

A Comparative Analysis of GAAP and IFRS: Why the USA uses GAAP, Europe uses IFRS, and GAAP is absent in Bangladesh.

Abstract

Accounting standards play a vital role in financial transparency, comparability, and investor confidence. The generally accepted accounting principles (GAAP) and the international financial reporting standards (IFRS) are the two dominant accounting framework used globally. While the United States follows GAAP, most European countries have transition to IFRS to promote financial harmonization. Bangladesh on the other hand, does not implement GAAP and has instead aligned with IFRS-based financial reporting standards. This paper explores the historical, regulatory, and economic reasons behind these choices and examines their implications for financial reporting and economic development.

Key words

IFRS, GAAP, USA, Europe, Bangladesh

Introduction

Financial reporting standards determine how companies present their financial information to stakeholders, including investors, regulators, and the public. GAAP, developed in the United States, provides a rule-based framework, whereas IFRS, widely adopted in Europe and other countries, follows a principle-based approach.

Bangladesh has chosen to align with IFRS rather than GAAP, raising questions about the suitability and impact of these accounting standards in different economic contexts. This study investigates why the USA follows GAAP, why Europe prefers IFRS, and why GAAP is absent in Bangladesh's financial reporting system.

GAAP in the United States

1. Historical and Regulatory background

GAAP was developed to ensure consistency and reliability in financial reporting for business operating within the USA. The financial accounting standards board (FASB) is responsible for setting GAAP under the oversight of the securities and exchange commission (SEC). The primary reasons for GAAP's in the USA include:

- **Regulatory oversight:**

The SEC enforces GAAP compliance for publicly traded companies to protect investors and maintain market stability.

- **Legal system:**

The USA follows a rule based approach in financial regulation, making GAAP's detailed guidelines preferable for reducing ambiguity and legal risks.

- **Market-Driven Approach:**

GAAP is designed to meet the needs of the USA investors and financial analysts. Who prioritize detailed disclosure and comparability.

2. Strengths and challenges of GAAP

GAAP provides a structured and detailed framework that enhance financial reporting accuracy. However it's complexity can be a challenge, leading to increased compliance costs for businesses. Additionally the lack of international adoption creates difficulties for multinational corporations operating across different accounting framework.

IFRS in Europe

1. Shift toward a global standard

Europe adopted IFRS primarily to standardize financial reporting across The European Union (EU) and facilitate cross-border trade and investment. The European Parliament mandated IFRS for all publicly traded companies in 2005 to :

- **Enhance Financial comparability:**

IFRS provides a uniform accounting language, making it easier for investors to analyze companies across different countries.

- **Promote Economic integration:**

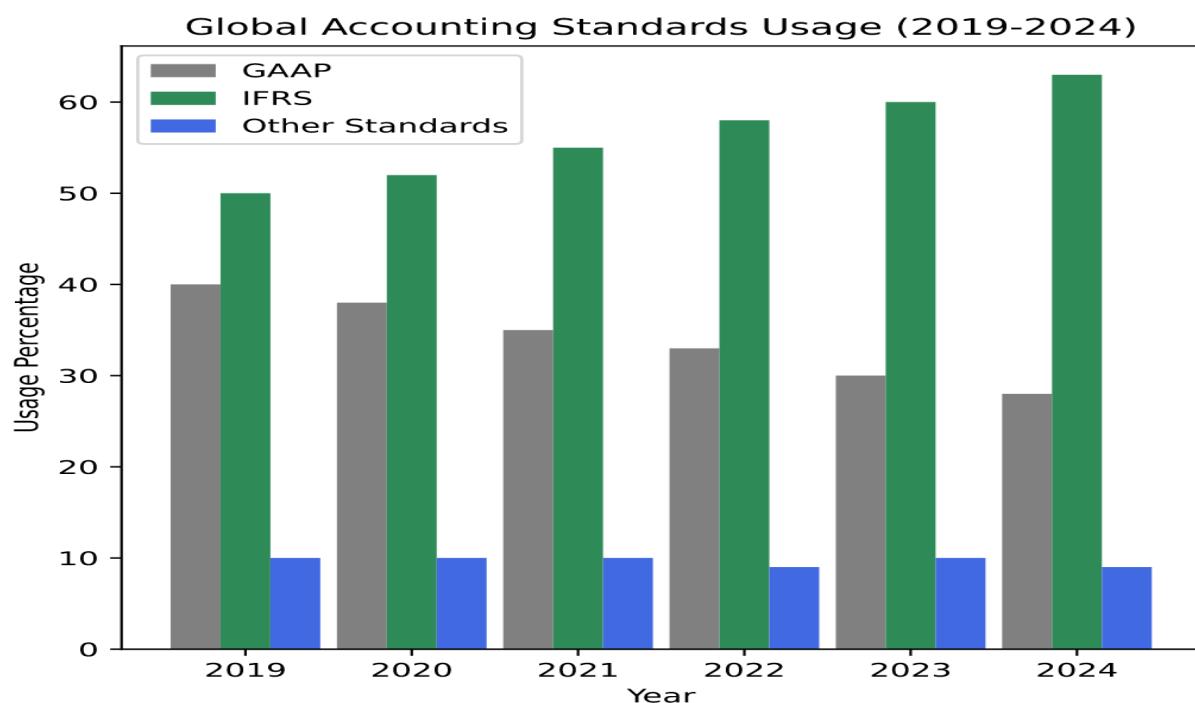
A common financial reporting system reduces barriers for multinational corporations and strengthens the EU's financial markets.

