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## APENDIX Part A I .

What is GAAP II. Key differences between GAAP and IFRS in relation to overall application of standard III. The key difference between GAAP and IFRS in relation to financial statement Income statement Cash flows statement Part BI. Time line for the US is likely to fully adopt IFRS II. Positive and Negative for companies during this transition phase. Positive Negative Part C What stage are Japan and Singapore in their convergence process to IFRS Part AI .

What is GAAP According to FASB, the term ??? generally accepted accounting principles ??? is defined as a specific meaning for accountants and auditors who is the member of the AICPA Code of Professional Conduct. It is not allowed from expressing an opinion or stating affirmatively that the financial statement or any financial data have to be presented fairly in conforming to GAAP.

In 1973 FASB was designated by AICPA Council to response for set up GAAP for federal reporting entities. FASB designs GAAP hierarchy which is encompassing the source of accounting principles used in preparing the financial statement of all reporting entities. It means that all the financial statement have to follow the framework for selecting principles without bias or prejudice.

The GAAP also provide the list of the priority sequence of sources that the reporting entities should look to for accounting and reporting guidance. On the other hand, IFRS was created in 2003 as a new international accounting standard under IASB and have created the big impact to global economic.

Lary Gray (2009) points that IFRS have significant influence to the global

economic, the evidence was that Europe Union required listed companies in EU to adopt IFRS by 2005. And two year later, US securities and exchange commission (SEC) adopt the rule amendment to eliminate GAAP and IFRS??  
™s difference. II. Key differences between GAAP and IFRS in relation to overall application of standard  
In the special edition report of Deloitte (2004), the IASB and the FASB have participated the discussion and agreement to perform the short term project to eliminate the difference between IFRS and US GAAP in 2002. Some of the key difference in overall application of standard that was being considered in the convergence project which are the classification of asset, liability financial instrument. Firstly, there are some differences in tem of intangible asset.

For example, Ernst & Young report (2009) show that US GAAP defined ??? development cost??? as expense as incurred unless addressed by separate standard. Development costs relate to software developed for external uses are capitalized. In the case of internal use, only those costs incurred during the application development stage may be capitalized. In contrast, IFRS have significant difference of identification of development cost. IFRS defined ??? development cost??? are capitalized when technical and economic feasibility of a project can be demonstrated in accordance with the specific criteria which include : demonstrating technical feasibility, intent to complete the asset and ability to sell asset in the future, and there are no separate guidance addressing computer software development cost. Moreover, identification of inventory is another example of the difference between IFRS and US GAAP. IFRS prohibited LIFO while US GAAP allows using it. Secondly,

there are also have some difference in term of liability related to income taxes.

According to PWC (2010), under US GAAP, any income tax effect resulting from intragroup profit are deferred at the seller's tax rate and recognized upon sale to a third party while IFRS required the recording of deferred tax based once the buyer tax rate at the time of the initial transaction. In addition, the tax rate applied when calculate deferred tax or current tax may vary depend on the framework, and the asset or liability have the different tax base while under US GAAP, there are only tax basis per asset or liability. Beside some key differences above, there are still other differences which include accounting policies, change in estimates and errors, asset held for disposal, construction contract, joint venture, interim financial reporting, etc. The key difference between GAAP and IFRS in relation to financial statement:

- \* Financial period required: under US GAAP, comparative financial statement are presented, however, a single year may be presented in specific scenarios. Depend on case, The SEC require public entities prepare two or three year period. While under IFRS, comparative information must be disclose in respect of the previous period for all amount reported in the financial statement
- \* Income statement "expense": under US GAAP: SEC registrant are required to present expense based on function while IFRS show that Entities may present based on function and nature
- \* Income statement extraordinary items: US GAAP restrict to items that are both unusual and infrequent while IFRS prohibited them.
- Statement of cash flow
  - \* US GAAP: Bank overdraft are not included in cash and cash equivalent, charges in the balances of overdraft are classified as the financing rather

than cash and cash equivalent. The guidance is specific on the cash flow classification of the certain items requiring dividend paid to be classified in the financing section and interest paid interest receive and dividend received to be classified as operating section.

Tax paid classified as operating cash flows, specific rule exist regarding the classification of the tax associated with share base compensation arrangement \* IFRS: Cash may also include bank overdraft repayable on demand of short term bank borrowing are not include in cash or cash equivalent and are consider to be financing cash flow Interest and dividend paid should be classified in either operating or financing cash flow. Receipt of interest or dividend should be classified in either operating or investing. Tax paid should be classified in operating cash flows if there are no specific identification with a financing or investing activities exists. Once an accounting policy election is made, it should be followed consistently.

Part BI. Time line for the US is likely to fully adopt IFRS (source: AICPA)2002: SEC announces support of Norwalk Agreement between the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB). 2007: SEC votes unanimously to accept from foreign private issuers financial statements prepared in accordance with IFRS without reconciliation to U. S.

