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GAAP VERSUS IFRS: AN IMPACT ON FINANCIAL STATEMENT

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ABSTRACT :

GAAP is the rule based, whereas IFRS is Principle based. With a principle based framework there is the potential for different interpretations of similar transactions, which could lead to extensive disclosures in the financial statements. GAAP is the methodology used to access an Accounting treatment. Under GAAP, the research is more focused on the literature whereas under IFRS the review of the facts pattern is more thorough.

KEYWORDS : *GAAP, IFRS, Accounting standard, IASB, Financial statement*

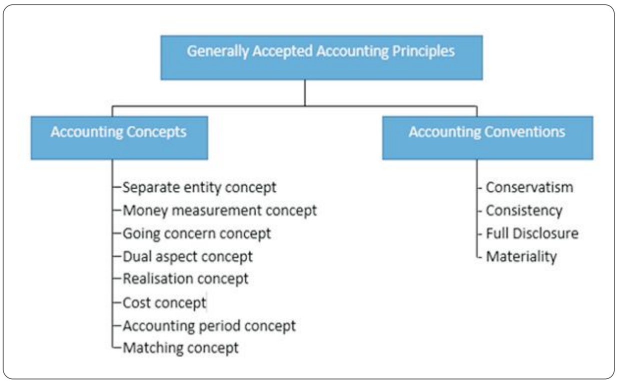
INTRODUCTION :

WHAT IS GAAP??

GAAP is the technical term which is used to describe the rules developed for the preparation of financial statements & are called Concepts, Conventions, postulates, procedures, principles etc.

GAAP are the backbone of the accounting information system. GAAPs represent the majority view point at a particular period of time& not for all the time in future.
GAAP are imposed on companies so that investors have a minimum level of consistency in the financial statements they use when analyzing companies for investment purposes.

GAAPs enable the accountants to decide as to which business transactions should be recorded as assets & liabilities ,which changes in them should recorded ,how the recorded assets & liabilities & change in them should be measured or calculated ,what information should be disclosed & how it should be disclosed & which financial statements should be prepared.



Silent features of GAAP

• To ensure uniformity : Accounting principles have been developed to ensure uniformity & easy understanding of the Accounting information or financial statements

• Accounting principles are man -made & flexible. They are not laboratory tested principles. They are simple guidelines based on experience, usage & observations over a period of time.

• Accounting principles are not final statements & thus not static. They are modified from time to time in view of the changes in business practices & the requirements of the users of accounting information. The general acceptance of accountancy principles depends upon how well they meet the three conditions of relevance, objectivity, feasibility

Institutions that influence Indian GAAPs

Many institutions influence the development of accounting principles followed by the accountants in the preparation & presentation of financial statements in India. These include the following: Institute of Chartered Accountants of India (ICAI); the Department of Corporate Affairs (DCA), The Securities & Exchange Board of India; The Central Board of Direct Taxes (CBDT), The Reserve Bank of India (RBI) & The Comptroller & Auditor General (CAG) of India. In addition, the accounting bodies like Financial Accounting Standard Board U.S.A International Accounting Standard Board (IASB) etc., also exert major influence in the development of accounting principles in India.

IFRS

IFRS are a set of International accounting standards stating how particular types of transactions and other events should be reported in financial statements .IFRS are issued by the International Accounting Standards Board & they specify exactly how accountants must maintain & report their accounts .IFRS were established in order to have a common accounting language, so business & accounts can be understood from company to company & country to country. The point of IFRS is to maintain stability & transparency throughout the financial world.

IFRS are standard in many parts of the world, including the European Union & many countries in Asia & South America, but not in the United states.

IFRS are sometimes confused with International Accounting standards (IAS), which are the older standards that IFRS replaced.

The goal with IFRS is to make international comparisons as easy as possible. This is difficult because to a large extent, each country has its own set of rules, for example. US GAAP are different from Canadian GAAP.

