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Which IFRS Should the United States Adopt?

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Accounting is a byproduct of its environment. It takes information and transmits it for users that are both internal and external to the company. The United States has been working to converge with IFRS since the Norwalk Agreement in 2002. These environmental factors have caused different accounting standards to develop in different countries. The International Financial Reporting Standards (IFRS) were developed to address the differences in accounting standards worldwide. However problems persist with IFRS. Comparability even within countries that use IFRS is not perfect. Many countries use a local variation of IFRS. In addition, the European Union has a formal endorsement process for every IFRS standard published by the IASB to decide if the EU will adopt the standard. In addition to the political pressure this causes, it could cause further problems with comparability in the future if the United States adopt IFRS. The fundamental rules vs. principles debate and the cost of conversion to IFRS for US companies is also a barrier to the convergence project.

Keywords: Accounting standards, IFRS, GAAP, IFRS adoption, international accounting.

Introduction

Accounting is the language of business. It takes information and transmits it for users that are both internal and external to the company. In order to begin the discussion of the differences between the international language of business (International Financial Reporting Standards) and the United States version (United States Generally Accepted Accounting Principles) it is important to understand how accounting develops within a region.

International Accounting: A User Perspective gives ten ways accounting interacts with its environment. These are the nature of capital markets, type of reporting regime, size and complexity of business entities, type of legal system, level of enforcement of regulations, rate of inflation, political and economic ties, stature of the accounting profession, existence of a conceptual framework, and quality of accounting education (Saudagaran, 2009). In addition, there is another source affecting accounting in various regions. Prior accounting scandals contribute to the future of accounting in a region.

The nature of capital markets affects the foundation of accounting in a region. In some areas, companies primarily raise the capital needed for business from stock markets. In other regions, this capital is acquired from banks or the government. Banks and stockholders have different information needs and the language of business has adapted differently to provide them.

The type of reporting regime also affects the accounting in a region. In some countries, such as the United States, there are different rules in reporting to the government for tax purposes and reporting to stock markets or other external accounting users. In other countries, the same rules apply for both. As mentioned previously, the needs of the external users influence accounting in a region.

The size and complexity of business entities in an area also shapes the local accounting practices. As businesses increase in size and complexity, accounting rules must also become more complex to translate the substance of the transaction to external users of financial statements.

The type of legal system is another contributor to the type of accounting reporting adopted. Some countries, including the U.S., use a common law system. Other countries use a code law system. In code law countries, the focus is on protecting the creditors of the company. In a common law country, more attention is placed on presenting a true and fair picture to shareholders (Saudagaran, 2009).

The level of enforcement of regulations is another important point. It does not matter what the accounting rule is if no one enforces it consistently. One problem with using consistent accounting rules internationally is that it may give some shareholders a false sense of security. They may assume the company is correctly applying the same rules as everyone else, when in reality the company may be reporting transactions incorrectly either by mistake or as an intentional act of fraud.

The rate of inflation shapes accounting in an area. In the United States, the rate of inflation tends to run at about 2% a year. Some countries may have a 20% rate of inflation this year or even higher. Particularly in those countries with high inflation, the historical cost of assets does not make sense as a way to value assets because it leaves the assets undervalued on the balance sheet.

The political and economic ties of a country shape accounting for transactions in the country. Countries want to use similar accounting methods as their international trading partners to encourage their companies to trade and invest more freely with each other.

The stature of the accounting profession also notably shapes accounting in an area. In some countries the accounting profession is held in high esteem. In other countries, accountants are held at about the same status as a clerk. This stature will influence the quality of the accounting standards produced (Saudagaran, 2009). Directly related to the stature of the accounting profession is the quality of accounting education. The quality of accounting education is better in countries that hold it in high esteem because the stature of the profession can help attract some of the best and brightest students into accounting careers (Saudagaran, 2009).

The existence of a conceptual framework is another factor that shapes accounting in a country. "… accounting in countries that have developed or adopted a conceptual framework are likely to be more similar to each other than to countries that lack a conceptual framework" (Saudagaran, 2009, p. 10).

In addition, there is another factor that has historically shaped accounting in a region: prior accounting scandals. One of the most famous accounting scandals involved Enron. In part because of the Enron scandal, the U.S. Congress passed the Sarbanes Oxley law to reduce accounting scandals. When companies take advantage of relatively vague rules, it can cause policymakers to set more strict ones.

All of these factors come together to influence accounting in an area. This is why countries all over the world have historically developed different accounting systems. These varied accounting systems are leading to problems as the world becomes increasingly one market. Because countries are reporting the same transaction in different ways, there is a lack of comparability in the financial statements of companies worldwide. This paper will focus on two accounting standards: The United States Generally Accepted Accounting Principles and the International Financial Reporting Standards.

Literature Review

The United States Generally Accepted Accounting Principles is the legacy of the history of accounting in this country. Before the industrial revolution, companies accounted for transactions, but everyone followed their own rules. There was no standardization and therefore no comparability among companies ("Accounting Standards," n.d.).

The industrial revolution began to change that. Companies, particular railroad companies, started to standardize financial reporting. This led to an influx of capital from investors. Public companies continued to take the lead in accounting innovation for many years until the Great Depression. After poor accounting and reporting procedures were blamed for contributing to the downturn, the American Institute of Accountants and the New York Stock Exchange worked together to fix the accounting problems. A few years later, the Securities Act of 1934 was passed. This act chartered the Securities and Exchange Commission and gave the Securities and Exchange Commission the power to oversee the methods used for accounting and auditing ("Accounting Standards," n.d.).

