Journal of International Business and Law

Volume 16 | Issue 2 Article 7

3-1-2017

An Economic Comparison of U.S. GAAP and IFRS

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ABSTRACT

For the past 30 years, experts and researchers in the accounting profession have debated over high quality standards for financial statements. Ultimately, the most popular are IFRS and U.S. GAAP. Differences between these two standards are seen in all the risky and highly used accounts. Right now, the accounting profession recognizes these differences and reports based on if the country is regulated by the FASB or the IASB. These two standards eventually need to converge in order for the global economy to flow more efficiently. However, convergence will take time until the standards can yield the same outcome.

INTRODUCTION

"The desire to become global players and be part of the globalization movement has lead businesses across national boundaries to realize that it is an astute business strategy to embrace the world as their workplace and marketplace" (Mirza, & Nandakumar, 2013 p. 3). The global marketplace is growing at an exceptionally high rate. In order to succeed in the marketplace, all businesses must adhere to the financial accounting standards set in place by governing agencies so financial statements represent the company or business fairly. Financial Accounting (FA) is important because it provides necessary information to third party users of financial statements such as creditors and stockholders (Wolozyn, 2014). Stockholders and creditors use this information in making business decisions for their own agendas. Overall, that is why having high quality accounting standards is important to the continuing success of businesses worldwide.

An argument for one accounting standard over the other has to do with how mandating specific standards have an effect on the economy and those who use the statements in his or her own business. For example, the United States has used the Financial Accounting Standards Board (FASB) as its accounting reporting standard agency. Compared to the European Union, which reports regulations on statements from the International Accounting Standards Board (IASB). These two boards debate and advocate for what exactly is the proper way to account and conduct business transactions throughout the world. Companies can now do business worldwide easier than ever before making for the need to standardize reporting standards on financial statements. These standards have a direct effect on the success of businesses globally.

This topic of Accounting Quality is a growing trend in research. The Major international Accounting firms have all researched this topic extensively. Ernst and Young (EY) for example, has outlined a history of IFRS from its beginning stages, to talk about convergence with U.S. GAAP. PricewaterhouseCoopers (PwC) and Grant Thornton (GT) have not only identified the key factors of the reporting standards that are familiar but also key factors that oppose each other. This is important to note because of the effect that these standards not only have on the global economy, but on the accounting profession as well.

As previously mentioned, the United States of America uses the Generally Accepted Accounting Principles (GAAP) created and regulated by the FASB, while other parts of the world use the International Financial Recording Standards (IFRS) created and regulated by the IASB. These differences in standards include but are not limited to accounting for: revenue recognition, inventory, leases, income taxes, and pension planning. These are some of the most used and risky accounts. Therefore, because of these differences in accounting, the need to standardize and converge regulations has been a major topic that is up for more debate.

More evidence suggests that the U.S. GAAP should converge with IFRS to be the overall global accounting standard. This is mainly due to the increasing popularity of IFRS in the global marketplace. The United States is reluctant to depart from the GAAP because of the standard's reputation of high quality accounting. "Until the Board amends existing standards, the Board expects practice to be governed by the accounting principles embodied in the four levels of the hierarchy (GAAP)" (FASB, 2015, p.6). Efforts are currently being made to converge these two reporting standards entirely.

When deciding what the best standards are for the best quality financial statements, experts argue the difference between principle based accounting and rules based accounting. IFRS follows a "principles based" approach, whereas, U.S. GAAP follows a strict "rules based" approach. The principles based approach has implications for individual opinion and interpretation because the guidelines are based on accounting principles and not strict rules (Mirza, & Nandakumar, 2013, p.4). Contrary to this, when opting for a rules based approach to investigating and preparing financial statements, such as those used in U.S. GAAP, there is little to no room for individual changes and all opinions and interpretations must not depart from the way that the reporting standard dictates (Zarb, 2006, p. 32). This is one of the arguments for not switching over to IFRS wholeheartedly, and instead creates efforts to converge.

