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DIFFERENCES BETWEEN GAAP AND IFRS: IMPLICATIONS FOR INTERNATIONAL INVESTORS IN GLOBAL FINANCIAL ANALYSIS

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ABSTRACT
In an increasingly globalized economy, understanding the differences between accounting standards is essential for investors operating across borders. This paper examines the main divergences between the Generally Accepted Accounting Principles (GAAP) and the International Financial Reporting Standards (IFRS), focusing on how these discrepancies affect financial statement comparability and investment decision-making. Key topics include revenue recognition, asset measurement, treatment of research and development expenses, contingent liabilities, and the presentation of financial statements. Additionally, this study highlights the strategic impact for international investors and discusses the ongoing convergence efforts by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB). The paper contributes by reinforcing the importance of accounting literacy for global investment strategies.

Keywords: GAAP. IFRS. Financial Analysis. Accounting Comparability. Investment Strategies.

INTRODUCTION

In an increasingly globalized world, access to international financial markets has become essential for companies and investors. However, the diversity in accounting standards, especially between GAAP (Generally Accepted Accounting Principles) and IFRS (International Financial Reporting Standards), creates substantial challenges in the comparability of financial information. According to Nobes (2020), understanding these differences is vital to properly interpreting a company's performance and financial position on a global level.

GAAP is a set of accounting principles established by the Financial Accounting Standards Board (FASB) in the United States. It is characterized by being highly detailed and rule-based, with the aim of reducing interpretative ambiguity (Schroeder, Clark & Cathey, 2022). IFRS, developed by the International Accounting Standards Board (IASB), takes a more principles-based approach. It provides general guidelines, allowing for more professional judgment in the application of standards (Alexander & Nobes, 2020). This fundamental difference implies that GAAP seeks to standardize specific accounting practices, while IFRS emphasizes the economic purpose of transactions.

In addition, revenue recognition follows an approach based on specific sectors and contracts, with multiple standards, such as ASC 606. IFRS, on the other hand, adopts a five-step model, unified under IFRS 15, which focuses on when the transfer of control of goods or services occurs (FASB, 2014). Another point is the measurement of additives, which favors measurement at historical cost, which implies that assets are recorded at the amount paid on acquisition, with subsequent depreciation (Schroeder et al., 2019).

IFRS allows assets to be revalued at fair value, especially for long-lived assets, reflecting market variations. Under GAAP, R&D expenses must be recognized immediately as an expense (FASB, 2014). IFRS, on the other hand, allows the capitalization of certain development costs, provided that technical and commercial viability criteria are met (IAS 38). Meanwhile, the classification of contingent liabilities differs between the two systems. IFRS tends to be stricter in recognizing provisions, requiring a greater probability of an outflow of economic resources (IAS 37). Under GAAP, the practice is more conservative, and recognition is common even with a lower probability (Schroeder et al., 2019).

The structuring and presentation of GAAP statements is prescriptive in format, while IFRS offers greater flexibility, allowing companies to adapt their statements to the needs of their users, as long as they respect fundamental principles (Alexander & Nobes, 2020). However, the heterogeneity between GAAP and IFRS has direct implications for international investors.

According to Ball (2006), the lack of uniformity reduces comparability between companies from different jurisdictions, which makes benchmarking and risk assessment difficult. Companies under IFRS may appear more profitable in certain sectors, due to the capitalization of development expenses and revaluation of assets. Investors need to adjust the data to ensure proper comparisons (De George, Li & Shivakumar, 2016). Differences in the recognition of liabilities and provisions alter the perception of insolvency and liquidity risk. Investors should carefully interpret the balance sheets and explanatory notes, taking into account the standards used.

Importantly, the need for reconciliations between GAAP and IFRS generates additional costs for institutional investors operating globally, including investment in financial analysis systems and specialized training (Bradshaw, Bushee & Miller, 2004). Following trends, in recent years convergence initiatives between the FASB and the IASB have sought to bring GAAP and IFRS closer together, with limited results. Joint projects, such as IFRS 15/ASC 606 on revenue recognition and IFRS 16/ASC 842 on leases, represent important steps, but structural differences remain (FASB & IASB, 2014).

