Comparative Analysis Between US GAAP, Indian GAAP and IAS

A comparative analysis of accounting pronouncements under US GAAP, Indian GAAP and IAS is presented in the table below. The analysis seeks to identify the significant areas of accounting, a summary of the important applicable pronouncements under these three frameworks of reporting and a comparison of the similarities and differences between these. In this analysis, US GAAP is taken as the primary reporting framework and Indian GAAP and IAS pronouncements are compared alongside.

This is organized by principal accounting area. To enable ease of use, a topic-wise index is presented first. This index identifies the accounting area under US GAAP together with the relevant accounting pronouncements and the corresponding applicable pronouncement under Indian GAAP and IAS. A comparison between US GAAP, Indian GAAP and IAS is then presented for each identified area.

Index

US GAAP	*Indian GAAP*	*IAS*
Accounting changes (Source: APB 20)	*Changes in Accounting Policies (Source: AS 5)*	*Changes in Accounting Policies (Source: IAS 8)*
Accounting policies (Source: APB 22)	*Disclosure of Accounting Policies (Source: AS 1)*	*Presentation of Financial Statements (Source: IAS 1)*
Adjustments to financial statements of prior periods (Sources: FAS 16 and 109, APB 9 and 20)	*Prior period adjustments (Source: AS 5)*	*Prior period adjustments (Source: IAS 8)*
Balance sheet – classification and display (Sources: ARB 43, ch3A, APB 6 and 10, FAS 6, FIN 39 and 41)	*No specific accounting pronouncement*	*Presentation of Financial Statements (Source: IAS 1)*
Business Combinations (Sources: ARB 43, Ch 1A, ARB 51, APB 16, AIN-APB 16, FAS 10, 38, 72, 79, 87, 106, 109, 111, 121 and 135, FIN 4 and 9, FTB 85-5)	*Accounting for Amalgamations (Source: AS 14)*	*Business Combinations (Source: IAS 22)*
Capital stock (Sources: ARB 43, ch1A, ch1B and ch7B, APB 6, 9, 12, 14 and 29, FAS 129)	*No specific accounting pronouncement*	*Presentation of Financial Statements (Source: IAS 1)*
Cash flow statements (Sources: FAS 95, 102, 104, 115 and 117)	*Cash flow statements (Sources: AS 3 and SEBI guidelines on cash flow statements for listed companies)*	*Cash flow statements (Source: IAS 7)*
Commitments: Long-term obligations (Sources: FAS 47 and 129)	*No corresponding accounting pronouncement*	*No corresponding accounting pronouncement*
Compensation: Stock based (Sources: APB 25, AIN-APB 25, ARB 43, ch13B, FAS 109, 123 and 128, FIN 28 and FTB 97-1)	*SEBI (Employee Stock Option Scheme And Employee Stock Purchase Scheme) Guidelines, 1999. [applicable to listed companies only]*	*No corresponding accounting pronouncement*
Compensation to Employees: Deferred Compensation Agreements and Paid Absences [Sources: APB 12, FAS 43, 106, 111, 112 and 123]	*No specific accounting pronouncement*	*No specific accounting pronouncement*
Comprehensive income (Source: FAS 130)	*No corresponding accounting pronouncement*	*Presentation of Financial Statements (Source: IAS 1)*

Computer Software To Be Sold, Leased or Otherwise Marketed (Sources: FAS 2 and 86)	*No corresponding accounting pronouncement*	*No corresponding accounting pronouncement*
Consolidation (Sources: ARB 51, FAS 13, 58, 94, 109 and 131)	*No corresponding accounting pronouncement*	*Consolidated Financial Statements and Accounting for Investments in Subsidiaries (Source: IAS 27)*
Contingencies (Sources: FAS 5 and FIN 14)	*Contingencies and Events Occurring After the Balance Sheet Date (Sources: AS 4)*	*Events After the Balance Sheet Date (Source: IAS 10) and Contingent Liabilities (Source: IAS 37)*
Costs of Computer Software Developed or Obtained for Internal Use (Source: SOP 98-1)	*No corresponding accounting pronouncement*	*No corresponding accounting pronouncement*
Debt: (Sources: APB 14, AIN-APB 26, FAS 15, 49, 84, 91, 114 and 121, FTB 80-2 and 81-6)	*No corresponding accounting pronouncement*	*No specific accounting pronouncement*
Depreciation (Sources: ARB 43, Ch9C, APB 6 and 12; FAS 92, 93, 109 and 135)	*Depreciation Accounting (Source: AS 6 and SchVI, Part I)*	*Depreciation Accounting (Source: IAS 4)*
Derivative Instruments and Hedging Activities (Source: FAS 133)	*No comparable accounting pronouncement. Guidance Note only on Equity Futures Index for derivatives*	*Financial Instruments: Recognition and Measurement (Source: IAS 39)*
Development Stage Enterprises (Source: APB 18, FAS 7 and 95, FIN 7, SOP 98-5)	*GN, Treatment of Expenditure During Construction Period*	*No corresponding accounting pronouncement*
Earnings per Share (Source: FAS 128)	*No comparable accounting pronouncement. AS being issued by January 2001.*	*Earnings per share (Source: IAS 33)*
Financial Instruments: Disclosure (Sources: FAS 107, 112, 123, 125, 126 and 133)	*Financial Instruments: Disclosure (Source: AS 11)*	*Financial Instruments: Disclosure (Source: IAS 32)*
Financial Instruments: Servicing (Source: FAS 125)	*No corresponding accounting pronouncement*	*No corresponding accounting pronouncement*
Financial Instruments: Transfers (Sources: FAS 125 and 127)	*No corresponding accounting pronouncement*	*Financial Instruments: Transfers (Sources: IAS 39)*
Financial Statements: Comparative Financial Statements (Source: ARB 43, ch2A)	*No corresponding accounting pronouncement*	*Financial Statements: Comparative Financial Statements (Source: IAS 1)*
Foreign Currency Translation (Sources: FAS 52, 95, 104, 109, 130, 133 and 135 and FIN 37)	*Accounting for the Effects of Changes in Foreign Exchange Rates (AS 11)*	*Effects of Changes in Foreign Exchange Rates (AS 21)*
Impairment (Sources: FAS 114, 115, 118, 121, 130, 133 and 135)	*No corresponding accounting pronouncement*	*Impairment of Assets (Source: IAS 36)*
Income Statement Presentation (Sources: APB 9, 16 and 30, AIN-APB 9, 16 and 30, FAS 4, 16, 44, 64, 101, 109, 121 and 128, FTB 85-6)	*Prior Period and Extraordinary Items and Changes in Accounting Policies (Source: AS 5). Specific standard on Discontinuing Operations already*	*Income Statement Presentation (Source: IAS 8 and 35)*

	undertaken by ASB.	
Income taxes (Sources: APB 2, 4, 10 and 23, AIN-APB 4, FAS 37, 60, 95, 109, 115, 123, 130 and 135, FTB 82-1)	*Income taxes (Source: GN, Accounting for Taxes on Income) AS under finalisation by ASB in December 2000.*	*Income taxes (Source: IAS 12)*
Intangible assets (Sources: ARB 43, Ch5, APB 9 and 17, AIN-APB 17, FAS 44, 72, 109, 121 and 135, FIN 9, FTB 85-6)	*No corresponding accounting pronouncement. AS 14 covers goodwill and AS 10 covers Patents, etc.*	*Intangible assets (Source: IAS 38)*
Interest: Capitalization of Interest Costs (Sources: FAS 34, 42, 58, 62, 87 and 121, FIN 33)	*AS - 16*	*Interest: Capitalization of Interest Costs (Sources: IAS 23)*
Interest: Imputation of an Interest Cost (Sources: APB 12 and 21, AIN-APB 21, FAS 34 and 109)	*No corresponding accounting pronouncement*	*No corresponding accounting pronouncement*
Interim Financial Reporting (Sources: APB 28, FAS 3, 16, 69, 95, 109, 128, 130, 131 and 135, FIN 18, FTB 79-9;)	*No corresponding accounting pronouncement*	*Interim Financial Reporting (Source: IAS 34)*
Inventory (Sources: ARB 43, Ch3A and 4, FAS 133)	*Valuation of Inventories (Source: AS 2)*	*Inventories (Source: IAS 2)*
Investments: Debt and Equity Securities (Sources: ARB 43, FAS 91, 115, 124, 125, 130, 133 and 135, FTB 79-19 and 94-1)	*Accounting for Investments (Source: AS 13)*	*Accounting for Investments (Source: IAS 25)*
Investments: Equity Method (Sources: APB 18, AIN-APB 18, FAS 58, 94, 109, 115, 128 and 133, FIN 35, FTB 79-19)	*No corresponding accounting pronouncement*	*Accounting for Investments in Associates (Source: IAS 28) and Financial Reporting of Interests in Joint Ventures (Source: IAS 31)*
Leases (Sources: FAS 13, 22, 23, 27, 28, 29, 91, 94, 98, 109 and 125, FIN 19, 21, 23, 24, 26 and 27, FTB 79-10, 79-12, 79-13, 79-14, 79-15, 79-16(R), 85-3, 86-2 and 88-1)	*AS-19 Accounting for Leases*	*Leases (Source: IAS 17)*
Lending activities (Sources: FAS 91, 115, 124, 125 and 133	*No corresponding accounting pronouncement*	*No specific accounting pronouncement*
Liabilities: Extinguishments (Sources: APB 26, AIN-APB 26, FAS 4, 64, 84, 111 and 125, FTB 80-1)	*No corresponding accounting pronouncement*	*Liabilities: Extinguishments (Source: IAS 39)*
Non-monetary transactions (Sources: APB 29, FAS 109 and 123, FIN 30)	*No corresponding accounting pronouncement*	*No specific accounting pronouncement*
Pension costs (Sources: FAS 87, 88, 106, 109, 130, 132 and 135)	*Accounting for Retirement Benefits in the Financial Statements of Employers (Source: AS 15)*	*Employee benefits (Source: IAS 19)*
Postretirement Benefits Other Than Pensions (Sources: FAS 88, 106, 112, 132 and 135)	*No specific accounting pronouncement*	*No specific accounting pronouncement*
Property, Plant and Equipment	*Accounting for Fixed Assets (AS 10)*	*Property, Plant and Equipment*

(Source: ARB 43, Ch9B)		*(IAS 16)*
Related parties (Source: ARB 43, Ch1A, FAS 57 and 109)	*AS-18*	*Related parties (Source: IAS 24)*
Research and Development (Sources: FAS 2 and 86; FIN 6)	*Accounting for Research and Development (Source: AS 8)*	*Intangible Assets (Source: IAS 38)*
Research and Development Arrangements (Sources: FAS 68, FTB 84-1)	*No corresponding accounting pronouncement*	*No corresponding accounting pronouncement*
Revenue Recognition (Sources: ARB 43, Ch1A, ARB 45, APB 10, FAS 48 and 111, FTB 90-1)	*Accounting for Construction Contracts (Source: AS 7) and Revenue Recognition (Source: AS 9)*	*Construction Contracts (Source: IAS 11) and Revenue (Source: IAS 18)*
Segment Disclosures and Related Information (Sources: FAS 131, FTB 79-4 and 79-5)	*No corresponding accounting pronouncement. ED recently issued by the ICAI*	*Segment Reporting (Source: IAS 14)*
No corresponding accounting pronouncement	*Accounting for Government Grants (Source: AS 12)*	*Accounting for Government Grants and Disclosure of Government Assistance (Source: IAS 20)*

Accounting changes

US GAAP	*Indian GAAP*	*IAS*
Accounting changes are defined as a change in (a) an accounting principle, (b) an accounting estimate, or (c) the reporting enterprise (which is a special type of change in accounting principle. The correction of an error in previously issued financial statements is not deemed to be an accounting change. *A presumption in preparing financial statements is that an accounting principle once adopted should not be changed in accounting for events and transactions of a similar type. That presumption may be overcome only if the enterprise justifies the use of an alternative acceptable accounting principle on the basis that it is preferable.* *The cumulative effect of a change in an accounting principle shall be included in net income of the period of the change and presented in the income statement net of related tax effects after extraordinary items. This does not apply to changes in certain specified accounting principles that are made by retroactive restatement.*	Accounting policies *are defined as the "specific accounting principles and the methods of applying those principles adopted by an enterprise in the preparation and presentation of financial statement*s**".** *Changes in accounting policies are permitted only if the adoption of a different accounting policy is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate presentation of the financial statements of the enterprise.* *The following are not considered as changes in accounting policies:* Adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, e.g., introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement; and Adoption of a new accounting policy for events or transactions	*A change in accounting policy is treated retrospectively by restating all prior periods presented and adjusting opening retained earnings (benchmark).* *Changes in accounting policy are made only if required by statute, or by an accounting standard setting body, or if the change will result in a more appropriate presentation of events or transactions in the financial statements of the enterprise.* *Changes in accounting policies are applied retrospectively unless the amount of any resulting adjustment that relates to prior periods is not reasonably determinable. Resulting adjustments are reported as an adjustment to the opening balance of retained earnings. Comparative information is restated unless it is impracticable to do so.* *Changes in accounting policy are applied prospectively when the amount of the adjustment to the opening balance of retained earnings required above cannot be reasonably determined.*

	that did not occur previously or that were immaterial.	
A change in accounting estimate is accounted for in the period of change if the change affects that period only or in the period of change and future periods if the change affects both. Restating amounts reported in financial statements of prior periods or reporting pro forma amounts for prior periods is not permitted. *The nature of and justification for a change in accounting principle and its effect on income is disclosed in the financial statements of the period in which the change is made. The justification for the change should explain clearly why the newly adopted accounting principle is preferable.* *Changes in accounting principle generally require the following disclosures:* Financial statements for prior periods included for comparative purposes shall be presented as previously reported; The cumulative effect of changing to a new accounting principle on the amount of retained earnings at the beginning of the period in which the change is made shall be included in net income of the period of the change; The effect of adopting the new accounting principle on income before extraordinary items and on net income (and on the related per share amounts) of the period of the change shall be disclosed; and Income before extraordinary items and net income computed on a pro forma basis shall be shown on the face of the income statements for all periods presented as if the newly adopted accounting principle had been applied during all periods affected.	*AS 5 requires the disclosure of any change in an accounting policy that has a material effect. The impact of, and the adjustments resulting from, such change, if material, should be shown in the financial statements of the period in which such change is made, to reflect the effect of such change.* *Where the effect of such change is not ascertainable, wholly or in part, that fact should be indicated. A change made to an accounting policy that has no material effect on the financial statements for the current period but is reasonably expected to have a material effect in later periods, should be appropriately disclosed in the period in which the change is adopted.*	*Allowed alternative treatment* *Changes in accounting policy are applied retrospectively* ***unless*** *the amount of any resulting adjustment that relates to prior periods is not reasonably determinable. Any resulting adjustments are included in the determination of the net profit or loss for the* ***current*** *period. Comparative information is presented as reported in the financial statements of the prior period. Additional pro forma comparative information is presented unless it is impracticable to do so.* *Disclosure is required of the reasons for and effect and accounting treatment of the change.* *A change in accounting estimate is reflected prospectively. The nature and effect of the change should be disclosed, even if the effect will only be significant in a future period. If the effect cannot be quantified, that fact should be disclosed.* *Effects of a change in an accounting estimate are included in the determination of net profit or loss in:* the period of the change, if the change affects that period only; or the period of the change and future periods, if the change affects both. *A correction of a fundamental error is treated as a prior period adjustment (*benchmark treatment*) or recognized in current profit or loss (*allowed alternative treatment*). The nature and effect of the change in the current and prior periods should be disclosed.*

