Impact Assessment of the Convergence of IFRS and US. GAAP on the Quality of Financial Reporting- A Comparative Study

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Abstract:

The objective of this research is to examine and evaluate the results of Convergence project that began in 2002 to remove the differences between the International Financial Reporting Standards (IFRS) and United States Generally Accepted Accounting Principles (US. GAAP). Our paper is considered a comparative analytical study, and it is motivated by the ongoing harmonization process in accounting standard setting and recent convergence projects by the FASB and the IASB. First, we give an overview about the progress of the convergence, and then we study the most important results reached during this project. Finally, the difficulties and the most important criticisms will be discussed. The paper concluded that the convergence between IFRS and US. GAAP is one of the most efficient methods adopted to achieve the goal of high-quality international accounting standards but it is a short-term solution and there are more effective ways that must be found to achieve the stated goal.

Keywords: Convergence, IFRS, US. GAAP, Accounting, Financial Reporting.

JEL classification codes: M4, M40, M41

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Introduction :

At present, in the universe of financial accounting -in particular financial reporting- there are two dominant systems of accounting around the world: International Financial Reporting Standards (IFRS) and United States Generally Accepted Accounting Principles (US. GAAP). There are two bodies responsible for these standards: The International Accounting Standards Board (IASB) for IFRS and the Financial Accounting Standards Board (FASB) for US. GAAP. Many differences between the two sets of standards are considered a big obstacle against the comparability of international financial reporting among business.

In this context, the IASB and the FASB have been working together since 2002 on the Convergence Project between IFRS and US. GAAP, in order to develop a common set of high-quality global accounting standards that could be used for both domestic and cross-border financial reporting. Generally, all parties agree that IFRS is a more principles-based approach as opposed to US. GAAP, which is more rules-based. Thereof, the IFRS allows more flexibility for its users than US. GAAP, in that IFRS allows business professionals to use their experience and judgment to make decisions regarding financial reporting.

Problematic:

The philosophical differences between the ideals of the two standard setting bodies mean that from the very beginning of the convergence project, it was easy to see that it was going to be not easy to achieve full convergence. That lead us to a fundamental question: **To what extent could the process of convergence between IFRS and US. GAAP increase the quality and the compatibility of international financial reporting?**

Hypothesis

We suppose that the convergence between IFRS and US. GAAP improve the quality of financial statements prepared according to IFRS and increase the comparability and compatibility of cross-border financial reporting.

Methodology and the Tools used

This paper is considered a comparative analytical study, as it compares between IFRS and US. GAAP, and then analyzes the findings of both the FASB and the IASB through convergence projects. and it is motivated by the ongoing harmonization process in accounting standard setting and recent convergence projects.

To answer the problematic, we highlight the progress of the project, and then we discuss the achievements of convergence issues. Finally, we address the most important difficulties, focusing on the subjects that are remaining divergent, and discuss some of the criticism leveled against this project.

I. Overview About the Convergence Project:

In 2005, IFRS overtook US. GAAP as the most widely used set of accounting standards worldwide. The United States and Colombia are the only nations in the world pursuing IFRS convergence with no immediate plans. Most of the countries with no or unknown convergence plans are underdeveloped countries in Africa, countries experiencing political unrest in the Middle East, and communist Cuba. Those in favor of IFRS say that it is the “gold standard” for financial reporting in the global financial market, and that its increased use around the world places GAAP users at a disadvantage in attracting foreign investment.

1. The progress of the project:

The need for a single set of standards dates as far back as 1950, when Harry McDonald, Chairman of the US. Securities and Exchange Commission (SEC) at that time said in a speech, “There is a need for an international language of accounting”. The process was officially initiated in October 2002 at a meeting known as the “Norwalk Agreement”, the IASB and the FASB signed a Memorandum of Understanding (MoU) where the two boards pledged their best effort to (Willmore, 2015):

a- Make their existing financial reporting standards “fully compatible” as soon as practicable, and;

b- Coordinate their future work programs to ensure that once achieved, compatibility is maintained.

Within the Norwalk Agreement, the boards launched a series of both short-term and long-term convergence projects aimed at eliminating a variety of differences in the two sets of standards. The two boards agreed that where either IFRS or US. GAAP had the clearly preferable standard; the other board would adopt that standard. In addition, where both boards’ standards needed improvement, the boards would work jointly on an improved standard. The Norwalk Agreement has been updated several times since 2002, but always with the objective of two sets of standards that were converged in principles if not in words (Pacter, 2013).