- **Increase transparency:**

IFRS's principal-based approach allows for more meaningful financial representation, aligning with global business practices.

Methodology

The study employs a qualitative approach, utilizing secondary data sources such as academic journals, regulatory reports, and publication from professionals accounting bodies. The analysis focuses on development between 2019 to 2024 to provide contemporary insights into the adaption and application of accounting standards in the United States, Europe, and Bangladesh.

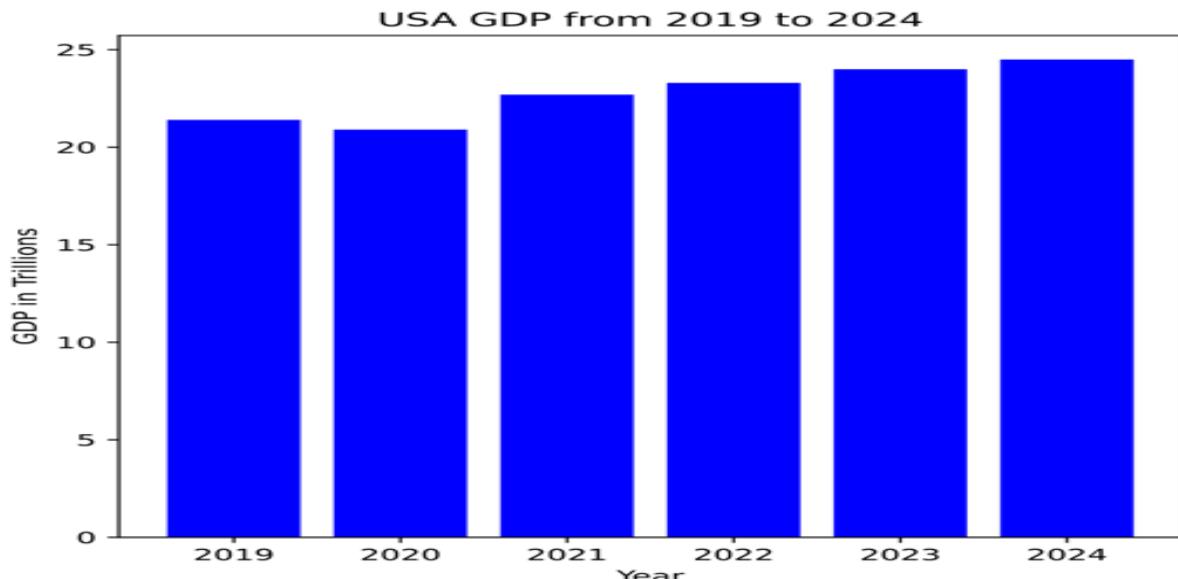


I Have analyzed here through images countries that have used IFRS or GAAP or Other standards from 2019 to 2024

USA GAAP development from 2019 to 2024:

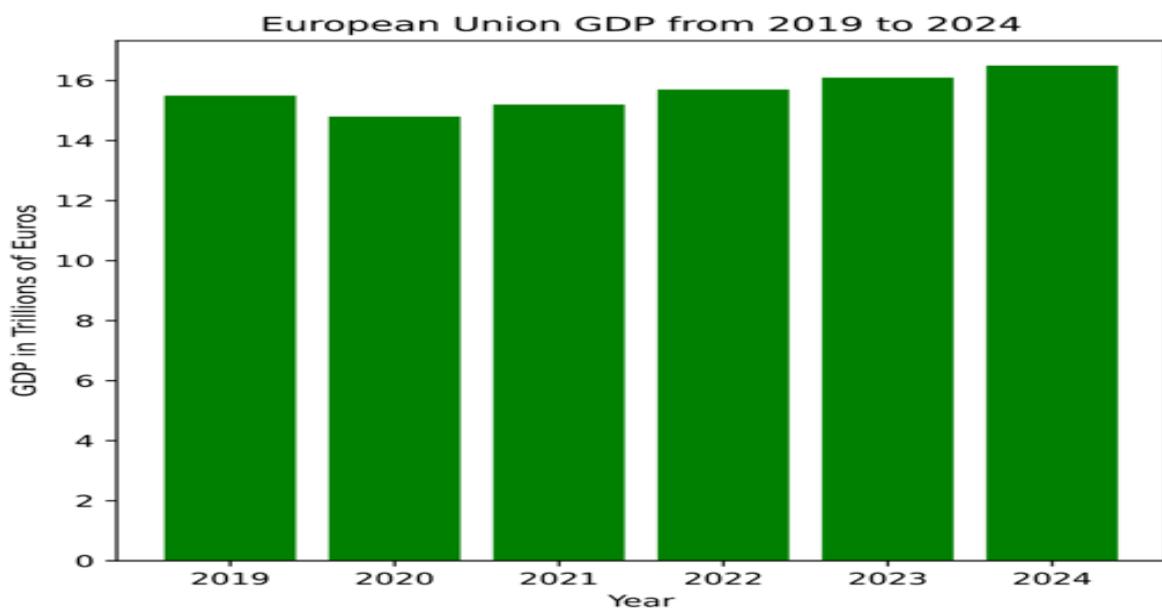
Between 2019 to 2024, the United States continued to uphold GAAP as its primary accounting standard. Efforts toward convergence with IFRS were evident, aiming to enhance global comparability of financial statements. However, full adoption of IFRS was not realized, primarily due to concerns over the loss of detailed guidance

provided by GAAP and the potential challenges it could pose to USA investors and regulatory bodies



Europe's IFRS development from 2019 to 2024:

During the period from 2019 to 2024, European countries continued to refine their application of IFRS, focusing on improving the consistency and quality of financial reporting. The European securities and markets authority (ESMA) played a pivotal role in overseeing the implementation of IFRS, ensuring that financial statements provide reliable and comparable information to investors across Europe.



Absence of GAAP in Bangladesh

1. Adoption of IFRS-Based Standards

Bangladesh does not implement GAAP and instead follows IFRS-Based accounting standards through the institute of chartered accountants of Bangladesh (ICAB). The key reasons for this decision include:

- **Regulatory alignment:**

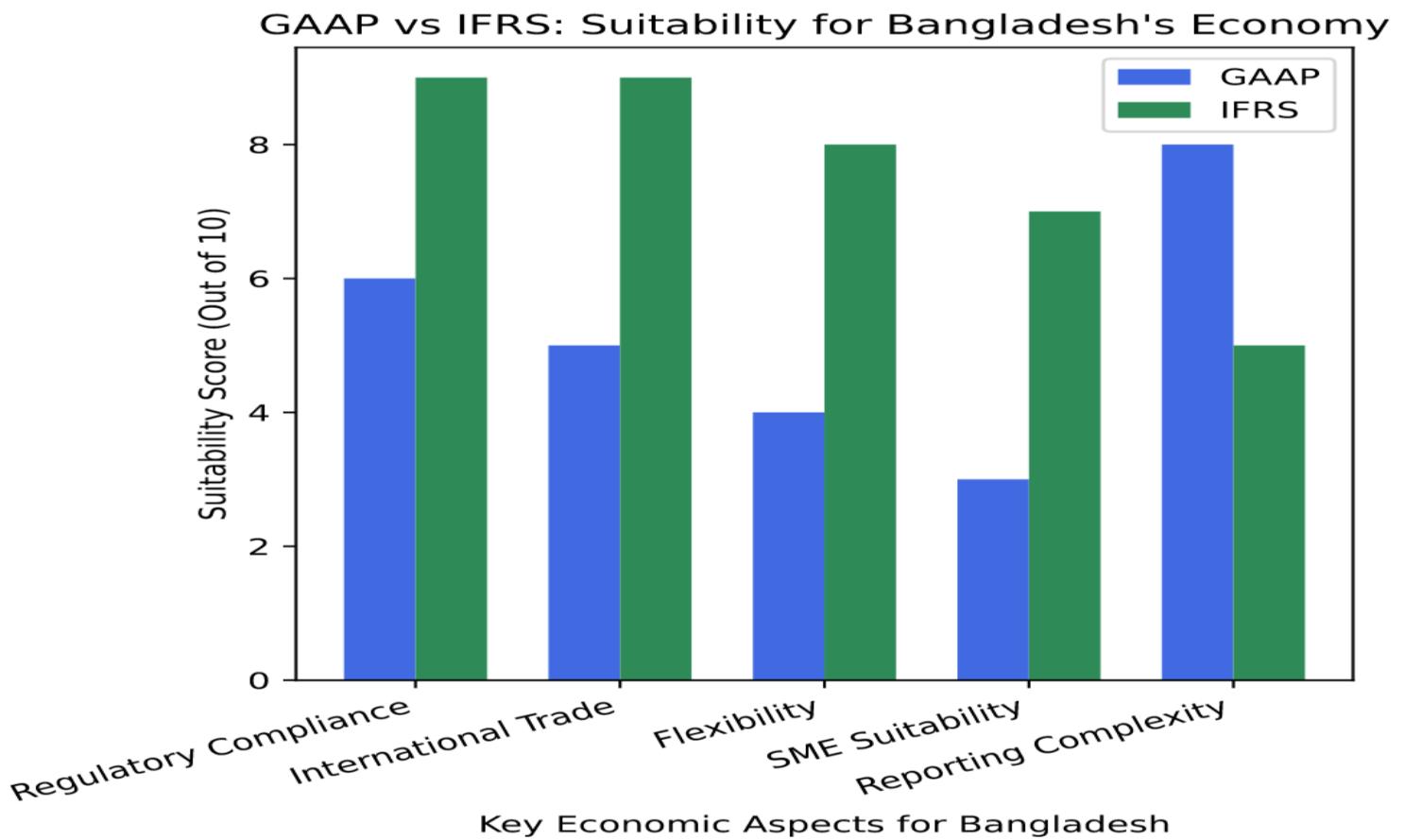
The Bangladesh securities and exchange commission (BSEC) and ICAB prefer IFRS to align with global financial reporting trends.

- **Foreign investment consideration:**

Many multinational companies operating in Bangladesh follows IFRS, making its adoption more practical for international business transactions.

- **Economic and market structure:**

Bangladesh's financial system is less complex than that of the USA reducing the need for GAAP's detailed rules-based approach.



