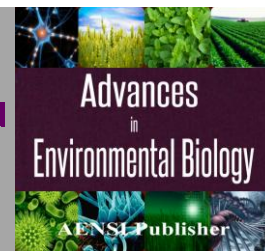




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The study of difference between international accounting standard (IAS) and generally accepted accounting principles (GAAP) of United States

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ABSTRACT

Recent studies indicate the continuous movement toward coordination of present standards, of course, not without difficulty and concern. Sometimes, pressure of financial and political market leads this movement in opposite direction. This article discusses about the theoretical framework used in developing universal generally accepted accounting principles (GAAP) (International Accounting Standards) and U.S. GAPP. Various examples of practice in both cases GAAP and US.GAPP have been presented and studied. References of some countries are the cause of difficulty in reaching to coordination. Inferences for coordinating accounting standards include the discussion "for" and "against" GAPP.

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INTRODUCTION

Generally accepted accounting principles (GAAP) is a term with frequent use in the practical accounting, financial reporting, and auditing and trade literature. Researchers differentiate between "small" and "large" accounting principles and other reference GAPP reference options like basics of accounting (OCBOA) and Statutory accounting principles (STAT/SSAP), auditing and using terms like generally accepted auditing standards (GAAS), which is similar to GAAP. In practice, products, services, and securities (capital or debt instrument) leads to accounting and financial reporting for analysis of results in order to use in planning and control and decision making. In order to improve the accuracy of accounting information and reliability and relevance, accountants use a set of literature or procedures and statements with valid support called GAAP [17]. However, GAAP changes from one county to another country, and often they are allowed for suggesting methods to treat same set of transactions. GAAP is not static, but it is a growing set of accounting knowledge in response to needs of business, configuring national, economic, social, cultural, political, and commercial history (productions and stocks).

2. GAAP theoretical framework:

Underlying principles of U.S and accepted accounting principles of international accounting standards (IAS) are a set of assumption, principles, concepts and treaties which are not GAAP in itself (17). However, they are vital theoretical framework for development of GAP and are used as a guide for accountants in order to resolve contradictions. In US and England, fundamental concepts are GAAP and IAS, historical finished price, conservatism, consistency, conformity (accruals), importance (priority of content to form), double recording, recognition and etc. (11). Researches show that in the case of concept conflict, precaution should be used along with conservatism (1).

One good example of using concepts based on IAS and US GAAP is golden rule of evaluating inventories (stocks) and application of caution. Golden rule states that inventories should be evaluated with the least finished price or salvage value according to the conservatism principle (17). Statements of financial accounting concepts (SFAC) are theoretical basis for US GAAP while IAS-1 includes concepts of IAS. Statements also define and describe suitable financial information characteristics (relevant and reliable), users of statements (internal and external) and recognition of basic accounting concepts (11).

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3. *Origin and development of GAAP:*

GAAP refers to the developed statements by suitable accounting groups and journals which have formal and valid support of a certain field (17). GAAP often is in the form of statement of financial accounting standards (SFAS), reports of financial interpretation (SFIN), accounting statements, statement of positions (SOP), accounting research publication (ARP), and financial reporting standards (FRS), standard statement of accounting principles (SSAP) or simple international reports and their publication is dependent upon the country, field or publication which published GAAP.

GAAP changes from one country to another regarding the resources, reference, allowed options and organization that publishes it. For example, US GAAP, GB GAAP, international accounting standards (IAS), German GAAP, Chinese GAAP, Canada GAAP and Mexican GAAP. Authorities of GAAP are usually financial accounting standards board or some national accounting boards like financial accounting standard board in US and Britain, accounting standard board (ASB), professional accounting institutions like AICPA, consultant committee of accounting board (CCAB) in Britain, international federation of accountants (IFAC), association of Australian accountants (ASCPA) along with ICAA are among qualified groups that participate in regulating accounting standards.

4- *Universal generally accepted accounting principles/ international accounting standards:*

International accounting standard board (IASB) has GAAP/IAS representatives in more than 91 countries (7). IASB accepted the standard setting from international accounting standards committee (IASC) in 2001 and promoted them with the aim of providing high quality standards which are applicable and convergent (20). IASB is consisted of lawyers, board, interpretation committee and consulting committee. Up to now, 41 IAS reports have been published.

