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Foreword

Over the next two to five years it is expected that all Russian groups will be required to use International Financial Reporting Standards (IFRSs) in the preparation of consolidated financial statements, and that statutory financial statements for individual companies will be prepared in accordance with Russian accounting standards, which will become increasingly based on IFRSs.

In the meantime, the use of IFRSs by Russian companies on a voluntary basis has already been accelerating. The drivers have been the requirements of international financial institutions and investors, and a desire from management and shareholders for more transparent and internationally intelligible financial information.

In this environment of rapid and complex regulatory change, the need to understand the differences between IFRSs and Russian Accounting Principles (RAP) has never been greater. In 2004, KPMG published the first edition of its comparison between IFRSs and RAP, which considered standards that applied to financial statements as at and for the year ended 31 December 2004.

We are now pleased to present this second edition of our comparison between IFRSs and RAP, based on standards issued up to 31 December 2004, which apply to financial statements as at and for the year ended 31 December 2005 and beyond.

Roger Munnings
Chairman and CEO, Russia/CIS Region
About this publication

The purpose of this publication is to assist you in understanding the significant differences between the accounting principles of International Financial Reporting Standards (IFRSs) and Russian Accounting Principles (Russian GAAP, or RAP). This publication is a brief summary of the key provisions of IFRSs, contrasted with the parallel requirements of Russian GAAP. However, this document does not describe fully the significant differences; for more information you should refer to KPMG’s September 2005 publication *IFRS compared to Russian GAAP*.

A summary of the key requirements of IFRSs is included in the left-hand page. In the right-hand page Russian GAAP is compared to IFRSs, highlighting similarities and differences.

The focus of this publication is on recognition, measurement and presentation, rather than on disclosure; therefore disclosure differences generally are not covered. However, areas that are disclosure-based, such as segment reporting, are included.

This publication addresses general industries and transactions. It does not consider the requirements of IAS 26 *Accounting and Reporting by Retirement Benefit Plans* or IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*. In addition, the publication focuses on the preparation of consolidated financial statements by listed entities on a going concern basis and does not address requirements or options applicable only in unconsolidated financial statements.

The requirements of IFRSs are discussed on the basis that the entity has adopted IFRSs already. The special transitional rules that will apply in the period that an entity changes its GAAP to IFRSs are not discussed. In such cases, the entity should refer to IFRS 1 *First-time Adoption of IFRSs*, issued by the International Accounting Standards Board (IASB) in March 2004, which is effective for periods beginning on or after 1 January 2004.
This publication reflects all standards and interpretations issued at 31 December 2004. A list of these standards and interpretations is included as Appendix A. Unless otherwise noted, the requirements contained in these standards are “currently effective.” In the context of this publication, “currently effective” means applicable to financial years beginning on or after 1 January 2005. When a significant change will occur as a result of a standard or interpretation that has been issued at 31 December 2004, but which is not required to be adopted at 1 January 2005, the impact of these forthcoming requirements is discussed.
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Appendix A  
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1. Background

1.1 Introduction

(IAASC Foundation Constitution, Preface to IFRSs, IAS 1, IAS 8)

“IFRSs” is the term used to indicate the whole body of International Accounting Standards Board’s (IASBs) authoritative literature.

IFRSs are designed for use by profit-oriented entities.

Any entity claiming compliance with IFRSs must comply with all standards and interpretations, including disclosure requirements.

The bold- and plain-type paragraphs of IFRSs have equal authority and must be complied with.

The overriding requirement of IFRSs is for the financial statements to give a fair presentation (true and fair view).

A hierarchy of alternative sources is specified for situations when IFRSs do not cover a particular issue.

There are no special standards or exemptions for small and medium-sized entities.
1. Background

1.1 Introduction

(Fed Law 129-FZ, 21 November 1996 as amended; Fed Law 86-FZ; PBU 1/98; PBU 4/99)

RAP (or sometimes RAS) is the term used unofficially to indicate the whole body of Russian regulatory documents governing accounting and reporting.

Unlike IFRSs, official documents regulating, directly or indirectly, accounting and reporting in Russia are designed for use by all entities. However, there are additional specific regulations for non-profit entities, which are not discussed in this publication.

Entities in Russia must comply fully with RAP.

Unlike IFRSs, there is no concept of bold- and plain-type paragraphs under RAP.

Like IFRSs, the overriding requirement of RAP is for the financial statements to give a “reliable and complete” view. However, “reliable and complete” does not have the same meaning as under IFRSs.

Unlike IFRSs, for situations when RAP does not cover a particular issue specifically, the hierarchy of alternative sources is limited to RAP.

Unlike IFRSs, there are limited exemptions from RAP for small businesses.
1.2 The Framework

(IASB Framework, IAS 8)

The IASB uses its conceptual framework as an aid to drafting new or revised IFRSs.

The Framework is a point of reference for preparers of financial statements in the absence of specific guidance.

IFRSs do not apply to items that are “immaterial”.

Transactions should be accounted for in accordance with their substance, rather than only their legal form.

Transactions with equity holders should be considered carefully in determining the appropriate accounting.
1.2 Concepts and assumptions

(Fed Law 129-FZ, 21 November 1996 as amended; Acc Concept, 29 December 1997; PBU 1/98; PBU 4/99)

Unlike IFRSs, there is no formal conceptual framework under RAP.

Unlike IFRSs, authoritative literature to be used as a point of reference for preparers of financial statements in the absence of specific guidance is limited to other sources of RAP.

Unlike IFRSs, RAP applies to items that are immaterial.

Unlike IFRSs, in practice transactions often are accounted for in accordance with their legal form rather than their substance.

Unlike IFRSs, transactions with equity holders are not treated differently from other transactions of the entity.
2. General issues

2.1 Form and components of financial statements

The following must be presented: balance sheet; income statement; statement of changes in equity or a statement of recognised income and expense; statement of cash flows; and notes, including accounting policies.

While IFRSs specify minimum disclosures to be made in the financial statements, they do not require prescriptive formats.

Comparative information is required for the preceding period only, but additional periods and information may be presented.

An entity must present consolidated financial statements unless specific criteria are met.

There is no requirement to present the parent entity’s financial statements in addition to consolidated financial statements, although this is permitted.
2. General issues

2.1 Form and components of financial statements

(PBU 4/99; Min Fin Order 34n, 29 July 1998 as amended; Min Fin Order 67n, 22 July 2003 as amended; Min Fin Order 112, 30 December 1996 as amended)

Unlike IFRSs, no statement of recognised income and expense is required, and sometimes in practice consolidated financial statements do not include a statement of cash flows.

Unlike IFRSs, there are recommended formats for the financial statements, which generally are followed.

Unlike IFRSs, securities market registrants are required to present two years of comparatives instead of the usual one year.

Like IFRSs, an entity must present consolidated financial statements unless specific criteria are met. However, the specific criteria are different from those in IFRSs.

Unlike IFRSs, parent entity (unconsolidated) financial statements must be presented.

Unlike IFRSs, all entities must have an annual balance sheet date of 31 December.

Unlike IFRSs, the financial statements must be presented in the local language (Russian).
2.2  Statement of changes in equity  
(IAS 1, IAS 8)

There is a choice of presenting as a primary statement either a statement of recognised income and expense or a statement of changes in equity.

The statement of recognised income and expense combines net profit or loss with all other non-owner movements recognised directly in equity.

An item of income or expense may be recognised directly in equity only when a standard permits or requires it.
2.2 Statement of changes in equity

(PBU 4/99; Min Fin Order 34n, 29 July 1998 as amended; Min Fin Order 67n, 22 July 2003 as amended)

Unlike IFRSs, a statement of changes in equity must be presented as part of the notes to the financial statements. This statement also presents changes in liability reserves (provisions) and reserve allowances (similar to impairment losses), but they are not included in total equity.

Unlike IFRSs, no statement of recognised income and expense is presented.

Like IFRSs, generally an item of income or expense may be recognised directly in equity only when specifically required. However, the items permitted or required to be recognised directly in equity differ from those under IFRSs.
2.3 Statement of cash flows

(IAS 7)

Cash flows are classified as relating to operating, investing and financing activities.

Net cash flows from all three activities are totalled to show the change in cash and cash equivalents during the period, which then is used to reconcile opening and closing cash and cash equivalents.

Cash includes short-term investments and in some cases, overdrafts.

Cash flows from operating activities may be presented either by the direct or the indirect method.

Foreign currency cash flows are translated at the exchange rate at the date of the cash flow (or using averages when appropriate).

Generally all financing and investing cash flows should be reported gross, without applying offset.
2.3 Statement of cash flows
(PBU 4/99; Min Fin Order 67n, 22 July 2003 as amended)

Like IFRSs, cash flows are classified as relating to operating, investing and financing activities. However, unlike IFRSs, there is only limited guidance on classification.

Unlike IFRSs, cash equivalents are not considered as part of cash and changes in cash equivalents usually are excluded from the total of net cash flows from all three activities.

Unlike IFRSs, demand deposits may be classified as investing activities, and bank overdrafts generally are classified as financing activities.

Unlike IFRSs, there is no concept of the “indirect” method and operating cash flows are illustrated (in the recommended format for the statement of cash flows) using the direct method. However, in practice the indirect method often is used, like IFRSs.

Unlike IFRSs, in theory foreign currency cash flows are required to be translated at the year-end exchange rate. However, in practice the method of translating foreign currency cash flows varies.

Unlike IFRSs, there is no guidance on offsetting cash flows. However, in practice they generally are reported gross, like IFRSs.
2.4 Basis of accounting

(IAS 1, IAS 21, IAS 29)

Financial statements are prepared on a modified historical cost basis, with a growing emphasis on fair value.

When an entity’s functional currency is hyperinflationary its financial statements must be adjusted to state all items in the measuring unit current at the balance sheet date.
2.4 Basis of accounting

(Fed Law 129-FZ, 21 November 1996 as amended; Min Fin Order 34n, 29 July 1998 as amended; Min Fin Order 112, 30 December 1996 as amended; PBU 4/99, PBU 6/01; PBU 19/02)

Unlike IFRSs, financial statements generally are prepared on a historical cost basis; revaluations are limited.

Unlike IFRSs, only limited adjustments have been required for hyperinflation in Russia.
2.5 Consolidation

(IAS 27, SIC–12, IFRS 3)

Consolidation is based on control, which is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The ability to control is considered separately from the exercise of that control, and *de facto* control is not a basis for consolidation.

Potential voting rights that presently are exercisable or convertible are taken into account in assessing control.

Special purpose entities (SPEs) are consolidated in many cases when benefits flow back to the sponsor.

