A COMPARATIVE ANALYSIS OF GAAP (USA) AND IFRS (EUROPE): EVALUATING THE NEED GLOBAL ACCOUNTING STANDARDS (GAS)

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ABSTRACT

This study conducts a comparative evaluation of the Generally Accepted Accounting Principles (GAAP) in the United States and the International Financial Reporting Standards (IFRS) used in Europe between 2020 and 2023. The research examines key aspects such as implementation efficiency, financial disclosure transparency, fair value assessment, tax reporting, cybersecurity regulations, digital transformation, AI integration, audit quality, ESG adoption, political transparency, and GDP growth rates. The findings suggest that IFRS demonstrates greater uniformity and transparency, particularly in digitalization and ESG adoption, while GAAP remains stronger in audit reliability and regulatory enforcement.

The study concludes that while IFRS is globally recognized for its flexibility, certain areas—such as cybersecurity disclosures and audit regulations— require improvements to align with GAAP's structured framework. By integrating selected elements from both standards, a hybrid model could enhance the effectiveness of international financial reporting. The paper proposes that a Global Accounting Standard (GAS), combining the strengths of GAAP's rule-based approach and IFRS's principles-based flexibility, could serve as an optimal solution for addressing current limitations in global financial regulation.

Keywords: GAAP, IFRS, USA, Europe, GAS.

INTRODUCTION

The Generally Accepted Accounting Principles (GAAP) in the United States and the International Financial Reporting Standards (IFRS) in Europe and other countries are the two most widely used financial reporting frameworks. While GAAP follows a rules-based approach with strict regulatory compliance, IFRS adopts a principles-based system, allowing greater flexibility. These differences significantly impact key financial reporting areas such as revenue recognition, fair value measurement, audit practices, and transparency.

With rapid changes in technology, regulatory policies, and ESG reporting, the relevance and effectiveness of both standards are frequently debated. GAAP ensures strong audit reliability and regulatory enforcement, whereas IFRS promotes global comparability and adaptability. However, inconsistencies remain in cybersecurity disclosure, taxation policies, and digital reporting, highlighting the need for a more unified approach.

This study provides a comparative analysis of GAAP and IFRS, evaluating their strengths and limitations based on implementation rates, financial transparency, audit efficiency, and economic impact from 2020 to 2023. The research further explores the feasibility of a Global Accounting Standard (GAS), integrating the structured regulations of GAAP with the flexibility of IFRS. By addressing existing gaps, such a framework could improve international financial stability and reporting consistency.

1. Generally Accepted Accounting Principles (GAAP)

Origin: United States
Governing Body: Financial Accounting Standards Board (FASB)
Scope: Primarily used in the U.S. for both public and private companies.

Key Features:

- Follows a rules-based approach with precise guidelines.
- Emphasizes historical cost and conservatism in financial reporting.
- Provides specific standards for various industries.

Advantages:

- Offers detailed and specific guidelines.
- Ensures consistency in financial reporting within the U.S.

Disadvantages:

- Less flexible than IFRS.
- Can be complex and expensive to implement.

2.International Financial Reporting Standards (IFRS)
Origin: International
Governing Body: International Accounting Standards Board (IASB)
Scope: Adopted in over 140 countries, including the European Union, Canada, and Australia.

Key Features:

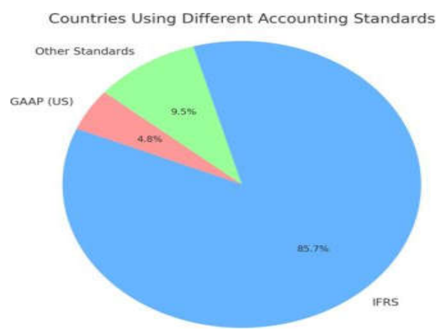
- Follows a principles-based approach with broad guidelines.
- Focuses on fair value measurement and transparency in reporting.
- Designed to be globally applicable.

Advantages:

- Facilitates comparability across international borders.
- Offers greater flexibility and adaptability to diverse business environments.

Disadvantages:

- The absence of detailed guidance can lead to interpretation challenges.
- Not universally adopted (e.g., not fully implemented in the U.S.).



