



Issues In-Depth

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A Closer Look at IFRS for SMEs

U.S. nonpublic companies without “public accountability” have a simplified alternative to U.S. GAAP in the newly published IASB standard designed to be a less complex, self-contained alternative to the full set of IASB standards.¹ The new standard for “small and medium-sized entities,” or SMEs, may be used if permitted by local jurisdictions, and most U.S. nonpublic companies fit the SME definition.

The new standard omits some of the more complex accounting requirements and policy elections in full IFRS, excludes topics that the IASB believes generally would not apply to SME financial reporting, and contains fewer disclosure requirements than either U.S. GAAP or full IFRS. U.S. auditors are not prohibited from issuing unqualified audit opinions on financial statements intended for general distribution prepared in accordance with IFRS for SMEs.² The audit report for financial statements using IFRS for SMEs would state whether the financial statements are presented fairly in accordance with IFRS for SMEs.

Nonpublic companies will probably need to consult with their capital suppliers and other key external stakeholders about what kind of financial-reporting standards they desire in reports from their borrowers and investees. The purpose of this edition of *Issues In-Depth* is therefore to describe the entities that may be eligible to adopt IFRS for SMEs, to compare IFRS for SMEs to U.S. GAAP, and to explain the SME standard’s transition provisions. It remains to be seen what user reaction will be to the permission to use the SME standard and whether it will be used in financial reporting by U.S. nonpublicly accountable entities. Companies considering those decisions would likely benefit from information about how the standard differs from U.S. GAAP requirements as well as information about capital-supplier requirements or preferences.

Applicability

IFRS for SMEs is intended for use by “small and medium-sized entities,” which are defined by the IASB as entities that do not have public accountability but do publish general purpose financial statements for external users. The breadth of the definition depends on the words

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¹ IASB, International Financial Reporting Standard for Small and Medium-sized Entities, available at www.iasb.org.

² AICPA Code of Professional Conduct, Appendix A, Council Resolution Designating Bodies to Promulgate Technical Standards; AU 9534.2, Financial Statements Prepared in Conformity With International Financial Reporting Standards as Issued by the International Accounting Standards Board; AU 9508.19, Financial Statements Prepared in Conformity With International Financial Reporting Standards as Issued by the International Accounting Standards Board.

“public accountability.” For purposes of the SME standard, an entity has public accountability if it meets either of the following two criteria:

- Its debt or equity instruments are traded in a public market, or it is in the process of issuing such instruments for trading in a public market.
- It holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (which would typically be the case for banks, credit unions, insurance companies, securities brokers and dealers, mutual funds, and investment banks).

Although developed with a focus on the needs of a typical mid-size company, IFRS for SMEs may be used by any nonpublicly accountable entity regardless of size.

Parent Uses Full IFRS. For purposes of applying the two criteria, a subsidiary whose parent is a public entity would not be prohibited from using the SME standard in its own financial statements if the subsidiary by itself does not have public accountability (e.g., its securities are not publicly traded). However, in such a situation, the parent’s consolidated financial statements would be based on either full IFRS or U.S. GAAP, depending on its domicile, which means that the parent would be required to convert the subsidiary’s results from IFRS for SMEs to full IFRS or U.S. GAAP for consolidation purposes.

Decision-Making Considerations

In addition to comparing IFRS for SMEs requirements to those in U.S. GAAP, nonpublicly accountable U.S. entities will want to evaluate how converting to IFRS for SMEs will affect their organization and the recipients of their financial statements. Among other things, management will want to consider:

- Key financial-statement users’ willingness to accept financial statements prepared in accordance with IFRS for SMEs,
- What period it would be most desirable to convert to IFRS for SMEs (the conversion can be made at any time),
- The training in IFRS for SMEs the organization’s personnel will need,
- The information needed for conversion,
- Whether systems changes are needed locally and across the entire entity,
- Whether new controls or control modifications are needed to maintain an effective internal control environment,
- Communication plans to minimize surprises to stakeholders, such as investors, creditors, customers, and suppliers,
- The need to renegotiate current business contracts, such as debt agreements and covenants to reference IFRS for SMEs instead of U.S. GAAP and the potential impact of using IFRS for SMEs on covenants based on financial information,
- The effect on customer and supplier contracts,
- The effect on management compensation metrics,

- The effect on income-tax reporting, compliance, and planning (e.g., the potential elimination of LIFO for tax filings), and
- Coordinating with the external auditor.

The SME Standard's Relative Stability. The IASB plans to update the SME standard approximately once every three years by considering changes to full IFRS in the intervening years and issuing an omnibus amendment to IFRS for SMEs with the changes the Board believes should be made. This approach is intended to give IFRS for SMEs a more stable platform than either full IFRS or U.S. GAAP, which have historically been changed much more frequently.

The Standard's Design

IFRS for SMEs is based broadly on the same underlying principles and Framework as full IFRS. Simplifications were based on the IASB's assessment of the needs of the preparers and users of SME financial statements and on cost-benefit considerations.

Entities that choose to adopt IFRS for SMEs must adopt the entire standard and must make an explicit and unreserved statement in the notes that their financial statements comply with the SME standard's provisions. As with U.S. GAAP, however, individual entities may find that certain sections of the standard do not apply to their specific circumstances (e.g., an entity that does not grant employee stock options). The SME standard provides a hierarchy for selecting accounting policies for purposes of compliance when no specific guidance is available in IFRS for SMEs. The hierarchy is applied by considering the following sources in descending order:

- The requirements and guidance in IFRS for SMEs specifically applicable or applicable to similar and related issues.
- The definitions, recognition criteria, and measurement concepts for assets, liabilities, income, and expenses in the pervasive principles in the Concepts and Pervasive Principles section of the IFRS for SMEs.

