Tampere University of Applied Sciences

Comparison of US GAAP in the USA and IFRS in Russia

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BACHELOR'S THESIS
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Degree program in International Business
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ABSTRACT

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Comparison of US GAAP in the USA and IFRS in Russia

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The underlying idea of this bachelor thesis was to explore US Generally Accepted Accounting Principles in the United States of America and International Financial Reporting Standards in Russia, to discover their differences regarding these cases and to identify their pros and cons for a particular type of companies. The target type of organizations was publicly traded companies.

The purpose of the research was to analyze identified peculiarities, advantages and disadvantages of accounting standards framework in each case stated above and to discover which one of them was more beneficial for publicly traded companies and why.

The data for the thesis was collected through literature. Literature sources primarily included books and articles on topics of accounting, finance, economics and history of accounting standards. After data collection, it was scrutinized and analyzed by the author of this bachelor thesis.

The major results of the thesis was the finding that US GAAP in the USA was considered to be more beneficial than IFRS in Russia from the point of view of publicly traded companies. It was connected to accounting standards framework specific advantages as well as historical and economic reasons.

This finding is not meant to pronounce US GAAP superior over IFRS. This research emphasizes only one country that uses IFRS, thereby, results can be different for other countries. This finding is the most relevant now as of year 2019, since the author assumes the possibility of change in relevance due to possible advancement in IFRS application in Russian Federation in the future.

Key words: us gaap, ifrs, accounting standards, financial reporting

CONTENTS

ABBREVIATIONS AND TERMS

US GAAP	Generally Accepted Accounting Principles of the United States
IFRS	International Financial Reporting Standards
AIA	American Institute of Accountants
SEC	Securities and Exchange Commission
AICPA	American Institute of Certified Public Accountants
APB	Accounting Principles Board
FASB	Financial Accounting Standards Board
FAF	Financial Accounting Foundation
GASB	Governmental Accounting Standards Board
LIFO	Last In First Out approach
FIFO	First in First Out approach
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IAS	International Accounting Standards
RAS	Russian Accounting Standards
SME	Small and Medium-sized Enterprises

1 INTRODUCTION

Development of global corporations in 20th century brought up a necessity of creating unified methods to organize financial data of companies in a way that could be easily comprehended and interpreted by insiders of corporations and by such external parties as investors on domestic scale as well as throughout the world. This necessity led to development of several accounting systems out of which the most well-known currently are Generally Accepted Accounting Principles of the United States developed by FASB and International Financial Reporting Standards designed by IASB (U.S. GAAP and IFRS… 2014).

The accounting frameworks nowadays stipulate all details related to how financial items should be treated as well as how accounting operations should be recorded in a systematic way for financial statements. The crucial goals of usage of an accounting standards framework comprise possibility to affect capital investment and control that actual financial data equals to reported information. Additionally, competent analysis of financial statements made under rules of a certain accounting standards system has power to influence management decisions what can facilitate growth and prosperity of a company.

2 THESIS PLAN

2.1 Thesis topic

The underlying idea of this thesis is that managing finances and conducting accounting for publicly traded companies always demands special attention since wellbeing of the corporation as well as of countries' economies where these companies are based in are dependent on competent handling of these matters. Therefore there naturally arises a concern of what is more beneficial for publicly traded companies in the case of a particular country, investors and the economics of that country when it comes to choosing what accounting framework to develop or adopt nation-wide.

The aforementioned assumption served as a basis for this bachelor thesis. In this thesis preconditions for adoption or development of a certain accounting standards framework, process of adoption or creation and effects of it will be discovered by the example of US Generally Accepted Accounting Principles (US GAAP) in the United States of America and International Financial Reporting Standards (IFRS) in Russia.

On one hand, there is the United States of America as a homeland and developer country of US GAAP, which obviously has been designing a tailor-made accounting framework to meet the needs of businesses as well as other parties of the country (What is GAAP n.d.). On the other hand, there is Russia as the country which rather recently switched from command economy to market economy and during the search of the suitable accounting system, at first, tried to elaborate its own, but in the end came to a decision to adopt IFRS for publicly listed companies in 2012 (Russia. Who uses IFRS Standards n.d).

2.2 Thesis objective, purpose and possible research questions

On two diverse examples this research aims to identify the reasons behind choosing and utilizing one accounting framework over another for publicly listed

companies in the above-mentioned countries, whether these reasons are connected to advantages which a certain accounting framework bears or possibly even external pressure of the global society, to discover what are the consequences of a specific accounting standards frameworks and finally to find out which of these two accounting standards frameworks suits its purposes better in the countries in question.