More international firms have elected to implement IFRS, because of the growing global recognition of the principles-based approach to accounting. The experts agree more with the standard because it is believed to prepare the statements in a more effective and efficient way. (Mirza, & Nandakumar, 2013, p. 9). "IFRS is making an impact on the international scene; it has been endorsed by the international organization of security commissions (IOSCO) and mandated for consolidated financial reporting in the European Union (Zarb, 2006, p. 30). With the endorsement from the international community, convergent efforts with the United States are almost inevitable.

Even with IFRS being the more popular standard across the world, the United States finds that U.S. GAAP is the better quality accounting standard. There are two reasons for the dependence on the standard: the rules based approach, and United States global financial influence. The standard provides the foundation for the reliability of U.S. financial markets (Zarb, 2006, p. 31). The U.S. reliance on the rules using GAAP is one of the main reasons why the United States is hesitant to converge the most. The standards are seen to have the best quality because of most severe and strict rules (Zarb, 2006, p. 31). These regulations in the U.S. must be adhered to and are often checked by 3rd parties such as auditors. Auditors observe and report that the statements follow GAAP standards. For instance, all independently audited financial statements must state that the financial statements follow GAAP. The Introduction to all audited statements says: "In our opinion, the financial statements present fairly in all material respects, the financial position of [insert company here] and the results of their operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America" (Arens, Elder, & Beasley, 2014, p. 49). All audited financial statements include the independent auditors' opinion on the overall fairness of the financial statements. Which is important for all internal and external users of the statements to make important business decisions.

The United States is one of the most economically driven countries in the world. Many companies both foreign and domestic do business in the United States. This is part of the reason that the Generally Accepted Accounting Principles are extremely important to accountants and auditors across the U.S. (FASB, 2015, p.4). The United States can have an influence on the global standards because of the country's lead in the stock market and because of the country's lead in the global economy (Zarb, 2006, p. 30). "Undoubtedly for years U.S. GAAP led this international race to qualify as the most acceptable set of accounting standards worldwide" (Mirza, & Nandakumar, 2013, p. 10). This reliance of domestic and foreign firms on U.S. GAAP is what makes the approach so difficult to converge. Throughout history, American accountants and the SEC, have endorsed U.S. GAAP as having the highest quality (FASB, 2015, p. 6). "The Federal Accounting Standards Advisory Board's (FASAB or "the Board") conceptual framework enhances the consistency of standards and serves the public interest by providing structure and direction to federal financial accounting and reporting" (FASB, 2015, p.6). This framework is what gives U.S. GAAP its reputation across the world, and also what drives debates with IFRS and other foreign standards.

REVENUE RECOGNITION

Reporting revenue is an imperative transaction that must be completed by every company in the world. Revenue can be recognized either on an accrual basis or cash basis in U.S. GAAP and IFRS. In other words, this is when all earnings are completed and assets from sales of goods, sales of services, or other collections from 3rd parties, can be recognized on the statements (Ernst&Young, 2013, p. 39). In IFRS "Revenue encompasses only the gross inflow of economic benefits received or receivable by the entity on its own account" (Epstein, & Jermakowicz, 2010, p.199). Both U.S. GAAP and IFRS have similar guidelines to reporting revenue and income. Both standards are similar because both base reporting income on when the "earnings process is complete" (Ernst&Young, 2013, p. 39).

Recognizing revenue for service is a complex process that involves intricate timing and preparation. Timing is key in service revenue recognition because of the various lengths of service compensation. Also, at what point of the service completion should the monies spent or earned, be recognized. U.S. GAAP has three common methods used to recognize service revenue: specific performance method, proportional performance method, and completed performance method (Grant Thornton, 2015, p. 68). Whereas, IFRS recognizes revenue as a "reference to the stage of completion at the end of the reporting period when the outcome can be reliably estimated (Grant Thornton, 2015, p. 68). These differences are slight but the ultimate difference between the two standards is when the revenue from the service provided should be recorded.