By the 1970's, the accounting profession decided that it is necessary to have an independent standard-setting structure that is distinct from the accounting profession. Its purpose is to keep the standards from being tainted by the self-interests of practicing accountants and their clients. In 1972, the accounting foundation recommended creation of a new standard-setting body and the Financial Accounting Foundation was born. The following year, the Financial Accounting Foundation established the Financial Accounting Standards Board which became responsible for setting financial accounting standards ("Accounting Standards," n.d.).

This set the foundation for modern day accounting in America. Publicly traded companies must comply with the Generally Accepted Accounting Principles, which are set by the Financial Accounting Standards Board. New standards are developed regularly both to address new business transactions and to improve the accounting reporting of existing ones. This allows the companies to be compared because every company reports every transaction using the same rules. However, because of the impact environment has on accounting standards, not every stock exchange requires their companies to record transactions the same way that the United States Generally Accepted Accounting Principles does. As more and more investors choose to invest money in foreign companies on foreign stock exchanges, there must be comparability across companies worldwide instead of only being comparable on individual exchanges.

The idea of international convergence first arose following World War II. The world was becoming economically integrated and it needed accounting to follow suit. The International Accounting Standards Committee was formed in 1973. It was the first international standard-setting body. In 2001, the International Accounting Standards Committee reorganized into the International Accounting Standards Board. It became an independent international standard-setter ("Comparability in International Accounting," n.d.). "As of 2013, the European Union and more than 100 other countries either require or permit the use of international financial reporting standards (IFRSs) issued by the IASB or a local variant of them" ("Comparability in International Accounting," n.d.).

Political Challenges Faced by Standard-Setters

Accounting standard-setters face many challenges trying to create the rules accountants must follow to report transactions. Many of the challenges are political. The United States Financial Accounting Standards Board is funded through fees that are paid by companies who choose to list their securities on stock exchanges (Spiceland, Sepe, & Nelson, 2013). This is done to prevent the

Financial Accounting Standards Board from having to bend to the will of interest groups in order to stay funded. For example, airlines have to report huge liabilities for the leased aircraft they essentially own. It would appear much better on the airlines' books if they only had to report an expense every time they make the lease payment. Their vested interest could have prevented the Financial Accounting Standard Board from passing the standard that showed the substance of the transaction. Therefore, it is important the standards board does not have to fundraise or to receive funding from interest groups.

In contrast, the International Accounting Standards Board receives a large amount of its funding from voluntary donations, both from accounting firms and corporations (Spiceland, Sepe, & Nelson, 2013). Accounting firms have a vested interest in the standards as well because their clients do. As long as the IASB has to fundraise then they cannot be entirely independent. This keeps them from having the independence to make the right decisions when interest groups are pushing for the wrong ones. The Financial Accounting Standards Board thinks it is so important that one of the milestones specified by the Securities and Exchange Commission for the adoption of IFRS in the United States is that the International Accounting Standards Board's independence be enhanced by a funding mechanism similar to the Financial Accounting Standard Board's mechanism (Spiceland, Sepe, & Nelson, 2013).

The International Accounting Standards Board faces political pressure from other sources in addition to the pressure from interest groups. Countries have a vested interest in making the companies in their country look as profitable as possible. The European Union has demonstrated that vested interest by requiring a formal evaluation process for determining whether an IFRS standard will be endorsed for use in European Union countries ("IFRS in Europe – Background," n.d.).

> …the European Union is required to decide on the applicability of individual IASs within the EU. It may adopt an IAS only if: it is not contrary to the principles of the EU Fourth and Seventh Directives, it is conducive to the European public good, and it meets the criteria of understandability, relevance, reliability and comparability required of financial information needed for making economic decisions and assessing stewardship of management. (Alexander, 2007, pp. 52-53)

If the European Union decided that an International Financial Reporting Standard was not in its best interest then it could refuse to adopt it in the European Union. Then the IASB would be forced to choose between having comparability in financial statements or using the standard it originally wanted all the countries to adopt. In addition to the political problems this creates, it could potentially cause future problems with comparability.

Comparability in International Financial Reporting Standards

While the International Financial Reporting Standards purpose is to move countries to one set of unified accounting standards, variations within the International Financial Reporting Standards exist. For example, remember this quote, "As of 2013, the European Union and more than 100 other countries either require or permit the use of international financial reporting standards (IFRSs) issued by the IASB or a local variant of them" ("Comparability in International Accounting," n.d.). A local variant of the International Financial Reporting Standards is not the same as using the International Financial Reporting Standards. Investors will still need to research differences between the accounting method the country uses and the standard International Financial Reporting Standards. Typically, the differences between the countries' local variation of IFRS and IFRS as published by the IASB are small, but too many countries have local variations for the differences between them to be ignored.

The chart in Appendix A was compiled based on PricewaterhouseCoopers 2014 report: *IFRS Adoption by Country*. Approximately 28.33% of the countries that use some version of IFRS in the chart fall into a category of "Other". This means that they use some form of the International Financial Reporting Standards, but they do not use the version published by the International Accounting Standards Board or endorsed by the European Union. The category "Other" can range from Venezuela that uses IFRS as adopted locally to Japan that uses IFRS as designated by the Financial Services Agency of Japan (*IFRS Adoption by Country*, 2014).

An additional 25.83% of the countries in the chart that use some form of IFRS use IFRS as endorsed by the European Union. As discussed earlier, standards published by the International Accounting Standards Board must be formally approved in order to be used by the European Union. Currently all of the IASB documents that are not currently endorsed are expected to be endorsed before the IASB effective date (*The EU Endorsement Status*, 2015). However, the European Union has the option of refusing to endorse any IASB standard. If they choose to do so, then 25.83% of the countries that use some form of IFRS will not be using the same form of IFRS as the rest of the countries. If the European Union is committed enough to fight a standard, potentially two main forms of IFRS could exist. This may seem farfetched except that it's already happened. The European Union refused to endorse controversial parts of IAS 39, which dealt with hedge accounting (Brackney & Witmer, 2005).