Accounting policies

US GAAP	*Indian GAAP*	*IAS*
Accounting policies are the specific accounting principles and the methods of applying those principles that are judged by the management of the enterprise to be the most appropriate in the circumstance to present fairly financial position, and results of operations in accordance with GAAP and that accordingly are adopted for preparing financial statements. (APB 22, ¶6) *When financial statements are issued purporting to present fairly financial position, changes in financial position, and results of operations in accordance with generally accepted accounting principles, a description of all significant accounting policies of the reporting entity should be included as an integral part of the financial statements. (APB 22, ¶8)* *Disclosure of accounting policies should identify and describe the accounting principles followed by the reporting entity and the methods of applying those principles. In particular, it should encompass those accounting principles and methods that involve any of the following:* Selection from existing acceptable alternatives; Principles and methods peculiar to the industry in which the reporting entity operates; and Unusual or innovative applications of generally accepted accounting principles [and principles and methods peculiar to the industry in which the reporting entity operates]. (APB 22, ¶12)	Accounting policies *are defined as the "specific accounting principles and the methods of applying those principles adopted by an enterprise in the preparation and presentation of financial statements".* *AS 1 states that there is no single list of accounting policies applicable to all circumstances. Differing circumstances in which enterprises operate in a situation of diverse and complex economic activity make alternative accounting principles and methods of applying those principles acceptable.* *The choice of appropriate accounting principles and the methods of applying those principles in the specific circumstances of each enterprise calls for considerable judgement by the management of the enterprise.* *The following are examples of the areas in which different accounting policies may be adopted by different enterprises.* Methods of depreciation, depletion and amortization; Conversion or translation of foreign currency items; Valuation of inventories; Treatment of goodwill; Valuation of investments; Accounting for retirement benefits; Recognition of profit on long-term contracts; Valuation of fixed assets; and Treatment of contingent liabilities. *The primary considerations governing the selection and application of accounting policies are:* Prudence*: In view of the uncertainty attached to future events, profits are not anticipated but recognized only when realized though not necessarily in cash. Provisions are made for all known liabilities and losses even*	*IAS 1 defines overall considerations for financial statements including:* Fair presentation; Accounting policies; Going concern; Accrual basis of accounting; Consistency of presentation; Materiality and aggregation; Offsetting; and Comparative information. *IAS 1 also prescribes the minimum structure and content, including certain information required on the face of the financial statements:* Balance sheet (current/non-current distinction is not required); Income statement (operating/non-operating separation is required); Cash flow statement (IAS 7 sets out the details); and Statement showing changes in equity. *IAS 1 also requires entities to disclose the significant accounting policies adopted in the preparation and presentation of their financial statements.*

	though the amount cannot be determined with certainty and represents only a best estimate in the light of available information. Substance over form*: Accounting treatment and presentation in financial statements of transactions and events are governed by their substance and not merely the legal form.* Materiality*: Financial statements should disclose all "material" items, i.e. items the knowledge of which might influence the decisions of the user of the financial statements.* *The disclosure of significant accounting policies forms a part of the financial statements. All significant accounting policies adopted in the preparation and presentation of financial statements are normally disclosed in one place.* *If the fundamental accounting assumptions, viz. going concern, consistency and accrual are followed in the preparation and presentation of financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, that fact should be disclosed.*	

Adjustments to financial statements of prior periods

US GAAP	*Indian GAAP*	*IAS*
Adjustments are required to be made to previously issued financial statements if there is a correction of an error in the financial statements of a prior period, a change in certain accounting principles, or an adjustment related to prior interim statements of the current fiscal period or if an enterprise realizes the income tax benefits of a pre-acquisition loss carry-forward of a purchased subsidiary. All other revenues, expenses, gains, and losses recognized during a period shall be included in the net income of that period. *All items of profit and loss recognized during a period, including accruals of estimated losses from loss contingencies, are included in the determination of net income for that period. (FAS 16, ¶10)* *An item of profit and loss related to the correction of an error in the financial statements of a prior period is accounted for and reported as a prior period adjustment and excluded from the determination of net income for the current period. (FAS 109, ¶288(n))* *Errors in financial statements result from mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time the financial statements were prepared. (APB 20, ¶13)* *The nature of an error in previously issued financial statements is disclosed in the period in which the error was discovered and corrected. (APB 20, ¶37)*	Prior period items *are "income or expenses that arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods".* *Prior period items do not include other adjustments necessitated by circumstances, which though related to prior periods, are determined in the current period, e.g., arrears payable to workers as a result of revision of wages with retrospective effect during the current period.* *Errors in the preparation of the financial statements of one or more prior periods may be discovered in the current period. Errors may occur as a result of mathematical mistakes, mistakes in applying accounting policies, misinterpretation of facts, or oversight.* *Prior period items are generally infrequent in nature and can be distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need to be revised, as additional information becomes known. For example, income or expense recognized on the outcome of a contingency which previously could not be estimated reliably does not constitute a prior period item* *The nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on the* ***current*** *profit or loss can be perceived.*	*Please refer to commentary under "Accounting changes" above.*

Balance sheet – classification and display

US GAAP	*Indian GAAP*	*IAS*
An enterprise preparing a classified balance sheet should segregate current assets and current liabilities separately. The current classification applies to those assets that are realized in cash, sold or consumed within one year (or operating cycle, if longer), and those liabilities that are discharged by use of current assets or the creation of other current liabilities within one year (or operating cycle, if longer). The current liability classification is also intended to include obligations that, by their terms, are due on demand or will be due on demand within one year (or operating cycle, if longer) from the balance sheet date, even though liquidation may not be expected within that period. This also includes long-term obligations that are or become callable by the creditor either because the debtor's violation of a provision of the debt agreement at the balance sheet date makes the obligation callable or because the violation, if not cured within a specified grace period, will make the obligation callable. Such callable obligations are classified as current liabilities unless one of the following conditions is met: The creditor has waived or subsequently lost the right to demand repayment for more than one year (or operating cycle, if longer) from the balance sheet date. For long-term obligations containing a grace period within which the debtor may cure the violation, it is probable that the violation will be cured within that period, thus preventing the obligation from becoming callable.	*The balance sheet classification of assets and liabilities is determined by the form and manner specified in SchVI, Part I. SchVI, Part I determines the presentation of assets and liabilities but does not discuss the factors that would determine classification of an element of financial statements as current or non-current.* *The term* "current assets" *is defined in the GN,* "Terms Used in Financial Statements", *as "cash and other assets that are expected to be converted into cash or consumed in the production of goods or rendering of services in the normal course of business".* *This GN also defines "current liability" to mean* "liability *including loans, deposits and bank overdraft(s) which falls due for payment in a relatively short period, normally not more than twelve months".* *Indian companies generally offset tax liabilities and advance taxes paid more* ***as a matter of convention****. The disclosure is presented in the schedule of "Loans and advances" (if advance tax payments are greater than the tax liability) or in the schedule of "Current liabilities and provisions" (if the tax liability is greater than the advance tax payments).*	*IAS 1 offers the alternative, based on the nature of the operations, whether or not to present current and non-current assets and current and non-current liabilities as separate classifications on the face of the balance sheet or to present assets or liabilities broadly in order of their liquidity.* *An asset is classified as a current asset when it:* is expected to be realized in, or is held for sale or consumption in, the normal course of the enterprise's operating cycle; or is held primarily for trading purposes or for the short term and expected to be realized within twelve months of the balance sheet date; or is cash or a cash equivalent asset that is not restricted in its use. *All other assets are classified as non-current assets.* *A liability is classified as a current liability when it:* is expected to be settled in the normal course of the enterprise's operating cycle; or is due to be settled within twelve months of the balance sheet date. *All other liabilities are classified as non-current liabilities.*
Short-term obligations expected to be refinanced on a long-term basis, including those callable obligations discussed above, shall be excluded from current liabilities only if the enterprise intends to refinance the obligation on a long-term basis and		*Long-term interest bearing liabilities are classified as non-current even if they are due to be settled within twelve months of the balance sheet date if:* the original term was for a period of more than twelve months;

has the demonstrated ability to consummate the refinancing. *Notes:* *Current assets are those assets that are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the business. (ARB 43, ch3A, ¶4)* *Current liabilities are those obligations whose liquidation is reasonably expected to require the use of existing resources properly classifiable as current assets or the creation of other current liabilities. (ARB 43, ch3A, ¶7)* *Operating cycle is the average time intervening between the acquisition of materials or services and the final cash realization [from the sale of products or services. (ARB 43, ch3A, ¶5)* *Short-term obligations are those obligations that are scheduled to mature within one year after the date of an enterprise's balance sheet or, for those enterprises that use the operating cycle concept of working capital, within an enterprise's operating cycle that is longer than one year. (FAS 6, ¶2)* *The general principle of accounting is that offsetting of assets and liabilities in the balance sheet is improper except when a right of setoff exists. (APB 10, ¶7(1))* *Generally, a right of setoff is a debtor's legal right, by contract or otherwise, to discharge all or a portion of the debt owed to another party by applying against the debt an amount that the other party owes to the debtor. A right of setoff exists when all of the following conditions are met:* Each of two parties owes the other determinable amounts; The reporting party has the right to set off the amount owed with the amount owed by the other party; The reporting party intends to set		the enterprise intends to refinance the obligation on a long term basis; and that intention is supported by an agreement to refinance, or to reschedule payments, which is completed before the financial statements are approved. *Assets and liabilities are not offset except when offsetting is required or permitted by another standard.* *A financial asset and a financial liability are offset and the net amount reported in the balance sheet when an enterprise both:* has a legally enforceable right to set off the recognized amounts; and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. (IAS 32, ¶33) *Items of income and expense are not offset except when:* an IAS requires or permits it; or gains, losses and related expenses arising from the same or similar transactions and events are not material.

off; and The right of setoff is enforceable at law. *A debtor having a valid right of setoff may offset the related asset and liability and report the net amount. (FIN 39, ¶5)* *As regards the offsetting of assets against the tax liability, the only exception to the general principle occurs when it is clear that a purchase of securities (that are acceptable for the payment of taxes) is in substance an advance payment of taxes that will be payable in the relatively near future, so that in the special circumstances the purchase is tantamount to the prepayment of taxes. (APB 10, ¶7(3))*		

Business combinations

US GAAP	*Indian GAAP*	*IAS*
A business combination occurs when a corporation and one or more incorporated or unincorporated businesses are brought together into one accounting entity. The single entity carries on the activities of the previously separate, independent enterprises. The purchase method and the pooling-of-interests method are both acceptable in accounting for business combinations, although not as alternatives in accounting for the same business combination. *A business combination is accounted for as a pooling of interests if it meets certain specified criteria. Business combinations that do not meet all of the specified criteria are accounted for as purchases.* *The criteria for the pooling method relate to the attributes of the combining enterprises before the combination, the manner of combining the enterprises, and the absence of certain planned transactions after the combination. There are 12 specified criteria. The pooling-of-interests method accounts for a business combination as the uniting of the ownership interests of two or more companies by exchange of equity securities. No acquisition is recognized because the combination is accomplished without disbursing resources of the constituents. Ownership interests continue and the former bases of accounting are retained. The recorded assets and liabilities of the constituents are carried forward to the combined corporation at their recorded amounts.*	*AS 14 contemplates two types of amalgamations namely, amalgamations where there is a genuine pooling of interests including assets, liabilities, shareholders' interests and businesses of the amalgamating companies and amalgamations as a result of which one company acquires another company. The former is known as amalgamations in the nature of a merger and is accounted for by the pooling-of-interests method. The latter are known as amalgamations in the nature of purchase and are accounted for by the purchase method.* *The use of the pooling-of-interests method is applied to amalgamations in the nature of a merger. The conditions to be satisfied for an amalgamation to be classified as a merger are set out below.* All assets and liabilities of the transferor company become the assets and liabilities of the transferee company after amalgamation; At least 90% of the shareholders of the transferor company become equity shareholders of the transferee company after the amalgamation. This excludes shares held by the transferee company, its subsidiaries or nominees; The consideration payable to the equity shareholders of the transferor company who agree to become equity shareholders of the transferee company is wholly discharged by the issue of equity shares of the transferee company, except that cash may be paid to settle fractional shares;	*IAS 22 discusses the accounting treatment to record a business combination as a* purchase *or* uniting of interests. *From the date of acquisition, an acquirer:* incorporates into the income statement the results of operations of the acquiree; and recognizes in the balance sheet the identifiable assets and liabilities of the acquiree and any goodwill or negative goodwill arising on the acquisition. *An acquisition is accounted for at its cost which is the amount of cash or cash equivalents paid or the fair value, at the date of exchange, of the other purchase consideration given by the acquirer in exchange for control over the net assets of the other enterprise, plus any costs directly attributable to the acquisition.* *Identifiable assets and liabilities that are recognized above are those of the acquiree that existed at the date of acquisition together with any liabilities recognized below.* *They are recognized separately as at the date of acquisition if it is probable that any associated future economic benefits will flow to, or resources embodying economic benefits will flow from, the acquirer and a reliable measure is available of their cost or fair value.*
The combined enterprise recognizes those assets and liabilities recorded in conformity with generally accepted accounting principles by the separate enterprises at the date the combination is consummated. The combined	The transferee company intends to continue the business of the transferor company; and No adjustments are made to the book values of the assets and liabilities of the transferor	*Liabilities are not recognized at the date of acquisition if they result from the acquirer's intentions or actions. Liabilities are not recognized for future losses or other costs expected to be incurred as a result of the acquisition,*

enterprise records the historical cost-based amounts of the assets and liabilities of the separate enterprises because the existing basis of accounting continues. *Where the separate enterprises have recorded assets and liabilities under differing methods of accounting, the amounts are adjusted to the same basis of accounting if the change was otherwise appropriate for the separate enterprise. A change in accounting method to conform the individual methods is applied retroactively, and financial statements presented for prior periods are restated.* *An enterprise that applies the pooling-of-interests method of accounting to a combination reports results of operations for the period in which the combination occurs as though the enterprises were combined as of the beginning of the period. Results of operations for that period thus comprise those of the separate enterprises combined from the beginning of the period to the date the combination is consummated and those of the combined operations from that date to the end of the period.* *Income of the combined corporation include income of the constituents for the entire fiscal period in which the combination occurs. The reported income of the constituents for prior periods are combined and restated as income of the combined corporation.*	company as incorporated in the books of account of the transferee company, except to ensure uniformity of accounting policies. *Under the pooling-of-interests method, assets, liabilities and reserves of the transferor company are recorded at their existing carrying amounts. Where the transferor and transferee companies have conflicting accounting policies, a uniform set of accounting policies is adopted. The effect of a change in accounting policies on the financial statement should be reported in accordance with AS 5.* *The difference between the amount of equity shares or other securities issued by the transferor company (including any additional consideration in the form of cash or other assets distributed) and the share capital of the transferor company is adjusted to the reserves of the transferee company.* *An amalgamation that does not meet any one or more of the conditions set out above is accounted for as a purchase.* *The transferee company has the option of either incorporating assets and liabilities of the transferee company at their existing carrying amounts or allocating the consideration to individual identifiable assets and liabilities of the transferor company on the basis of their fair values at the date of amalgamation.*	*whether they relate to the acquirer or the acquiree.* *At the date of acquisition, the acquirer recognizes a provision that was not a liability of the acquiree at that date if the acquirer has:* at, or before, the date of acquisition, developed the main features of a plan that involves terminating or reducing the activities of the acquiree and that relates to compensating employees of the acquiree for termination of their employment, closing facilities of the acquiree, eliminating product lines of the acquiree or terminating contracts of the acquiree that have become onerous because the acquirer has communicated to the other party at, or before, the date of acquisition that the contract will be terminated; by announcing the main features of the plan at, or before, the date of acquisition, raised a valid expectation in those affected by the plan that it will implement the plan; and
Balance sheets and other financial information of the separate enterprises as of the beginning of the period are presented as though the enterprises had been combined at that date. Financial statements and financial information of the separate enterprises presented for prior years are restated on a combined basis to furnish comparative information. All restated financial statements and financial summaries should indicate clearly that financial data of the previously separate	*Identifiable assets and liabilities may include assets and liabilities not earlier included in the financial statements of the transferor company. The determination of fair values may be dependent on the intentions of the transferee company.* *Reserves of the transferor company, other than statutory reserves are not included in the reserves of the transferee company. Statutory reserves are recorded in the financial statement of the transferee company*	by the earlier of three months after the date of acquisition and the date when the annual financial statements are approved, developed those main features into a detailed formal plan identifying at least the business or part of a business concerned, the principal locations affected; the location, function, and approximate number of employees who will be compensated for terminating their services; the expenditures that will be undertaken and when the plan will

