

Comparing ifrs to gaap essay sample



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I will be comparing IFRS to GAAP, and be discussing many ways these two get along with each other and see what they do differently as well, they both have their ways of doing things which are easier but sometime even harder.

IFRS 8-1: What are some steps taken by both the FASB and IASB to move to fair value measurement for financial instruments? In what ways have some of the approaches differed? The fair value measurements does provide the users who have the financial statements with correct picture of the value of the company's assets. The IFRS and GAAP, demand firms to include information that is essential to fair value measurement practices in the notes of financial statements. It does not matter which system they companies pick, they will still be required to report assets at their book value or fair value, but depending on the situation. All the assets that are in the same class must then receive the same valuation treatment. But when were are talking value of receivables, IRFS uses a two tiered method that first analyzes individual receivables, then looks at the receivables as a whole to determine if there is any impairment.

IFRS 9-1: What is component depreciation, and when must it be used? The component depreciation is when an asset fundamentally has different parts that will be depreciated with the different treatment. When under the IFRS, companies are required to use component depreciation only if the parts of the asset offer vary patterns of benefit. So the main reason behind that is it provides a clearing picture of the asset's value. This would be also permitted under the GAAP, from what I have read U. S. companies barely use it in practice. IFRS 9-2: What is revaluation of plant assets? When should revaluation be applied? Now reevaluation of the plant assets are

defined when the process of the change in values from book value then to fair value. This process is needed in the event that there have been huge changes in economic. An example would be, a company purchased a plant about 7 years ago and it has appreciated due to a real estate being really good, now it can be looked at again for a fair value.

So when the asset is being look at under IFRS, it is required that all assets in its class must be treated with the same evaluation method. IFRS 9-3: Some product development expenditures are recorded as development expenses and others as development costs. Explain the difference between these accounts and how a company decides which classification is appropriate. The companies that use the GAAP standards have to expense all their research and development dues by reporting them on the income statement. So when the technological viability has been there, it is optional for the firm to start reporting costs as capital expenditures. This will allow the costs to be depreciated over the useful life that the tech provides. FRS 10-2: Explain how IFRS defines a contingent liability and provide an example. The contingent liability is an obligation that could have a probability of occurring in the future.

Items will not be included in financial statements, but should be still in the notes. The organization will also be required to measure the nature of the contingent liability in subsequent account periods. For example if a building of the company exploded cause serious damage to other building, neighborhoods and the surrounding area then the contingent liability would cover the fines and repairs, so that is one of many examples why company have them. IFRS10-3: Briefly describe some similarities and differences <https://assignbuster.com/comparing-ifrs-to-gaap-essay-sample-essay-samples-2/>

between GAAP and IFRS with respect to the accounting for liabilities. Now that basic of accounting for liabilities between GAAP and IFRS are almost identical, but there are differences between them. So on the balance sheet, GAAP requires a liabilities to be put in order of liquidity, then IFRS wants reverse or of the liquidity. Now GAAP allows both the effective interest rate method and also straight line method, but then IFRS will only do the effective interest rate method. So basically IFRS has their own special rules for contingent liabilities, and that is not a requirement under GAAP. Conclusion

Accounting has many rules and different ways that you will need to learn and do to fully understand it. Personally I have learned so much and I feel ready to go out there in the real world of accounting and be a part of it, and to see what companies use the IFRS or GAAP, it will be very interesting to see. So ultimately I have feel very comfortable that I know the basic, which is a must in accounting. Can't wait to put it to use. References