COMPARISON OF GAAP AND IFRS

Aspects	GAAP	IFRS
Basic	Rules-based	Principles-base
Adoption	USA	Over 140 countries
Inventory valuation	LIFO allowed	LIFO not allowed
Revenue Recognition	Industry-specific guidelines	Single-standards (IFRS 15)
Fair Value Measurement	Limited use	Extensive use
Financial statement presentation	Specific formats required	Flexible format allowed

APPENDICES - (DESCRIPTION AND ANALYSIS OF DATA):

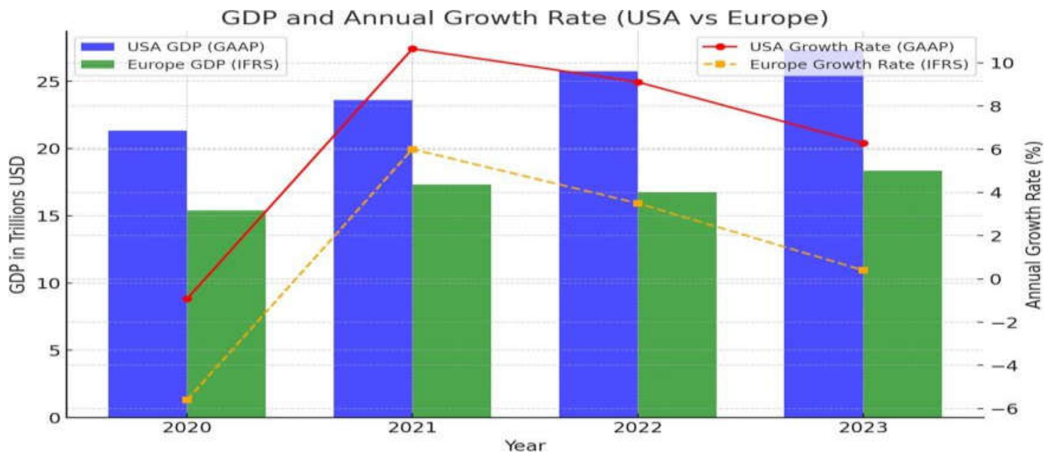
COMPARING ECONOMIC PERFORMANCE USING RELATED STANDARDS

Primary information: GAAP and IFRS ensure economic transparency, supporting accurate GDP and growth rate analysis. GAAP is specific to the U.S., while IFRS is internationally standardized. This study compares GDP and annual growth trends from 2020 to 2023 between the U.S. (GAAP) and Europe (IFRS), using data from Wikipedia, statista, Trading economics, and The Business Standard.

Table chart

Year —————— — Title	2020	2021	2022	2023
GDP USA GAAP	$21.32T	$23.59T	$25.74T	$27.36T
GDP Europe IFRS	$15.38T	$17.32T	$16.76T	$18.35T
Annual growth rate USA GAAP	-0.92%	10.65%	9.11%	6.28%
Annual growth rate Europe IFRS	-5.6%	6.0%	3.5%	0.4%

Bar Chart



ANALYSIS SUMMARY

The USA economy (GAAP) demonstrated resilience with a sharp recovery after the Civid-19-Induced contraction in 2020, maintaining steady growth from 2021 to 2023. In contrast, Europe (IFRS) faced a more significant initial decline, with slower recovery and near stagnation by 2023.

COMPARING TRANSPARENCY ASSESSMENT USING RELATED STANDARDS

Primary information: The choice between GAAP (USA) and IFRS (Europe) significantly impacts corporate Transparency Rate through financial reporting, auditing, and regulatory enforcement.

- **SEC Enforcement Rate:** The SEC (USA) enforces GAAP with strict regulations, while ESMA (Europe) follows a more flexible IFRS framework. Higher enforcement increases transparency. SEC, ESMA.
- **Audit Deficiency Rate:** GAAP's structured rules result in fewer audit deficiencies, ensuring higher transparency. IFRS is more flexible, leading to slightly higher deficiency rates. PCAOB.
- **ESG Reporting:** IFRS-based countries mandate ESG reporting, improving transparency. In contrast, the USA has less mandatory ESG reporting, though the SEC is tightening regulations. SEC
- **Political Transparency:** Europe (especially the Nordic region) has higher political transparency, reducing corporate influence on financial regulations. In the USA, strong lobbying can impact policies, affecting