2.3 Working methods and data

For implementation of this research information is obtained by means of numerous literature sources. The main sources include books and articles written by finance specialists, analysts, accountants and historians as well as official websites of accounting standard-setting boards and governmental bodies. After careful selection highlights of facts are presented and elaborately analyzed. After extraction of the core ideas of scientific data and conduction of analysis of the collected information the author of this research presents own points of view in the last parts of the thesis which answer to the main research questions.

2.4 Thesis process

The structure of the final thesis contains four parts. They comprise introduction, thesis plan, theoretical framework, data analysis and conclusion. The introduction part brings out the idea behind the research. Thesis plan outlines the scale of the research as well as shortly explains thesis relevance, illustrates research problems and describes the research methods and research process used in the bachelor thesis. The theoretical framework part encompasses background information of US GAAP and IFRS as well as process of adoption of the frameworks in the USA and Russia. The analysis part focuses on scrutinizing the data of the theoretical framework part, determining impacts, comparing advantages and disadvantages of the accounting standards frameworks and answering research questions. The conclusion sums up the findings of the research.

3 THEORETICAL FRAMEWORK

3.1 Background of the accounting standards frameworks

Since the underlying idea of this research is comparison of the use of two accounting standards frameworks in particular jurisdictions, it is crucial to provide their detailed characteristics in order to understand the essence of the frameworks better and to discover what they have to offer to the countries which do their accounting with use of these frameworks. Therefore, four parts below outline history and key features of the given accounting standards. On one hand, since US GAAP was created and is used just by only one jurisdiction in the world, that is, in the United States of America, the first two parts are illustrating US GAAP through application to a particular country due to inextricable link of this accounting framework to the US. On the other hand, in this chapter IFRS that was formed by an international board for multiple jurisdiction users is described from the point of view of general history and standards' provisions without tying it to any certain country.

3.1.1 GAAP and its history

It is difficult to judge when exactly US GAAP was created since throughout its existence GAAP had to endure lengthy formation process and some drafts of the principles had to come in effect before Generally Accepted Accounting Principles term and its concept were designed. Many principles of GAAP had to undergo numerous transformations done by different accounting standard-setting bodies before they got into its modern shape. The first part of the Bachelor Thesis puts an emphasis on opening up history of GAAP evolution decade by decade, challenges and goals of financial bodies responsible for setting accounting standards, ways how American industries influenced standard setting process; while the second part describes currently used major principles of US GAAP and their features.

In the beginning of twentieth century with rise of corporations in the USA conflicts on opinions how accounting should be conducted became more common,

since companies often tended to record their financial data in their own way. As a rule, companies were presenting a balance sheet and a statement of profit and loss, but data on statements often was incomplete since instructions on accounting subject was extremely limited and there was no systematic and uniform guidance on accounting topic. Virtually, the only existent accounting guidelines were published in “Journal of Accountancy” magazine. (Securities and Exchange Commission… 2018.) These were the major reasons that revealed a need of more uniform and more beneficial for everyone accounting norms which lead to gradual development of American Generally Accepted Accounting Principles.

It is often considered that history of GAAP started in the beginning of 1930-s in the USA, when American Institute of Accountants’ (AIA) special committee in response to request of freshly created Securities and Exchange Commission (SEC) introduced financial statements with five broad principles of accounting in order to promote better financial practices with purpose to mitigate the effects of American Stock Market Crash in 1929. (Zeff 2005, 1). The financial statements had to undergo many changes since the moment of their establishment. First improvement of the statements came in 1934 when Securities and Exchange Commission brought in corrections in financial statements’ preparation in order to increase comparability and transparency of corporations’ financial data throughout the country.

In 1934 SEC also started to require companies to comply with full disclosure principle as well as demanded to use historical cost accounting. The main idea on which historical cost accounting was based and what differentiated it from current cost accounting was that asset price was meant to remain the same on the balance sheet as its cost on the moment when it had been bought, regardless of how much time had passed since the purchase. (Zeff 2005, 1.)

In order to ensure that all the requirements, which in the end were to become important components of US GAAP, imposed by SEC were met, the Commission created a unit called Division of Corporation Finance, sole purpose of which was reviewing companies’ periodic filings. (Filing Review Process 2018) In 1936 after the first steps towards establishment of GAAP were made “Exami-

nations of Financial Statements" publication was issued where the term Generally Accepted Accounting Principles was mentioned for the first time. Continuing shaping principles Congress allowed companies to use LIFO (last in first out) method in corporate reports in 1938-1939. The method enabled companies to have greater advantages in income tax calculation during times of great raw materials price increase. (Hughes 2015, 12.)

