

U.s. gaap vs. ifrs

Business



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U. S. A GAAP vs. IFRS Revenue makes up a very significant part of the financial statement, and its recognition exercise presents a critical influence on the performance of the company. Under the provisions of the IFRS, revenue recognition is done using a single standard containing general principles, which are applied to various transactions. In addition, revenue recognition only takes place at the time when the company will receive flow of future economic benefits. Another aspect of revenue recognition in IFRS is that when determining the nature of activities in long-term contracts, the situation must be defined after entering the activity, and when it falls complete into different accounting periods. This allows matching of the accounting contract costs, as well as revenue with the accounting periods in which the construction work takes place (Bohusova, 2009). Another factor is that the accounting of fixed price construction contracts is done using percentage of the completion technique. According to Intermediate Accounting (2008), under such as case, the completed contract method is not permitted; there is no specific guidance on software revenue recognition and the guidance on sales of real estate is limited" (p. 102).

On the other hand, U. S. GAAP is based on rules; thus, it lacks an extensive guidance regarding revenue recognition specific to the type of contract or industry. Its revenue recognition is divided into two levels with the first part being the guidance in concepts statements. In the second level is the guidance for revenue recognition in particular industries, as well as transactions that are economically different. Revenue recognition in this case depends on two criteria that must be met as defined in the FASB Concepts Statement No. 5, which notes that revenue must be realizable, as well as earned (Bohusova, 2009). Another point of difference is that in this case, the <https://assignbuster.com/us-gaap-vs-ifrs/>

accounting for the construction contracts uses the percentage-of-completion method only on condition that certain criteria are met; if not the completed contract method is applied. Finally, GAAP unlike IFRS provides for a detailed on the recognition of software revenue, as well as on accounting for real estate sales (Intermediate Accounting, 2008).

In IFRS financial statement, the net income is exclusive of the interest expenses and interest revenues. IFRS reports on interest income with regard to financing activities only happens when the future economic benefits are put in place. On the other hand, GAAP performs report of its income under investing activities (King, 2008). However, IFRS and GAAP are both similar in that they require income statement, balance sheet, statement of cash flows, statement of changes in equity and financial statement footnotes. In addition, classification of interest dividends, bank overdrafts, taxes, often vary. Nevertheless, the difference in the two methods can present in the disclosure of footnote required. Furthermore, discounting of receivables in IFRS occurs using an appropriate discount rate for all future receipts. Under GAAP, the discounting receivables occurs under limited conditions. Under IFRS, classification of financial assets is done into several categories, while for GAAP, it occurs in several pronouncements (King, 2008). In this classification, IFRS bases it on the nature of instrument while GAAP on the nature of legality. A comparative financial statement must be presented under IFRS comparing the current period with the previous one. However, in GAAP, the comparative statement must not compare the previous period.

References

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