

# The need to be “financially bilingual” US GAAP vs IFRS

## III. ACCOUNTING DIVERSITY

This presentation contains information, in addition to the material prepared and provided by the professor, from:

1. Elizabeth A. Gordon, Temple University, Jana S. Raedy, University of North Carolina, Alexander J. Sannella, Rutgers Business School, ©2016, Pearson | ISBN13: 9780132162302
2. Donald E. Kieso, Jerry J. Weygandt, Terry D. Warfield, Intermediate Accounting, 16th Edition
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7. Other: Official Websites

# ACCOUNTING SYSTEMS DIFFERENCES: Legal System

## Common (originated in UK)

(England, Ireland, USA, Canada, etc.)

1. A **non-governmental** entity provides detailed and excess rules.
2. It is characterized by **transparency** in disclosure oriented to the stock market (**investors**).
3. There is **no connection** between financial accounting and tax accounting.

## Civil (originated in Rome)

(Alemania, France, Japan y Spain, etc.)

1. It is distinguished by **little disclosure**.
2. **Connection** between financial and tax accounting.
3. It does **not provide guidelines** and is characterized by the establishment of general laws.
4. It is known as a **commercial code** that issues guidelines to direct business activities.
5. **Expert** accounting professionals **have no significant** influence on the creation of standards.

# ACCOUNTING SYSTEMS DIFFERENCES: Financing Sources

## Debts

(family, banks, and government)

1. **Little** disclosure.
2. Creditors obtain the information **directly** from the company.
3. **Direct participation** in decision-making:  
(periodic reports. (Board of directors))
4. Disclosure is focused on **debts** and their guarantees.

## Shares

1. **Much** disclosure.
2. **External** disclosure.
3. Investors emphasize **net income**.

# ACCOUNTING SYSTEMS DIFFERENCES : Financial Accounting vs Tax Accounting

## Financial Accounting

## Tax Accounting

1. In some countries the application of the tax base is **required**, for the **preparation** of financial statements and to comply with the **payment of taxes**.

2. Some methods used in the computation of financial numbers are **not accepted** for tax purposes (e.g. provision of bad debts).

# ACCOUNTING SYSTEMS DIFFERENCES : Accounting Systems

## SISTEM - A

External disclosure (investors).

## SISTEM – B

Disclosure: creditors and comply with tax law.

Nobes (1983)

# ACCOUNTING SYSTEMS DIFFERENCES : Culture

## CULTURAL DIMENSIONS

(Hofstede 1983)

1. **Individualism vs. Collectivism** - Identifies the relationships of the individual and the basis for decision making.
2. **Power distance**-refers to the degree of acceptance that individuals possess in relation to established hierarchies.
3. **masculinity vs. femininity** is related to the roles established by society and the behavior that individuals must have, according to the roles that are characteristic of men or women.
  - masculinity**- The cultural emphasis on enforcement and achievement.
  - femininity**- Emphasis on personal relationships "caring and nurturing"
4. **uncertainty avoidance**- of uncertainty- indicates how the individual reacts to a future scenario and that represents changes. Aversion to ambiguous situations.
5. **long-term orientation** - that identifies planning strategies for the future.

# ACCOUNTING SYSTEMS DIFFERENCES : Accounting Values

## Values Gray (1988)

1. professionalism - degree of professional judgment exercised by the individual and which contrasts with endorsing the rules of the profession.
2. uniformity - the application of uniform accounting practices for a long period.
3. conservatism - cautiously reporting contingent events that affect state numbers.
4. secrecy - preference to disclose little information to interested parties and that is required by the rules locales.

# ACCOUNTING SYSTEMS DIFFERENCES: Accounting Approaches

## Accounting Approaches (Choi y Meek 2011)

1. **Macroeconomic**- accounting practices are directed and aligned with local macroeconomic objectives (e.g. Sweden)
2. **Microeconomic** - business focus, implementation helps to achieve your individual goals (e.g. Netherlands)
3. **Independent discipline** - accounting practices originate from the business transactions of businesses (eg USA)
4. **uniform**- the government establishes control through accounting practices.