In February 2006, there was a MoU issued between the two standard-setting bodies. The memo reaffirmed the commitment to convergence, set guidelines on how to approach the talks, and presented goals to be accomplished by the end of 2008.

In November 2007, an important milestone was achieved toward use of IFRS in the United States when the SEC eliminated the requirement that a foreign issuer using IFRS must present a reconciliation of IFRS measures of profit or loss and owner's equity to amounts that would have been reported under US. GAAP (Willmore, 2015).

In 2008, The SEC issued a proposed roadmap that includes milestones for continuing US progress toward acceptance of IFRS. The roadmap also would allow early adoption of IFRS for US public companies that meet certain criteria. In addition, the FASB and the IASB issue an updated MoU that focuses the energies of both boards toward convergence of important accounting standards, such as revenue recognition, leases and consolidation (Guillaume & Pierre, 2016).

Convergence was supposed to be completed by 2011, but as time has gone on, the process has been pushed back further and further. In 2009, John Briginshaw predicted most public firms would need to publish IFRS financial statements by 2016 (Willmore, 2015). The IASB ended its moratorium in 2009, set in 2005, on the required application of new accounting standards and major amendments to existing standards. The board had frozen its rules while more countries adopted IFRS. The SEC releases a staff Work Plan in 2010 to evaluate the effect that using IFRS would have on the US financial reporting system. In addition, the SEC envisioned 2015 as the earliest possible date for IFRS adoption. This now seems highly unlikely, as there would need to be quite an epiphany between the sides before or during the previously mentioned date.

In 2011, the SEC evaluated feasibility of requiring use of IFRS based on completion of the outstanding MoU items and on results of the 2010 staff Work Plan. In the United States, questions concerning IFRS are included in the Uniform Certified Public Accountants (CPA) Exam (Guillaume & Pierre, 2016). More recently, in a July 2012 report, the SEC said that they were not willing to issue a timetable for the switch to IFRS (Willmore, 2015).

The IFRS-US. GAAP convergence approach has been repeatedly endorsed by global financial leaders such as the Group of 20 (G-20) as an important step on the path toward a single set of global accounting standards. The Leaders of G-20 issued a statement in 2009 calling for the convergence of accounting standards in the member nations by 2011 (Deloite, 2012).

Convergence in several important areas — namely, revenue (mainly implementation of recently issued standards), leasing and financial instruments — was a high priority on the agendas of both the FASB and the IASB at the beginning of 2016. However, in certain cases the Boards reached different conclusions during their deliberations (EY, 2016). As time has passed in the journey towards convergence between IFRS and US GAAP, the project has been delayed over and over again. No researcher can pinpoint an accurate date for when the process will be complete, or even if it will be completed, due to the numerous setbacks along the way (Willmore, 2015).

2. Key differences between IFRS and US. GAAP

All the differences between IFRS and US. GAAP fall, by their nature, into two groups:

2.1 Conceptual differences: They are differences in general approach to establishing standards and preparation of financial statements. In comparison with US. GAAP, IFRS are characterized by a higher level of abstraction, which means that there is more need for reliance on professional judgment in their application. IFRS are considered as principles-based standards, while US. GAAP are considered as rules-based standards, due to dominance of detailed and rigid guidelines. The previously mentioned distinction is confirmed by the fact that US. GAAP are contained in approximately 17,000 pages, while IFRS are contained in approximately 2,500 pages or about 15% of the length of US. GAAP. While IFRS are primarily aimed towards economic logic and the substance of transactions and events, US. GAAP focus on their form and consistent compliance with the provisions of standards. IFRS are more flexible than US. GAAP, in the sense of number of alternative treatments for transactions and events. For example, in terms of revenue recognition, the IFRS guidelines are much more general in their requirements than US. GAAP. IFRS revenue recognition is guided by two primary standards and four general interpretations. US. GAAP, on the other hand, has highly specific rules and procedures codified for a huge variety of industries on a case-by-case basis.

In addition, IFRS are often considered as more transparent than US. GAAP, primarily due to more extensive mandatory disclosures in the notes to financial statements (Obradović & Karapavlović, 2014). The most important conceptual differences are summarized in Table 01.