Venture capitalists must consolidate all subsidiaries.

All subsidiaries controlled by a parent are consolidated even if they are acquired exclusively with the intention of disposal, but may qualify as a disposal group (see 5.4).

Generally, uniform accounting policies must be used throughout the group.

The difference between the reporting dates of a parent and a subsidiary cannot be more than three months.

Minority interests are computed based on the carrying amounts on consolidation.

Losses in a subsidiary may create a debit balance on minority interests only if the minority has an obligation to fund the losses.
2.5 Consolidation and proportionate consolidation

(Civil Code; PBU 4/99; Min Fin Order 112, 30 December 1996 as amended)

Unlike IFRSs, while consolidation is based on control, control is evidenced by the legal power to control and / or the actual ability to control in practice. In addition, only legal entities can be subsidiaries.

Unlike IFRSs, control may be evidenced by *de facto* control without majority ownership.

Unlike IFRSs, potential voting rights are not taken into account in assessing control.

Unlike IFRSs, SPEs that benefit a sponsor (as defined under IFRSs) generally are not consolidated.

Like IFRSs, venture capitalists have no special exemptions from consolidation.

Unlike IFRSs, subsidiaries are not consolidated if they are acquired with the intention of disposing of them in the near future. In addition, there are a number of other exclusions from consolidation.

Unlike IFRSs, in theory uniform accounting policies always must be used throughout the group. However, practice varies.

Like IFRSs, the difference between the reporting dates of a parent and a subsidiary cannot be more than three months.

Unlike IFRSs, minority interests are computed based on the carrying amounts in the subsidiary.

Unlike IFRSs, a debit balance on minority interests may be created only after reserves attributable to the majority owner have been eliminated.
Minority interests are classified within equity but separate from parent’s equity (see 3.10).

Intra-group transactions are eliminated in full, except to the extent that the transaction is evidence of impairment (see 3.9).
Unlike IFRSs, minority interests are classified separately from liabilities and equity (see 3.10).

Unlike IFRSs, intra-group transactions are eliminated in full.

Unlike IFRSs, when the parent’s share in a subsidiary’s voting shares or charter capital is 50 percent or less, the subsidiary is consolidated using a method that broadly is similar to proportionate consolidation under IFRSs.
2.6 Business combinations
(IFRS 3, IAS 38)

All transactions within the scope of IFRS 3 must be accounted for as acquisitions. The uniting of interests method that was allowed in limited circumstances cannot be used for transactions which have an agreement date later than 31 March 2004.

The accounting acquirer may not be the legal acquirer in which case the transaction is accounted for as a reverse acquisition.

The date of acquisition is the date on which effective control is transferred to the acquirer.

The cost of an acquisition, which is determined at the date of exchange, is the amount of cash or cash equivalents paid, plus the fair value of the other purchase consideration given, including equity instruments issued and the fair value of liabilities assumed plus any costs directly attributable to the acquisition.

When payment for a business combination is deferred, the amount payable is discounted to its present value.

A liability for contingent consideration is recognised as soon as payment becomes probable and the amount can be measured reliably.

The acquiree’s identifiable assets, liabilities and contingent liabilities are measured at fair value at the date of acquisition.
2.6 Reorganisations and acquisitions


Unlike IFRSs, a method similar to uniting of interests accounting is used to account for certain types of reorganisations.

Unlike IFRSs, there is no guidance on reverse acquisitions; in practice the legal acquirer is the acquirer for accounting purposes.

Unlike IFRSs, the date of acquisition depends on form-driven criteria for determining the date that the investment qualifies for recognition.

Like IFRSs, the cost of acquisition is the amount of cash and other consideration given. However, unlike IFRSs, practice varies with respect to the valuation of other consideration and it may be based on amounts agreed between the parties. In a further difference from IFRSs, under RAP different costs are considered to be attributable to the acquisition.

Unlike IFRSs, when payment for a business combination is deferred, the amount payable is not discounted to its present value. In a further difference from IFRSs, negative goodwill is credited to the income statement over the shorter of 20 years and the life of the parent.

Unlike IFRSs, there are no specific requirements regarding contingent consideration. Practice varies and may be different from IFRSs.

Unlike IFRSs, the acquiree’s assets and liabilities are measured at book value at the date of acquisition.
Non-current assets (or disposal groups) classified as held for sale are measured at fair value less costs to sell at the date of acquisition (see 5.4).

The cost of restructuring an acquired entity is a post-acquisition expense.

Under IFRSs, goodwill is not amortised (see 3.3).

Subject to limited exceptions, adjustments to goodwill must be made within 12 months of the acquisition. Changes are made by restating the original estimate.

When the fair value of the identifiable assets, liabilities and contingent liabilities exceeds the acquisition cost, the acquirer must reassess the fair values and then recognise any remaining excess in profit or loss immediately on acquisition.

“Push down” accounting is not used.

If an acquisition is achieved in successive share purchases, then each significant transaction is accounted for separately as an acquisition. When control is obtained, adjustments to the fair values of the identifiable assets and liabilities acquired in a previous transaction are treated as revaluations.

There is no guidance in IFRSs on accounting for common control transactions.
Unlike IFRSs, non-current assets that are held for sale are measured at book value at the date of acquisition.

Like IFRSs, the cost of restructuring an acquired entity is a post-acquisition expense.

Unlike IFRSs, in practice entities amortise goodwill on a straight-line basis over the shorter of 20 years and the life of the parent.

Unlike IFRSs, subsequent adjustments to goodwill are not made since the acquisition accounting is based on book values.

Unlike IFRSs, goodwill (negative goodwill) is calculated as the difference between the cost of acquisition and the nominal value of the acquired shares. In a further difference from IFRSs, negative goodwill is credited to the income statement over the shorter of 20 years and the life of the parent.

Like IFRSs, “push down” accounting is not used.

Like IFRSs, if an acquisition is achieved in successive share purchases, in practice each transaction is accounted for separately. However, unlike IFRSs, this is based on book values as for acquisitions of controlling interests.

Unlike IFRSs, common control transactions are accounted for in accordance with the general rules for reorganisations and acquisitions.
2.7 Foreign exchange translation

(IA 21, IAS 29)

An entity measures its assets, liabilities, revenues and expenses in its functional currency, which is the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity.

An entity may present its financial statements in a currency other than its functional currency.

All transactions that are not denominated in an entity’s functional currency are foreign currency transactions; exchange differences arising on translation generally are recognised in profit or loss.

The financial statements of foreign operations are translated into the parent’s or investor’s presentation currency using the foreign entity method: assets and liabilities are translated at the closing rate; revenues and expenses are translated at actual rates or appropriate averages.

If the functional currency of a foreign operation is hyperinflationary, then current purchasing power adjustments are made to its financial statements prior to translation; the financial statements then are translated at the closing rate at the end of the current period.

When an investment in a foreign operation is disposed of, the cumulative exchange differences previously recognised directly in equity are transferred to profit or loss.

A foreign currency transaction is measured at the spot rate on initial recognition. Any related forward contracts are measured at fair value and may qualify as hedging instruments (see 3.6).
2.7 Foreign exchange translation
(PBU 3/00; PBU 4/99; Min Fin Order 112, 30 December 1996 as amended)

Unlike IFRSs, there is no concept of a functional currency and financial statements must be prepared in roubles.

Unlike IFRSs, there is no concept of a presentation currency and financial statements must be presented in roubles.

Like IFRSs, all transactions that are not denominated in roubles are foreign currency transactions; exchange differences arising on translation generally are recognised in the income statement. However, the exceptions for items not recognised in the income statement differ from those under IFRSs.

Like IFRSs, the financial statements of foreign subsidiaries generally are translated into roubles by translating assets and liabilities at the closing rate, and revenues and expenses at actual rates or appropriate averages. Like IFRSs, exchange differences arising on translation are recognised in equity; but unlike IFRSs, they are recognised in additional capital. Practice varies regarding the translation of goodwill and capital transactions, which may be different from IFRSs. Unlike IFRSs, the financial statements of a foreign associate are translated at the closing rate.

Unlike IFRSs, there is no guidance for determining when an economy is hyperinflationary or whether to adjust for hyperinflation; in practice adjustments are not made.

Unlike IFRSs, when an investment in a foreign subsidiary is disposed of, exchange differences previously recognised in additional capital sometimes are transferred to the income statement, but alternatively they may remain in equity.
When financial statements are translated into a presentation currency other than the functional currency, the translation procedures are the same as those for translating foreign operations.
Unlike IFRSs, while a foreign currency transaction is measured at the spot rate on initial recognition, generally any related forward contract would not be recognised (see 3.6).

Unlike IFRSs, the financial statements cannot be presented in a currency other than roubles.
2.8 Changes in accounting policies and estimates, and errors

(IAS 1, IAS 8)

Most accounting policy changes and any corrections of errors are made by adjusting opening retained earnings and restating comparatives unless this is not practicable.

Changes in accounting estimates are accounted for prospectively.

Comparatives are restated unless impracticable if the classification or presentation of items is changed.
2.8 Changes in accounting policies and estimates, and errors
(PBU 1/99; PBU 4/99; PBU 9/99; PBU 10/99; Min Fin Order 67n, 22 July 2003 as amended)

Like IFRSs, changes in accounting policy are accounted for retrospectively with comparatives being restated if their effect can be measured reliably; otherwise they are accounted for prospectively, which may be different from IFRSs. Unlike IFRSs, all errors are corrected in the income statement in the current period.

Changes in accounting estimates are accounted for in accordance with the specific requirements of the underlying regulation, and unlike IFRSs retrospective or prospective accounting may result.

Like IFRSs, in practice comparatives generally are restated when the classification or presentation of items is changed.
2.9 Events after the balance sheet date
   (IAS 1, IAS 10)

The financial statements are adjusted to reflect events that occur after the balance sheet date if those events provide evidence of conditions that existed at the balance sheet date.

Generally, the financial statements are not adjusted for events that are indicative of conditions that arose after the balance sheet date.

Classification of liabilities does not reflect post-balance sheet agreements.

Dividends declared, proposed or approved after the balance sheet date are not recognised as a liability in the financial statements.
2.9 Events after the balance sheet date

(PBU 7/98)

Like IFRSs, the financial statements are adjusted to reflect events that occur after the balance sheet date if those events provide evidence of conditions that existed at the balance sheet date.

Like IFRSs, the financial statements generally are not adjusted for events that are indicative of conditions that arose after the balance sheet date.

Like IFRSs, the classification of liabilities does not reflect post-balance sheet agreements.