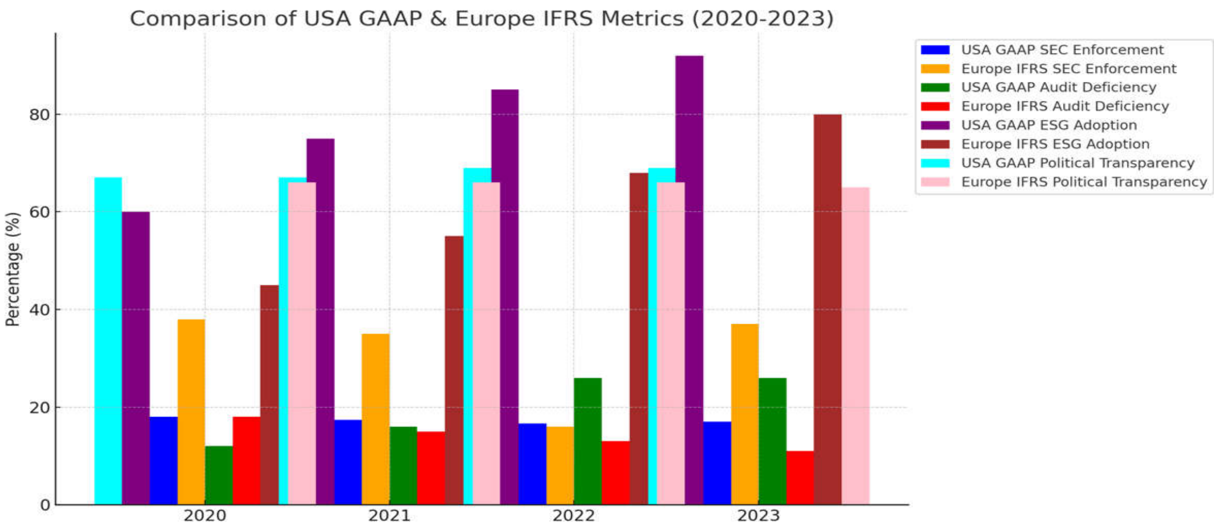
transparency.

This study compares transparency levels in U.S. (GAAP) and European (IFRS) companies from 2020 to 2023, using data from SEC, Thomson Reuters, and PCAOB.

Table chart

Year / Title	2020	2021	2022	2023
SEC enforcement rate USA GAAP	18%	17.4%	16.6%	17%
SEC enforcement rate Europe IFRS	38%	35%	16%	37%
Auditing report deficiency rate USA GAAP	12%	16%	26%	26%
Auditing report deficiency rate Europe IFRS	18%	15%	13%	11%
ESG reporting adoption rate USA GAAP	60%	75%	85%	92%
ESG reporting adoption rate Europe IFRS	45%	55%	68%	80%
Political transparency rate USA GAAP	67%	67%	69%	69%
Political transparency rate Europe IFRS	66%	66%	66%	65%

Bar Chart



ANALYSIS SUMMARY

Key indicators like SEC enforcement rate, audit deficiency rate, ESG reporting adoption, and political transparency determine a company's transparency.

USA GAAP: A decline in SEC enforcement (18% → 17%) and a rise in audit deficiency (12% → 26%) negatively impact transparency. However, improvements in ESG reporting (60% → 92%) and political transparency (67% → 69%) help maintain overall transparency.

Europe IFRS: A decrease in audit deficiency (18% → 11%) and an increase in ESG reporting (45% → 80%) indicate better transparency. However, fluctuations in SEC enforcement and a slight decline in political transparency (66% → 65%) raise concerns.
Overall, while both frameworks show positive trends, ensuring consistency in transparency remains crucial.

Comparing Structural & Operational Flexibility using related standards:

Primary information: This analysis examines how GAAP and IFRS affect the implementation rate, trading disclosure rate, fair value development rate, and transparency tax rate in U.S. and European companies from 2020 to 2023, using data from SEC, PWC viewpoint, HSBC, ESMA, and Total Energies.

Implementation Rate: GAAP, being rule-based, imposes strict compliance, making implementation complex and variable due to SEC and PCAOB oversight. IFRS, as a principle-based system, allows flexibility, leading to a steady increase in implementation rates under ESMA's supervision.

Trading Disclosure Rate: GAAP mandates strict disclosure formats and deadlines, resulting in slow progress in improving transparency. IFRS follows a more flexible, judgment-based disclosure approach, allowing companies to tailor reporting as per their needs.

Fair Value Development Rate: GAAP primarily uses the historical cost model but allows fair value measurement under ASC 820 (Fair Value Measurement). IFRS, governed by IAS 39 and IFRS 13, mandates fair value reporting, enabling quicker market adaptation through a mark-to-market valuation system.

