In-process research and development is recognized initially at fair value as an intangible asset in a business combination. Such assets acquired in a business combination are not required to have an alternative future use from a recognition perspective. An intangible asset for in-process research and development acquired in an asset acquisition is only recognized if the in-process research and development has an alternative use.	Entities are allowed to capitalize in-process research and development costs in an asset acquisition or a business combination as long as it is probable that an asset will have future economic benefits.

	U.S. GAAP	IFRS
Costs related to development of internal-use computer software	Internal and external costs incurred during the application development stage (which includes design, coding, hardware installation and testing) are capitalized. All other costs are expensed as incurred.	No specific guidance for costs related to internal-use computer software. However, these costs can be capitalized, subject to general principles and conditions discussed in IAS 38.57.
Costs related to computer software that was sold, leased or marketed	Internal and external costs incurred on computer software are capitalized after technological feasibility has been established pursuant to the provisions of ASC 985-20-25. Capitalization of computer software costs ceases when the product is available for general release to customers. Costs of maintenance and customer support are charged to expense when related revenue is recognized or when those costs are incurred, whichever occurs first. Capitalized software costs are amortized on a product-by-product basis. The annual amortization is the greater of: • The ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product • The straight-line method over the remaining estimated economic life of the product, including the period being reported on	No specific guidance exists for computer software developed for sale or lease. Such software costs may be capitalized and are subject to general principles of IAS 38 and conditions discussed in IAS 38.57. Amortization of such costs is generally based on the asset's expected future economic benefits to be realized by the entity. However, when it is impracticable to determine a reliable expectation of future economic benefits, entities may use the straight-line method.

These are the significant differences between U.S. GAAP and IFRS with respect to accounting for intangible assets other than goodwill. Refer to ASC 340-20, ASC 350, ASC 985-20 and IAS 38 for all of the specific requirements applicable to accounting for intangible assets other than goodwill.

5. Property, plant and equipment and investment property

5.1 Introduction

The guidance related to accounting for property, plant and equipment in U.S. GAAP is included ASC Topic 360, *Property, Plant, and Equipment*. In IFRS, the guidance related to accounting for property, plant and equipment is included in IAS 16, *Property, Plant and Equipment*, and the guidance related to accounting for investment property is included in IAS 40, *Investment Property*.

5.2 Comparison

The significant differences between U.S. GAAP and IFRS with respect to accounting for property, plant and equipment and investment property are summarized in the following table.

	U.S. GAAP	IFRS
Relevant guidance	ASC 360	IAS 16 and 40
Depreciation	Component depreciation is permitted, but is not used often.	Depreciation of individual components is required when the components' lives are different.
Major overhaul costs	Various alternatives are available to account for the costs of performing a major overhaul (i.e., major spare-parts, stand-by equipment and/or related inspection costs), including expensing the costs as incurred, accounting for the overhaul as a separate component and deferring the costs and amortizing them over the period of benefit.	Costs of performing a major overhaul are required to be capitalized if the overhaul represents a replacement of a previously identified component (if the future economic benefits are probable and reliably measurable).
Revaluation	Revaluation is not allowed.	An entity may elect to apply the revaluation model, which allows the entity to measure property, plant and equipment at fair value. If elected, the model must be applied to entire class of assets
Investment property	No specific guidance exists. Generally, real estate companies and operating companies account for investment-type property using historical cost.	Investment property is defined as property held to earn rentals or for capital appreciation, or both. An entity is permitted to record investment property at fair value, with changes in fair value

	U.S. GAAP	IFRS
	Investor entities generally account for their investments in investment-type property at fair value. No option exists to account for leased property at fair value.	recognized in the income statement. The option to account for the property at fair value applies to leased property.

These are the significant differences between U.S. GAAP and IFRS with respect to accounting for property, plant and equipment and investment property, except for differences related to impairment accounting (which are covered in Chapter 6). Refer to ASC 360 and IAS 16 and 40 for all of the specific requirements applicable to accounting for property, plant and equipment and investment property.

6. Impairment of goodwill, indefinite-lived intangible assets and long-lived assets

6.1 Introduction

The guidance related to accounting for the impairment of goodwill and indefinite-lived intangible assets in U.S. GAAP is included in ASC Topic 350, *Intangibles—Goodwill and Other*, and the guidance related to accounting for the impairment or disposal of other long-lived assets in U.S. GAAP is included in ASC 360, *Property, Plant, and Equipment*. In IFRS, the guidance related to accounting for the impairment of long-lived assets is included in IAS 36, *Impairment of Assets*.

6.2 Comparison

The significant differences between U.S. GAAP and IFRS with respect to accounting for the impairment of goodwill, indefinite-lived intangible assets and long-lived assets to be held and used are summarized in the following tables.

Impairment of goodwill		
	U.S. GAAP	IFRS
Relevant guidance	ASC 350	IAS 36
Goodwill allocation	Goodwill is assigned to a reporting unit. Depending on the facts and circumstances, a reporting unit is either an operating segment or one level below an operating segment (which is also referred to as a component).	Goodwill is allocated to a cash-generating unit (CGU). A CGU is the smallest identifiable group of assets that generates cash flows that are largely independent of the cash flows from other assets or groups of assets. A CGU cannot be larger than an operating segment.
Recognition of impairment loss	Entities are required to perform an impairment test of goodwill at least annually. Entities may elect to first perform a qualitative test to determine whether it is more likely than not that the fair value of a reporting unit exceeds its carrying amount before performing a quantitative impairment test. If the qualitative test is not performed or it is determined more likely than not that the fair value of the reporting unit is less than its carrying amount as a result of performing the qualitative test, the entity should perform a quantitative test	A one-step approach that compares the carrying amount of a CGU (including goodwill) to its recoverable amount is performed at least annually. When the carrying amount of a CGU is greater than its recoverable amount, an impairment loss is recognized. The recoverable amount is the greater of the fair value less costs to sell and the value in use (i.e., the present value of future cash flows expected to be derived from the CGU). The optional qualitative assessment step does not exist. Each CGU must be tested

Impairment of goodwill		
	comparing the fair value of the reporting unit to the carrying amount of the reporting unit. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value (if any); however, the loss recognized should not exceed the total amount of goodwill assigned to that reporting unit.	annually for impairment, regardless of whether any impairment indicators exist. Any impairment loss is treated as a reduction of the goodwill balance, until that balance is reduced to zero. Any additional impairment loss generally is allocated pro rata to each asset in the CGU.
Measurement of impairment loss	The impairment loss is equal to the amount by which the reporting unit's carrying amount exceeds its fair value, limited to the carrying amount of goodwill allocated to the reporting unit (i.e., an impairment loss should not result in negative goodwill).	The impairment loss is the amount by which the carrying amount of the CGU (including goodwill) exceeds its recoverable amount. That loss is then allocated first to goodwill, until goodwill is reduced to zero. The carrying amounts of other assets in the CGU are then reduced, on a pro-rata basis (subject to certain exceptions).

Impairment of indefinite-lived intangible assets		
	U.S. GAAP	IFRS
Relevant guidance	ASC 350	IAS 36
Unit of account	In general, the unit of account is an individual asset. However, in rare cases, the unit of account may be a combined group of separately recorded indefinite-lived intangible assets that are essentially inseparable from one another.	When possible, the impairment test should be carried out at the individual asset level. If the test cannot be performed at the individual asset level, it should be performed at the CGU level.
Recognition and measurement of impairment loss	An impairment loss is recognized for the amount by which the carrying amount of the intangible asset exceeds its fair value. An entity has the option to first assess qualitative factors to determine whether it is	An impairment loss is recognized for the amount by which the carrying value of the intangible asset exceeds its recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and the value in use (i.e., the present value of

Impairment of indefinite-lived intangible assets		
	necessary to estimate the fair value of an indefinite-lived intangible asset. An entity electing this option only has to estimate the fair value of an indefinite-lived intangible asset if its qualitative assessment indicates it is more likely than not that the asset is impaired. If the estimate of fair value is needed, the fair value is determined and then compared to the carrying amount.	future cash flows expected to be derived from the assets). The option to assess qualitative factors to determine if further impairment testing is required does not exist in IFRS.
Reversal of impairment loss	Prohibited.	For indefinite-lived intangible assets on which an impairment loss has been recognized in the past, an entity must perform an annual review for indicators of reversal. If such an indicator exists, the entity estimates the recoverable amount of the assets in question and previously recognized impairment losses are reversed in an amount that increases the carrying amount of the assets up to the new recoverable amount, subject to a ceiling of the amount necessary to restore the carrying amount of the assets to their initial carrying amount.

Impairment of long-lived assets to be held and used		
	U.S. GAAP	IFRS
Relevant guidance	ASC 360	IAS 36
Unit of account	The unit of account is an asset group, which is defined in the Master Glossary of the ASC as “the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities.” An asset group almost	When possible, the impairment test should be carried out at the individual asset level. If the test cannot be performed at the individual asset level, it should be performed at the CGU level.

Impairment of long-lived assets to be held and used		
	always includes multiple assets. In other words, an asset group is rarely a single asset.	
Recognition of impairment loss	An impairment loss is recognized when the carrying amount of an asset group is not recoverable (that is, the carrying amount is greater than the undiscounted cash flows expected to be derived from the asset group) and the carrying amount of the asset group exceeds its fair value.	An impairment loss is recognized when the carrying amount is greater than the recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and the value in use (i.e., the present value of future cash flows expected to be derived from the assets).
Measurement of impairment loss	The impairment loss is the excess of the carrying amount of an asset group over its fair value.	The impairment loss is the excess of the carrying amount of the asset over its recoverable amount.
Reversal of impairment loss	Prohibited.	For long-lived assets to be held and used on which an impairment loss has been recognized in the past, an entity must perform an annual review for indicators of reversal. If such an indicator exists, the entity estimates the recoverable amount of the assets in question and previously recognized impairment losses are reversed in an amount that increases the carrying amount of the assets up to the new recoverable amount, subject to a ceiling of the amount necessary to restore the carrying amount of the assets to what its initial carrying amount would have been if the prior impairment losses had not been recognized (that is, what the carrying amount would have been after adjusting for regular depreciation expense that would have been recognized).

These are the significant differences between U.S. GAAP and IFRS with respect to accounting for the impairment of long-lived assets. Refer to ASC 350, ASC 360 and IAS 36 for all of the specific requirements applicable to accounting for the impairment of long-lived assets.

7. Contingencies and provisions

7.1 Introduction

The general guidance on accounting for contingencies in U.S. GAAP is included in ASC Topic 450, *Contingencies*, and guidance on accounting for specific types of contingencies is included in other ASC topics, such as ASC 410, *Asset Retirement and Environmental Obligations*, and ASC 420, *Exit or Disposal Cost Obligations*. For U.S. GAAP purposes, the term “general loss contingency” is used in this comparison to refer to those contingencies that fall within the scope of ASC 450. In IFRS, the guidance related to contingencies and provisions is included in IAS 37, *Provisions, Contingent Liabilities and Contingent Assets.*

7.2 Comparison

The significant differences between U.S. GAAP and IFRS with respect to contingencies and provisions are summarized in the following table.

	U.S. GAAP	IFRS
Relevant guidance	ASC 410, ASC 420 and ASC 450	IAS 37
Definitions	The Master Glossary of the ASC defines a contingency as follows: “An existing condition, situation, or set of circumstances involving uncertainty as to possible gain (gain contingency) or loss (loss contingency) to an entity that will ultimately be resolved when one or more future events occur or fail to occur.”	Paragraph 10 of IAS 37 defines a provision as “a liability of uncertain timing or amount.” Paragraph 10 of IAS 37 defines a contingent liability as “a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.” Paragraph 10 of IAS 37 also includes in the definition of a contingent liability “a present obligation that arises from past events, but is not recognised because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

	U.S. GAAP	IFRS
		(ii) the amount of the obligation cannot be measured with sufficient reliability." A contingent asset is defined in paragraph 10 of IAS 37 as "a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity."
Recognition threshold	To recognize a general loss contingency, the loss must be probable and the amount of loss must be reasonably estimable. The Master Glossary of the ASC defines probable as: "The future event or events are likely to occur." Probable, however, is not defined by reference to a single percentage threshold. The intent is that probable be interpreted as a high likelihood. While a numeric standard for probable does not exist, practice generally considers an event that has a 75% or greater likelihood of occurrence to be probable.	A provision must be probable and reasonably estimable to be recognized. Probable is interpreted as more likely than not (i.e., a probability of greater than 50 percent).
Measurement	When there is a range of possible outcomes for a general loss contingency, the amount accrued should be the most likely outcome within the range. If no single outcome within the range is more likely than the others, the minimum amount in the range should be accrued. A probable loss contingency is measured at the single most likely outcome even if the other	When there is a range of possible outcomes for a provision, the amount accrued should be the best estimate of the obligation (the amount an entity would rationally pay to settle or transfer to a third party the obligation at the balance-sheet date). If no single outcome within the range represents the best estimate, the midpoint of the range should be accrued. When other possible outcomes of a single obligation are either

	U.S. GAAP	IFRS
	possible outcomes are mostly higher or lower than that amount.	mostly higher or mostly lower than the single most likely outcome, best estimate will be a higher or lower amount, resulting in measurement of the obligation at an amount higher or lower than the single most likely outcome.
Discounting	Typically, a general loss contingency is not discounted unless the aggregate amount of the liability and the timing of cash payments for the liability are fixed or determinable. For example, environmental liabilities or asset retirement obligations are generally discounted using a credit-adjusted risk-free rate if the timing and amounts of outflows are fixed or reliably determinable.	The anticipated cash flows to settle an obligation are discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the liability if the effect is material. Provisions must be reviewed at the end of each reporting period and adjusted to reflect the current best estimate. The carrying amount of a provision increases in each period to reflect the passage of time with said increase recognized as a borrowing cost.
Onerous contracts	Unless specifically required by other U.S. GAAP, obligations arising from onerous contracts generally are not recognized as provisions (i.e., anticipated losses on executory contracts). A provision on an unfavorable (onerous) contract could be recorded, for example, when leased property rights cease to be used by a lessee permanently or for restructuring, exit or disposal activities.	An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract, (which is the lower of the net costs of fulfilling the contract (e.g., direct labor costs, material costs, depreciation of equipment) or the cost of terminating it), exceed the expected economic benefits. If such a contract exists, the reporting entity should recognize the present obligation as a provision. Such provisions are discounted, where the effect is material.
Asset retirement obligations (ARO)	A liability for an ARO is initially recognized when a legal	A liability for dismantling and removing an item, or for restoring