Like IFRSs, dividends declared after the balance sheet date are not recognised as a liability in the financial statements. However, unlike IFRSs, if a subsidiary or associate declares a dividend after the balance sheet date in respect of a previous period, it is an adjusting event in the parent’s / investor’s financial statements.
3. Specific balance sheet items

3.1 General

(IAS 1, IAS 32)

Generally an entity presents the balance sheet classified between current and non-current.

While IFRSs require certain items to be presented on the face of the balance sheet, there is no prescribed format.

A liability that is payable on demand because certain conditions are breached should be classified as current.

Some assets and liabilities that are part of working capital should be classified as current even if they are due to be settled more than 12 months after the balance sheet date.

A financial asset and liability are offset and reported net only when the entity has a legally enforceable right to offset and it intends either to settle on a net basis or to settle both amounts simultaneously.
3. Specific balance sheet items

3.1 General

(PBU 4/99; Min Fin Order 34n, 29 July 1998 as amended; Min Fin Order 67n, 23 July 2003 as amended; Min Fin Order 94n, 31 October 2000 as amended)

Unlike IFRSs, an entity must present its balance sheet classified between current and non-current.

Unlike IFRSs, the balance sheet has a recommended format that generally is followed in practice.

Unlike IFRSs, long-term debt may be classified as non-current until maturity even if it becomes payable on demand due to a breach of terms.

Like IFRSs, in practice assets and liabilities that are part of the normal operating cycle generally are classified as current. Unlike IFRSs, a non-current asset is not required to be classified as current even if it is expected to be sold in the following 12 months.

Like IFRSs, assets and liabilities generally are not offset.

Unlike IFRSs, off-balance sheet memorandum accounts are presented on the face of the balance sheet.
3.2 Property, plant and equipment  
(IA 16, IFRIC 1)

Property, plant and equipment is recognised initially at cost.

Cost includes all expenditure, including administrative and general overhead expenditure, directly attributable to bringing the asset to a working condition for its intended use.

Cost includes the estimated cost of dismantling and removing the asset and restoring the site.

Changes to an existing decommissioning or restoration obligation generally must be added to or deducted from the cost of the related asset and depreciated prospectively over the asset’s remaining useful life.

Cost may include certain interest costs.

Property, plant and equipment is depreciated over its useful life.

An item of property, plant and equipment is depreciated even if it is idle. However, a non-current asset that is held for sale is not depreciated (see 5.4).

The useful life, residual value and method of depreciation must be reviewed at least at each balance sheet date. Estimated residual values reflect prices at the balance sheet date.

A change in the useful life of an asset is accounted for prospectively as a change in accounting estimate.

When an item of property, plant and equipment comprises individual components for which different depreciation methods or rates are appropriate, each component is accounted for separately (component accounting).
3.2 Fixed assets
(PBU 6/01; PBU 8/01; PBU 13/02; Min Fin Order 91n, 13 October 2003)

Fixed assets are recognised initially at cost but, unlike IFRSs, cost is based on the nominal price stated in the contract.

Like IFRSs, cost includes all expenditure, including administrative and general overhead expenditure, directly attributable to bringing the asset to a working condition for its intended use. Costs different from those under IFRSs are considered to be attributable to the acquisition.

Unlike IFRSs, costs of future dismantling and site restoration are not capitalised. In practice liability reserves (provisions) for such costs are built up over a period of time through the “reserve for impending expenses” (see 3.11) with an expense recognised as the provision is increased.

Unlike IFRSs, changes in the estimated costs of future dismantling and site restoration are not capitalised. In practice such changes would be taken into account in accruing future costs in the “reserve for impending expenses.”

Like IFRSs, cost may include certain interest costs. However, certain of these interest costs are different from those under IFRSs.

Like IFRSs, fixed assets are depreciated over their estimated useful lives.

Unlike IFRSs, depreciation is suspended in certain cases when a fixed asset is idle or is being restored.

Unlike IFRSs, an asset’s useful life generally is reviewed only when the asset is enhanced or the useful life is reduced. Unlike IFRSs, there is no requirement to review the method of depreciation, and residual values are not taken into account in determining depreciation.
Subsequent expenditure is capitalised when it is probable that future economic benefits will flow to the entity, including when the costs are for replacing a component of the item.

Property, plant and equipment may be revalued to fair value if all items in the same class are revalued at the same time and the revaluations are kept up to date.

Compensation for loss or impairment cannot be offset against the carrying amount of the asset lost or impaired.

The gain or loss on disposal is the difference between the net proceeds received and the carrying amount of the asset.
Like IFRSs, in practice a change in the useful life of an asset generally is accounted for prospectively as a change in accounting estimate.

Like IFRSs, when a fixed asset comprises individual components for which different useful lives are appropriate, each component is accounted for separately.

Unlike IFRSs, subsequent expenditure is capitalised only when it will give rise to future economic benefits in excess of the originally assessed standard of performance of the asset.

Like IFRSs, groups of similar fixed assets may be revalued only if all items in the same class are revalued and revaluations are carried out on a regular basis. However, unlike IFRSs, fixed assets may be revalued using entity-developed indices that do not necessarily result in a fair value as envisaged under IFRSs.

Like IFRSs, in practice compensation for loss or impairment generally would not be offset against the carrying amount of the asset lost or impaired.

Broadly similar to IFRSs, the gain or loss on disposal is the difference between the proceeds received and the carrying amount of the asset. However, proceeds are not measured on a net basis.

Like IFRSs, revaluation surpluses generally are recognised in equity. However, unlike IFRSs, they must be recognised in additional capital.
3.3 Intangible assets and goodwill
(IFRS 3, IAS 38, SIC–32)

For an item to be recognised as an intangible asset, it must have future economic benefits that it is probable will be realised and its cost must be reliably measurable.

Intangible assets are recognised initially at cost.

The measurement of the cost of an intangible asset depends on whether it has been acquired separately, acquired as part of a business combination or was generated internally.

Goodwill represents future economic benefits arising from assets that are not capable of being identified individually and recognised separately.

Acquired goodwill and other intangible assets with indefinite lives are not amortised but must be tested for impairment at least annually.

Intangible assets with finite lives are amortised over their expected useful lives, normally on a straight-line basis.

Generally, the residual value of an intangible asset is assumed to be zero.

Subsequent expenditure on intangible assets will be capitalised only rarely.

Intangible assets may be revalued to fair value only if there is an active market.
3.3 Intangible assets and goodwill
(Civil Code; RF Law 3517-1, 23 September 1992; RF Law 3520-1, 23 September 1992; RF Law 3523-1, 23 September 1992; RF Law 3526-1, 23 September 1992; RF Law 5351-1, 9 July 1993; PBU 14/00; PBU 17/02; Min Fin Order 94n, 31 October 2000 as amended; Min Fin Order 112, 30 December 1996 as amended)

Unlike IFRSs, there is a prescriptive list of items that must be recognised as intangible assets if the relevant criteria are met.

Like IFRSs, intangible assets are recognised initially at cost.

Unlike IFRSs, the cost of a separately acquired intangible asset is based on the price stated in the contract. Unlike IFRSs, the cost of an intangible asset acquired in an acquisition is its previous carrying amount in the financial statements of the subsidiary (see 2.6). The cost of an internally generated intangible asset includes certain expenditure that would not be capitalised under IFRSs.

Unlike IFRSs, goodwill (“business reputation”) is the difference between the cost of acquisition and the nominal value of the acquired shares.

Unlike IFRSs, all intangible assets, including goodwill, are amortised; intangible assets are not subject to impairment testing.

Like IFRSs, intangible assets generally are amortised over their expected useful lives. However, unlike IFRSs, the amortisation period for capitalised research and development expenditure cannot exceed five years and in practice goodwill is amortised on a straight-line basis over the shorter of 20 years and the life of the parent.

Unlike IFRSs, the residual value of an intangible asset always is assumed to be zero.
The following costs cannot be capitalised as intangible assets: internally generated goodwill, research costs, costs to develop customer lists, start-up costs, and expenditure incurred on training, advertising and promotional activities or on relocation or reorganisation.
Unlike IFRSs, subsequent expenditure on intangible assets cannot be capitalised.

Unlike IFRSs, intangible assets cannot be revalued.

Like IFRSs, internally generated goodwill is not capitalised. Unlike IFRSs, certain of the following expenditure is capitalised in practice, but not as intangible assets: research costs, start-up costs, training costs, advertising expenditure and the cost of relocating or reorganising.
3.4 Investment property

Investment property is property held to earn rentals or for capital appreciation or both.

Investment property accounting is required for all investment property.

Investment property is recognised initially at cost.

Subsequent to initial recognition, all investment property should be measured using either the fair value model (subject to limited exceptions) or cost model. When the fair value model is chosen, changes in fair value are recognised in profit or loss.

Disclosure of the fair value of all investment properties is required, regardless of the measurement model used.

Subsequent expenditure is capitalised only when it is probable that future economic benefits will flow to the entity, including when the costs are for replacing a component of the item.

Transfers to or from investment property can be made only when there has been a change in the use of the property.

The gain or loss on disposal is the difference between the net disposal proceeds and the carrying amount of the property.
3.4 Property that is leased out

(Civil Code; Fed Law 39-FZ, 25 February 1999 as amended; PBU 6/01; PBU 15/01; PBU 20/03; Min Fin Order 94n, 31 October 2000 as amended)

Unlike IFRSs, there is no concept of investment property under RAP.

Unlike IFRSs, property that is leased out is accounted for as fixed assets (see 3.2).
3.5 Investments in associates and joint ventures

(The definition of an associate is based on the ability to exercise significant influence, which is the power to participate in the financial and operating policies of an entity.

There is a rebuttable presumption of significant influence if an entity holds 20 to 50 percent of the voting rights of another entity.

Potential voting rights that are exerisible currently are taken into account in assessing significant influence.

A joint venture is an entity, asset or operation that is subject to contractually established joint control.

Associates are accounted for using the equity method in the consolidated financial statements.

Jointly controlled entities may be accounted for either by proportionate consolidation or using the equity method.

Entities excluded from proportional consolidation or equity accounting are treated as financial assets.

Financial information relating to an associate or joint venture included in the investor’s financial statements should be prepared using the investor’s accounting policies.

When an associate or a joint venture accounted for under the equity method incurs losses, the carrying amount of the investor’s equity investment is reduced, but not below zero. At that point, further losses are recognised by the investor only to the extent that the investor has an obligation to fund losses.
3.5 Investments in associates and joint activity
(Civil Code; PBU 6/01; PBU 20/03; Min Fin Order 94n, 31 October 2000 as amended; Min Fin Order 112, 30 December 1996 as amended)

Unlike IFRSs, RAP identifies an associate based on the percentage of voting rights held. Significant influence is not relevant.