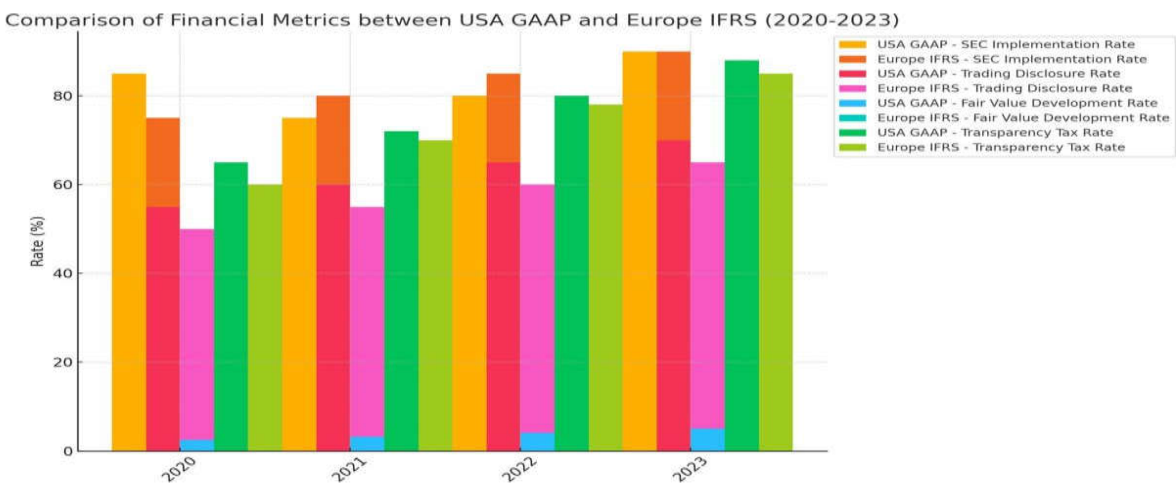
Transparency Tax Rate: IFRS supports country-by-country reporting (CbCR), requiring multinational corporations to disclose tax payments per country. This is less common under GAAP, though some U.S. firms voluntarily report such data.

This study aims to identify how different accounting standards influence corporate financial transparency, asset valuation, and transaction reporting.

Table chart

Year / Title	2020	2021	2022	2023
SEC Implementation rate USA GAAP	85%	75%	80%	90%
SEC Implementation rate Europe IFRS	75%	80%	85%	90%
Trading disclosure rate USA GAAP	55%	60%	65%	70%
Trading disclosure Europe IFRS	50%	55%	60%	65%
Fair value development rate USA GAAP	2.5%	3.2%	4.1%	5.0%
Fair value development rate Europe IFRS	2.8%	3.5%	4.0%	4.8%
Transparency tax rate USA GAAP	65%	72%	80%	88%
Transparency tax rate Europe IFRS	60%	70%	78%	85

Bar Chart



ANALYSIS SUMMARY

SEC Implementation Rate: USA GAAP saw a temporary dip in 2021 but recovered to 90% in 2023, while Europe IFRS showed steady growth.

Trading Disclosure Rate: Both GAAP and IFRS improved by 5% annually, with USA GAAP slightly ahead.

Fair Value Development Rate: Both showed growth, but USA GAAP had a slightly higher increase.

Transparency Tax Rate: USA GAAP (65% → 88%) and Europe IFRS (60% → 85%) improved steadily, with GAAP maintaining a slight lead.

Overall, USA GAAP had some fluctuations but recovered strongly, while Europe IFRS showed consistent progress, positioning itself for future strength.

Comparing Cybersecurity & Technological Modernization Using Related Standards

Primary Information

Cybersecurity Disclosure Rate

GAAP (USA): GAAP does not explicitly require cybersecurity disclosures, but the SEC's 2023 regulations mandate companies to report cyber risks and incidents through 10-K (Annual Report) and 8-K (Significant Incident Report). This is in alignment with SOX (Sarbanes-Oxley Act) and the NIST Cybersecurity Framework Deloitte, SEC.

IFRS (Europe & Others): IFRS does not directly mandate cybersecurity reporting, but some ESG (Environmental, Social, and Governance) reporting and the EU's DORA framework apply. Financial losses due to cyber incidents can be reported under IFRS 7 and IFRS 9. Many European companies follow ISO 27001 for cybersecurity governance Digital Europe.

Key Difference: GAAP's cybersecurity disclosures are explicit and mandatory, whereas IFRS primarily relies on voluntary and principle-based reporting.

Digitalization & AI Rate:

GAAP (USA): Costs related to digitalization and AI are typically reported under R&D (ASC 730) or SG&A, and ASC 350 (Intangible Assets). The rise of AI impacts Goodwill Valuation and Asset Impairment reporting.

