IFRS, US GAAP OR ROMANIAN REGULATIONS CAN THEY BECOME ONE?

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In a period when convergence is the main driving force of IASB and FASB programmes, who needs a comparison of the two sets of standards-IFRS issued by IASB and US GAAP issued by FASB? Aren't they mainly the same after 5 years of hard work of those who establish the two sets of standards? The answer lies in the fact that mostly all people who work in a multinational company has to understand the present differences between these two sets of standards. A combination of the convergence of the national standards with the IFRS and the follow-up use of IFRS standards would mean that the two accounting languages from all over the world should be reduced rapidly only to IFRS and US GAAP. Although these two sets of standards are more and more similar to each other, they are not totally identical-yet. And until they become identical it will be necessary to state clearly and explain the differences that exist between them.

Keywords: IFRS, US GAAP, convergence, Romanian regulations

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1. Introduction

Convergence is in fact a term that defines either elimination or assimilation of the differences and it represents the main priority that exists both on the agendas of the U.S. Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB).

Nevertheless the major differences existing between US GAAP – issued by FASB - and the International Financial Reporting Standards (IFRS) issued by the IASB are the topic of many discussions. These differences suggest that the two GAAPs keep on using different languages. This apparent contradiction made many people ask themselves how different are these sets of standards and where they do exist, why do they exist and when will they disappear?

Even if the US standards and the international ones do contain differences, the general principles, the conceptual structures and the accounting results between them are most of the times the same or similar, although the differences seem to have overshadowed the similarities. We believe that an analysis of this problem should not forget the fact that the two sets of standards are more similar than different for most of the transactions, IFRS being mainly but not totally based on the same principles as US GAAP.

2. Literature review

There were issued various statistics which refer to the importance of both these accounting regulations: IFRS AND US GAAP. These statistics were realised by the most known and important firms of audit from all over the world and demonstrate the real significance of these

two accounting regulations, IFRS and US GAAP, as accounting languages of the world. The analysed indicators for realizing the statistics are: the international exchange capitalization and the presence in the list of the biggest 500 companies in the world.[574]
So, out of an international exchange capitalization of 36 trillions USD[575]:
- 11 trillions USD correspond to the companies that adopted IFRS as a financial reporting system;
- 17 trillions USD correspond to the companies that adopted US GAAP;
- 4 trillions USD correspond to the companies that apply Japanese GAAP;
- the rest refers to other financial accounting systems (Canadians; Indians).
And among the companies included in Fortune 500, in 2005, 200 applied IFRS, 176 applied US GAAP and 81 applied Japanese GAAP.

3. Methodology

The character of this paper is a theoretical one. The data were collected through analyzing of regulations and accounting standards such as: American, International and Romanian standards and through studying the existing literature regarding the differences between these standards.
The paper has two parts. The first one is about the importance of convergence for the entire world and the second one presents a comparison between the regulations or accounting systems which are internationally relevant. Of course, we also attached importance to the Romanian accounting system.

4. The process of convergence

Convergence refers to the activity of accounting regulations of heading for the same goal, leading to similar economical conclusions; but at the same time we could say that it refers to the emergence of functional or structural similarities between systems that differ from the point of view of their accounting doctrine and culture, as a result of similar conditions imposed by the economical globalization.
"To converge" means getting to the same result or to the same point. For a better understanding of this concept which is frequently used in accounting, we have to start from that point of view that a perfect harmonization of accounting regulations cannot be possible, because each accounting system is influenced by economic, financial, fiscal, social, juridical and cultural variables of the environment[576].
The convergence means the alignment to the International Accounting Regulations, without taking them word by word. The convergence refers to a sole set of standards, with the possibility of their conformation to the national realities, issued by the representatives of multiple countries.
As a conclusion we can say that the national accounting systems should adapt their regulations to the international ones (IFRS/IAS) or just to enact some changes.
There have been different opinions related to convergence. There have been many who didn't consider possible to achieve this convergence process but there have also been others who saw it possible.
Those who didn't see possible the achievement of convergence and only saw the obstacles are the pessimists who doubted the opportunity of adopting the international accounting regulations that might have assured the convergence.
The arguments that they bring are some realities that different accounting systems are facing with: difficulties and time in correcting some governmental errors, ethical shortages, accounting scandals

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[574] Fortune 500.
[575] Cristea S., Armonizarea contabilă internaţională şi practicile contabile naţionale. Studiu de caz pentru România şi Italia;Editura Accent, 2007, 42.
[576] Palich L.E., Gomez-Mejia L.R., A theory of global strategy and firm effiencies: considering the effects of cultural diversity, *Journal of Management*, Vol. 25, no. 4: 587-606.

