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The Similarities and Differences between the Financial Reporting Standards under United States. GAAP versus IFRS

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Abstract- The purpose of the article is to review recent trends as it relates to the expected convergence process from United States Generally Accepted Accounting Principles (GAAP) to International Financial Reporting Standards (IFRS) that will take place as early as 2015. In addition, the idea of implementing International Financial Reporting Standards (IFRS) in the United States market is not only adopting one singular accounting system but also bringing foreign cash from multinationals by lowering the repatriation tax rate under IFRS so businesses can have the competitive advantage to continue operating in the global market arena. However, the prohibition of Last-In, First-Out (LIFO) under International Financial Reporting Standards (IFRS) represents a great challenge to the Financial Accounting Standard Board (FASB) and the Securities and Exchange Commission (SEC). As a result, according to Warren, Reeve, & Duchac (2014), approximately 127 countries have already adopted IFRS and Tyson (2011) predicts that the number of countries adopting IFRS will increase up to 150 countries worldwide. Therefore, IFRS claims to be more capital oriented, to provide more relevant information for investment decision, and to reflect better a firm's economic position than United States GAAP as predicated by Florou & Kosi (2013).

Keywords: *securities and exchange commission (SEC), financial accounting standard board (FASB), generally accepted accounting principles (GAAP), international financial reporting standards (IFRS), similarities and differences between rules based and principles based, IFRS roadmap, convergence and accounting standards advisory forum (ASAF).*

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The Similarities and Differences between the Financial Reporting Standards under United States. GAAP versus IFRS

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I. INTRODUCTION

In an effort to stay abreast with International Financial Reporting Standards (IFRS) (as cited in Rivero & Lemus, 2014) this article will introduce three subject areas that are relevant to private and public traded companies in the United States. The three subject areas mentioned are as follows: (1) The Standard Setting Similarities and Differences Between: United States GAAP and IFRS, (2) The Financial Reporting System between the FASB and the IASB, and (3) The United States Adoption of IFRS and its Global Competitors. Moreover, the majority of Certified Public Accountants (CPAs) in the United States have a good understanding

of United States GAAP but not IFRS. As a result, the United State is in the process of determining if listed public traded companies in the stock market have to adopt IFRS. Therefore, it is imperative that the SEC and FASB understand four key aspects when considering the adoption of IFRS in the United States: (1) Convergence, (2) Adoption, (3) Endorsement, and (4) Condorsement.

II. THE STANDARD SETTING SIMILARITIES AND DIFFERENCES BETWEEN: U.S. GAAP AND IFRS

The similarities and differences that exist under United States GAAP and IFRS are quite distinctive. In addition, when comparing United States GAAP to IFRS one is rules based and the other one is principles based. Moreover, as it relates to the accounting treatment transition under IFRS, the principle based provides less information and by far is less detail oriented than rules based. Furthermore, United States GAAP is supported by three aspects and these are: (1) Legal, (2) Economic, and (3) a Social Accounting System. On the contrary, IFRS is a principle based accounting standard and as such meets the social economic needs of a country. As a result, the main differences and objectives that exist between United States GAAP and IFRS are found under the economic, legal, political and social aspect. For example, when Germany decided to adopt IFRS, the central bank suggested that IFRS was a great accounting standard to follow. Another example that can be illustrated is the Netherlands because the Netherlands had to clearly identify the equity outside their financial system by following the predicated guidance under IFRS. The technical differences that are established between United States GAAP and IFRS are indicated as follows: (1) The way financial statements are presented under each accounting standard, (2) Evaluation of the financial position of the Balance Sheet, and (3) Recording of the accounting differences in the accounting books. Therefore, IFRS offers more latitude judgment than United States GAAP and as well provides an extensive reporting disclosure requirement (Warren, Reeve, & Duchac, 2014).

