Implementing IFRS
Extract from:
IFRS compared with US GAAP and French GAAP
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Copies of the publication IFRS (International Financial Reporting Standards) compared with US GAAP and French GAAP can be purchased for euro 50 each. Please contact any KPMG office, or contact either KPMG's Professional Practice Group of KPMG S.A. at +33 (0)1 55 68 74 16 or KPMG’s IFRS Conversions of KPMG S.A. at +33 (0)1 55 68 74 15.

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About this document

Content
This document is an extract from KPMG’s February 2003 publication *IFRS compared with US GAAP and French GAAP*, focusing on recognition, measurement and presentation, rather than disclosure. This document focuses on the preparation of consolidated financial statements by listed enterprises on a going concern basis. Requirements that are specific to stand-alone financial statements are not discussed; neither are specialised industry accounting practices.

For each major financial statement line item or accounting area, a brief summary of the key points under IFRS for identifying GAAP differences is provided on the left; on the right is a commentary identifying where French GAAP has significant differences from IFRS. However, this document does not describe fully the significant differences; for more information you should refer to the full publication.

The requirements of IFRS are summarised assuming that the enterprise has adopted IFRS already. The special transitional rules that will apply in the period that an enterprise changes to IFRS are not discussed. The IASB currently is debating these transitional rules and a new standard is expected during 2003.

Cut-off date
Final pronouncements issued to 31 December 2001 are reflected in this document even if those pronouncements are not effective immediately. Both IFRS and French GAAP are in a process of continual development and change. As a result, a number of the differences highlighted in this document may disappear, and new differences may arise.

Future developments
In May and June 2002 the IASB published a series of exposure drafts as part of its “Improvements Project”; comments on the exposure drafts were due in September and October 2002, and the final standards are expected to be published during 2003. As a result, a number of the significant differences highlighted in this document may disappear, and further differences may arise. Where the document summarises a requirement that is expected to be amended as part of the Improvements Project, it is highlighted with the symbol * to indicate a possible change. In such cases please take particular care to watch for future developments.

Regarding French GAAP, Regulation CRC 02-10, which brings French GAAP closer to IFRS in respect of the depreciation of assets was issued in December 2002 and becomes operative for annual financial statements covering periods beginning on or after 1 January 2005. Earlier application is encouraged for annual financial statements covering periods beginning on or after 1 January 2002.

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Regulatory background

Generally accepted accounting practice

IFRS is the term used to indicate the whole body of IASB authoritative literature. At present the sources of such accounting requirements are International Accounting Standards (IAS) and interpretations thereof (such pronouncements are known as “SICs”). In addition, an Implementation Guidance Committee (IGC) provided interpretive guidance in applying IAS 39.

Legal and listing requirements

A true and fair override applies when the application of IFRS would be misleading.

General issues

Form and elements of financial statements

The following must be presented:
- balance sheet;
- income statement;
- a statement of recognised gains and losses or a statement of changes in equity, which incorporates recognised gains and losses;
- statement of cash flows; and
- notes to the financial statements, including accounting policies.

Generally accepted accounting practice

The term “generally accepted accounting principles” has no formal meaning in France since laws, decrees and ministerial orders generally govern accounting.

Legal sources are found in the Commercial Code, which constitutes the framework of general accounting rules and is applicable to traders, legal entities and individuals.

In France all businesses are required, for individual financial statements, to use the same chart of general ledger accounts, to follow the same accounting rules (which are influenced heavily by taxation laws) and also to use standardised formats for the balance sheet, profit and loss statement and the notes to the financial statements. The requirements are laid down in the General Accounting Plan, which was rewritten in CRC (Comité de la Réglementation Comptable) regulation 99-03. The CRC is a government organisation whose members are civil servants who serve on a part-time basis.

Legal and listing requirements

There are no significant differences from IFRS.

Form and elements of financial statements

No statement of recognised gains and losses is required.

The statements of changes in equity and cash flows need not be presented as primary statements.
**Statement of recognised gains and losses**

A statement summarising recognised gains and losses must be either presented as a separate statement or combined with the statement of changes in equity.

**Statement of cash flows**

The statement of cash flows is reconciled to cash and cash equivalents.

Dividends paid may be classified as operating or as financing.

**Basis of accounting**

The IASB uses a conceptual framework as an aid to drafting IFRS. Many items in the financial statements are revalued, on either an optional or compulsory basis.

If an enterprise’s measurement currency is hyperinflationary, it must make current purchasing power adjustments.