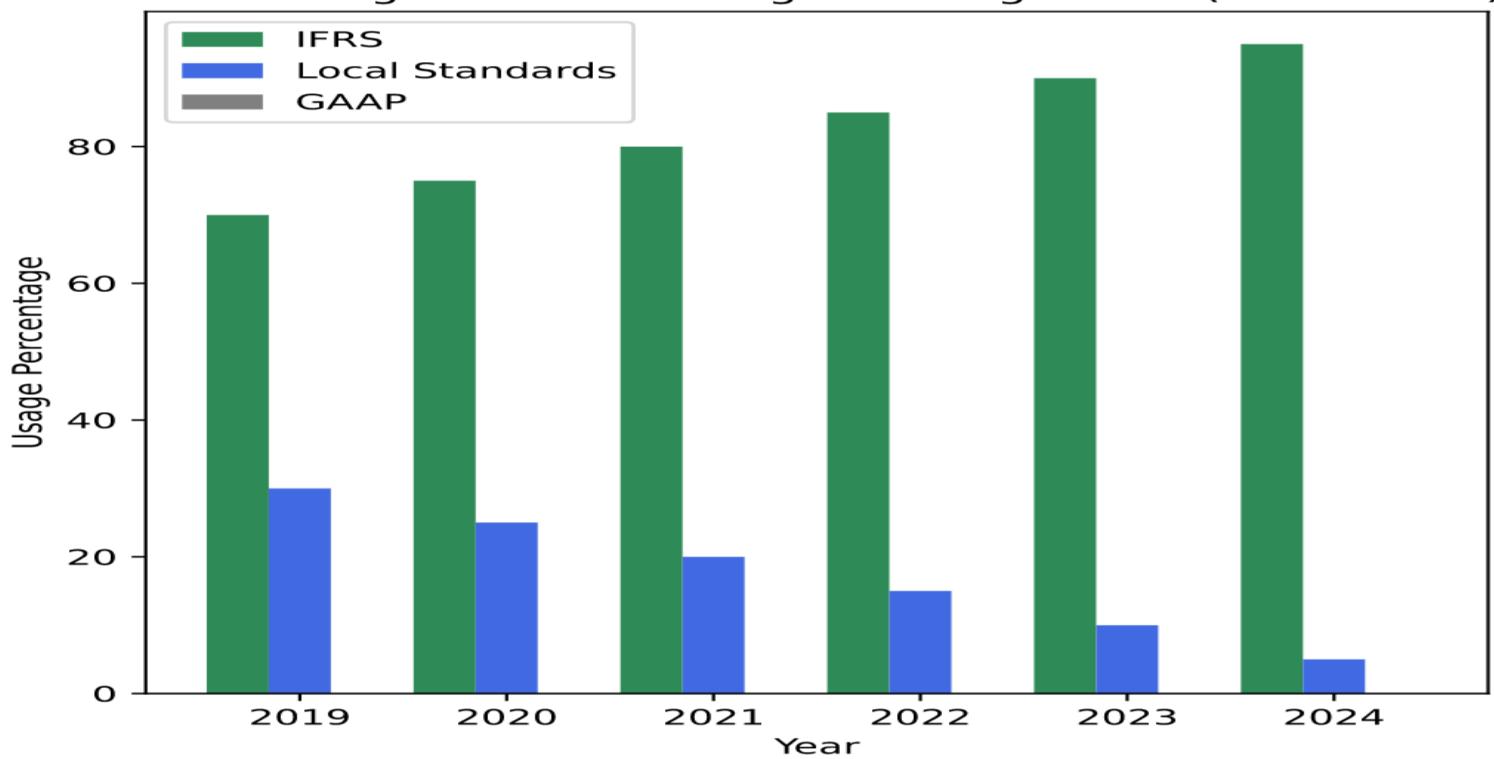
2. Implications for Bangladesh's financial system

The adoption of IFRS has enabled Bangladeshi companies to improve financial transparency and attract foreign investors. However, challenges persist, such as ensuring proper IFRS compliance, addressing differences with local regulations, and training accounting professionals to adapt to the global framework.

Bangladesh IFRS development from 2019 to 2024

Between 2019 to 2024, Bangladesh made significant strides in implementing IFRS. The ICAB conducted training programs to build capacity among accounting professionals, ensuring effective application of IFRS. Additionally, regulatory framework were updated to align with IFRS requirements, promoting consistency and reliability in financial reporting.

Accounting Standards Usage in Bangladesh (2019-2024)



Finding:

United States:

The adherence to GAAP is deeply rooted in the country's regulatory environment and the need for detailed, rules-based guidance to ensure compliance and investors protection.

Europe:

The adoption of IFRS has facilitated financial integration and comparability across member states, supporting the region's economic cohesion.

Bangladesh:

The absence of GAAP and the adoption of IFRS-based standards reflect the country's strategy to align with international practices, attract foreign investment, and accommodate its unique economic context.

Conclusion

The choice of accounting standards is influenced by a combination of historical, regulatory, and economic factors. The United States commitment to GAAP, Europe's adoption of IFRS, and Bangladesh alignment with IFRS-based standards each demonstrate how regions tailor their financial reporting framework to meet specific needs and objectives. Understanding these choices provides valuable insights into the global landscape of financial reporting and its impact on economic development.

Reference

- Financial accounting standards board (FASB)
- European securities and market authority (ESMA)
- Institute of chartered accountants of Bangladesh (ICAB)
- Bangladesh security and exchange commission (BSEC)
- Investopedia. GAAP vs IFRS: what's the difference?
- Research gate. The adoption of international financial reporting standards (IFRS) in Bangladesh