The other 45.83% of the countries in the chart that use some form of IFRS, use IFRS exactly as published by the IASB. That means that less than half precisely follow every standard. Admittedly, they are close to what the IASB publishes, but the whole point of an international accounting standard is to have comparability in accounting practices worldwide. If the International Accounting Standards Board cannot get stock exchanges to commit to using IFRS exactly as published then it may be time to look for other international accounting solutions that can. Regardless, until recently, the United States Generally Accepted Accounting Procedures have attempted to converge with the International Financial Reporting Standards. It's important to understand the history behind that decision in order to understand the reasons that led to the convergence project.

History of U.S. GAAP and IFRS Convergence

Foreign companies that wished to trade on United States stock exchanges had to complete a form 20-F to reconcile their financial statements to US GAAP. This expensive burden in addition to the costs of complying with the Sarbanes Oxley law led many foreign entities to pull their companies from US stock exchanges (Sullivan, 2014). This led many groups to hold public discussions about whether the US was losing its competitive edge as a market for raising capital (Erchinger & Melcher, 2007).

When the FASB and IASB met in Norwalk, Connecticut on September 18, 2002, they both acknowledged their commitment to developing both high-quality and compatible accounting standards for domestic and international financial reporting (*Memorandum of Understanding*, 2002).

At the meeting, both the FASB and IASB pledged to use their best efforts to:

> "(a) make their existing financial reporting standards fully compatible as soon as is practicable and
>
> (b) to coordinate their future work programs to ensure that once achieved, compatibility is maintained." (*Memorandum of Understanding*, 2002, p. 1).

This "memorandum of understanding" started the process of convergence between IFRS and GAAP.

In 2006, the FASB and IASB demonstrated again their commitment to this convergence project by setting specific milestones to be reached by 2008 ("Convergence between IFRSs and US GAAP," 2006,n.d.). In 2007, the United States Securities and Exchange Commission (SEC) removed the requirement for all non-US companies registered in the US to reconcile their financial reports with US GAAP if their accounts complied with IFRS as issued by the IASB. The SEC also published a proposed roadmap for adoption of IFRSs by domestic companies ("Convergence between IFRS and US GAAP,"2007, n.d.). Additionally, the European Commission proposed that the European Union remove the need for U.S. companies with securities registered on European stock exchanges and with financial information prepared in accordance with U.S. GAAP to reconcile their accounts to IFRSs or provide other compensating disclosures (*Completing the February 2006*, 2008).

In 2013, Russell Golden was nominated as the chairman of the Financial Accounting Standards Board. He became chairman at a time when our relationship with the International Accounting Standards Board was changing. The IASB set up an Accounting Standards Advisory Council of which the United States is one of multiple members (Cohn, 2013). The ASAF generally meets for two days on four occasions a year ("Accounting Standards Advisory Forum," 2013,n.d.). Meeting eight days a year is a big change from the commitment to convergence both standard setters had just a few years before. Priorities had clearly shifted, and it left many firms wondering, "What happened?" Christopher Cox, chairman of the SEC from 2005-2009, blames the International Accounting Standards Board, but says the Financial Accounting Standards Board and a lack of interest by US investors and corporations enabled it to happen (Katz, 2014).

Three main factors led to the end of the convergence project between IFRS and US GAAP: The US remained competitive in the world's capital markets, the fundamental rules vs. principles split in the standards that neither side was willing to compromise on, and the cost of converting financial statements to IFRS.

No doubt there was concern after the financial scandals in the early 2000's and the extensive regulation that followed (Sarbanes-Oxley) that companies would stop trading on US exchanges and instead trade on other exchanges elsewhere in the world. The costs of compliance was high both because companies had to follow US Generally Accepted Accounting Principles and because they had to meet the requirements of Sarbanes-Oxley. This caused many foreign companies to remove themselves from US stock exchanges (Sullivan, 2014).

It was a difficult game that regulators had to play with the financial market. Too much regulation and companies may run a cost-benefit analysis and decide to leave US capital markets. Too little regulation and investors will not trust the financial information provided by companies and may decide not to invest money in companies in US capital markets. In this uncertain environment, the convergence project seemed like an important step in securing the future of the US capital markets. By converging our accounting standards with the International Financial Reporting Standards, foreign companies could save the costs of reconciling their financial statements to GAAP. This would lessen the burden of the new financial regulation and make companies more likely to continue trading on US markets.

However, now the SEC has allowed companies that use IFRS as published by the IASB to use IFRS in their financial statements without providing a reconciliation to US GAAP (*Acceptance from Foreign Private*, 2008). This change effectively accomplished the same goal. Foreign companies save the compliance costs of reconciling their financial statements with GAAP, and domestic companies are spared the costs of becoming compliant with IFRS. The SEC's decisions paid off. The US markets are continuing to succeed. Almost 50% of the world's equity shares (by market capitalization) are traded in the United States (Donaldson, 2005). Foreign issuers are also continuing to trade in the US. Non-US investors have nearly $4.5 trillion invested in stock markets in the

United States (Donaldson, 2005). Now that the worries have mostly past, people are less concerned about switching to IFRS. They see the costs of convergence unnecessary after the change in the U.S. markets acceptance of IASB IFRS and the International stock markets acceptance of U.S. GAAP.

