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General metrics

22,759	3,610	387	14 min 26 sec	27 min 46 sec
characters	words	sentences	reading time	speaking time

Score

74

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Writing Issues

280	10	270
Issues left	Critical	Advanced

Writing Issues

34	**Clarity**
34	Wordy sentences
10	**Correctness**
2	Determiner use (a/an/the/this, etc.)
1	Incorrect verb forms
1	Confused words
3	Misspelled words
1	Comma misuse within clauses

2	Wrong or missing prepositions	

Unique Words

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4.9 characters per word

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Sentence Length

9.3 words per sentence

Measures average sentence length

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Introduction

GAAP and IFRS are considered to be two major accounting standards that are being followed by different countries in order to[1] manage their various financial requirements. The GAAP is the local accounting standard whereas IFRS is basically[2] undertaken at an international level by means of[3] understanding the requirements of a business at a global level. With respect to[4] this, the assessment is associated with the determination of the various aspects that are associated with the first adoption of the IFRS within a particular country in terms of the management of the accounting standards. For this purpose, first of all, the difference between the GAAP and IFRS will be identified. After that, the financial positions of a particular entity will be developed in both formats of the accounting standards in order to[5] understand the first implementation of the IFRS.

Difference between GAAP and IFRS

Both the GAAP and IFRS are the majorly used accounting standards that maintain the overall formulation of the accounting standard within a particular business (Imhanzenobe, 2022). These are the overall formulation of the accounting framework by which a business maintains its own[6] daily accounts. The major focus of both accounting standards is to manage the financial records of the company by means of[7] allocating the different financial elements of the same. However, there are various[8] differences that are[9] observed while implementing both of them within an organisation. In this context, the major differences between GAAP and IFRS are evaluated below:

Point of Distinction

GAAP

IFRS

Based on

The GAAP is based on a limited number of rules that formulates the overall formulation of the accounting standards (Luo, 2022). For this purpose in order to [10] use the GAAP accounting standards, an entity has to integrate just a limited number of rules and regulations.

The IFRS is based on a number of [11] principles that regulates the entire accounting standards of the same (Savova, 2021). In this context, in case a company is acquiring the IFRS within the business then the concerned principles of the same will also be followed.

Development Body

GAAP was developed by the Financial Accounting Standard Board which stands for FASB (Odek, 2023).

IFRS was developed by International Accounting Standard Board which is IASB (Akhmedjanov, 2019).

Inventory Management Process

In this accounting method, both the FIFO as well as LIFO methods of inventory valuation are being used.

In this method of accounting only the FIFO method of inventory management is being used.

Components of Financial statements

GAAP is known to be a local accounting standard for which it does not have any specific financial components (SABRI, 2022). It acquires the requirements of the concerned countries wherein they are implemented.

IFRS mainly consists of a detailed analysis of the various financial elements that are present within a particular business (Jain, 2022). In this context, the major elements of this framework are the assets[12], liabilities, income, equity, and many more.

Revenue Recognition Method

This framework of accounting mainly considers the tax rules in order to[13] recognise the revenue generated by the same. This indicates that tax rates play a major role in accounting standards in terms of analyzing the revenue generated by a business.

The IFRS framework of accounting is having a detailed guideline that maintains the overall recognition of the revenue that is made by a business at the end of a particular financial year.

Evaluation of the intangible assets of a business

As per the GAAP accounting standard, the intangible assets of a business are measured at the cost value of the same.

As per the IFRS accounting standards, the revaluations of intangible assets are being[14] permitted for certain circumstances during the time of requirement.

Valuation of the plant and machinery

The valuation of the plant and machinery is restricted only towards the historical cost. The component approach of depreciation and the time value of money is not taken into account here.

Apart from the historical cost the accounting standards also consider the revalued accounts in terms of undertaking the fair value of the same. Moreover, in this framework, both the time value of money as well as the component approach of depreciation are being undertaken.

Non-Current Liabilities

In terms of having deferred payments within a business time value of money is not undertaken over here as per the GAAP framework.

As per the framework of the IFRS, the time value of money is considered and applied during the occurrence of deferred payments within an organisation.

Analysis of risks associated with a business

The GAAP framework does not acquire any analysis of risk that is involved with a particular business.