Table 01: «The Conceptual Differences between IFRS and US. GAAP»

Aspect	*IFRS*	*US. GAAP*
Level of implementation guidelines	Less extensive specific guidance.	Extensive specific guidance.
Professional judgments o financial statements preparers	Due to the less extensive specific guidance, the application of IFRS requires more judgments.	Although judgments are required, they are less important in comparison with IFRS.
Disclosures	Disclosures of major accounting policies and estimates are required, with the increasing extent of mandatory disclosures.	Disclosures are required, but not so extensive.
Conceptual framework	Predominantly principles-based.	Predominantly rules-based.
Industry-specific guidelines	Less industry-specific guidelines and similar treatment of transactions and events of all industries.	Extensive guidelines for certain industries and more variations in treatments of transactions and events between industries.
Reliance on conceptual framework	Greater reliance on conceptual framework in solving new problems.	Lower reliance on conceptual framework.
Alternative treatments	More alternative treatments.	Less alternative treatments.
Departure from standards	Allowed, if it results in better achievement of the objective of financial reporting.	Not allowed.

Source: V. Obradović & N. Karapavlović (2014), The convergence between IFRS and U.S. GAAP: past and perspectives, 3rd International Scientific Conference contemporary issues in economics, business and management – EBM 2014, Faculty of Economics, University of Kragujevac, Serbia, P. 508.

2.2 Concrete differences: or specific differences between IFRS and US. GAAP in responding to specific financial reporting problems. They can be classified into the next groups:

- ❖ Differences in definitions of accounting concepts,
- ❖ Differences in criteria and guidelines for recognition of financial statements positions, which include: (1) differences in eligibility for recognition, (2) differences in the way of recognition, and (3) differences in the time of recognition;
- ❖ Measurement differences, resulting from (1) differences in methods required, or (2) differences in detailed guidelines for application of similar methods;
- ❖ Differences in available alternatives, in the sense that one set of standards (IFRS or US. GAAP) allows a choice between two or even more alternative methods, while another set requires only one specific method;
- ❖ Differences in the coverage of accounting problems, in the sense that one set of standards addresses an issue that is not addressed by another;
- ❖ Differences in the presentation of financial statements; and differences in disclosures, i.e., in the information presented in the notes to financial statements.
- ❖ Previously mentioned differences between IFRS and US. GAAP are only some typical examples, because the complete list of differences is very extensive. All the differences along have significant impact on the comparability of financial statements, which is confirmed by the results of empirical studies focused on companies that initially prepared financial statements using IFRS, and then reconciled their net income and owners' equity with US. GAAP as a prerequisite for listing on the US. stock markets until 2007. The studies reveal significant differences between net income and owners' equity before and after reconciliation with U.S. GAAP (Obradović & Karapavlović, 2014).

3. Main projects of convergence of IFRS and US. GAAP

To eliminate the differences, the IASB and the FASB have agreed to work towards goals through short-term convergence projects and other joint projects. The convergence was supposed to be achieved until 2008. But the intended goal was not reached and convergence process goes on. The goal of the short-term convergence was reached through short-terms standard-setting projects:

Table 02: «Short-Terms Standard-Setting Projects»

To be examined by the FASB	To be examined by the IASB
Fair value option	Borrowing costs
Impairment (joint project)	Impairment (joint project)
Investment properties	Government grants
Research and development	Joint ventures
Subsequent events	Segment reporting
Income tax (joint project)	Income tax (joint project)

Source: H. Bohušová (2011), General Approach to the IFRS and US GAAP Convergence, Volume LIX (Number 4), ACTA Universitatis Agriculturae et Silviculturae Mendelianae Brunensis, Czech Republic, P. 29.

In following areas should be reached the convergence through other projects (Bohušová, 2011):

- ❖ Business combinations;
- ❖ Conceptual Framework;
- ❖ Fair value measurement guidance;
- ❖ Consolidations;
- ❖ Post-employment benefits;
- ❖ Revenue recognition;
- ❖ Liabilities and equity distinctions;
- ❖ Derecognition;
- ❖ Financial instruments;
- ❖ Intangible assets;
- ❖ Leases.

II. The Results of Convergence

The principles of convergence clearly show that the IASB and the FASB, quite correctly, do not consider the convergence only as a process of eliminating the existing differences and preventing the emergence of new differences between their standards, but also as a process of improving the quality of financial reporting worldwide. The process of convergence between IFRS and US. GAAP is performed at the following two levels:

- ✓ The conceptual framework level;
- ✓ The standard level.