Unlike IFRSs, there is no rebuttable presumption and an associate is any equity investment greater than 20 percent.

Unlike IFRSs, potential voting rights are not taken into account in determining if an investee is an associate.

Unlike IFRSs, RAP is based on “joint activity” rather than “joint control,” and the closest equivalent of a jointly controlled entity under RAP is a partnership.

Like IFRSs, associates are accounted for using a method similar to the “equity method” in the consolidated financial statements. However, unlike IFRSs, goodwill is not recognised on the acquisition of an associate; dividends from an associate are recognised in the income statement; and if the cost of preparing the information is greater than its benefit, an associate can be accounted for as a financial investment (see 3.6).

Unlike IFRSs, an ordinary partnership is accounted for as a financial investment (see 3.6).

Unlike IFRSs, while associates excluded from “equity accounting” are treated as financial investments, the accounting for such investments is different from IFRSs (see 3.6).

Like IFRSs, financial information relating to an associate included in the investor’s financial statements should be prepared using the investor’s accounting policies.
When recognising its share of losses, an investor considers not only equity investments but also other long-term interests that form part of the investor’s net investment in the associate. Interests to be considered do not include trade receivables, trade payables or any long-term receivables for which adequate collateral exists (e.g., secured loans).

Unrealised profits and losses on transactions with associates or joint ventures are eliminated to the extent of the investor’s interest in the investee.

No gains or losses are recognised when non-monetary assets are contributed to a joint venture in exchange for an interest in assets contributed by other joint venture investors when the exchange lacks commercial substance.

Venture capital investors and similar entities may elect not to apply the equity method for investments in associates and joint ventures and instead account for these investments as financial instruments at fair value through profit or loss (see 3.6).
Like IFRSs, when an associate accounted for under the equity method incurs losses, the carrying amount of the investor’s equity investment is reduced, but not below zero. However, unlike IFRSs, no further losses are recognised even if the investor has an obligation to fund such losses.

Unlike IFRSs, when recognising its share of losses in an associate, an investor considers only equity investments.

Like IFRSs, in practice unrealised profits and losses on transactions with associates generally are eliminated to the extent of the investor’s interest in the investee.

Unlike IFRSs, no gain or loss is recognised on the contribution of assets by the venturers to a joint activity.

Unlike IFRSs, there is no exemption from applying the equity method of accounting for venture capital investors and similar entities.
3.6 Financial instruments

(IA 21, IAS 32, IAS 39)

All derivatives are recognised on the balance sheet and measured at fair value.

All financial assets must be classified into “loans and receivables”, “held-to-maturity”, “fair value through profit or loss” or “available-for-sale” categories.

Loans and receivables and held-to-maturity financial assets are measured at amortised cost. All other financial assets are measured at fair value (with limited exceptions).

Changes in the fair value of available-for-sale assets are recognised directly in equity.

Financial liabilities, other than those held for trading purposes or designated as at fair value through profit or loss, are measured at amortised cost.

Any financial instrument may be designated on initial recognition as one measured at fair value through profit or loss.

Evaluating whether a transfer of a financial asset qualifies for derecognition requires considering:

- Whether substantive risks and rewards are transferred. If substantially all the risks and rewards are transferred, then a financial asset is derecognised. If substantially all the risks and rewards are retained, then the asset is not derecognised.
- If some but not substantially all of the risks and rewards are transferred, then an asset is derecognised if control of the asset is transferred.
- If control is not transferred, then the entity continues to recognise the transferred asset to the extent of its continuing involvement in the asset.
3.6 Financial investments and liabilities

Unlike IFRSs, generally derivatives are not recognised on the balance sheet except to the extent of any consideration given or received.

Unlike IFRSs, financial investments are classified as either marketable or non-marketable investments.

Unlike IFRSs, only marketable investments are measured at market value. Other financial investments are measured at cost. Unlike IFRSs, cost may include certain amounts that must be expensed immediately under IFRSs, and is based on the nominal value of the consideration paid.

Changes in the market value of investments that are marketable are recognised in the income statement like the IFRS treatment of financial instruments at fair value through profit or loss. Unlike IFRSs, market value is based on a formula that considers changes in market prices over a period of time and the volume of trading; and there is no available-for-sale classification.

Like IFRSs, financial liabilities are measured at amortised cost; however, unlike IFRSs, cost is amortised on a straight-line rather than an effective interest basis; and any discount may be recognised immediately in the income statement.

Unlike IFRSs, it is not possible to designate a financial investment or liability as one measured at fair value through the income statement.

Unlike IFRSs, generally a financial investment is derecognised only when legally disposed of.
Whenever there is objective evidence that a financial asset measured at amortised cost, or at fair value with changes recognised in equity, may be impaired, the amount of any impairment loss must be calculated and recognised in profit or loss.

Generally, derivatives embedded in host contracts must be accounted for as stand-alone derivatives. This does not apply when the host contract is measured at fair value with changes in fair value recognised in profit or loss or for embedded derivatives that are closely related, in economic terms, to the host contract.

Hedge accounting is permitted only when strict documentation and effectiveness testing requirements are met.

The type of hedge accounting applied depends on whether the hedged exposure is a fair value exposure, a cash flow exposure, or a currency exposure on a net investment in a foreign operation.
There is no detailed guidance on the measurement of impairment losses; generally practice differs from IFRSs, with the carrying amount being compared to the expected future cash flows (undiscounted), and often the write down of trade receivables is based on the Tax Code.

Unlike IFRSs, embedded derivatives are not separated from the host contract.

There is no guidance on hedge accounting, and therefore practice is likely to differ from IFRSs.
Inventories generally are measured at the lower of cost and net realisable value.

Cost includes all direct expenditure to get inventory ready for sale, including attributable overheads.

The cost of inventory is recognised as an expense when the inventory is sold.

The amount to recognise as an expense must be determined using the specific identification, FIFO (first-in, first-out) or weighted average method. The use of the LIFO (last-in, first-out) method is prohibited.

Other cost formulas, such as the standard cost or retail method, may be used when the results approximate actual cost.

If the net realisable value of an item that has been previously written down subsequently increases, then the write-down is reversed.
3.7 Inventories

(PBU 5/01; Min Fin Order 34n, 29 July 1998 as amended; Min Fin Order 94n as amended, 31 October 2000; Min Fin Order 119n, 28 December 2001 as amended)

Unlike IFRSs, inventory, other than work-in-progress, is stated at the lower of cost and current market value, which is based on gross selling prices. Work-in-progress is stated at cost, but cost may be determined differently from IFRSs.

Like IFRSs, other than for work-in-progress, cost includes all direct expenditure to get inventory ready for sale, including attributable overheads. However, the method of capitalising production overheads and other costs varies, especially for work-in-progress, and therefore may be different from IFRSs.

Like IFRSs, the cost of inventory is recognised as an expense when the inventory is sold. However, recognition of the sale may be based more on legal form than under IFRSs (see 4.2).

Unlike IFRSs, the LIFO method is permitted in determining the cost of inventory.

Like IFRSs, other techniques for the measurement of the cost of inventory may be used, such as the standard cost or selling price (retail) method. However, unlike IFRSs, there is no clear guidance on applying the retail method, which may result in differences in practice.

Like IFRSs, if the current market value of an item that has been previously written down subsequently increases, then the write-down is reversed.
3.8 Biological assets

(IAS 41)

Biological assets are measured at fair value unless it is not possible to measure fair value reliably, in which case they are measured at cost.

All gains and losses from changes in fair value are recognised in profit or loss.
3.8 Biological assets

(PBU 4/99; PBU 6/01; Min Ag Order 27 of 31 January 2003; Min Ag Order 559, 19 June 2002; Min Ag Order 792, 6 June 2003)

Unlike IFRSs, biological assets are stated at cost.

Unlike IFRSs, changes in the fair value of biological assets are not recognised until the assets are sold.
3.9 Impairment
(IFRS 3, IAS 36, IAS 38)

IAS 36 covers impairment of property, plant and equipment, goodwill, intangible assets and investments in subsidiaries, joint ventures and associates.

Detailed impairment testing generally is required only when there is an indication of impairment.

Annual impairment testing is required for goodwill and intangible assets that either are not yet available for use or that have an indefinite useful life. This impairment test may be performed at any time during an annual reporting period, provided it is performed at the same point each year.

An impairment loss is recognised if an asset’s or cash-generating unit’s (CGU) carrying amount exceeds the greater of its fair value less costs to sell and value in use, which is based on the net present value of future cash flows.

Estimates of future cash flows used in the value in use calculation are specific to the entity, and may not be the same as the market’s assessment.

The discount rate used in the value in use calculation is a pre-tax rate that reflects the risks specific to the asset.

An impairment loss for a CGU is allocated first by writing down goodwill, then pro rata to other assets in the CGU.

An impairment loss on a revalued asset is charged directly to the revaluation reserve to the extent that it reverses a previous revaluation surplus relating to the same asset. Any excess is recognised in profit or loss.

Reversals of impairment are recognised, other than for impairments of goodwill.
3.9 Impairment
(PBU 5/01; PBU 10/99; PBU 19/02; Min Fin Order 34n, 29 July 1998 as amended)

Unlike IFRSs, there are only limited impairment requirements in respect of non-marketable financial investments (see 3.6), trade receivables (see 3.6), inventories (see 3.7) and assets associated with discontinuing operations (see 5.4).

Unlike IFRSs, detailed impairment testing is not required. However, any decline in the value of fixed assets may be recognised on a voluntary basis by either adopting a policy of revaluation or adjusting the estimated useful lives (see 3.2).

Unlike IFRSs, goodwill and intangible assets are not tested for impairment.
3.10 Equity

(IAS 1, IAS 27, IAS 32, IAS 39)

Instruments are classified as equity or liabilities in accordance with their economic substance.

IFRSs generally contain little guidance on the recognition and measurement of equity. IFRS 2 specifies recognition and measurement requirements for share-based payments (see 4.5).

Incremental costs that are attributable directly to issuing or buying back own equity instruments are recognised directly in equity, net of the related tax.

Treasury shares must be reported as a deduction from equity.

Gains and losses on transactions in own equity instruments are reported directly in equity, not in profit or loss.

Dividends and other distributions to the holders of equity instruments (in their capacity as owners) are recognised directly in equity.

Minority interests are classified within equity but separate from parent shareholders’ equity (see 2.5).
3.10 Equity

(Civil Code; Fed Law 14-FZ, 8 February 1998 as amended; Fed Law 208-FZ, 26 December 1995 as amended; PBU 4/99; PBU 6/01; Min Fin Order 67n, 22 July 2003 as amended; Min Fin Order 112, 30 December 1996 as amended; FCSM Decree 03-30/ps, 18 June 2003 as amended)

Unlike IFRSs, instruments are classified as equity or liabilities in accordance with their legal form.