One of the major event in history of US GAAP during 1940-s became the monograph of W.A. Paton and A.C. Littleton called "An Introduction to Corporate Accounting Standard". In the monograph Paton and Littleton advocated historical cost accounting and matching principle. The monograph was found to be an outstanding work in the field of accounting and for this reason it was used as a textbook for accounting students in the USA for long time after its issuance. Work of the professors made the position of historical cost and matching principles in GAAP even stronger. (Zeff 2005, 2.) By the end of the decade an important development in inventory pricing methods happened, that is -concepts of FIFO, LIFO and weighted average method were elaborated as well as two latter approaches got permitted in GAAP by the Committee in order to supplement previously introduced LIFO. It allowed extra inventory accounting flexibility for companies, so they could hedge possible losses from taxation caused by fluctuations in prices. (Young 1966, 14–20.)

In the beginning of 1950-s the Congress authorized accelerated historical cost depreciation practice use in order to facilitate income tax management for corporations. 1950-s also marked themselves as a decade of dispute of adherents of uniformity against flexibility in accounting practices, since representatives of several companies judged SEC's latest policies for being overly flexible and criticized numerous accounting methods of optional character. (Zeff 2005, 6.)

As a response to the criticism of overly flexible accounting standards, American Institute of Certified Public Accountants (AICPA) decided to establish in 1959 Accounting Principles Board (APB), which comprised representatives of Big Eight accounting companies and other accounting and financial specialists. Major goal assigned to APB was to control and implement decreasing differences in accounting practices. Special Research Division helped Accounting Princi-

ples Board in it as well as in researching and shaping accounting principles, with all ideas and initiatives being issued in reports named Accounting Research Studies, which were meant to support APB's advisory publications called "Opinions". Accounting Principle Board became the first institutional body responsible solely for principle setting in the United States. APB and its assisting unit played a big role in preparing the ground for its successor in establishment and development of what to become modern Generally Accepted Accounting Principles. (Sprouse & Vagts 1965, 707–711.)

With the start of 1960-s APB and its Accounting Research Division made an attempt to pass changes in accounting principles, with the main difference from already accepted principles expressed in a great support for current value accounting for inventories and fixed assets, which as it followed from its name was concentrating on the need to record assets at their current value on balance sheet. Since it was profoundly opposite of used in the USA historical cost accounting approach, this attempt did not meet success due to harsh criticism of historical cost advocates. (Ratcliffe & Munter 1980, 76.) Within the same decade, APB again unsuccessfully tried to adopt also other accounting reforms, among which was requirement to deduct "credit" from asset cost, excluding it from current earnings as a reaction on Congress's introduction of "investment tax credit" (Sprouse & Vagts 1965, 714).

For all these unsuccessful attempts to deal with its major assignment, which was to narrow down accounting difference, APB was again subjected to strict criticism, for this time from SEC itself, which threatened to abolish APB if it did not manage to progress with shaping better and less diverse accounting practices. To respond on criticism of SEC, APB issued act on deferred tax accounting, which despite of dissent of great number of companies, still came in force. The concept behind deferred tax was that it comprised records on Balance Sheet in deferred tax assets or liabilities accounts, which respectively depended on whether a company had overpaid taxes before they were recognized on income statement or it had not paid taxes which were going to be shortly due. (Accounting for Income Taxes… 1972.)

In 1970 after adoption of deferred tax accounting, next challenge on the agenda of APB was to prescribe how to do accounting for increased number of conglomerate corporations – whether to allow, partially permit or restrict usage of pooling-of-interest, the underlying idea of which was to record assets and liabilities of acquired companies on acquiring company's balance sheet. It was connected, first of all, to the 60-s boom of mergers and acquisitions among American companies. Accounting Principles Board prepared its next Opinion where it tried to address dealing with business combinations and such intangibles as goodwill. APB proposed to amortize goodwill over a long period. The proposition was swiftly declined by vote of members of the Board. (Hill 1970, 600.)

After long complaints of representatives of multiple industries throughout the United States on Accounting Principles Board's attempts to put pressure on them as well as SEC's discontent of APB's operation, it was decided that APB had to be replaced by Financial Accounting Standards Board (FASB). Established by Financial Accounting Foundation (FAF) FASB started to work in summer 1973, it was better financed, had expanded research staff and didn't require all its members to be Certified Public Accountants – these were the major traits which differentiated FASB from its predecessor APB, while the main idea behind the Board, that is to improve accounting standards, remained the same. SEC greatly supported FASB and put high hopes on it. (Tucker 2003, 1026–1027.)

