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The International Financial Reporting Standards and Their Implementation into the US Accounting System

Mindyleigh Dols
University of Connecticut - Storrs, mindydols@yahoo.com

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Mindyleigh Dols
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Department of Accounting
School of Business
University of Connecticut

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Abstract

This paper examines the differences between the International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Principles (GAAP). The areas closely examined are the differences in revenue recognition and reporting of intangibles. By investigating the differences in the two sets of standards I put into context the changes that would be necessary for domestic companies adopting the IFRS. The differences between these two standards are important because the implementation of IFRS into the U.S. is a current issue for domestic companies. It is important to note how the new standards will affect different companies in different ways. Depending on the size and industry, some companies will have a harder time transitioning to the new standards. However, once these companies make the transition to IFRS they will have better recognition and reporting of revenues and intangibles.

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I. Introduction

The International Financial Reporting Standards (or IFRS hereinafter) are developed by the International Accounting Standards Board (IASB) based in London. About 120 nations require the use of IFRS for financial reporting by public companies ("AICPA IFRS Resources"). The United States plans to converge from US GAAP (or GAAP hereinafter) to IFRS in 2015 or 2016. However, adoption of IFRS has already been discussed and the process has begun ("PricewaterhouseCoopers United States"). The adoption of IFRS will be beneficial for US companies because it allows better comparisons of international and domestic financial statements. Also, since there are many internationally based companies in the United States, it will make record keeping easier for those that use IFRS in their foreign subsidiaries currently ("AICPA IFRS Resources").

The major overall difference between IFRS and GAAP is that IFRS provides much less detail, which allows more discretion in reporting for companies. GAAP is more extensive in their rules and standards and they provide more industry-specific guidance ("AICPA IFRS Resources"). This means that companies in the United States will not have the strict guidance they are used to under GAAP, but will be able to evaluate their books and recognize and report information in ways that may be more beneficial to their specific circumstances. More discretion will be needed by U.S. companies.

The main issues studied in this thesis are the differences between IFRS and GAAP for the reporting and recognition of revenues and intangible assets. The differences under revenues are those pertaining to services provided over multiple periods, multi-good and construction contracts. IFRS is different from GAAP under these scenarios in that it recognizes revenues earlier.

When it comes to intangibles, the main differences reside in the reporting of development costs, residual value and revaluations. Under GAAP, development costs are always expensed and reported on the income statement as a deduction towards net income. However, under IFRS companies can capitalize and amortize these costs resulting in lower current costs and higher income. The residual value under GAAP is computed using the present value of expected proceeds while IFRS requires the use of the net selling price. Finally, revaluations and impairment reversals were never allowed under GAAP but are allowed under IFRS.

These issues between the differences of IFRS and GAAP are both important and interesting especially as the transition from GAAP to IFRS in the United States is becoming closer. Soon, all publicly traded companies that issue financial statements to the public will have to convert their books from GAAP accounting to the rules under IFRS. This will have a big impact on all mandatory IFRS adopters as well as companies that decide to adopt IFRS for their own reasons and the users of financial statements and auditors. Since the transition is in the works and the adoption of IFRS will be mandatory to all public companies, IFRS is becoming more prominent in the United States and a current topic for many accounting studies.

II. Revenue Recognition

a. IFRS

Currently, there are two standards in the IFRS that cover revenue recognition, IAS 11 *Construction Contracts* and IAS 18 *Revenue*. Under IAS 18, revenues are measured at the fair value of consideration received and recognized when certain conditions are met. These conditions are principle-based and do not include strict rules to follow ("McGladrey & Pullen CPAs").

The Standard IAS 18 *Revenue* defines revenue and when it should be recognized in three different transactions: sale of assets, services and interest, royalties and dividends. The Framework for the Preparation and Presentation of Financial Statements defines revenues as, "increases in economic benefits produced throughout the year in the form of tickets or increases in value of the assets, or as decreases in liabilities, resulting in increases in net worth and are not related to contributions from the owners of the company" (IAS 18, Objective). The main point of discussion in the IAS for Revenue is the determination of when revenue should be recognized. IAS 18 states that the revenue is "recognized when it is probable that future economic benefits flow to the company and these benefits can be measured reliably" (IAS 18, Objective). Next I will discuss the circumstances in which the criteria are met for revenue recognition and the practical guidelines given by The Standard for the application of these criteria mainly dealing with sale of assets and delivery of services.