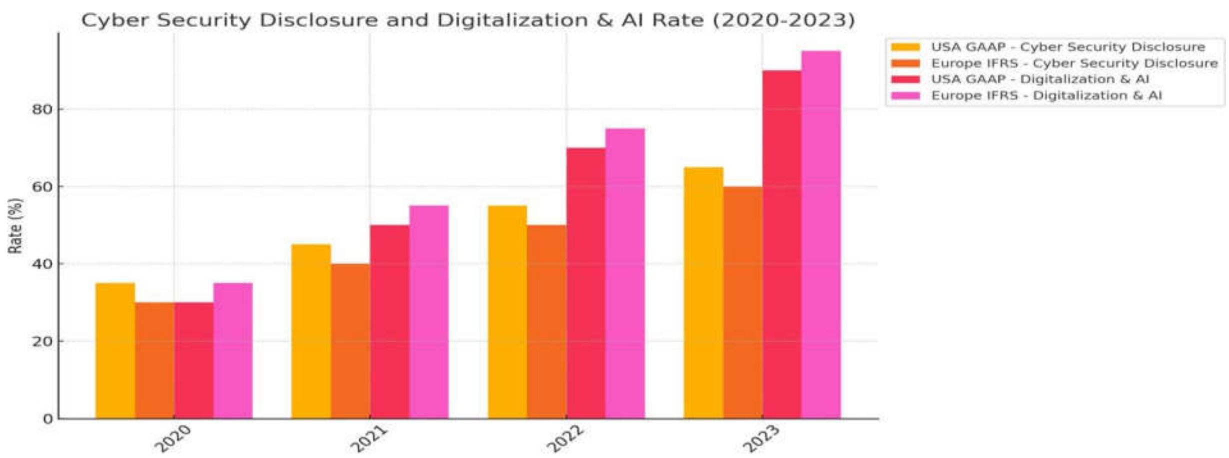
IFRS (Europe & Others): Digitalization and AI-related costs are accounted for under IAS 38 (Intangible Assets), IFRS 15 (Revenue Recognition), and IFRS 16 (Leases). Many companies disclose the impacts of digital transformation and AI through ESG reporting Deloitte, Digital Europe.

Key Difference: GAAP provides clearer guidance for R&D expenses, while IFRS mainly treats such costs as intangible assets.
This research will analyze cybersecurity disclosure rates and digitalization-AI adoption in USA (GAAP) vs Europe (IFRS) companies (2020-2023) to assess their modernization and transparency in operations.

Table chart

Year / Title	2020	2021	2022	2023
Cyber security disclosure USA GAAP	35%	45%	55%	65%
Cyber security disclosure Europe IFRS	30%	40%	50%	60%
Digitalization and AI rate USA GAAP	30%	50%	70%	90%
Digitalization and AI rate Europe IFRS	35%	55%	75%	95%

Bar Chart



Analysis Summary

Cybersecurity Disclosure:
US GAAP: Increased from 35% in 2020 to 65% in 2023, with a 10% yearly growth.
Europe IFRS: Rose from 30% in 2020 to 60% in 2023, also with 10% annual growth.
Insight: US GAAP is slightly ahead in cybersecurity transparency.

Digitization & AI Adoption:
US GAAP: Rapid growth from 30% in 2020 to 90% in 2023, with 20% annual growth.
Europe IFRS: Increased from 35% in 2020 to 95% in 2023.
Insight: Europe IFRS is slightly ahead in adopting digital technologies.

Outlook:
Cybersecurity: Growth will continue, with global standardization needed.
Digitization & AI: IFRS countries may lead in digital transformation.

Methodology: This study follows a comparative analysis approach using secondary data to evaluate GAAP (USA) and IFRS (Europe). The research is divided into four key phases:

- Economic Performance Analysis → Assesses GDP and annual growth rates under GAAP and IFRS through data collection, tabulation, and bar chart visualization.
- Transparency Assessment → Evaluates the financial transparency of public and private companies using regulatory reports and corporate disclosures.
- Structural & Operational Flexibility Analysis → Analyzes local and international adaptability of GAAP and IFRS through industry reports and trade data.
- Cybersecurity & Technological Modernization → Examines digital security and AI adoption in companies following GAAP and IFRS.

Finally, all collected data is integrated and analyzed using machine learning, enabling pattern recognition and forecasting improvements in financial reporting standards.