Like IFRSs, there is limited guidance on the recognition and measurement of equity. There are strict legal requirements in respect of net assets (capital) maintenance, and the composition of an entity’s capital and reserves generally is prescribed by law.

Unlike IFRSs, in practice the cost of issuing equity securities generally is expensed.

Like IFRSs, treasury shares are reported as a deduction from equity.

Unlike IFRSs, gains and losses on transactions in own equity shares generally are reported in the income statement.

Unlike IFRSs, all dividends paid are recognised in equity with no exceptions.

Unlike IFRSs, minority interests are classified separately from liabilities and equity (see 2.5).
3.11 Provisions

(IAS 16, IAS 37, IFRIC 1)

A provision is recognised on the basis of a legal or constructive obligation, if there is a probable outflow of resources and the amount can be estimated reliably.

No provision may be recognised for future operating losses.

A provision is measured at the best estimate of the anticipated outflow of resources.

Provisions are discounted if the effect of discounting is material.

A provision for restructuring is not recognised until there is a formal plan and details of the restructuring have been communicated to those affected by the plan.

Provisions for repairs and maintenance or self-insurance are prohibited.

A provision is recognised for a contract that is onerous (i.e., one in which the costs of meeting the obligations under the contract exceed the benefits to be derived).
3.11 Liability reserves
(PBU 5/01; PBU 8/01; PBU 19/02; Min Fin Order 34n, 29 July 1998 as amended; Min Fin Order 49, 13 June 1995)

Unlike IFRSs, constructive obligations generally are not provided for.

Like IFRSs, future operating losses cannot be provided for. However, unlike IFRSs, liability reserves (provisions) are recognised for certain future expenditure that would not be recognised under IFRSs.

Like IFRSs, a liability reserve is measured at the best estimate of the anticipated outflow of resources.

Unlike IFRSs, liability reserves are not required to be discounted.

There is no explicit guidance on the recognition of a liability reserve for restructuring and practice may differ from IFRSs.

Unlike IFRSs, liability reserves can be recognised for planned major repairs.

There is no guidance on the recognition of a liability reserve for onerous contracts, and practice may differ from IFRSs.
3.12 Deferred tax

(IAS 12, SIC-21, SIC-25)

Deferred tax liabilities and assets are recognised for the estimated future tax effects of temporary differences and tax loss carry-forwards.

A temporary difference is the difference between the tax base of an asset or liability and its carrying amount in the financial statements.

A deferred tax liability (asset) is recognised unless it arises from:

- the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit;
- the initial recognition of goodwill; or
- post-acquisition adjustments of goodwill for which amortisation is not tax deductible.

A deferred tax liability is recognised for post-acquisition adjustments of goodwill for which amortisation is tax deductible.

Deferred tax assets and liabilities are not recognised in respect of investments in subsidiaries, associates and joint ventures if certain conditions are met.

A deferred tax asset is recognised to the extent that it is probable that it can be utilised against future profits.

The measurement of deferred tax is based on the expected manner of settlement (liability) or recovery (asset).

Deferred tax is measured on an undiscounted basis.

Deferred tax arising from intra-group transactions is computed at the tax rate applicable to the purchaser.
3.12 Deferred tax
(PBU 18/02)

Unlike IFRSs, deferred tax liabilities and assets are recognised for the estimated future tax effects of timing differences and tax loss carry-forwards.

Unlike IFRSs, a timing difference arises when an item of income or expense is included in the determination of accounting profit (loss) in one reporting period, but in taxable profit (loss) in another reporting period.

Unlike IFRSs, there are no exemptions from recognising a deferred tax liability or asset in respect of timing differences. However, because the timing differences approach is used, no deferred tax is recognised in respect of business combinations, and no deferred tax generally is recognised in respect of the revaluation of fixed assets.

Unlike IFRSs, post-acquisition adjustments of goodwill are not made (see 2.6) and therefore no deferred tax liability is recognised.

Unlike IFRSs, generally no deferred tax is recognised in respect of investments in subsidiaries, associates and partnerships.

Like IFRSs, a deferred tax asset is recognised to the extent that it is probable that it can be utilised against future profits.

Unlike IFRSs, there is no explicit requirement for the measurement of deferred tax is based on the expected manner of settlement (liability) or recovery (asset). However, the tax rate applied should be appropriate for that type of income.

In practice deferred tax is measured on an undiscounted basis, like IFRSs.

Unlike IFRSs, the tax effects of intra-group transactions are eliminated in full.
Deferred tax is classified as non-current in a classified balance sheet.

Deferred tax relating to items charged or credited directly to equity is itself charged or credited directly to equity.

Deferred tax is measured based on enacted or substantively enacted tax rates.

Taxes payable on distributions are recognised at the same time as the distribution.
Like IFRSs, deferred tax is classified as non-current in the balance sheet.

Unlike IFRSs, all changes in deferred tax are recognised in the income statement.

Unlike IFRSs, deferred tax is calculated based on enacted tax rates.

Like IFRSs, taxes payable on distributions are recognised at the same time as the distribution.
3.13 Contingent assets and liabilities

(IA 37, IFRS 3)

Contingent liabilities are obligations that generally are not recognised in the balance sheet due to uncertainties about either the probability of outflows of resources or about the amount of the outflows, or possible obligations when the existence of an obligation is uncertain.

Details of contingent liabilities are disclosed in the notes to the financial statements, unless the probability of an outflow is remote or in rare cases when disclosure could seriously prejudice the entity's position in a dispute with another party.

Contingent assets are possible assets whose existence is uncertain.

Contingent assets are not recognised in the balance sheet unless their realisation is virtually certain. If their existence is probable, details are disclosed in the notes to the financial statements.

Contingent liabilities assumed in a business combination are recognised if their fair value is reliably measurable (see 2.6).
3.13 Conditional assets and liabilities

(PBU 8/01)

Unlike IFRSs, conditional liabilities include conditional events requiring a contingency-based reserve (provision – see 3.11). Like IFRSs, conditional liabilities include conditional events when there is uncertainty regarding their outcome, for which a provision is not recognised.

Like IFRSs, details of conditional liabilities are disclosed in the notes to the financial statements unless the probability of an outflow is remote or if disclosure could prejudice the entity’s position in a dispute with another party.

Like IFRSs, conditional assets result from conditional events that are at least 50 percent likely to result in future economic benefits.

Unlike IFRSs, conditional assets are not recognised in the balance sheet even when realisation is virtually certain. If the probability of realisation is high, details are disclosed in the notes to the financial statements; however, the financial effect of conditional assets is not disclosed.

Unlike IFRSs, contingent liabilities assumed in an acquisition are not recognised.
4. Specific income statement items

4.1 General

(IAS 1, IAS 8)

An analysis of expenses is required, either by their nature or by function, on the face of the income statement or in the notes.

Items of income and expense are not offset unless required or permitted by another IFRS or when the amounts relate to similar transactions or events that are not material.
4. **Specific income statement items**

4.1 **General**

(PBU 1/98; PBU 2/94; PBU 4/99; PBU 9/99; PBU 10/99; PBU 18/02; Min Fin Order 67n, 22 July 2003 as amended; Min Fin Order 94n, 31 October 2000 as amended; Min Fin Order 112, 30 December 1996 as amended)

Unlike IFRSs, expenses must be analysed by function on the face of the income statement. Unlike IFRSs, the income statement has a recommended format, which generally is followed in practice.

Like IFRSs, items of income and expense are not offset unless required or when the amounts relate to similar transactions or events that are not material. However, the practical application of this requirement may differ from IFRSs.
4.2 Revenue

(Framework, IAS 1, IAS 11, IAS 17, IAS 18, SIC–27, SIC–31)

Revenue is recognised only if it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably.

Revenue includes the total inflows of economic benefits received by an entity on its own account. In an agency relationship, amounts collected on behalf of the principal are not recognised as revenue by the agent.

Revenue from the sale of goods is recognised when the entity has transferred the significant risks and rewards of ownership to the buyer and it no longer retains control or managerial involvement in the goods.

Revenue from rendering of services and construction contracts is recognised in the period that the service is rendered.

Royalties are recognised on an accrual basis, generally on a straight-line basis over the period of the agreement.

There is no specific guidance on software revenue recognition.

Revenue recognition does not require cash consideration. However, when goods or services exchanged are similar in nature and value, the transaction does not generate revenue.

Revenue is measured at the fair value of the consideration received.

There is little guidance on multiple element revenue recognition.
4.2 Revenue and other income
(PBU 2/94; PBU 9/99)

Like IFRSs, revenue is recognised only if it is probable that future economic benefits will flow to the entity and these benefits can be measured.

Like IFRSs, in an agency relationship amounts collected on behalf of the principal are not recognised as revenue by the agent. However, unlike IFRSs, an agency relationship is considered to exist only when there is a binding agreement to that effect.

Unlike IFRSs, revenue from the sale of goods is recognised when legal title passes.

Unlike IFRSs, revenue from construction contracts may be recognised using the completed contract method; revenue from services is recognised either in accordance with the terms of the contract (short-term service contracts) or in the same way as construction contracts (long-term service contracts) and therefore may differ from IFRSs.

Like IFRSs, royalties are recognised on an accrual basis, generally on a straight-line basis over the period of the agreement.

Like IFRSs, there is no specific guidance on software revenue recognition.

Like IFRSs, when there is no cash exchanged in a transaction, revenue still can be recognised. Unlike IFRSs, revenue still can be recognised when the goods or services exchanged are similar in nature and value. The measurement of such revenue also differs from IFRSs.

Unlike IFRSs, revenue generally is measured at the amount stated in the contract.

There is no guidance on multiple elements contained in a single contract, and practice may differ from IFRSs.
4.3 Government grants

(IAS 20, IAS 41, SIC–10)

Government grants relating to biological assets are recognised as income when they are unconditionally receivable.

Other government grants are recognised as income so as to match the costs that they are intended to compensate.

Government grants that relate to the acquisition of an asset may be recognised either as a reduction in the cost of the asset or as deferred income that is amortised as the related asset is depreciated or amortised.
4.3 Government assistance

(Min Ag Order 75 of 2 February 2004: PBU 13/00)

Unlike IFRSs, there is no special treatment for government assistance that relates to biological assets; it is recognised in the same way as other government assistance.

Like IFRSs, government assistance is recognised as income so as to match the costs that they are intended to compensate.