1. The Process of Convergence at the Conceptual Framework Level:

According to the initial plan, the whole project of revision and convergence of the conceptual frameworks should have been completed in 2010. However, the real activities have been conducted significantly slower than initially anticipated, so that only one phase (out of eight) has been fully completed so far – the phase dedicated to the objectives and qualitative characteristics of financial statements. The completed phase can be considered crucial, because the established objectives and qualitative characteristics are the basis for evaluation of alternative ways of solving the most important problems of recognition and measurement, which are the subjects of the next phases of the project. It is believed that the completion of the first phase brought positive changes in the IASB's framework in terms of its readability. However, the elimination of prudence (conservatism) from the list of qualitative characteristics in favor of the principle of neutrality has not reached general acceptance.

At the end of 2010, the IASB and the FASB decided to postpone their further joint activities on the project of revision and convergence of the conceptual frameworks until the completion of other segments of convergence that were considered as more urgent. In September 2012, the IASB independently reactivated the project, focusing on its remaining phases. The following table summarizes the convergence result in the conceptual framework (Obradović & Karapavlović, 2014).

Table 03: «The Improvements of the Conceptual Framework of IFRS. »

Topic	IASB/FASB Action	Convergence Outcome	Was IFRS Improved?
Conceptual Framework	In September 2010, the IASB and FASB published virtually identical chapters on "Objectives and Qualitative Characteristics" of the new *Conceptual Framework*. No other sections finished.	Converged on Objective and Qualitative characteristics. Other parts of the *Framework* were already broadly converged.	Readability was improved, but many questions about replacement of prudence with neutrality.

Source: P. Pacter (2013), What have IASB and FASB convergence efforts achieved? Retrieved from: https://www.journalofaccountancy.com/issues/2013/feb/20126984.html, consulted 12/11/2019.

2. The Process of Convergence at the Standard Level:

The accompanying table about the results of convergence sets out views about the success of convergence and the resulting improvements to IFRS for each of the projects listed in the various agreements between the IASB and FASB.

Table 04: «The Most Important Improvements of IFRS Through Convergence »

Topic	IASB/FASB Action	Convergence Outcome	Was IFRS Improved?
Borrowing Cost	In January 2009, the IASB amended IAS 23 to require capitalization (the U.S. principle).	Converged on the broad principle of capitalization of borrowing costs. Differences in how borrowing costs eligible for capitalization are defined and calculated and on which assets are eligible.	IFRS were improved because a free- choice option was removed. Whether capitalization or expensing is the better principle is debatable.
Business Combinations	New standards issued by both boards.	Partial convergence. Differences remain, including: • Measurement of goodwill (the IASB allows either 100% of goodwill or only the parent's share. FASB is	Yes, particularly in eliminating pooling of-interests accounting. Some argue that IFRS 3 would have been further improved if the result had been a single measure for goodwill,

		100% only). • The level at which the goodwill impairment test is imposed.	rather than two. However, there was only limited support among IFRS preparers and users for the 100% goodwill approach.
Consolidation (including special purpose entities)	The IASB completed IFRS 10 in May 2011. FASB did not agree with effective control as the basic principle and did not join the IASB in the project.	Convergence broadly achieved for off- balance-sheet activities and disclosures about unconsolidated structured entities. Not converged with respect to control and de facto control as the basis for consolidation.	There is a more clearly articulated effective control principle, clearer guidance for consolidating special purpose vehicles, and much-improved disclosures.
Corrections of Errors	The IASB amended IAS 8 to require restatement, but the IASB added an impracticability exception that does not exist in U.S. GAAP.	Broadly converged.	Yes, though some question the need for an impracticability exception.
Discontinued Operations	The IASB adopted IFRS 5. FASB adopted Statement No. 144. Converged on timing for classifying an operation as discontinued. Not converged on definition of discontinued operation or on whether to present discontinued operations on the face of the income statement.	Substantial success.	Yes, IFRS were improved. (And many prefer the IASB's answer to FASB's).
Earnings per Share	In August 2008 the IASB issued an ED proposing amendments to IAS 33. This was never finalized. Nor did FASB propose similar amendments to U.S. GAAP.	IAS 33 and U.S. GAAP were broadly converged in the project. Nothing has changed.	Because no action was taken, there was no improvement.
Fair Value Measurement	IASB issued IFRS 13 as a virtually word-for-word equivalent to FASB Statement No. 157.	Substantial success.	Yes, the guidance on fair value in IFRS is much improved and made consistent across standards, plus disclosures were enhanced significantly.
Nonmandated Change in Accounting	In its 2003 improvements project that was not part of convergence, the IASB	Converged.	Yes, this was a significant improvement.