IFRS for SMEs goes on to say that in selecting an accounting policy management may also consider the requirements and guidance in full IFRS that address similar and related issues in the event that the two IFRS for SMEs sources do not provide what is needed. No other set of accounting principles, including U.S. GAAP, receives this evidence of approval in IFRS for SMEs, a fact that could be interpreted to mean full IFRS is the exclusively approved alternative source, even though IFRS for SMEs makes no statement about excluding other sources. This differs from full IFRS, which permits entities to consider the requirements of other national GAAPs, such as U.S. GAAP, that are based on a framework similar to full IFRS's.

Apart from the requirements in the SME standard for selecting accounting policies, entities may find it useful to have some understanding of full IFRS when applying the SME standard because the SME standard is derived from full IFRS.

The SME standard is generally based on the same principles and Framework as full IFRS. The standard nevertheless has its own self-contained framework titled "Concepts and Pervasive Principles." The IASB omits topics that it believes are not relevant to most SMEs' financial reporting, thereby reducing both the complexity of some requirements and the number of alternative treatments available. The standard has much less application guidance than full IFRS or U.S. GAAP.

Omitted Topics. The IASB omitted the following topics in full IFRS from the SME standard:

- Earnings per share (required under full IFRS only for publicly traded entities)
- Interim financial reporting, although a SME that is called on to do interim reporting could consult full IFRS for the form and content of condensed interim statements
- Segment reporting (required under full IFRS only for publicly traded entities)
- Assets held for sale, which under the SME standard would be subject to the same impairment measurement and presentation model as other long-lived assets, thereby reducing complexity
- Insurance (insurance companies would have public accountability and therefore would not be eligible to use the SME standard)

Covered Topics. The new standard covers the following topics:

- Concepts and pervasive principles
- The financial statements to be provided in a complete set of SME financial statements
- Financial instruments
- Inventories
- Investments in associates and in joint ventures
- Investment property
- Property, plant, and equipment and intangible assets and related impairment
- Business combinations
- Leases
- Provisions and contingencies
- Distinguishing between liabilities and equity
- Revenue
- Government grants
- Borrowing costs
- Share-based payment arrangements
- Employee benefit arrangements
- Income tax
- Foreign currency translation and hyperinflationary environments
- Subsequent events, related party disclosures, and specialized activities
- First-time adoption of IFRS for SMEs

Comparing IFRS for SMEs and U.S. GAAP

These are some of the key ways in which the requirements in IFRS for SMEs are simpler than those in U.S. GAAP:

- The requirements for financial-instruments accounting have fewer categories for investments in financial assets, and the requirements to qualify for hedge-accounting requirements are less restrictive.
- All intangible assets and goodwill are amortized over their useful lives. If a reliable estimate of the useful life cannot be made, a period of 10 years is used. Impairment testing is required only when there is an indication of impairment, not annually.
- The SME standard's revenue recognition requirements for multiple-element arrangements do not include detailed prescriptive guidance on separating and allocating consideration of the sort included in U.S. GAAP.
- IFRS for SMEs has limited industry-specific revenue-recognition guidance and therefore has no equivalents to U.S. GAAP's guidance on software revenue recognition and sales of real estate. (Full IFRS's revenue recognition requirements are generally the same as those in IFRS for SMEs in these two circumstances.)
- Assets held for sale are subject to the same impairment model as other long-lived assets, although a decision to sell is a trigger requiring an impairment evaluation.
- IFRS for SMEs has fewer and less detailed disclosure requirements.
- IFRS for SMEs does not have prescriptive guidance for classifying financial instruments as debt or equity.

The table at the end of this newsletter more fully compares the basic requirements in IFRS for SMEs to those in U.S. GAAP.

Reduced Disclosure Requirements. In addition to differences in recognition and measurement requirements noted above, IFRS for SMEs and U.S. GAAP differ significantly in their required disclosures. For example, IFRS for SMEs does not require a reconciliation from the statutory to the effective tax rate. IFRS for SMEs does not require a disclosure of lease obligations by year for the next five years as U.S. GAAP does, but instead a disclosure in the aggregate for years two through five. These and other disclosure simplifications might make IFRS for SMEs attractive to financial-statement preparers. However, as noted earlier, entities will also need to consider how financial-statement users will react to the reduction of information from that which would be required under U.S. GAAP.

Transition to IFRS for SMEs

A first-time adopter of IFRS for SMEs is defined as “an entity that presents its first annual financial statements that conform to the IFRS for SMEs, regardless of whether its previous accounting framework was full IFRSs or another set of accounting standards.” The general requirement when initially adopting IFRS for SMEs is to apply the standard retrospectively to all prior periods. However, first-time adopters qualify for mandatory exceptions and optional exemptions from the general requirement for retrospective application of the IFRS for SMEs accounting policies. The exemptions and exceptions may be applied only once.

Transition Date. IFRS for SMEs requires that at least one comparative period be presented. The transition date for a first-time adopter is the beginning of the earliest period for which comparative information is presented. If a calendar-year entity presents one comparative period and is adopting IFRS for SMEs for 2009, its date of transition would be January 1, 2008.

Basic Transition Steps. Each first-time adopter generally must:

- Prepare an opening IFRS for SMEs statement of financial position at the date of transition (January 1, 2008 in the example above);
- Select its accounting policies under IFRS for SMEs based on the standard in effect at the end of its first IFRS for SMEs reporting period (December 31, 2009 in the example above) and determine whether to elect to early-adopt changes in IFRS for SMEs that have been issued in final form but are not yet required to be adopted,
- Apply IFRS for SMEs accounting policies retrospectively in preparing the opening IFRS for SMEs statement of financial position and consistently from the transition date through the end of the first annual reporting period, subject to the mandatory exceptions to retrospective adoption and reflecting decisions on the optional exemptions from retrospective adoption;
- Recognize adjustments from previous GAAP to IFRS for SMEs on transition directly in retained earnings, with limited exceptions;
- Present at least one year of comparative financial information prepared on the basis of IFRS for SMEs;
- Make an explicit and unreserved statement of compliance with IFRS for SMEs in the notes to the financial statements; and
- Provide reconciliations in the notes of the impact of the transition from previous GAAP to IFRS for SMEs.