# ACCOUNTING SYSTEMS DIFFERENCES: Inflation

## Inflation

Periodic **fluctuations** in inflation could result in the Financial Statements not providing timely information and this is **not comparable**.

# ACCOUNTING SYSTEMS DIFFERENCES: Others

## Gernon and Meek (2001)

1. Geographical proximity (Canada, USA and Mexico)
2. Psychological Closeness (PR and USA)
3. Political relations (NAFTA, ELA, etc.)

## ACCOUNTING SYSTEMS

### Accounting models

- **The Fair Presentation/Full Disclosure Model** (Anglo-Saxon or Anglo-American model)
  1. Oriented toward the decision needs of large numbers of investors and creditors
  2. Used in English-speaking countries influenced by the United Kingdom or the United States
  
- **The Legal Compliance Model** (Continental European model)
  1. Legalistic
  2. Used to provide information for taxation and government-planning
  3. Used in Europe, Japan, and code law countries
  
- **The Inflation-Adjusted Model**
  1. Resembles the Continental European model
  2. Requires extensive use of adjustments for inflation

# ACCOUNTING SYSTEMS:

## CHALLENGES

1. Preparation of Consolidated Financial Statements
2. Comparability of Financial Statements
3. Difficulty evaluating the companies (target) for mergers and alliances
4. Access to other markets (search for capital)
5. Increase in compliance costs
6. Double disclosure.
7. Language translation
8. Parallel records
9. Foreign currency conversion
10. Miscellaneous Disclosure
11. International Transactions

# WHO USES IFRS?

<https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/#use-of-ifrs-standards-by-jurisdiction>

# The need to be “financially bilingual” US GAAP vs IFRS

## Did you know?

**144**

**Jurisdictions** require IFRS for all or most  
\***domestic** publicly accountable entities in their capital markets  
(\*listed companies and financial institutions)

*Analysis of the 166 profiles of the use of IFRS around the world, completed by IFRS Foundation.*

*<https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/#analysis> / Updated 25 April 2018*



- IFRS Standards are required for domestic public companies
- IFRS Standards are permitted but not required for domestic public companies
- IFRS Standards are required or permitted for listings by foreign companies
- The IFRS for SMEs Standard is required or permitted
- The IFRS for SMEs Standard is under consideration

<https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/#profiles>

The 166 jurisdictions represent all parts of the globe, as follows:

	Number of Jurisdictions	Per cent of total
Europe	44	27%
Africa	38	23%
Middle East	13	8%
Asia and Oceania	34	20%
Americas	37	22%
Totals	166	100%

<https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/#profiles>

The following table analyses the use of IFRS Standards in the 166 profiled jurisdictions by region of the world:

Region	Number of Jurisdictions				
	Jurisdictions in the region	Jurisdictions that require IFRS Standards for all or most domestic publicly accountable entities	Jurisdictions that require IFRS Standards as % of total jurisdictions in the region	Jurisdictions that permit or require IFRS Standards for at least some (but not all or most) domestic publicly accountable entities	Jurisdictions that neither require nor permit IFRS Standards for any domestic publicly accountable entities
Europe	44	43	98%	1	0
Africa	38	36	95%	1	1
Middle East	13	13	100%	0	0
Asia-Oceania	34	25	74%	3	6
Americas	37	27	73%	8	2
<b>Totals</b>	<b>166</b>	<b>144</b>	<b>87%</b>	<b>13</b>	<b>9</b>
<b>As % of 166</b>	<b>100%</b>	<b>87%</b>		<b>8%</b>	<b>5%</b>