One of the main problems with switching to IFRS is the rules vs. principles debate. The question of how much guidance is appropriate with every standard is a fundamental difference between GAAP and IFRS. Both sides are defensive of their approach. Leases provide a good example. GAAP makes the distinction between capital leases and operating leases. An operating lease is a traditional lease. A one-year rent agreement for an apartment is a good example. In contrast, capital leases are essentially rent-to-own agreements. The lease agreement lasts for so long that the asset has essentially been bought. Under GAAP, a lease is a capital lease if one or more of these criteria are met:

1. The agreement specifies that ownership of the asset transfers to the lessee.
2. The agreement contains a bargain purchase option.
3. The noncancelable lease term is equal to 75% or more of the expected economic life of the asset.
4. The present value of the "minimum lease payments" is equal to or greater than 90% of the fair value of the asset. (Spiceland, Sepe, & Nelson, 2013, p. 863)

Under IFRS, a lease is a capital lease if substantially all the risks and rewards of ownership are judged to have been transferred (Spiceland, Sepe, & Nelson, 2013). They specify some things that may imply it's a capital lease, but the IASB does not specify percentages and the judgments are left to the accountant.

There are advantages and disadvantages to both systems. Under a rules-based system, there is little room for judgment so every company will account for the same transactions the same way. If none of the four criteria are met then it's not an operating lease. It doesn't matter if it comes close to being a capital lease on every criterion. Because of this, companies will purposely find loopholes to the rules. They will set up transactions so that none of the criterion are met even though they are still essentially renting-to-own the asset.

In a principles-based system, the accountant makes the judgment. If the accountant decides that it's essentially a rent-to-own asset then it is a capital lease and is accounted for accordingly. However, that also means that an accountant could decide that it's not a capital lease even if one of the rules for the rules-based system is met. Accounting in this manner potentially sacrifices consistency, but should do a better job of translating the substance of the transaction for external users. Another problem with the principles-based system is since accountants make a judgment about the transaction, two accountants could make different decisions about how to report the same transaction. This could lead to managers pressuring accountants to record a transaction in a way that appears better on the financial statements. Managers could even purposely hire accountants that will report transactions in a way that looks as good as possible for the company. This could create a conflict of interest between the accountant trying to translate transactions for external users of financial statements and also trying to translate the transactions such that they keep their jobs.

Both the rules-based and principles-based standards for accounting have their share of problems. They are fundamentally different ways to set standards and they do not leave much room for compromise. Scot Taub identified areas in which U.S. GAAP and IFRS have had difficulty dealing with:

1. revenue recognition,
2. common control transactions,
3. rate regulation,
4. extractive industries, and
5. insurance.

Of those, the most important by far is revenue recognition, and that will be resolved shortly by the issuance of the new joint standard (Taub, 2014).

Another reason the convergence project did not succeed in full is the cost of switching to IFRS for US companies. IFRS does almost everything in accounting at least a little bit different than GAAP does. This chart summarizes the differences between GAAP and IFRS. It is based on the differences between GAAP and IFRS given in Spiceland, Sepe, and Nelson's 7th Edition Intermediate Accounting textbook. This chart is not meant to be all-inclusive. It gives a sample of some of the many differences remaining between US GAAP and IFRS.

Concept	US GAAP	IFRS
Income Statement	Allows extraordinary items	Prohibits extraordinary items
Classification of Cash Flows	Cash outflows for interest paymer and inflows from interest ar dividends are operating cash flov Dividends the company pays out a financing cash flows.	Interest and dividends paid can be operating or a financing cash flow ar interest and dividends received can either an operating or investing ca flow.
Long-term Construction Contracts	Requires the completed contra method when reliable estimates car be made.	Requires the cost recovery meth when reliable estimates can't be mad
Interim Reporting	Views interim periods as integral pa of the annual period.	Views interim periods as discre periods.
Cash and Cash Equivalents	Overdrafts are treated as liabilities.	Overdrafts can be offset against oth cash accounts.
Transfer of Receivables	The decision is made whether it is secured borrowing or a sale dependi on whether control of assets h transferred to the transferee.	The decision is made whether it is secured borrowing or a sale based if the company receives t receivable's cash flows, substantially the risks and rewards of ownershi and whether control has be transferred.
Inventory Cost Flow Assumptions	Allows LIFO	Prohibits LIFO
Inventory Valuation	For calculating lower of cost market, market is replacement co with a ceiling of net realizable val and a floor of net realizable val minus normal profit margin.	For calculating lower of cost market, market is always net realizab value.
Research and Developme Expenditures	Expensed in the period incurred.	Research expenditures are expensed the period incurred. Developme expenditures are capitalized as intangible asset.
Depreciation	Allows depreciation of componen but most companies do not do so.	Requires that each component of item be depreciated separately if cost is significant in relation to t total item cost.
Valuation of Property, Plant, ar Equipment and Intangible Assets	Property, plant, and equipment a reported at cost less accumulat depreciation.	Property, plant, and equipment can reported at cost less accumulat depreciation or at its fair value.
Biological Assets	Valued at cost less accumulat depreciation	Valued at fair value minus estimat costs to sell
Impairment	Reversals of impairment loss a prohibited.	IFRS requires the reversal of impairment loss if the cause of t loss is resolved.
Costs of Defending Intangible Right	Capitalized and amortized over t	Expensed as incurred.