Basic IAS reports, IAS-1, are fundamental concepts of accounting and treaties and how to present statements. Instances of concepts, importance, caution, consistency, historical finished cost, accruals and etc. generally, IAS is described as provider of set of low accounting standards and US GAAP is permissible for more options (8). International accounting standards have been used with unlimited authority in some scopes or as a solution for national accounting standard (8). For example, Ghana, Nicaragua, and other nations have accepted IAS as their GAAP while 87% of Australians believed that using IAS is reference with their national standards (8).

5. *US GAAP:*

Recently, FASB is the authority for publishing US GAAP in the form of financial accounting standards reports, financial interpretation of accounting standards (FIN), staff position (FSP), reports of formal accountants association from positions and interpretations, newsletters of accounting research and etc. Hierarchy of representing origin and authority of US GAAP is called GAAP organization (17).

Regarding the conflict between US GAAP, first, second and third levels of accepted accounting principles are superior to it. Keiso and Weygndt (2001) showed the US accounting profession structure from financial accounting association and financial accountant standards board and other societies.

6. *Similarities and differences of US GAAP and IAS*

Several researches have been conducted on the differences between US GAAP and IAS (19). Choi, et.al (2002) has summarized the differences between US and Britain and IAS, although standards are more similar than different. In addition, IAS and US GAAP are very similar in theoretical framework and transaction with related individuals, events after balance-sheet date, probable events, and stock. Financial ratios used for analysis of statements are very similar in IAS and US GAAP. Saveb (2002) mentions a certain country difference in the Japan banking industry. In this example, regulative accounting principles of Japan are conformed to accepted accounting principles about evaluating inventories. Still, company managers are free in selecting minimum finished cost or cost of market or historical finished method as accounting principles of company. Another example is about German banks. Financial accounting standard number 131 and IAS-14 describe requirements of financial reporting of sectors for factories. Homolle (2003) says: there are fundamental differences between IAS-131 and IAS-14 when using in US banking industry which should be adjusted with GAS-3 by GASC. In addition, GAS-3 was later completed with GAS10-3 "financial reporting for banks" in order to define certain banking guidelines for financial reporting (15). Using F-20 form (SEC) conform IAS to US GAAP. Researchers have defined the difference of technical terms between both methods which is seen in figure (1) (21).

6.1 *presenting statements/ revision:*

Accounting terms used by US GAAP and IAS are not always the same. Although the terms can be used in exchange, IAS intends to use British English, although American English is often used.

US GAAP	IAS terms/Britain
Loss and profit statement	Loss and profit accounts
Receivable accounts	Debtors
Payable accounts	Creditors
Financial lease	Capital lease
Reserving suspected accounts	Insurmountable accounts reserve
Stock inventory	Inventory
Common stock	Company common stock
Cash flow statement	Cash flow account statement
Debtors' confirmation	Received confirmation of debtors

Fig. 1: some differences between terms of US GAAP and IAS

Also statement and balance-sheet of US GAAP is presented by liquidity not consistency. For example, based on US GAAP, cash flow, receivable accounts and inventories are current assets which are shown according to liquidity. Base on international accounting standards, current assets are shown in reverse direction after fixed assets. Rational support of presenting based on liquidity in US GAAP is transaction capacity of assets or priority of payment to debts in insolvency/bankruptcy time (17). IAS logic for consistency is that a business is going and its insolvency is not predictable in future.

2.6 Assessing assets/properties:

Generally, assets, machinery, and equipments (PP&E) are evaluated with finished cost, current value, or fair value, depending on governing principles of accounting for financial reporting. In US, statement number 6, financial statements elements, requires that PP&E registered and depreciated with historical cost, except land which is not depreciated. US GAAP considered minimum finished cost or market value for some properties and assets in standard number 144.

IAS-16 requires historical cost and depreciation for PP&E but allows fair value evaluation for revision. This treatment reports values for machinery and equipments based on US GAAP and IAS which have different effects on the loss and profit and balance-sheet and users can take different financial decisions. Proponents of historical cost argue that fair value is exposed to manipulation and historical costs are valid basis for registering real transactions. Opponents historical cost consider it is outdated information which does not present reality.

3.6 Evaluating inventories:

Generally, inventory (stock) is evaluated depending on the IAS in a certain field with minimum price or market price. In order to estimate finished cost, US consider LIFO, FIFO, and AVCO as permissible methods but in Britain, LIFO is not acceptable. In addition, finished cost of inventory includes all incurred costs for bringing inventories to status quo. In this regard, US GAAP and IAS are very similar.

