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Review Article

A Critical Review of US GAAP And IFRS: Future Research Directions

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Abstract

The aim of this critical review is to evaluate the body of existing literature in order to identify key areas for future research on the convergence of United States Generally Accepted Accounting Principles (U.S. GAAP) and International Financial Reporting Standards (IFRS). Prior research has mostly concentrated on quantitative approaches, paying little attention to qualitative perspectives and local obstacles to IFRS adoption, especially in light of US GAAP convergence. A systematic review was carried out, examining twenty-eight articles from 2015 to 2024. Databases such as Science Direct, Google Scholar, and Emerald Insight provided the data, which was then analyzed using the PRISMA framework. Even though there has been progress, there are still significant differences between US GAAP and IFRS, which makes cross-border reporting more challenging. Two major obstacles are the lack of professional training and the lack of preparedness for the adoption of IFRS, especially in the US. There are still many major challenges facing the convergence process. To address these issues, especially with regard to training and institutional preparedness, more qualitative research is required. Understanding the convergence of US GAAP and IFRS is very insightful for stakeholders, including investors, multinational corporations, policymakers, and standard-setting bodies, to comprehend.

Keywords: Accounting standards, convergence, financial reporting, inconsistencies, IFRS, US GAAP.

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Introduction

The convergence of the United States Generally Accepted Accounting Principles (U.S. GAAP) and International Financial Reporting Standards (IFRS) has drawn a lot of attention and become a contentious issue among academics worldwide over the past two decades (Ahsan et al., 2024; Agana et al., 2023; Esam Alharasis et al., 2023; Odek & Kimanzi, 2023; Golubeva, 2023; Nguema, 2022; Saha & Bose, 2021; Lucchese & Carlo, 2020). The International Accounting Standards Board (IASB) is in charge of IFRS, and one of its main objectives for the global convergence of accounting standards is to improve the comparability of financial reporting (Kamla & Haque, 2019; Saha & Bose, 2021). On the other hand, US GAAP has long been the main financial reporting system in the US. It was created by the Financial Accounting Standards Board (FASB) in cooperation with other councils. It is distinguished by a rules-based methodology that emphasizes precise and comprehensive criteria for financial information reporting (Bierstaker et al., 2016). Numerous studies have emphasized the significant distinctions between U.S. GAAP and IFRS (Lucchese & Carlo, 2020). The fact that IFRS is used in more than 140 countries and is encouraging the harmonisation of accounting procedures globally highlights the standards' global relevance (Oz & Yelkenci, 2018). Numerous studies have shown that, despite continuous efforts toward convergence, establishing a single set of universal accounting standards is still a long way off (Mohamed, 2023).

Despite continuous attempts to bring US GAAP and IFRS closer together, there are still notable distinctions between the two frameworks, which present serious difficulties for investors and international corporations (Toudas, 2018; Bierstaker et al., 2016). Converting their financial statements from US GAAP to IFRS has required multinational corporations, especially those in the US, to spend a lot of money in order to improve comparability for investors from around the world (Lucchese & Carlo, 2020). The goal of the global financial reporting standards is to create a single, universal set that will lower information costs and provide the market with a consistent, trustworthy message (Mohamed, 2023). Due to international convergence and the widespread use of IFRS worldwide, U.S. financial managers' lack of readiness raises the possibility of significant revenue recognition errors, underscoring the urgent need for improved training and awareness (Bierstaker et al., 2016). The majority of research on harmonisation and convergence has focused on quantitative approaches, paying less attention to qualitative approaches such as critical review (Ahsan et al., 2024; Esam Alharasis, et al., 2023; Saha & Bose, 2021; Rou). Using the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) 2020 guideline, this study closes a particular gap in the literature (Mohamed, 2023; Odek & Kimanzi, 2023; Angeloni, 2016). Furthermore, the difficulties in coordinating accounting standards have sparked questions regarding the veracity of financial reports and the possibility of scandals, highlighting the significance of this area of study (Nguema, 2022). This critical review of U.S. GAAP and IFRS closes a particular gap in the literature, by employing a qualitative methodology using and offering suggestions for future research.

Using the PRISMA guideline 2020, this study intends to objectively examine the development and present status of US GAAP and IFRS convergence efforts from 2015 to 2024. It will also critically analyze the evolution and present state of US GAAP and IFRS convergence efforts from 2015 to 2024. The study will also pinpoint new trends, gaps and suggest future research directions in order to explore new avenues in the standard setting global efforts.

RQ1: What were the major developments and turning points in the convergence process between US GAAP and IFRS, from 2015 to 2024, and what difficulties have been noted in the literature to date?

RQ2: How do the distinctions between US GAAP and IFRS in financial reporting affect the transparency and comparability of financial statements, based on existing literature?

RQ3: What avenues for further study can be suggested to tackle the opportunities and problems brought about by the merging of US GAAP and IFRS in the changing global accounting standards landscape?

The significance of this critical review lies in its implications for a number of stakeholders, such as regulators, researchers, standard-setters, and financial statement users. The review gives standard-setters like the IASB and FASB important information about the developments and difficulties in the convergence of US GAAP and IFRS. Despite international efforts to standardize accounting standards, there are still significant disparities that could compromise the dependability and comparability of financial reports (Lucchese & Carlo, 2020; Winiarska, 2020). Understanding the obstacles to complete convergence will help regulators make better decisions and implement policies that will improve financial reporting standards, especially in nations where both US GAAP and IFRS are used. The review provides researchers a thorough synthesis of the body of literature, pointing out areas that need more research and recommending possible directions for future study. It will also be helpful for investors, analysts, and multinational corporations to comprehend how these standards affect financial statement comparability, which is essential for international market integration and cross-border investment choices (Lin et al., 2019). The review underscores the need for additional investigation to tackle the urgent issues of harmonizing accounting standards in the dynamic global economy.

This study is driven by the growing need for a critical analysis of the advancements, difficulties, and potential paths of the convergence of US GAAP and IFRS, particularly in view of recent events that have occurred between 2015 and 2024. The need for standardized financial reporting practices to improve cross-border comparability is growing as a result of the global economy's increased interconnectedness (Angeloni, 2016). But even with great progress, a completely unified worldwide accounting standard is still a long way off (Mohamed, 2023). This study intends to add to the body of knowledge on international accounting standards by concentrating on the qualitative aspects of the convergence process and offering fresh perspectives on the continuous harmonisation efforts and difficulties (Nguema, 2022). In order to close the gaps between theory and practice in the area of global financial reporting, the results of this review will guide future research directions.