Retrospective Application. Applying IFRS for SMEs retrospectively entails remeasuring all transactions and events as of the transition date as though IFRS for SMEs policies had been applied from the transaction date to the date of transition, except for those policies subject to mandatory exceptions and policies not applied because optional exemptions are elected. The entity's SME accounting policies, without the exceptions and exemptions, would then be applied for all periods subsequent to the transition date.

The Opening Statement of Financial Position. Apart from the SME standard's transitional provisions' mandatory exceptions and elected optional exemptions, an entity retrospectively applying IFRS for SMEs would take the following steps in preparing its opening IFRS for SMEs statement of financial position:

- Recognize all assets and liabilities that IFRS for SMEs requires be recognized,
- Derecognize assets or liabilities recognized under previous GAAP if IFRS for SMEs does not permit their recognition,
- Reclassify items that were recognized under previous GAAP as one type of asset, liability,

or component of equity, but that are a different type of asset, liability, or component of equity under IFRS for SMEs, and

- Apply IFRS for SMEs in measuring all recognized assets and liabilities.

The exceptions and exemptions to retrospective application are intended to make the transition to IFRS for SMEs easier. They therefore focus on eliminating retrospective application for items that would cause many entities difficulty.

Mandatory Transition Exceptions

The SME standard's mandatory exceptions to retrospective application require entities to apply their previous GAAP for periods prior to the date of transition. There are exceptions for accounting estimates, derecognition of financial instruments, hedge accounting, discontinued operations, and noncontrolling interests.

Accounting Estimates. Estimates made under previous GAAP prior to the transition date may not be revised.

Derecognition of Financial Instruments. Financial assets and liabilities derecognized under previous GAAP may not be recognized at first-time adoption. Financial assets or liabilities not derecognized under previous GAAP that would be derecognized under IFRS for SMEs may be derecognized at the transition date or remain on the statement of financial position until disposed of or settled.

Hedge Accounting. Hedge accounting under previous GAAP is not changed for relationships that no longer exist at the transition date. However, IFRS for SMEs hedging requirements are applied at the transition date to hedging relationships that exist at the transition date.

Discontinued Operations. Items reported as discontinued operations under previous GAAP prior to the date of transition should not be reclassified.

Noncontrolling Interests. Amounts reported under previous GAAP may not be remeasured at the transition date.

Optional Transition Exemptions

The optional exemptions pertain to business combinations, share-based payments, fair value or revaluations as deemed cost, cumulative translation differences, compound financial instruments, deferred tax, arrangements containing a lease, decommissioning liabilities in cost of property, plant, and equipment, and extractive industries.

Business Combinations. The accounting for business combinations effected prior to the transition date may be grandfathered.

Share-based Payments. The transitioning entity may elect not to apply IFRS for SMEs to equity-classified awards granted, or to liability-classified awards settled, prior to the transition date.

Fair Value or Revaluations as Deemed Cost. The transitioning entity may elect to measure property, plant, and equipment, investment property, or identifiable intangibles at fair value at the transition date. Alternatively, a previous revaluation (e.g., a valuation used for assets acquired in a business combination) may be used as deemed cost for such items.

Cumulative Translation Differences. The cumulative translation adjustment may be deemed to be zero at the transition date.

Compound Financial Instruments. Separating a compound financial instrument into its liability and equity components is not required if the liability component is not outstanding at the transition date.

Deferred Tax. Amounts of deferred tax assets or liabilities need not be recognized at the transition date if it would require undue cost or effort (e.g., tax uncertainties that were not more likely than not to be sustained and for which the entity did not assess the probabilities of outcomes in previous periods).

Arrangements Containing a Lease. Transitioning entities will need to determine whether an arrangement contains a lease based on facts and circumstances existing at the transition date (e.g., analyze arrangements entered into prior to the effective date of the similar U.S. GAAP requirements for determining whether an arrangement contains a lease for which the previous accounting was grandfathered under U.S. GAAP at the date of transition, rather than when the arrangement was entered into).

Decommissioning Liabilities Included in the Cost of Property, Plant, and Equipment. Transitioning entities may elect to measure this component of cost at the transition date rather than at the date the obligation arose (e.g., if the measurement under U.S. GAAP differs from under IFRS for SMEs).

Extractive Industries. Entities using full cost under previous GAAP may elect to measure oil and gas assets at the amount recognized under previous GAAP at the transition date, although the capitalized amounts would be tested for impairment at the transition date.

Table Comparing IFRS for SMEs and U.S. GAAP

The table below is not intended to completely describe the SME standard's requirements and is not intended to completely compare the SME standard to all aspects of U.S. GAAP. Its aim is to present a high-level, overview-type comparison of the SME standard and U.S. GAAP. The first column presents the key provisions of each identified section of the SME standard. The second presents the corresponding requirements from U.S. GAAP. Because the application guidance in IFRS for SMEs is much more abbreviated than the application guidance in U.S. GAAP, additional differences could arise in practice even when the basic requirements appear to be similar.