enterprises are combined. *All expenses related to effecting a business combination accounted for by the pooling-of-interests method and losses or estimated losses on disposal of specifically identified duplicate or excess facilities are deducted in determining the net income of the resulting combined enterprise for the period in which the expenses are incurred.* *A business combination accounted for by the pooling-of-interests method is recorded as of the date the combination is consummated.* *A combined enterprise discloses in its financial statements that a combination accounted for by the pooling-of-interests method occurred during the period. The basis of current presentation and restatements of prior periods may be disclosed in the financial statements by captions or by references to notes. Certain additional disclosures are prescribed by APB 16.*	*with a corresponding entry made to an account designated as an "Amalgamation Adjustment Account", where the requirements of the relevant statute for recording statutory reserves in the books are complied with. Where such statutory reserves are no longer required, both the reserve and the Amalgamation Adjustment Account should be reversed.* *The excess of the amount of consideration over the value of the net assets of the transferor company should be recognized as goodwill and amortized to income on a systematic basis over its useful life, usually not to exceed five years.* *Non-cash elements included in the consideration are recorded at their fair value. In case of securities, values fixed by statutory authorities may be taken to be the fair value. In the case of other assets, the market values are readily indicative of fair values. Assets may be valued that their respective net book values where the market values cannot be readily assessed.*	be implemented. *The identifiable assets and liabilities recognized above are measured at the aggregate of:* the fair value of the identifiable assets and liabilities acquired as at the date of the exchange transaction to the extent of the acquirer's interest obtained in the exchange transaction; and the minority's proportion of the pre-acquisition carrying amounts of the identifiable assets and liabilities of the subsidiary. *Any goodwill or negative goodwill is accounted for under this standard.* *Allowed alternative treatment* *The identifiable assets and liabilities recognized above are measured at their fair values as at the date of acquisition. Any goodwill or negative goodwill is accounted for under this standard.* *Any minority interest is stated at the minority's proportion of the fair values of the identifiable assets and liabilities recognized above.*
The purchase method accounts for a business combination as the acquisition of one enterprise by another. The acquiring corporation records at its cost the acquired assets less liabilities assumed. The difference between the cost of an acquired enterprise and the sum of the fair values of tangible and identifiable intangible assets less liabilities assumed is recorded as goodwill. The reported income of an acquiring corporation includes the operations of the acquired enterprise after acquisition, based on the cost to the acquiring corporation. *The general principles to apply the historical cost basis of accounting to an acquisition of an asset depend on the nature of the transaction:* An asset acquired by exchanging cash or other assets is recorded at cost, i.e. at the amount of cash disbursed or the fair value of other	*Schemes of amalgamation may provide for the payment of additional amounts contingent upon the occurrence of one or more future events. Such contingent consideration should be included in the consideration if the payment is probable and a reasonable estimate of the amount can be made.* *The treatment prescribed by a scheme of amalgamation sanctioned under a statute, of reserves of the transferor company, should be followed.* *The disclosures to be made in the first financial statements following the amalgamation are set out below.* Names and general nature of business of the amalgamating companies; Effective date of amalgamation for accounting purposes; Particulars of the scheme	*If the fair value of an intangible asset cannot be measured by reference to an active market (as defined in IAS 38), the amount recognized for that intangible asset at the date of the acquisition is limited to an amount that does not create or increase negative goodwill that arises on the acquisition.* *Any excess of the cost of the acquisition over the acquirer's interest in the fair value of the identifiable assets and liabilities acquired as at the date of the exchange transaction is described as goodwill and recognized as an asset. Goodwill is carried at cost less any accumulated amortization and any accumulated impairment losses.* *Goodwill is amortized on a systematic basis over its useful life. The amortization period reflects the best estimate of the period during which future economic benefits are expected to flow to the enterprise. There is a rebuttable presumption that the useful*

assets distributed; An asset acquired by incurring liabilities is recorded at cost, i.e. at the present value of the amounts to be paid; and An asset acquired by issuing shares of stock of the acquiring enterprise is recorded at the fair value of the asset, i.e. shares of stock issued are recorded at the fair value of the consideration received for the stock. *The nature of an asset determines an acquirer's subsequent accounting for the cost of that asset. The basis for measuring the cost of an asset, whether amount of cash paid, fair value of an asset received/given up, amount of a liability incurred, or fair value of stock issued, has no effect on the subsequent accounting for that cost.*	sanctioned under a statute; Description and number of shares issued, together with the percentage of each company's equity shares exchanged to effect the amalgamation; In case of a pooling-of-interests, the amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof; and In case of a purchase, the amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof including the period of amortization of any goodwill arising on the amalgamation.	*life of goodwill will not exceed twenty years from initial recognition. The amortization method used reflects the pattern in which the future economic benefits arising from goodwill is expected to be consumed. The straight-line method is adopted unless there is persuasive evidence that another method is more appropriate in the circumstances. The amortization for each period is recognized as an expense.* *The amortization period and the amortization method are reviewed at least at each financial year end. If the expected useful life of goodwill is significantly different from previous estimates, the amortization period is changed accordingly.*
The enterprise that distributes cash or other assets or incurs liabilities to obtain the assets or stock of another enterprise is clearly the acquirer. The identities of the acquirer and the acquired enterprise are usually evident in a business combination effected by the issue of stock. The acquiring enterprise normally issues the stock and ***commonly*** *is the larger enterprise. If a new enterprise is formed to issue stock to effect a business combination to be accounted for by the purchase method, one of the existing combining enterprises is considered the acquirer on the basis of the evidence available.* *The same accounting principles apply to determining the cost of assets acquired individually, those acquired in a group, and those acquired in a business combination. A cash payment by an enterprise measures the cost of acquired assets less liabilities assumed. Similarly, the fair values of other assets distributed, such as marketable securities or properties, and the fair value of liabilities incurred by an acquiring enterprise measure the cost of an acquired enterprise.* *The cost of an enterprise acquired in a business combination accounted for by*		*If there has been a significant change in the expected pattern of economic benefits from goodwill, the method is changed to reflect the changed pattern and accounted for as a change in accounting estimates by adjusting the amortization charge for the current and future periods.* *Any excess, as at the date of the exchange transaction, of the acquirer's interest in the fair values of the identifiable assets and liabilities acquired over the cost of the acquisition, is recognized as negative goodwill.* *When the acquisition agreement provides for an adjustment to the purchase consideration contingent on one or more future events, the amount of the adjustment is included in the cost of the acquisition as at the date of acquisition if the adjustment is probable and the amount can be measured reliably.* *The cost of the acquisition is adjusted when a contingency affecting the amount of the purchase consideration is resolved subsequent to the date of the acquisition, so that payment of the amount is probable and a reliable*

the purchase method includes the direct costs of acquisition. Costs of registering and issuing equity securities are a reduction of the otherwise determinable fair value of the securities. However, indirect and general expenses related to acquisitions are deducted as incurred in determining net income.		*estimate of the amount can be made.* *Identifiable assets and liabilities, which are acquired but which do not satisfy the criteria above for separate recognition when the acquisition is initially accounted for, are recognized subsequently as and when they satisfy the criteria. The carrying amounts of assets and liabilities acquired are adjusted when, subsequent to acquisition, additional evidence becomes available to assist with the estimation of the amounts assigned to those assets and liabilities.*
A business combination agreement may provide for the issuance of additional shares of a security or the transfer of cash or other consideration contingent on specified events or transactions in the future. Contingent consideration may be based on earnings or security prices or a combination of both. *Some agreements provide that a portion of the consideration be placed in escrow to be distributed or to be returned to the transferor when specified events occur. Either debt or equity securities may be placed in escrow, and amounts equal to interest or dividends on the securities during the contingency period may be paid to the escrow agent or to the potential security holder.* *Cash and other assets distributed, securities issued unconditionally and amounts of contingent consideration that are determinable at the date of acquisition are included in determining the cost of an acquired enterprise and recorded at that date. Consideration that is issued or issuable at the expiration of the contingency period or that is held in escrow pending the outcome of the contingency is disclosed but not recorded as a liability or shown as outstanding securities unless the outcome of the contingency is determinable beyond reasonable doubt.* *Contingent consideration is usually recorded when the contingency is resolved and consideration is issued or becomes issuable.*		*In applying the pooling of interests method, the financial statement items of the combining enterprises for the period in which the combination occurs and for any comparative periods disclosed are included in the financial statements of the combined enterprises as if they had been combined from the beginning of the earliest period presented.* *The financial statements of an enterprise do not incorporate a uniting of interests to which the enterprise is a party if the date of the uniting of interests is after the date of the most recent balance sheet included in the financial statements.* *Any difference between the amount recorded as share capital issued plus any additional consideration in the form of cash or other assets and the amount recorded for the share capital acquired is adjusted against equity.* *Expenditures incurred in relation to a uniting of interests are recognized as expenses in the period in which they are incurred.*

An acquiring enterprise allocates the cost of an acquired enterprise to the assets acquired and liabilities assumed. Allocation follows the principles described below. All identifiable assets acquired, either individually or by type, and liabilities assumed in a business combination, whether or not shown in the financial statements of the acquired enterprise, are assigned a portion of the cost of the acquired enterprise, normally equal to their fair values at date of acquisition; and The excess of the cost of the acquired enterprise over the sum of the amounts assigned to identifiable assets acquired less liabilities assumed is recorded as goodwill. The sum of the market or appraisal values of identifiable assets acquired less liabilities assumed may sometimes exceed the cost of the acquired enterprise. If so, the values otherwise assignable to non-current assets acquired is reduced by a proportionate part of the excess to determine the assigned values. A deferred credit for an excess of assigned value of identifiable assets over cost of an acquired enterprise (sometimes called negative goodwill) is not recorded unless those assets are reduced to zero value. *The date of acquisition of an enterprise is the date assets are received and other assets are given or securities are issued. Parties may, for convenience, designate as the effective date the end of an accounting period between the dates a business combination is initiated and consummated.* *The values assigned to assets acquired and liabilities assumed are determined as of the date of acquisition. The statement of income of an acquiring enterprise for the period in which a business combination occurs include income of the acquired enterprise after*		*A business combination is accounted for as an acquisition, unless an acquirer cannot be identified. In virtually all business combinations an acquirer can be identified, i.e., the shareholders of one of the combining enterprises obtain control over the combined enterprise.* *The classification of a business combination is based on an overall evaluation of all relevant facts and circumstances of the particular transaction. The guidance given in IAS 22 provides examples of important factors to be considered, not a comprehensive set of conditions to be met. Single characteristics of a combined enterprise such as voting power or relative fair values of the combining enterprises is not evaluated in isolation in order to determine how a business combination is be accounted for.* *IAS 22, ¶16(a)-(c) describe the essential characteristics of a uniting of interests. An enterprise classifies a business combination as an acquisition, unless all of these three characteristics are present. Even if all of the three characteristics are present, an enterprise classifies a business combination as a uniting of interests only if the enterprise can demonstrate that an acquirer cannot be identified.* *Business combinations under IAS 22 are either an "acquisition" or a "uniting of interests".*

the date of acquisition by including the revenue and expenses of the acquired operations based on the cost to the acquiring enterprise. *The following disclosures are required:* Name and a brief description of the acquired enterprise; Method of accounting for the combination; Period for which results of operations of the acquired enterprise are included in the income statement of the acquiring enterprise; Cost of the acquired enterprise and, if applicable, the number of shares of stock issued or issuable and the amount assigned to the issued and issuable shares; Description of the plan for amortization of acquired goodwill, the amortization method, and period; and Contingent payments, options, or commitments specified in the acquisition agreement and their accounting treatment.		

Capital stock

US GAAP	*Indian GAAP*	*IAS*
Items that are normally charged to expense in the current or future years cannot be charged against additional paid-in capital. *The only exception to this rule occurs when an enterprise undergoes reorganization or quasi reorganization, in which the shareholders have been fully informed and have approved the action. (ARB 43, ch1A, ¶2)* *The following capital transactions are always excluded from the determination of net income or the results of operations:* Adjustments or charges or credits resulting from transactions in the enterprise's own capital stock; Transfers to and from accounts properly designated as appropriated retained earnings (such as general purpose contingency reserves or provisions for replacement costs of fixed assets); and Adjustments made pursuant to a quasi reorganization. (APB 9, ¶28) *Disclosure of changes in the separate accounts comprising stockholders' equity (in addition to retained earnings) and of the changes in the number of shares of equity securities during at least the most recent annual fiscal period and any subsequent interim period presented is required. (APB 12, ¶10)*	*Although Indian GAAP does not have any accounting pronouncements as regards "Share capital" and "Reserves and surplus", CA 56 sets out the disclosure requirements in this area.* *SchVI, Part I requires the following disclosures in respect of share capital:* Authorized, issued, subscribed, called up and paid up capital, (distinguishing between the various classes of capital); In respect of each class of capital, number of shares allotted as fully paid up pursuant to a contract without payment being received in cash; In respect of each class of capital, number of shares allotted as fully paid up by way of bonus shares, including source namely, capitalization of profits, share premium account etc; Calls unpaid separately disclosing calls unpaid by secretaries, directors and others; Forfeited shares; Terms of redemption or conversion of preference share capital together with the earliest date for the redemption or conversion; Particulars of options on unissued share capital; and Particulars of different classes of preference share capital.	*IAS 1 sets out the presentation requirements in respect of share capital as discussed below.* for each class of share capital, the number of shares authorized, issued and fully paid, and issued but not fully paid, par value per share or that the shares have no par value, a reconciliation of the number of shares outstanding at the beginning and at the end of the year, the rights, preferences and restrictions attaching to that class, including restrictions on the distribution of dividends and the repayment of capital, shares in the enterprise held by the enterprise itself or by subsidiaries or associates of the enterprise; and shares reserved for issue under options and sales contracts, including the terms and amounts; a description of the nature and purpose of each reserve within owners' equity; when dividends have been proposed but not formally approved for payment, the amount included (or not included) in liabilities; and the amount of any cumulative preference dividends not recognized. *If the enterprise is without share capital, information equivalent to that required above is disclosed, showing movements during the period in each category of equity interest and the rights, preferences and restrictions attaching to each category of equity interest.*
The distribution of non-monetary assets, other than an enterprise's own capital stock, to stockholders as dividends is generally referred to as a dividend-in-kind. *A dividend-in-kind is recorded at the fair value of the asset transferred, and a gain or loss is recognized by the enterprise on the*	*SchVI, Part I specifies the following disclosures in respect of reserves and surplus:* Separate disclosure of capital reserves, capital redemption reserves, share premium account, other reserves (specifying their nature) after deducting debit	*Treasury shares are presented in the balance sheet as a deduction from equity. The acquisition of treasury shares is presented in the financial statements as a change in equity. No gain or loss is recognized in the income statement on the sale, issuance, or cancellation of treasury shares. Consideration received towards*

disposition of the asset. (APB 29, ¶18) *The issuer of a dividend-in-kind is required to disclose in the financial statements for the period the nature of the transaction, the basis of accounting for the assets transferred, and the gains and losses recognized. (APB 29, ¶28)* *Enterprises are required to disclose the aggregate liquidation preference of their outstanding preferred stock and the price at which the preferred stock may be called or redeemed. Enterprises are also required to disclose the aggregate and per-share amounts of cumulative preferred dividends in arrears. (FAS 129, ¶6 and ¶7)* *Enterprises issuing stock dividends shall capitalize retained earnings in an amount equal to the fair value of the additional shares issued. Enterprises effecting stock splits shall capitalize retained earnings to the extent required by law. Stock distributions involving issuance of additional shares of more than 25 percent of the number previously outstanding are* generally *accounted for as stock splits.* (*ARB 43, ch7B)*	balances in profit and loss account (if any), balance in profit and loss account after proposed allocations such as dividends, bonus or transfers to reserves and proposed additions to reserves; Additions and deductions since the last balance sheet date are to be disclosed separately under each of the above heads; The word "fund" in relation to any reserve is used where such reserve is specifically represented by earmarked investments; and The share premium account should provide details of its utilization in the manner provided in Sec 78 of CA 56 in the year of utilization. *Sec 78 specifies that the share premium account should be used for:* Paying up unissued shares of the company to be issued to the members of the company as fully paid bonus shares; Writing off preliminary expenses of the company; Writing off the expenses of, or the commission paid or discount allowed on any issue of shares or debentures of the company; or In providing for the premium payable on the redemption of any redeemable preference shares or of any of the debentures of the company.	*treasury shares is presented in the financial statements as a change in equity. (SIC 16, ¶4)* *There are no specific pronouncements for the treatment of dividends in kind, stock dividends and stock splits.*
Stock dividends do not give rise to any change in either the enterprise's assets or its respective shareholders' proportionate interests therein. However, many recipients of stock dividends look upon them as distributions of corporate earnings and usually in an amount equivalent to the fair value of the additional shares received. Furthermore, when issuances of stock dividends are small in comparison with the shares previously outstanding, they do not have any apparent effect upon the share market value. Therefore, stock dividends are accounted for by	*There are no specific pronouncements for the treatment of dividends in kind, stock dividends and stock splits and treasury stock.*	

transferring from retained earnings to the category of permanent capitalization (represented by the capital stock and additional paid-in capital accounts) an amount equal to the fair value of the additional shares issued. (ARB 43, ch7B, ¶10)

