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# Examining the differences between United States Generally Accepted Accounting Principles (U.S. GAAP) and International Accounting Standards (IAS): implications for the harmonization of accounting standards

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## Abstract

Current trends indicate continued movement towards the harmonization of accounting standards, but not without difficulty and concern. At times, the political and financial market pressure, push the movement in opposite directions. The paper discusses the conceptual framework used in establishing Global Generally Accepted Accounting Principles (GAAP) (International Accounting Standards, IAS) and U.S. GAAP. Numerous transactional examples are illustrated under both Global GAAP and U.S. GAAP treatment. Several country specific references are presented demonstrating the difficulty in achieving harmonization. Implications for harmonization of accounting standards include arguments “for” and “against” Global GAAP.

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## 1. Introduction

Generally Accounting Accepted Principles (GAAP) is a widely used term in the practice of accounting, financial reporting, auditing, and business literature. Researchers differentiate between “big” and “little” GAAP and others reference alternatives to GAAP such as Other Comprehensive Basis of Accounting (OCBOA) or Statutory Accounting Principles (STAT/SSAP). Sister disciplines to accounting such as auditing also use terms like Generally Accepted Auditing Standards (GAAS) that parallel GAAP in the accounting discipline. In practice, trading in goods, services, and securities (debt or equity instruments) lead to accounting and financial reporting to ensure continuity of operations, analysis of results for planning and control, and decision-making. In order to improve the legitimacy of accounting information and ensure its reliability and relevancy, accountants use a body of literature and/or a set of practices and “pronouncements with substantial authoritative support” called GAAP (Kieso & Weygandt, 2001). GAAP, however, varies from country to country, and often allow for alternative methods for treating the same set of transactions. GAAP is not static, but a growing body of accounting knowledge in response to business needs; mimicking the national history, economic, social, cultural, political, trading (products/securities), and technological backgrounds.

## 2. Conceptual framework

Underlying U.S. and International Accounting Statement (IAS) GAAP are a set of assumptions, principles, concepts, and conventions that are not GAAP by themselves (Kieso & Weygandt, 2001). However, the conceptual frameworks are critical to GAAP development and provide guidance, and serve as referent points for conflict resolution. In the U.S. and U.K., IAS and GAAP fundamental accounting concepts are historical cost, conservatism (prudence), consistency, matching (accruals), materiality (substance over form), dual aspect (double entry), recognition, and others (FASB, 2003; IASB, 2001). Research reveals that in the case of conceptual conflicts, prudence or the concept closely aligned to conservatism should apply (ASB, 2003). One good example of the application of the concepts under both IAS and U.S. GAAP is the golden rule of inventory (stock) valuation, an application of prudence principle. The golden rule states that inventory should be valued at the lower of cost or net realizable value (market) in accordance with the principle of conservatism (Kieso & Weygandt, 2001).

*The Statements of Financial Accounting Concepts (SFAC)* is the conceptual basis for U.S. GAAP whereas IAS-1, *Presentation of Financial Statements*, contains the IAS concepts. The statements also define and explain the elements of financial statements, characteristics of useful financial information (relevant and reliable), users of financial statements (internal and external), and identify the fundamental accounting concepts (FASB, 2003; IASB, 2001). For instance, Financial Accounting Standards Board’s (FASB) SFAC is strikingly similar to U.K.’s and International Accounting Standards Board’s (IASB) conceptual framework of accounting. The conceptual frameworks define assets, liabilities, equity, revenue, expense, realized gain, realized loss, profit, loss, as well as the relevance and reliability

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