Policy	amended IAS 8 to require restatement. Subsequently, as part of convergence, FASB amended US. GAAP to require restatement.		
Reclassification of Financial Assets	The IASB amended IAS 39 to permit reclassification, which US. GAAP had allowed.	Substantially converged.	Most would say this was not an improvement to IFRS, but they acknowledge that this was a necessary move during the financial crisis.
Revenue* Recognition	The FASB and the IASB issued converged revenue recognition standards in May 2014 that will supersede virtually all existing revenue guidance under US GAAP and IFRS. The core principle is that an entity would recognize revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services.	Substantially converged. However, The Boards did not agree on the nature and breadth of all of the changes to their revenue standards.	Yes, this project lead to a significant improvement in revenue recognition and measurement. In addition, the Boards expect the amendments to result in similar outcomes in many circumstances.
Share- Based Payment (SBP)	Both the IASB and FASB issued standards requiring accrual of SBP expense. Similar but not identical measurement.	Converged.	Yes, IFRS 2 was a major improvement to IFRS.

Source: P. Pacter (2013), Op.Cit.

* **Source:** EY (2016), US GAAP versus IFRS - The basics, Retrieved from https://www.ey.com/Publication/vwLUAssets/IFRSBasics_03439-161US_20October2016/$FILE/IFRSBasics_03439-161US_20October2016.pdf, consulted 12/04/2019. P. 47.

Therefore, as the table above showed, we can remark that some convergence projects have been completed successfully as envisioned, aligned principles even if the words differed. Others have been completed with partial success, some progress toward converged standards, but some differences remain. Some convergence projects either were discontinued or resulted in different IASB and FASB standards because, in the end, the two boards just could not agree. Some convergence projects continue to this day, including such major projects as revenue recognition, leases, and financial instruments.

III. The Difficulties and Criticisms of the Project:

The process of convergence between IFRS and US. GAAP, as shown by previous considerations, is very large and complex, but also burdened by a number of obstacles and challenges, and faced by many criticisms.

1. The Difficulties:

There are many differences, both philosophical and practical, between IFRS and US. GAAP, there are a few accounting topics that have slowed down the convergence process that are the focus of this part: inventory valuation, impairments, leases, and financial statement presentation; these four items are currently remaining unresolved.

1.1 Philosophical Differences:

The basis for the differences in accounting methods stems from the fact that US. GAAP uses rules-based standards while IFRS uses principles-based standards. Rules-based standards are used by FASB and provide solutions for all or most application issues. US. GAAP rules are seen as a “prescription-based” approach, which provides specific details directing how “implementation is to be effected”. Conversely, principles-based standards are noted as being a set of guidelines, allowing for greater latitude of interpretation by the preparer or auditor. However, opponents of principles-based accounting standards argue that reliance on professional judgment may result in different interpretations for similar transactions, raising concerns about comparability of financial statements.

The distinction between rules-based (US. GAAP) versus principles-based (IFRS) accounting methods and the execution of these standards impact several areas in methods of accounting, particularly revenue recognition, asset valuation and inventory accounting, and classification of debt and equity. These differences ultimately affect financial statement reporting (Obradović & Karapavlović, 2014).

1.2 Financial Statement Presentation:

The two most important financial statements are the balance sheet and income statement. The most obvious difference in this area is that IFRS does not prescribe a specific format for these two financial statements. Under US. GAAP, assets are required to be stated first on the balance sheet, followed by liabilities and then owners' equity. Additionally, current assets must be stated before long-term assets, and current liabilities must be stated before long-term liabilities. Within the current assets section, assets must be presented in order of liquidity.

US. GAAP provides more stringent requirements with regard to the income statement. IFRS provides minimum requirements that must be presented, and leaves room for interpretation for how companies report other items. The six elements are revenue, finance costs, profit and loss from associates and joint ventures, tax expense, discontinued operations, and the profit or loss (bottom line). US. GAAP prescribes two formats that may be used (single step or multi-step) and the SEC says that expenses must be presented by function. This means that GAAP income statements are much more detailed than IFRS statements. In addition, IFRS does not define key points in the income statements that are commonly used for various measurements, such as income from operations and other non-operating income.