Concept	US GAAP	IFRS
	remaining useful life of the intangibl	
Investments Accounted for using t Equity Method	Fair value option permitted.	Does not provide fair value option f most investments accounted for usi the equity method.
Recoveries of Other-than-Tempora Impairments	Does not allow recovery of any oth than-temporary impairment of equ or debt with the exception of loans.	Recognized in earnings for de investments, but not for equi investments.
Liabilities to be Refinanced	Classified as long-term if refinancing completed before the date of issuan of the financial statements.	Classified as long-term if refinancing completed before the balance she date.
Loss Contingencies	If there is a range of equally lik outcomes, GAAP would use the lo end of the range.	If there is a range of equally lik outcomes, IFRS would use t midpoint of the range.
Gain Contingencies	Never accrued.	Accrued if future realization virtually certain.
Debt Issue Costs	Recorded as an asset.	Reduce the recorded amount of t debt.
Convertible Bonds	Recorded as debt (liability).	Divided into liability and equi elements.
Leases	Four classification criteria determine if a lease is a capital lease.	A lease is a capital lease if substantia all risks and rewards of ownership a transferred.
Error Corrections	An error in a prior financial stateme must be reported for retrospectively.	When correcting errors in pri financial statements, the effect of t error can be reported in the curre period if it's not considered practic to report it retrospectively.

Conclusion

If full adoption of IFRS were to occur, the twenty-two differences listed in the chart are only a small sample of the many changes awaiting US companies. Appendix B contains all eighty-nine of the differences in the Intermediate Accounting PowerPoints accompanying the textbook by Spiceland, Sepe, & Nelson. The list of the differences between GAAP and IFRS for many of concepts are in most of the textbooks. This list does not include every financial accounting difference between GAAP and IFRS. There are likely also differences on industry-specific guidelines and on consolidation practices.

All of these changes have costs associated with them. Deloitte, for instance, gives four categories of costs when converting to IFRS. These costs are internal human resource costs, external resources (for instance accountants and lawyers hired to help with the transition), information technology resources, and potential costs such as the cost of erroneous conversion (2009). Even though the changes in each of the categories are small, US companies will be summarily forced to make all of these changes and more. It's both time-consuming and expensive. In addition, it could lead to increased litigation cost. The people who prepare the financial statements could make mistakes in their application of the unfamiliar rules. The users of those financial statements could then sue based on the harm caused by the improperly prepared financial statements (Epstein & Cheng, 2009). The CEO and CFO could be held personally accountable for those mistakes under Sarbanes Oxley (Marden, Edwards, & Stout, n.d.). All of these costs discourage US investors and corporations to push for a transition to IFRS.

These litigation and change-over costs are in addition to the increased comparability problems that a switch to IFRS could cause. Many investors realize they cannot directly compare two companies' financial statements that use different accounting standards. Therefore, they will not try to compare the companies without making some adjustments for the differing standards. In contrast, if both of the companies were using the International Financial Reporting Standards, investors are more likely to directly compare them without any adjustment. This could lead to misguided decisions if the two companies decide to report the same transaction in different ways. Big investors who know about the comparability problems will have to spend money hiring people to research and dig into the notes of the financial statements to examine the comparability issues and make informed decisions. FASB's Statements of Accounting Concepts addresses the importance of comparability.

> Left to themselves, business enterprises, even in the same industry, would probably choose to adopt different reporting methods for similar circumstances. But in return for the sacrifice of some of that freedom, there is a gain from the greater comparability and consistency that adherence to externally imposed standards brings with it. There also is a gain in credibility. The public is naturally skeptical about the reliability of financial reporting if two enterprises account differently for the same economic phenomena. (Financial Accounting Standards Board, 1989)

In addition, the change to IFRS would cause comparability problems as companies are converting. Generally, GAAP allows companies a few years to make major changes like this, and early conversion is generally allowed. This means that for the few years until everyone is required to use IFRS, some companies will be using IFRS and others will continue to use GAAP.

One thing the US' markets do not want to lose is credibility. Investors need to know they can trust the financial information that comes from financial statement preparers in the US. The convergence project has gone as far as it needed to. The marginal costs of continuing to converge far exceed the marginal benefits. The U.S. should remain with GAAP until IFRS becomes more uniform with all countries to avoid consistency and comparability problems in accounting reporting.

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Appendix A

Appendix A was compiled based on PricewaterhouseCooper's 2014 report, *IFRS Adoption by Country*.

	IFRS a published by IASB	**IFRS a endorsed by the EU**	**Don't us IFRS**	**No loc exchange**	**Other**
North America					
Antigua and Barbuda	x				
Aruba				x	
Bahamas	x				
Barbados	x				
Bermuda	x				
British Virgin Islands				x	
Canada					x
Cayman Islands	x				
Costa Rica	x				
Dominican Republic	x				
Dutch Caribbean	x				
El Salvador	x				
Guatemala				x	
Honduras	x				
Jamaica	x				
Mexico	x				
Nicaragua				x	
Panama	x				
St. Kitts and Nevis	x				

St. Lucia				x	
Trinidad and Tobago	x				
United States			x		
South America					
Argentina					x
Bolivia			x		
Brazil					x
Chile					x
Colombia			x		
Ecuador	x				
Paraguay	x				
Peru					x
Uruguay	x				
Venezuela					x
Europe					
Albania	x				
Austria		x			
Belarus					x
Belgium		x			
Bosnia and Herzegovina					x
Bulgaria		x			
Channel Islands					x
Cyprus		x			
Czech Republic		x			
Denmark		x			
Estonia		x			
Finland		x			
France		x			
Georgia					x
Germany		x			
Greece		x			
Greenland		x			
Hungary		x			
Iceland		x			
Ireland		x			
Isle of Man					x
Italy		x			
Kosovo				x	
Latvia		x			
Lithuania		x			
Luxembourg		x			
Macedonia					x
Malta		x			