Another category would be formed of those who believe in the utility and possibility of achieving this process and these will be the optimists. The main arguments brought by these are[577],[578]:
- the investors and the financial analysts can understand the financial situations of foreign companies;
- the resource flow for investors streamline internationally;
- the multinational companies can easily establish the stabilized accounts;
- tax authority can measure in an easier way the profit tax owed by foreign companies;
- the enterprises can define worldwide their strategic position in their activity sector.

We consider that big efforts are made to achieve this convergence process and we think that this process is realised on 3 dimensions:
- the convergence between FASB and IASB;
- the convergence between IAS and regional regulations;
- the convergence between regional and national standards.

We have still to wait and see how long this process of convergence will last and if it will be finally achieved.

5. Differences between accounting regulations: IAS/IFRS, US GAAP and Romanian Regulations

FASB started in 1995 a project with a special importance for the international accounting, namely a comparative study between IAS and US GAAP. The goal of this project was that of offering the necessary information for appreciating the acceptance of IAS for the stock exchange quotation of the non-American companies on the capital market from USA. These differences were and are still discussed by IASB during its meetings.

The differences established by the FASB's project refer to 5 categories, namely:
- accounting method and similar application modalities, with the mention that „similar does not mean identical", in this category were included 56 from 255 reviewed differences;
- similar accounting method but different application modalities: there aren't guides for the application of the standards, in this category are included 79 from the cases;
- different accounting method, in this category are included 56 from the cases;
- there are allowed more alternative methods or there are problems which are treated by one of the standards but not by the other one, in this category are included 64 from the cases.

Although at the beginning, not even the big accounting companies agreed that foreign companies should present financial situations issued according to IAS?IFRS, without a reconciliation with American regulation US GAAP, slowly they began to change their opinion and they joined the process of convergence between the two types of regulations.

Therefore, some of the biggest accounting companies (PriceWaterhouseCoopers and Delloite&Touche) made some studies in which they analysed the differences existing between IAS and the national standards of some countries they considered as being strategic from the point of view of the investments. Among these countries we could mention: the Netherlands, Czech Republic, Switzerland, Great Britain, Hong Kong, China and others.

Moreover, these advisory companies showed their interest and involvement in identifying the differences between US GAAP and IAS, respectively IFRS. Throughout the last years, the interest in analysing the differences between IAS/IFRS and US GAAP was constant.

Usually, the methodology of study of these differences is a simple one and it consists in comparing the requirements of the standards issued by IASB with the American ones. These

[577] Obert R., *Pratique des normes IAS/IFRS*, Ed. Dunod, Paris, 2004.
[578] Gernon H., Meek G., *Accounting – an international perspective*, McGraw-Hill International Editions, 2001.

conclusions might be punctual and accompanied by some explanations or they can be concerned with thematic, where the differences between the accounting practices are more obvious.
Of course, these differences between IFRS and US GAAP do not represent the totality of the differences that exist between these regulations because many times these differences depend on the industry where the entity is part of, on the economical nature of the entity's activity as well as on the accounting policies adopted by the entity.
These comparative studies between the two accounting regulations do not contain all the differences that exist between them, but are mostly concerned with the differences that were most often found in practice.
Therefore, in the following table we will try to present the most important similarities and differences between these three regulations[579].