Comparison of Key Provisions of IFRS for SMEs and U.S. GAAP	
IFRS for SMEs	U.S. GAAP
Financial Statement Presentation, Sections 3 through 10	
Requires at least one year of comparative information.	Does not require comparative information.
Consolidation is based on a control model taking into consideration potential voting rights that are currently exercisable (e.g., options).	Consolidation is based on a controlling-financial-interest model, which differs in certain respects from IFRS for SMEs. Potential voting rights are not considered.
Uniform accounting policies must be used throughout the group.	Does not require uniform accounting policies to be used throughout the group.
<p>A complete set of financial statements includes:</p> <ul style="list-style-type: none"> • A statement of financial position, • Either a single statement of comprehensive income or a separate income statement and a separate statement of comprehensive income, • A statement of changes in equity, • A statement of cash flows, and • Notes. 	Has similar requirements. However, the statement of changes in equity may be presented in the notes in specified circumstances, and comprehensive income may be presented in the statement of changes in equity (in which case it must be presented as a financial statement).
No requirement to disclose expenses by nature if presenting by function on the statement of comprehensive income.	No requirement to disclose expenses by nature.
Financial instruments, Sections 11 and 12. An entity may elect to apply the requirements in these Sections or to apply the recognition and measurement provisions of IAS 39 with the disclosure requirements of IFRS for SMEs.	
<p>There are two classification categories for financial instruments: amortized cost and fair value through earnings. Therefore, the fair value option and the “available-for-sale” and “held-to-maturity” categories are eliminated.</p> <p>Basic financial instruments are measured at amortized cost except for investments in nonconvertible and nonputtable preference shares and nonputtable ordinary shares that are publicly traded or whose fair value can be measured reliably. For these purposes, basic financial instruments are:</p> <ul style="list-style-type: none"> • Cash. • Debt instruments whose returns are fixed amounts, fixed rate, or variable rate that is equal to a single referenced, quoted, or observable interest rate or some combination, provided that both the fixed and variable rates are positive; and whose contracts have no provisions that would cause the holder to lose principal amount or interest; prepayment provisions or put options are not contingent on future events; there are no additional returns or repayment other than those above. • Investments in nonconvertible preference shares and nonputtable ordinary shares or preference shares. <p>Investments in nonconvertible preference shares and nonputtable ordinary shares are measured at their fair value if it can be reliably measured; if not, at cost less impairment.</p> <p>All instruments other than basic debt instruments as described above (including instruments with embedded derivatives) are measured at fair value through earnings.</p>	<p>Investments in securities are classified as:</p> <ul style="list-style-type: none"> • Trading (fair value through earnings), • Available-for-sale (fair value through other comprehensive income with recycling through earnings upon disposal), or • Held-to-maturity (amortized cost). <p>Other financial assets are classified by type and purpose:</p> <ul style="list-style-type: none"> • Loans held for investment (amortized cost with an incurred loss impairment analysis), • Loans held for sale (lower of cost or market), or • Receivables (recoverable amount). <p>Debt instruments generally are accounted for at amortized cost.</p> <p>Derivative instruments are measured at fair value. Embedded derivatives are generally separated from the host and accounted for as free-standing derivatives if the embedded feature is not clearly and closely related to the host.</p> <p>The fair value option (fair value through earnings) is available for most financial instruments without qualifying criteria.</p> <p>Requires disclosure of the inputs used to measure the fair value of the instruments and other disclosures about financial instruments.</p>

<p>Fewer types of hedge risks and instruments qualify for hedge accounting than under U.S. GAAP or full IFRS, and less extensive evidence is needed to support hedge effectiveness. To qualify for hedge accounting an entity:</p> <ul style="list-style-type: none"> • Designates and documents the hedged risk and the hedging instrument. • The hedged risk must be interest-rate risk of a debt instrument measured at amortized cost, a foreign-exchange or interest-rate risk in a firm commitment or a highly probable forecasted transaction, or a commodity price risk of a firm commitment, or a highly probable forecasted transaction to purchase or sell a commodity, or a foreign-exchange risk in a net investment in a foreign operation. <p>The hedging instrument must be an interest rate swap, a foreign currency swap, a foreign currency forward or a commodity forward that is expected to be highly effective; must have a notional amount equal to the designated amount; must have a specified maturity not later than the maturity of the hedged item, settlement of the hedged item or the occurrence of the highly probable forecasted foreign currency or commodity transaction being hedged; must not have any prepayment terms and the entity must expect the hedging instrument to be highly effective in offsetting the designated hedged risk.</p>	<p>Qualifications for hedge accounting depend on whether the hedged exposure is a fair-value or cash-flow exposure, or a currency exposure on a net investment in a foreign operation. Hedge accounting is permitted only if strict documentation, effectiveness testing, and other requirements are met that are much more extensive than those under IFRS for SMEs.</p> <p>Risks beyond those identified in IFRS for SMEs can qualify for hedge accounting, and derivatives other than those identified in IFRS for SMEs can qualify for hedge accounting if the criteria, including effectiveness, are met.</p> <p>Contains extensive disclosure requirements regarding the types of derivatives held, the purpose for holding derivatives, and the determination of their fair value.</p>
<p>Impairment for instruments measured at amortized cost is the difference between the asset's carrying amount and the present value of estimated cash flows with required reversal in future periods if the impairment decreases.</p>	<p>Impairment for instruments measured at amortized cost depends on whether they are classified as loans held for investment, held-to-maturity securities, or available-for-sale securities. Impairment models include:</p> <ul style="list-style-type: none"> • Incurred loss (loans held for investment), • Other-than-temporary impairment measured based on fair value through earnings (some available-sale-securities), and • Impairment not deemed to be other-than-temporary measured based on fair value with the credit loss recognized through earnings and the remainder of the fair-value decline recognized through other comprehensive income. <p>Recovery of impairment is not recognized for incurred losses.</p> <p>Equity instruments measured at fair value through other comprehensive income must be assessed for other-than-temporary impairment and any decline in fair value must be recognized through earnings. Recoveries are not recognized.</p>
<p>Requires disclosure of carrying amounts of financial assets and financial liabilities measured at fair value through earnings, financial assets that are debt instruments measured at amortized cost, financial assets that are equity instruments measured at cost less impairment, financial liabilities measured at amortized cost, and loan commitments measured at cost less impairment. This information must also be disclosed: the terms and conditions of debt instruments; the basis for determining fair value for all financial assets and liabilities measured at fair value; and collateral and defaults, interest income and expense, and impairments.</p>	<p>More extensive disclosures are required about fair value and the risks associated with financial instruments, and the fair value of financial instruments.</p>
<p>Inventories, Section 13</p>	
<p>Inventories are measured at the lower of cost and estimated selling price less costs to complete and sell (net realizable value).</p>	<p>Inventories are measured at the lower of cost or market. Market is generally current replacement cost except that it cannot exceed net realizable value (ceiling) and it cannot be less than net realizable value less a normal profit margin (floor), which differs from IFRS for SMEs and full IFRS.</p>

