

Differences Between Russian Accounting Rules and IAS

The table below is based on the publication “GAAP 2001 – A Survey of National Accounting Rules,” which represents the results of a joint survey conducted by the seven leading accounting firms, including PricewaterhouseCoopers. This table compares the Russia rules that were in force as of January, 1, 2004, and IFRS after Improvements project.

Russian accounting may differ from that required by IAS because of the absence of specific Russian rules on recognition and measurement in the following areas:

- the classification of business combinations between acquisitions and unitings of interest IAS 22
- provisions in the context of business combinations accounted for as acquisitions IAS 22
- consolidation of special purpose entities SIC 12
- the restatement of financial statements of a company reporting in the currency of a hyperinflationary economy in terms of the measuring unit current as of the balance sheet date IAS 29
- the translation of the financial statements of hyperinflationary subsidiaries IAS 21
- the treatment of accumulated deferred exchange differences on disposal of a foreign entity IAS 21
- derecognition of financial assets IAS 39
- the recognition of operating lease incentives IAS 17; SIC 15
- accounting for defined benefit pension plans and some other types of employee benefits IAS 19
- accounting for an issuer’s financial instruments IAS 32
- hedge accounting for derivatives IAS 39

There are no specific rules requiring disclosures of:

- the fair values of financial assets and liabilities IAS 32
- the fair values of investment properties IAS 40
- related parties information except by certain reporting companies with a specific legal form (joint stock companies); the definition of a related party is a narrower one, based on legislation IAS 24
- certain segment information (e.g. a reconciliation between the information by reportable segment and the aggregated information in financial statements, significant non-cash expenses, other than depreciation and amortization, that were included in segment expense and, therefore, deducted in measuring segment result – for each reportable segment). IAS 14

There are inconsistencies between Russian rules and IAS that could lead to differences for many enterprises in certain areas. Under Russian rules:

- goodwill is calculated by reference to the book values of acquired net assets IAS 22
- proportionate consolidation may be used for subsidiaries in which the parent has 50 percent or less of the voting power IAS 27
- revaluation of property, plant and equipment is allowed but gives different results than IAS and need not be kept up-to-date IAS 16
- the useful life of property, plant and equipment is usually determined using periods prescribed by the government for tax purposes, which are longer than those for which the assets are expected to be used, but in practice the management of a company sets the periods in the accounting policy IAS 16
- if investment properties are revalued, they are still depreciated IAS 40
- if investment properties are revalued, the gains and losses are not required to be taken to the income statement IAS 40
- finance leases are generally defined in legal terms and the right of capitalization is given to a lessor or a lessee by the Contract IAS 17
- lessors recognize finance lease income differently IAS 17
- the completed contract method can be used for the recognition of revenues on construction contracts when the outcome of a construction contract can be estimated reliably IAS 11
- trading, available-for-sale and derivative financial assets are not recognized at fair value IAS 39
- trading and derivative liabilities are not recognized at fair value IAS 39
- any financial investments are not required to be carried at fair value IAS
- provisions can be established more widely or less widely than under IFRS, and there is no requirement for discounting IAS 37
- own (treasury) shares are shown as assets SIC 16
- the correction of errors is included in the determination of the net profit or loss for the reporting period, but separate disclosure and pro-forma restated comparative information are not required IAS 8
- revenue recognition rules do not differentiate between exchanges of goods of similar nature and value and exchanges of dissimilar goods, and do not discuss adjustment for the amount of cash or cash equivalents transferred in exchanges for dissimilar goods IAS 18; IAS 16
- extraordinary items have to be disclosed separately . IAS 8

In certain enterprises, these other issues could lead to differences from IFRS:

- some parent companies do not prepare consolidated financial statements IAS 27
- in the definition of control, it is not required that the ability to govern decision-making be accompanied by the objective of obtaining benefits from the entity's activities IAS 27
- certain subsidiaries may be excluded from consolidation beyond those referred to in IFRS IAS 27

- a subsidiary that is a bank may be excluded from consolidation if it is dissimilar from the rest of the group IAS 27
- certain set-up costs that have been paid by a company's founder can be capitalized IAS 38
- internally generated brands and similar items can be capitalized if the enterprise has an exclusive legal right IAS 38
- inventories are generally carried at cost rather than at the lower of cost and net realizable value; this is often not an important difference because of inflation IAS 2
- the realizable value of inventories can be measured without deduction of selling costs IAS 26
- certain overheads in addition to those related to production can be capitalized. IAS 2