Unlike IFRSs, government assistance cannot be offset against the related assets in the balance sheet.
4.4 Employee benefits

Currently effective requirements
IFRSs specify accounting requirements for all types of employee benefits, and not just pensions.

Liabilities for employee benefits are recognised on the basis of a legal or constructive obligation.

Liabilities and expenses for employee benefits generally are recognised in the period in which the services are rendered.

A defined contribution plan is a post-employment benefit plan under which the employer pays fixed contributions into a separate entity and has no further obligations. All other post-employment plans are defined benefit plans.

Contributions to a defined contribution plan are expensed as the obligation to make the payments is incurred.

A liability is recognised for an employer’s obligation under a defined benefit plan. The liability and expense are measured actuarially using the projected unit credit method.

The fair value of any qualifying plan assets of defined benefit plans, including qualifying insurance policies, are offset against the obligation.

Actuarial gains and losses of defined benefit plans that exceed a “corridor” are required to be recognised over the average remaining working lives of employees in the plan. Faster recognition is allowed (see Forthcoming requirements).

Liabilities and expenses for vested past service costs under a defined benefit plan are recognised immediately.
4.4 Employee benefits


Currently effective requirements
There is some guidance under RAP for certain kinds of employee benefits.

Unlike IFRSs, liabilities for employee benefits are recognised based on legal obligations only, unless they relate to discontinuing operations (see 5.4).

Unlike IFRSs, generally liabilities for employee benefits are recognised only as they become due and payable.

Unlike IFRSs, no distinction is made between defined benefit and defined contribution post-employment plans; all plans are treated as defined contribution plans (as defined in IFRSs).

Like IFRSs, contributions to a defined contribution plan are expensed as the obligation to make the payments is incurred.

Unlike IFRSs, defined benefit accounting is not relevant under RAP since a method similar to defined contribution accounting under IFRSs always is used.

Like IFRSs, a method similar to defined contribution accounting is applied for participation in multi-employer plans. Unlike IFRSs, this does not depend on insufficient information being available to apply defined benefit accounting.

Unlike IFRSs, generally expenses for long-term employee benefits are recognised as payments become due and payable.

Unlike IFRSs, redundancy costs are recognised only as payments fall due unless such costs are incurred in connection with a discontinuing operation. For discontinuing operations, a liability reserve (provision) may be recognised, but the timing and measurement of the provision may differ from IFRSs (see 3.11).
Liabilities and expenses for unvested past service costs under a defined benefit plan are recognised over the vesting period.

If a defined benefit plan has assets in excess of the obligation, then the amount of any net asset recognised is limited to available future benefits from the plan and unrecognised actuarial losses and past service costs.

If insufficient information is available for a multi-employer defined benefit plan to be accounted for as a defined benefit plan, then it is treated as a defined contribution plan and additional disclosures required (see Forthcoming requirements).

The expense for long-term employee benefits is accrued over the service period.

Redundancy costs are not recognised until the redundancy has been communicated to affected employees.

Forthcoming requirements

An entity may elect to recognise all actuarial gains and losses immediately directly in equity.

When participation in a multi-employer defined benefit plan is accounted for as a defined contribution plan but there is a contractual agreement determining how the surplus or deficit will be allocated, the participant must recognise an asset or liability for its share of the surplus or deficit.

When entities participate in a group defined benefit plan and there is a contractual agreement or stated policy for allocating the cost, then each entity should recognise the cost allocated to it.

The amendment allowing for the recognition of actuarial gains and losses immediately directly in equity is effective from 16 December 2004 provided the remaining amendments that otherwise would be effective for 1 January 2006 are adopted at the same time.
4.5 Share-based payments  
(IFRS 2)

Goods or services received in a share-based payment transaction should be measured at fair value.

Goods should be recognised when they are obtained and services recognised over the period that they are received.

Share-based payments to non-employees generally are measured based on the fair value of the goods or services received.

Equity-settled grants to employees generally are measured based on the fair value of the instruments (e.g., options) issued at the grant date.

Equity-settled grants are not remeasured for subsequent changes in value.

Estimates of the number of equity-settled instruments that vest are adjusted to the actual numbers that vest unless forfeitures are due to market-based conditions.

Cash-settled transactions are remeasured at each balance sheet date and at the settlement date.

For equity-settled transactions an entity recognises a corresponding increase in equity.

For cash-settled transactions an entity recognises the liability incurred.

Selling shares at a discount requires recognition of the discount as employee or other costs.
4.5 Share-based payments

(Fed Law 208-FZ, 26 December 1995 as amended; Min Fin Order 94н, 31 October 2000 as amended)

Unlike IFRSs, there is no guidance on, or disclosure requirements in respect of, share-based payment transactions. Such transactions are extremely rare in Russia.
4.6 Financial income and expense  
(IAS 18, IAS 23, IAS 39)

Interest income and expense is calculated using the effective interest rate method.

Dividends on shares classified as liabilities are reported as a financial expense and not a dividend distribution.

Incremental transaction costs directly related to raising finance or acquiring a financial asset are included in the initial measurement of the instrument unless the instrument is categorised as a financial asset or liability at fair value through profit or loss.

Interest generally is expensed as incurred. Interest related to qualifying assets may be capitalised if certain conditions are met.

Interest on both general borrowings and specific borrowings is eligible for capitalisation. The amount capitalised is net of investment income on the temporary investment of specific borrowings.
4.6  Interest income and expense
(PBU 15/01; Min Fin Order 94n, 31 October 2000 as amended)

Unlike IFRSs, interest income and expense is calculated on a straight-line basis, and amortisation generally is based on contractual terms; interest is not imputed.

Unlike IFRSs, all dividends on instruments in the legal form of shares are reported as a dividend distribution.

Unlike IFRSs, transaction costs related to raising finance generally are expensed as incurred.

Unlike IFRSs, interest must be capitalised in certain circumstances, including when payments are made in advance. Also, assets for which interest is capitalised differ from those under IFRSs.

Like IFRSs, interest on both general borrowings and specific borrowings is eligible for capitalisation, and the amount capitalised is net of investment income on the temporary investment of specific borrowings.
4.7 Income tax (current tax)  
(IAS 12)

The total income tax expense recognised in profit or loss is the sum of current tax expense (or recovery) plus the change in deferred tax liabilities and assets during the period, net of tax amounts recognised directly in equity or arising from a business combination that is an acquisition.

Current tax represents the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period.

The measurement of current tax is based on rates that are enacted or substantively enacted at the balance sheet date.
4.7 Income tax (current tax)  
(PBU 18/02; Min Fin Letter 07-05-14/328, 10 December 2004)

Unlike IFRSs, the total income tax expense is the sum of current tax expense (or recovery) plus all of the changes in deferred tax liabilities and assets during the period.

Unlike IFRSs, current tax represent only the amount of income tax payable in respect of the taxable profit for a period. Any income taxes recoverable are recognised, but cannot be included in current tax.

Unlike IFRSs, the measurement of current tax is based on rates that are enacted.
4.8 Unusual or exceptional items

(IAS 1)

Significant items should be presented separately either in the notes or, when necessary, on the face of the income statement.

Presentation or disclosure of items of income and expense net of tax or characterised as “extraordinary items” in the income statement or notes is prohibited.
4.8 Extraordinary items

(Civil Code; PBU 4/99; PBU 9/99; PBU 10/99; Min Fin Order 67n, 23 July 2003 as amended)

Unlike IFRSs, all material items (as defined) must be presented on the face of the income statement.

Unlike IFRSs, certain items are presented as extraordinary items in the income statement. However, practice varies as to whether presentation is gross or net of tax.
5. Special topics

5.1 Leases

(IAS 17, SIC–15, SIC–27)

A lease is classified as either a finance lease or an operating lease.

Lease classification depends on whether substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred from the lessor to the lessee.

Under a finance lease, the lessor recognises a finance lease receivable and the lessee recognises the leased asset and a liability for future lease payments. Finance income and expenses are recognised to reflect a constant rate of return on the unpaid balance.

Under an operating lease, both parties treat the lease as an executory contract. The lease does not result in derecognition of the asset by the lessor and the lessee recognises an expense for the lease payments over the lease term.

A lessee may classify a property interest held under an operating lease as an investment property. If this is done, that interest is accounted for as if it were a finance lease.

Lessors and lessees recognise incentives granted under an operating lease as a reduction in lease rental income / expense over the lease term.

A lease of land generally will be classified as an operating lease unless title transfers to the lessee.

A single lease of land and a building should be treated as separate leases of land and of the building and the two leases may be classified differently.
5. Special topics

5.1 Leases

(Civil Code; Fed Law 164-FZ, 29 October 1998 as amended; Min Fin Order 15, 17 February 1997 as amended)

Like IFRSs, a lease is classified as either a finance lease or other lease (commonly referred to as an “operating” lease).

Unlike IFRSs, lease classification is determined by the legal form and terms of the contracts.

Like IFRSs, under a finance lease the lessor recognises a finance lease receivable and the lessee recognises the leased asset and a liability for future lease payments. Unlike IFRSs, lease payables and receivables are stated at the nominal value of the payments to be made without imputing interest.

Like IFRSs, under an operating lease the lessor does not derecognise the asset, and the lessee recognises an expense for the lease payments over the lease term.

Unlike IFRSs, a lessee may not classify a property interest held under an operating lease as a “property that is leased out” which is recognised on the balance sheet.

Unlike IFRSs, incentives granted under an operating lease are not spread over the lease term.

Unlike IFRSs, a finance lease of land is prohibited.

Unlike IFRSs, a single lease of land and a building is not treated as separate leases of land and of the building.
Immediate gain recognition from the sale and leaseback of an asset is dependent upon whether the sale takes place at fair value or not, and upon the classification of the leaseback as an operating lease or a finance lease.

A series of linked transactions in the legal form of a lease should be accounted for based on the substance of the arrangement; the substance may be that the series of transactions is not a lease.

Special requirements apply to manufacturer or dealer lessors granting finance leases.
Unlike IFRSs, a sale and leaseback transaction is accounted for as a sale, with gain or loss recognition, and then a subsequent lease.

Unlike IFRSs, in practice it is likely that a series of linked transactions would be accounted for separately based on the form of the underlying contracts.

Unlike IFRSs, a manufacturer cannot be a lessor in Russia, any “dealer” lessors do not recognise and profit or loss at inception of the lease.
5.2 Segment reporting

(IAS 14, IAS 36)

Segmental disclosures are required for entities whose equity or debt securities are publicly traded, or that are in the process of issuing such securities.

Information should be reported for both business segments and geographical segments.