Five sections make up this review. The introduction, which comes first, gives a summary of US GAAP and IFRS and emphasizes their importance in the globalised economy. After that, it describes the precise goals of the study and states the research problem. A description of the search strategy, inclusion and exclusion criteria, and data extraction procedure used in the literature review is provided in Section 2 of the methodology section. In section 3, the results are presented with an emphasis on the features of the reviewed articles and their analysis. A discussion of the main ideas and conclusions drawn from the review is given in Section 4. Section 5 brings the review to a close by summarizing the main conclusions and outlining potential lines of inquiry.

Methodology

This review applied the PRISMA, 2020 guidelines (Page et al., 2021) to articles published between 2015 and 2024 in order to analyse the evolution and current state of US GAAP and IFRS convergence efforts and offer future directions. The PRISMA statement was designed to assist systematic reviewers in openly communicating the purpose of the review, the actions taken by the authors, and the results obtained, created (Page et al., 2021). There were four main steps in this review (Khalifa & Albadawy, 2024). Namely;

i. Literature search.

ii. Literature screening

iii. Data extraction

iv. Data analysis

Step one: literature search

The search strategy employed a combination of keywords to locate relevant articles published between January 1, 2015, and December 30, 2024. Accounting standards, US GAAP, IFRS, convergence, financial reporting, and inconsistencies are among the keywords used to search for the articles in each database (Farah & Mehdi, 2021). Emerald Insight, Google Scholar, and Science Direct are among the databases that were used to find pertinent articles (Khalifa & Albadawy, 2024; Akomea-Frimpong et al., 2022). To gather additional information, a comprehensive download and review of the articles' titles, abstracts, authors, keywords, journals, and references were conducted (Monson, 2024).

Step two: literature screening

The search results were further refined in the second step by applying inclusion and exclusion criteria (Khalifa & Albadawy, 2024). Articles must be in English, original or secondary research, non-duplicate, and directly to US GAAP and IFRS convergence and harmonisation, abstracts and keywords that contain one or more of the main search terms in order to meet the inclusion criteria (Georgopoulos et al., 2023; Akomea-Frimpong et al., 2022; Farah & Mehdi, 2021). Whether these studies were empirical or non-empirical was not part of the criteria (Farah & Mehdi, 2021).

Step three: data extraction

Data extraction and synthesis were part of step three. Key findings, abstracts, discussions, conclusions, limitations, and recommendations were analysed after data about the convergence and harmonisation of US GAAP and IFRS was taken from the identified studies (Khalifa & Albadawy, 2024). In order to determine publication trends by years, regions, methodologies, theories, and themes, this data was then synthesized (Khalifa & Albadawy, 2024; Farah & Mehdi, 2021).

Step four: data analysis

A thorough examination of the extracted data was the last step in order to comprehend the efforts at harmonisation and convergence, as well as to find patterns, gaps, and potential future directions (Khalifa & Albadawy, 2024; Farah & Mehdi, 2021). In the end, 28 articles were included and examined in this systematic review in order to thoroughly evaluate the gaps, trends, and future directions in CE. The R package (https://www.eshackathon.org/software/PRISMA2020) was used in the review to create a customizable flow diagram that complies with PRISMA 2020 guidelines (Haddaway et al., 2022). See figure 1