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Since the SEC began to follow the road map guidance, the three institutional bodies that demonstrated interest in mitigating the technical differences between United States GAAP and IFRS were: (1) the government, (2) professional accountants in the accounting industry, and (3) educators in the higher education arena. In addition, once the SEC proposed a road map towards IFRS, the government, professional accountants, and educators have expressed a sentiment in understanding the timeline of the convergence process from United States GAAP to IFRS. Moreover, the SEC indicated that the initial step of the adoption of IFRS in the United States will take place as early as 2014. As a result, medium sized and public

traded companies have express a degree of concern about the execution plan of the convergence project. For example, in terms of financial reporting, IFRS is more flexible than United States GAAP. Also, educators in the higher education arena have to prepare for the new adoption era of IFRS. Therefore, the SEC proposed an optimistic value towards the convergence project from United States GAAP to IFRS (Bandyopadhyay & McGee, 2012).

A brief summary (as cited in Warren, Reeve, & Duchac, 2014) proposed a chronological convergence event from United States GAAP to IFRS is illustrated below:

The Road to IFRS

2002	IASB and FASB jointly agree to work toward making IFRS and United States GAAP compatible.
2005	EU adopts IFRS for all companies engaged in international markets. SEC and European Commission jointly agree to work toward a "Roadmap for Convergence".
2007	SEC allows foreign (non-U.S.) companies to use IFRS financial statements to meet U.S. filing requirements.
2008	SEC issues proposed "Roadmap" with timeline and key milestones for adoption to IFRS.
	SEC reiterates milestones in the proposed "Roadmap."
2010	
2013	Target date for FASB and IASB convergence on major standard-setting projects. Target date for SEC's tentative decision regarding IFRS adoption.
2015	Earliest date the SEC would require IFRS for U.S. public companies.

(Warren, Reeve, & Duchac, 2014, Appendix D-3)

The SEC, acting as a principal regulator in the convergence process from United States GAAP to IFRS, issued a comment proposal in reference to accepting the consolidation of financial statements under IFRS by not taking under consideration the reconciliation accounting process from United States GAAP. Researchers in the accounting industry have accepted the liquidity disclosure of IFRS by utilizing different accounting methods and criteria. Moreover, the researchers proposed in the literature review study that in order for there to be an appropriate accounting reconciliation method between United States GAAP and IFRS three conditions must be met: (i) understand the magnitude of the financial reports consolidated under the two standards, (ii) analyze cautiously the items reflected in the financial statements that are creating discrepancies, and (iii) the professional judgment reflected in the financial statements should address a comprehensive rationale about the two standards long-term financial decision making process across nations. For example, the research study of Miller and Becker (2010), and Poon (2012) suggests if public traded companies reconcile their financial statements under IFRS investors will receive useful and reliable financial information. As a result, as regulators tend to enforce their own GAAP in their own territory the cost of the same will serve as a cost advantage adoption position in different economic market. Therefore, researchers attest that using dual method accounting reconciliation

will be useful to the accounting industry for years to come (Sunder, Benston, Jamal, Carmichael, Christensen, Colson, & Watts, 2013).

The differences between United States GAAP and IFRS are associated with the financial reporting performance aspect. In addition, IAS 1 deals with the presentation of financial statements, but does not prescribe specifically the presentation of the financial statements. Moreover, multiple reporting formats have been created that evolve the reporting practice under the two standards settings. Furthermore, Smith (2012), throughout the research study, discusses the importance of the Balance Sheet presentation prescribed as follows: "Assets - Liabilities = Stockholders' Equity, rather than the U.S. format: Assets = Liabilities + Stockholders' Equity" (p. 22.). For example, the Stockholders' Equity reported under IAS 7 is quite similar to SFAS No. 95 that is presented under United States GAAP. However, in terms of disclosing information in the financial footnotes IFRS requires that currency should be disclosed in the financial footnotes. On the other hand, United States GAAP does not require United States public traded companies to disclose the currency in the financial statements footnotes since it is relatively understood that the company is reporting in United States dollars. Furthermore, the other pertinent difference that exists between United States GAAP and IFRS is the inventory method. As a result, under IFRS the inventory accounting methods that are allowed are:

(1) FIFO and (2) Weighted-Average Method, and (3) LIFO which is prohibited under IFRS. On the contrary, the United States GAAP permits the three inventory accounting methods which are: (1) FIFO, (2) LIFO, and (3) Weighted-Average. The standard settings such as IFRS and United States GAAP require the application of lower market cost. Nevertheless, United States GAAP and IFRS, to some extent, permit certain write-up after write-down. Another difference that exists between United States GAAP and IFRS is the investment property value. As United States GAAP indicates, if a company has a deferred tax, the company must determine where the valuation allowance exists. Therefore, the similarities and differences between United States GAAP and IFRS remain on the technical aspect and selected items presented in the financial statements (Smith, 2012).

III. THE FINANCIAL REPORTING SYSTEM BETWEEN THE FASB AND THE IASB

The financial reporting system in the United States has changed significantly. In addition, in 2008, the SEC proposed a feasible road map plan of guidance by joining more than 100 countries worldwide that have already adopted IFRS. Moreover, the rapid expansion of IFRS has guided MNEs and subsidiaries to prepare and consolidate their financial statements in accordance with IFRS. Furthermore, the two accounting standards aboard, the FASB and the IASB, are presently working in conjunction to convert the two standards in one set of accounting principles. As a result, the FASB and the IASB have issued new standards to eliminate the differences that exist between United States GAAP and IFRS in terms of bringing about a new financial horizon path for business combinations and consolidated financial statements. However, significant differences still persist between the two standards. For instance, since the SEC continues to work toward the adoption of IFRS, the SEC is asking professional accountants to keep abreast of the knowledge of the two standards. For example, companies' executives should think strategically about the transition towards IFRS and what contingency plan the executives are willing to propose for the next five years ahead. Therefore, the researcher recommends that the treatment of IFRS3 business combination (as cited in IFRS, 2012) is an important aspect to be consider in the adoption process, because promote: (1). relevance, (2). reliability, and (3). comparability reported in the financial statements (James, 2010).

The accounting principle standard known as IFRS offers similar conceptuality to United States GAAP. In addition, United States GAAP and IFRS utilize accrual basis accounting with different going-concern presentation values in the balance sheet. Moreover, the taxonomy aspect is another hot subject to deal with in the convergence process. Furthermore, the FASB has

proposed a taxonomy road map plan guidance for practitioners' accountants to follow in 2014. Therefore, the financial reporting position in the United States continues to constantly evolve and the new principles based adoption will come sooner than expected (James, 2010).

The fair-value measurement considered two relevant aspects and these are: (1) Historical-Cost Model, and (2) The Fair-Value Elements Measurement. The researchers Langmead, and Soroosh, (2009), noted that

Jack T. Ciesielski investigated 129 U.S.GAAP reconciliations from foreign filers using IFRS in 2006 (the last year the SEC required such reconciliations). The study revealed that the overall effect of differences between the two accounting systems was significant. Of the 129 companies studied, 83 (64%) showed higher earnings under IFRS than under U.S.GAAP; the median difference was 12.9%. Another 44 companies (34%) showed lower earnings under IFRS; the median difference was -9.1%. Only two companies showed the same earnings under both bases of accounting (The Analyst's Accounting Observer, R.G. Associates, Inc., vol. 16, no. 11) (p. 24.).

Furthermore, the researchers noticed in the research study that the reliability and transparency of IFRS is quite similar to United States GAAP, because shareholders and stakeholders care about the observance of financial suitability within the firm. For example, the information presented in the balance sheet under IFRS will be characterized similar to United States GAAP standards. As a result, this is one of the main existing reasons that professional practitioner accountants in the United States have to acknowledge the strong presences of IFRS in the United States capital market. Therefore, the United States continues to be one of the most important nations around the world for many organization and investment entities that are not affiliated with the United States (Langmead, & Soroosh, 2009).