Under IAS 18, revenue must be valued under the fair value of the consideration received. If cash, or cash equivalents, is received in exchange for an asset, then revenue is measured in the amount of cash received. However, if the cash inflows occur over time, the fair value will be less than the nominal amount of cash collected. This is seen in transactions of loans or other financial equities.

When dealing with the sale of goods there are 5 conditions in IAS 18 that must be met in order for revenue to be recognized and recorded in financial statements. They are as follows:

a) risks and benefits have been transferred to the buyer
b) effective control or management of the asset, to the degree associated with ownership, is no longer held by the selling company
c) reliable measurement of revenue amount
d) economic benefits associated with the transaction are received by the company
e) reliable measurement of costs incurred with the transaction

When delivery of multi-good contracts is concerned, as long as delivery of goods is probable, revenue can be recognized on the delivered part of the contract even if a full refund would be triggered by failure to deliver the remaining parts of the contract (IAS 18).

Regarding revenues from services provided, they should be recognized and recorded when the services can reliably be estimated. There are 4 conditions that must be met in order for revenue to be reliably estimated (IAS 18). They are as follows:

a) reliable measurement of revenue
b) economic benefits associated with the transaction are received by the company
c) reliable measurement of the degree of transaction completion at the balance sheet date
d) ability to measure costs incurred in the provision or will be incurred to complete it

The recognition of revenue in this type is referred to as the percentage of completion method (also seen in construction contracts). A percent of the revenue is recognized over the years that the service is being provided. Under the IAS though, you have more possibility for up-front revenue recognition when the performance has occurred.

IAS 11 *Construction Contracts* is the other standard in IFRS that covers the recognition of revenues. Since construction contracts are long-term with high costs, revenue recognition is different for them than previously discussed transactions (IAS 11).

IAS 11 allows two approaches to recognize revenues for long-term construction contracts, the percentage of completion method and the cost recovery method. The percentage of completion method should be used in construction contracts unless the percentage cannot be reliably estimated. In that case, the use of the cost recovery method, or the revenue-cost approach to percentage of completion method, is required and mandatory. The cost recovery method recognizes profits only after the costs of the contract are completely recovered. In no circumstance is the completed contract method an acceptable method to use for construction contract revenue recognition under IFRS.

b. Differences in US GAAP

Under GAAP the conceptual framework offers guidance for revenue recognition but there is no separate standard for the recognition of revenue. This is one of the major differences between GAAP and IFRS. As discussed in the previous section, IFRS gives principle guidance for revenue recognition as well as separate standards. On the other hand, US GAAP does not have a separate standard for revenue recognition and only offers rule based industry-specific guidance for revenue recognition.

The Revenue Principle discussed under GAAP requires companies to record revenues when they are realized, or realizable, and when earned, not just when cash is received. This is the basic and general standard that companies should following when using GAAP basis accounting. This is a lot less specific than the IFRS for revenue recognition.

The following table summarizes the 3 major differences between the IFRS rules previously stated and the GAAP accounting for revenue recognition.

Table 1. Comparison of IFRS and US GAAP in Revenue Recognition

Business Transactions	IFRS	US GAAP	Summary of Difference
Multi-Good Contracts	Revenues can be recognized on the delivered part of a contract.	Defers the recognition of revenues.	Revenues will be recognized earlier under IFRS.
Services Provided Over Multiple Periods	Allows up-front revenue recognition when performance has occurred.	Cannot recognize any up-front revenues.	Revenues will be recognized earlier under IFRS.
Construction Contracts	Use of the cost recovery method if percentage cannot be readily determined. Completed contract method is not allowed.	Revenue-cost or gross-profit approaches are allowed.	No more completed contract method. Only cost recovery or percentage method allowed.

The first difference lies determining the recognition of revenue on multi-good contracts. IFRS allows revenues to be recognized on the delivered part of a contract. However, GAAP deferred the recognition of revenues on the delivered part of a multi-good contract if a refund would be triggered by the failure to deliver the remaining goods on the contract (IFRS versus GAAP – Revenue). This means that revenues will not be recognized until the delivery of all parts of the contract is needed under such conditions. This will delay revenues on goods that have already been delivered. The revenue recognition under the GAAP is more conservative because if the rest of the contract fails to be completed then the revenues would never have been recognized and those revenues on the incomplete contract would not have to be restated. Under

IFRS, however, if a contract is cancelled in the middle of multi-part delivery then revenues previously recognized would have to be reviewed. This method may introduce more volatility to the revenues on a partially completed contract.