<https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/#profiles>

**The need to be “financially bilingual” US GAAP vs IFRS**

## **ASSESSMENT ACTIVITY**

### ***2. ACCOUNTING DIVERSITY***

# IV. ACCOUNTING RULES

## IFRS / CONVERGENCE

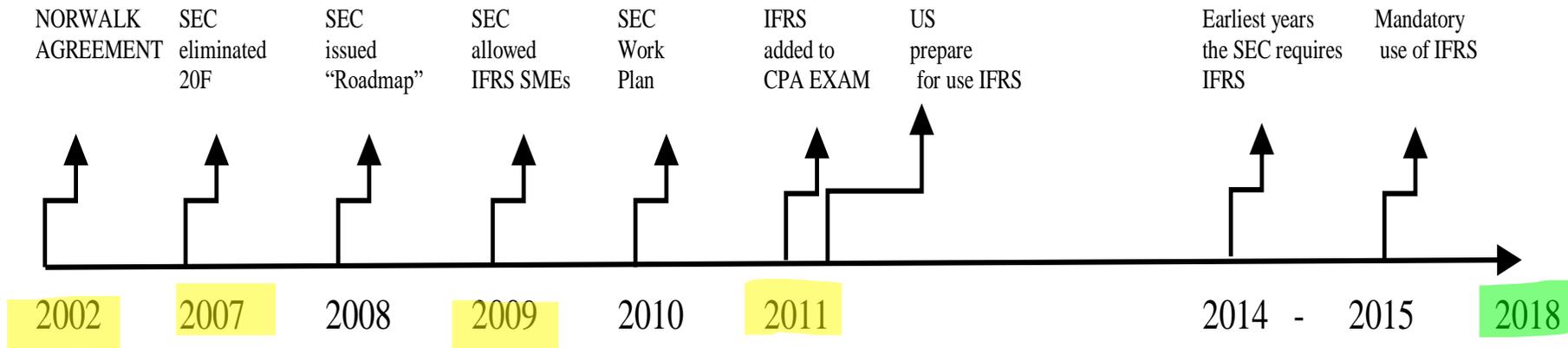
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# IFRS BACKGROUND

# The need to be “financially bilingual” US GAAP vs IFRS

Lozada, 2015/Dissertation Thesis

## Figure 5: Roadmap IFRS in U.S.



**2012**

**The SEC Announces: "that there is no definitive date for the adoption of IFRS in the accounting system of US"**

## The need to be “financially bilingual” US GAAP vs IFRS

IFRS Standards	FASB Accounting Standards Codification	Textbook Chapters
Corresponding content found primarily in:		
<b>Conceptual Framework</b>		
Framework for the Preparation and Presentation of Financial Statements	Not codified	1
<b>International Financial Reporting Standards</b>		
IFRS 1 First-time Adoption of International Financial Reporting Standards	N/A	
IFRS 2 Share-based Payment	505, 718	19
IFRS 3 Business Combinations	805	
IFRS 4 Insurance Contracts	944	
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	205, 280, 360	4
IFRS 6 Exploration for and Evaluation of Mineral Assets	932	
IFRS 7 Financial Instruments: Disclosures	815	14, 18
IFRS 8 Operating Segments	280	3
IFRS 9 Financial Instruments	450, 470	7, 12, 14
<b>International Accounting Standards</b>		
IAS 1 Presentation of Financial Statements	220, 225, 250, 505, 835	3, 4, 13, 18, 21
IAS 2 Inventories	330	8, 9
IAS 7 Statement of Cash Flows	230, 962	4, 7, 21
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	250	3, 4, 9, 11, 20
IAS 10 Events After the Reporting Period	855	3, 13
IAS 11 Construction Contracts	605	5
IAS 12 Income Taxes	740	16
IAS 14 Segment Reporting	280	3
IAS 16 Property, Plant and Equipment	410, 420, 845	4, 10, 11
IAS 17 Leases	840	15
IAS 18 Revenue	360, 470, 605, 952	5
IAS 19 Employee Benefits	715	17
IAS 20 Accounting for Government Grants and Disclosure of Government Assistance	912	
IAS 21 The Effects of Changes in Foreign Exchange Rates	830	4, 12, 17, 18
IAS 23 Borrowing Costs	835	10
IAS 24 Related Party Disclosures	850	3
IAS 26 Accounting and Reporting by Retirement Benefit Plans	960	
IAS 27 Consolidated and Separate Financial Statements	810, 840	12
IAS 28 Investments in Associates	323, 325	12
IAS 29 Financial Reporting in Hyperinflationary Economies	830	
IAS 31 Interests in Joint Ventures	323, 325	12
IAS 32 Financial Instruments: Presentation and Disclosure	450, 470, 820, 825	7, 12, 14
IAS 33 Earnings Per Share	260	4, 19
IAS 34 Interim Financial Reporting	270, 740	5
IAS 36 Impairment of Assets	205, 360	11
IAS 37 Provisions, Contingent Liabilities and Contingent Assets	410, 420, 450	13
IAS 38 Intangible Assets	350, 805, 985	4, 38
IAS 39 Financial Instruments: Recognition and Measurement	310, 450, 470, 820, 825	7, 12, 14, A
IAS 40 Investment Property	845	
IAS 41 Agriculture	205, 350, 820	11