IFRS indicates three provisions that must be recognized by following the existing conditions in the accounting and financial market and these are: (1) a company must present past transaction events reflected in the financial statements, (2) the economic outflow of IFRS is probable, and (3) the estimates under IFRS must comply in accordance with IAS 37. In addition, the major difference that exists between United States GAAP and IFRS specifies the precision time in recognizing the transaction event. Moreover, IFRS records a company restructure cost when a liability is presented in a detailed plan to meet IAS 37 guidance and procedure. For example, under this specific situation a company has a constructive obligation under IAS 37 IN 2(b) that creates a probable execution plan. As a result, the main differences that exist between United States GAAP and

IFRS are illustrated as follows: (1) Material recognition, (2) Material measurement, and (3) Full disclosure of restructuring charges. For instance, the preparers of financial statements working with both standards should be aware of the financial implications that are related in interpreting the financial information and the related liabilities under statement IAS 37. Therefore, IFRS is currently working in the alignment process of IAS 37 and improving at the same time the recording position of liabilities in the global convergence project from United States GAAP to IFRS (Lin, & Yang, 2012).

IV. THE UNITED STATES ADOPTION OF IFRS AND ITS GLOBAL COMPETITORS

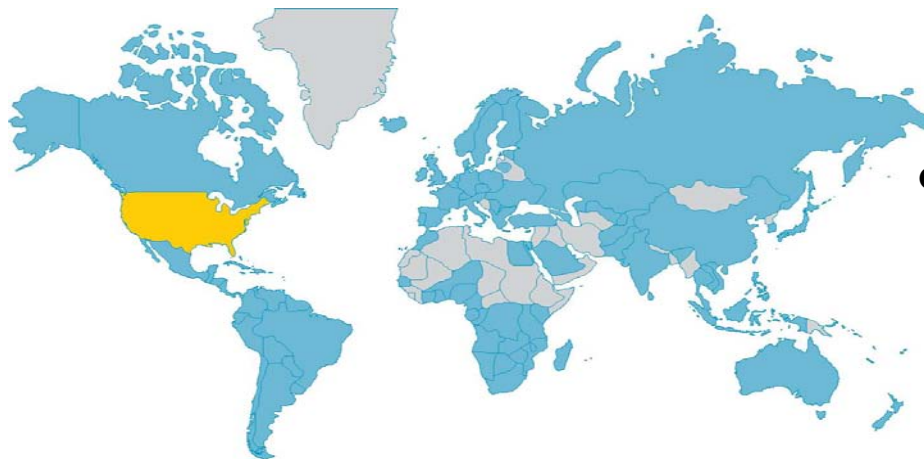
The adoption efforts of IFRS in the United States market continue gaining a strong presence. In addition, the researcher provides relevant statistical data information where investors in the United States hold more than \$6 trillion in foreign debt and the equity securities include the following countries: countries in the European Union, Canada, Mexico, Brazil, and South Korea. Most importantly, China is presently in the process of adopting IFRS. For example, more than 450 non United States companies operating in the United States market are reporting under IFRS and hold a

combined market cap of \$5 trillion. Furthermore, in 2013, the IASB created a single set of high quality financial reporting standards known as ASAF. The main goal and objective of ASAF is to provide high quality reporting standards of financial reports in the United States as well as around the globe. However, the ASAF will serve as a vehicle to communicate the technical accounting differences that exist between the FASB and the IASB. For example, the researcher Murphy (2013) writes:

Hoogervorst reported— 62% of those companies surveyed reported transition budgets under \$500,000. For larger companies with revenues of more than \$1 billion, the highest recorded transition cost was less than 0.1% of turnover. These numbers are consistent with surveys elsewhere such as in Europe and Korea, so we know the costs of transition are manageable (p.10.).