Entities are required to use the same cost formula for all inventories having a similar nature and use.	No similar requirement.
Permits first-in, first-out (FIFO) or weighted average cost methods. Last-in, first-out (LIFO) is not permitted.	Permits FIFO, weighted average, and LIFO cost methods.
Inventory is assessed at the end of each reporting period for impairment or for recovery of previously recognized impairment.	Inventory is assessed for impairment when there is evidence that an impairment may exist. Impairment losses are not subsequently reversed.
Investments in associates and in joint ventures, Sections 14 and 15	
Investments in jointly controlled entities may be accounted for using one of the following methods: the cost method (if there is no published price quotation), equity method, or fair-value-through-earnings model.	Investments in jointly controlled entities (e.g., corporate joint ventures) are generally accounted for using the equity method.
Associates are entities in which the investor has the ability to exercise significant influence. Investments in associates are accounted for using one of the following methods: the cost method (if there is no published price quotation), equity method, or fair-value-through-earnings method.	Investees over which the investor has significant influence are often referred to as equity-method investees. Investments in associates are accounted for using either the equity method, or fair value through earnings if the fair value option is elected when the investment is initially recognized.
Property, plant, and equipment and intangible assets and related impairment, Sections 17, 18, and 27	
Property, plant, and equipment is initially measured at cost and depreciated over its useful life.	The requirements are the same.
A components approach is required for depreciation if an item of property, plant, and equipment comprises individual components for which different depreciation methods or rates are appropriate.	The components approach is permitted but not required.
Subsequent to initial recognition, property, plant, and equipment is measured at cost less accumulated depreciation and impairment.	The requirements are the same, although the amount and timing of any impairment loss may be different.
Expenditures on internally developed intangibles, including research and development costs, are expensed as incurred, unless they are part of the cost of another asset that meets the recognition criteria in IFRS for SMEs.	Expenditures on internally developed intangibles, including research and development costs, are generally expensed as incurred. However, costs for direct-response advertising, internally developed software, and software developed for sale to third parties are capitalized if specified criteria are met (the criteria are different for each category of costs).
All intangible assets (including goodwill) are finite-lived and are amortized over their useful lives. If an entity cannot reliably estimate the useful life of an intangible asset, the life is presumed to be ten years.	Identifiable intangible assets are evaluated to determine whether they are finite-lived or indefinite-lived. Finite-lived intangible assets are amortized over their useful lives. Indefinite-lived intangibles and goodwill are not amortized.
Impairment testing is required only when there is an indicator of impairment.	Goodwill and indefinite-lived intangibles are tested for impairment annually or more frequently if there is an indicator of impairment. Depreciable and amortizable long-lived assets are tested for impairment only when there is an indicator of impairment.

<p>If an indicator of impairment exists for property, plant, and equipment, identifiable intangibles, or goodwill, the entity must evaluate whether the recoverable amount of the “cash generating unit” (similar to an “asset group” under U.S. GAAP) is less than its carrying amount. The recoverable amount is the greater of fair value less costs to sell and value in use.</p> <p>If an impairment exists, the entity first reduces the carrying amount of goodwill. If it is reduced to zero, each other asset in the cash generating unit is reduced pro rata on the basis of its carrying amount, subject to certain limitations.</p>	<p>Goodwill is tested for impairment at the reporting-unit level. If the reporting unit’s fair value is less than its carrying amount, hypothetical acquisition accounting is applied to the reporting unit to determine the implied fair value of goodwill. An impairment loss is recognized for the difference between the carrying amount of goodwill and its implied fair value.</p> <p>Indefinite-lived intangibles are generally tested for impairment at the individual-asset level by comparing the fair value of the asset to its carrying amount. An impairment loss is recognized for the excess of the carrying amount over the fair value of the intangible asset.</p> <p>Depreciable and amortizable assets held for use are generally tested for impairment at the asset-group level. If there is an indication of impairment, the undiscounted future cash flows are compared to the carrying amount of the asset group. If the carrying amount exceeds the undiscounted cash flow, an impairment loss is recognized for the difference between the fair values of the assets and their carrying amounts.</p> <p>An impairment loss for assets held for sale is recognized for the difference between fair value less cost to sell and the carrying amount of the asset (asset group).</p>
<p>Reversals of impairment, other than goodwill impairments, are required if the impairment loss recognized in prior periods no longer exists or has decreased. Goodwill impairments may not be reversed.</p>	<p>Reversals of impairments are prohibited.</p>
<p>Leases, Section 20</p>	
<p>A lease is classified as either a finance lease or an operating lease. Additional guidance on finance leases is provided for manufacturer or dealer lessors.</p> <p>Lease classification is determined at inception based on whether substantially all of the risks and rewards incidental to ownership of the leased asset have been transferred from the lessor to the lessee. Indicators are used to determine the classification.</p>	<p>A lease is classified as either a capital (finance) lease or an operating lease. Lessors’ capital leases are categorized as direct financing leases or sales-types leases (both similar to the finance lease category in IFRS for SMEs), and leveraged leases.</p> <p>U.S. GAAP’s requirements are also based on whether a lease transfers substantially all of the benefits and risks incident to ownership of the property. However, specific criteria are used at inception to determine whether the lease is a capital or operating lease. Additional criteria must be applied by lessors.</p>
<p>Lessees recognize lease expense attributable to operating leases on a straight-line basis (or another basis that is representative of the time pattern of the use of the asset) unless the payments to the lessor increase with expected inflation, in which case the payments are expensed when payable.</p>	<p>Lessees recognize lease expense attributable to operating leases on a straight-line basis (or another basis that is representative of the time pattern of the use of the asset).</p>
<p>If a leaseback in a sale-leaseback transaction is an operating lease and the sale takes place at fair value, gain is recognized immediately.</p> <p>If a leaseback is a finance lease, the seller-lessee defers any gain and amortizes the gain over the lease term.</p>	<p>If a leaseback is an operating lease, gain may be recognized only if the leaseback is “minor.” Otherwise, the gain is deferred and amortized in proportion to lease expense.</p> <p>If a leaseback is a capital lease, the gain is generally deferred and amortized in proportion to the amortization of the leased asset.</p> <p>Sale-leaseback transactions involving real estate are accounted for as sales only when specified criteria are met.</p>