Table 1. **Comparative analysis between IFRS, US GAAP and Romanian Regulations**

Subject	IFRS	US GAAP	ROMANIAN REGULATIONS
Financial Statements			
Components of financial statements	Balance sheets, income statements, cash flow statements, statement of changes in equity and accounting policies and explanatory notes present comparative information for two consecutive years.	Similar to IFRS, except that SEC requires to public companies to present in the income statement, cash flow statement, statement of changes in equity, comparative information for 3 years.	The Financial Statements comprise the: - Balance sheet; - Profit and loss account; - Statement of changes in equity; - Cash flow statement ; and - Explanatory notes. The information should be presented for 2 years.
Balance sheet	Does not prescribe a particular format. A liquidity presentation of assets and liabilities is used, instead of a current/non-current presentation, only when a liquidity presentation provides more relevant and reliable information. Some minimum items are presented in balance sheet.	Entities must present either a classified or non-classified balance sheet. The items of the balance sheet are presented in decreasing order of liquidity. The public companies should follow SEC regulations.	The format requested is the list (the vertical one). The assets are classified by nature and liquidity and the liabilities by nature and eligibility.
Income statement	Does not prescribe a standard format, although expenditure is presented in one of two formats (function or nature). Certain minimum items are presented in the income statement.	Present as either a single-step or multiple step format. Expenditures are presented by function. SEC registrants should follow SEC regulations.	The format requested is the list The operating expenditures are classified by nature.
Statement of changes in equity	This statement shows capital transactions with owners, the movement in accumulated profit/loss and a reconciliation of all other components of equity. The statement is presented as a primary statement except when a SoRIE is presented. In this case, only disclosure in the notes applies.	Similar to IFRS except that US GAAP does not have a SoRIE, and SEC rules permit the statement to be presented either as a primary statement or in the notes.	The format requested is the one presented on columns. This statement presents all the elements of equity and their evolution during the period.
Cash flow statement	Standard headings but limited guidance on contents. It is used direct or indirect method.	Similar headings to IFRS, but more specific guidance for items included in each category. Direct or indirect method is used.	Prescribe a similar model with that prescribed by IAS 7. Direct or indirect method is used.

[579] PWC, 2006; Delloitte, 2007; KPMG, 2007; E&Y, 2007.

6. Conclusions

No piece of work that draws a comparison between two large sets of accounting standards can include all the differences that might appear in accounting due to the large number of transactions that might take place. The existence of any differences – and their materialisation in financial situations of an entity – depends on various specific factors including the nature of the entity, the interpretation of general IFRS principles, its industrial practices and the choice of its accounting politics where US GAAP and IFRS offer a solution. Throughout this work I've tried to approach the differences that appeared mainly in the present practices.

WHY ARE THERE ANY DIFFERENCES?

While the national standards were developed, IASB and its predecessor the International Accounting Standards Committee (IASC) had the opportunity to use the thinking of standard setters from all over the world. As a result the international standards contain elements of accounting standards from different countries. Even where an international standard had as its starting point a standard that existed in the US, IASB could improve that standard. Through this action IASB could avoid some of the problems that appeared in FASB standard. Besides, as part of the annual "Improvements Project," IASB revises its existing standards in order to improve their clarity and consistency and taking advantage again of the present practice and opinions. Due to these reasons, some of the differences between US GAAP and IFRS refer to the standards – meaning, they are intentional deviations from U.S. requirements.

As a general rule, the IFRS standards are broader and are based on principles as compared to those from the US. IASB avoided issuing interpretations of its own standards and preferred to leave the implementing of the principles that are included in its standards to the preparers and auditors and its official interpretive body, the International Financial Reporting Interpretations Committee (IFRIC). While the US standards contain important principles as well, the strong regulatory and legal environment from the U.S. markets led to a more normative approach - with far more "clear lines," more suggestive implementation advice and more complex interpretations.

As a general rule, IFRS standards are more broad and "principles-based" than their U.S. counterparts, with limited interpretive guidance.

The IASB has generally avoided issuing interpretations of its own standards, preferring to instead leave implementation of the principles embodied in its standards to preparers and auditors, and its official interpretive body, the International Financial Reporting Interpretations Committee (IFRIC). While U.S. standards contain underlying principles as well, the strong regulatory and legal environment in U.S. markets has resulted in a more prescriptive approach — with far more "bright lines," comprehensive implementation guidance, and industry interpretations.

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