When the number of additional shares issued as a stock dividend is so great that it has, or may reasonably be expected to have, the effect of materially reducing the share market value, the transaction partakes of the nature of a stock split. Consequently, there is no need to capitalize retained earnings, other than to the extent occasioned by legal requirements. It is recommended, however, that in such instances every effort is made to avoid the use of the word dividend in related corporate resolutions, notices, and announcements. In those cases where because of legal requirements this cannot be done, the transaction is described, as a stock split effected in the form of a dividend. *(ARB 43, ch7B, ¶11)*

Where an enterprise acquires shares of its own capital stock, the cost of the acquired shares is generally shown as a deduction from capital. Gains and losses on sales of treasury stock are accounted for as adjustments to capital and not as part of income. (ARB 43, ch1B and APB 6, ¶12, 13)

Dividends on shares held in the enterprise's treasury (treasury stock) are not credited to income. (ARB 43, ch1A)

If the price paid for the shares is significantly in excess of current market price, that may indicate that the price paid may include consideration for other factors such as stated or unstated rights, privileges, or agreements in addition to the capital stock. In such cases, the excess should be attributed to the other factors. (ARB 43, ch1B and APB 6)

Enterprises should explain, in summary form, the pertinent rights and privileges of the various securities outstanding. Example disclosures

include dividend and liquidation preferences, participation rights, call prices and dates, conversion or exercise prices or rates and pertinent dates, sinking-fund requirements, unusual voting rights, and significant terms of contracts to issue additional shares. (FAS 129, ¶4) *Enterprises should disclose within their financial statements the number of shares issued upon conversion, exercise, or satisfaction of required conditions during at least the most recent annual fiscal period and any subsequent interim period presented. (FAS 129, ¶5)*		

Cash flow statements

US GAAP	*Indian GAAP*	*IAS*
FAS 95 establishes standards for cash flow reporting and requires a statement of cash flows as part of a full set of financial statements for all business enterprises in place of a statement of changes in financial position. A statement of cash flows classifies cash receipts and payments according to whether they stem from operating, investing, or financing activities. *Investing activities include making and collecting loans and acquiring and disposing of debt or equity instruments and property, plant, and equipment and other productive assets, that is, assets held for or used in the production of goods or services by the enterprise [other than materials that are part of the enterprise's inventory]. (FAS 95, ¶15)* *Financing activities include obtaining resources from owners and providing them with a return on, and a return of, their investment; borrowing money and repaying amounts borrowed, or otherwise settling the obligation; and obtaining and paying for other resources obtained from creditors on long-term credit. (FAS 95, ¶18)* *Operating activities are those activities that are not defined as investing or financing activities. (FAS 95, ¶21)* *FAS 95 encourages enterprises to report cash flows from operating activities directly by showing major classes of operating cash receipts and payments (the direct method).*	*Enterprises are required to prepare a cash flow statement and present it for each period for which financial statements are presented. (AS 3, ¶1)* *Cash flow statements should report cash flows during the period classified by operating, investing and financing activities. (AS 3, ¶8)* *Operating activities are principal revenue-producing activities of the enterprise and other activities that are not investing or financing activities. (AS 3, ¶5)* *Investing activities are acquisition and disposal of long-term assets and other investments not included in cash equivalents. (AS 3, ¶5)* *Financing activities are activities that result in changes in the size and composition of the owners' capital (including preference share capital in the case of a company) and borrowings of the enterprise. (AS 3, ¶5)* *Enterprises report cash flows from operating activities using either:* the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or the indirect method, whereby net profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows. (AS 3, ¶18)	*The cash flow statement is a required basic financial statement that explains changes in cash and cash equivalents during a period. It should classify changes in cash and cash equivalents into operating, investing, and financial activities.* Operating cash flows *may be presented using either the direct or indirect methods. The direct method shows receipts from customers and payments to suppliers, employees, government (taxes), etc. The indirect method begins with accrual basis net profit or loss and adjusts for major non-cash items.* Investing cash flow *disclosures include separately cash receipts and payments arising from acquisition or sale of property, plant, and equipment; acquisition or sale of equity or debt instruments of other enterprises (including acquisition or sale of subsidiaries); and advances and loans made to, or repayments from, third parties.* Financing cash flow *disclosures include separately cash receipts and payments arising from an issue of share or other equity securities; payments made to redeem such securities; proceeds arising from issuing debentures, loans, notes; and repayments of such securities.* *Cash flows from taxes are disclosed separately within operating activities, unless they can be specifically identified with one of the other two headings.*
Enterprises that choose not to show operating cash receipts and payments report the same amount of net cash flow from operating activities indirectly by adjusting net income to reconcile it to net cash flow from operating activities by removing the effects of (a) all deferrals of past operating cash receipts and payments and all accruals of expected future	*Cash flows arising from the following operating, investing or financing activities may be reported on a net basis:* cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the enterprise; and	*Investing and financing activities that do not give rise to cash flows (a non-monetary transaction such as acquisition of property by issuing debt) are excluded from the cash flow statement but disclosed separately.* *Cash flows arising from transactions in a foreign currency are translated into the reporting currency at the exchange rate at the date of the cash flow. Cash*

operating cash receipts and payments and (b) all items that are included in net income that do not affect operating cash receipts and payments. If the direct method is used, a reconciliation of net income and net cash flow from operating activities should be provided in a separate schedule. (FAS 95, ¶28) *The statement of cash flows reports the reporting currency equivalent of foreign currency cash flows, using the current exchange rate at the time of the cash flows. The effect of exchange rate changes on cash held in foreign currencies is disclosed as a separate item in the reconciliation of beginning and ending balances of cash and cash equivalents. (FAS 95, ¶25)* *Information about investing and financing activities not resulting in cash receipts or payments in the period is provided separately. (FAS 95, ¶32)*	cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short. (AS 3, ¶22) *Cash flows arising from each of the following activities of a financial enterprise may be reported on a net basis:* cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date; the placement of deposits with and withdrawal of deposits from other financial enterprises; and cash advances and loans made to customers and the repayment of those advances and loans. (AS 3, ¶24) *Cash flows arising from transactions in a foreign currency are recorded in an enterprise's reporting currency. The effect of changes in exchange rates on cash and cash equivalents held in a foreign currency is reported separately in the reconciliation of the changes in cash and cash equivalents during the period. (AS 3, ¶25)* *Cash flows associated with extraordinary items are classified as arising from operating, investing or financing activities as appropriate and separately disclosed. (AS 3, ¶28)* *Cash flows from interest and dividends received and paid are disclosed separately depending on their source and the nature of operations of the enterprise. (AS 3, ¶30)* *Cash flows arising from taxes on income are separately disclosed and classified as cash flows from operating activities unless they are specifically identified with financing and investing activities. (AS 3, ¶34)* *The aggregate cash flows arising from acquisitions and from disposals of subsidiaries or other business units should be presented separately and classified as investing activities. (AS 3, ¶37)*	*flows of a foreign subsidiary are translated at the exchange rates at the dates of the cash flows.* *Cash flows associated with extraordinary items are classified as operating, investing or financing activities as appropriate.* *Cash flows from interest and dividends received and paid are appropriately classified consistently from period to period as either operating, investing or financing activities.*

	Investing and financing transactions that do not require the use of cash or cash equivalents should be excluded from a cash flow statement. Such transactions should be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities. (AS 3, ¶40) *Enterprises should disclose the components of cash and cash equivalents and present a reconciliation of the amounts in the cash flow statement with the equivalent items reported in the balance sheet. (AS 3, ¶42)* *Enterprise should disclose, together with a management commentary, the amount of significant cash and cash equivalents held that are not available for use by it. (AS 3, ¶45)*	
FAS 47 requires an enterprise to disclose its commitments under unconditional purchase obligations that are associated with suppliers' financing arrangements. Such obligations often are in the form of take-or-pay contracts and throughput contracts. (FAS 47, ¶7) *For long-term unconditional purchase obligations that are associated with suppliers' financing and are recognized on purchasers' balance sheets, payments for each of the next five years shall be disclosed. (FAS 47, ¶7)* *Enterprises should also disclose future payments on long-term borrowings and redeemable stock. For long-term unconditional purchase obligations that are associated with suppliers' financing and are not recognized on purchasers' balance sheets, the disclosures include the nature of the obligation, the amount of the fixed and determinable obligation in the aggregate and for each of the next five years, a description of any portion of the obligation that is variable, and the purchases in each year for which an income statement is presented. (FAS 47, ¶6)*		

For long-term borrowings and redeemable stock, the disclosures include maturities and sinking fund requirements (if any) for each of the next five years and redemption requirements for each of the next five years, respectively. (FAS 47, ¶10 and FAS 129, ¶7 and 8)		

Compensation: Stock based

US GAAP	Indian GAAP	IAS
FAS 123 establishes the standard for stock-based employee compensation plans including all arrangements by which employees receive shares of stock or other equity instruments of the employer or the employer incurs liabilities to employees in amounts based on the price of the employer's stock. *FAS 123 also applies to transactions in which an entity issues its equity instruments to acquire goods or services from non-employees. Such transactions are accounted for based on the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable.* *FAS 123 defines a* fair value *based method of accounting for an employee stock option. Entities are encouraged to adopt this method for all of their employee stock compensation plans. However, it also allows an entity to continue to measure compensation cost for such plans using the intrinsic value based method prescribed by APB 25. The fair value based method is preferable to the APB 25 method for purposes of justifying a change in accounting principle under APB 20.* *Entities electing to remain with the accounting in APB 25 are required to make pro forma disclosures of net income and, if presented, earnings per share, as if the fair value based method of accounting defined in FAS 123 was applied.*	*The SEBI guidelines set out the accounting for stock based compensation by listed companies.* *The accounting value of options granted during an accounting period is treated as a form of employee compensation. This value is equal to the aggregate, over all employee stock options granted during the accounting period, of the fair value of the option.* *Fair value means the option discount or, if the company so chooses, the value of the option using the Black Scholes formula or other similar valuation method.* *Option discount means the excess of the market price of the share at the date of grant of the option under ESOS over the exercise price of the option (including up-front payment, if any)* *The accounting value of the option should be amortized on a straight-line basis over the vesting period.* *When an unvested option lapses by virtue of the employee not conforming to the vesting conditions after the accounting value of the option has already been accounted for as employee compensation, this accounting treatment shall be reversed by a credit to employee compensation expense equal to the amortized portion of the accounting value of the lapsed options and a credit to deferred employee compensation expense equal to the unamortized portion.*	*Although IAS does not specify any recognition and measurement criteria for equity based compensation, companies are required to adhere to certain disclosure requirements. These include:* the nature and terms (including any vesting provisions) of equity compensation plans; the accounting policy for equity compensation plans; the amounts recognized in the financial statements for equity compensation plans; the number and terms (including, where applicable, dividend and voting rights, conversion rights, exercise dates, exercise prices and expiry dates) of the enterprise's own equity financial instruments which are held by equity compensation plans (and, in the case of share options, by employees) at the beginning and end of the period; the extent to which employees' entitlements to those instruments are vested at the beginning and end of the period; the number and terms (including, where applicable, dividend and voting rights, conversion rights, exercise dates, exercise prices and expiry dates) of equity financial instruments issued by the enterprise to equity compensation plans or to employees (or of the enterprise's own equity financial instruments distributed by equity compensation plans to employees) during the period and the fair value of any consideration received from the equity compensation plans or the employees;
Under the fair value based method, compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the	*When a vested option lapses on expiry of the exercise period, after the fair value of the option has already been accounted for as employee compensation, this accounting*	the number, exercise dates and exercise prices of share options exercised under equity compensation plans during the period;

vesting period. *Fair value is determined using an option-pricing model that takes into account the stock price at grant date, the exercise price, the expected option life, the volatility of the underlying stock and the expected dividends on it and the risk-free interest rate over the expected option life. Nonpublic entities are permitted to exclude the volatility factor in estimating the value of their stock options, which results in measurement at* minimum *value.* *The fair value of an option estimated at the grant date is not subsequently adjusted for changes in the price of the underlying stock or its volatility, the life of the option, dividends on the stock, or the risk-free interest rate.* *Equity instruments granted or otherwise transferred directly to an employee by a principal stockholder are stock-based employee compensation and should be accounted for by the entity under either APB 25 or FAS 123, whichever method the entity is applying, unless the transfer clearly is for a purpose other than compensation.*	*treatment shall be reversed by a credit to employee compensation expense.* *The SEBI guidelines are effective June 19, 1999 and apply to all stock compensation plans established after this date.*	the number of share options held by equity compensation plans, or held by employees under such plans, that lapsed during the period; the amount, and principal terms, of any loans or guarantees granted by the reporting enterprise to, or on behalf of, equity compensation plans; the fair value, at the beginning and the end of the period, of the enterprise's own equity financial instruments (other than share options) held by equity compensation plans; the fair value at the date of issue, of the enterprise's own equity financial instruments (other than share options) issued by the enterprise to equity compensation plans or to employees, or by equity compensation plans to employees, during the period. *If it is not practicable to determine the fair value of the equity financial instruments (other than share options), disclose that fact.*
Employee stock purchase plans that allow employees to purchase stock at a discount from market price are not compensatory if they satisfy three conditions: The discount is relatively small (5 percent or less, though in some cases a greater discount also might be justified as non-compensatory); Substantially all full-time employees may participate on an equitable basis; and The plan incorporates no option features such as allowing the employee to purchase the stock at a fixed discount from the lesser of the market price at grant date or date of purchase *The cumulative amount of compensation cost recognized for a stock-based award that ordinarily*		*When there is more than one equity compensation plan, disclosures may be made in total, separately for each plan or in groupings that are considered most useful for assessing the enterprise's obligations. Where disclosure is given in total for a grouping of plans, they are provided in the form of weighted averages or of relatively narrow ranges.* *When there is more than one equity compensation plan, disclosures may be made in total, separately for each plan or in groupings that are considered most useful for assessing the number and timing of shares that may be issued and the cash that may be received as a result. It may be useful to distinguish options that are "out-of-the-money" from those that are "in-the-money". It may also be useful to combine the disclosures in groupings that do not*

results in a future tax deduction under existing tax law should be considered to be a deductible temporary difference in applying FAS 109. The deferred tax benefit (or expense) that results from increases (or decreases) in that temporary difference, for example, as additional service is rendered and the related cost is recognized, shall be recognized in the income statement. *FAS 123 requires that an employer's financial statements include certain disclosures about stock-based employee compensation arrangements regardless of the method used to account for them.* *Pro forma disclosures required by an employer that continues to apply the accounting provisions of APB 25 should reflect the difference between compensation cost, if any, included in net income and the related cost measured by the fair value based method defined in FAS 123, including tax effects, if any. The required pro forma amounts will not reflect any other adjustments to net income or earnings per share.* *A summary of APB 25 and related interpretations is presented below.* *Entities should recognize compensation costs for stock issued through non-variable employee stock option, purchase, and award plans as the difference between the quoted market price of the stock at the measurement date (ordinarily the date of grant or award) less the amount, if any, the employee is required to pay. This cost is charged to expense over the periods in which the employee performs the related services.* *The measurement date for stock appreciation rights and other variable stock option and award plans is not the date of grant or award. Compensation relating to such variable plans is measured at the end of each period as the amount by which the quoted market value of the shares of the employer's stock covered by a grant exceeds the option price or value specified under the plan. This is charged to expense*		*aggregate options with a wide range of exercise prices or dates.*

over the periods in which the employee performs the related services. *The measurement date for grants under stock option, purchase, and award plans involving junior stock is the first date on which are known both the number of shares of the employer's regular common stock that an employee is entitled to receive in exchange for the junior stock and the option or purchase price, if any. Generally, total compensation cost is the amount by which the market price at the measurement date of the employer's regular common stock that an employee is entitled to receive exceeds the amount that the employee paid or will pay for the junior stock. If performance goals to which the junior stock award relates will probably be achieved, compensation cost shall be charged to expense over the periods the employee performs the related services.* *Changes in the quoted market value are reflected as an adjustment of accrued compensation and compensation expense in the periods in which the changes occur until the date the number of shares and purchase price, if any, are both known.*	