One basis of segmentation is primary and the other is secondary, and less information is required to be disclosed for secondary segments.

The assessment of which is the primary segment reporting format is based on the dominant source and nature of an entity’s risks and returns as well as the entity’s internal reporting structure.

The amounts disclosed are based on amounts in the financial statements.

Comparative information normally is restated for changes in reportable segments.
5.2 Segment reporting  
(PBU 12/2000; PBU 20/03)

Unlike IFRSs, generally segmental disclosures are required for all profit-oriented entities other than small businesses.

Like IFRSs, information should be reported for both business ("operational") segments and geographical segments.

Like IFRSs, one basis of segmentation is primary and the other is secondary, and less information is required to be disclosed for secondary segments.

Unlike IFRSs, segmentation is based mainly on an entity's organisational and management structure and system of internal reporting.

Like IFRSs, the amounts disclosed are based on amounts in the financial statements.

Like IFRSs, comparative information is restated for changes in reportable segments. Unlike IFRSs, it is assumed that restatement always is possible.
5.3 Earnings per share

Basic and diluted earnings per share (EPS) for both continuing and total operations are presented on the face of the income statement, with equal prominence, for each class of ordinary shares, for all entities whose equity or debt securities are traded, or that are in the process of issuing such securities.

Separate EPS data is disclosed for discontinued operations, either on the face of the income statement or in the notes to the financial statements.

Basic EPS is calculated by dividing the earnings attributable to holders of ordinary equity of the parent by the weighted average number of ordinary shares outstanding during the period.

To calculate diluted EPS, profit or loss attributable to ordinary equity holders, and the weighted number of shares outstanding, are adjusted for the effects of all dilutive potential ordinary shares.

Contingently issuable ordinary shares are included in basic EPS from the date when all necessary conditions are satisfied and, when not yet satisfied, in diluted EPS to the extent that the conditions are met at the reporting date.

When a contract may be settled in either cash or shares it is treated as a potential ordinary share.

For diluted EPS, dilutive potential ordinary shares are determined independently for each period presented.

When the number of ordinary shares outstanding changes, without a corresponding change in resources, the weighted average number of ordinary shares outstanding during all periods presented is adjusted.
5.3  Earnings per share
(Fed Law 39-FZ, 22 April 1996 as amended; Fed Law 208-FZ, 26 December 1995 as amended; PBU 4/99; Min Fin Order 29n, 21 March 2000; Min Fin Order 67n, 22 July 2003 as amended)

Like IFRSs, basic and diluted EPS are presented on the face of the income statement. However, unlike IFRSs, EPS must be presented by all joint-stock companies and is calculated as a single figure for all ordinary shares.

Unlike IFRSs, no separate EPS data is disclosed for discontinuing operations; EPS is based on the after-tax profit attributable to ordinary equity holders of the parent from both continuing and discontinuing operations.

Unlike IFRSs, while basic EPS is calculated by dividing the net profit (or loss) for the period by the weighted average number of ordinary shares outstanding during the period, there is less detailed guidance and differences are likely to arise in practice.

Unlike IFRSs, in calculating diluted EPS, profit or loss attributable to ordinary equity holders, and the weighted number of shares outstanding, are adjusted only for the effects of convertible securities and contracts to issue shares for less than the market price.

Unlike IFRSs, in practice contingently issuable shares generally would not be included in the calculation of EPS until the shareholders obtain the underlying legal rights.

Unlike IFRSs, there is no guidance on contracts that may be settled in either cash or shares.

Like IFRSs, for diluted EPS dilutive instruments or contracts are determined independently for each period presented.

Like IFRSs, when the number of ordinary shares outstanding changes without a corresponding change in resources, the weighted average number of ordinary shares outstanding during all periods presented is adjusted.
5.4 Non-current assets held for sale and discontinued operations

(IFRS 5)

Non-current assets (and some groups of assets and liabilities known as disposal groups) are classified as held for sale when their carrying amounts will be recovered principally through sale. Comparatives are not restated when an asset or disposal group is classified as held for sale.

Non-current assets (and disposal groups) held for sale generally are measured at the lower of carrying amount and fair value less costs to sell and are disclosed separately on the face of the balance sheet.

Assets classified as held for sale are not amortised or depreciated.

Subsidiaries are consolidated even if they are classified as held for sale (see 2.5). However, an investment in an associate or jointly controlled entity classified as held for sale is not equity accounted or proportionately consolidated.

An operation is discontinued when it is disposed of or is classified as held for sale, whichever is earlier. Comparative income statement and cash flow information is represented based on the classification of operations (as continuing or discontinued) at the current reporting date.

There are no special measurement requirements for discontinued operations. However, discontinued operations may include assets held for sale which are subject to held for sale measurement requirements.

Generally, the separate presentation of discontinued operations is limited to those operations that are a separate major line of business or geographical area and controlled entities acquired exclusively with a view to resale.
5.4 Discontinuing operations
(PBU 5/01; PBU 6/01; PBU 8/01; PBU 16/02)

Unlike IFRSs, there are no special requirements for non-current assets held for sale and there is no such designation in the financial statements.

Unlike IFRSs, assets held for sale are not remeasured or presented separately except that an impairment loss may be recognised when they form part of a discontinuing operation.

Unlike IFRSs, assets held for sale continue to be amortised or depreciated.

Unlike IFRSs, subsidiaries are not consolidated if they are acquired with the intention of disposing of them in the near future (see 2.5). Like IFRSs, associates are not “equity” accounted if they are acquired with the intention of disposing of them in the near future. Unlike IFRSs, excluded subsidiaries and associates, as well as investments in ordinary partnerships, are accounted for as financial investments (see 3.6).

Like IFRSs, an operation is discontinuing when it is to be abandoned or disposed of, and comparative information is represented based on the classification of operations (as continuing or discontinuing) at the current reporting date. However, in practice operations are classified as discontinuing earlier than they would be under IFRSs.

Unlike IFRSs, discontinuing operations are subject to special requirements for impairment testing. The measurement of the impairment loss depends on the manner in which the operations will be discontinued.

Unlike IFRSs, the separate presentation of discontinued operations is limited to those operations that are a separate major line of business or geographical area. Unlike IFRSs, subsidiaries acquired exclusively with a view to resale in the near future are not consolidated (see 2.5).
The results of discontinued operations are presented separately on the face of the income statement. An analysis of the results is presented either on the face of the income statement or in the notes.
Like IFRSs, the results of discontinuing operations are presented separately on the face of the income statement. Unlike IFRSs, there is an implied preference for an analysis of the results to be presented on the face of the income statement rather than in the notes.
5.5 Related party disclosures

(IAS 24)

Related party relationships include those between entities when direct or indirect control exists, for example, subsidiaries, parents and entities under common control. Investments involving joint control or significant influence also create related party relationships.

Key management, including directors and their close family members, also are related parties.

There are no special recognition or measurement requirements for related party transactions.

Disclosure of related party relationships between parents and subsidiaries is required, even if there have not been any transactions between them.

Comprehensive disclosures of related party transactions are required for each category of related party relationship.
5.5 Related party disclosures
(Fed Law 948-1, 22 March 1991 as amended; PBU 11/00)

Like IFRSs, related party relationships include relationships of control, significant influence and common control. Unlike IFRSs, joint control is not considered in identifying related party relationships.

Like IFRSs, key management, including directors and their close family members, also are related parties. Unlike IFRSs, there is no requirement to disclose key management compensation.

Like IFRSs, there are no special recognition or measurement requirements for related party transactions.

Like IFRSs, disclosure of related party relationships between parents and subsidiaries is required even if there have not been any transactions between them. Unlike IFRSs, there is no requirement to disclose an entity’s ultimate controlling party.

Unlike IFRSs, related party disclosures are not required for each category of related party relationship; instead disclosures are made for each related party.

Unlike IFRSs, only joint-stock companies are required to disclose related party information.
5.6 Financial instruments: presentation and disclosure

(IAFS 32, IFRIC 2)

An instrument is a liability if the issuer could be obliged to settle in cash or another financial instrument. This includes “puttable” shares including mutual fund units.

An instrument is a liability if it will or may be settled in a variable number of the entity’s own equity instruments (e.g., equal to a specified value).

Preference shares and similar instruments must be evaluated to determine whether they have the characteristics of a liability. Such characteristics will lead to classification of these instruments as debt.

Compound instruments that have both liability and equity characteristics are split into these components. Instruments may have to be classified as liabilities even if they are issued in the form of shares.

Qualitative disclosures are required in respect of financial risks and management’s approach to managing these risks.

The terms and conditions of, and accounting policies applied to all financial instruments must be disclosed.

The fair value of instruments not carried at fair value in the financial statements must be disclosed. In addition, disclosure is required about methods and significant assumptions used for determining fair value.

The level of detail of the required disclosures will vary depending on the nature and extent of financial instruments.
5.6 Financial instruments: presentation and disclosure
(PBU 19/02; FCSM Decree 03-32/ps, 2 July 2003 as amended)

Unlike IFRSs, only financial instruments in the legal form of a liability are recognised as a liability.

Unlike IFRSs, the manner of settlement of an instrument does not impact the classification of that instrument.

Unlike IFRSs, instruments issued in the legal form of shares are classified as equity.

Unlike IFRSs, there is no guidance on accounting for compound instruments, and therefore such instruments would be classified as a liability with no separate equity component recognised.

Unlike IFRSs, financial instrument disclosure requirements are limited, and do not include qualitative disclosures of management’s risk management policies.

Unlike IFRSs, no disclosures are required about the terms and conditions of, and accounting policies applied to, financial instruments.

Unlike IFRSs, only very limited disclosures are required about the fair value of financial instruments.

Unlike IFRSs, disclosure requirements, while limited, are specific and cannot be waived unless they are not material.
5.7 Non-monetary transactions  
(IAAS 16, IAS 18, IAS 38, SIC–13, SIC–31)

Generally, exchanges of assets are measured at fair value and result in the recognition of gains or losses but not revenue.

Barter transactions generally will result in revenue recognition if the goods or services sold in the exchange are part of the entity’s main revenue-generating activities.

Exchanged assets are recognised based on historical cost if the exchange lacks commercial substance or the fair value cannot be measured reliably.

Donated assets may be accounted for in a manner similar to government grants, unless the transfer is, in substance, an equity contribution.
5.7 Non-cash transactions
(Fed Law 208-FZ, 26 December 1995 as amended; PBU 5/01; PBU 6/01; PBU 9/99; PBU 10/99)

Unlike IFRSs, when assets are acquired in exchange for charter capital of an entity, the transaction is accounted for using the stated price agreed between the parties. Other non-cash exchanges generally are based on prices for similar cash transactions or the market value of the assets given up, like IFRSs.