The sale of goods has different revenue recognizing mechanisms under both U.S. GAAP and IFRS. For U.S. GAAP "Under ASC 605-10-25-1 revenue is recognized when it is earned, and realized or realizable" (Grant Thornton, 2015, p. 68). In other words, once it is certain that revenue is "earned" meaning that the company fulfilled its obligation for the sale, than the revenue is recorded in the journals. This includes both sales in cash and sales on account. In contrast, IFRS has certain and specific conditions that have to be met in order for revenue to be recognized on the sale of goods. Some examples of these specific conditions are: First, Full responsibilities including risks of ownership are transferred to the consumer. Second, the seller no longer has management over the goods sold, amount of revenue is reasonably measured, seller receives economic benefits, and costs are measured (Grant Thornton, 2015, p. 68). While both U.S. GAAP and IFRS recognize the sale of goods had occurred, these standards also take into consideration the timing of transactions.

IFRS and U.S. GAAP have yielded different results for net income. One example of this comes from a study that was done by Elaine Henry, Stephen Lin and Ya-wen Yang of the American Accounting Association. The researchers used data from IFRS-reporting EU companies that had U.S, listings as subsidiaries. Other information came from available 20-F reconciliations for these companies over the years 2004-2006. The study was able to evaluate approximately 75 companies, which collectively over the two years had enough data to account for 225 years. The researchers attempted to test converging efforts to have a quantitative analysis on U.S. GAAP and IFRS. The conclusion was that equity decreased with the convergence, and net income was different sensitive to the choice of measurement (Henry, Lin, & Ya-wen, 2009, p. 123). "Using IFRS allows most of the companies in our sample to report higher profitability than would be the case under U.S. GAAP, and that the differences are value relevant, although results appear somewhat sensitive to model specification" (Henry, Lin, & Ya-wen, 2009, p. 124). The relevance of this study provides evidence that there is a numerical difference in net income between IFRS and U.S. GAAP.

Efforts to converge standards for income and revenue recognition are well underway. In May 2014, FASB and IASB issued "Revenue from Contracts with Customers" a guideline of convergence between the two standards (PricewaterhouseCoopers, 2015, p. 3-2). According to Grant Thornton, IFRS and U.S. GAAP are essentially converged with just a few exceptions (Grant Thornton, 2015, p.64).

INVENTORY

Every manufacturing company has to consider inventory valuations that are within the company's best interests. IFRS and U.S. GAAP have different methods of accounting and valuing inventory. The contrast comes from the valuation of inventory. In other words, cost, timing and overhead of goods a firm sells. Both reporting standards have preliminary controls of evaluating inventory. Some examples include first in first out (FIFO), weighted average, specific identification or last in first out (LIFO). One of the major conflictions of inventory accounting under these methods, is that LIFO is not allowed under IFRS. Ultimately however, the best option for inventory accounting depends on the firm's business and how often inventory is turned over.

To fully understand how inventory valuation works, its important to grasp the way inventory appears on the balance sheets. Under both IFRS and U.S. GAAP, firms have the option to elect the perpetual inventory system or the periodic inventory system. Both these systems check inventory during each period of the year. The difference between the two is in how the inventory is evaluated. The perpetual method keeps a running balance of inventory as time progresses (Epstein, & Jermakowicz, 2010, p. 176). The periodic method requires a physical count of merchandise and attaches a value to it (Epstein, & Jermakowicz, 2010, p.176). In most cases, the perpetual inventory system is often more popular among firms and auditors because this inventory system is the most efficient and the most cost effective (Margiasso, 2011).

The provision under IFRS in IAS 2, explains how inventory is to be capitalized under IFRS. IFRS Inventory valuation is different than U.S. GAAP's interpretation. IFRS uses the "lower of cost or net realizable value" rule to determine the carrying value of inventory (Gray, Spencer, & Pumphrey, 2015). The net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs of necessary to the sale (IAS 2, 2012). Additionally, IFRS states that the primary basis for inventory accounting is cost. "Cost is defined as the sum of all costs of purchase, costs of conversion, and other costs incurred in bringing in the inventories to their present location and condition" (Epstein, & Jermakowicz, 2010, p. 182). Individuals can determine cost of goods sold in this standard which is consistent with principle-based accounting.