The second difference is the accounting for services over a period of time. IFRS, as stated above, allows up-front revenue recognition when performance has occurred. However, under GAAP you cannot recognize any up-front revenues on services performed over multiple periods. The correct accounting for this situation under GAAP is to amortize revenues over the service period. This allows a company to recognize the revenues of the service over the time that services are provided (IFRS versus GAAP – Revenue). Under IFRS all the revenues are recognized in the beginning and no revenues are recognized over the life of the provided service.

Finally, there is a difference in accounting for revenue recognition of construction contracts. The IFRS requires the use of the cost recovery method if the percentage of the contract cannot be reliably estimated. The revenue-cost approach to percentage of completion is mandatory under IFRS because the completed contract method is banned. This is unlike GAAP where either the revenue-cost or gross-profit approaches to percentage of completion are allowed for long-term construction contracts. This allows companies to choose either of the methods according to their preferences or circumstances (IFRS versus GAAP – Revenue). IFRS is a bit more rigid in having companies use the revenue-cost approach first unless percentage cannot be estimated, then the use of the cost recover method is required. GAAP also allows the use of the completed contract method, and actually requires the use of this method under certain circumstances. Companies using IFRS cannot use the completed contract method under any circumstance. The implications of the different standards require that under GAAP either a percentage of revenues are recognized during the entire contract period or all revenues and costs are deferred until the entire contract is completed, which could be in years (IFRS versus GAAP – Revenue). Under IFRS you recognize a percentage of the profit throughout the contract or the other acceptable way is to recognize revenues once the costs are covered. There is no waiting until the entire contract is completed to recognize all the revenues earned from the contract.

c. Implementation of Revenue Recognition Changes

The course of action needed to implement the IFRS into the United States will require that companies change some of their revenue recognition policies. For companies that deliver goods in multi parts, they will have the option of changing their accounting for revenue recognition to the first shipment of goods that arrives. However, they can continue to use their current approach as deferring the revenue is not banned in IFRS. This would mean that companies' revenues would increase more in the beginning of the sale and there would be no later recognition of the revenue in later periods (IFRS Bulletins). An example of a company that deals with multi-good contracts is a company like Amazon. When customers order two or more items from their website Amazon will ship the goods as they come available, which could mean multiple shipments instead of just one. Amazon, under GAAP, the recognition of any revenues for any part of the multi-good contract must be deferred until all parts of the contract are shipped. However, under IFRS, they will be able to recognize the revenues of the delivered part of the contract. So, as the different parts of the multi-good contract becomes available and shipped, Amazon will be able to recognize those revenues instead of deferring them until the last shipment. This will be good for companies because they will have a better accuracy of accounting for revenues, because the revenues of goods shipped no longer have to be deferred until the entire multi-good contract is completed. The revenues will be recognized as goods are shipped and this will spread out the recognition of revues to provide more accurate and timely information.

Similarly, there is revenue recognition of rendered services. When companies are performing services over multiple accounting periods, IFRS allows recognizing the revenues up-front unlike the amortization of revenues of the service period under GAAP (IAS 18). For instance, for accounting firms whose services are provided over multiple periods, if they can reasonably predict the amount of services they will be performing, they will have the option to recognize the revenues up front before all of the services have actually been provided. This will be beneficial because they will not have to amortize the amount over the length of the service periods but instead recognize the revenues they will be receiving immediately. The reliability of revenue under this principle is lower than under GAAP because companies can recognize revenues based on predictions. Even though they have to be able to reasonably predict the revenues there will still be some differences in the predicted amount and the amount actually earned after all the services have been provided. However, these revenues under IFRS are more relevant because if the company is currently completing some services on the contract, then they will be able to recognize those revenues they complete the services for.