IFRS also prohibits extraordinary items, which provide companies a tax break under US GAAP. Under US. GAAP, extraordinary items are those events deemed unusual in nature and infrequent in occurrence that materially affect the finances of a company. Examples would include natural events such as hurricanes, earthquakes, or tornadoes (assuming that the event occurs in an area that is not usually prone to these kinds of natural phenomena).

1.3 Inventory Valuation:

One of the two main differences noted between US. GAAP and IFRS inventory accounting is that US. GAAP allows for use of the last-in-first-out (LIFO) accounting method for cost inventory, whereas LIFO is prohibited by IFRS. First-in-first out (FIFO), average cost, and specific identification are the only inventory valuation methods permitted by IFRS. Literature indicates that the effect of not using LIFO (for US. companies that currently do) will be noted in tax reporting and on the financial statements (balance sheet and income statement). This method is used by approximately 36% of companies to value at least some part of their inventory. Due to the economic theory that says prices are always rising in the long term, this increases the cost of goods sold (an expense).

The incentive for firms operating under US. GAAP to use LIFO to value inventory is the fact that this method lowers taxable income (because the cost of goods sold expense is higher), resulting in a lower tax liability for the firm. Switching inventory methods would increase taxable income for the company. This would definitely be in effect for the year following the year convergence was achieved.

Another material difference between IFRS and US. GAAP in regards to inventory valuation is the value at which inventory should be reported. IFRS requires lower of cost and net realizable value while US. GAAP requires lower of cost or market price. Under US. GAAP, the market price is "the cost to replace the item by purchase or reproduction". Under IFRS, net realizable value is the original cost less estimated costs to complete and sell. Net realizable value is a key component in the determination of market costs. It is the ceiling for the market cost (highest it could potentially be). The floor for market cost is the net realizable value less the normal profit margin.

1.4 Impairments:

The two fundamental differences between US. GAAP and IFRS regarding impairments are the test to identify and measure an impairment and the fact that IFRS permits impairment reversal. Each set of standards seems to be superior to the other regarding certain areas of accounting for impairment. Therefore, a converged standard should be a compromise, incorporating the best ideas from each side.

It seems to favor the FASB's two-step test of measuring impairments over the one-step test utilized by the IASB. The first test measures if the fair value of the asset is less than its book value, and if it is, a second test is done to measure the impairment. The scholars say that IFRS measures an impairment without being sure that one exists. Additionally, these scholars like the IASB's stance on allowing reversal of impairments, because once an asset is written down due to impairment, the carrying value of the asset changes. If the market value increases after the write down, the assets are understated on the firm's balance sheet.

IFRS however, allows assets to be written back up, so that the value on a company's books more closely represents their market value. Under US. GAAP, once an asset is written down due to impairment, it can never be written back up. Impairments are most often thought of in regards to fixed assets and goodwill, but can also affect financial instruments. The issue of impairments has created a rift between the two standard setting bodies, and the FASB and IASB will have to control that rift in order to make progress on the convergence project.

1.5 Leases:

There are a few differences related to leases, the most obvious is that what is known as a capital lease under US. GAAP is called a finance lease under IFRS. When a capital (finance) lease is recorded, a company sets up the lease on its books as an asset or liability. The asset is then depreciated by the lessee and not the lessor.

Another major difference related to capitalization of leases involves the criteria used to determine if a lease is a capital lease or an operating lease. IFRS requires that a lease be capitalized if "substantially all" risks and rewards of ownership have been transferred to the lessee. GAAP, however, outlines strict requirements for lease capitalization. For example, one of the four criteria that determine if a lease is a capital lease is that the present value of the minimum lease payments has to be greater than or equal to 90% of the fair value of the leased asset. Another example is that the term of the lease has to be at least 75% of the economic life of the asset. This is another example of how US. GAAP is more rules based and IFRS is more principles based.