Moldova					x
Montenegro					x
Netherlands		x			
Norway		x			
Poland		x			
Portugal		x			
Romania		x			
Russian Federation	x				
Serbia					x
Slovak Republic		x			
Slovenia		x			
Spain		x			
Sweden		x			
Switzerland	x				
Ukraine	x				
United Kingdom		x			
Asia					
Afghanistan				x	
Armenia	x				
Azerbaijan					x
Bahrain	x				
Cambodia	x				
China			x		
Hong Kong	x				
India	x				
Indonesia			x		
Israel	x				
Japan					x
Jordan	x				
Kazakhstan	x				
Korea (Republic of Korea)					x
Kuwait					x
Kyrgyz Republic	x				
Laos	x				
Lebanon	x				
Macao Special Administrative Region				x	
Malaysia					x
Mongolia	x				
Oman	x				
Pakistan					x
Philippines					x
Qatar	x				
Saudi Arabia	x				

Singapore					x
Sri Lanka					x
Taiwan					x
Thailand					x
Turkey					x
United Arab Emirates	x				
Uzbekistan	x				
Vietnam					x
West Bank/Gaza	x				
Africa					
Algeria					x
Angola				x	
Botswana	x				
Cameroon			x		
Chad			x		
Cote D'Ivoire			x		
Democratic Republic of Congo				x	
Egypt			x		
Equatorial Guinea			x		
Gabon			x		
Ghana	x				
Guinea Conakry				x	
Kenya	x				
Libya	x				
Madagascar				x	
Malawi	x				
Mauritius	x				
Morocco					x
Mozambique					x
Namibia	x				
Nigeria	x				
Republic of Congo			x		
Rwanda	x				
Senegal			x		
South Africa	x				
Swaziland	x				
Tanzania	x				
Tunisia			x		
Uganda	x				
Zambia	x				
Zimbabwe					x
Oceana					
Australia					x

New Caledonia		x			
New Zealand					x
Papua New Guinea	x				
Totals	**55**	**31**	**14**	**12**	**34**

Of the countries that use some form of IFRS (Don't use IFRS and no local exchange excluded):
45.83% use IFRS as published by the IASB
25.83% use IFRS as endorsed by the EU
28.33% fall into a category of "other"
Less than half of the countries directly use IFRS as published by the IASB.

Appendix B

Appendix B is taken from the PowerPoint slides created by Booker, Caldwell, Galbreath, & Rooney. They are meant to accompany Spiceland, Sepe, and Nelson's *Intermediate Accounting* textbook. Every chapter's PowerPoints contained differences between GAAP and IFRS and they are directly quoted here. Differences 1-51 are based on the PowerPoint's that accompanied the 2011 (Sixth Edition) of the textbook. The remaining differences are based on the 2013 (Seventh Edition) of the same textbook.

Differences between US GAAP and IFRS		
	GAAP	**IFRS**
1	Does not specify a minimum list of items t be presented in the balance sheet.	Specifies a minimum list of items to be presente in the balance sheet.
2	Some U.S. companies use the statement c financial position title as well.	Statement title changed to statement of financi position
3	Presents current assets and liabilities befo noncurrent assets and liabilities.	Does not prescribe the format of the balance shee but balance sheets prepared using IFRS ofte report noncurrent items first.
4	Has no minimum requirements.	Specifies certain minimum information to b reported on the face of the income statement.
5	SEC requires that expenses be classified b function.	Allows expenses classified by function or natur description.
6	"Bottom line" called net income or net loss.	"Bottom line" called profit or loss.
7	Report extraordinary items separately.	Prohibits reporting extraordinary items.
8	Includes four possible Other Comprehensiv Income items.	Includes same four.
		Includes a fifth possible item, changes revaluation surplus, from the optional revaluatic of property, plant, and equipment and intangib assets.
9	Operating Activities: Dividends Receive Interest Received, Interest Paid	Operating Activities

10	Investing Activities	Investing Activities: Dividends Received, Intere Received
11	Financing Activities: Dividends Paid	Financing Activities: Dividends Paid, Interest Paic
12	Earnings process is complete or virtual complete.	Revenue and costs can be measured reliably.
13	Reasonable certainty as to the collectibility o the asset to be received.	Probable that economic benefits will flow to th seller.
		Risk and rewards are transferred to buyer and sell does not manage or control the goods.
		Stage of completion can be measured reliably.
14	Requires completed contract method whe reliable estimates can't be made.	Requires cost recovery method when reliab estimates can't be made.
15	Revenue should be allocated to the variou elements based on the stand-alone sellir prices of the individual elements. These ca be estimated for non-software arrangemen if VSOE is not available, but have to us VSOE for software arrangements.	May be necessary to apply the recognition criter to the separately identifiable components of single transaction.
		Allocation of total revenue to individu components are based on fair value.
16	Has over 100 revenue-related standards th sometimes contradict each other.	Has two primary standards that also sometim contradict each other and that don't offer guidan in some important areas (like multiple deliverables
17	Bank overdrafts are treated as liabilities.	Bank overdrafts may be offset against other cas accounts.
18	U.S. GAAP allows a "fair value option" fo accounting for receivables.	IFRS restricts the circumstances in which a "fa value option" for accounting for receivables allowed
19	U.S. GAAP does not allow receivables to b accounted for as "available for sale investments.	In the years between 2010 and 2012, compani may account for receivables as "available for sale investments if the approach is elected initiall After January 1, 2013, this treatment is no long allowed
20	U.S. GAAP requires more disaggregation o accounts and notes receivable in the balanc sheet or notes.	
21	U.S. GAAP focuses on whether control o assets has shifted from the transferor to th transferee.	IFRS requires a more complex decision proces The company has to have transferred the rights t receive the cash flows from the receivable, an then considers whether the company ha transferred "substantially all of the risks an rewards of ownership," as well as whether th company has transferred control.
22	LIFO is permitted and used by U. Companies.	IAS No. 2, Inventories, does not permit the use o LIFO.
23	If used for income tax reporting, th company must use LIFO for financi	Because of this restriction, many U.S. compani use LIFO only for domestic inventories.

