

Generally accepted accounting principles

Business



This essay investigates the literature on standard guidelines of financial accounting.

It seeks to elucidate the basic characteristics of “ Generally Accepted Accounting Principles” and how they converge with the “ International Financial Reporting Standards”. In addition, the essay establishes the issues of primary importance as regards the two accounting systems. Further, it traces the historical background of the current statutes and describes the projected resolution that would address issues that are currently of concern (Anderson & Narus, 2004). The globalization of trade has necessitated several countries to converge on International Financial Reporting Standards (or IFRS.) However, some countries have largely retained their local accounting principles, especially for regular companies.

These are known as Generally Accepted Accounting Principles (or GAAP) and are subject to change depending on the jurisdiction of where they apply. They include accounting standards and conventional rules that are followed by accountants in presenting their financial statements. Nonetheless, large companies in these countries have had to conform to International Financial Reporting Standards as this is important for them to actively participate in global trade. Adoption of IFRS is significant in that it forms the premise on which statutory reporting is made comparable globally transcending several jurisdictions (Nel, 1983). The issues of primary importance are the principles of consistency, continuity and prominence of methods.

These should be upheld regardless of the principle of accounting used as they are important for uniformity of data as well as comparability of

accounting information. For instance, the principle of consistency requires that a business must identify a method of accounting that it uses to treat a certain item in their line of production. As such, all other items of similar nature would follow the same exact pattern to allow for uniformity. In addition, the principle of permanency of methods is critical for coherence of accounting information. For instance, an auditor looking at accounting data of a firm that were compiled ten years ago should be able to compare them with the current data.

This typically helps keep the history of business performance by making a comprehensive comparison of financial information that has been published by the firm over time. Furthermore, the principle of continuity should ensure that accounting information is stored in a flowing manner so that there are no interruptions in between. This makes it easy to assess all information in a systematic manner so as to make accurate financial conclusions (Kearney, 1992). The rules of reporting under GAAP have a complex historical background as they have undergone several changes over time. As a matter of fact, there are currently over one hundred and fifty postulations on how regular income should be reported.

However, the general concession is that a radical shift in the accounting principles would have a significant impact on businesses operating in America. This is why business class has put in place the Financial Accounting Standards Board to review GAAP rules in a systematic manner and propose amendments as may be necessitated by the global economic situations.

Nonetheless, GAAP are slowly being rendered irrelevant as a reliable form of accounting standards with the adoption of IFRS. This has been necessary

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considering that virtually every business today focuses on the international market. Although the two systems are largely similar, there is a possibility that a mix-up of the two could give a false impression that a business is doing good when the opposite is true.

Therefore, serious disparities on the competitiveness of different business enterprises are bound to arise (Ramsey, 2007). In conclusion, the statutes of GAAP and IFRS are certainly on the path of convergence. This may not only be on the fundamental issues of consistency, permanency and continuity as these have become basic points of convergence. The rapidly increasing globalization of trade, especially with the emergence of the Internet, may certainly spell doom to GAAP. As such, it would be possible to compare accounting information of businesses regardless of their size or area of jurisdiction (Reid & Richard 2004).