The differences discussed above could potentially lead to a company capitalizing a lease under one set of standards and not the other. The difference between a capitalized and non-capitalized (operating) lease is significant. Under an operating lease, no asset or liability is recorded on the company books. Instead, the rental payments are simply expensed as they are incurred. This is advantageous for companies because the debt ratio is not affected, which is a key metric investor use to make decisions. This causes firms to make every effort to avoid capitalizing leases whenever possible (Willmore, 2015).

2. The Criticisms:

Deadline for the completion of the entire process is not known and there is no precise estimate, which is a consequence of the lack of consensus on the expected final outcome. In fact, there is no consensus on whether the convergence process should be continued until the complete equalization of the two sets of standards or it can be terminated earlier, when some level of similarity between IFRS and U.S. GAAP is reached. There is also a proposal for the immediate termination of the convergence, because its further continuing is not the most efficient and effective way to achieve a single set of global standards, and adoption of IFRS in the United States in complete (Obradović &

Karapavlović, 2014). The most important criticisms arise from:

- ❖ The different styles of the two sets of standards, with particularly important differences in the level of detail,
- ❖ Various political pressures which the IASB and the FASB are exposed to,
- ❖ The potential tendencies of the IASB and the FASB to maintain continuity with their existing standards, and
- ❖ Potential differences in the priorities of the two boards.

Convergence may be an appropriate short-term strategy for a particular jurisdiction and may facilitate adoption over a transitional period. Convergence, however, is not a substitute for adoption. Adoption mechanisms may differ among countries and may require an appropriate period to implement but, whatever the mechanism, it should enable and require relevant entities to state that their financial statements are in full compliance with IFRSs as issued by the IASB. Adoption is the only way to achieve a single set of global financial reporting standards—an objective that both the IASB and FASB have publicly endorsed on many occasions.

As a final thought, we would add that convergence may have been the most realistic way to initiate the use of IFRS in the United States, but such an arrangement is not sustainable in the long term. Rather, the best approach for any jurisdiction is outright adoption of IFRS. As the trustees of the IFRS Foundation said in the report of their 2011 Strategy Review: “As the body tasked with achieving a single set of improved and globally accepted high quality accounting standards, the IFRS Foundation must remain committed to the long-term goal of the global adoption of IFRSs as developed by the IASB, in their entirety and without modification”.

IV. Conclusion

Finally, the convergence between IFRS and US. GAAP has been a long and drawn-out process. It is widely debated within the field whether convergence would be in the best interest of accountants. There would be high monetary and non-monetary costs involved in making such a change, and the United States may have to sacrifice some political power with regard to standard setting in order for other countries to agree to a converged system. The US. GAAP is the most important segment of the overall process of global convergence of financial reporting standards, and its successful completion and subsequent imposition of IFRS to the US. listed companies are key steps in transforming IFRS into a single set of global standards. Therefore, we can conclude the following results from this research:

- ✓ Some convergence projects have been completed successfully as envisioned. Others have been completed with partial success, but some differences remain. And some convergence projects were discontinued or resulted in different IASB and FASB standards.
- ✓ The convergence between IFRS and US. GAAP is a long and complex endeavor which, despite significant progress until now and positive effects on the global comparability of financial statements, is still far from completion and facing many challenges.
- ✓ The convergence between IFRS and US. GAAP is not only expected to decrease the differences between the two sets of standards, but also to strongly contribute to improving the quality of financial reporting around the world and more adequately meet the needs of users of financial statements.
- ✓ Therefore, from 2002 as the year of the formal beginning of the convergence, we are today after 15 years of convergence work. There are many differences between the two sets of standards, including inventory valuation, impairments, leases, and financial statement presentation (among other things).
- ✓ However, recently the two sides have agreed on a mostly converged standard dealing with revenue recognition.

Taking into account: (a) The areas where the differences between IFRS and US. GAAP still exist, and no actions or almost no actions have been performed so far in order to converge (such as accounting for property, plant and equipment, and inventories), (b) The areas where the convergence activities have been undertaken, but with no success or only partial success, and (c) The areas without general agreement about the impact of changes on the improvement of the quality of IFRS, it is clear that the convergence process is still far from completion. Therefore, even after those projects are complete, differences will continue to exist between US. GAAP and IFRS. All the differences are unlikely to be eliminated in the near future, but the convergence process nevertheless continues. Despite many problems that are still unsolved or even untouched, and despite the fact that some changes in IFRS are subject to criticism, the general impression is that IFRS and US. GAAP are getting closer, and that their convergence has positive effects on the quality of IFRS.

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