

# Questions for consideration (7-8)

Finance



Finance and Accounting In my opinion, I support the idea of using one GAAP as compared to the use of different GAAP for small companies otherwise known as differential accounting. This is because the accounting requirements of any business are done with respect to the transactions being carried out. These transactions entail exchange of money, loan reimbursements, debits and credits. The solitary difference is the amounts involved. The multinational companies carry out their multi-billion transactions while the small companies transact using much lesser amounts (Alexander and Britton 219). Since there is a similarity in the business operations irrespective of whether it is a small business or a large organization, then there should be no differential accounting. Furthermore, the introduction of differential account would lead to the formation of new accounting standard boards that would come up with the rules and regulations. This would require educating the auditors, financial analysts and accountants all over again. This would cost organizations a great deal of cash. Furthermore, there would be inconsistencies in financial records in case of dealings between the small companies and the large corporations. It would also not be cost effective for a private company that wants to go public since they would require changing a whole accounting system. In my opinion, the principles-based approach of coming up with accounting standards is better as compared to the rules-based approach. This is because the approach is not new to the U. S standard settings. Moreover, the approach has been in use for over 20 years thus financial departments of organizations are conversant with its framework. In addition, the principle-based method is detailed and precise for use. The approach also allows the developing of accounting from the conceptual framework ensuring a broad

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application and avoiding exceptions (Alexander and Britton 219).

If the principle-based approach is universally adopted, there are several potential problems that may be experienced in the future. The increasingly detailed rules in the approach of the method would lead to accountants concentrating more on the required form rather than the substance of transactions. Furthermore, the required complex details of the method may lead to accountants structuring their business's reports around the rules. This would lead to undesired accounting results (Alexander and Britton 221).

#### Work Cited

Alexander, David and Britton Anne. Financial Reporting. 7th ed. London: Thomson Publishers, 2004. Print.