**Consolidation**

Consolidation is based on the power to control, including a consideration of potential voting rights.

A parent need not hold any shares in a subsidiary.

A subsidiary is not consolidated if it is acquired and held exclusively for disposal in the near future.*

Subsidiaries excluded from consolidation are treated as financial assets.

The gap between the period-ends of a parent and a subsidiary should be no more than three months either way.

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**Statement of recognised gains and losses**

No statement of recognised gains and losses is required.

**Statement of cash flows**

The cash flow statement may be reconciled to net indebtedness rather than to cash.

Dividends paid must be classified as financing.

**Basis of accounting**

There is no documented conceptual framework in France. The financial statements generally are prepared on a historical cost basis.

Financial statements of foreign entities in hyperinflationary economies may be measured as if their functional (measurement) currency were their parent’s reporting (presentation) currency.

**Consolidation**

Control is based on *de facto* control, and there is no guidance on potential voting rights.

At least one share in a controlled entity must be held in order to consolidate it.

A subsidiary held exclusively for subsequent disposal is not consolidated.

Subsidiaries excluded from consolidation are treated as long-term investments.

A subsidiary’s financial statements may be used for consolidation only if its year-end is not more than three months before that of the parent.
**Business combinations**

Uniting of interests accounting is allowed in limited circumstances.

In determining the cost of acquisition, the fair value of equity securities issued by the acquirer is determined at the date control is obtained.

Capitalised acquisition costs exclude the effect of income tax.

Payments made by the acquirer under a guarantee of the value of the consideration do not increase the cost of acquisition.

All acquired identifiable intangibles and goodwill are capitalised at fair value and amortised.

Acquired in-process research is not capitalised. Acquired in-process development is capitalised if certain criteria are met.

Costs of restructuring the acquiree are capitalised if the main features of the plan are announced by the date of acquisition and a detailed plan is finalised by the earlier of three months or when the financial statements are authorised.

Negative goodwill is recognised in the income statement, first to match any identified expected costs, and then over the lives of the acquired depreciable assets.

In successive share purchases, assets and liabilities acquired in previous transactions need not be revalued.

In a uniting of interests comparatives are restated.

There is no guidance on accounting for transactions between enterprises under common control, and practice varies.

**Business combinations**

Certain business combinations are accounted for in a way similar to an IFRS “uniting of interests” even if an acquirer can be identified.

In determining the cost of acquisition, the fair value of equity securities issued is determined at a date set by the market regulator.

Capitalised acquisition costs are net of the effect of income tax.

Payments made by the acquirer under a guarantee of the value of the consideration increase the cost of acquisition.

Identifiable assets and liabilities are valued at “entry value”, which in some cases is different from fair value under IFRS. More intangibles are recognised than under IFRS.

Acquired in-process research must be, and acquired in-process development may be, capitalised and written off in the income statement immediately after the acquisition.

The rules for recognising restructuring provisions are less strict than under IFRS, and include certain restructuring of the acquirer.

Negative goodwill is offset first against any positive valuation differences; any remaining amount is capitalised and recognised in income over a period of time.

In successive share purchases up to the point of obtaining control, assets and liabilities acquired in previous transactions must be revalued.

There is no requirement to restate comparatives in a uniting of interests.

Transactions between enterprises under common control are accounted for in the same way as other business combinations.
Foreign currency translation

An enterprise may select a presentation currency different from its measurement currency.

All gains on foreign currency transactions are recognised immediately.

Prior period adjustments and other accounting changes

Errors that are not "fundamental" are adjusted in the current year.*

Most accounting policy changes and all corrections of fundamental errors may be effected by either restating comparatives or making an adjustment in the current year.*

Events after the balance sheet date

The financial statements are adjusted if a post balance sheet event indicates that the going concern basis is not appropriate.

Specific balance sheet items

General

No specific balance sheet format is required.

A refinancing after the balance sheet date may affect the classification of a liability at the balance sheet date.

Financial assets and liabilities are offset if certain criteria are met.

Foreign currency translation

Financial statements must be presented in the enterprise’s functional (measurement) currency.

Unrealised gains on foreign currency transactions may be deferred.

Prior period adjustments and other accounting changes

All errors are corrected in the current period’s financial statements.

Accounting policy changes are effected by restating opening retained earnings of the current period; comparatives are not restated.

Events after the balance sheet date

The financial statements are not adjusted for a post balance sheet event that indicates that the going concern principle is no longer appropriate.

General

A standard chart of accounts generally is used.

The short-term portion of long-term debt is classified as current even if it will be refinanced on a long-term basis.