	U.S. GAAP	IFRS
	obligation arises in connection with the acquisition, construction or development of a long-lived asset. The liability is measured at its fair value. If the expected cash flow approach is used to estimate the fair value of the ARO, a credit-adjusted, risk-free rate is used for discounting.	the site, is recorded when a present obligation exists. The liability is recorded at management's best estimate of the costs to be incurred. A pre-tax discount rate that reflects the current assessment of the risks specific to the liability is used to discount the liability.
Restructuring costs	A restructuring liability is only recognized if it represents a present obligation. An attribute of a present obligation is that the entity has little or no discretion to avoid settlement of the liability by transferring or using assets. An entity's commitment to an exit plan or disposal plan is required to recognize a restructuring liability. In addition, one-time employee termination benefits, must meet certain criteria prior to recognition of a related liability, including communication of the details of the plan to employees who could be affected. A liability for contract termination costs is recognized only when the contract has been terminated pursuant to its terms or the entity has permanently ceased using the rights granted under the contract. Restructuring costs other than employee termination benefits and contract termination costs associated with disposal or exit activities are recognized and measured at fair value when the liability is incurred, which is generally upon receipt of the goods or services (e.g., relocation services).	A provision for restructuring costs is required to be recognized if the general requirements for recognition of a provision are met. One of those criteria is that a present legal or constructive obligation exists. A constructive obligation exists when an entity has done both of the following: • Prepared a detailed formal plan for the restructuring • Raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing the main features to those affected by it Provisions for contract termination costs are not specifically addressed. A restructuring liability is measured at the best estimate of the direct expenditures related to the restructuring.

	U.S. GAAP	IFRS
Expenses incurred or liabilities settled by a shareholder on behalf of the entity	If any expenses incurred or liabilities settled by a principal shareholder on behalf of the entity clearly benefit the entity, such costs should be recognized as an expense with a corresponding credit to additional paid-in capital or capital contributions in the entity's financial statements.	No such concept is included in IFRS except in cases where such costs incurred or liabilities settled are within the scope of IFRS 2, *Share-based Payment*.

These are the significant differences between U.S. GAAP and IFRS with respect to accounting for contingencies and provisions. Refer to ASC 410, ASC 420, ASC 450 and IAS 37 for all of the specific requirements applicable to accounting for contingencies and provisions.

8. Debt modifications and extinguishments

8.1 Introduction

The guidance related to debt modifications and extinguishments for borrowers in U.S. GAAP is included in ASC 470, *Debt*. In IFRS, the guidance related to debt modifications and extinguishments is included in IFRS 9, *Financial Instruments*.

8.2 Comparison

The significant differences between U.S. GAAP and IFRS with respect to debt modifications and extinguishments for borrowers are summarized in the following table.

	U.S. GAAP	IFRS
Relevant guidance	ASC 470	IFRS 9
Troubled debt restructurings	If a lender grants a concession to its borrower as a result of the borrower's financial difficulties, an exchange or modification is accounted for as a troubled debt restructuring (TDR). In a TDR, the borrower recognizes a restructuring gain only to the extent that the carrying amount of the debt instrument is greater than the undiscounted future cash flows of the restructured debt.	IFRS has no concept equivalent to a TDR. The same guidance applies for all exchanges and modifications. See "Debt instrument is exchanged or modified and the transaction is not a TDR" below.
Debt instrument is exchanged or modified and the transaction is not a TDR	When a borrower and lender exchange debt instruments or modify a debt instrument and the exchange or modification is not a TDR, the borrower accounts of the exchange or modification as an extinguishment of the original debt instrument and a recognition of a new debt instrument if the new or modified debt instrument is substantially different than the original debt. The new or modified debt instrument is considered substantially different than the original debt any of the below are true: • The present value of the cash flows of the new or	When a borrower and lender exchange debt instruments or modify a debt instrument, the borrower accounts for the exchange or modification as an extinguishment of the original debt instrument and a recognition of a new debt instrument if the new or modified debt instrument is substantially different than the original debt. The new or modified debt instrument is considered substantially different than the original debt if the new or modified debt instrument's discounted cash flows differs from the present value of the remaining cash flows of the original debt instrument by at

	U.S. GAAP	IFRS
	modified debt instrument (including the present value of any fees paid and received between the borrower and lender) is at least 10% different than the present value of the remaining cash flows of the original debt • The difference between the fair value of any embedded conversion feature (not accounted for as a derivative) before and after the exchange or modification is at least 10% of the carrying amount of the original debt • A substantive conversion option is added or removed If the new, modified or original debt instrument is callable or puttable, an entity performs a separate cash flow analysis assuming exercise of the call or put option to determine if the new or modified debt instrument is substantially different than the original debt. If this analysis produces a change that is lower than that of the test above, then this analysis is used.	least 10%. The cash flows of the new or modified debt instrument would include the present value of any fees paid and received. Unlike U.S. GAAP, there is no specific guidance for callable, puttable or convertible instruments. However, when applying the 10% test, entities typically use expected cash flows rather than an assumption of immediate repayment. If an entity determines that the new or modified debt instrument's discounted cash flows differs from the present value of the remaining cash flows of the original debt instrument by less than 10%, we believe that the entity should perform a qualitative test to determine if the new or modified debt instrument is substantially different than the original debt.
Third-party costs - extinguishment accounting	Third-party costs are amortized over the term of the new debt instrument.	Third-party costs are included in the gain or loss upon extinguishment.
Third-party costs - modification accounting	Third-party costs are expensed as incurred.	Third-party costs are amortized over the term of the new debt instrument.
Gain or loss recognition when modification accounting applies	No gain or loss is recognized when modification accounting is applied. A new effective interest rate is established based on the	A new carrying amount for the debt instrument is established based on the revised cash flows discounted at the original effective interest rate. The

	U.S. GAAP	IFRS
	debt instrument's carrying value and the new cash flows.	difference between the new and original carrying amount is accounted for as a gain or loss in profit or loss in the period that the modification occurs.

These are the significant differences between U.S. GAAP and IFRS with respect to accounting for debt modifications and extinguishments for borrowers. Refer to ASC 470 and IFRS 9 for the specific requirements applicable to accounting for debt modifications and extinguishments for borrowers. For U.S. GAAP, refer to RSM's *A Guide To Accounting For Debt Modifications and Restructurings*.

9. Distinguishing liabilities and equity

9.1 Introduction

The guidance related to distinguishing liabilities from equity in U.S. GAAP is included in ASC 470, *Debt;* ASC 480*, Distinguishing Liabilities from Equity;* ASC 505, *Equity;* and ASC 815, *Derivatives and Hedging.* In IFRS, the guidance related to distinguishing liabilities from equity is included in IAS 32, *Financial Instruments: Presentation*.

9.2 Comparison

The significant differences between U.S. GAAP and IFRS with respect to distinguishing liabilities from equity are summarized in the following table.

	U.S. GAAP	IFRS
Relevant guidance	ASC 470, ASC 480, ASC 505 and ASC 815	IAS 32
Non-mandatorily redeemable shares (e.g., puttable shares, contingently redeemable shares, etc.)	Non-mandatorily redeemable shares do not fall within the scope of ASC 480, which requires liability classification. SEC registrants classify these instruments in the “mezzanine” (i.e., presented between liabilities and equity). Private companies are encouraged, but not required, to follow the same classification.	Non-mandatorily redeemable shares are generally (i.e., barring some narrow exceptions for puttable shares) classified as financial liabilities because the issuer does not have the unconditional ability to avoid settling the shares in cash or another financial asset. There is no mezzanine section of the balance sheet under IFRS.
Instruments redeemable only upon liquidation	Instruments of an issuer that are redeemable only upon the liquidation of an entity are not within the scope of ASC 480, which requires liability classification. As a result, such instruments may be classified as equity depending on facts and circumstances.	Instruments of an issuer that are redeemable only upon the liquidation of an entity are generally (i.e., barring some narrow exceptions) classified as financial liabilities because the issuer does not have the unconditional ability to avoid settling the shares in cash or another financial asset.
Obligation to repurchase an entity’s own shares	Physically settled forward-purchase contracts that embody an obligation of an entity to repurchase its own equity shares for cash are accounted for at either: • The present value of the redemption amount	Obligations of an entity to repurchase its own equity shares are accounted for at the present value of the redemption amount if the issuer could be required to physically settle the contract by transferring assets in exchange for shares.

	U.S. GAAP	IFRS
	• The settlement value Other physically settled contracts that embody an obligation of an entity to repurchase its own equity shares by transferring assets are accounted for at fair value. The following are examples of such contracts: • Physically settled or net cash settled written put option • Forward purchase contract for which the counterparty can elect either physical or net cash settlement	The following are examples of such contracts: • Physically settled or net settled written put option • Physically settled or net settled forward purchase contract
Compound instruments	A convertible debt instrument is accounted for as a liability in its entirety, unless any of the following apply: • The equity conversion feature or other embedded features are separately accounted for under ASC 815. • The convertible instrument is within the scope of the guidance in ASC 470-20 requiring separate equity recognition for a portion of the instrument (e.g., substantial premium, cash conversion feature, beneficial conversion feature models).	A convertible debt instrument is always separated into at least two components. Each convertible debt instrument will include the following two components: • A liability component • Either an equity component if the fixed-for-fixed condition is met or an embedded derivative if the fixed-for-fixed component is not met Additional components may require separate accounting depending on whether certain conditions are met.
Convertible instruments issued at a substantial premium	There is a rebuttable presumption that the premium associated with convertible debt issued at a substantial premium to par should be presented as equity unless the equity conversion feature is bifurcated as an embedded derivative or the cash conversion feature	There is no special accounting guidance on convertible debt issued at a substantial premium. An issuer is required to separate convertible debt into liability and equity components unless the equity conversion feature must be bifurcated as an embedded derivative.

	U.S. GAAP	IFRS
	(CCF) or beneficial conversion feature (BCF) guidance applies.	
Convertible instruments with cash conversion features	Prior to the adoption of ASU 2020-06, an issuer is required to separate convertible debt with a CCF into liability and equity components, unless the equity conversion feature is bifurcated as an embedded derivative. The liability and equity components are separated by using a with-and-without approach based on the fair value of similar nonconvertible debt.	An issuer is required to bifurcate the equity conversion feature in convertible debt with a CCF as an embedded derivative liability.
Convertible instruments with non-contingent beneficial conversion features prior to the adoption of ASU 2020-06	An issuer is required to separate convertible debt with a noncontingent BCF into liability and equity components, unless the conversion feature must be bifurcated as an embedded derivative or the CCF guidance applies. The equity component is measured at its initial intrinsic value.	There is no special accounting guidance for convertible debt with a noncontingent BCF. An issuer is required to separate convertible debt into liability and equity components unless the equity conversion feature must be bifurcated as an embedded derivative.
Convertible instruments with contingent beneficial features prior to the adoption of ASU 2020-06	An issuer is required to recognize a contingent BCF in equity by reallocating an amount from the liability if or when the contingency is triggered, unless the conversion feature must be bifurcated as an embedded derivative, the CCF guidance applies or the issuer has elected a fair value option for the instrument.	There is no special accounting guidance on convertible debt with a contingent BCF. An issuer is required to separate convertible debt into liability and equity components at inception, unless the equity conversion feature must be bifurcated as an embedded derivative. An equity component is not remeasured when conversion price contingencies are triggered.
Conversions in accordance with original terms	No gain or loss is recognized on the conversion of traditional convertible debt in accordance with the original terms unless conversion occurred upon the issuer's exercise of a call option and the conversion option was not substantive at issuance.	No gain or loss is recognized upon the conversion of convertible debt at maturity in accordance with the original terms.

	U.S. GAAP	IFRS
	Issuers may be required to recognize a gain or loss or an expense upon the conversion of convertible debt subject to the CCF or BCF guidance (prior to the adoption of ASU 2020-06) or, if the conversion feature was not substantive at issuance, upon the issuer's exercise of a call option. Upon conversion of a convertible debt instrument that has a separate equity component for a reason other than a CCF or BCF (prior to the adoption of ASU 2020-06), the unamortized discount is recognized immediately as interest expense on that date.	
Contracts on an entity's own equity – fixed-for-fixed	An equity derivative is classified as equity if it is indexed to the issuer's own shares (assuming its settlement provisions do not prohibit equity classification). This determination is made in two-steps. 1. Consider whether there any contingent exercise features existing. If there are such features, they cannot be based on an observable index or market other than those that reference the issuer's own shares. 2. Consider the settlement amount. Equity classification can only be achieved if the settlement amount equals the difference of the fair value of a fixed number of the entity's equity shares and a fixed amount of cash or a debt instrument issued by the entity.	For derivatives, only contracts that require settlement only by exchanging fixed number of shares for a fixed amount of cash or other financial asset are classified as equity. An instrument that has a strike price adjustment-based changes in the issuer's stock price would not pass the fixed-for-fixed criterion under IFRS, but the same adjustment may meet the criteria under U.S. GAAP. IFRS does not contain an exception for down round features. As a result, an equity-linked financial instrument and a debt instrument containing embedded conversion options in debt instruments containing down round features require liability classification.