There is a detailed disclosure of the risk analysis that is associated with a particular business operation within a particular accounting period.

Segregation of the lease

There is no segregation of the lease within this particular framework of accounting.

In this accounting framework, the lease of a business is segregated between capitalised or financed and operating.

Preparation of the comprehensive financial statements

As per the GAAP analysis, it is not necessary for any business to prepare [15] comprehensive financial statements of their business.

In case an organisation is following the principles of IFRS, then it is necessary to prepare comprehensive financial statements of the same.

Table No 1: Difference between the GAAP and IFRS standards of accounting

(Source: created by self)

Preparation of the Financial Position and Income Statement

The financial position statement of the entity incorporated share capital of $150,000 and cash of $150,000 at the opening statement. Here the entity focused on following the US GAAP. As per the GAAP rules-

- All of the leases are considered to be service expenses
- The costs related to training are amortised and capitalised for 4 years (based on the straight line method). In the present period, the amortisation amount is considered to be tax deductible.

- Provision related to potential losses are considered to be expenses and is tax deductible for the current period.

S. no.

List of transactions

1.

A five-year noncancellable lease is formed by the entity for a machine and its useful life is 10 years with a residual value is $500. An initial payment of $5,000 was made whereas the present lease payment value was determined to be $10,500.

For each of the lease terms on 31 Dec the entity is needed to pay its lessor $1,000 and the ownership of the machine will be transferred to the lessee at the end of the lease term.

Here per year, the incremental interest rate is 10% and the GAAP system suggests that the lease payments are needed to be accounted for as administrative expenses for the business.

2.

Training costs paid $4,000 and it is capitalised as intangible assets as per the country GAAP. The amortisation portion is considered to be a contributing aspect to administrative expenses.

3.

The provision for potential losses is $8,000 and the losses are expected to be incurred in the second year. It is considered an operating expense in the Statement of Income.

4.

Cash revenue is recorded to be $50,000

5.

The existing tax rate in the focused country is 25% of total taxable income

Opening

balance

1

1a

2

2a

3

4

5

Closing

balance

Fixed assets

Intangible assets

4,000

-1,000

3,000

Prepaid expenses

6,000

-2,000

4,000

Current assets

Cash

150,000

-6,000

-4,000

50,000

190,000

Total assets

197,000

Current liabilities

Provision

8,000

8,000

Current tax liability

9,750

9,750

Equity

Share capital

150,000

150,000

Retained earnings - profit

-2,000

-1,000

-8,000

50,000

-9,750

29,250

Total liabilities and equity

197,000

Table 2: For Year 1

(Source: Created by self)

Opening

balance

1

1a

2

2a

3

4

5

Closing

balance

Fixed assets

Intangible assets

3,000

-1,000

2,000

Prepaid expenses

2,000

-2,000

0

Current assets

Cash

190,000

2,000

-4,000

60,000

248,000

Total assets

250,000

Current liabilities

Provision

17,900

17,900

Current tax liability

12,250

12,250

Equity

Share capital

150,000

150,000

Retained earnings - profit

33,100

69,850

Total liabilities and equity

250,000

Table 3: For year 2

(Source: Created by self)

Income statement using GAAP

Details

Amount

Income from revenue

50,000

Less: Administration expenses

3,000

Less: Other operating expenses

8,000

Profit before tax (PBT)

39,000

Less: Tax

9,750

Profit

29,250

Table 4: For year [16] 1

(Source: Created by self)

Income statement using GAAP

Details

Amount

Income from revenue

60,000

Less: Administration expenses

3,000

Less: Other operating expenses

8,000

Profit before tax (PBT)

49,000

Less: Tax

12,250

Profit

36,750

Table 5: For year 2

(Source: Created by self)

Translation of the Financial Statements

Translation table

GAAP

Lease

Training

Provision

Deferred tax

IFRS

Non-current assets

Leased machinery

9,500

9,500

Intangible assets

3,000

-3,000

0

Prepaid expenses

4,000

-4,000

0

Current assets

Cash

190,000

190,000

Total assets

197,000

199,500

Non current [17] liabilities

Lease liability

3,500

3,500

Deferred tax

1,500

1,500

Current liabilities

Provisions

8,000

-8,000

0

Current tax liability

9,750

9,750

Lease liability

1,650

1,650

Equity

Share capital

150,000

150,000

Retained earnings

29,250

1,350

-4,000

8,000

-1,500

33,100

Total equity and liability

197,000

199,500

Table 4: Statement of translation from GAAP to IFRS

(Source: Created by self)