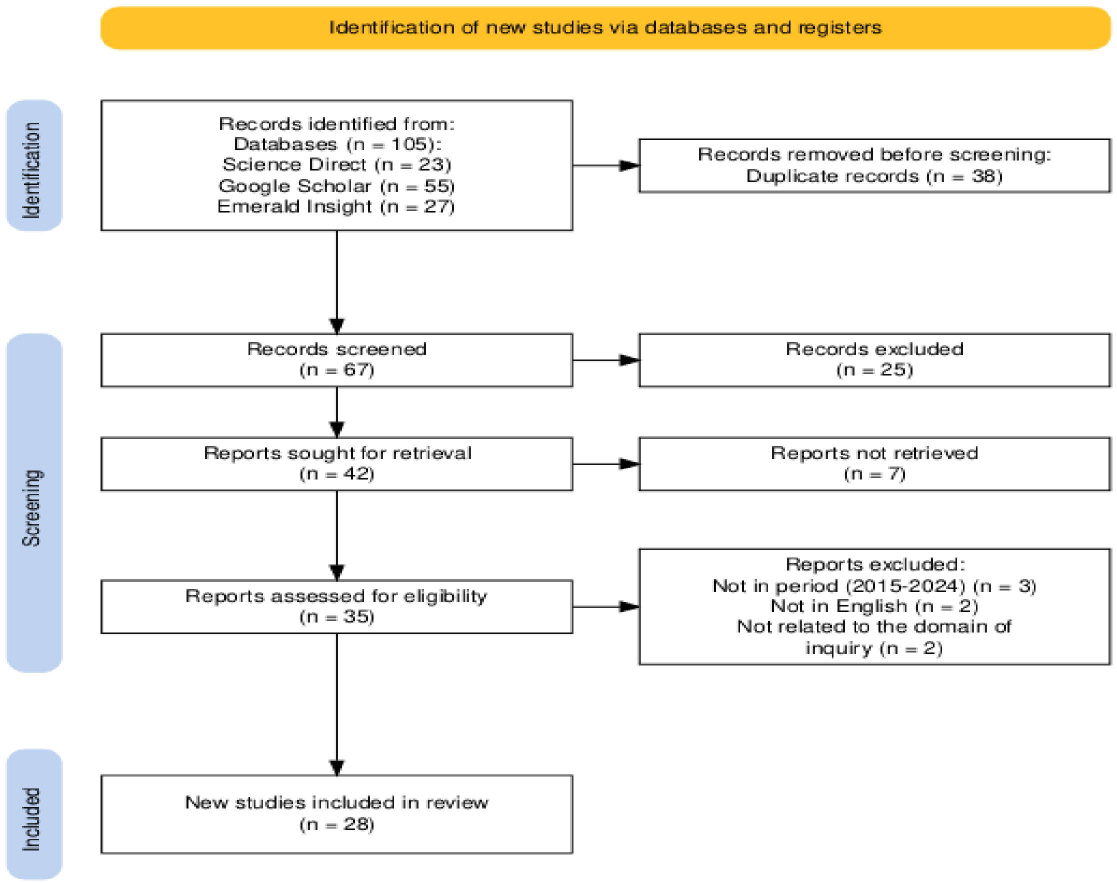

Figure1. Showing PRISMA flow diagram

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Findings

Article Characteristics

Publication trend by years

Figure 2 illustrates a pattern of variation in the quantity of articles reviewed from 2015 to 2024. Although research activity has been on the rise overall, reaching a notable peak in 2023, the variation from year to year indicates that interest in this field may not have been constant over the course of the period. Conflicting evidence from these studies and the variety of contexts in which these standards are adopted are major factors contributing to this growing interest (Agana et al., 2023). Furthermore, the implementation of IFRS has drawn more attention to international accounting standard regulations globally, which has made it possible to conduct empirical research on a range of opinions regarding the requirement to adopt IFRS (Ma et al., 2022).

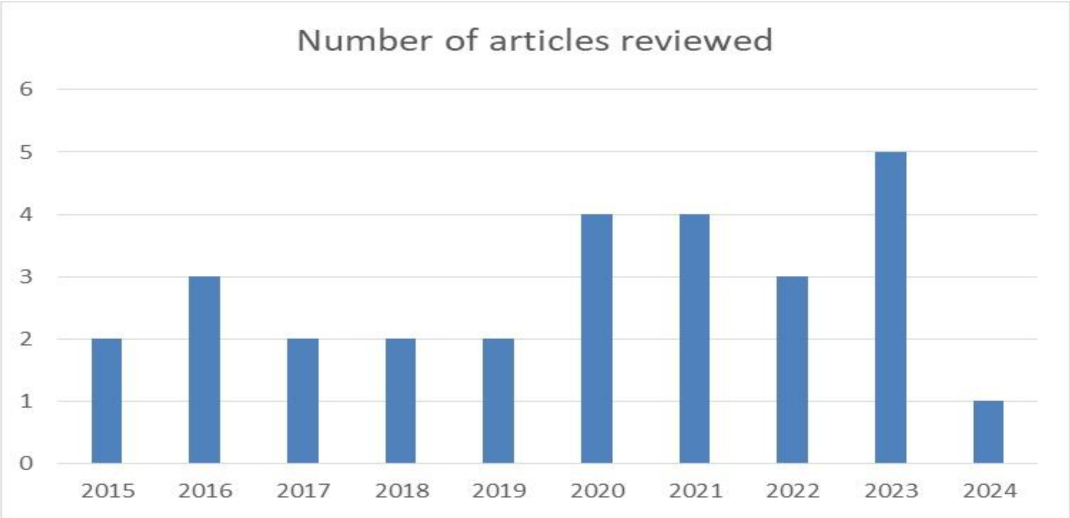

Figure 2. showing article publication trend by years.

Publication trend by research approaches

Figure 3 shows the research approaches employed in the reviewed studies, where quantitative methodologies clearly predominate. This trend highlights the literature's heavy reliance on empirical data and statistical analysis, demonstrating the important role that numerical evidence plays in helping us better understand difficult subjects like the adoption and application of U.S. GAAP and IFRS. The increasing need for quantifiable results and comparability in a globalised accounting environment may also be viewed as the reason for the prevalence of quantitative research (Angeloni, 2016; Ma et al., 2022). The prevalence of qualitative and mixed methods research suggests a growing trend towards a more varied approach in tackling the challenges of accounting standard adoption, even though quantitative methods continue to dominate. Although it is less common, qualitative research enables a more thorough examination of stakeholder viewpoints and contextual elements that are frequently disregarded in strictly quantitative studies. Given that the institutional and geopolitical environments in which IFRS is

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implemented can differ greatly among nations, this is especially pertinent (Camfferman, 2020; Albu et al., 2020). For example, the contradictory data from IFRS adoption studies emphasizes how important it is to account for the subtleties of regional regulatory, cultural, and economic contexts that could influence adoption results (Agana et al., 2023). Research that employs mixed methods, which blend qualitative and quantitative techniques, has the potential to advance our comprehension of the complex dynamics underlying the convergence of international accounting standards. By combining empirical data with the firsthand accounts of important stakeholders, including regulators, auditors, and accountants, this method can yield deeper insights (Silva et al., 2021). Alongside quantitative indicators of financial performance, research could benefit from looking at how the adoption of IFRS has affected qualitative aspects of accounting information, like value relevance (Lin et al., 2019).