Compensation to Employees: Deferred Compensation Agreements and Paid Absences

US GAAP	*Indian GAAP*	*IAS*
Estimated amounts to be paid under a deferred compensation contract that is not equivalent to a pension plan or a postretirement health or welfare benefit plan are accrued over the period of an employee's active employment from the time the contract is signed to the employee's full eligibility date. *Employer are required to accrue a liability for employees' rights to receive compensation for future absences and for post-employment benefits provided to former or inactive employees, their beneficiaries, and covered dependents when certain conditions are met. A liability is accrued for vacation benefits that employees have earned but have not yet taken and for benefits provided as a result of disability or layoff. A liability is generally not required to be accrued for future sick pay benefits, holidays, and similar compensated absences until employees are actually absent.*	*Indian GAAP requires compensation to employees including deferred compensation agreements and paid absences to be measured and recognized on the accrual basis.*	*IAS requires compensation to employees including deferred compensation agreements to be measured and recognized on the accrual basis.* *The expected cost of short term employee benefits in the form of compensated absences is recognized as follows:* in the case of accumulating compensated absences, when the employees render service that increases their entitlement to future compensated absences; and in the case of non-accumulating compensated absences, when the absences occur. *The expected cost of accumulating compensated absences is measured as the additional amount that is expected to be paid as a result of the unused entitlement that has accumulated at the balance sheet date.*

Comprehensive income

US GAAP	*Indian GAAP*	*IAS*
Comprehensive income is defined as "the change in equity [net assets] of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners". (CON 6, ¶70) *A full set of financial statements for a period should show financial position at the end of the period, earnings (net income) for the period, comprehensive income (total non-owner changes in equity) for the period, cash flows during the period, and investments by and distributions to owners during the period. (CON 5, ¶13)* *The term* "comprehensive income" *is used to describe the total of all components of comprehensive income, including net income. The term* "other comprehensive income" *is used to refer to revenues, expenses, gains, and losses that are included in comprehensive income but excluded from net income. (FAS 130, ¶10)* *The purpose of reporting comprehensive income is to report a measure of all changes in equity of an enterprise that result from recognized transactions and other economic events of the period other than transactions with owners. (FAS 130, ¶11)* *Items included in other comprehensive income are classified based on their nature. For example, other comprehensive income is classified separately into foreign currency items, minimum pension liability adjustments, and unrealized gains and losses on certain investments in debt and equity securities. (FAS 130, ¶17)* *The total of other comprehensive income for a period is required to be transferred to a component of equity that is displayed separately from retained earnings and additional paid-*		*IAS 1 requires entities to prepare and present a statement of changes in equity.* *This statement shows:* each item of income and expense, gain or loss that is recognized directly in equity, and the total of these items. Examples include property revaluation, certain foreign currency translation gains and losses, and changes in fair values of financial instruments; and net profit or loss for the period. *A total of these two items is not presented.* *Owners' investments and withdrawals of capital and other movements in retained earnings and equity capital are shown in the footnotes accompanying the financial statements:* Same as above, but with a total of the two items (sometimes called 'comprehensive income'). Again, owners' investments and withdrawals of capital and other movements in retained earnings and equity capital are shown in the footnotes accompanying the financial statements. The statement shows both recognized gains and losses that are not reported in the income statement and owners' investments and withdrawals of capital and other movements in retained earnings and equity capital. An example of this would be the traditional multicolumn statement of changes in shareholders' equity.

in capital in a statement of financial position at the end of an accounting period. A descriptive title such as accumulated other comprehensive income should be used for that component of equity. (FAS 130, ¶26) *An enterprise should also disclose accumulated balances for each classification in that separate component of equity on the face of a statement of financial position, in a statement of changes in equity, or in notes to the financial statements. The classifications should correspond to classifications used elsewhere in the same set of financial statements for components of other comprehensive income. (FAS 130, ¶26)* *All components of comprehensive income should be reported in the financial statements in the period in which they are recognized. A total amount for comprehensive income should be displayed in the financial statement where the components of other comprehensive income are reported. (FAS 130, ¶14)*		

Computer software to be sold, leased or otherwise marketed

US GAAP	*Indian GAAP*	*IAS*
US GAAP specifies the accounting for the costs of computer software to be sold, leased, or otherwise marketed as a separate product or as part of a product or process. It applies to computer software developed internally and to purchased software. *Costs incurred internally in creating a computer software product are charged to expense when incurred as research and development until technological feasibility has been established for the product. Technological feasibility is established upon completion of a detail program design or, in its absence, completion of a working model. This occurs when the enterprise has completed all planning, designing, coding, and testing activities that are necessary to establish that the product can be produced to meet its design specifications including functions, features, and technical performance requirements.* *Thereafter, all software production costs are capitalized and subsequently reported at the lower of unamortized cost or net realizable value. Capitalized costs are amortized based on current and future revenue for each product with an annual minimum equal to the straight-line amortization over the remaining estimated economic life of the product.* *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.* *The cost of purchased computer software to be sold, leased, or otherwise marketed that has no alternative future use is accounted for the same as the costs incurred to develop such software internally. If that purchased software has an alternative future use, the cost is*		

capitalized when the software is acquired and accounted for in accordance with its alternative future use. *Capitalized software costs are amortized on a product-by-product basis. The annual amortization is the greater of the amount computed using (a) the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product or (b) the straight-line method over the remaining estimated economic life of the product including the period being reported on. Amortization starts when the product is available for general release to customers.* *At each balance sheet date, the unamortized capitalized costs of a computer software product is compared to the net realizable value of that product. The amount by which the unamortized capitalized costs of a computer software product exceed the net realizable value of that asset is written off. The amount of the write-down shall not be subsequently restored.* *Disclosures include unamortized computer software costs included in each balance sheet presented and the total amount charged to expense in each income statement presented for amortization of capitalized computer software costs and for amounts written down to net realizable value.*		

Consolidation

US GAAP	*Indian GAAP*	*IAS*
The purpose of consolidated statements is to present the results of operations and the financial position of a parent company and its subsidiaries essentially as if the group were a single enterprise with one or more branches or divisions. Consolidated statements are more meaningful than separate statements and are usually necessary for a fair presentation when one of the enterprises in the group directly or indirectly has a controlling financial interest in the other enterprises. (ARB 51, ¶1) *If an enterprise has one or more subsidiaries, consolidated statements rather than parent-company financial statements are the appropriate general-purpose financial statements. (FAS 94, ¶61)* *The usual condition for a controlling financial interest is ownership of a majority voting interest, i.e. ownership by one enterprise, directly or indirectly, of over fifty percent of the outstanding voting shares of another enterprise. A majority-owned subsidiary shall not be consolidated if control is likely to be temporary or if it does not rest with the majority owner (as, for instance, if the subsidiary is in legal reorganization or in bankruptcy or operates under foreign exchange restrictions, controls, or other governmentally imposed uncertainties so severe that they cast significant doubt on the parent's ability to control the subsidiary). (FAS 94, ¶13)* *A difference in fiscal periods of a parent and subsidiary does not justify the latter's exclusion from consolidation. It is ordinarily feasible for the subsidiary to prepare statements for a period that corresponds with or closely approaches the fiscal period of the parent. Where the difference is not more than three months, it is acceptable to use the subsidiary's*	*The Report of the Kumar Mangalam Committee on Corporate Governance took note of the discussions of the SEBI Committee on Accounting Standards. The report recommends that companies should be required to give consolidated financial statements in respect of all subsidiaries in which they hold 51 % or more of the share capital.* *SEBI is currently discussing this issue with the ICAI to issue an AS on consolidated financial statements.*	*A parent company presents consolidated financial statements unless it:* is itself a wholly owned subsidiary; or is virtually wholly owned and the parent obtains the approval of the owners of the minority interest. *All subsidiaries, domestic and foreign, are consolidated unless:* control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future; or it operates under severe long-term restrictions that significantly impair its ability to transfer funds to the parent. *Subsidiaries excluded from consolidation on the grounds above are accounted for in the consolidated financial statements as if they are investments in accordance with IAS 25.* *Intra-group balances and transactions, resulting unrealized profits and resulting unrealized intra-group losses are eliminated in full on consolidation.* *When the financial statements of a subsidiary used in preparing the consolidation are drawn up to a date which is different from that of the parent, adjustments are effected for significant transactions or other events that occur between the two dates (which should be within three months of each other).* *Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.* *When an investment ceases to be a subsidiary, it is accounted for as if it were an investment under IAS 25 or an associate under IAS 28, as applicable.* *In a parent's separate financial statements, investments in subsidiaries*

statements for its fiscal period. Recognition is given to the effect of intervening events that materially affect the financial position or results of operations by disclosure. (ARB 51, ¶4) *Consolidated statements should disclose the consolidation policy being followed. (ARB 51, ¶5)* *In the preparation of consolidated statements, intercompany balances and transactions are eliminated. Further, any intercompany profit or loss on assets remaining within the group shall be eliminated. The concept usually applied for this purpose is gross profit or loss (ARB 51, ¶6)* *Income taxes paid on intercompany profits on assets remaining within the group are deferred or the intercompany profits to be eliminated in consolidation are appropriately reduced. (ARB 51, ¶17)* *If one enterprise purchases two or more blocks of stock of another enterprise at various dates and eventually obtains control of the other enterprise, the date of acquisition depends on the circumstances. (ARB 51, ¶10)*		*that are included in the consolidated financial statements are either:* accounted for using the equity method (under IAS 28); or carried at cost or revalued amounts under the parent's accounting policy for long term investments (under IAS 25). *Investments in subsidiaries that are excluded from consolidation are accounted for in the parent's separate financial statements as if they are investments in accordance with IAS 25.* *An SPE is consolidated when the substance of the relationship between an enterprise and the SPE indicates that the SPE is controlled by that enterprise.*
Where two or more purchases are made over a period of time, the retained earnings of the subsidiary at acquisition are generally determined on a step-by-step basis. Where small purchases are made over a period of time and then a purchase is made which results in control, the date of the latest purchase may be considered as the date of acquisition. (ARB 51, ¶10) *When a subsidiary is acquired during the year, there are two methods of dealing with the results of its operations in the consolidated income statement. One method is to include the subsidiary in the consolidation as though it had been acquired at the beginning of the year, and to deduct at the bottom of the consolidated income statement the pre-acquisition earnings applicable to each block of stock. This presents results that are more*		*The following circumstances, for example, may indicate a relationship in which an enterprise controls an SPE and consequently consolidate the SPE:* in substance, the activities of the SPE are being conducted on behalf of the enterprise according to its specific business needs so that the enterprise obtains benefits from the SPE's operation; in substance, the enterprise has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an "autopilot" mechanism, the enterprise has delegated these decision making powers; in substance, the enterprise has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to

indicative of the current status of the group, and facilitates future comparison with subsequent years. Another method of prorating income is to include in the consolidated statement only the subsidiary's revenue and expenses subsequent to the date of acquisition. (ARB 51, ¶11) *When the investment in a subsidiary is disposed of during the year, it is preferable to omit the details of operations of the subsidiary from the consolidated income statement, and to show the equity of the parent in the earnings of the subsidiary prior to disposal as a separate item in the statement. (ARB 51, ¶12)* *Shares of the parent held by a subsidiary are not treated as outstanding stock in the consolidated balance sheet. (ARB 51, ¶13)* *The excess of losses applicable to the minority interest in a subsidiary over the equity capital of the subsidiary are charged against the majority interest, as there is no obligation of the minority interest to make good such losses. The majority interest is credited to the extent of such losses previously absorbed when future earnings materialize. (ARB 51, ¶15)* *To justify consolidation, the controlling financial interest should rest directly or indirectly in one of the enterprises included in the consolidation. There are circumstances, however, where* ***combined*** *financial statements (as distinguished from consolidated statements) of commonly controlled enterprises are likely to be more meaningful than their separate statements.* ***Combined*** *financial statements would be useful if one individual owns a controlling interest in several enterprises related by their operations.* ***Combined*** *statements are also used to present the financial position and the results of operations of a group of unconsolidated subsidiaries or enterprises under common management. (ARB 51, ¶22)*		the activities of the SPE; or in substance, the enterprise retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

Contingencies

US GAAP	*Indian GAAP*	*IAS*
A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain (gain contingency) or loss (loss contingency) to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur. (FAS 5, ¶1) *The likelihood that the future event or events confirm the loss or impairment of an asset or the incurrence of a liability can range from probable to remote. The terms* probable, reasonably possible, *and* remote *are used to identify three areas within that range:* *Probable* means the future event or events are likely to occur. *Reasonably* possible means the chance of the future event or events occurring is more than remote but less than likely; and *Remote* means the chance of the future event or events occurring is slight. (FAS 5, ¶3) *An estimated loss from a loss contingency is accrued by a charge to income if both of the following conditions are met:* a. Information available prior to issuance of the financial statements indicates that it is probable that an asset was impaired or a liability was incurred at the date of the financial statements. It must be probable that one or more future events will occur confirming the fact of the loss; and b. The amount of loss can be reasonably estimated. (FAS 5, ¶8)	*Contingencies are conditions or situations, the ultimate outcome of which are known or determined only on the occurrence, or non-occurrence, of one or more uncertain future events. (AS 4, ¶3)* *Contingent losses are provided for by a charge in the statement of profit and loss if:* it is probable that future events will confirm that an asset has been impaired or a liability has been incurred as at the balance sheet date, after taking into account any related probable recovery; and a reasonable estimate of the amount of the resulting loss can be made. (AS4, ¶10) *The existence of a contingent loss is disclosed in the financial statements if either of the conditions above is not met, unless the possibility of a loss is remote. (AS4, ¶11). This arises on the premise that where there is conflicting or insufficient evidence for estimating the amount of a contingent loss, readers of financial statements should be made aware of the existence and nature of the contingency.* *The existence and amount of guarantees, obligations arising from discounted bills of exchange and similar obligations are generally disclosed in financial statements by way of note, even though the possibility that a loss to the enterprise will occur is remote. (AS 4, ¶5.5)*	*IAS 37 requires that provisions are recognized in the balance sheet when an enterprise has a present obligation (legal or constructive) as a result of a past event, it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.* *Provisions should be measured in the balance sheet at the best estimate of the expenditure required to settle the present obligation at the balance sheet date, in other words, the amount that an enterprise would rationally pay to settle the obligation, or to transfer it to a third party, at that date.* *An enterprise should take risks and uncertainties into account. However, uncertainty does not justify the creation of excessive provisions or a deliberate overstatement of liabilities. An enterprise should discount a provision where the effect of the time value of money is material and should take future events, such as changes in the law and technological changes, into account where there is sufficient objective evidence that they will occur.* *The amount of a provision should not be reduced by gains from the expected disposal of assets (even if the expected disposal is closely linked to the event giving rise to the provision) nor by expected reimbursements (for example, through insurance contracts, indemnity clauses or suppliers' warranties).*
If condition a. is met with respect to a particular loss contingency and the reasonable estimate of the loss is a range, condition b. is met and an amount is accrued for the loss. If some amount within the range appears at the time to be a better estimate than any	*The amount at which a contingency is stated in the financial statements is based on information available at the date on which the financial statements are approved. Events occurring after the balance sheet date that indicate that an asset was impaired, or that a*	*When it is virtually certain that reimbursement will be received if the enterprise settles the obligation, the reimbursement should be recognized as a separate asset.* *A provision is used only for expenditures for which the provision*