	U.S. GAAP	IFRS
	If the strike price of the instrument is not fixed, the instrument may be classified as equity if the instrument is not leveraged and the variables that could affect settlement include inputs to the fair value of a fixed-for-fixed option or forward contract on equity shares. This is also the case if the number of shares used to determine the settlement amount is not fixed. Down round features do not cause an equity-linked financial instrument or an embedded conversion option to fail equity accounting in the assessment of whether the instrument is indexed to the entity's own stock.	
Contracts on an entity's own equity – settlement provisions	A derivative within the scope of ASC 815-40 is classified as equity if it requires physical settlement, requires net share settlement or permits the issuer to settle either net in cash or in its own shares if it meets the criteria at ASC 815-40 (assuming the contract is also indexed to the issuer's own shares). Derivatives that require net cash settlement or give the counterparty a choice of net cash settlement or settlement in shares are reported as derivative assets (liabilities).	Only derivatives that will settle physically on a gross basis with certain exceptions (e.g., a written put) are classified as equity. Unlike U.S. GAAP, a derivative that allows either party to choose the settlement method (net in cash, net in shares or by gross delivery) is a derivative asset (liability), unless all settlement alternatives would result in the derivative being considered an equity instrument.
Contracts on an entity's own equity – written puts	A financial instrument that is not an outstanding share and that at inception obligates the issuer to repurchase its own equity shares, or is indexed to such an obligation, and requires or may require the issuer to settle the obligation by transferring assets is classified as a financial asset or liability.	Written put options are reported as liabilities, like U.S. GAAP. However, they are measured at the net present value of the amount that the entity may be required to pay.

	U.S. GAAP	IFRS
	A common example of this is a written put option on the issuer's equity shares that will be physically settled or net cash settled. Written put options are measured at fair value, with changes in fair value recognized in earnings.	

These are the significant differences between U.S. GAAP and IFRS with respect to accounting for distinguishing liabilities from equity. Refer to ASC 470, ASC 480, ASC 505, ASC 815 and IAS 32 for the specific requirements applicable to accounting for distinguishing liabilities from equity. Also, for U.S. GAAP, refer to RSM's guide, *Accounting for Debt and Equity Instruments in Financing Transactions*.

10. Revenue from contracts with customers

10.1 Introduction

The guidance related to recognizing revenue from contracts with customers in U.S. GAAP is included in ASC Topic 606, *Revenue from Contracts with Customers*. In IFRS, the guidance related to recognizing revenue from contracts with customers is included in IFRS 15, *Revenue from Contracts with Customers*.

10.2 Comparison

The significant differences between U.S. GAAP and IFRS with respect to recognizing revenue from contracts with customers are summarized in the following table.

	U.S. GAAP	IFRS
Relevant guidance	ASC 606	IFRS 15
Collectibility threshold – definition of probable	Defines probable as likely to occur.	Defines probable as more likely than not, which is a lower threshold than U.S. GAAP.
Licensing	Requires classification of intellectual property (IP) as either functional or symbolic. IP is considered functional if it has standalone functionality at the time of transfer. Examples are films and software. Revenue recognition on arrangements including functional IP usually occurs at the point in time at which control of the license transfers. IP is considered symbolic if it does not have standalone functionality at the time of transfer. Examples include brands and trade names. Revenue recognition on transfers of symbolic IP usually occurs over the license period.	There is no differentiation between types of IP. Instead, when determining whether a license is a right to use or a right to access, an entity considers whether the customer can direct the use of, and obtain substantially all of the benefits from, the license at the point in time at which the license is granted.
License renewals	Revenue cannot be recognized before the beginning of the renewal period.	No such restriction exists.
Shipping and handling	Permits entities to make an accounting policy election to account for shipping and handling activities that occur after control of the goods	No such accounting policy election is included for shipping and handling activities.

	U.S. GAAP	IFRS
	transfers to the customer as a fulfillment expense.	
Sales and other similar taxes	Permits entities to make an accounting policy election to exclude all sales (and other similar taxes) from the transaction price measurement.	No such accounting policy election is provided.
Noncash consideration – measurement date	Noncash consideration is measured at inception.	No date is prescribed for measurement of noncash consideration.
Noncash consideration: variability	In situations in which noncash consideration varies for reasons other than the form of the noncash consideration, variations in fair value due to the form of the noncash consideration are excluded from the transaction price (and revenue) and variations in fair value not due to the form of the noncash consideration are accounted for as variable consideration.	The variable consideration guidance applies regardless of the reason for the variability.
Reversal of impairment losses on certain capitalized costs	Does not permit reversal of an impairment loss on capitalized costs to obtain or fulfill a contract.	Requires reversal of an impairment loss on capitalized costs to obtain or fulfill a contract if the conditions leading to the recognition of the loss cease to exist (or have improved).
Losses on production-type or construction-type contracts	The onerous test may be applied at either a contract level or a performance obligation level.	The onerous test is performed at a contract level.

These are the significant differences between U.S. GAAP and IFRS with respect to recognizing revenue from contracts with customers. Refer to ASC 606 and IFRS 15 for all of the specific requirements applicable to recognizing revenue from contracts with customers.

11. Share-based compensation

11.1 Introduction

The guidance related to accounting for share-based compensation in U.S. GAAP is included in ASC Topic 718, *Compensation—Stock Compensation*. In IFRS, the guidance related to accounting for share-based compensation is included in IFRS 2, *Share-based Payment*.

11.2 Comparison

The significant differences between U.S. GAAP and IFRS with respect to accounting for share-based compensation are summarized in the following table.

	U.S. GAAP	IFRS
Relevant guidance	ASC 718	IFRS 2
Definition of an employee	The definition of an employee is based on the common law definition of the term. ASC 718 applies similarly to both employee and non-employee share-based payments except for differences in certain inputs used in the valuation of non-employee awards and the recognition of compensation costs.	The definition of an employee focuses more on the nature of services provided (rather than a legal definition). Awards to employees are treated similarly to awards to nonemployees that provide employee-type services. Note that the accounting treatment differs for the awards for non-employee-type services or goods received from vendors.
Classification	Awards that are based on a fixed monetary amount but settleable by issuance of a variable number of shares are classified as liability awards. Share-based payment awards that can be settled in cash at the employee's option might not be a liability if settlement is contingent upon an event outside the employee's control and not considered probable. Puttable shares may be classified as an equity award if the grantee is required to bear the risks and rewards normally associated with share ownership for a reasonable period of time (i.e., six months).	Because IFRS places more emphasis on the manner of settlement than does U.S. GAAP, awards that are based on a fixed monetary amount but settleable by issuance of a variable number of shares are classified as equity awards. Puttable shares are classified as liabilities in all circumstances.

	U.S. GAAP	IFRS
Measurement of share-based transactions with non-employees	Non-employees awards are generally measured in a manner consistent with employee awards, based on the grant date fair value of the award. However, on an award-by-award basis, an entity may elect to use the contractual term as the expected term when estimating the fair value of a non-employee award.	Measurement of equity-settled transactions with non-employees for goods and services that are not similar to employee service is generally based on the fair value goods or services received. The measurement date is the date on which the goods or services are received. IFRS does not include practical expedients for nonpublic entities and does not differentiate between public and non-public entities.
Measurement of share-based transactions with employees	For equity-classified awards, ASC 718 generally requires entities measure awards using the fair value method. If it is not practicable to estimate the expected volatility in stock price, ASC 718 allows nonpublic companies to measure the awards using the calculated value method. For liability-classified awards, ASC 718 allows a nonpublic company to make an accounting policy decision as to how it will measure share-based payment awards. ASC 718 allows a nonpublic company to measure these awards using: • The fair value method • The calculated value method, if applicable • The intrinsic value method	IFRS 2 requires the use of the fair value method in all circumstances.
Awards granted to employees with graded vesting based on only service conditions	Entities are permitted to make an accounting policy election for recognizing compensation cost on a straight-line basis using one of the following methods, which should be applied consistently and disclosed (if significant):	Entities are required to use the accelerated method to account for share-based payment awards granted to employees with graded vesting based on service conditions only. Entities should treat multiple tranches of an individual award as a separate

	U.S. GAAP	IFRS
	1. The accelerated method (i.e., the requisite service period is considered separately for each vesting portion of the award per graded vesting schedule) 2. The requisite service period for the entire award The valuation method that the entities use to fair value either a single award or multiple tranches of individual awards is not required to coincide with the accounting policy election of the attribution method (i.e., straight-line or accelerated method).	grant which will require separate measurement and attribution to expense over the related vesting period resulting in an accelerated recognition of compensation cost.
Forfeiture of share-based payment awards granted to employees	Entities can make an accounting policy election separately for employee and non-employee awards with service conditions by accounting and recognizing forfeitures as they occur or by estimating expected forfeitures.	No specific guidance on accounting policy election is provided in IFRS. Entities are required to estimate expected forfeitures.
Awards with performance targets satisfied after the requisite service period	A performance target that can be met after the employee's requisite service period or nonemployee's vesting period is a performance vesting condition. Compensation cost should be recognized in the period in which the performance condition is probable of being achieved.	Performance targets met after the requisite service period are considered a non-vesting condition and are reflected in the grant date fair value measurement of an award.
Share-based payment awards with performance targets based on a liquidity event	Entities generally cannot recognize compensation cost associated with awards that vest upon a liquidity event (e.g., an IPO or a change of control) until the event occurs.	Entities should recognize compensation expense for an award that vests only on a liquidity event (e.g., an IPO or a change of control) when it is likely to occur. It may be appropriate to conclude that a liquidity event is expected to occur before its actual consummation if such plan of action is affirmed.

	U.S. GAAP	IFRS
Share-based payment award associated with a condition other than service, market or performance conditions	If an award includes conditions other than service, performance or market conditions, it is classified as a liability award.	If an award includes conditions other than service, performance or market vesting conditions generally referred to as nonvesting conditions, it is generally classified as an equity-settled award. The non-vesting condition is taken into account when determining and measuring the grant date fair value of the award.
Modification accounting - equity to liability classification	Any excess from the modified award's fair value over the grant-date fair value of the original award is accounted for as additional compensation cost. If, however, the grant-date fair value of the original award exceeds or equals the fair value of the modified award, the offsetting amount is accounted for in additional paid-in capital.	Any excess from the award's modification is accounted for in additional paid-in capital. Similarly, when the fair value of the original award is more than or equal to the fair value of a modified award, the net offsetting amount is accounted for in additional paid-in capital.
Modification accounting - liability to equity classification	The liability is reclassified to equity. If the fair value of the modified award is less than the fair value of the liability at the time of the modification, the excess is considered a capital contribution and recorded in equity. If the fair value of the modified award exceeds the liability, the excess is recorded as compensation expense in the future over the remaining requisite service period of an employee or vesting period of a non-employee.	The liability on the books is derecognized as of the modification date. The fair value of the equity awards granted as of the modification date is recorded in equity based on the value of goods or services received. Any difference arising as a result of comparing the liability derecognized with the amount recorded in equity is accounted for immediately in the income statement.

These are the significant differences between U.S. GAAP and IFRS with respect to accounting for share-based compensation. Refer to ASC 718 and IFRS 2 for all of the specific requirements applicable to accounting for share-based compensation. Also, for U.S. GAAP, refer to RSM's *A Guide for Accounting for Stock Compensation*.

12. Employee benefits other than share-based compensation

12.1 Introduction

The guidance related to accounting for employee benefits other than share-based payments in U.S. GAAP is included in ASC Topic 710, *Compensation—General*, ASC Topic 715, *Compensation—Retirement Benefits* and ASC Topic ASC 712, *Compensation—Nonretirement Postemployment Benefits*. In IFRS, the guidance related to accounting for employee benefits other than share-based payments is included in IAS 19, Employee Benefits.

12.2 Comparison

The significant differences between U.S. GAAP and IFRS with respect to accounting for employee benefits other than share-based payments are summarized in the following table.

	U.S. GAAP	IFRS
	ASC 715, ASC 710, ASC 712	IAS 19
Defined benefit plan—actuarial method	Entities may use the projected unit credit method or the traditional unit credit method (i.e., the projected unit credit method without considering future salary increases).	The use of the projected credit method is required in all instances.
Actuarial gains and losses	Entities have an election under which they can recognize actuarial gains and losses immediately in net income, or they can defer by recognizing in Accumulated Other Comprehensive Income and amortizing into net income using a corridor approach.	Entities recognize actuarial gains and losses immediately in Other Comprehensive Income and do not recognize them subsequently in net income.
Expected return on plan assets	An expected return on plan assets is calculated using an expected long-term rate of return and the market-related value of the assets.	Expected return on plan assets is not measured under IFRS. Entities multiply the net defined benefit liability or asset by the discount rate to arrive at a net interest expense or benefit, which is a component of defined benefit cost.
Treatment of prior service costs	Prior service costs are deferred in Accumulated Other Comprehensive Income and then amortized into net income over the average remaining service period. If all or almost all of the participants are inactive, the amortization period is the	Past service costs are recognized immediately in net income.

	U.S. GAAP	IFRS
	average remaining life expectancy of the participants.	
Settlements	Settlement gains or losses are recognized in net income when the obligation is settled.	A settlement gain or loss is recognized in net income when the settlement occurs.
Curtailments	Curtailment losses are recognized in net income when the curtailment is probable and the amount of the loss is reasonably estimable. Curtailment gains are recognized in net income when the curtailment occurs.	A curtailment gain or loss is recognized in net income when it occurs.

These are the significant differences between U.S. GAAP and IFRS with respect to accounting for employee benefits other than share-based payments. Refer to ASC 710, ASC 712, ASC 715 and IAS 19 for all of the specific requirements applicable to accounting for employee benefits other than share-based payments.

13. Income taxes

13.1 Introduction

The guidance related to accounting for income taxes in U.S. GAAP is included in ASC Topic 740, *Income Taxes*. In IFRS, the guidance related to accounting for income taxes is included in IAS 12, *Income Taxes*, and IFRIC Interpretation 23, *Uncertainty over Income Tax Treatments*.

Both standards require use of an asset and liability approach and require entities to account for current taxes as well as deferred tax assets and deferred tax liabilities.

13.2 Comparison

The significant differences between U.S. GAAP and IFRS with respect to accounting for income taxes are summarized in the following table.