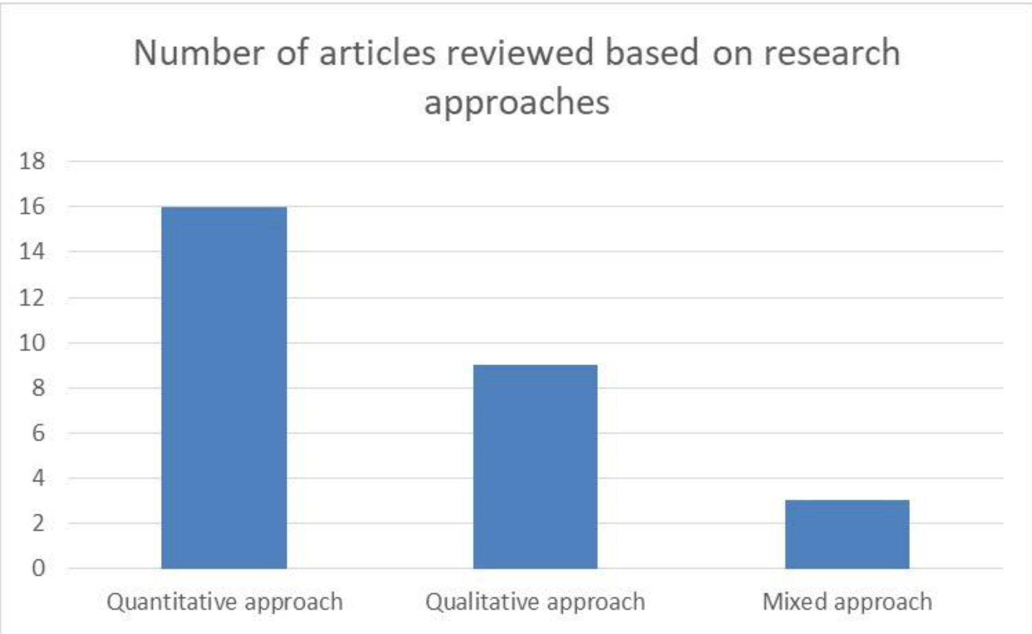

Figure 3. showing article publication trend by research approaches

Publication trend by regions

The geographic distribution of studies on the convergence of US GAAP and IFRS is shown in Figure 4, which shows clear regional trends. Significantly, Asia tops the list of research output regions, indicating a growing interest in the adoption of IFRS and its implications in the Asian context. The growing pressure for global accounting standards as Asian economies become more integrated with global financial markets is the reason for this (Angeloni, 2016; Ma et al., 2022). Due to the regional complexity of IFRS adoption and its continued regulatory alignment, Europe also makes a substantial contribution to the literature (Camfferman, 2020). On the other hand, there seems to be comparatively little research being done in places like Australia, South America, and Africa. This might point to a void in the scholarly discussion of US GAAP convergence and IFRS adoption in these areas. The existence of a “Global” category, however, implies that some research initiatives are more conceptual in nature or cover several regions, thus addressing global implications. Some studies' lack of a region-specific focus might be an

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indication of how IFRS adoption has an impact that cuts across national borders (Ma et al., 2022; Nguema, 2022). This geographic discrepancy in research may also be related to the varying degrees of market integration, institutional support, and regulatory pressures in these areas.

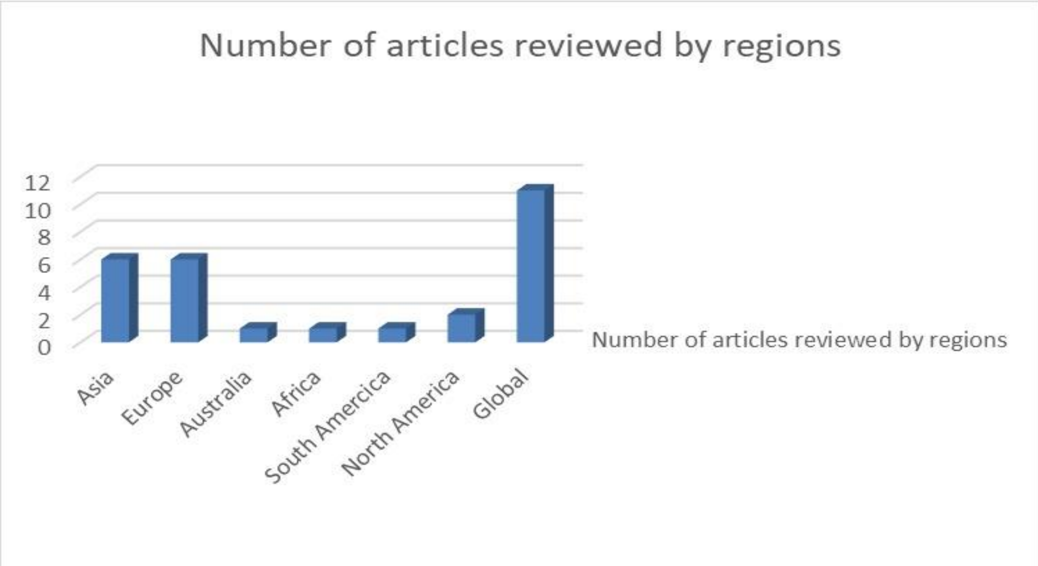

Figure 4. showing article publication trend by regions

Theoretical background

Convergence refers to the gradual process of reducing the discrepancies between IFRS and the national accounting standards of nations that still use their own frameworks (Odek & Kimanzi, 2023). By choosing the best practices from current standards and pursuing a more unified accounting system, this process seeks to lessen international differences in accounting practices (Ahsan et al., 2024). Since it enables nations to gradually modify their local reporting systems, the convergence process is frequently seen as a more adaptable option to full IFRS adoption because it lessens the potential for abrupt disruptions that could result from a complete switch (Adhikari et al., 2021). Depending on the unique circumstances of each nation, this transition is gradual and can occur at different rates and depths (Golubeva, 2023). Prior studies have emphasized the convergence approach's resilience, showing that the shift to a single worldwide set of accounting standards has significant potential to improve financial reporting's comparability and transparency (Esam Alharasis et al., 2023). Convergence might provide flexibility, but it might not create the same sense of urgency as a one-time switch to IFRS, and implementation rates can differ greatly between regions (Adhikari et al., 2021). Because they all understand how important this process is to promoting global financial integration, standard setters, regulators, and users of financial statements have all begun to pay more attention to the convergence of accounting standards (Angeloni, 2016).

Harmonisation is the process of bringing accounting standards into line with one another in order to minimize or completely eradicate differences between various national

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frameworks while preserving some degree of flexibility in how they are applied (Mohamed, 2023). Harmonisation attempts to improve the degree of agreement between standards without necessarily getting rid of all national quirks, in contrast to convergence, which aims to establish a single national accounting system. In order to reduce contradictions and promote greater consistency in financial reporting practices, this concept which comes from the Latin word harmonia seeks a simplified approximation between two or more legal systems (Mohamed, 2023; Nguema, 2022). Although harmonisation has presented many difficulties, it can help with comparability and comprehension in cross-border financial reporting. Previous research contends that because a large portion of political and business activity is still localized, harmonisation may result in uniform regulatory frameworks but not always uniform reporting practices (Ball, 2016). In order for harmonisation to reach its full potential, it must incorporate mechanisms for ensuring consistent implementation, which is still elusive in many regions, in addition to creating uniform rules (Ball, 2016). Additionally, managerial discretion is increased by the implementation of IFRS, which is more principles-based than earlier rules-based standards, particularly in areas like fair value accounting. Although this method can offer greater flexibility, it also raises questions about the contractibility and usefulness of financial statements, especially in sectors like banking where the implementation of IFRS may have a substantial impact on accounting-based debt covenants (Ball et al., 2015).