Note: Superseded and withdrawn standards are not included in the listing above.

Spiceland, J. D., Sepe, J. F., & Nelson, M. (2013). Intermediate Accounting. New York: McGraw-Hill/Irwin.

# The need to be “financially bilingual” US GAAP vs IFRS

## Two techniques to implementing IFRS

### ADOPTION

Adoption means **abandoning** the country’s current financial reporting standards and replacing them with IFRS.

### CONVERGENCE

Convergence means **changing** the countries existing standards so that they will produce IFRS **“equivalent”** financial reports.

# The need to be “financially bilingual” US GAAP vs IFRS

## FORMS OF ADOPTION: IFRS

1. Local regulations are superseded by IFRS.
2. The parent company uses IFRS in the consolidated statements but may use local standards for statutory purposes.
3. Countries require companies to list IFSRs however, they may allow private companies to use local regulations.
4. Foreign companies that are listed locally apply IFRS, but local companies can use local regulations.
5. Local companies listed on capital markets abroad use IFRS.

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## IFRS IN FORCE (2020)

**“FULL IFRS” FOR PUBLIC COMPANIES**

**International Accounting Standards (IAS) <2001**

+

**International Financing Reporting Standards (IFRS) >2001**

**“LITTLE IFRS” FOR SMEs**

**International Financing Reporting Standards (IFRS) >2009**

# The need to be “financially bilingual” US GAAP vs IFRS

**CONVERGENCE**

## Memorandum of Understanding

### "The Norwalk Agreement"

At their joint meeting in Norwalk, Connecticut, USA on September 18, 2002, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) each acknowledged their commitment to the development of high-quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting. At that 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.

### **NORWALK AGREEMENT**

<https://www.fasb.org/memorandum.pdf>

# **UNIFORM ACCOUNTING RULES: “BIG STEPS”**

**1970** - The United Nation proposed the creation of a specialist group on the subject of international standards.

**1988** - The FASB becomes a member of the IASC.

**1996** - The SEC announces its intent to consider the acceptability of use of IAS by foreign private issuers.

**2000** - The International Organization of Securities Commissions (IOSCO) urged securities regulators to allow foreign companies the use of international standards.

