Research, discuss, and explain five differences between GAAP (Generally Accepted Accounting Principles) and IFRS (International Accounting Standards Committee). Analyze the accounting implications with examples. Give proper references.

US GAAP is the defacto global gold standard of accounting oversight practices. According to the textbook’s author, GAAP is being phased out and replaced with IFRS. (Harrison, 2013) Harrison appears to be a fan of this globalization effort, promising to regale us with its intimate details throughout his overpriced textbook. Meanwhile, a clear majority of accounting firms and accountants I’ve read in researching this topic are willing participants at the very best and downright outraged at the prospects of IFRS more and more as its failings and the scramble to keep it relevant while allowing government intrusion in business become apparent. There is real resistance to the IFRS’ principles-based standards, which would dispose of decades of hard-won precedent and compliance criteria that make expectations clear and show government and oversight entities where to get off the back of a company. The only way forward, it seems, is for the IFRS to adopt GAAP particulars, and the chairman, Hans Hoogervorst, typical of modern bureaucrats, appears unwilling to release his dogmatic grip on purely principle-based standards that give all power to government (and thereby his regulatory agency).

According to Hoogervorst, “material improvements will require behavioral change to ensure that financial statements are regarded as tools of communication rather than compliance.” (Tysiac, 2013) So this is a sociology experiment, and Hoogervorst has wrapped himself in sheep’s clothing and appointed himself over all who will comply; demanding that government be in “communication” with (read: overseeing, as in fascism) business accounting practices.

Americans are trying to do business in free markets, and do not desire communication with government unless it fits within their business model. They want to give to Ceasar what is Ceasar’s, and get on with their private lives. This is a fundamental difference between the rest of the world and America – we own our government. Hoogervorst comes from a background where he is a subject of his government. It rules him. Ours does not rule us. It does not, according to our 4th, 9th and 10th Amendments, belong in our business.

People in the rest of the world, living in more or less collectivist squalor and being dragged along on the coat-tails of the relatively thriving capitalist US economy, know nothing but government dominance, and are therefore happy to have a government official assigned to “communicate” with them. Most Italians never saw Mussolini coming, either. And many American collectivists and would-be fascists applauded Il Duce.

The net effect of IFRS-style principles-based standards is that their ambiguity favors government, who will eventually dictate what is acceptable or not arbitrarily and capriciously at the whim of auditors. This may be acceptable in the 113 or so countries who have adopted some portion of the IFRS (Nobody has adopted the organization’s policies completely, though that is rarely reported.), but will surely see more resistance in the USA. The problem is that oversight entities get to decide what is right and not, allowing them to favor or disfavor individual businesses or models that appeal personally to the inspector or auditor one way or another. This has been working great for the IRS lately in the US.

Accountancy oversight, in the US, already has a name and a face, being the United States Securities and Exchange Commission. US Constitutional sovereignty will not allow legal oversight of US businesses by foreign or unelected officials. Nobody seems to have an answer to how policing will be done, even if crossing the beams to convergence can be completed and a unified international standard of appropriately vague substance is adopted. In short order after the acceptance of such a thing in the US, the next Dark Ages will ensue – though it will be called Utopia by the perpetrators. (More, 1516)

The IFRC affects a broad spectrum of accounting practices, measurements, and reporting procedures and is far too complex to cover in a simple essay. Many are benign and most do not constitute crossing swords with the GAAP, so this paper will not cover those. However, some remain subject to abuse due to their being manipulated globally already, as in the case of software maker Autonomy hiding from the ineffectual Revenue Recognition standard (government overseers cannot swoop into full fascist mode yet while they are still peddling the rope with which to hang businesses in the big market of the US), in the UK in 2012. (Aubin, 2012)

Five of the differences that are still being worked out will be mentioned below are Leases, Revenue Recognition, insurance contracts, investment entities, and hedge accounting. These remain sticking points in achieving “convergence” or the melding of the GAAP and early iterations of IFRS.

Leases are an area where the IASB has determined companies are retaining off-balance sheet assets and revenues. In an effort to quantify lease activities as part of businesses, the IFRS is being “exposed” for comment this summer of 2013, anticipating receiving input that will allow the board to compose meaningful standards for reporting lease activity. (IFRS) (This means they are making this up as they go along, probably with interest of capturing business activity on which to apply Value Added Taxes for governments who can’t find enough things to tax already.)

Revenue Recognition is an area of present study for the IASB. Their goal is “creating identical standards on revenue recognition that clarify the principles that can be applied consistently across various transactions, industries and capital markets.” (IFRS)

Insurance is yet another area where the IASB is attempting to re-invent a wheel in order to avoid using long-standing proven FASB language. There is a real scramble going on this summer of 2013 to see if an Exposure Draft can generate enough coherent commentary that they might cobble together some form of standard in order to move forward with convergence. (IFRS)

Investment Entities are an interesting area, where the FASB has a functioning standard for accounting practices but the IASB had only an exemption from consolidation on their books. It appears the IASB is willing to adopt FASB language here, giving up this inch of real estate probably in the interest of getting the larger camel’s nose under the tent. (IFRS)

Hedge Accounting is an area where the FASB has not placed specific rules in GAAP, but the IASB has distributed a draft of regulation intended to evaluate risk management activities. The FASB has requested comments from stakeholders on this draft and may or may not choose to act on the results. (IFRS)

In conclusion, it is important to keep abreast of current developments. In its recent newsletter, Eisner Amper’s Eric Altstadter, CPA, explains the migration, or non-migration, as it were, to IFRS thusly:

*“In fact, it is no longer clear that the SEC will recommend the adoption of IFRS for U.S. public companies.   In July of 2012, the SEC released the final installment of a series of staff reports on IFRS.  While the report concluded that the standards of the IASB were of a high quality, it questioned the funding of the IASB and the timeliness of responses to accounting issues and stated adoption would be costly for U.S. public companies.” (Altstadter, 2013)*

To this uneducated observer, this indicates that the US Securities and Exchange Commission sees the obvious failings of the IASB. Recognizing that the explicitly-stated objective free market-enabling oversight mechanisms are more reliable and predictable, and therefore more profitable to business, are a better producer of government revenues than subjective more-easily manipulated models.

Resources:

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