Construction companies are going to change their accounting policies to implement the IFRS revenue recognition because the completed contract method will no longer be available to use. This means that revenues will be recognized earlier when implementing the IFRS. Companies do not have to wait until the contract is fully completed. Instead revenues will be recognized either as a percentage of contract completion over the accounting periods it takes to complete the contract, or beginning once the revenues exceed the costs of the project, which will be during the contract period (IAS 11). For example, a very big construction company in

Connecticut is KBE Building Corporation. They provide for large contracts for all of the East Coast. Their contracts are large in amount and usually take multiple periods to complete (KBE Building Corporation). The change from GAAP to IFRS will be a hard one to make but beneficial to them in the long run. It will be hard for KBE to change the accounting for all of their contracts that are determined using the completed contract method now, to either the percentage of completion or the cost recovery method. It will take time and man power to switch over all the contracts and start determining the revenues that should have been recognized using one of the other methods. However, in the long run, by banning the complete contract method under IFRS, KBE and other construction companies, will be better off. KBE, with its large scale contracts with large sums of revenues and expenses, would be better off using the percentage of completion or cost recovery method because even though it might take more time to determine percentage completed or costs at a single point in time, the revenues will be recognized more evenly throughout these long term contracts. This way instead of recognizing a large sum of revenues at the end of the completed contract, companies have evenly recognized revenues over the entire period in which they are working on the contract. It might take more time to determine these revenues and costs throughout, but the benefit is that their income statements will be more accurate throughout the multi-period contracts they complete.

d. Effects on US Companies

The effect of implementing IFRS in the United States varies depending on the industry and size of the company. The industries that have specific rules under GAAP are no longer going to have the revenue recognition specific rules they are used to, such as the software industry. Under IFRS these companies are going to have to follow a more principle based guidance which will leave room for difference in revenue recognition to arise. For instance, a US software company, like Microsoft, will have the ability to change how they recognize revenues that would better suit them. They no longer will have strict guidelines as stated under GAAP and they will be able to change their revenue recognition policies to help themselves out or make their financial statements look better because there are no strict guidelines or rules under IFRS, they have more freedom to do what they want. This will be good because of the discretion that managers can use to better recognize their revenues based on their special circumstances within their company. However, with more discretion comes less comparability even between companies with similar operations. The disclosures under IFRS will help maintain some of the comparability because managers have to explain why they choose a particular method of revenue recognition.

Many smaller companies will not be as greatly affected by the change from GAAP to IFRS under the revenue recognition principles as will the larger scale companies. This is because smaller companies have shorter spans of time to recognize their revenues on contracts and their operations are done on a smaller scale. Larger companies that have contracts outstanding for multiple accounting periods are going to have to adjust to the differences in recognizing revenues earlier in the contract process, rather than at the end of completed contracts or sales.

To sum up, the construction industry will be affected the most when it comes to the new IFRS revenue recognition standards. This is because they are no longer allowed to use the completed contract method, which has been used for many contracts in the construction industry. They will have to switch their accounting for contracts over to one of the new methods that are allowed by IFRS. However, with these new methods, the revenues of the construction industry will be more evenly spread out over their contract periods and revenues will be recognized earlier during the contract periods which will allow for more seasonality of revenue recognition.

The software industry will also be heavily affected but for different reasons. Unlike the construction industry which has more strict rules to abide by, the software industry has very little guidance under the IFRS than they did with GAAP. With less guidance, the companies will have a lot more discretion with how to recognize their revenues (IFRS Bulletins). This may bring about less comparability between companies in the software industry now that software companies can decide how to recognize their revenues.

e. Joint Project of the IASB & FASB

The IASB and FASB are currently working together to create a new standard for revenue recognition that will be followed by both GAAP and IFRS. The new standard will replace the existing standards, IAS 11 and IAS 18, on revenue recognition under the IFRS. The standard includes a single revenue recognition model that will be able to be applied consistently across different industries and physical areas. The principle states that companies will recognize revenues when it has fulfilled it performance obligations under the contract by transferring goods or services to the customer. This is similar to current principles but the board is hoping that by stating this new principle, it will clarify what needs to be done across the different industries, and will improve comparability of revenue in the financial statements (International Accounting Standards).

The board has distinguished the main objectives of their project as follows:

- to provide a single, revenue recognition model applicable to a range of industries

- to develop a model based on changes in specific assets and liabilities to eliminate weaknesses and inconsistencies in existing concepts and standards
- to converge IFRSs and US requirements

The estimated completion date for this project is in 2011 (International Accounting Standards).

This project is a good idea and will help out the implementation of IFRS into the United States. It will help ease the conversion from GAAP to IFRS by starting the process with this and other standards that have been in the making which will cover revenue recognition over the different areas so it is easier to apply the principle. By starting with this one principle before the United State changes completely to IFRS, it will help companies become familiar with the idea of IFRS and the principle based guidance unlike the rule based GAAP the United States is used to.

