

Similarities and differences between the us gaap and igaap -two accounting system...

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The paper " Similarities and Differences between the US GAAP and iGAAP Accounting Systems" is an outstanding example of an essay on finance and accounting. The global financial market is dominated by two accounting systems, namely, the United States Generally Accepted Accounting Principles (U. S. GAAP) and the International Generally Accepted Accounting Principles (iGAAP). As the names suggest, US GAAP comprises the guidelines, which are strictly followed by companies in the US, and foreign companies that are listed in US-based stock exchanges. On the other hand, iGAAP, which is presently referred to as IFRS (International Financial Reporting Standards), comprises standards or accounting principles that are followed by nations worldwide. In the following section, the similarities and dissimilarities between US GAAP and iGAAP with respect to reporting of intangible assets have been discussed elaborately. Intangible assets are reported under different principles in different countries. For instance, it is reported under SFAS-142 in the US, ASBE-6 in China, AS-26 in India, FRS-10 in UK and IAS-38 as per IFRS. However, in this paper, only international GAAP and US GAAP will be compared in the context of the subject (Bonham, 2008; Barth, et al., 2012).

Similarities and dissimilarities between iGAAP and US GAAP

Definition

Under iGAAP as well as US GAAP, an intangible asset is any identifiable asset that has no physical evidence and is non-monetary or non-financial in nature. Both the accounting system emphasizes that an intangible asset should comply with the definition of an asset and is controlled by an entity who is to enjoy future economic benefits of the same. However, the US GAAP and

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iGAAP agree that an intangible asset can be identified only if it can be classified, divided and sold, transferred, rented and licensed and arises from legal or contractual rights (Barth, et al., 2012, Harris, et al., 2013).

Measurement of acquired intangibles

The principles under iGAAP and US GAAP suggest that the value of any separately acquired asset will be considered as equivalent to the fair value of the consideration that has been paid on the date of acquisition (KPMG, 2013; PWC, 2013; Harris, et al., 2013).

Measurement of internally generated intangibles

Under iGAAP and US GAAP, the cost related to internally developed or maintained intangible assets are recognized as an asset. Additionally, intangible assets that are subject to amortization are calculated at the amortized cost while rest are calculated at historical cost after deducting impairment from respective values. However, iGAAP revaluation of intangible assets is performed regularly based on active market price, which is not followed in US GAAP (KPMG, 2013; PWC, 2013).

Amortization

Most of the principles under iGAAP and US GAAP regarding amortization of intangible assets are same. However, the residual life of an asset with a limited life is considered zero unless a third party agrees to purchase the same while in US GAAP, any value other than zero is considered as the residual value for tangible assets. Another point of differentiation is that under iGAAP the method of amortization is reviewed during every reporting period, which is not followed under US GAAP. Moreover, unlike iGAAP, the straight-line method is not implemented in US GAAP when a reliable pattern

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is not recognized (Ernst & Young, 2011; Deloitte, 2008; Heffes, 2008).

Software development for sale

There is no specific requirement for any software that has been developed for the purpose of sale under iGAAP and the cost incurred is accounted under internally generated intangible assets. However, the US GAAP follows certain regulations in this regard. The cost that has been incurred for developing the software is considered as research and development cost unless technological feasibility is established. Once the same is determined, the cost is considered as software development cost (Ernst & Young, 2011; Deloitte, 2008).

Internal use software

Under iGAAP, no special requirement has been mentioned regarding the development of software for internal usage and the cost are considered under internally generated intangible assets unless purchased. On the other hand, there are certain special requirements under US GAAP for software that has been developed for internal purpose. The specifications include a different classification of cost at different stages. The cost incurred in preliminary stage is considered as general cost while cost related to application development stage is classified under external direct costs, general administrative cost, payroll cost related to employees and interest incurred during development (KPMG, 2013; PWC, 2013).

Website development cost

Cost related to website development for the purpose of promotion and advertisement is expensed as it is incurred. In the context of other websites, expenditures incurred during various stages of development are capitalized

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and detailed guidance regarding cost incurred within the development phase is provided. However, in US GAAP, detailed guidance is provided only related to cost that has been incurred in the application development phase and not otherwise (KPMG, 2013; PWC, 2013; Ernst & Young, 2011; Deloitte, 2008; A Fosbre, Kraft & P Fosbre, 2009).

Conclusion

Presently, a number of discussions and debates are being held worldwide regarding benefits and drawbacks of US GAAP and need of convergence of the same with IFRS. IFRS is a modified adaptation of iGAAP so that only one accounting standard is followed at the international level. US GAAP and IFRS have a number of similarities as well as dissimilarities with respect to various components of financial statements. In this paper, the similarities and differences have been discussed in the context of intangible assets where major dissimilarity was observed in the context of website development cost, amortization, and internal-use software.