Based on the above table (Table 4) a translation from GAAP to IFRS could be identified. In this process, it can be identified that the total value of assets using GAAP differs from the total value of assets estimated under IFRS. Similarly, the value of total equity and liabilities was also identified to be higher at 199,500 under the IFRS system compared to 197,000 in the case of GAAP. In the total assets value of the organisation, it has been identified that the value of intangible assets and prepaid expenses are not included at the time of determining the value of the same under the IFRS system. This has contributed to the occurrence of such differences in value as well. On the other hand, in the case of IFRS, only the value of lease machinery has been taken into consideration whereas for GAAP it was not a part of the estimation. Further, in the retained earnings the inclusion of provision and lease whereas exclusion of training and deferred tax aspects are the key contributing factors that made a difference between the total value of liabilities and equities of the entity. This highlights that in the actual implication process, certain differences between the recognition of the financial items are present between GAAP and IFRS. These changes or variations in recognition of items are needed to be taken into consideration at the time of switching from GAAP to IFRS system by the entity to comply with the relevant accounting and regulatory requirements.

Preparation of the Financial Statements by the means[18] of IAS 1

Statement of financial position

as per IFRS

Details

Amount

Non current[19] assets

Leased machinery

9,500

Current assets

Cash

190,000

Total assets

199,500

Non current[20] liabilities

Lease liability

3,500

Deferred tax

1,500

Current liabilities

Current tax liability

9,750

Lease liability

1,650

Equity

Share capital

150,000

Retained earnings

33,100

Total equity and liability

199,500

Table 5: Financial statement as per IAS 1

(Source: Created by self)

In the process of preparing the financial statement[21] IAS 1 delivers a detailed format or proforma based on which the respective accounts are presented in a financial statement to highlight the performance of an organisation. In this process, depending on the above table (Table 5) the financial statement of the focused entity has been formed for the concerned year. In this process, it has been identified that with the help of IAS 1 a detailed segregation of non-current or fixed assets and current assets could be identified from the value of total assets. Along with that, the liabilities of the entity could also be observed to be segregated between current and non-current portions. As a result of that a proper identification of the long-term and current financial situation of a company could be identified in an appropriate and effective manner[22]. The equity portion consisted of the value of share capital and retained earnings in the business process.

Explanation of the Impact of the First Adoption of IFRS

The IFRS is considered to be the most prominent accounting standard that formulates the entire accounting standards of a particular business (Savova, 2021). This implies that the framework provides a huge impact towards the maintenance of the overall business formulation of an organisation. With respect to[23] this, the major impact of the First Adoption of IFRS within a business is as follows:

Comparison over different firms- The IFRS accounting standards provide a huge impact on the business by means of[24] making it easier to compare the financial well-being with that of others (Chatterjee, 2019). In this, context, it has been stated that the accounting standard provides an opportunity for companies to compare their own[25] organisation easily without any obstacles with that of others at an international level. The main reason behind this aspect is just that for any country there is a separate GAAP framework to be considered from an accounting perspective. It may become an issue for the companies to compare with than[26] others. Whereas on the other hand, the IFRS framework is a standard accounting framework that is observed to be followed by nearly most countries at the present time[27]. For this reason, the same accounting standard is being followed for all the countries all across the globe. In this respect, it can be stated that the comparison of the business entities can become easier by means of[28] following the IFRS framework.