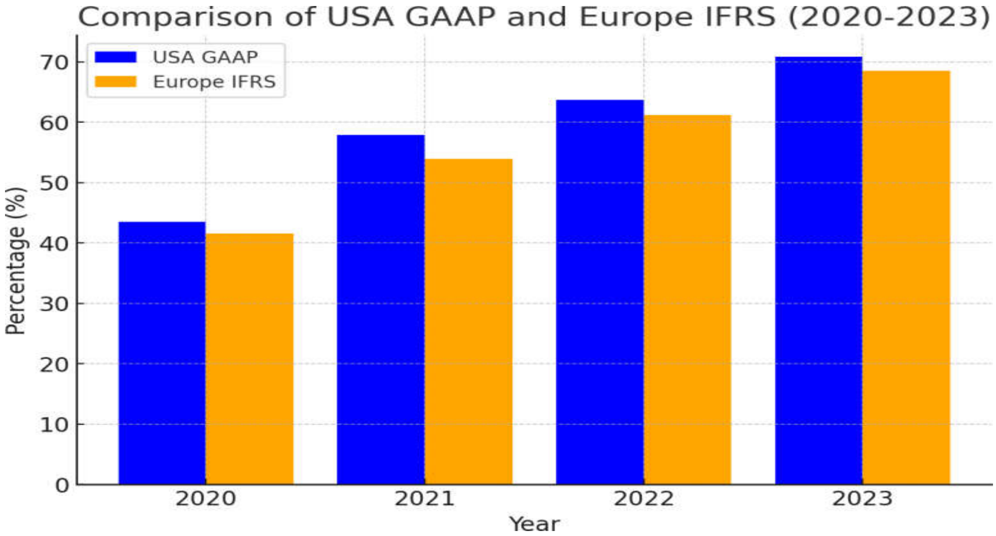
The following Python script was used to visualize the comparison between USA GAAP and Europe IFRS from 2020 to 2023,"

```
import matplotlib.pyplot as plt
import numpy as np

years = ["2020", "2021", "2022", "2023"]
usa_gaap = [43.52, 57.86, 63.73, 70.87]
europe_ifrs = [41.58, 53.96, 61.16, 68.51]

plt.figure(figsize=(8, 5))
plt.bar(years, usa_gaap, label="USA GAAP")
plt.bar(years, europe_ifrs, label="Europe IFRS", alpha=0.7)
plt.xlabel("Year")
plt.ylabel("Percentage")
```

```
plt.legend()
plt.show()
```



The bar chart is presented.

Formula:

- **Growth rate (GDP)**= [(GDP current year − GDP previous year)÷GDP previous year]×100
- **Audit deficiency rate** = (Total Deficiency Audits ÷Total Audit conducted)×100
- **Trading Disclosure rate**= (Number of disclosed Transaction ÷Total transaction)× 100
  Fair value growth rate = [(Fair value current year −Fair value previous year)÷Fair value previous year×100
- **Cyber security Disclosure rate**= [(cyber security −related reports)÷Total reports]× 100
- **Digitalization and AI rate** = (companies adopting digitalization ÷total companies)× 100
- **Recognized revenue** = [(performance obligation satisfied ÷Total performance obligation)× Total contact value]
- **Transparency Tax rate** = (Reported tax paid ÷Total revenue)× 100

FINDING

GAAP vs IFRS: Analysis and Final Assessment

GAAP (USA) follows a rules-based approach, ensuring strict compliance through SEC regulation. It is well-suited for the large U.S. economy ($27.36T, 2023) and emphasizes digitalization, AI adoption (90%), and ESG reporting (92%). However, challenges include audit deficiencies (26%) and low SEC enforcement (17%), requiring regulatory improvements.

IFRS (Europe & Global) is a principles-based framework, widely used in 140+ countries, making it ideal for multinational businesses. It provides strong audit quality (deficiency rate 11%) and tax transparency (85%), but economic growth is lower (0.4% GDP growth in 2023), and political transparency needs improvement.

Which is better?

IFRS is preferable for international business, transparency, and audit quality. GAAP is ideal for U.S.-based businesses, economic growth, and AI-driven reporting.

FINAL RECOMMENDATION

IFRS is best for global and developing markets as it attracts foreign investment.
GAAP remains strong for U.S. domestic use due to its regulatory framework and technological integration.
A hybrid accounting standard combining the strengths of GAAP and IFRS could enhance financial efficiency worldwide.

If GAAP uses market value instead of historical value:

If GAAP uses fair value instead of historical cost:

Beneficial Aspects:

- **More accurate financial reporting:** Valuing assets based on market value will more transparently reflect the true financial condition of the organization.

