Example of international accounting and us gaap essay

Business, Company

Introduction

The US General Accepted Accounting Principles (GAAP) refers to the accounting standard that is being used in the United States, while the International Financial Reporting Standards (IFRS) refers to the accounting standard that is being used in more than one-hundred and ten countries around the globe. One of the main differences between the above two accounting standards is that GAAP accounting system is considered to be more " rules-based", while IFRS is considered to be more " principles-based".

IFRS is better as compared to GAAP and this is the reason why the US. Securities and Exchange and Commission are hoping to transform to IFRS by the beginning of 2015. There are several differences between the two systems of accounting that are making the IFRS a better framework of accounting as compared to GAAP and they are discussed below.

One of the reasons why US companies are switching to IFRS is as a result of globalization, that is, companies under IFRS would make deals and transactions much easier under this system as compared to US GAAP. IFRS would also provide the companies as well as the other stakeholders a better indicator on the economic performance of other countries.

Secondly, IFRS enhances productivity and clarity. Under this framework, the financial makers apply their professional judgment on handling specific transaction. This would result to time saving when trying to abide by the rules or complications associated with accounting that are rules-based (such as the GAAP). It also enhances the preparation of financial information in such a way that the financial statements are simple and understandable to the other interested companies and investors.

The other benefit of IFRS is comparability. This framework permits people to view various different companies around the globe using the same plane. These allow for trade and investment across the border to be possible, and thus the investors bases expand due to increase of financial reports comparability. The companies would be in a position to allocate effectively their capital as a result of accessing better information. However, comparability would not be possible with only one standard.

The third benefit of IFRS over GAAP relates to the intangibles such as advertising costs and R&D. IFRS is considered to be “ principle-based” as it is illustrated by the way the acquired intangible assets are treated. Under the U. S. GAAP, the intangible assets that are acquired are recognized for its fair value, but under IFRS, the intangible asset becomes recognized ones it has economic benefit as well as the measured reliability in the future.

The other benefit relates to inventory costs. Under IFRS framework, the Last-In/First-Out (LIFO) accounting method for inventory costs is not permitted. On the other hand, under U. S. GAAP, it is either First-In/First-Out (FIFO) or LIFO can be used an inventory estimates. The switching to single accounting method of inventory costing would result to enhancement of comparability between different countries, and thus eliminating the need of having analyst who are responsible in adjusting the LIFO inventories during their process of comparison analysis.

Last, but not least, under IFRS framework, during the process of writing down inventory, reversal of the written down inventory is possible in the future provided that some specific procedures are met. However, under U. S. GAAP, reversal of written down inventory is not possible because it is prohibited.