Like IFRSs, barter transactions generally will result in revenue recognition. However, unlike IFRSs, this does not depend on whether the goods or services sold in the exchange are part of the entity’s main revenue-generating activities.

Unlike IFRSs, it is assumed that a market price can be determined for either the assets given up or the assets received.

Unlike IFRSs, donated assets rarely are recognised as equity contributions.
5.8 Accompanying financial and other information
(IAS 1)

An entity considers its particular legal or securities exchange listing requirements in assessing what information is included in addition to that required under IFRSs.

Providing a financial and operational review is encouraged but not required.
5.8 Accompanying financial and other information
(PBU 4/99; FCSM Decree 03-32/ps, 2 July 2003 as amended)

Securities market participants are required to disclose supplementary information.

The disclosures required by securities market participants include financial and operational information.
5.9 Interim financial reporting (IAS 34)

IFRSs do not require the preparation of interim financial statements.

Interim financial statements contain either a complete or a condensed set of financial statements for a period shorter than a financial year.

Condensed interim financial statements contain, as a minimum, condensed balance sheets, condensed income statements, condensed cash flow statements, condensed statements of changes in equity and selected explanatory notes.

Items, other than income tax, generally are recognised and measured as if the interim period were a discrete period.

Income tax expense for an interim period is based on an estimated average annual effective income tax rate.

Normally, the accounting policies applied in the interim financial statements are those that will be applied in the next annual financial statements.
5.9 Interim financial reporting
(Fed Law 129-FZ, 21 November 1996 as amended; PBU 4/99 FCSM Decree 03-32/ps, 2 July 2003 as amended)

Securities market participants are required to publish quarterly interim financial statements.

Like IFRSs, in practice condensed interim financial statements are presented. However, unlike IFRSs, they are prepared on an unconsolidated basis.

Unlike IFRSs, interim financial statements need contain only an income statement and balance sheet without notes.

Unlike IFRSs, there is only limited guidance on the recognition and measurement of items in interim financial statements, and there are several items that are not measured as if the interim period were a discrete period.

Unlike IFRSs, there is no guidance on the calculation of income tax expense for an interim period and practice varies.

Like IFRSs, normally the accounting policies applied in the interim financial statements are those that will be applied in the next annual financial statements.
5.10 Insurance contracts

(IFRS 4)

IFRSs specify some accounting requirements for most insurance contract liabilities, but do not establish a special accounting regime for insurance entities.

IFRS 4 permits, in most cases, an entity that issues insurance contracts to continue its existing accounting policies with respect to insurance contracts.

An insurance contract is a contract that transfers significant insurance risk.

Any financial instrument that does not meet the definition of an insurance contract, including investments held to back insurance liabilities, will be accounted for under the general recognition and measurement requirements for financial instruments in IFRSs.

Changes in existing accounting policies for insurance contracts are permitted if the new policy, or a combination of new policies, results in information that is more relevant or reliable without reducing either relevance or reliability.

Financial instruments that include discretionary participation features may be accounted for as insurance contracts although they are subject to the general disclosure requirements for financial instruments.

In some cases a deposit element is required to be unbundled from an insurance contract.

Some derivatives embedded in insurance contracts must be separated from their host insurance contract and accounted for as if they were stand-alone derivatives.
5.10 Insurance contracts

(Civil Code; RF Law 4015-1 of 27 November 1992 as amended; Min Fin Order 94n, 31 October 2000 as amended; Min Fin Order 69n, 4 September 2001; Min Fin Order 51n, 11 June 2002 as amended; Min Fin Order 113n, 8 December 2003 as amended)

Like IFRSs, RAP provides guidance for insurance contracts, but does not have a separate regime for insurance companies.

Accounting policies for insurance contracts are specified in industry regulations, unlike IFRSs.

Unlike IFRSs, the definition of an insurance contract is based on the legal form of the contract.

Unlike IFRSs, all contracts in the legal form of an insurance contract are accounted for as such. All contracts not in the legal form of an insurance contract are accounted for under general RAP requirements.

Unlike IFRSs, changes in existing accounting policies for insurance contracts are permitted only if allowed by the relevant industry regulations.

Unlike IFRSs, there is no guidance on financial instruments that include discretionary participation features; in practice they are accounted for as insurance contracts if they are issued in the legal form of an insurance contract.

Unlike IFRSs, any deposit element is not unbundled from an insurance contract.

Unlike IFRSs, any derivatives embedded in insurance contracts are not separated from their host insurance contract and accounted for as if they were stand-alone derivatives.
Recognition of catastrophe and equalisation provisions is prohibited.

A liability adequacy test is required to ensure that the measurement of an entity’s insurance liabilities considers all expected contractual cash flows, using current estimates.

The use of “shadow accounting,” under which the effect of certain unrealised gains and losses on insurance liabilities is recognised directly in equity, is permitted but not required.
Unlike IFRSs, the recognition of profit stabilisation and equalisation liability reserves (provisions) is required.

Unlike IFRSs, insurance liabilities are recognised on the basis of formulae contained in industry regulations.

Unlike IFRSs, all unrealised gains and losses on an insurance liability are recognised in the income statement and “shadow accounting” is not relevant.
5.11 Extractive activities

(IFRS 6)

Currently effective requirements
IFRSs do not contain specific guidance on extractive activities. An entity uses judgement to develop and apply an appropriate accounting policy, in accordance with the hierarchy in IAS 8 (see 1.1 and below).

Exemptions exist from the application of certain IFRSs to mineral rights and resources.

Forthcoming requirements
IFRS 6 applies to annual periods beginning on or after 1 January 2006.

IFRS 6 requires entities to identify and account for pre-exploration, exploration and evaluation (E&E) and development expenditure separately.

E&E expenditure rarely will include costs incurred prior to the acquisition of an exploration licence.

E&E expenditure may include the cost (and directly attributable cost of acquisition) of the licence itself.

IFRS 6 permits, in many cases, an entity that incurs E&E expenditure to continue its existing accounting policies with respect to such expenditure.

E&E costs can be expensed as incurred or capitalised, in accordance with the entity’s selected accounting policy.

Capitalised E&E costs must be segregated and classified as either tangible or intangible assets, according to their nature.

IFRS 6 does not address the recognition or measurement of pre-exploration costs or post-exploration development expenditure.
5.11 Extractive activities
(Tax Code; Fed Law 2395-1, 21 February 1992 as amended; Oil and Gas Extraction Industrial Instructions, 1 November 1994)

Currently effective requirements
In practice entities often develop their own accounting policies to deal with the specific issues associated with exploration and evaluation (E&E) activities in their industries; some of them are based on US GAAP requirements, but not all would be permitted under IFRSs.

Unlike IFRSs, in practice E&E expenditure generally is capitalised.

Unlike IFRSs, capitalised E&E expenditure is classified as capital investments and / or deferred expenses.

Unlike IFRSs, capitalised E&E expenditure is not subject to impairment testing.

Like IFRSs, a change in accounting policy regarding E&E assets is allowed in those areas that are not mandated specifically, e.g., the types of costs included in capitalised E&E expenditures.
Previous national GAAP impairment policies cannot be continued automatically; instead the general impairment tests must be applied in measuring the impairment of E&E assets when there are indicators that the carrying amount of an E&E asset may exceed its recoverable amount.

Examples of industry-specific indicators of impairment are identified.

The test for recoverability of E&E assets can combine several cash generating units, so long as the group is not larger than a segment.

Accounting policies for exploration and evaluation must result in information that is relevant and reliable.

An entity can change its existing IFRS accounting policy regarding E&E assets if the change results in the provision of information that is more relevant and no less reliable, or more reliable and no less relevant.
Appendix A

List of IFRSs in issue at 31 December 2004

IAS 1  Presentation of Financial Statements (revised 2004)
IAS 2  Inventories (revised 2003)
IAS 7  Cash Flow Statements (revised 2003)
IAS 8  Accounting Policies, Changes in Accounting Estimates and Errors (revised 2003)
IAS 10 Events After the Balance Sheet Date (revised 2004)
IAS 11 Construction Contracts (revised 1993)
IAS 12 Income Taxes (revised 2004)
IAS 14 Segment Reporting (revised 2004)
IAS 16 Property, Plant and Equipment (revised 2004)
IAS 17 Leases (revised 2004)
IAS 18 Revenue (revised 2004)
IAS 19 Employee Benefits (revised 2004)
IAS 19 Amendment – Actuarial Gains and Losses, Group Plans and Disclosures (2004)

IAS 21  The Effects of Changes in Foreign Exchange Rates (revised 2003)

IAS 23  Borrowing Costs (revised 2003)

IAS 24  Related Party Disclosures (revised 2003)

IAS 26  Accounting and Reporting by Retirement Benefit Plans (reformatted 1994)

IAS 27  Consolidated and Separate Financial Statements (revised 2004)

IAS 28  Investments in Associates (revised 2004)


IAS 30  Disclosures in the Financial Statements of Banks and Similar Financial Institutions (revised 2003)

IAS 31  Interests in Joint Ventures (revised 2004)

IAS 32  Financial Instruments: Disclosure and Presentation (revised 2004)

IAS 33  Earnings per Share (revised 2004)

IAS 34  Interim Financial Reporting (revised 2004)

IAS 36  Impairment of Assets (revised 2004)


IAS 38  Intangible Assets (revised 2004)
IAS 40  Investment Property (revised 2004)
IAS 41  Agriculture (revised 2004)
IFRS 1  First-time Adoption of International Financial Reporting Standards (revised 2004)
IFRS 2  Share-based Payment (2004)
IFRS 6  Exploration for and Evaluation of Mineral Resources
SIC–7  Introduction of the Euro (revised 2003)
SIC–12  Consolidation – Special Purpose Entities (revised 2003)
IFRIC  Amendments to SIC–12 Scope of SIC–12 Consolidation of Special Purpose Entities (2004)
SIC–13  Jointly Controlled Entities – Non-Monetary Contributions by Venturers (revised 2003)


SIC–27  Evaluating the Substance of Transactions Involving the Legal Form of a Lease (revised 2003)

SIC–29  Disclosure – Service Concession Arrangements (revised 2003)


SIC–32  Intangible Assets – Web Site Costs (revised 2004)

IFRIC 1  Changes in Existing Decommissioning, Restoration and Similar Liabilities (2004)

IFRIC 2  Members’ Shares in Co-operative Entities and Similar Instruments (2004)


IFRIC 4  Determining whether an Arrangement contains a Lease (2004)

IFRIC 5  Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (2004)
IFRS compared to Russian GAAP: An overview