Provisions and contingencies, Section 21	
<p>A provision is recognized when the entity has an obligation at the reporting date as a result of a past event and it is probable (defined as more likely than not by IFRS for SMEs) that the entity will be required to transfer economic benefits in settlement and the amount can be reliably estimated.</p> <p>An obligation for which there is a continuous range of equally possible outcomes for a single event is measured at the mid-point in the range.</p> <p>If a contract is “onerous,” the entity recognizes the present obligation under the contract as a provision.</p>	<p>A contingency is recognized when it is probable and reasonably estimable. “Probable” is defined as likely to occur, a threshold higher than the one in IFRS for SMEs.</p> <p>An obligation for which there is a continuous range of equally possible outcomes for a single event is measured at the low end of the range.</p> <p>U.S. GAAP has no general requirement to recognize onerous contracts, but some specific standards require entities to recognize a loss contract provision.</p>
Distinguishing between liabilities and equity, Section 22	
<p>An instrument is classified as a financial liability when it contains an obligation to transfer cash or other financial assets, including obligations contingent on events beyond the control of the entity, regardless of the legal form of the instrument.</p> <p>IFRS for SMEs contains an exception to the principle for puttable instruments that meet specified criteria, including pro rata distribution of net assets computed in accordance with IFRS for SMEs. Instruments meeting the exception are classified as equity.</p> <p>Convertible debt is bifurcated into its debt host, which is accounted for as a liability, and its equity option, which is equity classified if it meets the “fixed-for-fixed” principle.</p>	<p>U.S. GAAP includes numerous requirements to determine whether a financial instrument is classified as a liability or equity. Because U.S. GAAP has many more requirements, some instruments would be classified differently under U.S. GAAP.</p> <p>Convertible debt is bifurcated only in specified situations, such as debt issued with beneficial (in-the-money) conversion terms at issuance. If it is bifurcated, different measurement bases are used to separate the embedded option from the host depending on the reason for bifurcation.</p>
Business combinations, Section 19	
<p>Business combinations are accounted for using the purchase method, which is based on the cost of the acquisition.</p> <p>At the acquisition date, the acquirer allocates the cost of a business combination by recognizing the acquiree’s identifiable assets, liabilities, and contingent liabilities at their fair values at that date. However, identifiable intangible assets and contingent liabilities are recognized only if their fair value can be measured reliably.</p> <p>Noncontrolling interests are measured at the proportionate amount of the measured amount of identifiable assets and liabilities.</p> <p>Any difference between the cost of the business combination and the acquirer’s interest in the net fair value of the identifiable assets, liabilities, and contingent liabilities is goodwill or negative goodwill. Negative goodwill is recognized as a gain in earnings at the date of the acquisition.</p>	<p>Business combinations are accounted for using acquisition accounting, which is based on the fair value of the consideration transferred.</p> <p>The acquirer recognizes the acquired identifiable assets and liabilities at their fair values at the acquisition date with certain exceptions.</p> <p>Noncontrolling interests are measured at fair value at the acquisition date.</p> <p>The difference between the fair value of the consideration transferred, including the fair value of any previously held equity interest in the acquiree, and the recognized amount of identifiable assets and liabilities and the fair value of the noncontrolling interests is goodwill or negative goodwill. Negative goodwill is recognized as a gain in earnings at the acquisition date.</p>
<p>Purchase accounting includes acquisition-related costs.</p>	<p>Acquisition accounting does not include acquisition-related costs, which are expensed as incurred.</p>
<p>Contingent consideration is recognized when its receipt is probable and its amount can be measured reliably. Contingent consideration that is recognized subsequent to the acquisition is accounted for as an adjustment to the cost of the combination.</p>	<p>Contingent consideration is recognized initially at fair value as part of the consideration transferred. Subsequent changes in the fair value of contingent consideration classified as an asset or liability are recognized in earnings.</p>