Principle-based (IFRS) and rule-based (USGAAP) approaches

The fundamental difference between US GAAP and IFRS is how they approach accounting standards: US GAAP is rules-based, whereas IFRS is a principles-based framework. The International Accounting Standards Board (IASB) created IFRS, which is more adaptable and focuses on general guidelines for financial reporting, enabling a higher degree of reliance on expert judgment (Bierstaker et al., 2016). In markets where the interpretation of accounting transactions necessitates flexibility, like in the recognition of assets at fair market value minus accumulated depreciation, this flexibility makes IFRS especially attractive as it offers greater insight into a company's present financial status (Ma et al., 2022). The principles-based approach's detractors counter that this dependence on judgment could result in disparate interpretations of comparable transactions, decreasing the comparability of financial statements (Odek & Kimanzi, 2023). Notwithstanding these reservations, IFRS's methodology promotes more thorough disclosures and provides a more market-oriented viewpoint that takes into account businesses' economic realities (Golubeva, 2023). According to Ball et al. (2015), IFRS is therefore thought to offer a more informative balance sheet, particularly in areas like liability recognition and fair value accounting.

On the contrary, the US GAAP is a rules-based methodology that specifies particular accounting treatments for different transactions. It was created by the Financial Accounting Standards Board (FASB) and is supervised by the Securities and Exchange Commission (SEC) (Lucchese & Carlo, 2020). There is less opportunity for interpretation on the rule-based framework, which results in more thorough disclosures and uniform accounting procedures among businesses. Financial statements may become less representative of a company's actual market position as a result, even though this can improve comparability and lower the possibility of subjective judgment. US GAAP, for instance, usually records assets at cost less accumulated depreciation; this approach might not accurately reflect an asset's true fair value as well as IFRS (Ma et al., 2022). Additionally, firms may not be able to appropriately reflect the complexity of their financial circumstances due to GAAP's strict nature. Significant differences still exist between these two frameworks, especially in areas like revenue recognition and financial instrument accounting, despite continuous efforts by the FASB and IASB to harmonize them. This highlights the difficulties in reaching true global convergence (Bierstaker et al., 2016). Therefore, GAAP may compromise the flexibility and market relevance that principles-based IFRS offers, even though it offers greater certainty and consistency.

Empirical review on US GAAP and IFRS

Mixed findings from empirical research on the adoption of IFRS and the convergence with US GAAP have shown significant implications for the global accounting environment. The drop in earnings quality after IFRS adoption is one noteworthy finding, especially in terms of decreased earnings relevance and elevated volatility (Benkraiem et al., 2021). The increased managerial discretion permitted by IFRS has been blamed for this decline in earnings quality, which may result in earnings management. The same study did, however, also discover an improvement in earnings reliability, indicating that IFRS may have contributed to a reduction in managerial opportunism, particularly when firm-specific incentives were appropriately aligned (Benkraiem et al., 2021). For example, there were adverse effects, especially with regard to the fair value measurements brought about by IFRS, in nations with less robust enforcement systems, such as those in developing nations (Ding et al., 2017). This emphasizes how crucial context is, since institutional and regulatory frameworks are essential to the adoption of IFRS. Similar to this, research has demonstrated that legal origins have an impact on how businesses implement IFRS, with better transitions from accrual to real earnings management being associated with stronger enforcement, though these effects vary depending on the legal tradition (Oz & Yelkenci, 2018). Additionally, in Bangladesh, where professional accountants showed little support for IFRS, problems like low audit fees and inadequate IFRS training were found to be obstacles to successful implementation (Ahsan et al., 2024).The empirical data also highlights the major obstacles to full convergence with international accounting standards, especially in nations like Brazil and Portugal where professional resistance, low levels of professional development, and informal market forces have impeded the adoption of IFRS (Silva et al., 2021). On the other hand, research conducted in Asian banking sectors, including Pakistan, shows that greater adherence to IFRS is associated with better earnings timeliness and banking efficiency, indicating that IFRS adoption can improve institutional quality and financial transparency (Ma et al., 2022). The full advantages of implementing IFRS, however, might not become apparent right away, particularly if local enforcement and institutional frameworks are strengthened in tandem (Adhikari et al., 2021).

The review also emphasizes how crucial institutional and regulatory contexts are in determining how successful the adoption of IFRS is. Furthermore, a thorough grasp of the obstacles to complete convergence between US GAAP and IFRS is provided by the identification of problems like professional resistance, insufficient training, and inadequate regulatory frameworks. This analysis fills in gaps in the literature and provides

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future research directions that can help academics, standard-setters, and policymakers improve the process of global accounting convergence.

Current debate on US GAAP and IFRS adoption

The continued discussion about whether US GAAP or IFRS should be adopted raises concerns about the applicability, effectiveness, and long-term effects of these accounting systems in different jurisdictions (Agana et al., 2023; Nurunnabi, 2017; Chan et al., 2015). The difference between US GAAP's rules-based methodology and IFRS's principles-based approach is one of the main points of contention in this discussion. In contrast to US GAAP, which is renowned for its comprehensive and prescriptive guidance that provides particular rules for a variety of transactions, IFRS typically offers more general principles that call for greater managerial discretion in their implementation (Lucchese & Carlo, 2020). Achieving uniform application and comparability across businesses and jurisdictions may be difficult as a result of this discrepancy. Improvements in earnings quality, particularly in terms of earnings reliability and decreased managerial opportunism, have been linked to the mandatory adoption of IFRS (Benkraiem et al., 2021). Concerns have been raised, though, that the move to IFRS has resulted in less relevance to earnings and more volatility, which may jeopardize the comparability of financial statements, especially in the first few years after adoption (Benkraiem et al., 2021). Furthermore, the difficulties in reaching complete convergence and consistent implementation are highlighted by the experiences of nations like Brazil and Portugal, where IFRS adoption has been driven by informal market forces rather than official supervisory mechanisms (Silva et al., 2021). These complications imply that it might be harder than first thought to achieve global harmonisation through IFRS, particularly when taking into account the various institutional and legal environments across nations. However, IFRS adoption has been growing globally, with more than 140 countries pursuing its implementation (Oz & Yelkenci, 2018). Proponents point to increased transparency and better comparability of financial statements as advantages, which are thought to increase the usefulness of financial reports for analysts, investors, and other stakeholders. According to studies, because IFRS encourages a more accurate representation of financial performance, its implementation can help decrease analysts' forecast errors and enhance the promptness of loss recognition, especially in companies with higher debt costs (Chan et al., 2015). However, context frequently affects how effective IFRS adoption is in practice. The anticipated advantages of IFRS have been slow to materialize in nations with underdeveloped accounting infrastructures or lax enforcement mechanisms, and in certain instances, they have even had unfavorable effects (Ding et al., 2017). Calls for more proactive steps to guarantee that the adoption of IFRS is backed by robust regulatory frameworks, expert training, and local adaptation to particular institutional needs have resulted from this (Nurunnabi, 2017). Furthermore, despite the generally positive academic and professional discourse surrounding IFRS, which reflects its potential to harmonize global accounting standards, detractors contend that because of the notable institutional variations among nations, a one-size-fits-all approach may not always be appropriate (Nguema, 2022). The broad adoption of IFRS is therefore fraught with difficulties, especially in nations with different legal traditions and market structures, even though it is viewed as a step towards global harmonisation.