GAAP2008: SEC issues proposed roadmap with timeline and key milestones for moving to IFRS and allowing early adoption for U. S. public companies meeting certain criteria.

2010: SEC issues a statement in support of convergence and global accounting standards and calls for the development and execution of a work plan on Oct. 29. In 2011, assuming completion of the convergence projects and the SEC staff's work plan, the SEC will decide whether to incorporate IFRS into the U.

S. financial reporting system for U. S. issuers, and if so, when and how. If the SEC determines to incorporate IFRS into the U. S. financial reporting system, the SEC believes the first time U. S.

entities would be required to report under such a system would be no earlier than 2015. II. Positive and Negative for companies during this transaction phase  
Positive Improved comparability: Deloitte (2008) points that the investment community is increasingly looking high quality financial information .

Increasing number, investors perceive IFRS as a opportunity to improve comparability of financial information from companies across global industries. From the company's view, it is easier for them to communicate to their customer and investors. With the global corporation, the parent companies can manage their subsidiaries activities and financial statement efficiency  
Increase transparency: Deloitte (2008) describe that a single, global set of accounting standards can encourage both company and investors to more easily access the foreign market . It can help stimulate investment and enable cross border capital flow. Reduced the complexity and the risk errors: By adopting IFRS, the companies can reduce the complexity of the operation .

In relation to global companies, the difference accounting standard will make the structure of operation of the companies is more sophisticated. And they have to spend a lot of money to translate the different financial report to common one. Using the same accounting standard will help them save money and reduce the risk of error in the procedure of translation financial statement. Increase the completion of the US Company: Using IFRS, US Company can be confident to compete to other competitors in attracting more foreign investor. According to Edward Reidl (2008), it is showed that investors might believed that adopting IFRS standard would have some benefits such as lowering the cost of the comparing firm??™s financial position and performance across countries, and it make the capital market to become more global competitive. And competitive market is the foundation for the sustainability growth for the companies.

Reduce the affect of political issues; create more space for the growth of companies: According to Johnson (2011), accounting standard have a close relationship to the economic behavior In US the accounting standard is created in term of specific group??™s interest. Therefore, Adopting IFRS will eliminate this interest. The market will be more fair and competitive. The companies will have more space to develop. Achieve significant cost saving and process efficiency: Lei Shi (2010) mentions that adopting IFRS will reduce the time cost and the cost of preparing financial statement according to different standard and regulation, achieve huge saving of the capital in long term. Negative: Companies spend huge amount of money to convert the existing reporting system to accommodate IFRS framework.

Lei Shi (2010) concludes that the transition cost 8 billion dollars for the whole US economy and with average one times cost of 3. 24 million dollars for Multination Corporation. Although IFRS can help companies save a lot of expenditure in long term but the above switching cost is difficult issue to some companies. In addition, Analyze and adjust historical financial statement and educate preparer and user of the company??™ financial frame work require the cost for companies. For example, the adopting IFRS causes India capital market and companies themselves suffered a lot of damage when the preparer and users of financial information did not good acknowledge about the IFRS. India companies have to spend to amount of capital to interpret and educate to their employees and users. Part CWhat stage are Japan and Singapore in their convergence process to IFRS It was March 2005 when the IASB and the Accounting Standards Board of Japan (ASBJ) made an agreement to reduce differences between Japanese GAAP and IFRS??™s. By august 2007 the chairman of these boards announced another agreement, the Tokyo Agreement.

With this new project, Japan committed to eliminate major differences between their domestic accounting standards and the international standards and the rest of them by June 2011. In 2009, Japan??™s Business Accounting Council (BAC) published an IFRS roadmap, by which the BAC allowed the use of IFRS for consolidated financial statements for listed companies and established 2012 as the year in which the mandatory use of IFRS is going to be made or not. By April 2010, only one or two Japanese companies moved voluntary to IFRS.



According to Tomo Sekiguchi from the ASBJ, this is because Japanese GAAP was more rule-based and Japanese people are more used to this kind of system. Moreover, accounting under IFRS must be reported in English, a language that Japanese companies must learn in order to use the international standards. A survey made in the recent year shows that less than 10 companies in Japan are planning to move to IFRS by 2012, while 20% to 40% of the surveyed companies feel insecure towards IFRS. On the other hand, Singapore started the convergence between their national accounting standards and IFRS in May 2009, when the Singapore Accounting Standards Council announced that it was decided to switch from Singapore Financial Reporting Standards to IFRS by 2012. The Singapore's convergence roadmap states that listed companies in the Singapore stock market are the ones to converge to IFRS as a strategic way to compete with other countries in the global market. But in June 2010, the Singapore ASC published another statement by which it was now allowed for Small and Medium-sized Entities to use IFRS for reporting their financial statements if they have no public accountability, but satisfy the Board's criteria.

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