U.S. GAAP values inventory using the lowest cost method (Grant Thornton, 2015, p. 48). The difference from IFRS is in the terminology, however, the market makes up for that difference operationally (Epstein, & Jermakowicz, 2010 p.195). Furthermore, when comparing the lowest cost methods of U.S. GAAP and IFRS, U.S. GAAP does not allow for replacement costs of inventory to exceed net realizable value (PricewaterhouseCoopers, 2015, p. 6-21). This slight difference in standards can have an overall effect on the statements, because of the value of inventory in stock and the timing of when goods in stock are sold. Therefore, these differences can lead to a variance in Cost of goods sold and net income.

In the past, firms elected to use FIFO, weighted average, specific identification or LIFO methods for costing inventory. U.S. GAAP accepts these so long as the firm does not change its inventory method within the same period (Margiasso, 2011). Most firms implement FIFO, which refers to when unsold units on hand, at the date of inventory, are assumed to be valued at the most recent cost (Margiasso, 2011). In addition, others implement the weighted average method, which multiplies, weighted average per unit, by the number of remaining units. FIFO portrays the most realistic figure of ending merchandise inventory in the current asset section of the balance sheet and is most widely used (Margiasso, 2011).

U.S. GAAP allows LIFO for tax purposes because of the discrepancies between U.S. GAAP rules and tax laws allow this method in practice (PricewaterhouseCoopers, 2015, p. 6-2). "Typically, companies using LIFO tend to have lower tax expenses, but they also have lower financial income. A change in inventory methods can affect the company's taxable income" (Krishnan & Lin, 2012). Historically, firms had the option of using any of the three inventory levels FIFO, LIFO and weighted average. The economy is steering away from LIFO. "FIFO and weighted-average cost are now the only acceptable cost flow assumptions under IFRS" (Epstein, & Jermakowicz, 2010, p. 177). IFRS does not endorse nor support LIFO because IFRS does not believe that LIFO fits the standards. (Epstein, & Jermakowicz, 2010, p. 177). LIFO is decreasing in use because of the lowest income tax, and it is not a fully accurate figure of inventory.

LEASES

Companies lease assets on a regular basis. Some examples of popular everyday leases are: cars, apartments or any other long-term assets that fall under the Plant, Property and Equipment asset categorization. Leases are both accounted for under IFRS and U.S.

GAAP. "A lease is the right to use an asset for a specific period of time in exchange for cash or other consideration" (Shamrock, 2012, p. 59). There are two known types of leases: Capital [finance under IFRS] and operating leases. First, "a capital or finance lease requires the entity to record an asset and liability for the present value of the obligation" (Kamlet, 2015). In other words, all recording for leases of this type are recorded at the value of the lease at the time the lease arrangement was made. In addition, an operating lease is typically what most of the public thinks of when a lease is involved. For example, using a temporary asset such as renting an apartment for a specific period of time (Kamlet, 2015). All leases are accounted for in the period during which they are used and in the period in which the expense has occurred.

In lease agreements, there is always a lessee and a lessor. The lessee is the party who is using the asset. The lessor is the party who is physically leasing the asset (Kamlet, 2015). Both IFRS and U.S. GAAP have implications and guidelines for these two parties to follow, for recognizing revenues and expenses from the lease (Ernst & Young, 2013, p. 32). The lessee "bears substantially all the risks and rewards of ownership of the leased property to recognize a lease asset and corresponding obligation (Ernst & Young, 2013, p.32). That is to say, the lessee practically owns the asset. Comparably, the lessor accounts for rent expense and revenue similar to how the lessee would account for these amounts. However, "if a lease is sales-type/direct financing (finance) lease, the leased asset is replaced with a lease receivable" (Ernst & Young, 2013, p. 32). In summary, accounting for leases can be complicated for both the lessee and the lessor due to reporting requirements and classifications.

One of the most important parts of lease accounting is timing, i.e. how long the lease is and how payments for the lease are divided. "The objective of financial reporting under both IFRS and US GAAP includes enabling the user of the financial statements to assess the amount, timing, and risk of cash flows" (Shamrock, 2012, p. 59). Timing is very particular because of the different periods where rent expense and rent revenue can be recorded.