Therefore, the standard setters such as the Financial Accounting Standard Board (FASB) and the International Accounting Standard Board (IASB) are supporting the global adoption effort of IFRS acting as a singular accounting language through the Accounting Standards Advisory Forum (ASAF) mission statement (Murphy, 2014).

IFRS Adopters



**Countries in blue
have officially
adopted IFRS**

Anguilla	Antigua and Barbuda	Armenia	Austria
Australia	Bahamas	Bahrain	Barbados
Belgium	Bosnia and Herzegovina	Botswana	Brazil
Bulgaria	Chile	Costa Rica	Croatia (Hrvatska)
Cyprus	Czech Republic	Denmark	Dominican Republic
Ecuador	Egypt	El Salvador	Fiji
Georgia	Ghana	Gibraltar	Grenada
Greece	Guatemala	Guyana	Haiti
Honduras	Hong Kong	Iraq	Israel
Jamaica	Jordan	Kazakhstan	Kenya
Kuwait	Kyrgyzstan	Laos	Lebanon
Lesotho	Macedonia	Malawi	Maldives
Mauritius	Mongolia	Montenegro	Morocco
Mozambique	Myanmar	Namibia	Netherlands Antilles
Nepal	New Zealand	Nicaragua	Oman
Panama	Papua New Guinea	Paraguay	Peru
Qatar	St. Kitts and Nevis	Saudi Arabia	Serbia (Republic of)
Sierra Leone	South Africa	Sri Lanka	Suriname
Swaziland	Switzerland	Tajikistan	Tanzania
Trinidad and Tobago	Turkey	Uganda	Ukraine
United Arab Emirates	Virgin Islands (British)	West Bank/Gaza	Zambia
Zimbabwe			

Source: <http://www.iasplus.com/country/useias.htm>.

(Warren, Reeve, & Duchac, 2014, Exhibit 1, Appendix D-2)

The researchers indicate throughout the research study in the above global map that 27 countries in the European Union (EU) have officially adopted IFRS and another 100 countries have adopted IFRS for public companies. Most importantly, in 2016 in the Asian market, Japan is expected to consider mandatory adoption of IFRS, whereas India demonstrates limited use of IFRS and China is fully adopting IFRS. Therefore, the G20 group is calling for a uniform financial accounting language standard by 2016 (Warren, Reeve, & Duchac, 2014).

V. CONCLUSION

In conclusion, it can be determined that the earliest date the SEC will require publicly traded companies to adopt IFRS is 2015. In addition, the top 500 publicly traded companies in the New York Stock Exchange (NYSE) market need to align their financial statements in accordance with IFRS. As a result, the four main objectives of the IASB are: (1) develop one singular accounting language, (2) promote strong IFRS standards, (3) fulfill the governance necessity in the emerging economic market, and (4) promote IFRS as a high quality accounting solution as noted by the IAS. Therefore, as written by Rivero, & Lemus (2014) "U.S. IFRS is inevitable and the U.S. government needs to create a sense of urgency to prepare U.S. business leaders" (p. 49).

VI. RECOMMENDATION FOR FUTURE STUDIES

The author of this article suggests that the following aspects should be considered for future studies in the convergence process from United States GAAP to IFRS and the adoption of the same in the United States capital market:

1. Regulators in the United States need to value IFRS latitude judgment in the accounting industry. This requires the involvement of SEC and FASB leaders.
2. Accounting educators and professional practitioners have to concentrate on understanding the insights of the 2014 United States GAAP Financial Reporting Taxonomy aspect and IFRS's earliest expected adoption in 2015.
3. The attitude and psychological effect of CPAs and Chief Financial Officers (CFOs) toward the harmonization process of IFRS in the United States capital market.
4. Examine the relationship between Corporate Social Responsibility (CSR) and the treatment of IFRS3 business combination in the convergence process from United States GAAP to IFRS.
5. Universities and colleges in the United States should align the accounting curriculum with IFRS.

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