**2002** - Norwalk Agreement.

**2005** - The European Union begins to use IFRS.

# IFRS: HISTORY

**1967** - The First Textbook on International Accounting is Published (Gerhard G. Mueller)

**1973-2000** - IASC

**2001** - IASB

**2002** - IFRC (Interpretations Committee)

**2007** - IFRS in USA (foreign companies)

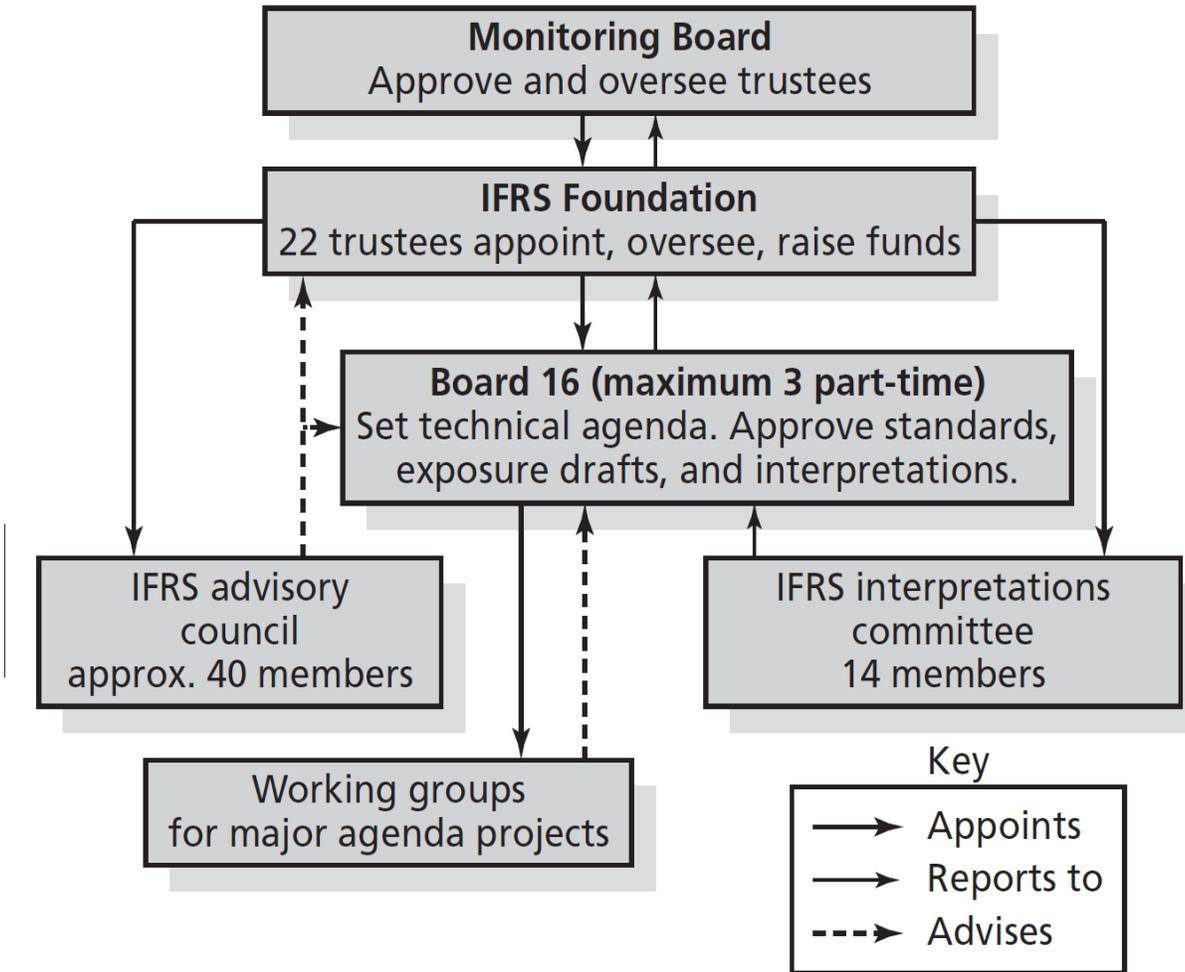
**2009** - IFRS for SMEs

**2011** - IFRS in the USA CPA Exam

**\*2013** - The FASB was selected as one of the Accounting Standards Advisory Forum (ASAF) for the IASB

# The need to be “financially bilingual” US GAAP vs IFRS

## The Structure of the IASB



## IASB

16 members (At least 13 full time)

4 from Asia/Oceania region

4 from Europe

4 from North America

1 from Africa

1 from South America

2 at large from any area

# The need to be “financially bilingual” US GAAP vs IFRS

## IFRS: HISTORY

**\*2013: ASAF**

### ACCOUNTING STANDARDS ADVISORY FORUM

1. To improve cooperation among worldwide standard setters
2. Advise the IASB.
3. Help to develop (IFRS).
4. The FASB was selected as one of the ASAF's twelve members.
5. **The FASB's** membership on the ASAF is an **opportunity:**
  - to represent **U.S. interests** in the IASB's and
  - standard-setting process
  - to continue the process of improving and converging U.S.