- **Benefits for Investors:** Investors can make sound investment decisions based on updated information.
- **The actual value of the asset shall reflect:** The value of assets valued at historical cost in many cases does not correspond to the market reality
- **Effective Decision Making of Management**: Market-based information can help management make more informed decisions

Disadvantages

- **High Volatility:** As market prices fluctuate, financial reports may lack stability, which may confuse investors.
- **Risk of Manipulation:** Management can intentionally influence financial reporting by overstating or understating the value of assets.
- **Pricing Issues:** In many cases it can be difficult to accurately determine the market value of certain assets (eg, the brand value of some online businesses).
- **History will be lost:** Financial analysis and comparative research based on historical prices will become difficult.
- **Additional complications and costs:** Keeping regular updates of market prices requires hiring additional advisors and appraisers, which is costly.

OVERALL

If market value is used in GAAP, more transparent information will be available to investors, but the risk of volatility and manipulation may increase. A mixed approach (eg, market value for certain assets and historical value for others) may be used, as seen in some standards such as IFRS.

If rule based is used in IFRS, flexibility is avoided:
IFRS currently follows a principle-based approach, which provides flexibility. If it is made rule-based and avoids flexibility:

Beneficial Aspects:

- **More Clarity & Consistency:** If there are specific rules, organizations will be uniform and consistent while preparing financial reports.
- **Reduced Misinterpretation:** In principle-based IFRS, entities can prepare financial statements based on their own interpretations, which can cause confusion. Rule-based will reduce this problem.
- **Reducing the risk of irregularities and fraud (Fraud Prevention):** Due to specific rules, companies cannot change accounts at will, thus reducing the risk of fraud.
- **Legal complications will be reduced (Legal Protection):** Having clear rules will create less legal complications while handling the case in court.

Disadvantages:

- **Lack of Flexibility:** Business environments and industries vary from country to country. If the rule is too strict, it may not work in all cases.
- **Reduced Managerial Judgment:** Currently IFRS gives management freedom to make decisions, but rule-based would reduce management's power.
- **Compliance Burden:** Stricter regulations would put companies under pressure from additional regulatory agencies and cost more to comply.
- **Limited Information for Investors:** Principle-based IFRS provides investors with more detailed information, but rule-based would require companies to comply only with specific rules, so additional valuable information may not be available to investors.
- **Inflexibility to New Situations:** New economic realities (eg, cryptocurrencies, digital assets, etc.) will be difficult to easily accommodate within the rules-based framework of IFRS.

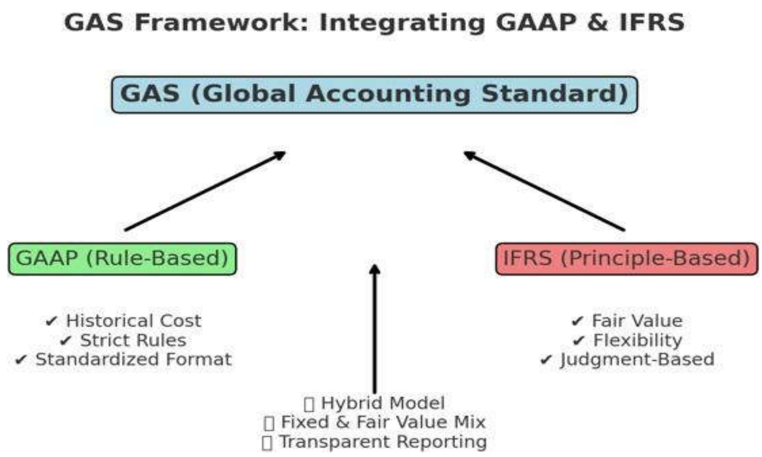
OVERALL

If IFRS is made fully rule-based, financial reporting will be more unified, but flexibility may be lost, which could create problems for different industries and countries. The current principles-based approach to IFRS is suitable in many cases as it can adapt to changing economic realities. However, certain rules may be added in some cases, such as strict guidelines to prevent corporate fraud.

Hybrid Accounting standards:

Global Accounting standards (GAS): Below is a more in-depth analysis of what a new "Global Accounting Standards (GAS)" combining GAAP and IFRS might look like.

- **Basic structure of the new standard:** This standard will create a hybrid model combining the specific rules of GAAP (Rule-based Approach) and the flexibility of IFRS (Principle-based Approach).
  - According to the nature and size of the business, fixed rules will be applicable in some cases.
  - In other cases, there will be flexibility, so that companies can make decisions according to the actual situation.