Leases sometimes can elect to use the bargain renewal option. This option gives the lessee the option to renew the lease at a bargain rate or the lessee can buy the entire asset at a bargain rate and all rights of full ownership will be turned over to the lessee (Kamlet, 2015). Distinguishing leases under IFRS and U.S. GAAP are not very different. Under IFRS, when land is involved, this is classified as a capital lease. Under U.S. GAAP the building elements and land are considered separately when evaluating all indicators (Grant Thornton, 2015, p. 33). This option for the sale of leases is a very popular practice for businesses.

INCOME TAXES

IFRS and U.S. GAAP differ on various income tax related processes. Ernst and Young, one of the Big Four Accounting firms, explains some examples of the various guidelines that both follow. These include: tax basis, uncertain tax positions, taxes on intercompany transfers, initial recognition exemption, recognition of deferred tax assets, and classification of deferred tax assets and liabilities (Ernst & Young, 2013, p.35-36). Income taxes can be complex in both IFRS and U.S. GAAP because sometimes tax laws and financial accounting standards do not match. Income tax expense is accounted for in both IRFS and U.S. GAAP. It is critical to recognize this expense on statements because of the overall effect on net income. "Income tax expense is equal to the current tax expense (or recovery), plus the change in deferred taxes during the period" (Grant Thornton, 2015, p. 59). Income tax expense has both current and deferred tax consequences of events and transactions already recognized (Kamlet, 2015).

To account for income taxes, the first step is to recognize the difference between deferred tax assets and deferred tax liabilities. Deferred tax assets check with future deductible amounts where, the future tax consequence of a temporary difference will be to decrease taxable income relative to accounting income. The result is taxable income being higher now than later. "The FASB balance sheet approach to deferred tax liabilities makes it so that the tax liability is the tax effect of the temporary difference between the financial statement-carrying amount of an asset or liability, and its tax basis. The original value for tax purposes reduced by any amounts included to date on tax returns" (Kamlet, 2015). In other words, deferred tax liabilities allow companies to defer paying tax and the tax is put as a liability on the balance sheet for the company to pay back later (Kamlet, 2015). Deferred tax assets and liabilities are what can make convergence and debate between accounting reporting standards more complex.

Additionally, temporary and permanent differences in tax law are also important to note. The differences change how "income taxes payable" shows up on balance sheets and income statements. Temporary differences are the differences between the reported amount of an asset or liability, in the financial statement, and its tax basis (Kamlet, 2015). Permanent differences do not affect the deferred tax calculation and only affect tax computation. These differences affect GAAP income but never taxable income, and thus, have an overall net effect on income statements and balance sheets (Kamlet, 2015). IFRS and U.S. GAAP are very different in terms of income tax accounting. There may be plans in the future for convergence between the two standards. Presently however, "The Boards have abandoned plans for a joint convergence project" (Ernst & Young, 2013, p.36). This is mainly due to differences in laws of tax in countries and regulations of reporting for these taxes on the financial statements.

POST RETIREMENT BENEFITS

PricewaterhouseCoopers conducted research on the differences between the way that IFRS and U.S. GAAP record and regulate postretirement benefits. "There are key differences with regards to cost recognition and presentation" (PricewaterhouseCoopers, 2015, p. 5-2). Pensions and post-retirement benefits are significant in every major corporation, big or small. Employers use postretirement plans as incentives for employee performance. Companies typically offer a Defined Benefit or Defined Contribution plan for their employees. In a defined benefit plan the employer promises to pay the employee a fixed amount of money each month. In a defined contribution plan, the employer promises to set aside a certain amount of money each year the employee works for the employer, for investment or an employees' benefit.

When deciding on postretirement benefits for employees, employers have the option to go with either of the defined plans. Some companies will decide to go with the defined benefit plan however this plan is often way more expensive than other plans because the employer bears all the risk of the employee's retirement. "The defined benefit obligation is the present value of benefits that have accrued to employees through services rendered up to that date, based on actuarial methods of calculation" (Ernst & Young, 2013, p.43). In other words, employers promise to pay employees a certain amount of money when he or she retires based off the years of service that particular employee put in. To put this in monetary terms, actuaries often use algorithms to predict a person's longevity. Different methods are required depending on the characteristics of the plan's benefit formula. IFRS projected unit credit method is required in all cases (Ernst & Young, 2013, p.43). These plans can become extremely expensive and can often leave firms in great debt (Kamlet, 2015). More companies are electing defined contribution plans for their employees. Some examples of defined contribution plans are a 401k or a Roth IRA. In a defined contribution plan, employees bear more of the risk of pension planning. Employees and employers both contribute to the retirement fund and the money invested grows tax free until taken out. These plans are very popular among people who are employed by the companies that use both U.S. GAAP and IFRS (Kamlet, 2015).

