

# Similarities and Differences

A comparison of IFRS and Korean GAAP



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Extract version



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## Preface



International Financial Reporting Standards (IFRS) have recently been adopted for the first time in many countries. Korea is currently drawing up its own plans for convergence with IFRS, and a roadmap is expected to be announced in the near future.

Samil PricewaterhouseCoopers is committed to supporting worldwide convergence on a single set of reporting standards. Until such time, this publication is designed to help you in understanding the key differences between IFRS and Korean GAAP.

Our IFRS Center of Excellence team was established in July 2005 specifically to support both Korean and international companies in reporting under IFRS. The same team has prepared this publication, a first in Korea, with support from both our Korean GAAP and global IFRS technical experts. In addition, we have received invaluable support from the Korean Accounting Standards Board (KASB), and I thank them here for their input.

This publication reflects all standards and interpretations effective as at 31 December 2005.

I hope this first edition of the publication is of use to you. Please visit our website ([www.ifrs.co.kr](http://www.ifrs.co.kr)) for regular updates on IFRS.

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## How to use this publication

This PricewaterhouseCoopers publication is for those who wish to gain a broad understanding of the key similarities and differences between IFRS and Korean GAAP (K GAAP). The first part of this document provides a summary of the similarities and differences between IFRS and K GAAP. It refers to subsequent sections of the document where key differences are highlighted and explained in more detail.

No summary publication can do justice to the many differences of detail that exist between IFRS and K GAAP. Even if the guidance is similar, there can be differences in the detailed application, which could have a material impact on the financial statements. This publication focuses on the measurement similarities and differences most commonly found in practice. When applying the individual accounting frameworks, readers should consult all the relevant accounting standards and, where applicable, national law. Listed companies should also follow relevant securities regulations and local stock exchange listing rules.

This publication takes account of authoritative pronouncements issued and effective under IFRS and K GAAP as at 31 December 2005 and is based on the most recent version of those pronouncements, should an earlier version of a pronouncement still be effective at the date of this publication. In addition, the K GAAP standards do not take account of Exceptions to Accounting for Small and Medium-Sized Entities (SMEs) in the application of Korean Financial Accounting Standards (KFAS) and Statements of Korea Accounting Standards (SKAS). We have not noted all recent developments or exposure drafts that have been issued up to date. This publication does not take into account the industry-specific accounting standards, such as banking, insurance, oil, gas and mining, which will be dealt with in separate publications.

## IFRS standards and Korean GAAP equivalents

The table below lists IFRS and equivalent Korean accounting standards.

Effective date of IFRS	IFRS	K GAAP
	Preface to International Financial Reporting Standards	Preface to Statements of Korea Accounting Standards
	Framework for the preparation and presentation of financial statements	Conceptual framework for financial accounting
1 January 2005	IAS 1, Presentation of financial statements	KFAS 1 article 5, Financial statements and supplementary schedules
1 January 2007	Amendment to IAS 1 – Capital disclosures	N/A
1 January 2005	IAS 2, Inventories	SKAS 10, Inventories
1 January 1994	IAS 7, Cash flow statements	KFAS 6, Cash flow statements
1 January 2005	IAS 8, Accounting policies, changes in accounting estimates and errors	SKAS 1, Accounting policies, changes in accounting estimates and errors
1 January 2005	IAS 10, Events after the balance sheet date	SKAS 6, Events after the balance sheet date
1 January 1995.	IAS 11, Construction contracts	SKAS 12, Construction contracts
1 January 1998	IAS 12, Income taxes	SKAS 16, Income taxes
15 July 2000	SIC-21, Income taxes – Recovery of revalued non-depreciable assets	N/A
15 July 2000	SIC 25, Income taxes – Changes in the tax status of an enterprise or its shareholders	N/A
1 July 1998	IAS 14, Segment reporting	KFAS interpretation 50-87, Disclosure of segment information
1 January 2005	IAS 16, Property, plant and equipment. See also IFRIC 1 (with IAS 37 below)	SKAS 5, Property, plant and equipment
1 January 2005	IAS 17, Leases	SKAS 19, Leases
1 January 1999	SIC-15, Operating leases – Incentives	N/A
31 December 2001	SIC-27, Evaluating the substance of transactions in the legal form of a lease	N/A
1 January 2006	IFRIC 4, Determining whether an arrangement contains a lease	N/A
1 January 1995	IAS 18, Revenue	SKAS 4, Revenue
31 December 2001	SIC-31, Revenue – Barter transactions involving advertising services	SKAS 4, Revenue
31 December 2001	SIC-29, Disclosure – Service concession arrangements	N/A
1 January 1999	IAS 19, Employee benefits	KFAS article 27, Severance benefits and retirement benefits, and its interpretation 13-27; and KAI Opinion 05-2, Retirement pension accounting
1 January 2006	Amendment to IAS 19, Employee benefits: Actuarial gains and losses, group plans and disclosures	N/A