	U.S. GAAP	IFRS
Relevant guidance	ASC 740	IAS 12 and IFRIC 23
Initial recognition exception	Whereas IFRS includes an exception to initial recognition for certain transactions, U.S. GAAP does not contain a similar exception.	An exception exists that deferred tax assets and liabilities should not be recognized on the initial recognition of an asset or liability in a transaction that: • Is not a business combination • Affects neither accounting profit nor taxable profit or loss at the time of the transaction • Does not give rise to equal taxable and deductible temporary differences at the time of the transaction. Entities are not permitted to subsequently recognize changes in these unrecognized deferred tax assets or liabilities.
Intercompany transfers of assets remaining within a consolidated group	Tax expense paid by transferor is deferred in consolidation (resulting in prepaid expense) Recognition of deferred taxes for an increase in tax basis due to intercompany sale or transfer of inventory is prohibited. Instead, the tax effects are recognized when the inventory is sold to an entity that is not part of the consolidated group.	IAS 12 requires that any taxes paid on intercompany profits be recognized as incurred. Additionally, any deferred taxes related to temporary differences between tax bases of assets transferred between entities that remain in the consolidated group are required to be recognized.

	U.S. GAAP	IFRS
Tax basis	Tax basis is not defined in US GAAP and is generally a question of fact under the tax law. Management's intent does not factor into the determination of the tax basis.	Tax basis is determined based on the amount deductible for tax purposes. The tax basis is influenced by the way in which the entity intends to settle or recover the carrying amount of a liability or an asset (e.g., by sale or through use).
Deferred tax on exchange gains and losses related to foreign nonmonetary assets and liabilities	If the reporting currency is the functional currency, deferred taxes are not recognized for exchange gains and losses related to nonmonetary assets and liabilities that are remeasured from local currency into the functional currency using historical exchange rates, assuming the gains and losses result from changes in exchange rates or indexing for tax purposes.	Deferred taxes are recognized related to differences in the carrying amount of foreign nonmonetary assets remeasured from the local currency into the functional currency using historical exchange rates and the related tax basis, which may result from the indexing of basis for tax reporting purposes.
Recognition of deferred tax assets and use of valuation allowance	An entity records deferred tax assets and then reduces that recorded deferred tax asset by a valuation allowance such that the amount of the deferred tax asset equals the amount that it expects is more likely than not to be realized.	An entity records deferred tax assets only if it is probable (i.e., greater than 50% likely) that the deferred tax asset will be realized.
Subsequent changes in deferred taxes (e.g., changes in tax laws, rates, status, valuation allowance)	In general, subsequent changes in deferred taxes due to changes in tax laws or tax rates are taken through profit or loss, regardless of whether the deferred tax was originated in equity in OCI, or as part of acquisition accounting. Backwards tracing is generally prohibited. Subsequent changes to the amount recognized in the valuation allowance arising from changes in the assessment of future realizability are also generally taken through the income	Subsequent changes in deferred tax balances are recognized in the same manner in which the asset or liability was first recorded. Backwards tracing is generally permitted.

	U.S. GAAP	IFRS
	statement, with certain limited exceptions.	
Tax rates	The enacted tax rates are used to calculate income tax amounts.	The enacted or substantively enacted tax rates are used to calculate income tax amounts. A rate is considered substantively enacted when only perfunctory actions are required for a measure to become law.
Uncertain tax positions	A two-step recognition and measurement approach is applied. A benefit is recognized when it is more likely than not that the position will be upheld based on its technical merits. The benefit would be measured at the largest amount that is greater than 50% likely of being realized upon ultimate settlement. This approach is applied to each individual tax position	If it is probable that the taxing authority will accept an uncertain tax position, the recognition and measurement are consistent with the position the entity took in its tax filing. If it is not probable that the taxing authority will accept an uncertain tax position, the entity should use the most likely amount or the expected value (whichever method is a better predictor of the resolution of the uncertainty) to reflect the impact of the uncertainty. (Reminder: “Probable” under IFRS means “more likely than not.”) Entities are permitted to consider uncertain tax positions individually or on an aggregated basis, depending upon which method more accurately predicts the resolution (whichever method is a better predictor of the resolution of the uncertainty).
Outside basis differences	Deferred tax assets (for investments in subsidiaries and corporate joint ventures) would only be recorded if they are expected to reverse in the foreseeable future. Deferred tax liabilities would be recognized on undistributed profits of domestic subsidiaries and corporate joint ventures. There is an exception related to domestic subsidiaries, whereby	Deferred tax assets (for investments in foreign and domestic subsidiaries) would only be recorded if it is probable that the temporary difference will reverse in the foreseeable future and taxable profit would be available to utilize the temporary difference. An entity is required to recognize a deferred tax liability unless the entity has control over the timing of the reversal of the temporary difference

	U.S. GAAP	IFRS
	amounts need not be recognized if they can be recovered on a tax-free basis and the entity anticipates doing so. No deferred tax liabilities are recognized on undistributed profits and other outside basis differences related to foreign subsidiaries and foreign joint ventures, if sufficient evidence shows that the subsidiary has invested or will invest the undistributed earnings indefinitely or the earnings will be remitted in a tax-free liquidation. A parent entity should have evidence of specific plans for reinvestment of undistributed earnings of a subsidiary which demonstrate the entity's intention to permanently invest the subsidiary's earnings.	and it is more likely than not (i.e., greater than 50% likely) that the temporary difference will not reverse in the foreseeable future. The exception applies solely to foreign subsidiaries and foreign joint ventures that are essentially permanent in duration.
Reconciliation of tax rates	Public companies are required to disclose a reconciliation (using either percentages or amounts) of the reported amount of income tax expense from continuing operations to the amount of income tax expense that would have resulted from applying the statutory rates to pretax income from continuing operations. Nonpublic companies are required to qualitatively explain significant reconciling items between the above rates; however, a numerical reconciliation is not required.	All entities are required to disclose a reconciliation of either (or both) of the following forms: • A numerical reconciliation between income tax expense and the product of accounting profit multiplied by the applicable tax rates, also disclosing the basis on which the applicable tax rates are computed • A numerical reconciliation between the average effective tax rate and the applicable tax rate, also disclosing the basis on which the applicable tax rate is computed
Deferred tax assets recognized for share-based payment arrangements	Temporary differences related to share-based payment arrangements are based on the amount of compensation cost	Deferred tax assets recognized in relation to a share-based payment arrangement are adjusted each period to reflect the estimated

	U.S. GAAP	IFRS
	that is recognized in profit or loss without any adjustment for the entity's current share price until the tax benefit is realized upon settlement or expiration.	amount of tax deduction that the entity would receive if the award were tax-deductible in the current period based on the current market price of the shares.

These are the significant differences between U.S. GAAP and IFRS with respect to accounting for income taxes. Refer to ASC 740, IAS 12 and IFRIC 23 for all of the specific requirements applicable to accounting for income taxes.

14. Statement of cash flows

14.1 Introduction

The guidance related to the statement of cash flows in U.S. GAAP is included in ASC Topic 230, *Statement of Cash Flows*. In IFRS, the guidance related to the statement of cash flows is included in IAS 7, *Statement of Cash Flows*.

14.2 Comparison

The significant differences between U.S. GAAP and IFRS with respect to the statement of cash flows are summarized in the following table.

	U.S. GAAP	IFRS
Relevant guidance	ASC 230	IAS 7
Cash flows from operating activities	Entities are permitted to use either the direct or indirect method. Under either method, entities must reconcile net income to net cash flows from operating activities.	Entities are permitted to use either the direct or indirect method. Net income must be reconciled to net cash flows from operating activities if the indirect method is used.
Interest and dividends	Entities should classify interest received or paid as operating activities. Entities should classify dividends received as operating activities. Entities should classify dividends paid as financing activities.	Interest and dividends received or paid are classified in a consistent manner as either operating, investing or financing activities.
Taxes	Cash flows related to income taxes are generally classified as operating activities.	Cash flows related to income taxes are classified as operating activities unless they can be specifically identified with financing or investing activities.
Bank overdrafts	Bank overdrafts are not included in cash and cash equivalents. Instead, they are accounted for as liabilities, and changes in the overdraft balances are classified as financing cash flows.	In certain circumstances, bank overdrafts are included in cash and cash equivalents. In some countries, bank overdrafts repayable on demand constitute an integral part of an entity's cash management policies. In these circumstances, bank overdrafts are included as a

	U.S. GAAP	IFRS
		component of cash and cash equivalents. However, IFRS also discusses the fact that bank borrowings are generally considered a financing activity.
Restricted cash or restricted cash equivalents	An entity is required to include restricted cash in its beginning and ending balances of cash and cash equivalents in the statement of cash flows. Entities should present the change in total cash, cash equivalents and amounts described as restricted cash and cash equivalents. Entities are required to reconcile the totals in the statement of cash flows to the related descriptions used in the balance sheet if balances of cash and cash equivalents and amounts described as restricted cash and cash equivalents are presented as a separate line item on the balance sheet. Entities will also have to disclose the nature of their restricted cash and cash equivalent balances.	No specific guidance exists.
Cash flow per share amount	Entities are prohibited from reporting an amount of cash flow per share in the financial statements.	Entities are not explicitly prohibited from reporting an amount of cash flow per share.
Leases	Finance leases: A lessee should present the principal portion of the payments as a financing activity. The interest portion of the payment should be presented as an operating cash flow activity.	A lessee should present the principal portion of the payment as a financing cash flow activity. The interest portion of the payment should be presented as either a financing or an operating cash flow activity, based on the lessee's accounting policy election.

	U.S. GAAP	IFRS
	Operating leases: A lessee should present lease payments as an operating activity.	
Use of foreign exchange rate	The standard allows an appropriately weighted average exchange rate for the period to be used for the translation if it approximates the actual rate. In other words, foreign currency cash flows are translated at the exchange rates at the dates of the cash flows (or using averages when appropriate).	Similar guidance exists in IFRS.
Comparative periods	Entities are not subject to specific requirements of presentation of comparative periods. However, presentation of two years of comparative financial information for the cash flow statement is required under Rule 3-02 of SEC Regulation S-X.	Entities must provide one year of comparative financial information.

These are the significant differences between U.S. GAAP and IFRS with respect to the statement of cash flows. Refer to ASC 230 and IAS 7 for all of the specific requirements applicable to the statement of cash flows.

15. Segment reporting

15.1 Introduction

The guidance related to segment reporting in U.S. GAAP is included in ASC Topic 280, *Segment Reporting*. In IFRS, the guidance related to segment reporting is included in IFRS 8, *Operating Segments*.

15.2 Comparison

The significant differences between U.S. GAAP and IFRS with respect to segment reporting are summarized in the following table.

	U.S. GAAP	IFRS
Relevant guidance	ASC 280	IFRS 8
Segment determination	Entities with matrix-style organizations are required to determine their segments based on products and services offered, rather than geography or other measures.	All entities, including those with matrix-style organizations, are required to determine their segments using the management approach. Under that approach, an entity determines operating segments by reference to the core principle of IFRS 8: “An entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.”
Disclosure of aggregation	Entities are required to disclose whether operating segments have been aggregated.	Entities are required to disclose whether operating segments have been aggregated and the judgments used in applying the aggregation criteria.
Disclosure of liabilities	Entities are not required to disclose segment liabilities.	Disclosure of segment liabilities is required if such a measure is regularly reported to the chief operating decision maker.
Intangible assets	Intangible assets are not included in segment disclosures of long-lived assets.	Intangible assets are included in segment disclosures of noncurrent assets.

These are the significant differences between U.S. GAAP and IFRS with respect to segment reporting. Refer to ASC 280 and IFRS 8 for all of the specific requirements applicable to segment reporting.

16. Long-lived assets held for sale and discontinued operations

16.1 Introduction

The guidance related to long-lived assets held for sale in U.S. GAAP is included in ASC Topic 360, *Property, Plant, and Equipment*, and the guidance related to discontinued operations is included in ASC 205-20, *Presentation of Financial Statements – Discontinued Operations*. In IFRS, the guidance related to noncurrent assets held for sale and discontinued operations is included in IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*.

16.2 Comparison

The significant differences between U.S. GAAP and IFRS with respect to long-lived assets held for sale and discontinued operations are summarized in the following tables.

Classification and presentation of long-lived assets held for sale		
	U.S. GAAP	IFRS
Relevant guidance	ASC 360	IFRS 5
Applicability	Not applicable to goodwill, servicing assets, certain financial instruments, deferred policy acquisition costs, deferred tax assets, long-lived assets to be distributed to owners and unproved oil and gas properties accounted for using the successful efforts method, unless those assets are part of a held-for-sale disposal group.	Applicable to all noncurrent assets and disposal groups.

Discontinued operations		
	U.S. GAAP	IFRS
Relevant guidance	ASC 205-20	IFRS 5
Unit of account	The unit of account is a component, which comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. A component may be an operating segment, a reporting unit, a subsidiary or an	The unit of account is a component, which comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. A component will have been a cash-generating unit or a group of cash-

Discontinued operations		
	asset group, depending on the facts and circumstances.	generating units when it was held for use.
Definition	A discontinued operation is defined as 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 or spun-off and represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results • A business or nonprofit activity that on acquisition meets the criteria to be classified as held for sale	A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale or for distribution to owners, and that meets any of the following criteria: • It represents a separate major line of business or geographical area of operations. • It is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations. • It is a subsidiary acquired exclusively with a plan to resell.
Precluded assets	Oil and gas properties accounted for using the full cost method are precluded from designation as a discontinued operation.	There are no assets that are precluded from designation as a discontinued operation.
Cash flow information	An entity is required to present (either in the financial statements or the notes) net cash flow information for discontinued operations.	An entity may choose to separately report net cash flow information of discontinued operations either in the statement of cash flows or in the notes to the financial statements. Regardless of the method chosen, the entity must separately display the total of each of operating, investing and financing cash flows (i.e., one aggregate amount of cash flows may not be separately reported).
Measurement	There is a requirement to allocate to a discontinued operation interest on debt that is to be assumed by a buyer and	There is no guidance on allocating interest to discontinued operations.