## The need to be “financially bilingual” US GAAP vs IFRS

In its Final Staff Report (issued in 2012)

The convergence between U.S. GAAP and IFRS: the SEC staff argue **was not feasible**

The SEC staff’s Final Staff Report concludes that it is **not feasible** for the U.S. to simply adopt IFRS, given

- (1) a need for the U.S. to have strong influence on the standard setting process and ensure that standards meet U.S. needs.
- (2) the high costs to companies of converting to IFRS.
- (3) the fact that many laws, regulations and private contracts reference U.S. GAAP.

## The need to be “financially bilingual” US GAAP vs IFRS

### In Favor of the Convergence

1. Easier to evaluate foreign investment opportunities.
2. IFRS are a set of quality standards that provide greater utility to the investor.
2. Optimal functioning of capital markets.
3. Comparability of financial information.

### Justification

1. Companies with a global presence (e.g. Johnson & Johnson)
2. Necessary in a globalized world (e.g. GlaxoSmithKline United Kingdom, 18% employees are from the USA)
3. Companies from different countries participating in the Capital Markets.
4. Accounting professionals practicing globally
5. Certified Public Accountants (AICPA) examine knowledge on the subject of IFRS.

# The need to be “financially bilingual” US GAAP vs IFRS

## Against of the Convergence

1. US GAAP are a set of quality standards that provide greater utility to the investor.
2. Financial information is **less manipulative**, since it does not involve the use of excessive judgment.

## Justification

1. IFRS: High compliance costs
2. Initial information reconciliation and training costs are high for companies.
3. It is a long and complicated process, since these fluctuate between 12.5% and 25% of income and represent, in some companies, from **\$5 to \$10 millions**.
4. Elimination of **tax advantages**
5. Efficient functioning of capital markets without IFRS
6. There will be no total uniformity
7. Usage guides are not the same
8. Social, economic and cultural factors

**Now that we've reviewed the information, are you ready to break the mirrors?**



# Place your bets!!!

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**U.S. GAAP**      **or**      **IFRS**

**It's time to abandon the battle**



Picture from: © In line 3D Model: <https://www.microsoft.com/en-us/servicesagreement/default.aspx>

## The need to be “financially bilingual” US GAAP vs IFRS

Muchas personas piensan que el termino bilingüe se refiere a los idiomas. Pero a través de esta discusión aprenderemos que las personas pueden ser: Financieramente Bilingües.

Many people think that the term bilingual refers to languages. But through this discussion we will learn that people can be Financially Bilingual.

Beaucoup de gens pensent que le terme bilingue fait référence aux langues. Mais à travers cette discussion, nous apprendrons que les gens peuvent être financièrement bilingues.

Molte persone pensano che il termine bilingue si riferisca alle lingue. Ma attraverso questa discussione impareremo che le persone possono essere finanziariamente bilingue.

许多人认为术语双语是指语言。但通过这次讨论，我们将了解到人们可以在经济上双语。

Xǔduō rén rènwéi shù yǔ shuāng yǔ shì zhǐ yǔ yán. Dàn tōngguò zhè cì tāolùn, wǒmen jiāng liǎojiě dào rénmen kě yǐ zài jīng jì shàng shuāng yǔ.



**KEEP CALM**

AND

BE

**FINANCIALLY**

**BILINGUAL**

## IFRS: Politics in International Standard Setting

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Charlie McCreevy, European Commissioner for Internal Markets and Service, stated that:

"Accounting is now far too important to be left to ...accountants!"

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# IFRS: Politics in International Standard Setting

**Politics in International Standard Setting.** Political pressures on the IASB's standard-setting process are severe. Politicians from countries that use IFRS lobby for the standards they prefer. The European Union (EU) is a particularly important adopter of IFRS and utilizes a formal evaluation process for determining whether an IFRS standard will be endorsed for use in EU countries. Economic consequences for EU member nations are an important consideration in that process.

For example, in 2008 the EU successfully pressured the IASB to suspend its due process and immediately allow reclassification of investments so that EU banks could avoid recognizing huge losses during a financial crisis. Commenting on standards setting at that time, Charlie McCreevy, European Commissioner for Internal Markets and Service, stated that "Accounting is now far too important to be left to ...accountants!"

# The need to be “financially bilingual” US GAAP vs IFRS

## ASSESSMENT ACTIVITY

### *3. CONVERGENCE / IFRS*