Facilitation of mergers and acquisitions- For any merger and acquisition, it is necessary to first be informed about the organisation adequately before associating with the same (Cui, 2020). At an international level, it is also necessary to understand the entire financial strategy of a business before associating with the same. Apart from this, it is also important that both entities are following the same accounting standard. Apparently,[29] the framework of IFRS is associated with the major accounting standards that are being followed at an international level. This aspect of the framework helps in understanding the business perspectives of each of the entities that are going to be merged. In a broader sense, it can be stated that the IFRS framework is accepted at an international level which helps in the mergers and acquisitions of two different entities at a global level without any obstacles. This indicates

that the companies that have implemented the IFRS within their business will be receiving a benefit in terms of the mergers and acquisitions of the same.
Presentation of more information along with transparency- The IFRS framework of the accounting standards is observed to have a clear and in-depth formulation of each of the financial components of the financial statements that are present within a business (Mohammed, 2019). In simple words, it can be stated that the framework is comprised of a clear understanding of the financial elements. This helps in understanding each of the elements that are present within the financial statements. This aspect delivers a benefit in terms of transparency within the business. The more decomposed the elements are of the financial statements the more transparent the business becomes to be understood by an individual. Apparently,[30] while associating at an international level it is necessary to understand the different financial elements of the same.
Reduction of effort, time, and cost- The framework of the IFRS delivers a huge impact in terms of reducing time, effort, and cost subsequently without any obstacles. The framework is associated with the simplification of the various financial segments that are present within a particular business. In other words, it can be stated that within the concerned framework, the accounting standards are in a simple format that can be easily understood by an individual. In addition to this, the cost that is involved within this particular framework is also lower than that of the other framework of the IFRS will be able to have easy access to all the required financial information within a short period of time[31] at a lower cost of expenses.

Problems Associated with the First Adoption of IFRS

The IFRS framework is observed to have a huge positive impact towards the overall financial management of an organisation at an international level (Abdelqader, 2021). In a broader sense, it can be stated that the first adaptation of the IFRS within a business at an international level delivers a better evaluation of the various financial elements that are present within the financial statements of a particular organisation at the end of a particular financial year. However, there are various problems that are[32] associated with the first adaptation of the IFRS within an organisation at an international level. These problems of the IFRS are being evaluated below:

Lack of details- In the IFRS accounting standard, there is a lack of details which creates an issue in terms of understanding the various aspects that are present within the financial statements of an organisation. With respect as it can be stated that there are various elements which and not being undertaken by the concerned framework of accounting. As a result of this, there is a lot of detailed understanding of the various components of the financial statements. This may create an issue in terms of taking the most important financial decision for the concerned organisation very the IFRS framework of accounting is being implemented. In addition to this in case any decisions are being taken by the means of considering this framework will be of some financial components within the same that may affect the business in the future course of action.

Manipulation of the accounting standards- For most of the countries all across the globe there is a local accounting framework that they usually follow in order to[33] formulate the over on financial information of a particular business which are lying within their territories. In case the IFRS framework of accounting standards is being implemented within these areas then it may affect or manipulate the entire accounting standards that are being followed over there.

In addition to this, it may create an issue in terms of preparing the financial statements of an order at the end of the particular financial period. In a broader sense, it can be stated that the implementation of the IFRS framework of accounting standards within a particular country may manipulate the local accounting standards that are being followed by them for the past few years. As a result, this may affect the understanding of the financial positioning of a business.

Difference between the capital market- Different countries are having different standard levels in terms of their own [34] capital market segment. This may create an issue in terms of implementing a particular accounting standards framework within the territories better associated with the same. For example, there are many countries which are mainly focusing over ban financing by the means of borrowing funds from there in order to [35] raise their own [36] capital segment. Whereas on the other hand, there are also many countries which Focus on the cell of their own in order to [37] maintain an adequate level of capital within the business. Subsequently, the implementation of the framework of accounting standards creates an issue in terms of managing the financial statements of these entities. Further, in case these two entities are reading to get merged with each other [38] then the implementation of the IFRS will be quite complicated over here in terms of understanding the capital market segment of both ends at the same time. In other words, that can be stated that the implementation of the IFRS accounting framework is quite difficult to be incorporated for two entities which are having different capital market segments.