6.4 Goodwill and intangible assets:

Generally, non-bought goodwill is not considered as property in US GAAP and IAS because of non-transaction evaluation topic. According to TAS, purchased goodwill which is excess fair value of assets to purchase price, is depreciated, or revised in suitable lifetime (maximum 20 years). US GAAP has changed goodwill depreciation positions with 40-years coverage, in contrary with depreciation method. US GAAP requires that goodwill for defects should be revised according to limitations of caution. Other intangible assets can be appreciated according to IAS and US GAAP.

SFA142 "goodwill and other intangible assets" is the most recent declaration of financial accounting board for above-mentioned topic. IAS-38 "intangible assets" includes the position of IASB for goodwill and intangible assets.

5.6 Accounting changes:

IAS-8 "gross loss and profit, mistakes and changes in accounting" and IAS-16 "previous revisions" provide IAS and US GAAP, respectively. US GAAP considers the change in accounting, estimation, and correction necessary to resubmit comparatively. US GAAP and IAS are very similar in changing procedures and accounting estimations.

GAAP requires that changes in accounting estimation should influence in present and future period (21), but changes in accounting procedures should be retrospective and accumulated amounts presented in statements. Similarly, amending accounting mistakes should be treated as previous period amendment (PPA) and includes accumulated profit report. But IAS, in addition to comparative regulation and presentation, permits an approach for identifying any mistake in current revenue and disclosure. This approach leads to difference between reported profit based on US GAAP and IAS (19).

6.6 business combinations:

IAS-22 and IAS-141 “business combinations” provide accounting method for business combinations based on IAS and US GAAP, respectively. IAS permits using procurement and union of interest for insolvency. US GAAP permits procurement method based on IAS-141 but not union of interests. In using procurement method, goodwill is the difference between procurement price and sum of fair value of tangible assets. Goodwill is recorded in new company office (IASB 2001) based on union of interests for merged companies and goodwill will not be registered. Union of interests’ method is preferred because of its effects on the profit reported by the company (19). According to union of interest method, assets are registered with their book and historical value which is usually lower than market fair value and this amount leads to lower amount of depreciation cost and higher amount for profit (19).

6.7 unexpected items and stopped operation:

IAS-35 “stopped operation” obliges accountants to presenting details of stopped operation and disclosure in the case of loss and profit and stopped operation of loss and profit before tax. US GAAP requires that loss and profit of stopped operation or loss and profit of selling stopped operation presented separately after reducing tax. In addition, US GAAP requires that unexpected items classified under the “unexpected items” and presented after tax. Examples of unexpected items include losses caused by natural disasters like earthquake or seizure of property by foreign government. IAS requires disclosure of operation or events which are rare and out of management control as unexpected items (16). Similar examples of unexpected items were stated by IAS. According to IAS and US GAAP, treatment with both unexpected and expected items is similar.

6.8 Research and Development costs:

SFAS-2 “research and development accounting cost” considers US GAAP and requires that research and development of costs are considered as realized costs. In addition, US GAAP requires that software development costs become capitalized and depreciated during development. It is interesting that IAS is similar in GAAP with treatment with development and research costs with US GAAP number 13. In sum, differences between US GAAP and IAS in relation with R&D cost leads to difference between profits, properties, equity and income per share which is influential in financial statements.

6.9 To account borrowing costs as property:

IAS-23 “borrowing costs” and IAS-34 “capital cost” (and other amendments) provide accounting procedures for interest/borrowing rate. IAS considers certain criteria for accounting borrowing costs for certain properties. US GAAP obligates accounting borrowing costs as property, when criteria are established. In this law, IAS and US GAAP are very similar and important differences in statements are not reported in literature, because of considering borrowings in property account.

6.10 reports of cash flow:

US GAAP uses IAS-95 “statement of cash flow” and IAS-7 “reports of cash flow” which provides accounting rules for both principles and considers flexibility permissible. IAS permits using direct and indirect method for operational cash flow reporting. US GAAP develops same standards and their details. US GAAP permits using direct and indirect method but if direct method has been used, it should include a complementary table based on gross income for operational cash flow. According to IAS, cash includes over-withdrawal but includes cash flows with short maturity. In addition, IAS predicts tax forgiveness (7). These slight differences in US GAAP and IAS in relation with cash flows do not lead to important influence on financial judgments because most information are enclosed in notes and comparative loss and profit statements.