other amount within the range, that amount shall be accrued. If no amount within the range is a better estimate than any other amount, however, the minimum amount in the range shall be accrued. (FIN 14, ¶3) *A disclosure of the nature of an accrual made pursuant to the above provisions and, in some circumstances the amount accrued, may be necessary for the financial statements not to be misleading. The terminology used should be descriptive of the nature of the accrual. (FAS 5, ¶9)* *Where an accrual is not made for a loss contingency because one or both of the conditions above are not met, or if an exposure to loss exists in excess of the amount accrued, disclosure of the contingency is made when there is a reasonable possibility that a loss or an additional loss may have been incurred. The disclosure should indicate the nature of the contingency and also give an estimate of the possible loss or range of loss or state that such an estimate cannot be made. (FAS 5, ¶10)* *General or unspecified business risks do not meet the conditions for accrual and no accrual for loss (reserves for general contingencies) shall be made. (FAS 5, ¶14)*	*liability existed, at the balance sheet date are taken into account in identifying contingencies and in determining the amounts at which such contingencies are included in financial statements. (AS 4, ¶7.1)* *Provisions for contingencies are not made in respect of general or unspecified business risks as they do not relate to conditions or situations existing at the balance sheet date. (AS 4, ¶5.6)* *Contingent gains are not recognized in the financial statements. (AS4, ¶12)* *Events occurring after the balance sheet date are those significant events, both favorable and unfavorable, that occur between the balance sheet date and the date on which the financial statements are approved by the Board of Directors in the case of a company, and, by the corresponding approving authority in the case of any other entity.* *AS 4 discusses two types of events:* those which provide further evidence of conditions that existed at the balance sheet date; and those that are indicative of conditions that arose subsequent to the balance sheet date.	*was originally recognized and should be reversed if an outflow of resources is no longer probable.* *IAS 37 sets out three specific applications of these general requirements:* a provision is not recognized for future operating losses; a provision is recognized for an onerous contract - a contract in which the unavoidable costs of meeting the obligations under the contract exceed the expected economic benefits; and a provision for restructuring costs is recognized only when an enterprise has a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it. For this purpose, a management or board decision is not enough. A restructuring provision should exclude costs - such as retraining or relocating continuing staff, marketing or investment in new systems and distribution networks - that are not necessarily entailed by the restructuring or that are associated with the enterprise's ongoing activities.
After the date of an enterprise's financial statements but before those financial statements are issued, information may become available indicating that an asset was impaired or a liability was incurred after the date of the financial statements or that there is at least a reasonable possibility that an asset was impaired or a liability was incurred after that date. The information may relate to a loss contingency that existed at the date of the financial statements. On the other hand, the information may relate to a loss contingency that did not exist at the date of the financial statements. In none of the cases was an asset impaired or a liability incurred at the	*Post balance sheet date events may indicate the need for adjustments to assets and liabilities as of the balance sheet date or may require disclosure. (AS 4, ¶8.1)* *Adjustments to assets and liabilities are required for post balance sheet date events that provide additional information affecting the determination of the amounts* ***relating to*** *conditions existing at the balance sheet date. (AS 4, ¶8.2)* *Assets and liabilities are adjusted for post balance sheet date events that indicate that the going concern assumption is not appropriate. (AS 4,*	*IAS 37 prohibits the recognition of contingent liabilities and contingent assets. An enterprise should disclose a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote, and disclose a contingent asset if an inflow of economic benefits is probable* *An enterprise should adjust its financial statements for events after the balance sheet date that provide further evidence of conditions that existed at the balance sheet. An enterprise should not adjust its financial statements for events after the balance sheet date that are indicative of*

date of the financial statements, and the condition for accrual is therefore not met. Disclosure of those kinds of losses or loss contingencies may be necessary, however, to keep the financial statements from being misleading. Where disclosure is deemed necessary, the financial statements should indicate the nature of the loss or loss contingency and give an estimate of the amount or range of loss or possible loss or state that such an estimate cannot be made. Occasionally, in the case of a loss arising after the date of the financial statements where the amount of asset impairment or liability incurrence can be reasonably estimated, disclosure may best be made by supplementing the historical financial statements with pro forma financial data giving effect to the loss as if it had occurred at the date of the financial statements. It may be desirable to present pro forma statements, usually a balance sheet only, in columnar form on the face of the historical financial statements. (FAS 5, ¶11) *Certain loss contingencies are disclosed in financial statements even though the possibility of loss may be remote. The common characteristic of those contingencies is a guarantee, normally with a right to proceed against an outside party in the event that the guarantor is called upon to satisfy the guarantee. Examples include (a) guarantees of indebtedness of others, (b) obligations of commercial banks under standby letters of credit, and (c) guarantees to repurchase receivables that have been sold or otherwise assigned. Disclosure of those loss contingencies, and others that in substance have the same characteristics, should be continued and should include the nature and amount of the guarantee. Consideration should be given to disclosing, if estimable, the value of any recovery that could be expected to result, such as from the guarantor's*	*¶15)* *Adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. (AS 4, ¶8.3)* *Disclosures are made in the report of the approving authority of events occurring after the balance sheet date that represent material changes and commitments affecting the financial position of the enterprise. (AS 4, ¶15)* *Certain events that take place post balance sheet date are sometimes reflected in the financial statements because of statutory requirements or because of their special nature. These include the amount of dividend proposed or declared by the enterprise after the balance sheet date in respect of the period covered by the financial statements. (AS 4, ¶8.5)*	*conditions that arose after the balance sheet date.* *If dividends to holders of equity instruments are proposed or declared after the balance sheet date, an enterprise should not recognize those dividends as a liability. An enterprise may give the disclosure of proposed dividends either on the face of the balance sheet as an appropriation within equity or in the notes to the financial statements.* *An enterprise should not prepare its financial statements on a going concern basis if management determines after the balance sheet date either that it intends to liquidate the enterprise or to cease trading, or that it has no realistic alternative but to do so. There is* ***no*** *requirement to adjust the financial statements where an event after the balance sheet date indicates that the going concern assumption is not appropriate for part of an enterprise.* *An enterprise should disclose the date when the financial statements were authorized for issue and who gave that authorization.* *Where the enterprise's owners or others have the power to amend the financial statements after issuance, the enterprise should disclose that fact.* *An enterprise should update disclosures that relate to conditions that existed at the balance sheet date in the light of any new information that it receives after the balance sheet date about those conditions.*

right to proceed against an outside party. (FAS 5, ¶12)

Contingencies that might result in gains are usually not reflected in the financial statements since this might be to recognize revenue prior to its realization. Adequate disclosure is made of contingencies that might result in gains, but care is exercised to avoid misleading implications as to the likelihood of realization. (FAS 5, ¶17)

Unused letters of credit, assets pledged as security for loans, and commitments, such as those for plant acquisition or an obligation to reduce debts, maintain working capital, or restrict dividends, shall be disclosed in financial statements. (FAS 5, ¶18 and 19)

Costs of computer software developed or obtained for internal use

US GAAP	*Indian GAAP*	*IAS*
SOP 98-1 provides guidance on accounting for the costs of computer software developed or obtained for internal use. *Computer software meeting the characteristics specified in this SOP is internal-use software.* *Computer software costs that are incurred in the preliminary project stage are expensed as incurred. Once the capitalization criteria of SOP 98-1 are met, external direct costs of materials and services consumed in developing or obtaining internal-use computer software, payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal-use computer software project (to the extent of the time spent directly on the project), and interest costs incurred when developing computer software for internal use are capitalized.* *Training costs and data conversion costs are expensed as incurred.* *Internal and external costs incurred during the preliminary project stage are expensed as incurred.* *Internal and external costs incurred to develop internal-use computer software during the application development stage are capitalized. Costs to develop or obtain software that allows for access or conversion of old data by new systems are also capitalized. Training costs are not internal-use software development costs and, if incurred during this stage, are expensed as incurred.*		

Accounting for the costs of computer software developed or obtained for internal use (continued)

US GAAP	*Indian GAAP*	*IAS*
The process of data conversion from old to new systems includes purging or cleansing of existing data, reconciliation or balancing of the old data and the data in the new system, creation of new/additional data, and conversion of old data to the new system. Data conversion often occurs during the application development stage. Data conversion costs are expensed as incurred. *Post-Implementation/Operation Stage. Internal and external training costs and maintenance costs are expensed as incurred.* *Internal costs incurred for maintenance are expensed as incurred. Entities that cannot separate internal costs on a reasonably cost-effective basis between maintenance and relatively minor upgrades and enhancements should expense such costs as incurred.* *External costs incurred under agreements related to specified upgrades and enhancements are expensed or capitalized depending on their nature. External costs related to maintenance, unspecified upgrades and enhancements, and costs under agreements that combine the costs of maintenance and unspecified upgrades and enhancements are recognized in expense over the contract period on a straight-line basis unless another systematic and rational basis is more representative of the services received.* *Impairment is recognized and measured in accordance with the provisions of FAS 121. [Refer Impairment below]* *The capitalized costs of computer software developed or obtained for internal use* ***should be*** *amortized on a straight-line basis unless another systematic and rational basis is more representative of the software's use.* *If, after the development of internal-use software is completed, an entity decides to market the software, proceeds received from the license of the*		

computer software, net of direct incremental costs of marketing, should be applied against the carrying amount of that software. *SOP 98-1 applies to all non-governmental entities and is effective for financial statements for fiscal years beginning after December 15, 1998. The provisions of SOP 98-1 should be applied to internal-use software costs incurred in those fiscal years for all projects, including those projects in progress upon initial application of the SOP. Earlier application is encouraged. Costs incurred prior to initial application of this SOP, whether capitalized or not, should not be adjusted to the amounts that would have been capitalized had this SOP been in effect when those costs were incurred.*	

Debt

US GAAP	*Indian GAAP*	*IAS*
Convertible debt securities are debt securities that are convertible into common stock of the issuer or an affiliated enterprise at a specified price at the option of the holder and that are sold at a price or have a value at issuance not significantly in excess of the face amount. The terms of such securities generally include: An interest rate that is lower than the issuer could establish for nonconvertible debt; an initial conversion price that is greater than the market value of the common stock at time of issuance; and a conversion price that does not decrease except pursuant to antidilution provisions. *In most cases such securities are callable at the option of the issuer and are subordinated to nonconvertible debt. (APB 14, ¶3)* *The proceeds from issuance of debt securities with detachable warrants is allocated between the warrants and the debt securities based on their relative fair values at time of issuance. The portion allocable to the warrants is accounted for as additional paid-in capital. No similar allocation is made for the issuance of either convertible debt or debt securities with non-detachable warrants.* *When a debtor induces conversion of convertible debt by issuing additional securities or paying other consideration to convertible debt holders, there is a recognition of expense equal to the fair value of the additional securities or other consideration issued to induce conversion.*	*SchVI, Part I sets out the disclosure requirements in respect of debt. Debt disclosures are made on the basis of the underlying security.* *The following disclosures are required for secured debt:* Classified between debentures, loans and advances from banks, subsidiaries and others; Classified between loans taken from directors, secretaries, treasurers and managers of the company; Nature of the security offered; Terms of redemption or conversion of debentures together with the earliest date for the redemption or conversion; Guarantees given by directors, secretaries, treasurers and managers of the company together with the aggregate amount of loans guaranteed; Interest accrued and due on secured debt. *Note (k) of the* "General instructions for preparation of balance sheet" *contained in SchVI, Part I also requires companies to disclose the nominal amount and carrying amount of any of the company's debentures that are held by a nominee or trustee for the company.*	*The only requirement relates to disclosure of debt in a classified balance sheet as current or non-current. This is in accordance with the guidance contained in AS 1.*
All entities that have issued securities, including options, warrants, debt, and stock, must comply with the disclosure requirements of FAS 129 dealing with disclosures on capital structures.	*The following disclosures are required for unsecured debt:* Classified between fixed deposits, loans and advances from subsidiaries, short-term loans and	

Product financing arrangements for products that were produced by or were originally purchased by the sponsor or purchased by another enterprise on behalf of the sponsor and have the following characteristics: *The financing arrangement requires the sponsor to purchase the product, a substantially identical product, or processed goods of which the product is a component at specified prices. The specified prices are not subject to change except for fluctuations due to finance and holding costs. This characteristic of predetermined prices also is present if any of the following circumstances exists:* The specified prices in the financing arrangement are in the form of resale price guarantees; The sponsor has an option to purchase the product, the economic effect of which compels the sponsor to purchase the product; and The sponsor is not required by the agreement to purchase the product but the other enterprise has an option whereby it can require the sponsor to purchase the product. *The payments that the other enterprise will receive on the transaction are established by the financing arrangement.* *The amounts to be paid by the sponsor are adjusted, as necessary, to cover substantially all fluctuations in costs incurred by the other enterprise in purchasing and holding the product (including interest). (FAS 49, ¶5)* *Product and obligations under product financing arrangements that have both characteristics described above are accounted for as follows:* Where a sponsor sells a product to another enterprise and, in a related transaction, agrees to repurchase the product or processed goods of which the product is a component, the sponsor records a liability at the time the proceeds are received	advances from banks and others and other loans and advances from banks and others; Classified between loans taken from directors, secretaries, treasurers and managers of the company; Guarantees given by directors, secretaries, treasurers and managers of the company together with the aggregate amount of loans guaranteed; Interest accrued and due on unsecured debt. *Short-term loans are those that are not due for more than one year as of the balance sheet date.*	

from the other enterprise to the extent that the product is covered by the financing arrangement. The sponsor shall not record the transaction as a sale; and Where the sponsor is a party to an arrangement whereby another enterprise purchases a product on the sponsor's behalf and, in a related transaction, the sponsor agrees to purchase the product or processed goods of which the product is a component from the enterprise, the sponsor shall record the asset and the related liability when the product is purchased by the other enterprise. (FAS 49, ¶8) *A restructuring of debt constitutes a TDR if the creditor, for reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. This does not apply to routine changes in debt terms.* *The accounting for a TDR is based on the type of the restructuring, which may be one of two primary types: (a) a transfer of assets (or equity interest) from a debtor to a creditor in full settlement of a debt and (b) a modification of terms.* *If a debtor satisfies a debt in full by transferring assets, or by granting an equity interest, to a creditor and the FMV of the assets transferred or equity interest granted is less than the carrying value of the debt (or, in the case of the creditor, is less than the recorded investment in the debt) the difference generally is an extraordinary gain to the debtor and ordinary loss to the creditor. Also, the debtor must recognize a gain or loss for any difference between the carrying value of the assets transferred and their fair value. Subsequent accounting for assets received in a TDR is the same as if the assets were acquired for cash.* *If a creditor receives assets or an equity interest in the debtor in full satisfaction of a receivable, the creditor accounts for those assets at their fair value at the time of the restructuring*			

and accounts for those assets received the same as if the assets had been acquired for cash. *For a creditor in a TDR in fiscal years beginning before December 16, 1994 involving only a modification of terms, the effects of the restructuring are accounted for prospectively from the time of restructuring, as long as the loan is not impaired based on the terms of the restructuring agreement. No gain or loss is recorded at the time of restructuring unless the carrying amount of the debt (or, in the case of the creditor, the recorded investment in the debt) exceeds the total future cash payments (or receipts) specified by the new terms. A creditor in a TDR in fiscal years beginning after December 15, 1994 involving a modification of terms or in a TDR in fiscal years beginning before December 16, 1994 that becomes impaired after that date based on the terms of the restructuring agreement shall account for the restructured loan in accordance with FAS 121.*			