III. Reporting of Intangibles

a. IFRS

Currently, the IFRS has one standard that covers all of the intangible asset recognition, which is IAS 38 *Intangible Assets*. This standard defines the intangible assets that it covers and how they should be recognized and reported. IAS 38 applies to all entities in accounting for intangible assets, except in the following cases:

a) Intangible assets that are covered in other Standards;

b) Financial assets, as defined in IAS 32 Financial Instruments: Presentation;

c) Recognition and valuation of exploration and evaluation assets (see IFRS 6 Exploration for and evaluation of mineral resources)

d) Expenditures related to the development and extraction of minerals, oil, natural gas and similar non-regenerative resources.

When dealing with intangibles under IAS 38, the important terms defined are identifiability, control, future economic benefits, recognition and measurement. There are a total of 133 paragraphs that define certain intangibles and scenarios that the standard sets rules for. (IAS 38) IAS 38 defines an intangible asset as "an identifiable nonmonetary asset without physical substance" ("IAS Plus"). The three critical attributes that is defined by IAS 38 in recognizing an intangible asset are identifiability, control and future economic benefits ("IAS Plus").

b. Differences in US GAAP

GAAP previously used the rules of APB Opinion No. 17 in dealing with the accounting for intangible assets before it was superseded by SFAS No. 142, which is now the standard that GAAP follows when accounting for intangibles. The three differences of accounting for intangibles between IFRS and GAAP that this paper covers are related to the recognition of research and development costs, residual value and revaluations of intangibles other than goodwill (IFRS versus GAAP – Intangibles). The following table summarizes the differences.

Table 2. Comparison of IFRS and US GAAP in Intangible Assets

Business Transactions	IFRS	US GAAP	Summary of Difference
Research and Development Costs	Research costs are expensed as incurred but development costs are capitalized and amortized.	Both research and development costs are expensed as incurred.	Development costs will be recognized over multiple periods under IFRS.
Residual Value	Defined by current net selling price.	Defined by present value of expected disposal proceeds.	Residual value will generally be higher under the IFRS method of current selling price.

Revaluations	Impairments that were once recognized can be reversed and revaluations are permitted.	Impairments and revaluations are never permitted.	Intangibles will be more accurately stated under IFRS.

When it comes to recording research and development costs, GAAP requires companies to expense all of these costs as they are incurred and they are included in operating cash flows because of them being expensed currently. This is different from IFRS which at least allows the development costs to be capitalized and amortized with those costs that are capitalized in the current period being included in the investing cash flows (IFRS versus GAAP – Intangibles). This way, the development costs can be recognized over the life of the assets they were used to develop and the expenses of research and development costs will not be overwhelming in a single period. By capitalizing the developing costs, the expenses on the income statement will be lower because those costs will show up as assets for the company on the balance sheet. Since the non-amortized part of the costs appear on the balance sheet as assets, companies will report a higher total assets. Also, the income statement will show lower expenses which show a higher profitability in earlier years of the amortization. This will show a smoother pattern of reported incomes.

Next we see when calculating residual value of intangibles the GAAP method defines it as the present value of the expected disposal proceeds of the intangible asset. Therefore the US GAAP emphasizes the exiting value of the intangibles because it requires the use of the present value of what a company can get if it disposes of the asset in the future. The IFRS instead, uses the current net selling price when figuring out an intangible asset's residual value (IFRS versus GAAP – Intangibles). This may give a slightly higher value because the value is calculated using what the company can current sell the asset for, which is greater than what they would get than if they were just to dispose of the asset.

Finally, there is a difference in calculating the revaluation of an intangible asset. GAAP does not allow revaluations or impairment reversals. GAAP only allows amortization of the cost of revaluations. This doesn't allow companies to revalue their intangibles to regain the correct or current amounts. When it comes to impairments, prior impairments cannot be corrected even if there is a recovery in value. However, IFRS does allow once recognized impairments to be reversed under defined conditions, with the exception of goodwill. IFRS also allows revaluations of intangibles under limited circumstances (IFRS versus GAAP – Intangibles). This will allow intangibles to be more fairly stated because revaluation gives managers more discretion in determining the values of intangibles to restate the values based on their method of determining current value. Companies will be able to keep the intangibles on their books at fairly stated values, instead of at previously impaired or historical values. The IFRS approach of revaluing intangibles is a better approach because companies are able to recognize value recoveries, which reports intangibles on the books at their proper values and allow for better insight for financial reporting purposes.