Discontinued operations		
	interest on debt that is required to be repaid as a result of the disposal transaction. The allocation to discontinued operations of other interest is permitted, but not required.	
Newly acquired subsidiaries	No disclosure exemptions exist for a disposal group that is a newly acquired subsidiary classified as held for sale on acquisition.	An entity is not required to present an analysis of the amounts presented in the statement of profit or loss and other comprehensive income and cash flow information if the disposal group is a newly acquired subsidiary classified as held for sale on acquisition.

These are the significant differences between U.S. GAAP and IFRS with respect to long-lived assets held for sale and discontinued operations. Refer to ASC 360, ASC 205-20 and IFRS 5 for all of the specific requirements applicable to long-lived assets held for sale and discontinued operations.

17. Earnings per share

17.1 Introduction

The guidance related to earnings per share (EPS) in U.S. GAAP is included in ASC Topic 260, *Earnings Per Share*. In IFRS, the guidance related to earnings per share is included in IAS 33, *Earnings per Share*.

17.2 Comparison

The significant differences between U.S. GAAP and IFRS with respect to EPS are summarized in the following table.

It should be noted that differences between U.S. GAAP and IFRS in other topics will likely result in differences in the numerator for the EPS calculation.

	U.S. GAAP	**IFRS**
Relevant guidance	ASC 260	IAS 33
Contracts that may be settled in common shares or cash at issuer's election	Prior to the adoption of ASU 2020-06, a presumption exists that contracts that may be settled in common shares or cash at the issuer's election will be settled in shares and will be included in diluted EPS if the effect is dilutive unless past experience or a stated policy provides a reasonable basis to believe it is probable that the contracts will be settled in cash. After the adoption of ASU 2020-06, entities are required to include the effect of potential share settlement in diluted EPS, if the effect is more dilutive, for contracts that may be settled in shares or cash and are not considered share-based payments subject to liability accounting, irrespective of whether the holder or the entity chooses either share or cash settlement or the entity has past experience or a stated policy of cash settlement. Note that the share-based payments subject to liability accounting that may be settled in cash or shares at the election of either the holder or the entity are	Contracts that may be settled in common shares or cash at the issuer's election are always presumed to be settled in shares and are included in the diluted EPS computation if dilutive.

	U.S. GAAP	IFRS
	not in the scope of the amendments described in ASU 2020-06.	
Year-to-date calculation of diluted earnings per share	The treasury stock method is applied to certain instruments, such as options and warrants. The number of incremental shares is computed using a year-to-date weighted-average number of incremental shares by using the incremental shares from each quarterly diluted EPS computation.	The number of incremental dilutive potential ordinary shares (including contingently issuable shares) is computed independently for each period presented rather than computing a weighted average of the dilutive potential common shares included in each interim computation. In other words, if an annual reporting period is presented, then the number of incremental shares is computed for that annual period and does not reference the quarterly computations of incremental shares.
Treatment of certain contingent features included in convertible debt securities	The potentially issuable shares from convertible debt securities that contain conversion features that are triggered upon an entity's stock price reaching a predetermined price should always be included in the diluted EPS calculation using the if-converted method from the issuance date, if dilutive, regardless of whether the market price trigger has been attained. Similarly, if an issue of common shares is contingent on attaining a specified level of earnings at a future date, the number of shares included in diluted EPS is based on actual earnings to date, assuming no future earnings at the reporting period.	Potentially issuable shares from convertible debt securities that contain conversion features that are triggered upon an entity's stock price reaching a predetermined price are included in the dilutive EPS calculation only if the market-price trigger has been attained as of the reporting date, assuming the contingency period also ended as of the reporting date. If the entity is required to maintain the level of earnings for an additional period after the reporting date, shares are considered only in the calculation of diluted EPS. The number of additional shares included in diluted EPS is based on the number of ordinary shares that would be issuable if the reporting date were the end of the contingency period.

	U.S. GAAP	IFRS
Applicability of the two-class method	The two-class method applies to participating securities that are debt or equity instruments.	The two-class method applies solely to participating securities that are equity instruments.
Mandatorily convertible instruments	The two-class method should be applied when mandatorily convertible instruments are deemed participating securities. In the computation of diluted EPS, the reporting entity should apply the if-converted method when mandatorily convertible instruments are not deemed participating securities.	The reporting entity should include ordinary shares that will be issued upon the conversion of mandatorily convertible instruments in the computation of basic and diluted EPS from the origination date of the contract.

These are the significant differences between U.S. GAAP and IFRS with respect to calculating EPS. Refer to ASC 260 and IAS 33 for all of the specific requirements applicable to EPS.

18. Interim reporting

18.1 Introduction

The guidance related to interim reporting in U.S. GAAP is included in ASC Topic 270, *Interim Reporting*. In IFRS, the guidance related to interim reporting is included in IAS 34, *Interim Financial Reporting.*

18.2 Comparison

The significant differences between U.S. GAAP and IFRS with respect to interim reporting are summarized in the following table.

	U.S. GAAP	IFRS
Relevant guidance	ASC 270	IAS 34
Allocation of costs in interim periods	Interim periods are viewed as integral parts of an annual reporting period. Certain costs that benefit more than one period may be allocated among those periods, resulting in accrual or deferral of certain costs.	With the exception of income taxes, each interim period is considered a discrete reporting period, rather than an integral part of an annual reporting period. If a cost benefits more than one period, that cost must meet the definition of an asset at the end of an interim period to be deferred. In addition, a liability for accrued expenses must represent an existing obligation at the end of an interim period.
Interim tax provisions	Each interim period is considered to be an integral part of the related annual period. If a tax rate change is enacted in an interim period, an entity is required to recognize the effect of the change immediately in the interim period in which the rate change was enacted. Adjustment to the estimated annual effective tax rate for the change should be evaluated and any resultant changes should be applied prospectively by the entity. The concept of “substantively enacted” does not exist in U.S. GAAP.	The income tax expense recognized in an interim period is based on the estimated weighted-average annual rate, applied to the pre-tax income of the interim period. If a tax rate change is enacted (or substantively enacted) in an interim period, an entity may choose to either recognize the effect of the change immediately in the interim period or spread the effect over the remainder of the year.

	U.S. GAAP	IFRS
Headings and subtotals	No requirements related to headings and subtotals exist in U.S. GAAP.	Interim financial statements must include each of the headings and subtotals included in the most recent annual financial statements.

These are the significant differences between U.S. GAAP and IFRS with respect to interim reporting. Refer to ASC 270 and IAS 34 for all of the specific requirements applicable to interim reporting.

19. Business combinations

19.1 Introduction

The principal guidance related to accounting for business combinations in U.S. GAAP is included in ASC Topic 805, *Business Combinations*. In IFRS, the guidance related to accounting for business combinations is included in IFRS 3, *Business Combinations*.

Although the guidance is largely converged, differences continue to exist in a number of important areas including, but not limited to, the definitions of a business and control, pushdown accounting, operating leases, acquired contingencies, contract assets and liabilities (after adoption of ASU 2021-08), contingent consideration, noncontrolling interests, measurement period adjustments and combinations of entities under common control

19.2 Comparison

The significant differences between U.S. GAAP and IFRS with respect to accounting for business combinations are summarized in the following table.

	U.S. GAAP	IFRS
Relevant guidance	ASC 805	IFRS 3
Definition of control for purposes of identifying a business combination	For purposes of identifying a business combination, control is defined in ASC 810-10-15-8 as "...the usual condition for a controlling financial interest is ownership of a majority voting interest, and, therefore, as a general rule ownership by one reporting entity, directly or indirectly, of more than 50 percent of the outstanding voting shares of another entity is a condition pointing toward consolidation." Additional guidance applies for purposes of determining whether an entity obtains control over a limited partnership or a variable interest entity (as a result of becoming its primary beneficiary).	For purposes of identifying a business combination, control is defined in paragraph 6 of IFRS 10, *Consolidated Financial Statements*, as "An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee."
Definition of a business	Mandatory screen test If substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, the set acquired is not a business.	Optional screen test Under IFRS, performance of the screen test is optional. An entity may elect on a transaction-by-transaction basis whether to apply the screen test when evaluating whether an acquired set is a business.

	U.S. GAAP	IFRS
Pushdown accounting	An acquiree has the option to apply pushdown accounting in its separate financial statements when an acquirer obtains control of the acquiree.	IFRS does not contain the notion of pushdown accounting.
Acquired operating leases when acquiree is a lessor	The acquirer recognizes an intangible asset or liability for terms of an operating lease that are favorable or unfavorable to market.	The acquirer does not recognize an intangible asset or liability related to the operating lease separate from the leased asset. The terms of the lease factor into the estimate of the leased asset's fair value.
Acquired contingencies	The acquirer recognizes assets and liabilities arising from contingencies at fair value if fair value can be determined. If fair value cannot be determined, then assets and liabilities arising from contingencies are only recognized if it is probable at the acquisition date that an asset or liability exists and if its amount is reasonably estimable.	The acquirer recognizes contingent liabilities of the acquiree if a present obligation exists and its fair value can be measured reliably. The acquirer does not recognize contingent assets.
Contract assets and liabilities (after adoption of ASU 2021-08)	The buyer should recognize and measure contract assets and liabilities based on the guidance in ASC 606 (except when one of the practical expedients provided in ASC 805-20-30-29 has been elected).	The buyer should recognize and measure contract assets and contract liabilities at their fair values.
Noncontrolling interests	Noncontrolling interests are measured at fair value, which results in the acquirer recognizing 100% of the acquiree's assets (including goodwill) and liabilities and measuring them predominantly at their respective fair values in accordance with ASC 805.	For noncontrolling interests that represent present ownership interests and entitle the holder to a proportionate share of net assets if the entity is liquidated, acquirers may elect to measure those interests at either their full fair value or their proportionate share of the net amount recognized for the acquiree's assets and liabilities. In general, all other noncontrolling interests must be measured at fair value.

	U.S. GAAP	IFRS
Measurement period adjustments	The acquirer recognizes adjustments to provisional amounts identified for a business combination in the period the adjustments are determined (instead of retroactively).	The acquirer recognizes any adjustments occurring in the measurement period retroactively.
Combinations of entities under common control	Combinations of entities under common control are accounted for at historical cost for the group.	Combinations of entities under common control are outside the scope of IFRS 3. Entities commonly apply US GAAP or can elect to apply acquisition accounting. The IASB currently (September 2023) has a project underway related to combinations of entities under common control.

These are the significant differences between U.S. GAAP and IFRS with respect to accounting for business combinations. Refer to ASC 805 and IFRS 3 for all of the specific requirements applicable to accounting for business combinations.

20. Consolidations

20.1 Introduction

The guidance related to consolidations in U.S. GAAP is included in ASC Topic 810, *Consolidations*. In IFRS, the guidance related to consolidations is included in IFRS 10, *Consolidated Financial Statements*, and IFRS 12, *Disclosure of Interests in Other Entities*.

20.2 Comparison

The significant differences between U.S. GAAP and IFRS with respect to consolidations are summarized in the following table.

	U.S. GAAP	IFRS
Relevant guidance	ASC 810	IFRS 10 and 12
Consolidation models and the concept of control	There are two consolidation models. First, entities are subjected to the variable interest entity (VIE) model. If the VIE model is not applicable, then entities are subjected to the voting interest model. Under the VIE model, a reporting entity has a controlling financial interest in a VIE if it has both the power to direct the activities of the VIE that most significantly affect the VIE's economic performance and the obligation to absorb losses or the rights to receive benefits that could be significant to the VIE. Under the voting interest model, a controlling financial interest generally exists if a reporting entity owns a majority voting interest in another entity. In certain circumstances, the power to control may exist when one entity owns less than a majority voting interest (e.g., because of contractual provisions or agreements with other shareholders).	The basis for consolidation focuses on controlling financial interest, regardless of the form of the investee. The concept of a VIE does not exist under IFRS 10. An investor controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Although the concept of a VIE does not exist under IFRS 10, it is expected that application of IFRS 10 generally will result in a similar conclusion as application of US GAAP. However, a few other differences described may result in different conclusions on consolidation under IFRS and US GAAP.
Scope exceptions	ASC 810 applies to legal entities that are corporations, partnerships, limited liability	A general scope exception is provided by IFRS 10 for postemployment benefit plans or

	U.S. GAAP	IFRS
	companies, grantor trusts and other trusts. The following legal entities are subject to scope exceptions: • Governmental organizations • Employee benefit plans • Investment companies that do not consolidate investees that are not investment companies (subject to specific definition of investment company under US GAAP and IFRS) • Brokers / dealers • Money market funds There are certain scope exceptions from the VIE model that may apply under ASC topic 810.	other long-term employee benefit plans. Investment entities generally account for investments in subsidiaries at fair value. Note that there is no separate VIE model under IFRS 10 and therefore VIE scope exceptions are not applicable. Parent entities are exempt from presenting consolidated financial statements when the parent is itself a wholly owned subsidiary or a partially owned subsidiary and none of its noncontrolling interests' owners, object to the parent's not presenting consolidated financial statements (after being informed of the plans not to provide consolidated financial statements), the parent's equity or debt instruments are not publicly traded and the parent did not file or is not in the process of issuing any class of instruments in publicly traded markets, the parent is unlisted, and the ultimate or any intermediate parent of the parent prepares consolidated financial statements available for public use that comply with IFRS.
Private company election for entities under common control	Private companies have the option to elect to not apply the VIE model to legal entities when all of the following criteria are met: • The reporting entity and the legal entity are under common control. • The reporting entity and the legal entity are not under	No equivalent election exists under IFRS.