	reporting.	
24	LCM requires selecting market fro replacement cost, net realizable value or NR reduced by the normal profit margin.	IAS No. 2, states that the designated market w always be net realizable value.
25	Designated market is compared to historic cost to determine LCM.	
26	Under U.S. GAAP, the LCM rule can l applied to individual items, logical invento categories, or the entire inventory.	The LCM assessment usually is applied individual items, although using logical invento categories is allowed under certain circumstances.
27	Reversals are not permitted under GAAP.	If an inventory write-down is not long appropriate, it must be reversed.
28	Except for software development cos incurred after technological feasibility, research and development expenditures a expensed in the period incurred.	Research expenditures are expensed in the perio incurred. Development expenditures that me specified criteria are capitalized as an intangib asset.
29	The percentage used to amortize softwa development costs is the greater of (1) th ratio of current revenues to current ar anticipated revenues or (2) the straight-lir percentage over the useful life of th software.	The same approach is allowed, but not required.
30	Component depreciation is allowed but no often used in practice.	Each component of an item of property, plant, ar equipment is depreciated separately if its cost significant to the total cost of the item.
31	The depreciable base is determined l subtracting estimated residual value fro cost. Annual reviews of residual values a not required.	Depreciable base is determined by subtractir estimated residual value from cost. IFRS requires review of residual values annually.
32	Property, plant, and equipment is reported the balance sheet at cost less accumulate depreciation (book value).	Property, plant, and equipment may be reported cost less accumulated depreciation, or alternativel at fair value (revaluation).
33	Revaluation is prohibited.	If revaluation is chosen, all assets within a class property, plant, and equipment must be revalue on a regular basis.
34	Biological assets, such as timber tracts, a valued at cost less accumulated depletion.	Biological assets are valued at fair value le estimated costs to sell.
35	Intangible assets are reported at cost le accumulated amortization.	Intangible assets may be reported at (1) cost le accumulated amortization or (2) fair value, if fa value can be determined in an active market.
36	U.S.GAAP prohibits revaluation of ar intangible asset.	If revaluation is chosen, all assets within the cla of intangibles must be revalued on a regular basis.
37	Assets are tested for impairment when even or changes in indicators suggest that boo value may not be recoverable.	Assets must be assessed for circumstances impairment at the end of each reporting period.

38	An impairment loss is required when a asset's book value exceeds the undiscounte sum of the estimated future cash flows.	An impairment loss is required when an asset book value exceeds the higher of the asset's valu in-use (present value of estimated future cash flov and fair value less costs to sell.
39	The impairment loss is the differen between book value and fair value.	The impairment loss is the difference betwee book value and the recoverable amount, the high of the asset's value-in-use and fair value less cos to sell.
40	Reversals of impairment losses are prohibite	An impairment loss is reversed if the circumstanc that caused the impairment is resolved.
41	If certain criteria are met, indefinite-li intangible assets are combined for th required annual impairment test.	Indefinite-life intangible assets may not b combined with other indefinite-life intangib assets for the required annual impairment test.
42	The level of testing (reporting unit) is segment or a component of an operatin segment for which discrete financi information is available.	The level of testing (cash-generating unit) is th smallest identifiable group of assets that generat cash flows that are largely independent of the cas flows from other assets.
43	Measurement of an impairment loss is a tw step process. In step one the fair value of th reporting unit is compared to its book valu A loss is indicated if the fair value is less tha the book value. In step two, the impairme loss is calculated as the excess of book valu of goodwill over the implied fair value goodwill	Measurement of an impairment loss is a one-ste process. The recoverable amount of the casl generating unit is compared to its book value. the recoverable amount is less, goodwill is reduc before other assets are reduced.
44	Litigation costs to successfully defer intangible rights are capitalized and amortiz over the remaining useful life of the asset.	Litigation costs are expensed, except in ra situations when an expenditure increases futu benefits.
45	U.S. GAAP also allows transfers out of th trading security category.	IAS No. 39 now allows transfer of de investments out of the fair value category into AF or HTM in "rare circumstances".
46	Reclassifications under U.S. GAAP are rare.	The current financial crisis qualified as one of tho circumstances.
47	U.S. GAAP permits classification as HTM AFS, and TS.	Investments in debt securities are classified either "Amortized Cost" or FVTPL.
48	No significant tests are required to classify debt investment.	To be classified as a debt investment, tw important tests must be met. The current financi crisis qualified as one of those circumstances.
49	There is no comparable FVTPL or FVTO classification.	Investments in equity securities are classified either "FVTPL" or "FVTOCI" ("Fair Valu through Other Comprehensive Income).
50	IFRS, unlike U.S. GAAP, there is r equivalent to recognizing OCI any non-cred losses on debt investments.	Calculation of the amount of impairment diffe depending on the classification of an investment.

