Comparing ifrs to gaap essay sample

Fair value accounting, sometimes known as mark to market accounting, has been around for many years and has applied to many types of assets and liabilities accounts. But, special attention has been placed on fair value reporting due to expanding use(or misuse) of financial instruments. FASB and IASB have issued exposure drafts focused on differences between international and U. S. Generally accepted accounting principles with respect to fair value accounting.

Different assets, liabilities, and equity instruments are measured at fair value. Standards in the U. S. GAAP and IFRS that require or permit fair value measurements are different. Consequences are that the instruments measured in fair value of the U. S. for GAAP may not be so for IFRS or vice versa.

Some disclosures will be different for the U. S. with GAAP and IFRS. IFRS does not distinguish between reoccurring and no reoccurring fair value measurements.
IFRS considered more of a principle based account standard than when compared to GAAP, which is a more ruled based. IFRS can represent and capture the economics better with the principle base than the GAAP.

GAAP recognizes at fair value while IFRS only recognizes if an asset will have future economic benefits and has a measured reliability. The IFRS is not allowed to use the FIFO (first in and first out) method when it comes to inventory. The GAAP can either use the LIFO (last in last out) method or the FIFO when going inventory.

Component depreciation involves dividing real estate improvements into various components like plumbing, electrical systems, and building shells, and depreciating each component separately for tax purposes. This was eliminated by 1981 by the 1981 Tax Act for any property purchases made after 1980.

The revelation on plant assets is the process of increasing and decreasing their carrying value in case of major changes in the fair market value of the fixed asset. The IFRS require fixed assets to be initially recorded at cost but they allow two models for subsequent accounting for fixed assets, namely the cost model and the revelation model.

The reasons for the above mentioned is to show the true rate of the return on capital employed. It is also to conserve adequate funds in the business. To show market fair value is another reason for the above. Negotiating fair price for the assets of the company and sharing issues with existing shareholders is another reason. To decrease leverage ratio is one of the reasons as well.

Research and development is meant to generate cash flows. The output of the R & D meets the definition of an asset. Research expenditure is immediately deducted from operating profit rather than being capitalized. Development expenditure is capitalized and then amortized.

Contingent liability is an obligation that has a probability of occurring in the future. These items will not be included in financial statements but should be disclosed within the notes. The company will also be required to measure the nature of the contingent liability in subsequent account periods.

An example would be as follows. An oil company that was involved in an accidental oil spill in the Meditearrean Ocean. An example of contingent liability would be the potential fines imposed by the European Union for environmental violations. Companies may not know the extent of the fines yet, but they should be disclosed as contingent liability in the notes. Since fines can be reasonably predicted, it is necessary to report the fines in the financial statement.