

Us gaap needs to  
allow more leeway in  
recognizing revenue



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US- GAAP is a tool of principles used in accounting in the United States of America to recognize revenue. However it is more rules- based and prescriptive as compared to the International Financial Standards (IFS) which is generally principle- based. Due to these differences therefore the US companies in particular technology companies, will discover some unintended consequences as other overseas rivals adopt the international financial standards. Since many US- GAAP rules were written to address perceived abusive practices and to help achieve consistent application among companies. These differences in revenue recognition standards allow a foreign competitor to recognize revenue sooner than a US company following GAAP rule. However this affects technology companies more than other types of businesses mainly because of: companies are more likely to have complex sales transactions that include multiple products and services; however this is the most restrictive part of the US- GAAP. Secondly, for most technology companies, investors always place greater importance on top line revenue growth as an indicator of value than for other industries. Therefore, this would result in a significant comparative disadvantage for US companies mainly because international companies using the IFS have more leeway in structuring sales transactions without adversely affecting the timing of the revenue (Howell, 2007).

This early recognition of revenue by these companies will in effect allow international competitors to show faster growth in revenue, as a result will be perceived by potential customers and investors as successful. Therefore, in a competitive situation most US companies would need to choose between providing the customer special terms so as to remain competitive. While at

the same time having to defer the revenue or refusing to make concessions in order to maintain a favourable revenue recognition model to meet investor expectations (Howell, 2007). In this regard therefore, the US- GAAP will have to allow more leeway so as to be able to recognize more revenue.