<p>Guidance is provided on acquisitions achieved in stages that is similar to U.S. GAAP. No guidance is provided on acquisitions achieved without the transfer of consideration and those between mutual entities. Gain or loss on previously held equity interests for acquisitions achieved in stages is recognized in earnings.</p>	<p>Guidance is provided on acquisitions achieved in stages, those achieved without the transfer of consideration, and those between mutual entities. Gain or loss on previously held equity interests for acquisitions achieved in stages is recognized in earnings. Contingent liabilities are recognized at fair value when reliably determinable, otherwise at the estimated amount if it is probable that a liability exists.</p>
<p>Revenue, Section 23</p>	
<p>Revenue for the sale of goods is recognized when:</p> <ul style="list-style-type: none"> • Significant risks and rewards have been transferred; • There is no continuing involvement in the goods transferred; • Revenue can be measured reliably; • Receipt of revenue is probable; and • Costs incurred can be measured reliably. 	<p>Unless specialized industry or other standards take precedence, revenue is recognized when:</p> <ul style="list-style-type: none"> • Persuasive evidence of an arrangement exists, generally in writing; • Delivery has occurred or services have been rendered; • The price is fixed or determinable; and • Collectibility is reasonably assured.
<p>Whether an entity is acting as an agent or principal is based on an evaluation of the risks and responsibilities assumed by the entity. However, no indicators are provided to assist in making this determination.</p>	<p>Specific indicators must be used in evaluating whether an entity is acting as a principal or agent.</p>
<p>If a contract includes more than one element, it may be necessary to separate the contract into its components and allocate revenue to each component. There is little guidance on identifying such elements and allocating the arrangement consideration to the elements.</p>	<p>Specific guidance is provided to determine when a contract that includes more than one element should be separated into component units of account and to allocate the arrangement consideration to those units of account.</p>
<p>Revenue is recognized on bill-and-hold transactions when the customer takes title, provided that:</p> <ul style="list-style-type: none"> • It is probable that delivery will be made; • The item is on hand, identified, and ready for delivery to the buyer at the time that the sale is recognized; • The buyer specifically acknowledges the deferred delivery instructions; and • The usual payment terms apply. 	<p>Revenue is recognized on bill-and-hold transactions when</p> <ul style="list-style-type: none"> • The risks of ownership have passed to the buyer; • The customer has made a fixed commitment to purchase the goods, preferably in writing; • The buyer requested the transaction be on a bill-and-hold basis, and the buyer has a substantial business purpose for ordering the goods on a bill-and-hold basis; • The delivery schedule for the goods is fixed, including a reasonable delivery date that is consistent with the buyer’s business purpose; • The seller has no specific performance obligations that prevent the earnings process from being complete; • Ordered goods are segregated from the seller’s inventory and are not available to fill other customer orders; and • The product is complete and ready for shipment.
<p>Service contracts are generally accounted for using the percentage-of-completion method following the same principles for construction contracts.</p>	<p>The construction-contract accounting standard generally does not apply to service contracts. Revenue recognition on service-contracts should be consistent with the pattern in which the related service is delivered. Permissible revenue recognition methods include the proportional performance method, the straight-line method, or recognition upon completion of all related services.</p>
<p>Government grants, Section 24</p>	
<p>Government grants are recognized at the fair value of the asset received or receivable. Revenue is recognized when the performance conditions have been met.</p>	<p>There is no authoritative guidance on accounting for government grants.</p>
<p>Borrowing costs, Section 25</p>	
<p>Borrowing costs are expensed as incurred.</p>	<p>Borrowing costs are generally expensed as incurred, except that borrowing costs on qualifying assets are capitalized as part of the acquisition cost of the asset during the construction or development period.</p>

Share-based payment arrangements, Section 26	
Share-based payments are classified as equity-settled or cash-settled depending on whether the settlement is in equity instruments or cash or other assets. The presence or absence of “other” conditions does not affect the classification.	Classification as equity-classified or liability-classified depends on whether an equity relationship is created through the share-based payment, including whether the employee must be in an equity position for a “reasonable period of time.” Awards that vest based on “other” conditions (such as a change in a commodity price) do not create an equity relationship and are therefore liability-classified.
Equity-settled awards granted to employees are measured at their grant-date fair value. Cash-settled awards are initially measured at their grant-date fair value, but are remeasured to fair value at each reporting date until settlement.	Equity-classified awards granted to employees are measured at grant-date fair value. Liability-classified awards are initially measured at grant-date fair value, but are remeasured to fair value at each reporting date until settlement. However, nonpublic entities can elect as an accounting policy to measure liability-classified awards at intrinsic value rather than fair value.
If the entity or counterparty has a choice of settlement in cash or equity instruments and the choice is substantive, the transaction is accounted for as cash-settled unless the entity has a history of settling in equity.	If the employee has the choice of settlement, the award is generally liability-classified in its entirety. If the entity has the choice of settlement, the award is equity-classified unless the entity has an established practice of settling in cash or doing so when the employee requests cash settlement.
Only general guidance is provided about types of vesting conditions or attribution of compensation cost.	There is extensive guidance about vesting conditions and about attribution of the compensation cost.
Employee benefit arrangements, Section 28	
Employee benefit arrangements are divided into four categories: <ul style="list-style-type: none"> • Short-term employee benefits, • Other long-term employee benefits, • Termination benefits, and • Post-employment benefits. 	Employee benefit categories are defined differently. For example, post-employment benefits relate only to benefits payable after employment and before retirement. Post-retirement benefits are benefits after retirement.
The cost of short-term employee benefits (e.g., salaries, short-term accumulating compensated absences, bonus or profit-sharing) is recognized on an undiscounted basis as service is provided.	The requirements for recognizing and measuring short-term employee benefits are generally the same as those in IFRS for SMEs.
The cost of other long-term employee benefits (e.g., sabbatical leave, long-term disability benefits, deferred compensation) is recognized on a discounted basis as service is provided.	Recognition and measurement would generally be the same as IFRS for SMEs. The measurement guidance is not specified for all types of other long-term employee benefits.
The cost of termination benefits is recognized at the best estimate of the expenditure required to settle the obligation as an expense when the entity is “demonstrably committed” to a termination plan.	The timing and measurement of the obligation depends on whether the termination benefits are paid pursuant to a one-time benefit arrangement, an ongoing plan, or contractual arrangements.
Post-employment benefit arrangements are either defined contribution or defined benefit arrangements. A defined contribution plan is a post-employment benefit plan under which the employer pays specified contributions into a separate entity and has no further obligations. All other post-employment plans are defined benefit plans.	Post-retirement benefit arrangements are either defined contribution or defined benefit arrangements. Other post-employment benefits are accounted for under guidance different from that provided for post-retirement benefits. The definition of a defined contribution plan is similar to the definition in IFRS for SMEs.
Amounts due under a defined contribution plan are recognized during the period service is provided.	Cost recognition for defined contribution plans is the same as in IFRS for SMEs.
The funded status of defined benefit plans is recognized as a net obligation or a net asset on the statement of financial position. The obligation is generally measured using the projected unit credit method. However, entities are permitted to use simplifying assumptions if amounts under the projected unit credit method cannot be obtained without undue cost or effort.	The funded status of defined benefit plans is recognized as a net obligation or a net asset on the statement of financial position. Simplifying assumptions permitted under IFRS for SMEs are not permitted under U.S. GAAP.