## Summary of similarities and differences

SUBJECT	IFRS	K GAAP	PAGE
Accounting framework			
Historical cost	Generally uses historical cost, but intangible assets, property plant and equipment (PPE) and investment property may be revalued to fair value. Derivatives, biological assets and certain securities are revalued to fair value.	Revaluation is not permitted except certain categories of financial instruments, which are revalued to fair value.	18
Fair presentation override	Entities may, in rare cases, override the standards where essential to give a fair presentation.	No specific guidance.	18
First-time adoption of accounting frameworks	Full retrospective application of all <b>IFRSs</b> effective at the reporting date for an entity's first <b>IFRS</b> financial statements, with some optional exemptions and limited mandatory exceptions.	No specific guidance on first-time adoption of accounting framework. However, transitional treatment is specified in each standard for first-time application of a standard.	19
Financial statements			
Components of financial statements	Two years' balance sheets, income statements, cash flow statements, changes in equity and accounting policies and notes.	Similar to <b>IFRS</b> . Under <b>K GAAP</b> , non-consolidated financial statements are the primary statements. However, an entity is required to prepare consolidated financial statements if certain criteria are met.	20
Balance sheet	Does not prescribe a particular format. A liquidity presentation of assets and liabilities is used, instead of a current/non-current presentation, only when a liquidity presentation provides more relevant and reliable information. Certain items are presented on the face of the balance sheet.	Prescribes standard formats. Current/non-current presentation is required.	21
Income statement	Does not prescribe a standard format, although expenditure is presented in one of two formats (function or nature). Certain items are presented on the face of the income statement.	Prescribes standard formats. Expenditure is required to be presented by function.	22
Extraordinary items	Prohibited.	Rarely used. It is defined as being both infrequent and unusual.	22
Statement of recognised income and expense (SoRIE)	A SoRIE can be presented as a primary statement, in which case a statement of changes in shareholders' equity is not presented. Alternatively it may be disclosed separately in the primary statement of changes in shareholders' equity.	No specific guidance on SoRIE.	23
Statement of changes in shareholders' equity	Statement shows capital transactions with owners, the movement in accumulated profit and a reconciliation of all other components of equity. The statement is presented as a primary statement except when a SoRIE is presented; in this case, only disclosure applies.	Statement of appropriations of retained earnings is presented as a primary statement.  Movements in equity components are included in the notes.  In consolidated financial statements, statement of changes in shareholders' equity replaces the statement of appropriation of retained earnings as a primary statement.	23

# Accounting framework

## Conceptual framework

**IFRS** and **K GAAP** each have a conceptual framework. The principles set out in the two frameworks provide a basis for setting accounting standards and a point of reference for the preparation of financial information where no specific guidance exists.

### Qualitative characteristics of financial information

**IFRS** Financial information must possess certain characteristics for it to be useful. The IFRS Framework requires financial information to be understandable, relevant, reliable and comparable.

**K GAAP** Similar to **IFRS**.

### Reporting elements

**IFRS** There are five reporting elements: assets, liabilities, equity, income (includes revenues and gains) and expenses (includes losses).

Assets are resources controlled from a past event. Liabilities are present obligations arising from a past event. Assets and liabilities are recognised on the balance sheet when it is 'probable' that economic benefits will flow in to or out from the entity, and those benefits are able to be measured reliably.

Equity is the residual interest in the assets after deducting the entity's liabilities.

Income is increases in economic benefits that result in increases in equity other than those relating to contributions from equity participants. Expenses are decreases in economic benefits that result in decreases in equity other than those relating to distributions to equity participants.

**K GAAP** Similar to **IFRS**.

### Historical cost

**IFRS** Historical cost is the main accounting convention. However, **IFRS** permits the revaluation of intangible assets, property, plant and equipment (PPE) and investment property. **IFRS** also requires certain categories of financial instruments and certain biological assets to be reported at fair value.

**K GAAP** Prohibits revaluations except for certain categories of financial instrument, which have to be carried at fair value.

### Fair presentation override

**IFRS** Extremely rare in practice, although entities may depart from a standard or interpretation if management concludes that compliance with a requirement in a standard or interpretation would be so misleading that it would not provide a 'true and fair view' of the entity's financial statements and if this concern cannot be addressed through additional disclosure. If this occurs the entity should depart from that requirement of the standard or interpretation only if the regulatory framework requires, or does not otherwise prohibit, such a departure. IFRS requires disclosure of the nature of and the reason for the departure, and the financial impact of the departure. The override does not apply where there is a conflict between local company law and IFRS; the IFRS requirements are applied in such a situation.

**K GAAP** No specific guidance.

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