Key Elements and Explanation:
Measurement and Evaluation: The biggest difference between GAAP and IFRS is historical cost vs. market value.
Fixed assets → historical value
Original purchase price will be used for land, building, machinery etc. An impairment test will be conducted every 5 years.
Financial assets → market value
Market value will be used for stocks, bonds, and investment assets.
Revaluation Adjustment has to be done every year.

Hybrid Method: For certain assets, companies may choose to use a model combining historical value and market value. Example: In case of valuable brands or patents fair valuation as per IFRS will be allowed.

Revenue recognition: Currently GAAP and IFRS have some differences in revenue recognition. This will be adjusted in the new standard.
- **GAAP will have a 5 step model:**
  1. Identifying contracts.
  2. Determining performance obligations.
  3. Determining the transaction price.
  4. Allocation of value.
  5. Recognizing revenue when performance obligations are met.
- **The "Performance Obligation" model of IFRS will be added:** If the company creates significant value for the customer, revenue can be recognized incrementally
- **For long term projects:** "Percentage of Completion" method will be made mandatory.

Recognition and Reconciliation of Expenditure: Matching Principle like GAAP and Accrual Basis like IFRS will be adjusted.
- Matching Principle: Business expenses will be matched against the corresponding income.
- Depreciation: As per GAAP two types of methods are allowed Straight-Line and Declining Balance.
- Inventory Valuation: FIFO (First In, First Out) will be made mandatory. LIFO (Last In, First Out) will be prohibited (as in IFRS).

Consolidation & Control Policy: Consolidation rules differ between GAAP and IFRS. This will be adjusted in the new standard.
- Consolidation based on specific ownership as per GAAP (consolidation is mandatory if ownership is

50% or more).

- Consolidation based on economic control like IFRS (if one company can control another company economically, that too will come under consolidation).

Reporting and Publication:

- Publication of reports in specific formats like GAAP.
- Obligation to disclose transparent information as per IFRS.
- Digital reporting (XBRL) will be made mandatory.
- ESG (Environmental, Social & Governance) report will be added.

Tax & Dividend Policy:

- Deferred Tax (like IFRS) will be there. Dividend declaration (like GAAP) has to be done according to specific rules.

Audit and Compliance:

- Internal Control Framework (similar to GAAP)
- Risk-based Audit System (similar to IFRS)
- According to the regulatory authorities (Regulatory Authorities) each country can make its own additions.

Potential Challenges:

The implementation of this new model will have some challenges:

- Balancing GAAP and IFRS can be difficult.
- It is uncertain how the regulatory agencies of different countries will accept this.
- It will cost organizations time and money to learn new standards.

RESULT

One of the 2 accounting standards GAAP and IFRS where GAAP is mainly developed according to the American economy and IFRS maintains international transactions and flexible structure. In my opinion, GAAP should retain historical price changes to market value and reduce complexity in preparation of financial reports, increase audit oversight and maintain appropriate flexibility in international transactions. On the other hand, since IFRS is more flexible, GDP and political intervention maintain this effect In my opinion IFRS, like GAAP should maintain the necessary specificity and regulatory effect to prevent tax evasion, money laundering and misappropriation of information. According to the data of the two standards, GAAP is ahead by a few points. IFRS has produced promising results across Europe, but to eliminate or correct some of the shortcomings, the flexibility of IFRS has to be limited and the application of a regulatory framework has to be implemented. Which may be a new accounting standards with some additions and subtractions of GAAP and IFRS, which may be called Global Accounting Standards (GAS)

CONCLUSION

Our research shows that GAAP and IFRS have their own strengths and limitations, depending on their economic structure, policies and market realities. Fair value measurement and audit deficiency rates have shown relatively good performance in relation to IFRS, which may help improve GAAP's audit framework. On the other hand, cyber security disclosures and digitization of GAAP, as well as the rate of AI adoption can be considered potential areas of development for IFRS.

To further enhance the effectiveness of IFRS, transparency tax rates and effective enforcement by the SEC may be suggested, so that it is more consistent with the auditing and regulatory aspects of GAAP. Overall, IFRS provides a more transparent and standardized reporting framework, but in some cases it may be more effective if GAAP's strengths are adopted. In the future, the integrated use of GAAP and IFRS can have a positive impact on economic stability and increasing investor confidence.

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LIMITATION OF THE STUDY

This study conducts a comparative analysis of GAAP and IFRS across various company categories from 2020 to 2023, utilizing secondary data sources. Since data may slightly vary across different platforms, minor discrepancies are possible. Additionally, relevant data for 2024 is currently unavailable. However the core objective of this research remains unchanged. Highlight the necessity of developing new standards by integrating key elements of both GAAP and IFRS.

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