51		Under IFRS, an OTT impairment for a de investment is likely to be larger if it is classified AFS than if it is classified as HTM, because includes the entire decline in fair value if classifi as AFS but only the credit loss if classified HTM.
52	Liabilities payable within the coming year a classified as long-term liabilities if refinancir is completed before date of issuance of tl financial statements.	Liabilities payable within the coming year a classified as long-term liabilities if refinancing completed before the balance sheet date.
53	Refers to both accrued and non-accrue obligations as contingent liabilities.	Refers to accrued liabilities as provisions ar nonaccrued as contingent liabilities.
54	Defines probable as an event is likely occur.	Defines probable as more likely than not, a low threshold than U.S. GAAP.
55	Does not make a distinction between the tw types of contingencies, distinguished und IFRS, but typically requires disclosure of tl same contingencies.	Makes a distinction between and requir disclosure of two types of contingent liabilitie Those whose existence will be confirmed l uncertain future event(s) that the company do not control, and Those where a present obligatic for a future outflow is not probable or where tl future outflow cannot be measured.
56	Requires use of low end of a range of equal likely outcomes.	Requires use of midpoint of a range of equal likely outcomes.
57	Allows using present value under son circumstances.	Requires reporting present values when material.
58	With the exception of long-term constructic contracts and terminated contract anticipated losses on money losing contrac are generally not recognized or disclosed un incurred.	IFRS recognizes provisions and contingencies f contracts, where the unavoidable costs of meetir the obligations exceed the expected benefits.
59	Gain contingencies are never accrued.	Gain contingencies are accrued if their futu realization is virtually certain to occur.
60	Debt issue costs are recorded separately as a asset.	"Transaction costs" reduce the recorded amount the debt.
61	Amortized over the term to maturity.	The cost of these services reduces the net cash tl issuing company receives and the amount record for the debt.
62	The fair value option may be elected by tl firm. Although U.S. GAAP guidan indicates that the intent of the fair valu option under U.S. GAAP is to address the sorts of circumstances, it does not requi that those circumstances exist.	Companies may only elect the fair value optic when: When a group of financial assets or liabiliti is managed and its performance is evaluated on fair value basis, or If the fair value option reduc "accounting mismatch."
63	Situations that require classification as capital lease if any one (or more) is met are:	Situations that normally would lead to classificatic as a finance lease are:
64	"Major portion" is defined specifically as 75 or more.	The noncancelable lease term is for a "maj portion" of the expected economic life of the asse

65	"Substantially all" is defined specifically 90%.	The present value of the minimum lease paymen is equal to or greater than "substantially all" of t fair value of the asset.
66	No similar situation specified.	The leased asset is of a specialized nature such th only the lessee can use it without maj modifications being made.
67	No similar situation specified.	The lessor's losses are borne by the lessee upo cancellation.
68	No similar situation specified.	Gains or losses from changes in the fair value the residual value go to the lessee (for instance, means of a rebate of lease payments).
69	No similar situation specified.	The lease contains a "bargain renewal optio whereby the lessee can continue the lease f substantially less than market rent.
70	For example, U.S. GAAP requires a lo contingency be accrued if it is both probab and can be reasonably estimated. Accruing loss contingency leads to a deferred tax asset	For loss contingencies, IFRS uses a "more like than not" threshold, which is lower than the U. "probable" requirement. As a result, under t lower threshold of IFRS, a loss contingency and deferred tax asset sometimes is recorded for IFR but not for U.S. GAAP.
71	GAAP separately reports both discontinue operations and extraordinary items on t income statement and each are shown net tax.	IFRS does not separately report extraordina items on the income statement. As a result, t only income statement item reported separately n of tax using IFRS is discontinued operations.
72	Gains and losses are the difference betwe the actual and expected returns, where t expected return is different from company company and usually different from t interest rate used to determine the intere cost.	Requires that we use the same rate (the rate f "high -grade corporate bonds") for both t interest cost on the defined benefit obligatio (called projected benefit obligation or PBO und GAAP) and the interest revenue on the plan asset
73	Requires that gains and losses are to be (included among OCI items in the stateme of comprehensive income when they fir arise and then (b) gradually amortized recycled out of OCI and into expense (whe the accumulated net gain or net loss excee the 10% threshold).	Gains and losses are included in OCI when th first arise, but unlike U.S. GAAP those amoun are not subsequently amortized out of OCI a into expense. Instead, under IFRS those amoun remain in the balance sheet as accumulated oth comprehensive income.
74	Capital stock:	Share capital:
75	Common stock.	Ordinary shares.
76	Preferred stock	Preference shares.
77	Paid-in capital—excess of par, common.	Share premium, ordinary shares.
78	Paid-in capital—excess of par, preferred.	Share premium, preference shares.
79	Accumulated other comprehensive income:	Reserves:
80	Net gains (losses) on investment- AOCI	Investment revaluation reserve.
81	Net gains (losses) foreign curren translation- AOCI	Translation reserve.

82	Fair value adjustments not permitted.	Revaluation reserve.
83	Retained earnings.	Retained earnings.
84	Total shareholders' equity.	Total equity.
85	Presented after liabilities.	Often presented before liabilities.
86	Preferred stock normally is reported as equit but is reported as debt with the divideno reported in the income statement as intere expense if it is “mandatorily redeemabl preferred stock.	Most non-mandatorily redeemable preferred sto (preference shares) also is reported as debt as w as some preference shares that aren’t redeemabl Under IFRS (IAS No. 32), the critical feature th distinguishes a liability is if the issuer is or can b required to deliver cash (or another financi instrument) to the holder.
87	A deferred tax asset (DTA) is created for th cumulative amount of the fair value of th options the company has recorded f compensation expense.	The deferred tax asset is not created until the awa is “in the money;” that is it has intrinsic value.
88	Account for each vesting amount separate or account for the entire award on th straight-line basis over the entire vestir period.	Straight-line choice is not permitted. Compani not required to recognize the award that has veste by each reporting date.
89	GAAP requires it to be report retrospectively.	When correcting errors in previously issu financial statements, IFRS (IAS No. 8) permits th effect of the error to be reported in the curre period if it’s not considered practicable to report retrospectively.