	U.S. GAAP	IFRS
	common control of a public business entity. • The legal entity under common control is not a public business entity. • The reporting entity does not directly or indirectly have a controlling financial interest in the legal entity when considering the non-VIE sections of ASC 810. The VIE guidance is not applied when making this determination.	
Limited partnerships and similar entities	Specific guidance applicable to limited partnerships and similar entities is provided. A limited partnership, or an entity with a governance structure similar to a limited partnership, would be considered a VIE regardless of whether it otherwise qualifies as a voting interest entity unless a simple majority or lower threshold of the "unrelated" limited partners have substantive kick-out rights (including liquidation rights) or substantive participating rights. Limited partnerships and similar entities that are not VIEs are consolidated by the limited partner with the majority of the kick-out rights (which includes liquidation rights). If no entity holds the majority of the kick-out rights, no limited partner consolidates the limited partnership.	Specific guidance applicable to limited partnerships is not provided.
De facto control	The concept of de facto control does not exist. The concept of effective control exists in connection with contracts, as discussed earlier in the context	The notion of de facto control does enter into the consideration of whether control exists. In certain situations, a parent company may have control over

	U.S. GAAP	IFRS
	of the consolidation models in U.S. GAAP.	another entity despite holding less than a 50% voting interest and lacking legal or contractual rights that would permit the entity to control the investee's voting power or board. For example, de facto control may exist in a situation in which a major shareholder holds a significant, less-than-majority stake in an entity, but the other ownership holdings are widely dispersed. To determine if control exists in this situation, all relevant facts and circumstances, including the ability of the other owners to vote in a block, would need to be considered.
Potential voting rights	Potential voting rights are generally not considered in the determination of control by entities in the voting interest model. Under the VIE model, potential voting rights might (in limited situations) enter into the determination of whether the entity is a VIE or which party is the primary beneficiary of a VIE.	Potential voting rights are considered only if substantive; that is, they must give the holder the ability to direct the relevant activities of an investee, and the holder must have the ability to exercise those rights. An investor with potential voting rights might have power over an investee, even if the rights are not currently exercisable.
Accounting policies	A parent and all its subsidiaries are not required to apply uniform accounting policies. Upon consolidation, the accounting policies of a parent and its subsidiaries should be conformed in the parent's consolidated financial statements unless dissimilar operations provide a basis for different accounting policies which can be justified (e.g., through specialized industry specific guidance).	A parent and its subsidiaries are required to apply uniform accounting policies.

	U.S. GAAP	IFRS
Different reporting dates	The consolidated financial statements of a parent and its subsidiaries are generally prepared using the same reporting date. However, a difference in reporting dates of not more than three months is permitted. An entity is required to disclose or adjust the effects of intervening significant transactions or events between the two reporting dates that would materially affect the consolidated financial statements.	A parent and its subsidiaries are required to have the same reporting date unless it is impracticable to do so. If impracticable to do so, the difference between the two reporting dates cannot be more than three months and the effects of significant transactions and events between the two dates must be adjusted for in the consolidated financial statements.
Shared power to direct activities and its impact on consolidation	Under the VIE model, if multiple unrelated entities share the power to direct the activities that most significantly impact a VIE's economic performance, no party would consolidate the VIE. If there is shared power among a related party group while the related party group collectively meets the power and economic criteria, the party that is most closely associated with the VIE will consolidate the VIE.	Pursuant to the provisions of IFRS 10.9, if two or more investors collectively control an investee while directing the relevant activities of an entity, no investor individually can direct the activities without the co-operation of the others because no investor individually controls the investee. Each investor would account for its interest in the investee in accordance with the relevant guidance, such as IFRS 11 Joint Arrangements or IAS 28 Investments in Associates and Joint Ventures.
Related party considerations under consolidation models	There is no specific guidance addressing voting rights of related parties under the voting interest model, and thus voting rights held by related parties are not considered under the voting interest model. Reporting entities are required to consider the involvement of related parties, including de facto agents, in numerous aspects of the VIE model, including in the determination of whether certain	Under IFRS 10, no related party tiebreaker test exists. Paragraph B73 of IFRS 10 states, "When assessing control, an investor shall consider the nature of its relationship with other parties and whether those other parties are acting on the investor's behalf (i.e., they are 'de facto agents'). The determination of whether other parties are acting as de facto agents requires judgement,

	U.S. GAAP	IFRS
	scope exceptions apply, the identification of variable interests, the determination of whether a legal entity is a VIE and the determination of the primary beneficiary of a VIE. Under the VIE model, it is possible to reach a determination that a reporting entity is not the primary beneficiary of a VIE on a standalone basis but still conclude that the reporting entity is required to consolidate the VIE after consideration of the power and economics held by the related party group.	considering not only the nature of the relationship but also how those parties interact with each other and the investor." When the related party is not acting as a de facto agent of the reporting entity, it is less likely that a reporting entity reporting under IFRS would consolidate the related party than would a reporting entity reporting under US GAAP.
Change in ownership interest with or without loss of control of a subsidiary	Loss of control of a subsidiary: In most instances, changes in the parent's ownership interest that result in a loss of control of a subsidiary result in the remeasurement of any retained noncontrolling investment to fair value with the resulting gain or loss recognized in earnings as part of the gain or loss on the ownership interest sold. Without loss of control of a subsidiary: Changes in the parent's ownership interest without a loss of control of a subsidiary are accounted for as equity transactions and no gain or loss is recognized in the statement of income when the subsidiary is a business or nonprofit activity (except a conveyance of oil and gas mineral rights or a transfer of a good or service in a contract with a customer) or the subsidiary is not a business or nonprofit activity, but the substance of the transaction is not addressed directly by other applicable ASC guidance.	Loss of control of a subsidiary: This guidance is consistent with U.S. GAAP. However, there are no exceptions for certain industries (such as conveyance of oil and gas mineral rights) and types of transactions (such as contracts with customers) or when the subsidiary is not a business or a nonprofit activity. Without loss of control of a subsidiary: This guidance is consistent with U.S. GAAP. However, there are no exceptions for certain industries (such as conveyance of oil and gas mineral rights) and types of transactions (such as contracts with customers) or when the subsidiary is not a business or a nonprofit activity. IFRS 10 does not address whether this guidance should be applied to transactions involving non-subsidiaries that are businesses or nonprofit activities.

These are the significant differences between U.S. GAAP and IFRS with respect to consolidations. Refer to ASC 810, IFRS 10 and IFRS 12 for all of the specific requirements applicable to consolidations.

21. Derivative instruments

21.1 Introduction

The guidance related to derivative instruments in U.S. GAAP is included in ASC 815, *Derivatives and Hedging*. In IFRS, the guidance related to derivative instruments is included in IFRS 9, *Financial Instruments*.

21.2 Comparison

The significant differences between U.S. GAAP and IFRS with respect to derivatives are summarized in the following table.

	U.S. GAAP	IFRS
Relevant guidance	ASC 815	IFRS 9
Scope exceptions	The FASB did not intend for contracts that result in the delivery of something other than a financial instrument or derivative instrument in quantities that the entity expects to use or sell in the normal course of its business to be accounted for as derivative instruments. For this reason, the FASB established the normal purchases and normal sales (NPNS) scope exception. For an entity to avail itself of the NPNS exception, it must be properly elected and documented.	Like U.S. GAAP, IFRS has an exception similar to the NPNS exception. IFRS refers to this as the own use scope exception. However, the own use scope exception is not elective. Regardless of election or documentation, if the transaction qualifies for the own use exception, the exception applies.
Definition of a derivative	A derivative instrument is a financial instrument or other contract with the following characteristics: • Underlying, notional amount, payment provision: The contract has both of the following terms, which determine the amount of the settlement and, in some cases, whether or not a settlement is required: − One or more underlyings	A derivative instrument has the following characteristics: • Its value fluctuates based on the fluctuations of an underlying. • It requires no or a small initial net investment. • It settles at a future date. The definition of a derivative under IFRS does not include a net settlement characteristic. However, a contract to purchase or sell a nonfinancial item can be

	U.S. GAAP	IFRS
	– One or more notional amounts or payment provisions • Initial net investment: The contract requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors. • Net settlement: The contract can be settled net by any of the following means: – Its terms implicitly or explicitly require or permit net settlement. – It can readily be settled net by a means outside the contract. – It provides for delivery of an asset that puts the recipient in a position not substantially different from net settlement.	a derivative under IFRS 9 only if it can be settled net.
Embedded derivatives	Both IFRS and U.S. GAAP require an embedded derivative to be accounted for separate from the hybrid instrument in which it is embedded as if it was a freestanding derivative instrument if certain conditions are met. Those conditions under IFRS and U.S. GAAP are worded very similarly, but differences may be seen in practice upon application.	
Embedded derivatives – initial recognition	The separation requirements apply to both assets and liabilities. In addition, the guidance for embedded derivatives provided under U.S. GAAP is more detailed than that provided under IFRS. As a result, an entity may reach a conclusion under U.S. GAAP that is different than it would reach under IFRS regarding	The separation requirements apply only to liabilities.

	U.S. GAAP	IFRS
	whether the embedded derivative should be accounted for separately as if it was freestanding derivative instrument.	

These are the significant differences between U.S. GAAP and IFRS with respect to accounting for derivative instruments. Refer to ASC 815 and IFRS 9 for the specific requirements applicable to accounting for derivative instruments. For U.S. GAAP, refer to RSM's *A Guide to Accounting for Derivatives*.

22. Hedge accounting

22.1 Introduction

The guidance related to hedge accounting in U.S. GAAP is included in ASC 815, *Derivatives and Hedging*. In IFRS, the guidance related to hedge accounting is included in IFRS 9, *Financial Instruments*.

22.2 Comparison

The significant differences between U.S. GAAP and IFRS with respect to hedge accounting are summarized in the following table.

	U.S. GAAP	IFRS
Relevant guidance	ASC 815	IFRS 9
Assessing effectiveness – general	An entity is required to perform quantitative prospective assessment of hedge effectiveness at hedge inception, unless one of the methods that allows for the assumption of perfect effectiveness can be used. However, if certain conditions are met, the entity can elect to perform its subsequent prospective and retrospective hedge effectiveness assessments on a qualitative basis unless facts and circumstances change. Subsequent assessments must be performed whenever financial statements or earnings are reported or at least every three months.	An entity is not required to retrospectively assess effectiveness. However, an entity must perform an ongoing assessment of whether the hedging relationship continues to meet the effectiveness criteria in IFRS 9. Subsequent assessments must be performed at each reporting date (not necessarily every three months) or upon a significant change in circumstances. The ongoing assessment is prospective only.
Assumption of perfect effectiveness	Certain methods of assessing effectiveness allow for the assumption of perfect effectiveness. For each of these methods, certain conditions must be met. The following are examples of methods that allow for the assumption of perfect effectiveness. • Shortcut method for interest rate swaps • Critical-terms-match method for forward and futures contracts	IFRS does not permit assuming perfect effectiveness. As a result, an entity must perform an assessment of effectiveness.

	U.S. GAAP	IFRS
	• Terminal value method for option contracts • Simplified approach for private companies that hedge the variability of cash flows from debt issued that is hedged with an interest rate swap	
Ineffectiveness	Ineffectiveness is not separately measured and reported.	For fair value hedges, ineffectiveness refers to the degree to which the change in fair value of the hedging instrument does not offset the change in fair value of the hedged item attributable to the hedged risk. For cash flow hedges, ineffectiveness refers to the degree to which the cumulative change in the fair value of the hedging instrument exceeds cumulative change in the fair value of the cash flows of the hedged forecasted transaction attributable to the hedged risk. Ineffectiveness is separately measured and reported.
Hedging benchmark interest rates	For fair value hedges, the hedged risk must be one of the following qualified benchmark interest rates: • U.S. Treasury rates • Fed Funds Effective Rate Overnight Index Swap Rate (OIS) • Securities Industry and Financial Markets Association Municipal Swap Rate (SIFMA) • Secured Overnight Financing Rate Overnight Index Swap Rate (SOFR)	For a fair value hedge or a cash flow hedge, the hedged risk must be a separately identifiable and reliably measurable component.

	U.S. GAAP	IFRS
	For cash flow hedges, the hedged risk must be a contractually specified rate.	
Nonfinancial item risk component	An entity may designate a component of a nonfinancial item as the hedged risk if that component is one of the following: • A foreign currency risk • A contractually specified risk component	An entity may designate a component of a nonfinancial item as the hedged risk if that component is separately identifiable and reliably measurable. The component does not have to be contractually specified.
Nonderivative hedging instruments	Generally, an entity may not designate a nonderivative as a hedging instrument. However, if a nonderivative financial instrument gives rise to a foreign currency gain or loss, an entity may designate it as a hedging instrument as part of a fair value hedge where the hedged item is a firm commitment and the hedged risk is foreign currency risk or as a net investment hedge.	Generally, an entity may designate a nonderivative financial instrument that is classified at fair value through profit or loss as a hedging instrument for any type of risk. However, an entity may not designate a nonderivative financial liability as a hedging instrument when changes in fair value attributable to credit risk are presented in other comprehensive income (OCI). An entity may designate the foreign currency component of nonderivative financial instruments as a hedge of foreign currency risk (except for equity instruments whose changes in fair value are recorded in OCI).
Hedging groups of items	An entity may designate a group of items as the hedged item in a fair value hedging relationship only if the individual items that comprise the group all share the same risk exposure for which they are being hedged as evidenced by passing a quantitative evaluation, which is sometimes referred to as the similarity test. The similarity test requires that the change in fair value of the individual items in	An entity may designate a group of similar items as the hedged item in a hedging relationship. However, the entity need not prove that the fair value change of each individual item is proportional to the overall group. An entity may designate groups of offsetting exposures as the hedged item.