<p>The net change in the funded status of the plan (apart from benefits paid and contributions by the sponsor) is recognized in the current period. With the exception of actuarial gains and losses arising during the period, all changes in the net funding status are recognized in earnings.</p> <p>Entities have a policy election to recognize actuarial gains and losses immediately in earnings or in other comprehensive income (not subject to recycling).</p>	<p>The net change in the funded status of the plan (apart from benefits paid and contributions by the sponsor) is recognized in the current period. Prior service cost is recognized initially in other comprehensive income and is subsequently recycled to earnings.</p> <p>Entities have a policy election to recognize actuarial gains and losses immediately in earnings (i.e., not using the “corridor” method) or in other comprehensive income, in which case the amounts are recycled to earnings subject to the corridor.</p>
<p>Income tax, Section 29</p>	
<p>Requires recognition of deferred taxes on temporary differences, except for unremitted earnings of investees meeting specified criteria and goodwill.</p> <p>Requires all deferred tax assets and liabilities to be classified as noncurrent, prohibits discounting, and prohibits recognizing the tax effects of distributions before recognizing the distribution.</p> <p>Provides no specific guidance for business combinations, share-based payment transactions, and relationships with investments in subsidiaries, branches and associates, or joint ventures.</p>	<p>Requires recognition of deferred taxes on temporary differences, except for unremitted earnings of investees meeting specified criteria and goodwill. However, U.S. GAAP has additional exceptions.</p> <p>Generally similar to IFRS for SMEs, but because there are different exceptions to the general measurement principle, differences will arise. Like IFRS for SMEs, U.S. GAAP prohibits discounting. However, unlike IFRS for SMEs, U.S. GAAP requires that deferred taxes be classified as current or noncurrent. Also unlike IFRS for SMEs, U.S. GAAP uses the distributed rate in certain situations. Provides guidance for business combinations, share-based payment transactions, and relationships with investments in subsidiaries, branches and associates, or joint ventures.</p>
<p>A deferred tax asset is offset by a valuation allowance if it is not more likely than not that it will be realized.</p>	<p>The requirement is the same as in IFRS for SMEs.</p>
<p>Deferred tax is measured based on rates and tax laws that are enacted or substantively enacted at the reporting date.</p>	<p>Deferred tax is measured based on rates and tax laws that are enacted at the reporting date.</p>
<p>Uncertain tax positions are recognized using a one-step process whereby the benefit is measured as the probability-weighted average amount of all the possible outcomes assuming that the tax authorities will review and have full knowledge of the position.</p>	<p>A two-step approach. The benefits of uncertain tax positions are recognized only if it is more likely than not that the positions are sustainable based on their technical merits (i.e., without considering detection risk). For tax positions that are more likely than not to be sustained, the recognized tax benefit is based on the largest amount of tax benefit that is greater than 50 percent likely of being realized upon settlement.</p>
<p>Foreign currency translation and hyperinflation, Sections 30 and 31</p>	
<p>Assets, liabilities, revenues, and expenses are measured in the entity’s “functional currency,” which is the currency of the primary economic environment in which it operates.</p>	<p>The requirement is the same as in IFRS for SMEs. However the guidance on determining the functional currency differs in some respects that could result in differences from IFRS for SMEs.</p>
<p>If the functional currency of a foreign operation is hyperinflationary, current purchasing power adjustments are made to its financial statements prior to translation. The financial statements are then translated at the closing rate at the end of the current period.</p>	<p>A hyperinflationary currency cannot be used as the functional currency. Accordingly, the financial statements of a foreign operation in a highly inflationary economy are remeasured as if the parent’s functional currency were its functional currency using the monetary-nonmonetary approach with remeasurement gain or loss recognized in earnings.</p>
<p>An entity that disposes of a foreign operation does not reclassify the amount of cumulative foreign-currency translation from other comprehensive income into earnings.</p>	<p>An entity that disposes of a foreign operation is required to reclassify the amount of cumulative foreign-currency translation from other comprehensive income into earnings.</p>
<p>Investment Property, Section 16</p>	
<p>Investment property is measured at fair value through earnings if fair value is determinable. The cost method is permitted only if fair value cannot be determined without undue cost or effort. This assessment is made on a property-by-property basis.</p>	<p>There is no investment property accounting under U.S. GAAP. Investment property is accounted for as property, plant, and equipment using the cost model.</p>



The descriptive and summary statements in this newsletter are not intended to be a substitute for the text of IFRS for SMEs, full IFRS, U.S. GAAP, or any other potential or applicable accounting literature or SEC regulations. Companies applying U.S. GAAP, IFRS for SMEs, IFRS, or filing with the SEC should apply the texts of the relevant laws, regulations, and accounting requirements, consider their particular circumstances, and consult their accounting and legal advisors.

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