This critical review adds to the current scholarly conversation by offering a thorough analysis of the current controversy surrounding the adoption of US GAAP and IFRS. It summarizes research results that show the advantages and difficulties of implementing IFRS, providing information about the difficulties that come with switching from domestic to international accounting standards.

Key areas of differences between the US GAAP and IFRS

One of the most important areas where IFRS and US GAAP diverge, is the way assets are valued and treated. Assets are typically valued at historical cost under US GAAP, and even if their fair value rises, they cannot be written up. On the other hand, as long as there is a market for the asset, IFRS permits PP&E to be revalued to fair value. In contrast to US GAAP, which requires that PP&E be reported at cost less accumulated depreciation without revaluation, IFRS's revaluation flexibility allows businesses to present a more informative balance sheet by reflecting assets at fair market value less accumulated depreciation (Rouvolis, 2022; Ma et al., 2022). Furthermore, IFRS allows for the revaluation of intangible assets in situations where a trustworthy market value can be ascertained, something that US GAAP does not allow. Financial reporting may be greatly impacted by these disparities in asset valuation techniques, particularly in sectors where assets are prone to market swings or contain intangible components.

The way in which debt covenants important contracts between borrowers and lenders that set specific financial standards for ongoing borrowing are handled represents yet another significant area of difference. Companies can "cure" any debt covenant violations after the fiscal year-end under US GAAP, which gives them greater control over how they handle their finances (Rouvolis, 2022). However, there is a sense of urgency to businesses' compliance efforts because IFRS mandates that debt covenant violations be remedied by the end of the fiscal year (Rouvolis, 2022). Because US GAAP provides more flexibility to address violations after the fiscal year-end, potentially avoiding expensive amendments and the transaction costs associated with renegotiating debt terms, this difference may have real-world ramifications for businesses that are struggling financially (Rouvolis, 2022). Furthermore, the two standards have different approaches to securitization in accounting; US GAAP permits some securitized assets and liabilities to stay off a company's books, while IFRS mandates that the majority of securitized assets and liabilities be recorded on the balance sheet. This can have a big impact on financial ratios and how leverage is perceived by a company (Rouvolis, 2022).

The two frameworks also differ in how they handle research and development (R&D) expenses. Research expenses must be expensed as incurred under IFRS, but development expenses may be capitalised if certain requirements are satisfied. However, with few exceptions, US GAAP mandates that research and development expenses be immediately expensed (Mohamed, 2023). Particularly in sectors like technology and pharmaceuticals, where R&D is a significant investment, this discrepancy may affect how businesses disclose their innovation costs and the ensuing effect on their earnings and asset base. Another area where IFRS and US GAAP differ is in inventory valuation, specifically in how they handle cost flow assumptions. The Last In, First Out (LIFO) method of inventory accounting is permitted under US GAAP, but IFRS prohibits LIFO and forces businesses to use either the First In, First Out (FIFO) or weighted average cost methods

(Rouvolis, 2022). Especially in sectors where inventory prices fluctuate, this disparity may result in disparities in reported inventory costs. Under US GAAP, LIFO can lower taxable income during price increases, offering a tax benefit; however, IFRS's ban on LIFO may cause businesses that use FIFO to report higher profits and pay more in taxes.

By providing a thorough comparison of the main distinctions between IFRS and US GAAP accounting treatments, especially in areas that directly affect companies' financial reporting, this review adds to the body of existing literature. Our comprehension of how these distinctions can impact financial statement comparability, corporate decision-making, and investor perceptions is enhanced by this analysis, which synthesizes recent research on asset valuation, debt covenants, inventory accounting, and R&D expenditures. The review also sheds light on how adopting IFRS will affect multinational corporations and nations moving away from local accounting standards, particularly in emerging markets.

Benefits of convergence and harmonisation

The improvement in the comparability of financial statements across nations is one of the main advantages of the convergence of IFRS and US GAAP. The goal of both IFRS adoption and IFRS convergence with US GAAP is to standardise accounting procedures so that analysts, investors, and regulators can more easily compare financial data from businesses across international borders (Lin et al., 2019). Better investment choices, less information asymmetry, and more effective capital allocation are all made possible by this improved comparability. Global investors can evaluate investment opportunities more precisely by comparing financial statements consistently, which can lower perceived investment risks and firms' cost of capital (Ball, 2016). By creating a more open and stable financial environment, this decrease in capital costs eventually increases overall wealth and market efficiency. Convergence may also improve transparency and lower the risk associated with financial reporting, particularly for multinational firms. Adopting a single set of international accounting standards, like IFRS, allows businesses to make more thorough and transparent disclosures. Better corporate governance and a lower risk of financial fraud can result from this transparency (Bierstaker et al., 2016). For instance, research indicates that the adoption of IFRS increases capital markets' sensitivity to accounting disclosures, which in turn motivates businesses to more promptly and precisely identify economic losses (Chan et al., 2015). Additionally, standardizing accounting procedures lowers the complexity of cross-border transactions, which in turn lowers financial reporting and international trade expenses (Ball, 2016). By lowering the obstacles related to various accounting systems, which are frequently a cause of conflict in international business, this enhanced efficiency can promote greater levels of global economic activity and trade (Ball, 2016).