To illustrate the conceptual divergences between IFRS and U.S. GAAP, Table 1 presents a comparison of how each framework defines cash equivalents. While both standards classify these as short-term, highly liquid investments, the emphasis differs slightly. IFRS focuses on the general absence of value change risk, whereas U.S. GAAP highlights interest rate risk explicitly. Although subtle, such distinctions can influence the classification of financial assets on the balance sheet, particularly in volatile markets. Understanding these nuances is crucial for analysts comparing liquidity positions across firms reporting under different standards.

Table 1: Conceptual Differences in the Definition of Cash Equivalents under IFRS and U.S. GAAP

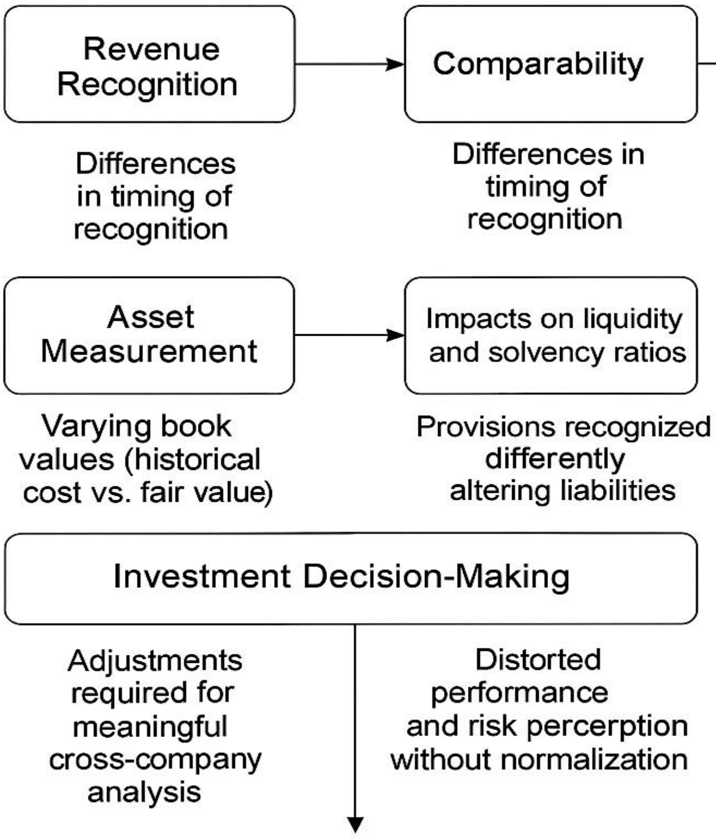
Criteria	IFRS	U.S. GAAP
Definition	Short-term, highly liquid investments	Short-term, highly liquid investments
Risk	With negligible risk of value changes	Taking into account the negligible risk of changes in interest rates

Source: Abduganiyeva (2025).

The US Securities and Exchange Commission (SEC) has shown interest in incorporating aspects of IFRS into the US system, but has not yet fully adopted the international standards (SEC, 2017). The differences between GAAP and IFRS accounting standards represent a considerable challenge for international financial analysis. The divergence in approaches to recognizing revenue, measuring assets, treating research and development expenses, classifying contingent liabilities and structuring financial statements directly affects comparability between companies in different jurisdictions. For international investors, these discrepancies increase the complexity of assessing the performance, risk and value of organizations.

The following flowchart illustrates the practical implications of the key differences between generally accepted accounting principles (GAAP) and IFRS for international investors, highlighting how variations in revenue recognition, asset measurement, and the treatment of R&D and provisions impact financial comparability and risk assessment. These accounting divergences can lead to significant discrepancies in reported profitability, liquidity, and solvency across jurisdictions.

Figure: Practical Implications of GAAP and IFRS Differences on Investment Analysis



Source: Elaborated by the author based on Alexander & Nobes (2020), Ball (2006), De George, Li & Shivakumar (2016), FASB (2014).

Despite joint efforts between the FASB and IASB to converge standards, structural and philosophical barriers continue to limit global accounting standardization. As a result, it is essential that institutional investors and financial analysts develop the skills to critically interpret financial statements issued under different frameworks. In addition, the need for reconciliations and adaptations to financial data entails additional costs and underscores the importance of specialized training for operating in global markets.

Thus, this study reinforces that mastery of the differences between GAAP and IFRS not only improves the ability to analyze international investments, but also becomes a fundamental strategic competence in an increasingly globalized financial scenario.

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