The IFRS include:

International financial reporting standards (IFRSs) -developed by the IASB;
International Accounting standards (IASs) - adopted by the IASB
Interpretations originated from the international financial reporting interpretations committee (IFRICs) and standard Interpretations committee (SICs)

LIST OF REPORTING STANDARDS & INTERNATIONAL ACCOUNTING STANDARDS

S.no	Title
IAS 1	Disclosure of accounting policies
IAS 2	valuation of inventories
IAS 3	Consolidated financial statements
IAS 4	Depreciation accounting
IAS 5	Information to be disclosed in financial statements
IAS 6	Accounting responses to changing prices
IAS 7	Cash flow statements
IAS 8	Changes in accounting estimates & errors
IAS 9	Accounting for research & developments activities
IAS 10	Events after the reporting period
IAS 11	Construction contracts
IAS 12	Income tax
IAS 13	Presentation of current assets & current liabilities
IAS 14	Segment reporting
IAS 15	Information reflecting the effects of changing prices
IAS 16	Property, plant and equipment
IAS 17	Leases
IAS 18	Revenue
IAS 19	Employee benefits
IAS 20	Accounting for government grants
IAS 21	The effects of changes in foreign exchange rates
IAS 22	Business combinations
IAS 23	Borrowing costs
IAS 24	Related party disclosures
IAS 25	Accounting for investments
IAS 26	Accounting & reporting by retirement benefit plans
IAS 27	Separate financial statements
IAS 28	Investment in associates & joint ventures
IAS 29	Financial reporting in hyper inflationary economics
IAS 30	Disclosures in the financial statements of banks
IAS 31	Interest in joint venture
IAS 32	Financial instruments presentation
IAS 33	Earning per share

IAS 34	Interim financial reporting
IAS 35	Discontinuing operations
IAS 36	Impairment of assets
IAS 37	provisions, contingent liabilities & contingent assets
IAS 38	Intangible assets
IAS 39	financial instrument: measurement
IAS 40	Investment property
IAS 41	Agriculture
IFRS 1	International financial reporting standards
IFRS 2	Share based payment
IFRS 3	Business combinations
IFRS 4	Insurance contracts
IFRS 5	Non -current assets held for sale & discontinued operations
IFRS 6	Exploration for and evaluation of mineral resources
IFRS 7	Financial instruments disclosures
IFRS 8	Operating segments
IFRS 9	Financial instruments
IFRS 10	Consolidated financial statements
IFRS 11	joint arrangements
IFRS 12	Disclosure of interest in other entities
IFRS 13	Fair value measurement
IFRS 14	Regulatory deferral accounts
IFRS 15	Revenue from contracts with customers
IFRS 16	Leases

GAAP VS IFRS

GAAP (US Generally Accepted Accounting Principles) is the accounting standard used in the US, while IFRS (International Financial reporting Standards) is the accounting standard used in over 110 countries around the world.

GAAP is considered a more “rule based" system of accounting, while IFRS is more “principles based".

COMPARISON

GAAP	IFRS
Standard guidelines & structure for typical financial accounting.	universal financial reporting method that allows international businesses to understand each other & work together.
Performance elements:	
Revenue or expenses, assets or liabilities, gains, losses, Comprehensive income.	Revenue or expenses, assets or liabilities.

Required documents in financial statements:

Balance sheet, income statement, statement of comprehensive income, changes in equity, cash flow statement, footnotes.	Income statement, change in equity ,cash flow statement, footnotes.

Inventory estimates:

last in first out; first in , first out or weighted average cost.	First in, first out or weighted average cost.

Underlying assumption:

The going concern assumption is not well developed in the US GAAP framework.	IFRS gives prominence to underlying assumption such as accrual & going concern.

Definition of an asset:

The US GAAP framework defines an asset as a future economic benefit.	The IFRS framework defines an asset as a resource from which future economic benefit will flow to the company.

CONCLUSION

Impact on financial statements

Both GAAP & IFRS aim to provide relevant information to a wide range of users. However GAAP provides separate objectives for business entities & non- business entities, while the IFRS only has one objective for all types of entities.

How IFRs impacts US Companies

While US companies use GAAP & do not directly use IFRS for their SEC filings, IFRS nevertheless impacts them. For example, in case of global mergers & acquisitions, when they have non US subsidiaries or non US - stakeholders like investors, customers or vendors. In several such instances, US companies may be required to provide financial information in line with IFRS Standards.

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