Financial assets and liabilities cannot be offset.
Property, plant and equipment

When payment is deferred beyond normal credit terms, cost is the cash price equivalent.

Property, plant and equipment may be revalued to fair value. Revaluations must be kept up to date.

Component accounting is used for the separate components of an asset.

Intangible assets

Many internally developed intangibles, including development costs, must be capitalised once certain criteria are met.

All advertising must be expensed as incurred.

All capitalised intangibles are amortised.

Intangibles amortised over more than 20 years, and capitalised development costs prior to being available for use, must be tested for impairment annually.

Revaluation of some intangibles is permitted in limited circumstances.

Investment property

Investment property may be stated at fair value.

Changes in fair value are recognised in the income statement.

Property, plant and equipment

Cost always is the contract price.

Revaluations do not have to be updated.

Component accounting is not required.

Intangible assets

Development costs normally are expensed as incurred.

Expenses may be capitalised more frequently than under IFRS, e.g. start-up and business expansion costs, and advertising.

There is no presumed limit of 20 years in amortising intangibles, although a maximum life of five years applies in some cases. Some intangibles are not amortised.

There is no requirement for the annual impairment testing of any intangibles.

Intangibles cannot be revalued.

Investment property

Investment property is accounted for as property, plant and equipment.

Investment property may be revalued only when all long-term financial instruments and property plant and equipment are revalued. Any revaluation surplus is credited directly to equity.
**Investments in associates and joint ventures**

An associate relationship is based on the *power* to exercise significant influence.

In assessing significant influence, potential voting rights are taken into account.

An investee is treated as a financial asset when acquired and held exclusively for disposal in the near future.*

Proportionate consolidation is the benchmark treatment for joint ventures.

Attributable goodwill is included in the investment in an associate.

**Financial instruments, including hedging**

Transaction costs are included in the cost of a financial instrument.

There are specific categories into which all financial instruments must be classified.

An impairment is recognised if a financial asset’s recoverable amount is less than its carrying amount.

The derecognition of transferred assets uses a financial components approach combined with a risks and rewards approach.*

Any liability discount or premium is amortised using the effective interest method.

Financial instruments must be evaluated to determine whether there are any liability characteristics. Such characteristics will lead to classification of these instruments as debt.

Split accounting of compound instruments is required where there are both liability and equity characteristics.

In-substance debt defeasance does not result in liability derecognition.

**Investments in associates and joint ventures**

Significant influence is based on *de facto* significant influence.

There is no guidance on potential voting rights.

An investee is treated as a long-term investment when held exclusively for subsequent disposal.

Jointly controlled entities must be proportionately consolidated.

Attributable goodwill is accounted for separately from the investment in an associate.

**Financial instruments, including hedging**

Transaction costs are recognised in the income statement as incurred.

Financial instruments are not classified into the same categories as under IFRS, and are not fair valued except in very limited circumstances.

Generally only “permanent” impairments are recognised.

A financial asset is derecognised only when legal title is transferred.

Any liability discount or premium may be amortised on a straight-line basis.

An issuer’s financial instruments may be classified on the basis of their legal form.

Compound instruments are not split-accounted.

A liability may be derecognised on the basis of in-substance debt defeasance.
Financial instruments, including hedging (continued)

Derivatives are stated at fair value.

There are strict criteria governing the use of hedge accounting.

Inventories

The cost of agricultural produce is its fair value at the date of harvest, less point-of-sale costs.

Biological assets

Biological assets are stated at fair value for periods beginning on or after 1 January 2003.

Impairment

An impairment exists if an asset’s (cash generating unit’s) carrying amount exceeds the greater of its net selling price and value in use (net present value of future cash flows); this excess is the amount of the impairment loss.

Equity

Some shares must be classified as liabilities.

Treasury shares held for trading purposes are deducted from equity.

Dividends on shares classified as liabilities are recognised as interest in the income statement on an accrual basis.

Financial instruments, including hedging (continued)

Derivatives usually are not shown in the balance sheet other than for the premiums paid and received; only unrealised losses on derivatives are accounted for in the income statement in the absence of hedge accounting.

Hedge accounting is permitted more frequently than under IFRS.

Inventories

Agricultural produce may be stated at cost at the date of harvest.

Biological assets

Biological assets may be stated at cost.

Impairment

An impairment loss is recognised in the form of additional depreciation when an asset’s net realisable value is lower than its net book value.

Equity

Certain instruments must be presented between liabilities and shareholders’ equity; all other shares usually are classified as equity without regard to their substance.