Challenges of convergence and harmonisation

Despite the obvious advantages, there are substantial obstacles to the harmonisation and convergence of accounting standards, especially in nations with laxer regulatory environments (Adhikari et al., 2021). Studies have indicated that strong institutional and enforcement frameworks are necessary for the adoption of IFRS to be effective (Adhikari et al., 2021). The adoption of IFRS might not produce the expected increases in accounting quality in nations with less developed regulatory frameworks. As demonstrated in nations with laxer enforcement, inaccurate enforcement and uneven application of IFRS can actually worsen financial reporting (Oz & Yelkenci, 2018). Furthermore, developing nations frequently bear a disproportionate amount of the costs of convergence, which include the requirement for modifications to institutional practices, regulatory infrastructures, and legal systems (Lucchese & Carlo, 2020). Without the requisite funding or political will to carry out such extensive reforms, these nations may encounter considerable challenges in bringing their accounting systems into compliance with IFRS.

Significant obstacles to the effective harmonisation of accounting practices are also presented by cultural and legal variations among nations. According to Mohamed (2023), each nation's legal customs and cultural elements have a significant impact on accounting standards. For example, the fundamental accounting principles in nations with common law traditions and those with code law systems are very different. True harmonisation is challenging to achieve without substantial institutional and legal changes because these discrepancies frequently reflect broader cultural attitudes toward governance, transparency, and regulation. The cultural legacy of earlier accounting systems still affects the adoption of IFRS in some nations, like Brazil and Portugal, which makes it difficult to fully embrace the new standards (Silva et al., 2021). The objective of total harmonisation may be undermined by this cultural inertia, which can slow down the convergence process and produce a dual system where regional customs coexist with global norms (Golubeva, 2023). The analysis supports the idea that, especially in developing economies, successful convergence necessitates large investments in legal reforms, enforcement mechanisms, and training in addition to the adoption of IFRS (Adhikari et al., 2021).

Discussions

Key patterns in both theoretical knowledge and empirical evidence have emerged from the dynamic and changing landscape of the US GAAP and IFRS convergence initiatives between 2015 and 2024. The main focus of the continuing discussion is the increasing difference between the rule-based methodology of US GAAP and the principle-based approach of IFRS. In jurisdictions that demand flexible standards, IFRS has become a desirable framework due to its flexibility in permitting judgment and context-based decision-making (Ma et al., 2022). On the other hand, US GAAP's strict and prescriptive structure promotes consistency and comparability, but by emphasizing past costs, it might mask the economic realities of companies (Rouvolis, 2022). The argument over whether a worldwide accounting standard is desirable is still fueled by this fundamental conflict between flexibility and prescriptiveness. Convergence, as opposed to complete adoption, has become a workable strategy that allows jurisdictions to embrace IFRS features while maintaining the robustness of their own frameworks (Golubeva, 2023). The empirical research on the effect of IFRS adoption on earnings quality has produced conflicting findings. While some have noted gains in comparability and transparency (Ball, 2016), others have noted higher volatility and decreased relevance of earnings (Benkraiem et al., 2021).

The disparities between important areas of accounting procedures, such asset revaluation, how research and development (R&D) is handled, and how debt covenants are handled, highlight the difficulties of reconciling US GAAP with IFRS (Rouvolis, 2022). Comparable enterprises financial statements differ because US GAAP restricts asset revaluation and intangible asset treatment, whereas IFRS allows for greater flexibility in these areas (Ma et al., 2022). In a similar vein, US GAAP's rules-based structure gives businesses the opportunity to “cure” loan covenant violations after the fiscal year-end, but IFRS requires rapid repair before year-end, thereby creating urgency in financial reporting (Rouvolis, 2022). The trend towards convergence and the advantages it offers, such as improved comparability, transparency, and better capital allocation, cannot be disregarded in spite of these notable distinctions (Lin et al., 2019). Though attaining uniformity across regions is still a difficult task, particularly in nations with laxer enforcement systems or disparate cultural and legal contexts, harmonisation efforts seek to lessen differences while preserving flexibility (Adhikari et al., 2021).

The results of this study are generally consistent with previous studies on the convergence of IFRS and US GAAP, especially when it comes to the challenges of putting into practice a single, internationally recognised accounting system. According to earlier research, the outcomes of convergence initiatives have varied based on institutional, regulatory, and geographical contexts (Silva et al., 2021; Camfferman, 2020; Nurunnabi, 2017). Our analysis confirms that although there is still a strong theoretical case for a single global standard, there are still practical challenges, particularly in countries where the adoption of IFRS is hampered by a lack of professional training or inadequate enforcement mechanisms (Ahsan et al., 2024; Adhikari et al., 2021). Consistent with previous conclusions, this assessment emphasizes that the process of convergence has been sluggish, with nations such as Brazil and Portugal exhibiting notable opposition because of institutional and local market dynamics (Silva et al., 2021). Furthermore, there is empirical evidence to support the claim that, especially in less developed nations, complete adoption of IFRS has not always resulted in improvements in the quality of financial reporting (Ding et al., 2017). By taking into account current trends and spotting new gaps in the literature, this study builds on earlier research, especially when it comes to the function of mixed-methods research in comprehending convergence dynamics (Silva et al., 2021).

However, this review also deviates from earlier research in some ways, especially when it comes to the growing importance of mixed-methods research. Although the literature on the adoption of US GAAP and IFRS has historically focused primarily on quantitative approaches, the increasing use of mixed and qualitative approaches reflects a growing understanding of the intricate socio-political and cultural factors influencing convergence efforts (Camfferman, 2020). Studies examining the experiences of developing economies, where contextual elements like institutional quality and cultural views on governance are critical in determining the results of IFRS implementation, are where this change is most noticeable (Benkraiem et al., 2021). Our review also emphasizes the growing emphasis on the economic effects of IFRS adoption, as evidenced by previous research looking at how IFRS adoption affects corporate governance, capital market behavior, and financial performance (Chan et al., 2015). This review adds to a more sophisticated understanding of the convergence process by combining quantitative and qualitative viewpoints, and it recommends that future studies

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investigate these intersections more thoroughly in order to obtain a deeper understanding of the complex issues surrounding global accounting standardisation.