Depreciation

US GAAP	Indian GAAP	IAS
The cost of an asset is one of the costs of the services it renders during its useful economic life. GAAP requires that this cost be spread over the expected useful life of the asset in such a way as to allocate it as equitably as possible to the periods during which services are obtained from the use of the asset. *Depreciation accounting is a system of accounting that aims to distribute the cost or other basic value of tangible capital assets, less salvage (if any), over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner. It is a process of allocation, not of valuation. (ARB 43, ch9C, ¶5)* *The process of using up the future economic benefit or service potential of land often takes place over a period so long that its occurrence is imperceptible. Land used as a building site is perhaps the most common example. In contrast, however, that process also sometimes occurs much more rapidly—land used as a site for toxic waste, as a source of gravel or ore, or for farming under conditions in which fertility dissipates relatively quickly and cannot be restored economically are examples. (FAS 93, ¶34)*	*AS 6 does not apply to:* Forests, plantations and similar regenerative natural resources; Wasting assets including expenditure on the exploration for and extraction of minerals, oils, natural gas and similar non-regenerative resources; expenditure on research and development; goodwill; and live stock. *AS 6 also does not apply to land unless it has a limited useful life for the enterprise.* *The depreciable amount of a depreciable asset is allocated on a systematic basis to each accounting period during the useful life of the asset.* *Depreciable amount means historical cost, or other amount substituted for historical cost in the financial statements, less the estimated residual value.* *Depreciable assets are assets that are expected to be used during more than one accounting period; have a limited useful life and are not held by an enterprise for the purpose of sale in the ordinary course of business.* *Useful life is the period over which a depreciable asset is expected to be used by the enterprise or the number of production or similar units expected to be obtained from the use of the asset by the enterprise.*	*The depreciable amount of a depreciable asset is allocated on a systematic basis to each accounting period during the useful life of the asset.* *The useful lives of assets are estimated after considering expected physical wear and tear, obsolescence and legal or other limits on the use of the asset.* *The useful lives of major depreciable assets or classes of depreciable assets are reviewed periodically and depreciation rates adjusted for current and future periods if expectations are significantly different from previous estimates.* *The depreciation method selected is applied consistently unless altered circumstances justify a change.* *Disclosures include:* The valuation bases used for depreciable assets with other accounting policies. For each major class of depreciable asset, the depreciation methods used, the useful lives or depreciation rates used, total depreciation allocated for the period and the gross amount of depreciable assets and related accumulated depreciation. Effect of changes in the useful lives of major depreciable assets or classes of depreciable assets in the accounting period in which the change occurs. In an accounting period in which the depreciation method is changed, disclosure of the quantified effect and the reason for the change.
Property, plant, and equipment is not written up by an enterprise to reflect appraisal, market, or current values which are above cost to the enterprise. This may not apply to foreign operations under unusual conditions such as serious inflation or currency	*The depreciation method selected is applied consistently from period to period. A change from one method of providing depreciation to another should be made in accordance with AS 1 and 5. When such a change in the method of depreciation is made,*	

devaluation. However, when the accounts of an enterprise with foreign operations are translated into U.S. currency for consolidation, such write-ups normally are eliminated. Whenever appreciation is recorded on the books, income is charged with depreciation computed on the written-up amounts. (APB 6, ¶17) *Where the expected productivity or revenue-earning power of the asset is relatively greater during the earlier years of its life, or where maintenance charges tend to increase during later years, the declining-balance method may provide the most satisfactory allocation of cost. That conclusion also applies to other methods, including the sum-of-the-years'-digits method, which produce substantially similar results. (FAS 109, ¶288a)* *The following disclosures are made in the financial statements or in notes thereto:* Depreciation expense for the period and balances of major classes of depreciable assets, by nature or function, at the balance sheet date Accumulated depreciation, by major classes of depreciable assets or in total, at balance sheet date; and Description of the method or methods used in computing depreciation with respect to major classes of depreciable assets. (APB 12, ¶5)	*depreciation is recalculated in accordance with the new method retroactively. The deficiency or surplus arising from retrospective recalculation of depreciation is adjusted in the financial statements in the year in which the method of depreciation is changed. Such a change is treated as a change in accounting policy and its effect is quantified and disclosed. (AS 6, ¶17)* *The useful lives of major depreciable assets or classes of depreciable assets may be reviewed periodically. Where there is a revision of the estimated useful life of an asset, the unamortized depreciable amount should be charged over the revised remaining useful life. (AS 6, ¶23)* *Any addition or extension that becomes an integral part of the existing asset is depreciated over the remaining useful life of that asset. The depreciation on such addition or extension is provided at the rate applied to the existing asset. Where an addition or extension retains a separate identity and is capable of being used after the existing asset is disposed of, depreciation is provided independently on the basis of an estimate of the applicable useful life. (AS 6, ¶24)*	
	Where the historical cost of a depreciable asset undergoes a change due to increase or decrease in long term liability on account of exchange fluctuations, price adjustments, changes in duties or similar factors, the depreciation on the revised unamortized depreciable amount is provided prospectively over the residual useful life of the asset. (AS 6, ¶25) *Where depreciable assets are revalued, the provision for depreciation is based on the revalued amount and on the*	

	estimate of the remaining useful lives of such assets. In case the revaluation has a material effect on the amount of depreciation, the same is disclosed separately in the year in which revaluation is carried out. (AS 6, ¶26) *The following information is disclosed in the financial statements:* the historical cost or other amount substituted for historical cost of each class of depreciable assets; total depreciation for the period for each class of assets; and the related accumulated depreciation. (AS 6, ¶28) *The following information is also disclosed in the financial statements together with the disclosure of other accounting policies:* depreciation methods used; and depreciation rates or the useful lives of the assets, if they are different from the principal rates specified in the statute governing the enterprise. (AS 6, ¶29)	

Derivative instruments and hedging activities

US GAAP	*Indian GAAP*	*IAS*
Section AC D 50 presents the accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, (collectively referred to as derivatives) and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction, or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security, or a foreign-currency-denominated forecasted transaction. *The accounting for changes in the fair value of a derivative (that is, gains and losses) depends on the intended use of the derivative and the resulting designation.* *For a derivative designated as hedging the exposure to changes in the fair value of a recognized asset or liability or a firm commitment (referred to as a fair value hedge), the gain or loss is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item attributable to the risk being hedged. The effect of that accounting is to reflect in earnings the extent to which the hedge is not effective in achieving offsetting changes in fair value.*		*IAS 39 is effective for annual financial statements beginning on or after January 1, 2001 and is summarized below.* *Under IAS 39, all financial assets and financial liabilities are recognized on the balance sheet, including all derivatives. They are initially measured at cost, which is the fair value of whatever was paid or received to acquire the financial asset or liability.* *An enterprise should recognize normal purchases of securities in the market place either at trade date or settlement date, with recognition of certain value changes between trade and settlement dates if settlement date accounting is used.* *Transaction costs are included in the initial measurement of all financial instruments.* *Subsequent to initial recognition, all financial assets are remeasured to fair value, except for the following, which should be carried at amortized cost:* loans and receivables originated by the enterprise and not held for trading; other fixed maturity investments, such as debt securities and mandatorily redeemable preferred shares, that the enterprise intends and is able to hold to maturity; and financial assets whose fair value cannot be reliably measured (generally limited to some equity securities with no quoted market price and forwards and options on unquoted equity securities).
For a derivative designated as hedging the exposure to variable cash flows of a forecasted transaction (referred to as a cash flow hedge), the effective portion of the derivative's gain or loss is initially reported as a component of other comprehensive income (outside earnings) and subsequently reclassified		*An enterprise measures loans and receivables that it has originated and that are not held for trading at amortized cost, less reductions for impairment or uncollectibility. The enterprise need not demonstrate intent to hold originated loans and receivables to maturity. For other fixed*

into earnings when the forecasted transaction affects earnings. The ineffective portion of the gain or loss is reported in earnings immediately. *For a derivative designated as hedging the foreign currency exposure of a net investment in a foreign operation, the gain or loss is reported in other comprehensive income (outside earnings) as part of the cumulative translation adjustment. The accounting for a fair value hedge described above applies to a derivative designated as a hedge of the foreign currency exposure of an unrecognized firm commitment or an available-for-sale security. Similarly, the accounting for a cash flow hedge described above applies to a derivative designated as a hedge of the foreign currency exposure of a foreign-currency-denominated forecasted transaction.* *For a derivative not designated as a hedging instrument, the gain or loss is recognized in earnings in the period of change.* *Under this section, an entity that elects to apply hedge accounting is required to establish at the inception of the hedge the method it will use for assessing the effectiveness of the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge. Those methods must be consistent with the entity's approach to managing risk.* *This section applies to all entities. A not-for-profit organization should recognize the change in fair value of all derivatives as a change in net assets in the period of change. In a fair value hedge, the changes in the fair value of the hedged item attributable to the risk being hedged also are recognized. However, because of the format of their statement of financial performance, not-for-profit organizations are not permitted special hedge accounting for derivatives used to hedge forecasted transactions. This section does not address how a not-for-profit organization should determine the*		*maturity investments, intent to hold to maturity is considered in the aggregate, not by subcategories.* *An intended or actual sale of a held-to-maturity security due to a non-recurring and not reasonably anticipated circumstance beyond the enterprise's control should not call into question the enterprise's ability to hold its remaining portfolio to maturity.* *If an enterprise is prohibited from classifying financial assets as held-to-maturity because it has sold more than an insignificant amount of assets that it had previously said it intended to hold to maturity, that prohibition should expire at the end of the second financial year following the premature sales.* *After acquisition most financial liabilities are measured at original recorded amount less principal repayments and amortization. Only derivatives and liabilities held for trading (such as securities borrowed by a short seller) are remeasured to fair value.* *For those financial assets and liabilities that are remeasured to fair value, an enterprise will have a single, enterprise-wide option either to:* recognize the entire adjustment in net profit or loss for the period; or (b) recognize in net profit or loss for the period only those changes in fair value relating to financial assets and liabilities held for trading, with the non-trading value changes reported in equity until the financial asset is sold, at which time the realized gain or loss is reported in net profit or loss. For this purpose, derivatives are always deemed held for trading unless they are designated as hedging instruments. *IAS 39 requires that an impairment loss be recognized for a financial asset whose recoverable amount is less than carrying amount. Guidance is provided for calculating impairment.*

components of an operating measure if one is presented. *This section precludes designating a non-derivative financial instrument as a hedge of an asset, liability, unrecognized firm commitment, or forecasted transaction except that a non-derivative instrument denominated in a foreign currency may be designated as a hedge of the foreign currency exposure of an unrecognized firm commitment denominated in a foreign currency or a net investment in a foreign operation.*		*If a debtor delivers collateral to the creditor and the creditor is permitted to sell or repledge the collateral without constraints, then the debtor recognizes the collateral given as a receivable and the creditor recognizes the collateral received as an asset and the obligation to repay the collateral as a liability.* *If a guarantee is recognized as a liability, it should be measured at fair value until it expires, or at original recorded amount if fair value cannot be measured reliably.* *IAS 39 establishes conditions for determining when control over a financial asset or liability has been transferred to another party. For financial assets a transfer normally would be recognized if (a) the transferee has the right to sell or pledge the asset and (b) the transferor does not have the right to reacquire the transferred assets unless either the asset is readily obtainable in the market or the reacquisition price is fair value at the time of reacquisition.* *With respect to derecognition of liabilities, the debtor must be legally released from primary responsibility for the liability (or part thereof) either judicially or by the creditor. If part of a financial asset or liability is sold or extinguished, the carrying amount is split based on relative fair values. If fair values are not determinable, a cost recovery approach to profit recognition is taken.* *Hedging, for accounting purposes, means designating a derivative or (only for hedges of foreign currency risks) a non-derivative financial instrument as an offset in net profit or loss, in whole or in part, to the change in fair value or cash flows of a hedged item. Hedge accounting is permitted under IAS 39 in certain circumstances, provided that the hedging relationship is clearly defined, measurable, and actually effective.* *Hedge accounting is permitted only if an enterprise designates a specific hedging instrument as a hedge of a*

		change in value or cash flow of a specific hedged item, rather than as a hedge of an overall net balance sheet position. *However, the approximate income statement effect of hedge accounting for an overall net position can be achieved, in some cases, by designating part of one of the underlying items as the hedged position.* *For hedges of forecasted transactions, the gain or loss on the hedging instrument will adjust the basis (carrying amount) of the acquired asset or liability.* *IAS 39 supplements the disclosure requirements of IAS 32 for financial instruments.* *IAS 39 is effective for annual accounting periods beginning on or after 1 January 2001. Earlier application is permitted as of the beginning of a financial year that ends after issuance of IAS 39.* *On initial adoption of IAS 39, adjustments to bring derivatives and other financial assets and liabilities onto the balance sheet and adjustments to remeasure certain financial assets and liabilities from cost to fair value will be made by adjusting retained earnings directly.*

Development stage enterprises

US GAAP	Indian GAAP	IAS
Generally accepted accounting principles that apply to established operating enterprises govern the recognition of revenue by a development stage enterprise and determine whether a cost incurred by a development stage enterprise is to be charged to expense when incurred or is to be capitalized or deferred. *Accounting treatment is governed by the nature of the transaction rather than by the degree of maturity of the enterprise. Thus, the determination of whether a particular cost is charged to expense when incurred or is capitalized or deferred is based on the same accounting standards regardless of whether the enterprise incurring the cost is already operating or is in the development stage.* *An enterprise is considered to be in the development stage if it is devoting substantially all of its efforts to establishing a new business and either of the following conditions exists:* Planned principal operations have not commenced; and Planned principal operations have commenced, but there has been no significant revenue therefrom. *Financial statements issued by a development stage enterprise should present financial position, cash flows, and results of operations in conformity with the generally accepted accounting principles that apply to established operating enterprises and shall include certain additional information.* *The additional information includes the following:* Balance sheet, including cumulative net losses reported with a descriptive caption such as "deficit accumulated during the development stage" in the stockholders' equity section;	*Indian GAAP contains no definitive pronouncement regarding developmental stage enterprises. The ICAI GN,* Treatment of Expenditure During Construction Period, *contains recommendatory guidance in respect of income earned and expenses incurred during the construction period as well as preparation of a profit and loss account by a company during its construction period.* *The GN contain recommendations on the following matters:* Treatment of preliminary corporate expenses including those incurred on the formation of a company; Costs that may be capitalized as a part of the project cost including preliminary project expenditure; Treatment accorded to interest charges, commitment fees and other borrowing costs on loans/borrowings taken for financing the project or for the purposes of providing working capital; Treatment of indirect expenditure including general office and administration expenditure; Income earned during construction period including interest income, income from hire of equipment and other assets, etc; Treatment of advance payments to suppliers of capital equipment, and capital work-in-progress; Depreciation charged on assets capitalized during the construction period; Treatment of costs of land acquired for construction including costs incurred thereon; Determination of the date of capitalization of the project; Income earned and expenditure incurred during the trial run and start-up/commissioning period of	

Income statement, showing amounts of revenue and expenses for each period covered by the income statement and cumulative amounts from the enterprise's inception; Statement of cash flows, showing the cash inflows and cash outflows for each period for which an income statement is presented and cumulative amounts from the enterprise's inception; Statement of stockholders' equity, showing from the enterprise's inception: – The date and number of shares of stock, warrants, rights, or other equity securities issued for cash and for other consideration; – The dollar amounts (per share or other equity unit and in total) assigned to the consideration received for shares of stock, warrants, rights, or other equity securities; – The nature of any noncash consideration and the basis for assigning amounts. *The financial statements are also identified as those of a development stage enterprise and include a description of the nature of the development stage activities in which the enterprise is engaged.*	the project; and Classification and disclosure of expenditure during construction period, taking into consideration the requirements of stature (CA 56) and applicable company law notifications;	
SOP 98-5 provides guidance on the financial reporting of start-up costs and organization costs. *Start-up activities as those one-time activities related to opening a new facility, introducing a new product or service, conducting business in a new territory, conducting business with a new class of customer or beneficiary, initiating a new process in an existing facility, or commencing some new operation. Start-up activities include activities related to organizing a new entity (commonly referred to as*		

organization costs). *Costs relating to the consumption of economic benefits during a period may be recognized either directly or by relating it to revenues recognized during the period. Other costs are recognized as expenses in the period in which they are incurred because the period to which they otherwise relate is indeterminable or not worth the effort to determine.* *Certain expenditures for start-up and preoperative activities and development stage enterprises are examples of the kinds of items for which assessments of future economic benefits may be especially uncertain.* *Costs of start-up activities, including organization costs, are consequently expensed as incurred.* *SOP 98-5 applies to all non-governmental entities and is effective for financial statements for fiscal years beginning after December 15, 1998.*	