	U.S. GAAP	IFRS
	the group be proportional to the change in the aggregate fair value of the group.	
Basis adjustments	A basis adjustment for the realized effective amount related to a cash flow hedge is prohibited. Rather, the amount in accumulated OCI (AOCI) related to a cash flow hedge is reclassified into earnings as the hedged forecasted transaction affects earnings.	If a hedged forecasted transaction results in recognizing a nonfinancial asset or liability, or if the forecasted transaction becomes a firm commitment that is then designated as the hedged item in a fair value hedge, the amount that was reported in the AOCI is removed and included in the carrying amount of the related asset or liability.
Hedging prepayable financial assets	An entity may use the “portfolio layer method,” which allows an entity to designate static amounts of fixed-rate financial assets from a closed pool of financial assets over certain periods of time in a fair value hedge of interest rate. That is, the entity may apply hedge accounting to one or more layers of a closed portfolio of financial assets if certain conditions are met.	An entity may designate a layer of a group as the hedged item. The entity can specify a layer component from a defined, but open, population or from a defined nominal amount. If an entity designates a layer component in a fair value hedge, it must specify it from a defined nominal amount.
Dedesignation	An entity may voluntarily dedesignate a hedging relationship, thereby discontinuing hedge accounting at any time. Otherwise, dedesignation is required when the hedging relationship no longer qualifies for hedge accounting.	An entity is prohibited from voluntarily dedesignating an entire hedging relationship. However, dedesignating a proportion may be required to rebalance the hedge. In addition, dedesignation is required when the hedging relationship no longer qualifies for hedge accounting.

These are the significant differences between U.S. GAAP and IFRS with respect to hedge accounting. Refer to ASC 815 and IFRS 9 for the specific requirements applicable to hedge accounting. For U.S. GAAP, refer to RSM’s *A Guide To Hedge Accounting Upon The Adoption of ASU 2017-12*.

23. Financial instruments - fair value option

23.1 Introduction

The guidance related to the fair value option in U.S. GAAP is included in ASC 825, *Financial Instruments*. In IFRS, the guidance related to the fair value option is included in IFRS 9, *Financial Instruments*.

23.2 Comparison

The significant differences between U.S. GAAP and IFRS with respect to the fair value option are summarized in the following table.

	U.S. GAAP	IFRS
Relevant guidance	ASC 825	IFRS 9
Scope	An entity may elect the fair value option (FVO) for most financial assets and financial liabilities (there are some explicit scope exceptions, e.g., financial assets and financial liabilities recognized under leases, deposit liabilities). Financial assets and financial liabilities for which the FVO is elected are accounted for at fair value with changes in fair value recorded in net income.	An entity may elect and apply the FVO only to: • A financial asset or financial liability if doing so eliminates or significantly reduces an accounting mismatch • A group of financial liabilities or a group of financial assets and financial liabilities that is managed and evaluated on a fair value basis • A hybrid financial liability that contains one or more embedded derivatives (unless the embedded derivatives are not significant, or it is clear with little or no analysis that the embedded derivatives would not be accounted for separately) • A financial instrument that reflects a credit exposure that an entity manages with a credit derivative measured at fair value through profit or loss if certain criteria are met Changes in fair value are recorded in profit or loss when the FVO is elected for financial assets and financial liabilities.

	U.S. GAAP	IFRS
Timing of the election of the FVO	An entity may elect the FVO upon: • The initial recognition of a financial asset or financial instrument • The occurrence of certain events (e.g., when an investment becomes subject to the equity method of accounting)	For a financial instrument that reflects a credit exposure, the election may be made after initial recognition or while it is unrecognized. For other financial instruments, the election can only be made at initial recognition.
Presentation of changes in fair value of liabilities for which the FVO has been elected	For a financial liability for which the FVO has been elected, the portion of the change in fair value that is attributable to the instrument's credit risk is recorded in OCI. The balance related to the change in fair value attributable to credit risk builds up in AOCI and is reclassified to net income when the liability is derecognized.	For a financial liability for which the FVO has been elected, the portion of the change in fair value that is attributable to the instrument's credit risk is recorded in OCI, unless doing so would increase or create an accounting mismatch. The balance related to the change in fair value attributable to credit risk builds up in AOCI and is not reclassified to profit or loss.

These are the significant differences between U.S. GAAP and IFRS with respect to the fair value option. Refer to ASC 825 and IFRS 9 for the specific requirements applicable to the fair value option.

24. Fair value measurements

24.1 Introduction

The guidance related to fair value measurements in U.S. GAAP is included in ASC Topic 820, *Fair Value Measurement*. In IFRS, the guidance related to fair value measurements is included in IFRS 13, *Fair Value Measurement.*

24.2 Comparison

Under both IFRS and U.S. GAAP, fair value is defined the same: “Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.” The significant differences between U.S. GAAP and IFRS with respect to how this definition is applied are summarized in the following table.

	U.S. GAAP	IFRS
Relevant guidance	ASC 820	IFRS 13
Recognition of day-one gains and losses (which arise when the transaction price does not equal fair value)	The recognition of day-one gains and losses is required, even when the inputs to a fair value measurement are not observable, unless other guidance in the Codification prohibits the recognition of such a gain or loss.	In certain situations, the recognition of day-one gains and losses is prohibited when the inputs to a fair value measurement are not observable. For example, in some cases, the difference between the fair value and transaction price of a financial instrument at the acquisition date is deferred (instead of recognized as a day-one gain or loss) when the inputs used to measure the fair value of the financial instrument are not observable. The deferred difference is subsequently recognized as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.
Accounting for certain investments	A practical expedient permits estimating the fair value of certain investments using net asset value (NAV) when both of the following are true:	A practical expedient for estimating the fair value of certain investments using NAV does not exist.

	U.S. GAAP	IFRS
	• The investment does not have a readily determinable fair value. • The investment is in an investment company, or is an investment in a real estate fund for which it is industry practice to measure assets at fair value on a recurring basis and to issue financial statements that are consistent with the measurement principles applied to investment companies.	
Disclosures	A quantitative sensitivity analysis is not required for Level 3 financial assets and financial liabilities.	A quantitative sensitivity analysis is required for financial instruments measured at fair value and categorized in Level 3 of the fair value hierarchy if changes to those inputs could result in a significantly higher or lower fair value measurement.

Subsequent to the adoption of ASU 2022-03: Entities are required to measure the fair value of equity securities that are subject to a contractual sale restriction similarly to how they measure the fair value of equity securities that are not subject to a contractual sale restriction (for example, quoted market prices on the stock exchange). Entities are not permitted to apply a discount to reflect a contractual sale restriction that is not a characteristic of the asset. Entities are also not permitted to recognize such a restriction as a separate unit of account.

These are the significant differences between U.S. GAAP and IFRS with respect to fair value measurements. Refer to ASC 820 and IFRS 13 for all of the specific requirements applicable to fair value measurements.

25. Foreign currency matters

25.1 Introduction

The guidance related to accounting for foreign currency matters in U.S. GAAP is included in ASC Topic 830, *Foreign Currency Matters*. In IFRS, the guidance related to foreign currency matters is included in IAS 21, *The Effects of Changes in Foreign Exchange Rates*, and IAS 29, *Financial Reporting in Hyperinflationary Economies*.

25.2 Comparison

The significant differences between U.S. GAAP and IFRS with respect to accounting for foreign currency matters are summarized in the following table.

	U.S. GAAP	IFRS
Relevant guidance	ASC 830	IAS 21 and IAS 29
Determination of functional currency	A number of indicators must be considered to determine the entity's functional currency. Those indicators are not set up in a hierarchical structure. The same indicators are also used in assessing whether the functional currency of a foreign operation is the same as that of its parent; there are no additional indicators.	A hierarchy of indicators exists, which lists primary and secondary indicators to consider when determining an entity's functional currency. There are additional indicators that should be considered in determining whether the functional currency of a foreign operation is the same as that of its parent.
Hyperinflationary or highly inflationary economies	If the economy qualifies as highly inflationary, the financial statements are remeasured as if the reporting parent company's reporting currency were the functional currency. Any exchange differences are reported in income. Once a reporting entity determines that it has a foreign entity operating in a highly inflationary economy, the reporting currency should be considered the foreign entity's functional currency on a prospective basis. The new accounting basis of monetary and nonmonetary assets and liabilities should be the last	Even when the economy qualifies as hyperinflationary, the functional currency is retained. However, if there are any amounts in the financial statements that are not already measured at the current rate at the end of the reporting period, those amounts should be restated using a general price index, then translated into the reporting currency at the current (spot exchange) rate. If an economy is no longer considered hyperinflationary, the balances measured at the current rate at the end of the prior reporting period become the basis for the carrying values

	U.S. GAAP	IFRS
	translated balances prior to the designation as highly inflationary. Translation is usually not required since the financial statements of a foreign entity in a highly inflationary economy are already remeasured directly into the reporting currency. Translation adjustments for prior periods are not removed from equity. If an economy is no longer considered highly inflationary, the reporting currency balances are translated back into the local currency at current spot exchange rates as of the date of change. The resultant new balances will become the new functional currency bases for the nonmonetary assets and liabilities.	in entities' subsequent financial statements.
Foreign exchange gains and losses related to available for-sale debt securities	Foreign exchange gains and losses related to available for-sale debt securities (not related to the allowance for credit losses) are reported in other comprehensive income.	Foreign exchange gains and losses related to debt instruments measured at FVOCI are recognized in profit or loss.
Reporting entity with multiple levels of foreign subsidiaries and parent companies with different functional currencies	When a reporting entity has multiple levels of foreign subsidiaries and parent companies with different functional currencies, the step-by-step bottom-up approach of consolidation should be used by the reporting entity while accounting for the foreign currency translations. In other words, the lowest level of foreign subsidiary is first translated and consolidated into an intermediate foreign subsidiary's currency. Then, the intermediate foreign subsidiary's consolidated financial statements are	No specific guidance exists in IFRS for the method of consolidation. A reporting entity can use either the direct or the step-by-step method of consolidation while performing the translation accounting. Unlike U.S. GAAP, each foreign company within the consolidated group can translate their financial statements into the ultimate parent (reporting entity)'s functional currency prior to its consolidation into the reporting entity under the direct method. IFRS does not require the reporting entity to consider its

	U.S. GAAP	IFRS
	translated into the reporting entity's currency from a consolidation perspective. A careful consideration of a reporting entity's ownership structure is imperative prior to performance of the translation accounting at multiple levels of foreign subsidiaries and parent companies with different functional currencies.	complex ownership structure in this regard. However, like U.S. GAAP, IFRS also permits the reporting entity to elect and use the step-by-step bottom-up approach of consolidation.
Equity method investee that is a foreign entity held for disposal	If the equity method foreign investee's operations are entirely disposed of, the entire foreign exchange differences upon translations are reclassified from accumulated OCI into earnings in the income statement. However, if the equity-method foreign investee's operations are only partially disposed of and the investor retains significant influence or joint control, a portion of the amount is reclassified from accumulated OCI into earnings. When an investor loses significant influence or joint control over an investee accounted for using the equity method, a proportionate amount is released into the income statement, and the remainder shall be used to offset the carrying value of the investment if the carrying amount is not below zero. If the carrying amount of investment is zero, then the remainder amount is reclassified into earnings.	IFRS does not permit transferring of accumulated OCI into profit or loss until a reporting entity does not exercise significant influence or retain a joint control over foreign investee's operations in its entirety. If the equity method investee is entirely disposed of, the cumulative amount of the exchange differences related to that foreign operation recognized in OCI shall be reclassified into profit or loss. However, a portion of the exchange differences in OCI are transferred to profit or loss if the foreign investee’s operations are partially disposed of and the reporting entity exercised significant influence or retained a joint control of the foreign investee's operations.

These are the significant differences between U.S. GAAP and IFRS with respect to accounting for foreign currency matters. Refer to ASC 830 and IAS 21 and 29 for all of the specific requirements applicable to accounting for foreign currency matters.

26. Leases

26.1 Introduction

The guidance related to accounting for leases in U.S. GAAP is included in ASC Topic 842, *Leases*. For information about the effective date of ASC 842, refer to our white paper, *Leases: Overview of ASC 842*. In IFRS, the guidance related to accounting for leases is included in IFRS 16, *Leases.*

Both standards were issued in 2016 and although the Boards had initially worked together towards a converged standard, they ultimately diverged. Although both standards require lessees to recognize right-of-use assets and lease liabilities for most leases, one of the primary differences (that is, the dual lessee classifications for U.S. GAAP compared to a single classification for IFRS), result in significant differences in the subsequent accounting for lessees.

26.2 Comparison

The significant differences between U.S. GAAP and IFRS with respect to the accounting for leases (excluding differences related to the accounting for sale-leasebacks and subleases) are summarized in the following tables.

Both lessees and lessors		
	U.S. GAAP	IFRS
Relevant guidance	ASC 842	IFRS 16
Scope	Applies to all leases of property, plant and equipment. Scope exclusions include: • Rights to use intangible assets • Rights to explore for or use nonregenerative resources • Rights to use biological assets • Rights to use inventory • Rights to use assets under construction • Service concession arrangements	Applies to all leases (i.e., not limited to property, plant and equipment) with certain limited exceptions which include: • Leases to explore for or use of nonregenerative resources • Leases of biological assets • Service concession arrangements • Certain types of intangible assets The lessee may, but is not required to, apply lease accounting to leases of intangible assets other than rights held under licensing arrangements. However, a lessor is required to apply lease accounting to leases of intangible assets other than licenses of intellectual property.