Lack of understanding- One of the basic problems that is associated with the implementation of the IFRS framework is a lack of understanding of the accounting principles (Ferati, 2021). The IFRS framework is having various principles that form units of the various financial records of an organisation. In order to [39] understand the financial statements which are prepared by the means of IFRS framework is necessary that an individual is already aware of the different principles as well as the perspectives of the same. However, for most of [40] countries, there is a lack of understanding about the concern accounting framework affecting the implementation of the same. in a broader sense, it can be stated that there are a limited number of people who are aware of the entire understanding as well as the principles of the IFRS. As a result of this increase and issue in terms of being implemented within an organisation. Further, it can be stated that in order to [41] mitigate the concerned problem, it is necessary to provide a piece of adequate knowledge about the different principles of the IFRS which will ultimately help the entities to implement the same for the management of their own [42] business activities.

Conclusion

The assessment has covered a vast information in terms of two different accounting standards, which are GAAP and IFRS which are broadly being used in various countries all across the globe. It has been observed over here that there is a broad difference between these two particular accounting. In the concern as meant it has been observed that there are some issues in terms of painting the IFRS accounting standards within a particular entity. For this purpose, first of all, the financial statements have been produced over here in terms of GAAP. After this, the financial statements have been transferred by the framework of the IFRS in order to [43] understand the difference between both perspectives. Further, in the last, the impact and the challenges of the implementation of the IFRS framework have been evaluated here in order to [44] understand the positive and negative aspects of the same.

References

1.	~~in order to~~ → to	Wordy sentences	Clarity
2.	~~basically~~	Wordy sentences	Clarity
3.	~~by means of~~ → using, utilizing, employing, through	Wordy sentences	Clarity
4.	~~With respect to~~ → Concerning, For, To	Wordy sentences	Clarity
5.	~~in order to~~ → to	Wordy sentences	Clarity
6.	~~own~~	Wordy sentences	Clarity
7.	~~by means of~~ → using, utilizing, employing, through	Wordy sentences	Clarity
8.	~~various~~	Wordy sentences	Clarity
9.	various differences are	Wordy sentences	Clarity
10.	~~in order to~~ → to	Wordy sentences	Clarity
11.	~~a number of~~ → several, some, many	Wordy sentences	Clarity
12.	~~the~~ assets	Determiner use (a/an/the/this, etc.)	Correctness
13.	~~in order to~~ → to	Wordy sentences	Clarity
14.	~~being~~	Incorrect verb forms	Correctness
15.	no business needs to prepare	Wordy sentences	Clarity
16.	~~year~~ → Year	Confused words	Correctness
17.	~~Non current~~ → Non-current	Misspelled words	Correctness
18.	~~the~~ means	Determiner use (a/an/the/this, etc.)	Correctness
19.	~~Non current~~ → Non-current	Misspelled words	Correctness

20.	~~Non-current~~ → Non-current	Misspelled words	Correctness
21.	statement,	Comma misuse within clauses	Correctness
22.	appropriately and effectively	Wordy sentences	Clarity
23.	~~With respect to~~ → Concerning, For, To	Wordy sentences	Clarity
24.	~~by means of~~ → using, utilizing, employing, through	Wordy sentences	Clarity
25.	~~own~~	Wordy sentences	Clarity
26.	~~than~~	Wrong or missing prepositions	Correctness
27.	~~at the present time~~ → at present	Wordy sentences	Clarity
28.	~~by means of~~ → using, utilizing, employing, through	Wordy sentences	Clarity
29.	~~Apparently,~~ the	Wordy sentences	Clarity
30.	~~Apparently,~~ while	Wordy sentences	Clarity
31.	~~period of time~~ → period, time	Wordy sentences	Clarity
32.	various problems are	Wordy sentences	Clarity
33.	~~in order to~~ → to	Wordy sentences	Clarity
34.	~~own~~	Wordy sentences	Clarity
35.	~~in order to~~ → to	Wordy sentences	Clarity
36.	~~own~~	Wordy sentences	Clarity
37.	~~in order to~~ → to	Wordy sentences	Clarity
38.	~~with each other~~	Wordy sentences	Clarity

39.	~~In order to~~ → To	Wordy sentences	Clarity
40.	~~of~~	Wrong or missing prepositions	Correctness
41.	~~in order to~~ → to	Wordy sentences	Clarity
42.	~~own~~	Wordy sentences	Clarity
43.	~~in order to~~ → to	Wordy sentences	Clarity
44.	~~in order to~~ → to	Wordy sentences	Clarity