Conclusion

This study identified important trends and obstacles in the ongoing discussion about global accounting standardisation by critically analysing the development of the convergence efforts between US GAAP and IFRS from 2015 to 2024. The main conclusion is that, although adopting IFRS provides flexibility due to its principle-based methodology, US GAAP's rules-based framework guarantees more consistency and comparability. Nonetheless, the study also identifies important obstacles to bringing these two systems into harmony, notably with regard to asset valuation, debt covenant treatment, and R&D expense management.

Notwithstanding the theoretical advantages of convergence, such as enhanced comparability and transparency, empirical data has revealed conflicting outcomes about the effects of IFRS adoption, with certain regions reporting lower-quality earnings and higher volatility. In order to gain a better understanding of the contextual elements affecting the success of convergence efforts, multi-methods research which combines quantitative and qualitative approaches is becoming more and more popular.

Study contributions

This review fills in the gaps in the current research landscape and offers a thorough, current analysis of the convergence efforts between US GAAP and IFRS from 2015 to 2024. It also offers insights into new trends. The study's use of the PRISMA guidelines guarantees a methodical and exacting approach to reviewing the extensive literature on the subject, illuminating the difficulties associated with efforts at harmonisation and convergence. Although the advantages and difficulties of adopting US GAAP and IFRS have been examined in earlier research, this review offers a more thorough examination of current advancements, emphasizing how the field of study is constantly changing. The review's emphasis on mixed-methods research is especially noteworthy because it reflects the growing understanding that studying the adoption of accounting standards requires a comprehensive approach that considers not only numerical results but also the institutional, cultural, and contextual factors that influence these results (Silva et al., 2021). Additionally, by highlighting the main distinctions between US GAAP and IFRS, the study provides insightful information about how these differences still affect financial reporting practices around the world and how harmonisation initiatives can resolve them.

The literature on the convergence of US GAAP and IFRS is expanded upon and strengthened by this study, which also identifies new research directions and theoretical frameworks to direct future investigations in this area. This review promotes additional empirical research into the real-world applications of convergence and the influence of institutional, cultural, and regulatory factors on the adoption of IFRS as accounting standardization develops, especially in light of the continuous difficulties in reaching complete harmonisation. The study's contribution consists of both a summary of the current research and recommendations for future lines of inquiry that could fill in the gaps in the literature and further the global endeavour to create a more transparent and unified accounting framework.

Implications for practice

The results of this study have significant policy ramifications for researchers, auditors, accountants, regulators, standard-setters, and financial statement users. It is critical for those who establish standards to understand that accounting standards must be flexible enough to take into account various institutional and cultural contexts. This might entail further honing convergence initiatives that consider the distinct difficulties that various regions, especially developing economies, face. Since poor enforcement has been connected to negative consequences, regulators should place a high priority on bolstering enforcement mechanisms and offering sufficient training to guarantee consistent application of IFRS. The study highlights the necessity of improved professional development and knowledge of IFRS for accountants and auditors in order to handle the challenges of international financial reporting. Scholars are urged to concentrate on mixed-methods research that combines qualitative and empirical information to illuminate the socio-political and cultural elements that impact the uptake and efficacy of IFRS. Moreover, when assessing financial performance, investors and analysts who use financial statements need to be mindful of the possible volatility and diminished earnings relevance that may follow the adoption of IFRS, particularly in the early years. In practical terms, this review recommends that in order to address the issues raised by the study, stakeholders such as standard-setting organisations, professional associations, and regulators work together. This cooperation might entail coordinating regulatory frameworks, encouraging uniform enforcement procedures, and offering sufficient assistance and training to accounting professionals as they adjust to the new standards (Oz & Yelkenci, 2018; Nurunnabi, 2017).

Future direction

The convergence of US GAAP and IFRS calls for more research in a number of important areas, particularly in light of the changing global financial environment. The geopolitical context of international accounting standards is a crucial area for further investigation. Political factors can have a big impact on the adoption and convergence of IFRS, so it's critical to evaluate how regional conflicts and international relations affect these initiatives (Camfferman, 2020). Gaining an understanding of the political aspects may highlight new difficulties in reaching international harmony. Furthermore, studies that take into account market-specific information and institutional factors are required, especially in the European Union (Albu et al., 2020). There is a knowledge gap regarding how emerging and developing economies approach the adoption of IFRS because most studies have concentrated on developed nations. Research that looks at how market maturity and institutional frameworks impact the adoption of IFRS may help identify problems and solutions unique to a given region. Additional research is required to examine the viewpoints of a wider variety of stakeholders, such as professional associations, credit analysts, and statutory auditors (Silva et al., 2021). Involving these groups could yield more profound understanding of the real-world obstacles to the adoption of IFRS and how it affects financial reporting. Further studies could examine how legal traditions influence the implementation of IFRS by contrasting the adoption experiences of code law and common law nations (Silva et al., 2021). Lastly, in the context of IFRS adoption, research should look at the qualitative aspects of financial information, like value relevance (Lin et al., 2019). Understanding the wider ramifications of IFRS adoption for financial statement users will require examining whether its implementation increases or decreases the relevance of financial data. To ensure successful adoption across regions, it is also essential to enhance professional training and education in IFRS through workshops and universities (Adhikari et al., 2021).

Limitation of the study

It is important to recognise a number of limitations even though this review offers insightful information about the convergence and adoption of US GAAP and IFRS. First, the study's focus is mainly limited to studies that were released between 2015 and 2024. This period might leave out important earlier research that could provide background information or fundamental viewpoints on the convergence process. As a result, the review might not adequately reflect the foundational difficulties encountered in earlier phases or the long-term development of US GAAP and IFRS convergence. The geographic focus of many studies is another drawback. There is relatively little literature from Africa, South America, and Australia, despite the review highlighting important research contributions from regions like Asia and Europe. Because these regions may have distinct institutional and regulatory environments that impact the adoption and convergence of IFRS, or they may face particular challenges, this regional imbalance may limit the findings' generalisability.

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