Lessee accounting		
	U.S. GAAP	IFRS
Short-term leases (for purposes of lessee accounting policy election)	A short-term lease is defined as one with a lease term of 12 months or shorter that does not include a purchase option that the lessee is reasonably certain to exercise.	A short-term lease is defined as one with a lease term of 12 months or shorter that does not include a purchase option. The likelihood of the lessee exercising the purchase option is not considered.
Low-value assets exemption for lessees	No exemption for low-value assets is provided, although materiality considerations apply in the same manner as such considerations apply to all U.S. GAAP.	Permits an entity to elect to recognize payments for a lease of a low-value asset on a straight-line basis over the lease term. Although the term “low value” is not defined, IFRS 16’s Basis for Conclusions implies that the term refers to assets that, when new, individually have values of $5,000 or less.
Lessee lease classification	Under a dual model, lessees classify leases as either operating or finance leases, depending on five classification criteria. If any of the five criteria are met, the lease is classified as a finance lease.	Only one accounting model exists for lessees. All leases are treated in a manner similar to finance leases under ASC 842.
Lease modifications that reduce the lease term	Lessees should remeasure the lease liability and adjust the right-of-use asset accordingly. No gain or loss should be recognized unless the right-of-use asset is reduced to zero.	Lessees would recognize gain or loss for any difference between the reduction in the right-of-use asset and the reduction in the lease liability.
Lease modifications and related reallocation of contract consideration	Upon a lease modification or a remeasurement of the lease liability, lessees are required to reallocate the revised lease payments based on the standalone price of the lease and non-lease components at the effective date of the modification.	When there is a lease modification, the consideration in the contract is reallocated. When a lease liability is remeasured for other reasons, lessees are required to allocate the revised lease payments based on the standalone price of the lease and non-lease

Lessee accounting		
		components at the lease commencement date.
Subsequent accounting	For finance leases, the right-of-use asset is amortized on a straight-line basis. The lease liability is accreted using the interest method and is decreased for payments made. The expense recognition pattern generally is front-loaded. For operating leases, the expense recognition pattern in the income statement is generally straight line and includes both the amortization of the right-of-use asset and interest expense related to the lease liability.	Only one accounting model exists for lessees. The accounting is similar to that for finance leases under U.S. GAAP.
Variable lease payments that do not depend on an index or rate	Lessees recognize these payments in the period in which it becomes probable that the target that triggers the payment will be achieved.	Lessees recognize these payments in the period in which the target is achieved.
Incremental borrowing rate	The lessee's incremental borrowing rate is the rate that would be paid to borrow, on a collateralized basis over a similar term, an amount equal to the lease payments in a similar economic environment. A lessee that is not a public business entity can make an accounting policy election to use a risk-free discount rate for initial and subsequent measurements of the lease liability but this policy should be applied on a class-of-asset basis. Note that lessees are required to utilize the rate implicit in the lease if it is readily determinable.	The lessee's incremental borrowing rate is the rate that a lessee would have to pay to borrow, over a similar term, and with similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. No accounting alternatives are provided to private entities.

Lessor accounting		
	U.S. GAAP	IFRS
Lessor lease classification	Lessors assess classification at commencement. The first test is to determine if the lease meets any of the five criteria that are also applied by lessees. If any of those criteria are met, the lessor classifies the lease as a sales-type lease. If none of those five criteria are met, but two additional criteria are met, the lessor classifies the lease as a direct finance lease. Otherwise, the lease is classified as an operating lease. Notwithstanding the requirements above, if the lease contains variable lease payments that do not depend on an index or a rate, the lessor would classify the lease as an operating lease at lease commencement if classifying the lease as a sales-type lease or a direct financing lease would result in the recognition of a selling loss.	Lessors assess classification at inception. A lease is classified as a finance lease if it transfers substantially all of the risks and rewards of ownership. If not, the lease is classified as an operating lease. No additional criteria specific to lessors are included in the guidance for lease classification. However, there are examples available in IFRS including indicators of situations which can be considered appropriately to determine whether a lease is a finance lease.
Reassessment of lease classification	Lessor is required to reassess lease classification when a lessee exercises an existing option to renew the lease or to purchase the underlying asset when it was previously determined it was not reasonably certain to do so.	Lessor does not reassess lease classification if a lessee exercises an existing option to renew the lease or to purchase the underlying asset when it was previously determined it was not reasonably certain to do so. Lessors assess classification at lease inception and reassess it only when there is a lease modification that is not recognized as a separate contract.

Lessor accounting		
Collectibility	Collectibility of lease payments is not assessed when determining whether a lease should be classified as a sale-type lease. However, lessors consider the collectibility of lease payments when determining whether a lease should be classified as an operating lease or a direct financing lease.	No specific guidance is included for the collectability of lease payments.
Selling profit	Selling profit is recognized at commencement for a sales-type lease when collectibility is probable. For direct financing leases, the selling profit is deferred and (if relevant) recognized over the lease term.	Selling profit for a finance lease is recognized at commencement.
Separation of lease and nonlease components	A practical expedient may be elected, under which the lessor does not separate lease components and nonlease components (if certain conditions are met).	No practical expedient is provided related to the separation of lease and nonlease components.
Presentation of sales taxes	Lessors are provided with a practical expedient to present sales tax collected from lessees on a net basis.	No practical expedient is provided related to the presentation of sales taxes.
Lessor costs paid by lessee	Lessor costs paid directly by a lessee to a third party should be excluded from lease payments.	No guidance is provided with respect to the treatment of lessor costs paid directly by a lessee to a third party.
Rate implicit in the lease	Lessor determines the rate implicit in the lease at the commencement date of the lease contract.	Lessor determines the rate implicit in the lease at the inception date of the lease contract.

These are the significant differences between U.S. GAAP and IFRS with respect to accounting for leases (excluding differences related to the accounting for sale-leasebacks and subleases). Refer to ASC 842 and IFRS 16 for all of the specific requirements applicable to accounting for leases.

27. Financial assets – derecognition

27.1 Introduction

The guidance related to the derecognition of financial assets in U.S. GAAP is included in ASC 860, *Transfers and Servicing*. In IFRS, the guidance related to the derecognition of financial assets is included in IFRS 9, *Financial Instruments*.

27.2 Comparison

The significant differences between U.S. GAAP and IFRS with respect to the derecognition of financial assets are summarized in the following table.

	U.S. GAAP	IFRS
Relevant guidance	ASC 860	IFRS 9
Control model versus risks and rewards model	A transferor derecognizes a financial asset that it transferred when it relinquishes control over that financial asset. Control is relinquished when all the following are true: • The transferred financial asset is legally isolated (i.e., put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or receivership). • Each transferee (or, if the transferee is an entity whose sole purpose is engaging in securitization or asset-backed financing activities and that entity is constrained from pledging or exchanging the assets it receives, each third-party holder of its beneficial interests) has the right to pledge or exchange the assets (or beneficial interests) it received and no condition both constrains the transferee (or third-party holder of its beneficial interests) from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor.	A transferor derecognizes a financial asset that it transferred when either: • The transferor transfers substantially all the risks and rewards of ownership of the financial asset to the transferee. • The transferor neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but the transferor relinquishes control over the asset as evidenced by the transferee's practical ability to sell the asset.

	U.S. GAAP	IFRS
	• Neither the transferor nor its consolidated affiliates or agents maintain effective control of the transferred financial asset. Refer to ASC 860-10-40-5(c) for ways a transferor may main effective control over the transferred assets.	
Transfers of a portion of (participating interest in) a financial asset	The only portion of a financial asset that can qualify for derecognition is the portion that meets the definition of a participating interest at ASC 860-10-40-6A.	Any of the following portions of a financial asset can qualify for derecognition: • Specifically identified cash flows from a financial asset • Pro-rata share of cash flows from a financial asset • Pro-rata share of specifically identified cash flows from a financial asset
Secured borrowings	An entity records a secured borrowing equal to the consideration received if a transfer of financial assets fails to qualify for derecognition.	An entity records a secured borrowing for the consideration received if it retains substantially all the risks and rewards of ownership of a financial asset. If an entity has neither retained nor transferred substantially all risks and rewards, but it has retained control over the financial asset, the secured borrowing is recognized only to the extent of the entity's "continuing involvement" in the transferred financial asset.
Servicing assets or liabilities recognized by a transferor following a transfer of financial assets that qualifies for derecognition	A servicing asset must be initially recognized at fair value. An entity can elect to subsequently measure a servicing asset or liability at either fair value or amortized cost.	A servicing asset created as part of a transfer of financial assets is considered a retained interest in the transferred assets. As a result, the previous carry amount is allocated between the retained interest and the servicing asset based on their relative fair values as of the transfer date.

	U.S. GAAP	IFRS
		There is no specific guidance for the subsequent measurement of servicing rights. Servicing assets are considered intangible assets, and servicing liabilities are considered to be provisions.

These are the significant differences between U.S. GAAP and IFRS with respect to the derecognition of financial assets. Refer to ASC 860 and IFRS 9 for the specific requirements applicable to accounting for the derecognition of financial assets.

28. Subsequent events

28.1 Introduction

The guidance related to subsequent events in U.S. GAAP is included in ASC Topic 855, *Subsequent Events*. In IFRS, the guidance related to events after the balance-sheet date is included in IAS 10, *Events after the Reporting Period.* The guidance under both standards is largely converged.

In addition, IAS 1, *Presentation of Financial Statements*, addresses one specific subsequent event.

28.2 Comparison

The significant differences between U.S. GAAP and IFRS with respect to subsequent events are summarized in the following table.

	U.S. GAAP	IFRS
Relevant guidance	ASC 855	IAS 1 and 10
Date through which events must be evaluated	Entities that file their financial statements with the SEC, as well as conduit bond obligors, evaluate subsequent events through the date the financial statements are issued. Entities other than those that file their financial statements with the SEC and conduit bond obligors should evaluate events through the date the financial statements are available to be issued. Financial statements are considered available to be issued when they are in a form that complies with U.S. GAAP and all necessary approvals have been obtained.	Events after the reporting period must be evaluated through the date that the financial statements are authorized for issuance.
Reissuance of financial statements	An entity should not recognize events occurring between the date the financial statements were issued or available to be issued and the date that the financial statements were reissued (unless required to do so by other U.S. GAAP or regulatory requirements).	Reissuance of financial statements is not specifically addressed. The only date that is recognized as the date through which events after the reporting date are evaluated is the date at which the financial statements are authorized for issuance (even if the financial statements are being reissued).

These are the significant differences between U.S. GAAP and IFRS with respect to subsequent events. Refer to ASC 855, IAS 1 and IAS 10 for all of the specific requirements applicable to subsequent events.

29. Government grants

29.1 Introduction

The guidance related to accounting for government grants under IFRS is included in IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*. U.S. GAAP does not contain specific guidance on the accounting for government grants. In many instances, however, U.S. entities analogize to IAS 20 as a source of nonauthoritative guidance.

29.2 Comparison

The guidance in U.S. GAAP and IFRS with respect to accounting for government grants or government assistance is summarized in the following table.

	U.S. GAAP	IFRS
Relevant guidance	ASC 832-10 and other applicable accounting guidance	IAS 20
Scope of government grants and related accounting guidance	A business entity that receives government assistance must first consider whether the nature of that assistance falls within the scope of specific U.S. GAAP, which is generally dependent in large part on the form of the assistance: • Income tax credits are accounted for under ASC Topic 740, *Income Taxes* • Loans generally are accounted for as debt under ASC 470, *Debt*. • Assistance that represents a payment for goods or services should be considered revenue and accounted for under ASC 606, *Revenue from Contracts with Customers*. Assistance that does not fall into any of the preceding categories generally is viewed as a government grant. U.S. GAAP does not provide guidance on accounting by business entities for government grants. For not-for-profit entities, guidance on accounting for government grants is included in ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*. While transfers of assets from government entities to business entities are specifically	In IFRS, the guidance related to government grants is included in IAS 20, which differentiates grants related to assets from grants related to income. Government grants related to assets generally include a primary condition that the entity qualifying for the grant purchase, construct or otherwise acquire long-term assets. Grants related to income are those not related to assets. IAS 20 provides for the following: • Government grants (related to either assets or income) are not recognized until there is reasonable assurance that the entity will comply with the conditions attached to the grants and the grants will be received. • Government grants (related to either assets or income) are recognized in income on a systematic basis over the periods in which the entity recognizes as expenses the related costs for which the grants are intended to compensate the entity. For government grants related to assets that are reflected as reductions of the

	U.S. GAAP	IFRS
	excluded from the scope of ASC 958-605, it may still be appropriate for business entities to apply ASC 958-605 by analogy, depending on the facts and circumstances. However, the income-statement effects of a grant received by a business entity analogizing to ASC 958-605 should generally be reflected in other income (and not revenue). In certain cases, it may also be appropriate for business entities to analogize IAS 20, Accounting for Government Grants and Disclosure of Government Assistance (see the discussion in the IFRS column of this table). Business entities in the U.S. must carefully analyze the substance of any governmental assistance, as well as their compliance with conditions of the assistance. Because of the current lack of guidance in U.S. GAAP for business entities, such entities should keep abreast of viewpoints that may be expressed by standard setters. In addition, where multiple accounting policies are deemed acceptable, we believe it is important for an entity to adopt a policy that is consistently applied to similar government assistance and to disclose its accounting policy for such assistance.	related assets (as discussed in a later bullet point), their effects on income are recognized as the related assets are depreciated or amortized. • Government grants that become receivable as compensation for expenses or losses already incurred, or for the purpose of giving immediate financial support to the entity with no tie to future related costs, are recognized in income in the period they become receivable. • Government grants related to assets are presented in the statement of financial position either by setting up deferred income or by deducting the grant in arriving at the carrying amount of the asset. • Government grants related to income are presented in the income statement as either a separate line item within other income (or a similar general line item) or net within the related expense line item for which the grant is intended to compensate the entity. • Government grants that become repayable are accounted for as changes in estimates. • Government grants must be disclosed in the financial statements, including information about their nature and extent, the accounting policy, the method of presentation in the financial statements and any unfulfilled conditions and other contingencies related to government grants that have been recognized.

	U.S. GAAP	IFRS
Non-monetary government grants	Contributed non-monetary assets are generally recognized at fair value as there is not an accounting policy election available in the form of a practical expedient in US GAAP.	Under IFRS, entities may elect an accounting policy to recognize the non-monetary assets and grants at either the fair value or at a nominal amount, which will need to be applied consistently.
Government loan at a below-market rate	Interest might not always be imputed on government loans at a below-market rate.	Government loans at a below-market rate are initially measured at fair value and the interest on such loans is recognized using the effective interest rate method. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the loan determined and the proceeds received.

Given the lack of specific guidance in U.S. GAAP for business entities, the existence of specific guidance in IFRS, and the differences between IAS 20 and ASC 958-605 for not-for-profit entities related to the accounting for government grants, different accounting may result under U.S. GAAP and IFRS with respect to the accounting for a specific grant.

+1 800 274 3978
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