How marriage between gaap and ifrs can effect managerial accounting research pape...

Business, Company

Introduction

The main perspective of this assignment is to make a comparison between two different accounting standards which particularly are International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Principles (GAAP). It is required to analyze both the accounting framework from four different angles that will be executed after analytical framework.

Analytical Framework

IFRS is the most widely chosen accounting standards that are taken into practice by many of the companies. The term IFRS is generally referred as " International Financial Reporting Standards" that is formulated to bring all business issues based on a platform of global identical language that helps to understand the company's account in the best way all across the globe. This form of accounting standard came into existence as a result of high growth in international exchange of share of trades while, it is equally beneficial for those companies who have business affairs with numerous countries. They are gradually replacing the accounting standards in many different countries (Opperman, 2009). The principles and standards are supposed to pursue by accountant in order to manage the accounting books that is rather equivalent, understandable, trustworthy and pertinent rules for each internal or external user. Most of the times, the IFRS is conflicted with IAS i. e. International Accounting Standard which was an older version of IFRS. The main goal of this accounting standard framework is to make international comparisons to its easiest form in order to create better understanding and minimize the error levels. However, it would be as complicated as every country goes after with their own set of standard principles. At present, up to 100 countries consent to or require IFRS for listed companies, and is expected transition to International Financial Reporting Standards by more countries in the year 2015. The IFRS framework provides comprehensive regulations to design financial reports instead of setting principles for reporting.

GAAP usually stands for " General Accepted Accounting Principles" is a set of framework that is used to follow standard guiding principles for financial accounting in any industry or jurisdiction. It is mainly regarded as accounting standard or practices for standard accounting. The structure of GAAP predominantly comprises with certain standards, conducts, conventions and system that an accountant is supposed to track in order to record and sum up the company's sustainability or financial reporting. GAAP is a mixture of reliable standards (developed by a number of policy committees), and ease ways of accepting recording and reporting of accounting information in compliance to relevant principles from every aspect. The GAAP is usually levied on companies that enable the investors to maintain a certain level of consistency into their financial reporting specially, when they are in a process of analyzing the enterprises from an investment perspective (Opperman, 2009). The framework is exploited to identify the revenue figures, classification of balance sheet entries and analyzing the shares that consider as outstanding. The organizations are duly enrolled by adhering to GAAP principles during the procedure of disclosing financial data through financial declarations. In spite of adhering to GAAP conducts during the preparation of financial statements, then it would require of being more cautious. Moreover, the GAAP cannot be considered as only the set of standards but there are some other factors involved under the jurisdiction of GAAP that may unscrupulous the accountants to commit mistakes in reporting figures. Therefore, after having GAAP standards in the financial statements, the accountant should have to double check it for avoiding any mishap.

Difference among the Revenue Recognition in Management Accounting Methods

One of the basic differences has been found among the revenue recognition of US GAAP and IFRS as well. Revenue recognition is an important provision for management accounting based method and there is a difference found among both IFRS and US GAAP. In both of accounting standards, the essence of revenue recognition is important from the standpoint of a company. Generally in the standards of US GAAP, it is focused that revenue being either realized or realizable or earned. The recognition of revenue in the US GAAP required to involve in the exchange based transaction that is the revenue should not be recognized until an exchange of transaction occurs. On the other hand, in the IFRS, revenue can be recognized on the basis of four different provisions which particularly are Sales of Goods, Construction contracts, Rendering of Services and use of the assets of an entity. The essence of unearned revenue is not present in the field of US GAAP, however it is found in the IFRS (Committee, 2000). It could be said that contingent revenue recognition is not possible in the US GAAP; however it is found in the IFRS in particular. Ownership of revenues is quite change in both of the accounting standards as the management would take care of this in the IFRS while, the Security and Exchange Commission (SEC) is held responsible for the US GAAP in particular.

Difference among the Expense Recognition

Expense is an important provision from the viewpoint of an organization and no organization can enhance their productivity without effective expense recognition in particular. Likewise revenue, expenses is yet another important way of management accounting method which has a significance difference among its disclosure in both IFRS and US GAAP. The recognition of expense is totally different from both of the accounting standards in particular. The basic differences among both of these standards in terms of expense recognition found in the equity based classifications, as US GAAP preferred a fair value method in particular or even used the calculated value method, in which number of hours of the employee's working would be calculated that is totally different in IFRS as only the shared based payments would be recognized in the IFRS (Committee, 2000). The transaction associated with non-employees should have been measured based on the fair value of the equity based instruments and the one which is reliably measurable, while it is totally different in IFRS as the fair value can be computed on the basis of goods and services received. Employee's based shares which usually regarded as Right Shares or Bonus Shares have been regarded as a liability in US GAAP, while it is regarded as equity in IFRS (Belverd Needles, 2010). Performance based measurement like fringe benefits and perks on the basis of the performance have been found in the monetary shares while it is found in the equity based sharing in IFRS.

Expenses have been recognized at the time of the actual happening in the US GAAP; however unearned revenue could have been analyzed in the IFRS.

Difference among the Net Realizable Value Recognition of Management Accounting

Operational assets are quite important for an organization as it leads to enhance the productivity of an organization from different angles. It is important for the organizations make their operational assets perfect for their future use and recognition in particular. There is a significant difference has been found among the recognition of realizable values among the assets in both of these accounting standards. According to the US GAAP, all of the assets of the company would be analyzed on the basis of historical prices and if the company would like to sell out the assets, then the profit would be recognized on the basis of the historical prices, which is a common method of management based accounting (Belverd Needles, 2010). As compared to the US GAAP, there is a significant difference has been found among the IFRS in particular, like the net realizable value of the assets would be analyzed on the new cost of the company or the current market value of the company. The profit that has been gained on the basis of analysis would be analyzed on the basis of the current market value of the assets in particular. Therefore, it shows that there is a common difference among them.

Difference among the Cash Flow Recognition in Management Accounting Methods

Cash Flow is an important provision from the standpoint of an organization and it is one of the important elements of the financial statement for management accounting methods. There is a significant difference is found among the cash flow recognition in both of the accounting standards. In the US GAAP, the cash flow has been made on the basis of indirect method, in which numbers of elements are changed while; the Direct Method would be used on the basis of cash flow recognition.

How does these differences effect Managerial Accounting Methods

Management of a company always held responsible for the economic prosperity of the company in particular and decision making could have been done accordingly. Management is basically a synergy of four dominating things which particularly are planning, organizing, leading and controlling. There are number of differences which have been in difference in the sake of the managerial based accounting methods. There are two basic differences which have been affected on the managerial accounting method which are revenue recognition and market value of the assets. There are differences found among the managerial based accounting in the disclosure of IFRS and GAAP. In the revenue recognition section, the entire difference is found among the managerial based accounting based methods, while clear difference is also found among the analysis of the market value of the operational assets, as it is done on historical price in US GAAP, while it is done on the basis of current marketing price of the operational assets in IFRS.

Conclusion

References

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