All post retirement plans are accounted for by service cost. For instance, how long an employee has worked for the company. Under IFRS, all prior service costs (positive or negative) are recognized in profit or loss when the employee benefit plan is changed. These costs can't be spread over any future service period. This is different from US GAAP, under which, "prior service cost is recognized in OCI at the date the plan amendment is adopted and then amortized into income over the participants' remaining years of service, service to full eligibility date, or life expectancy, depending on the facts and circumstances" (PricewaterhouseCoopers, 2015, p. 5-2). These major differences can facilitate variances in companies where the standards yielded income is different. Therefore, converging for these plans is a major challenge all experts are working to change.

CONVERGENCE EFFORTS

U.S. GAAP and IFRS are coming closer to being completely converged. The idea of convergence has been discussed since 1973 with the founding of IASC (Ernst & Young, 2013, p.50). "Efforts to converge accounting standards, the increasing mandatory use of IFRS throughout the world, the development of international auditing standards, and the increasing coordination of international securities market regulators have increased comparability of accounting amounts" (Barth, Landsman, Lang, & Williams, 2012, p. 68). The IASC is now the IASB and has representatives from 13 sovereign nations (Lam, 2015, p. 19). Experts on this board research and consolidate ideas from countries on how to account for the important transactions in everyday businesses. This board prides itself on creating worldwide reporting standards that bring the highest quality to the accounting profession.

In recent history, U.S. GAAP is becoming more accepting of IFRS standards, becoming less reluctant on change, and is now creating efforts to converge standards. The IASB has been gaining more influence worldwide with quality accounting standards. "The greatest success for the IASB in 2000 was perhaps that the European Commission proclaimed that members of the European Union must switch to adherence of IFRS by 2005" (Lam, 2015, p. 19). The European Union has the largest influence in the IASB because of the predominance in the international markets, and since many U.S. firms work closely with the European Union.

U.S. GAAP is very important to domestic markets in the United States. Investors believe that this standard helps create the most accurate and highest quality statements for its external users. The United States is very reluctant to change these standards and converge internationally (Zarb, 2006, p. 30). The "SEC explained that requiring US public companies to report in IFRS was a highly significant decision that it would not make unless it was certain that doing so was the best move for investors and companies involved (Mirza, &

Nandakumar, 2013, p. 10). In other words, the SEC would not converge wholeheartedly unless all the research was done on the economic effects of the standard and in addition, the quality of information that the standard relays. The SEC especially believes that these regulations have to represent the highest quality available to users.

The SEC's main issue with IFRS is the question of quality and interpretation. The question at hand is if it better to mandate IFRS or to simply run a trial (Ahmed, Neel, & Wang, 2013, p.1344). "The effects of mandatory IFRS adoption on accounting quality critically depends upon whether IFRS are of higher or lower quality than domestic GAAP and how they affect the efficacy of enforcement mechanisms" (Ahmed, Neel, & Wang, 2013, p.1344). Essentially how different are the financial statements of mandated IFRS companies than the companies who implement and use U.S. GAAP. "The effect of IFRS on accounting quality is an empirical question" (Ahmed, Neel, & Wang, 2013, p.1344).

In contrast, countries who voluntarily adopt IFRS have a different approach on accounting quality. There is a distinct difference between those who voluntarily choose the standard and those who mandate the standard. For instance, "voluntary adopters choose to adopt IFRS and thus are likely to have stronger incentives to report higher quality accounting numbers" (Ahmed, Neel, & Wang, 2013, p.1344).