7. Future possible trends in IAS/GAAP/organizational compulsion:

Tover, Hankok, and Taplin (1999) tested 6 Asian pacific countries and concluded that there is a potential coordination even in countries in which IAS is not basis of accounting standards. They concluded that non-disclosed cases were suspected. Taplin, Tover, and Hankok (2002) conducted another test with IAS in 6 Asian countries and concluded that the purpose is capability of regional comparison with continuing information disclosures for a topic. They followed adding it as a result to an economic amendment plan in Australia. Difference between IAS and Australia GAAP is limited. Although 6 countries were obliged to use all their abilities for IAS, operation and publication changed among 6 countries. In Australia, after applying primary IAS, it became clear that are less aware from two certain areas of accounting: fixed definable assets and evaluating non-current assets (25). In 1999, a letter was written by 7 pioneer Australian companies to CEO and asked to stop IAS coordination program. Finally, Studart (2002) reported that Australian companies use IAS when it is in favor of company or ordered by treasurer or financial reporting board.

Taplin et.al (2002) stated that need of country to increase in capital markets increases movement toward coordination and acceptance. The more obligations move a country in coordination direction, the certain subjects of country will reduce.

We cannot ignore importance of political influence on accounting process. Sarbans-Oxely law in 2002 in US was with great delay and was not because of Enron scandal, lobbies will defeat this attempt for amendment. There is a concern in international level about ignoring power of international board which does not have needs of a certain country. Studart (2000) confesses that establishing accounting standards is a part of larger political process.

US IASB as a part of IASB has initiated several continuous projects for creating high quality, comprehensive and implementation of IAS. Other international societies like US stock and securities accept IAS without agreement with US GAAP. IOSCO recommends all 30 IAS standards and its use to all members. Typically, important capital markets including NYSE, LSE, ASX, and other important stocks have accepted IAS. In some countries like Ghana and Nicaragua, IAS is accepted national accounting principle.

8-concepts of coordinating accounting standards:

It is important to remember that difference between US GAAP and IAS is not necessarily bad, but it is the reflection of difference of nations and society, reflection of differences in political, economic, cultural, technologies, legal and business environments (14). Developing countries can deal with IAS because of their unique business environment. Developed countries like US have completed virtual arrangements like derivatives and should complete accounting standards for certain topics. Therefore, GAAP may be suitable for a national environment and not suitable for other because it may be difficult for a certain national business environment.

8.1 Arguments for IAS:

1. Universal GAAP avoids costs for national and international standards. This is suitable for developing countries that cannot establish their national accounting standards. IAS is accepted by developing countries (2).
2. Universal GAAP excludes non-eliminated difference in accounting procedures and cost of conforming to US GAAP based on F-20 (6).
3. Universal GAAP facilitates comparison and interpretation of financial statements by users and help them to form their business decisions (30).
4. Universal GAAP reduces costs of completing 2 sets or more of statements according to US GAAP. This business and list will facilitate investment decision-making (6).
5. GAAP should lower the control and monitoring costs for regulators like PCAOB.
6. GAAP may be consistent with globalization trend by some involved organizations in standardization process. These organizations include WTO, OECD, W3C, NSF, IMF, IASB, and World Bank (13).

8.2 Arguments against IAS:

1. GAAP is very simple solution for a set of complex problems. Related discussions to commercial, economic, cultural, political environments and national governance do not show differences of IAS (20). This constraint will impose pressures to nations like US. Although US securities and stock commission has recently accepted IAS and it is not its reason.
2. One of the problems against IAS is lack of political and legal power of standard setting board which McGregor (1999) mentions: agency, accountability, suitable processing, responsibility, and neutrality/independence.
3. Graham and Neo (2003) described that how developed nations imposed their policies and standards on developed nations because developed countries achieve huge profit of it.

9. Conclusion:

Straight et.al (2000) showed that effect of difference between US GAAP and IAS is limiting and suggested that securities and exchange should study the IAS standards. Perhaps they were not consistent with IAS, exactly. In some respects, procedure and details are same. IASB center acts and needs higher scope and it is not desired aspect. But without it, IAS is not successful in real coordination (Holgate, 1997). Leuz findings (2003) did not support this claim that US GAAP creates statements with higher quality. According to this research, US GAAP and IAS are very similar and their coordination increases but suggestion for accepting IAS without considering complexity of business, culture, politics, law an economy of US is not complete.

These discussions enhance IAS more than before. First, EU has approved a law for business that declares using IFRS for January 2005 [12]. Second, developing PCAOB by Sarbans-Oxly act (2002) in US and strategic agreement with US IDSb and IASB for converging accounting standards has shown more progress toward reality of coordination and internationalization of accounting in future decade.

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