Treasury shares held for trading purposes are recorded as an asset.

Dividends usually are recognised as distributions of equity.
Provisions

All provisions must be discounted if the effect thereof is material.

Repairs and maintenance provisions are prohibited.

Deferred tax

Deferred tax generally is recognised for fair value adjustments in a business combination.

Deferred tax in respect of temporary differences on associates and joint ventures is not recognised in some circumstances.

Deferred tax is provided in respect of the remeasurement of a hyperinflationary subsidiary’s financial statements.

Deferred tax is not discounted.

Contingent assets and liabilities

Contingent assets and liabilities are disclosed in the notes.

Specific income statement items

General

Expenses may be analysed by either their type or function.
Revenue

Emphasis is placed on the substance of a contract in deciding when to recognise revenue.

The percentage-of-completion method is required for long-term contracts.

Government grants

Government grants may not be recognised directly in equity.

Employee benefits

A liability in respect of post-employment employee benefits must be recognised.

Share-based payments

There is no guidance on share-based payments, but extensive disclosure is required.

Interest expense

Imputed interest is amortised using the effective interest method.

Income tax

Current tax is recognised directly in equity when it relates to an item recognised directly in equity.

Revenue

More emphasis is placed on the legal form of a contract in deciding when to recognise revenue.

The percentage-of-completion method is optional for long-term contracts. The completed contract method is allowed also.

There is little specific guidance on revenue recognition.

Government grants

Investment subsidies are shown as part of shareholders’ equity.

Employee benefits

It is not mandatory to recognise a liability for post-employment employee benefits except in a business combination.

Share-based payments

There are no disclosure requirements for share-based payments.

Interest expense

Imputed interest may be amortised on a straight-line basis.

Income tax

Current tax always is recognised in the income statement.
Extraordinary and exceptional items

Extraordinary items are rare. *

Exceptional item is not a defined term under IFRS.

Special topics

Leases

Finance leases must be capitalised.

A lease is classified as finance or operating based on its substance.

If a sale and leaseback results in an operating lease that clearly is established at fair value, any profit or loss is recognised immediately.

Segment reporting

Segment reporting cannot be omitted on the basis that it may be seriously prejudicial.

Earnings per share

The method of calculating EPS is specified.

Discontinuing operations

There are specific disclosure requirements for discontinuing operations.

Extraordinary and exceptional items

Extraordinary items do not exist under French GAAP.

Exceptional items should be disclosed separately from ordinary activities on the face of the income statement.

Leases

The capitalisation of finance leases is preferred, but not required.

There is no definition of a finance lease under French GAAP.

The treatment of sale and leaseback transactions may differ from IFRS.

Segment reporting

Segment reporting can be omitted if the directors consider it seriously prejudicial to the enterprise.

Segment disclosures are much more limited than under IFRS.

Earnings per share

The method of calculating EPS is not specified.

Discontinuing operations

There are no rules for discontinuing operations.
Related party disclosures

Related party transactions need not be disclosed by some enterprises.

Financial instruments disclosure

The level of detailed disclosures may vary depending on the quantitative information necessary to understand the financial risks of those instruments.

Non-monetary transactions

Generally, exchanges of similar assets do not result in revenue recognition.

Accompanying financial and other information

A financial review by management is encouraged.

Interim financial reporting

With the exception of the tax charge, generally items are recognised and measured as if the interim period were a discrete period.

Related party disclosures

The definition of related parties generally is narrower than under IFRS.

Extensive disclosures are required in respect of transactions with directors.

Financial instruments disclosure

Financial instrument disclosures are more limited than under IFRS.

Non-monetary transactions

Exchanges of non-monetary assets of a similar nature and value are accounted for as a disposal and a separate acquisition.

Accompanying financial and other information

A directors’ report is compulsory, which includes a summary of the enterprise’s results for the five preceding years, and the views and comments of the workers’ council. Enterprises of a certain size must prepare a statement of realisable assets and liabilities (half-yearly); and a funds statement, forecast funds statement and forecast income statement (annually).

Interim financial reporting

The recognition and measurement rules are the same as for annual financial statements, with no exceptions.
Look out for the following publications:
IFRS compared
with US GAAP
and …
... Austrian GAAP
... Belgian GAAP
... Danish GAAP
... Dutch GAAP
... Finnish GAAP
... German GAAP
... Greek GAAP
... Italian GAAP
... Luxembourg GAAP
... Norwegian GAAP
... Portuguese GAAP
... Spanish GAAP
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