c. Implementation of Intangible Reporting Changes

To implement the new standards of the IFRS into the United States, companies are going to have to change how they deal with their intangible assets. When it comes to development costs, they can no longer expense these costs as incurred, but instead they have to change their accounting and capitalized these costs and amortize them over the life of the intangible assets. For help with determining if the cost is research or development IAS 38 provides this definition, "Development is the application of research results or any other kind of scientific knowledge to a particular plan or design for the production of materials, products, methods, processes or systems new or substantially improved before the start of his production or commercial use." This is different from the IAS 38 definition for research which is defined as, "original and whoever planned study, undertaken with the aim of gaining new scientific or technological knowledge" (IAS 18). In addition to capitalizing these costs, they will no longer put them into the operating cash flow section, but the financing cash flow section as they capitalize the amortized amounts every period (IFRS versus GAAP – Intangibles). This will help the development costs to be spread out over the periods in which the intangible asset is used, instead of having all the costs expensed in the beginning period of the asset's life. Also, by having the capitalized costs recorded as financing cash flows instead of operating cash flows, companies will be able to get a better understanding of the actual costs in each section. Development costs are better classified as financing cash flows because of the nature of these costs, that is, they provide economic benefits that will last multiple accounting periods. It will give the company a better idea of their actual operating cash flows without development costs.

To implement the changes for the residual value differences between IFRS and GAAP, companies need to change how they calculate the residual value for an intangible asset. Instead of calculating the present value of the expected disposal proceeds to determine the residual value, under IFRS companies will calculate the current net selling price (IFRS versus GAAP – Intangibles). This amount may be higher because the selling price of an intangible will be greater than the disposal value. This will allow the company to claim a higher residual value of the intangible. By using the current selling price of an intangible, companies will be able to have a better, more current, estimate of the residual value. The selling price is current compared to the present value of the disposal proceeds.

When dealing with revaluations of intangibles, US companies will have the option of revaluing their intangibles and even be able to reverse impairments that have been previously recognized. To implement this standard would require companies to revalue their intangible to determine if any change to the carry amount of the intangible is necessary. This will be good for companies that can revalue their intangibles, or even reverse a prior impairment, because intangibles can then be fairly presented as assets.

d. Effects on US Companies

The effect of the new standard for intangible assets under IFRS will affect all US companies that have intangible assets on their books. Larger companies that deal with large number of intangible assets, such as research and development intensive companies like Pfizer, will have more work to do when switching from US GAAP to IFRS. They will have more options about revaluations and impairment reversals. They will need to determine if a certain intangible they have on their books fits under the criteria to be revalued, whereas previously under GAAP, a revaluation was never allowed.

Industries mostly affected by the difference in accounting for intangibles are the intellectual-property intensive companies that deal with patents and other intangible assets. Software and development companies that obtain and own a lot of intangibles such as patents will be able to restate values that have been recovered and capitalize those costs pertaining to development. This will fairly present their intangibles on their financial statements and will decrease their current-year expenses because development costs will now be amortized over their useful life.

The effect on large versus small companies will not be too different. Larger companies are more likely to have more intangibles to be revalued or impairment to be restated. The accounting for them will still be the same however.

IV. Conclusion

There are major differences between IFRS and GAAP recognition and reporting standards for both revenues and intangibles. The major differences are recognizing revenues for different contacts, where IFRS allows recognition of more up-front revenues as compared to GAAP which defers the recognition of revenues until the entire contract is completed. For intangibles, the differences consist of capitalizing costs and recognizing revaluations or impairment reversals, which were not allowed to be recognized under GAAP. This allows for companies to properly state the values of their intangibles and recognize costs of development over the useful life.

These changes are good and will better benefit domestic companies in recognizing their revenues and intangibles. They will help companies better state their revenues and intangibles when reporting them to users of their financial statements. IFRS will take some time for domestic companies to switch over to but there will be a more uniform accounting standard, which will standardize financial reporting.

Public companies in the United States must adhere to the reporting standards set by the United States. Construction companies, especially, will have a lot of different rules to follow under the new IFRS and technology companies will have less strict rules under IFRS than they currently do under GAAP. The adoption of IFRS will in affect companies currently using GAAP as their accounting standards and institutions that audit and review these financial statements, such as public accounting firms. However, despite the time and effort that is required to implement these new standards, it is a necessary and beneficial change.

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