GAAP rules

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Course

Date

Should private companies required to follow GAAP rules?

GAAP known as Generally Accepted Accounting Principles is the accounting and finance rules and system which are considered to be essential in completing a wide range of financial statements for all corporations based in the United States (Carpenter and Feroz). It has been persistently indicated the importance of launching and placing adequate accounting and financial principles that correspond to GAAP through the supervision of a relevant accounting body . A significant requirement for companies is to use proper international standards in accounting, which are placed within a specific framework of financial reporting.

GAAP rules-based accounting standards are communicated in very detailed techniques of accounting; they offer very detailed guidance (Chan and Seow). These standards have been established partially as an answer to many financial auditors and those who organize financial statements for the companies. The respective standards push for more accounting guidance in command to avoid disapproval about the method they use in organizing reports or financial audit information. However, GAAP rules tend to improve the communication of basic trainers in the accounting field.

In the US, most of the private companies also used GAAP, however, private companies are not legally forced to follow its rules, but they need to do it to satisfy their clients (lenders, capitalists or stakeholders) (Ivan and Laura). It is a challenge for private companies to prepare GAAP financial statements. Furthermore, the Securities and Exchange Commission of the United States (SEC) and the IASB, standing for the International Accounting Standards Board, are determined to work together on a strategic plan to implement and execute the use of International Financial Reporting Standards (IFRS) within companies and other institutions which are operating in the American accounting context (Christie and Brozovsky).

The main purposes of this study are to observe and examine the convergence of GAAP and IFRS accounting principles. Most of the private companies are moving towards IFRS rather than GAAP (Christie and Brozovsky). Presently, GAAP accounting principles have their personal accounting standards, tackling with the accounting and financial services. GAAP rules-based accounting standards are communicated in very detailed techniques of accounting; they offer very detailed guidance. These standards have been established partially as an answer to many financial auditors and those who organize financial statements for the companies (Ivan and Laura). The respective standards push for more accounting guidance in command to avoid disapproval about the method they use in organizing reports or financial audit information.

GAAP and IFRS help accountants to develop and practice their accounting profession in a better and efficient way. If accountants and financial analysts are having difficulty to follow GAAP, they are likely to try to find ways to use ambiguity in order to accomplish desired financial results (Ivan and Laura). It has been also suggested that GAAP-based rule standards have other advantages compared to GAAP rules based principles along with that of improved comparability. Experts in the field tend to argue that this middle ground approach is identified as objective-oriented standards.

They consider such standards to be finest, as the mentioned approach can offer financial analysts and accountants a restricted framework that can limit the scope of their professional judgment and decision, and moreover, it can allow more flexibility than GAAP rules- based standards. It is important to discuss the process of preparing the financial statements of private companies completed under IFRS and US GAAP financial reporting, and this causes difficulties for company investors (Ivan and Laura).

Whereas in US GAAP, private company's revenue identification is normally delayed until the company's earnings process has occurred, operational expenses are recorded and matched against the company's earned revenue (Ivan and Laura). This approach is commonly known as a matching process. The above approach is recognized as the regulatory approach. With the SEC USA approval, foreign companies and SMEs may now use IFRS rules and standards for their financial reporting without bringing and using US GAAP. These companies can report higher company revenues than equivalent to US multinational corporations using US GAAP rules- based standards.

Since multinational corporations are contrasted by financial analysts with a focus on revenue in dollars, company investors tend to observe income as a measure of their net worth (Ivan and Laura). Research has shown that, many private companies prefer to use non-GAAP financial statements. For example, if others decide to receive any "qualified" recommendation from their auditors (Cricpa). Generally, many lenders (clients) accept non-GAAP financial statements or ignore GAAP requirements because they identify that conformity can be troublesome and that many GAAP standards lack significance for private companies.

This paper represent that, GAAP rules stress of preparing fair-value-based accounting approach, which is a difficult process to be followed because than private companies are required to mention their assets and liabilities at fair value (Cricpa). Such type of information is valuable in public companies, but not in private companies because lenders and other clients of private companies tend to be less interested in fair value financial statement of assets and liabilities. Private companies are much more interested in free cash-flow statements to assess the ability to pay its debts. Therefore, it is not necessary to follow GAAP rule because private companies are moving towards IFRS principles because it focuses on historical cost rather than fair-value.

Works cited

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