Earnings per share

US GAAP	*Indian GAAP*	*IAS*
FAS 128 establishes standards for computing and presenting earnings per share (EPS) and applies to entities with publicly held common stock or potential common stock. It simplifies the standards for computing earnings per share previously found in APB 15 and makes them comparable to international EPS standards. It replaces the presentation of primary EPS with a presentation of basic EPS and also requires dual presentation of basic and diluted EPS on the face of the income statement for all entities with complex capital structures. *FAS 128 also requires a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation.* *Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Diluted EPS is computed similarly to fully diluted EPS pursuant to APB 15.* *FAS 128 is effective for financial statements issued for periods ending after December 15, 1997, including interim periods; earlier application is not permitted. This Statement requires restatement of all prior-period EPS data presented.*	*SchVI, Part IV,* Balance Sheet Abstract and Companies General Business Profile, *requires that companies provide details of EPS as part of their annual financial statements. However, SchVI, Part IV does not provide any mechanics of computing EPS.* *The GN,* Terms Used in Financial Statements, *issued by the ICAI defines EPS as "the earnings in monetary terms attributable to each* equity share *based on the* net profit *for the period, before taking into account* prior period items, extraordinary items *and adjustments resulting from changes in* accounting policies *but after deducting taxes appropriate thereto and preference* dividends, *divided by the number of equity shares issued and ranking for dividend in respect of that period.* *The GN,* Audit Reports/Certificates on Financial Information in Offer Documents *contains guidance on calculating basic and diluted EPS for the purpose of their inclusion therein. This guidance is substantially similar to that contained in IAS 33.*	*IAS 33 is substantially similar to the requirements of FAS 128 and is applicable to public companies only.* *IAS 33 requires the disclosure of basic (undiluted) and diluted net income per ordinary share on the face of the income statement with equal prominence.* *EPS disclosures are required for each class of common having different dividend rights.* *Diluted EPS reflects the potential reduction of EPS from that would arise on the conversion of options, warrants, rights, convertible debt, convertible preferred, and other contingent issuances of ordinary shares.* *The numerator for basic EPS is profit after minority interest and preference dividends. The denominator for basic EPS is the weighted average outstanding ordinary shares during an accounting period.* *The "What if converted method" is applied to compute potential dilution arising on the conversion of common stock equivalents such as rights, convertible debt, convertible preferred, and other contingent issuances of ordinary shares.* *The "Treasury stock method" is used to compute dilution of options and warrants.* *Pro forma EPS reflects issuances, exercises, and conversions after balance sheet date.* *Basic and diluted EPS are adjusted for the effects of fundamental errors and changes in accounting policies as well as the effects of a business combination that is a uniting of interests.*

Financial instruments: Disclosure

US GAAP	Indian GAAP	IAS
The disclosures relating to financial instruments are contained in AC F 25. *F 25 presents requirements for all entities to disclose certain information about their financial instruments. However, certain disclosures are optional for nonpublic entities that meet the following criteria are exempt from the disclosure requirements of this section.* The entity's total assets are less than $100 million on the date of the financial statements. (FAS 126, ¶2) The entity has no instrument that, in whole or in part, is accounted for as a derivative instrument during the reporting period. (FAS 133, ¶537) *These criteria are applied to the most recent year presented in comparative financial statements to determine applicability. If disclosures are not required in the current period, the disclosures for previous years may be omitted if financial statements for those years are presented for comparative purposes.* *Disclosure of information about significant concentrations of credit risk from an individual counterparty or groups of counterparties for all financial instruments is required.* *In addition, all entities except certain nonpublic entities are required to disclose the fair value of financial instruments, both assets and liabilities recognized and not recognized in the statement of financial position, for which it is practicable to estimate fair value. If estimating fair value is not practicable, F 25 requires disclosure of descriptive information pertinent to estimating the value of a financial instrument.* *F 25 also encourages, but does not require, quantitative information about market risks of derivative instruments, and also of other assets and liabilities,*	*AS 11, ¶26 requires the disclosure of the amount of exchange differences in respect of forward exchange contracts to be recognized in the profit or loss for one or more subsequent accounting periods, as required by AS 11, ¶13.* *AS 11, ¶27 encourages the disclosure of an enterprise's foreign currency risk management policy.* *AS 11, ¶13 states that "an enterprise may enter into a forward exchange contract, or another financial instrument that is in substance a forward exchange contract, to establish the amount of the reporting currency required or available at the settlement date of a transaction. The difference between the forward rate and the exchange rate at date of the transaction should be recognized as income or expense over the life of the contract, except in respect of liabilities incurred for acquiring fixed assets, in which case, such difference should be adjusted in the carrying amount of the respective fixed assets".*	*The purpose of the disclosures required is to provide information that will enhance understanding of the significance of on-balance sheet and off-balance sheet financial instruments to an enterprise's financial position, performance and cash flows and assist in assessing the amounts, timing and certainty of future cash flows associated with those instruments.* *In addition to giving information about particular financial instrument balances and transactions, enterprises are encouraged to provide a discussion of the extent to which financial instruments are used, the associated risks and the business purposes served.* *A discussion of management's policies for controlling the risks associated with financial instruments, including policies on matters such as hedging of risk exposures, avoidance of undue concentrations of risk and requirements for collateral to mitigate credit risks, provides a valuable additional perspective that is independent of the specific instruments outstanding at a particular time.* *Some enterprises provide such information in a commentary that accompanies their financial statements rather than as part of the financial statements.* *The standards do not prescribe either the format of the information required to be disclosed or its location within the financial statements. With regard to recognized financial instruments, to the extent that the required information is presented on the face of the balance sheet, it is not necessary for it to be repeated in the notes. With regard to unrecognized financial instruments, however, information in notes or supplementary schedules is the primary means of disclosure.* *Disclosures may include a combination of narrative descriptions and specific quantified data, as appropriate to the*

that is consistent with the way the entity manages or adjusts those risks. *A financial instrument is defined as cash, evidence of an ownership interest in an entity, or a contract that both:* Imposes on one entity a contractual obligation (1) to deliver cash or another financial instrument to a second entity or (2) to exchange other financial instruments on potentially unfavorable terms with the second entity; and Conveys to that second entity a contractual right (1) to receive cash or another financial instrument from the first entity or (2) to exchange other financial instruments on potentially favorable terms with the first entity. (FAS 107, ¶3) *If it is not practicable for an entity to estimate the fair value of a financial instrument or a class of financial instruments, the following is disclosed:* Information pertinent to estimating the fair value of that financial instrument or class of financial instruments, such as the carrying amount, effective interest rate, and maturity; and The reasons why it is not practicable to estimate fair value. (FAS 107, ¶14) *Appendix A to FAS 107 provides examples of procedures for estimating the fair value of financial instruments. These examples are illustrative and are not meant to portray all possible ways of estimating the fair value of a financial instrument in order to comply with the provisions of FAS 107. (FAS 107, ¶18)* *Appendix B to FAS 107 provides examples of illustrations applying the disclosure requirements about fair value of financial instruments. The examples are guides to implementation of the disclosure requirements. Entities are not required to display the information contained in the specific*		*nature of the instruments and their relative significance to the enterprise. Determination of the level of detail to be disclosed about particular financial instruments is a matter for judgement.* *Disclosures include:* Terms, conditions and accounting policies in respect of various types of financial instruments; Interest rate risk disclosures; Credit risk disclosures; Fair values including information on assets carried in excess of their fair values; Hedges of anticipated future transactions; and Treasury stock.

manner illustrated. Alternative ways of disclosing the information are permissible as long as they satisfy the disclosure requirements. (FAS 107, ¶30)	

Financial instruments: Servicing

US GAAP	*Indian GAAP*	*IAS*
Financial assets are cash, evidence of an ownership interest in an entity, or a contract that conveys to a second entity a contractual right (a) to receive cash or another financial instrument from a first entity or (b) to exchange other financial instruments on potentially favorable terms with the first entity. (FAS 125, ¶243). This definition is similar to the definition of financial instrument under FAS 107, ¶3(b). *Servicing assets are contracts to service financial assets under which the estimated future revenues from contractually specified servicing fees, late charges, and other ancillary revenues are expected to more than adequately compensate the servicer for performing the servicing. A servicing contract is either (a) undertaken in conjunction with selling or securitizing the financial assets being serviced or (b) purchased or assumed separately. (FAS 125, ¶243)* *Servicing liabilities are contracts to service financial assets under which the estimated future revenues from contractually specified servicing fees, late charges, and other ancillary revenues are not expected to adequately compensate the servicer for performing the servicing. (FAS 125, ¶243)* *Each time an entity undertakes an obligation to service financial assets it recognizes either a servicing asset or a servicing liability for that servicing contract, unless it securitizes the assets, retains all of the resulting securities, and classifies them as debt securities held-to-maturity* *Servicing assets purchased or servicing liabilities assumed should be initially measured at fair value.* *A servicing asset or liability is amortized in proportion to and over the period of estimated net servicing income (if servicing revenues exceed servicing costs) or net servicing loss (if servicing costs exceed servicing*		

revenues). A servicing asset or liability is assessed for impairment or increased obligation based on its fair value (FAS 125, ¶13) *An entity should disclose the following for all servicing assets and servicing liabilities:* The amounts of servicing assets or liabilities recognized and amortized during the period; The fair value of recognized servicing assets and liabilities for which it is practicable to estimate that value and the method and significant assumptions used to estimate the fair value; Risk characteristics of the underlying financial assets used to stratify recognized servicing assets for purposes of measuring impairment; and Activity in any valuation allowance for impairment of recognized servicing assets—including beginning and ending balances, aggregate additions charged and reductions credited to operations, and aggregate direct write-downs charged against the allowances—for each period for which results of operations are presented. (FAS 125, ¶17(e))			

Financial instruments: Transfers

US GAAP	*Indian GAAP*	*IAS*
The accounting and reporting standards for transfers of financial assets are contained in AC F 38. Those standards are based on consistent application of a financial-components approach that focuses on control. Under this approach, after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished. F 38 provides standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. *A transfer of financial assets in which the transferor surrenders control over those assets is accounted for as a sale to the extent that consideration other than beneficial interests in the transferred assets is received in exchange. The transferor has surrendered control over transferred assets if and only if* ***all*** *of the following conditions are met:* The transferred assets have been isolated from the transferor—put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership; Either (1) each transferee obtains the unconditional right to pledge or exchange the transferred assets or (2) the transferee is a qualifying special-purpose entity and the holders of beneficial interests in that entity have the unconditional right to pledge or exchange those interests; and The transferor does not maintain effective control over the transferred assets through (1) an agreement that both entitles and obligates the transferor to repurchase or redeem them before their maturity or (2) an agreement that entitles the transferor to		*IAS 39 provides guidance on transfers of financial instruments.* *An enterprise derecognizes a financial asset or a portion of a financial asset when, and only when, the enterprise loses control of the contractual rights that comprise the financial asset (or a portion of the financial asset). An enterprise loses such control if it realizes the rights to benefits specified in the contract, the rights expire, or the enterprise surrenders those rights.* *Determining whether an enterprise has lost control of a financial asset depends both on the enterprise's position and that of the transferee. Consequently, if the position of either enterprise indicates that the transferor has retained control, the transferor does not remove the asset from its balance sheet. On derecognition, the difference between:* the carrying amount of an asset (or portion of an asset) transferred to another party; and the sum of the proceeds received or receivable and any prior adjustment to reflect the fair value of that asset that had been reported in equity. is included in net income. *If a debtor delivers collateral to the creditor and the creditor is permitted to sell or repledge the collateral without constraints, then:* the debtor discloses the collateral separately from other assets not used as collateral; and

repurchase or redeem transferred assets that are not readily obtainable. *Liabilities and derivatives incurred or obtained by transferors as part of a transfer of financial assets are initially measured at fair value, if practicable. Servicing assets and other retained interests in the transferred assets are initially measured by allocating the previous carrying amount between the assets sold, if any, and retained interests, if any, based on their relative fair values at the date of transfer.* *Debtors should reclassify financial assets pledged as collateral and secured parties should recognize those assets and their obligation to return them in certain circumstances in which the secured party has taken control of those assets.* *F 38 provides implementation guidance for assessing isolation of transferred assets and for accounting for transfers of partial interests, securitizations, transfers of sales-type and direct financing lease receivables, securities lending transactions, repurchase agreements including "dollar rolls," "wash sales," loan syndications and participations, risk participations in banker's acceptances, factoring arrangements, and transfers of receivables with recourse.*		the creditor recognizes the collateral in its balance sheet as an asset, measured initially at its fair value, and also recognizes its obligation to return the collateral as a liability. *If an enterprise transfers a part of a financial asset to others while retaining a part, the carrying amount of the financial asset is allocated between the part retained and the part sold based on their relative fair values on the date of sale.* *A gain or loss is recognized based on the proceeds for the portion sold. In the rare circumstance that the fair value of the part of the asset that is retained cannot be measured reliably, then that asset is recorded at zero.* *The entire carrying amount of the financial asset is attributed to the portion sold, and a gain or loss is recognized equal to the difference between a) the proceeds and b) the previous carrying amount of the financial asset plus or minus any prior adjustment that had been reported in equity to reflect the fair value of that asset (a "cost recovery" approach).*
		An enterprise removes a financial liability (or a part of a financial liability) from its balance sheet when, and only when, it is extinguished – that is, when the obligation specified in the contract is discharged, cancelled, or expires. *An exchange between an existing borrower and lender of debt instruments with substantially different terms is an extinguishment of the old debt that results in derecognition of that debt and recognition of a new debt instrument.* *Similarly, a substantial modification of the terms of an existing debt instrument (whether or not due to the financial difficulty of the debtor) is accounted*

	for as an extinguishment of the old debt. *The difference between the carrying amount of a liability (or part of a liability) extinguished or transferred to another party, including related unamortized costs, and the amount paid for it is included in net profit or loss for the period.*

Financial Statements: Comparative Financial Statements

US GAAP	*Indian GAAP*	*IAS*
The presentation of comparative financial statements in annual and other reports enhances the usefulness of such reports and brings out more clearly the nature and trends of current changes affecting the enterprise. Such presentation emphasizes the fact that statements for a series of periods are far more significant than those for a single period and that the accounts for one period are but an installment of what is essentially a continuous history. (ARB 43, ch2A, ¶1) *In any one year it is ordinarily desirable that the balance sheet, the income statement, [the statement of cash flows,] and the statement of [retained earnings] be given for one or more preceding years as well as for the current year. Footnotes and explanations that appeared on the statements for the preceding years should be repeated, or at least referred to, in the comparative statements to the extent that they continue to be of significance. (ARB 43, ch2A, ¶2)* *It is necessary that prior-year figures shown for comparative purposes be in fact comparable with those shown for the most recent period, or that any exceptions to comparability be clearly brought out. (ARB 43, ch2A, ¶3)*	*Note (n) of the* "General instructions for preparation of balance sheet" *contained in SchVI, Part I states that: "Except in the case of the first balance sheet laid before the Company ………, the corresponding amounts for the immediately preceding financial year for all items shown in the balance sheet shall also be given in the balance sheet. The requirement in this behalf shall, in the case of companies preparing quarterly or half-yearly accounts, etc., relate to the balance sheet for the corresponding date in the previous year".* *SchVI, Part II, ¶6 states:* *Except in the case of the first profit and loss account ………, the corresponding amounts for the immediately preceding financial year for all items shown in the profit and loss account shall also be given in the profit and loss account.* *The requirement in sub-clause (1) shall, in the case of companies preparing quarterly or half-yearly accounts, relate to the profit and loss account for the period which entered on the corresponding date of the previous year.*	*Unless a standard permits or requires otherwise, comparative information is disclosed in respect of the previous period for all numerical information in the financial statements.* *Comparative information is included in narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.* *When the presentation or classification of items in the financial statements is amended and comparative amounts are reclassified, the nature, amount of, and reason for any reclassification is disclosed.* *When the presentation or classification of items in the financial statements is amended, but it is impracticable to reclassify comparative amounts, the reason for not reclassifying and the nature of the changes that would have been made if amounts were reclassified is disclosed.*