In this writing assignment you must discuss and compare the existing gaap standar...

Finance

GAAP and IFRS Comparison between GAAP and IFRS IAS17: Leases Introduction The FASB and IASB have taken considerable steps towards converging the IFRS and GAAP content. By the time SEC allows for incorporation of IFRS in publicly traded companies in US, most difference might have been solved. Generally Accepted Accounting Principles (GAAP) comprises of a standard framework of guidelines used in financial accounting in any jurisdiction of standard accounting practice. On the other hand, International Financial Reporting Standards (IFRS) entails a common language for accomplishing the business affairs to enable a company account for all its financial transactions across the international boundaries (Yang & Nguyen, 2003). Discussion The IAS 17 Leases prescribes the accounting disclosures and policies regarding leases. Leases must be classified as either financial leases or operating leases. This applies to all the leases, including those for natural gas, mineral oil and other regenerative resources. In GAAP, leases are classified based on how they transfer the risks and rewards incidental to ownership. This is based on the perspective of lessee which entails both the operating leases and capital. From the perspective of the leasor, this entails the direct financing, sales type and operating leases. On the other hand, the IFRS classifies leases at the inception of the lease that takes care of the earlier date of the lease agreement as well as the commitment date by parties to the principal provisions of the lease. A finance lease in IFRS depends on whether the risks are incidental to the transferred ownership (Ampofo & Sellani, 2005). For lease to be viable and classified as sales-type, direct capital lease or capital lease in GAAD, certain conditions must be fulfilled. First, ownership must be transferred to the lessee by and of the term and the lease must provide for the bargain purchase option. Second, the lessee must receive substantial economic benefits derived from the leased property when the lease term equates to a considerable portion, usually over 75 percent the economic life of the leased property. Third, the present value must b equal to substantially fair value, usually over 90 percent, of the leased property at the inception stage of the lease (Jamal, 2010). On the other hand, for IAS 17, separate guidance for the leases is not provided when classifying the lease. Rather, examples are given for situations either individually or in combination to enable the lease be classified as a finance lease. Such combinations include the lease transfer ownership for the assets to the lessee by the end of the lease term. This provides the lessee with the option of purchasing the asset at sufficiently lower price than the fair value at the date when the option becomes exercisable to be reasonably certain at the inception stage of the lease. Lease term comprises the major part of economic life for the asset, even when the title has not been transferred. At the inception stage of the lease, present value for minimum payments amounts to at least fair value for the leased asset. Furthermore, in IFRS, leased asset are unique and can only be used by the lessee without any major modifications (Goodwin, 2006). For GAAD, the lessee requires conditions beyond the existing ones. Such conditions include, first, the normal conditions for the credit risk of the lease when compared to risk collection from other receivables. Second, the amounts associated with unreimbursable costs likely to be incurred by the leaser should be reasonably estimated. Contrary, the IFRS does not provide for quantitative threshold that must be achieved. GAAP is not strict on thresholds. As a result, more judgment may be required by entities when determining the classification (Peters, 2011). For GAAD, discount rates used by the lessee in the determination of the present value for the minimum payments is lower of the rates for incremental borrowing and implicit in the lease when practicable to determine. For IFRS, if practicable, the entity must use interest rate implicit in the lease as the discount rate when calculating the present value for minimum lease payments. When impracticable, the incremental borrowing rate by the lessee may be used (Tyrrall, 2007). For GAAD, any initial direct cost is expensed for the lessee, but for IAS 17, any initial direct cost is added to the value of the asset. Therefore, at the beginning of the lease term, liability and asset must be reconciled in balance sheets at same amounts except for the direct initial costs of the lessee. The direct financing leases in GAAD form the finance income that is the difference between minimum payments for the leases, net of executor profit costs and any unguaranteed residual value for the leased property accrued to the leasor, and the costs of the leased property. For IFRS, the leasors must recognise assets of the finance lease in balance sheets at the inception of the lease. This encompasses gross investment in discounted lease at an interest rate implicit within the lease. The lease payment act as the leaser repayment of the principal and the finance income for reimbursing and rewarding the investment and services by the leaser (Needles & Marian, 2010). In general, principles relating to leases under GAAP and IFRS comprise of the considerable number of similarities. Nevertheless, a detailed evaluation of the standard reveals some differences regarding the needs of the entity. This helps in determining the impact of the differences on processes of accounting for the leases upon moving to IFRS (Needles & Marian, 2010). References Ampofo, A., & Sellani, R. (2005). Examining the Differences between United States Generally Accepted Accounting Principles (U. S. GAAP) and International Accounting Standards (IAS): Implications for the Harmonization of Accounting Standards. Accounting Forum 29(20), 219-31. Goodwin, J. (2006). The Impact of International Financial Reporting Standards: Does Size Matter? Managerial Auditing Journal 21(5), 460-75.. Jamal, K. (2010). A Perspective on the Canadian Accounting Standards Board Exposure Draft on Generally Accepted Accounting Principles for Private Enterprises. Accounting Horizons 24(1), 129. Needles, B., & Marian, P. (2010). International Financial Reporting Standards. 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