Forcing the standard on those who may or may not want it can cause the quality of accounting to decrease because of incentives and reluctance to change. The Norwalk agreement of 2002 was a turning point for U.S. involvement with convergent efforts. In the, "Norwalk agreement under the convergence project undertaken by FASB and IASB (through a memorandum of understanding), the two standard-setting boards agreed to merge their separate sets of standards into a single, high-quality set (Mirza, & Nandakumar, 2013, p. 9). This agreement allowed the boards to work collectively to ultimately create the best accounting standard worldwide. "The FASB and the IASB pledged to work together to make their current accounting standards compatible and maintain this relationship after convergence was achieved in order to maintain compatibility" (Lam, 2015, p. 20). This agreement was a major decision for both parties involved and continues to be discussed in recent times.

GLOBALIZATION

Due to Globalization, international accounting standards are debating over what the proper and overall best standard of financial reporting for the economy is and this begins with the convergence of GAAP and IFRS. The need for change began in 1997, as evidenced by a quote from the IASC, where it was stated that "there should be convergence between national accounting standards and practices and high-quality global accounting standards" (Zarb, 2006, p. 30). However, the United States has been very reluctant to converge and endorse IFRS (Zarb, 2006, p. 31). The United States feels it has a duty to protect domestic investors and the domestic stock market. According to Bert Zarb of the *CPA Journal,* "It is simply a sovereign right to continue to use a set of national standards that not only are high in quality and robust per se, but have earned the respect and admiration of being the most stringent in the world" (31). This reluctance to fully adopt standards can be seen as a setback because of the U.S. influence in the international market.

The global economy is dependent on accounting standards. Each country follows its own financial reporting standards whether that it be U.S. GAAP, IFRS or something else. The world is beginning to do more business globally because of the increased use of the Internet and also because traveling is significantly easier than ever before. When comparing standards, "the basic notion of comparability in the conceptual frameworks for financial reporting underlying IFRS and US GAAP is that accounting amounts are comparable if/when two firms face similar economic outcomes, the firms report similar accounting amounts" (Barth, Landsman, Lang, & Williams, 2012, p. 69). Having different outcomes can be deceptive for potential investors until then countries should continue to report in their respective standards so that the statements can be represented for all users interests. The standards can successfully converge if and when the amounts reported come out exactly the same.

The world is continuously getting smaller which aids in the movement towards globalization. Accounting for these international transactions can become increasingly tricky as different countries follow different reporting standards. "Cross-border financial transactions can contribute to the globalization of accounting as investors and firms in one country learn about accounting in another country in the course of engaging in financial transactions with actors in that other country" (Porter, 2005, p. 8). In other words, firms now have to be aware of accounting standards in the country where the firm does business. This can become a challenge for international firms because of the cost of financial regulation.

CONCLUSION

Extensive research is being done to decide if in fact IFRS and U.S. GAAP compare financially. Meaning, if the economic effects of the standards are the same. In relation to the economy of accounting standards, a study was done by Mary Barth, Wayne Landsman, Mark Lang, and Christopher Williams, esteemed professors of top US business schools. These professors used two approaches to the standard (69). First, the study tested if the comparability is greater when IFRS firms apply IFRS as opposed to non-US domestic standards. Secondly, the study tested a variety of mechanisms after the test was done to see if these adoptions of standards were the particular features of IFRS firms' financial reporting environment. The study concluded, "Regulators have increased comparability of accounting standards (69). Therefore, to create a more stable economy the accounting standards have to be standardized and converged".

For increasing financial reporting quality, most accountants want a merger between both U.S. GAAP and IFRS. An overall goal of converging the standards should be to "Allow the use of IFRS while not making either IFRS or U.S. GAAP mandatory" (Zarb, 2006, p. 32). In other words, U.S. GAAP in the United States for domestic transactions and IFRS for global transactions. The issue is that these two standards have a different effect on the economy since each has a different view of the financial statements. Some of these differences include: revenue recognition, leases, income taxes, and pension planning. However, the economy calls for a standard that is comparable on all aspects as seen in the study with Henry, Lin and Ya-wen, along with the professors of top business schools in the United States. Furthermore, efforts to be fully converged should be implemented and tested as soon as possible to keep the accounting profession at its highest reputation.

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