FASB started its operations actively and already during the first its decade the board managed to make a few statements and issued numerous works. In one of its first statements in 1973 FASB concentrated attention on research and development costs accounting and contingency accounting as well as it showed its support to "assets and liabilities" concept and expressed concern about that a lot of companies, which emphasized revenues and costs over assets and liabilities, ignored importance of balance sheet and made incomprehensible records in it. According to FASB it would have been more sensible to track, first of all, what balance sheet accounts were affected by a transaction and how, and just after that explore effect on revenues and costs. (Zeff 2005, 17.)

In 1973 FASB also issued its first Statement of Financial Accounting Standards where it presented its first standard devoted to requirement to reveal gains and losses of foreign currency translation in companies' earnings (Disclosure of Foreign Currency… 1973).

FASB continued the rest 1970-s with addressing various relevant accounting concerns, releasing publications and issuing acts. The problems FASB focused on included demanding to measure and record inflation effects among over one thousand biggest American companies and obliging companies holding current marketable securities to record their gains and losses under earnings in the income statement while gains and losses of non-current ones had to be recorded in equity in the balance sheet (Accounting for Certain Marketable… 1975; Financial Reporting and Changing Prices 1979). In the end of 70-s FASB issued its first publication within "Concepts Statements" project which was devoted to creating conceptual framework with description of goals, objectives, recommendations and characteristics of advisory manner for companies (Zeff 2005, 22).

In 1984 Financial Accounting Foundation established Governmental Accounting Standards Board (GASB), which was meant not to replace FASB, but supplement it. The underlying idea of GASB was very similar to FASB, that is, improvement of accounting standards, while the major difference was that GASB was focusing on state and local governmental entities. (About the GASB n.d.) In 1987 GASB issued its Concept Statement No. 1: Objectives of Financial Reporting where it described in detail financial reporting objectives for governmental agencies to comply with (Concepts Statement No. 1… 1987).

Meanwhile FASB experienced slight calm in 1980-s compared to 1970-s. Despite less active decade the Board managed to carry out at least one notable reform: in 1988 FASB followed an example of such countries as Australia and Canada and released an act where it required businesses to issue the statement of Cash Flow which was meant to supplant its predecessor Statement of Changes in Financial Position also known as Fund Statement. Cash Flow statement has been included to one of the major financial statements companies have to prepare to present day. (Maßing 2002, 2.)

As the decade changed to 1990-s, FASB began it with issuance of controversial but nevertheless successful standard which was meant to count accounting healthcare costs of employees after retirement as liability. At first the industry vociferously argued against it since according to opinion of industry, recognition of retirement healthcare liability caused considerable harm to shareholders' equity balance of large companies due to enormous size of new liability. Notwithstanding initial contention, in the end it was agreed that the standard "put companies' feet back on the ground" and gave them be more realistic view what was, in turn, of great significance for companies' decision making and what helped investors to realize companies' actual position. (Mittelstaedt & Warshawsky 1993, 13–15.)

In 1993 FASB had to play a role of an arbiter of a kind to help to resolve a dispute between SEC and American banking industry about some of debt and equity securities. SEC insisted on using fair value accounting for the above-mentioned securities while banks assailed this method due to high levels of earnings volatility it induced. FASB dealt with the situation by approving fair value accounting, but at the same time dividing securities into trading securities and available for sale securities. The former type was meant to be recorded income statement while the latter had to be recorded in shareholders' equity. This method ensured that securities with higher gains and losses would have not had too much effect on income statement, thereby reducing volatility of earnings. (Raghunandan 1993.)

Later in 90-s FASB proceeded with working on developing fair value accounting subject by issuing standards on impaired values of assets, hedging activities and derivative instruments as well as making an attempt to pass a standard on accounting for stock options issued for employees. The idea of possible need to expense employee stock options was fiercely confronted, protested against and, in the end, was brought to the Congress with a petition signed by a great number of mostly small companies operating in, first of all, high technology industry. Due to resonance of such magnitude FASB was pressured to change expensing stock options to requirement to disclose it the footnote attached to financial statements. The Board tried to get back to the subject again in 2004

presenting it as a step in convergence with IFRS, but the idea was again opposed by companies in high technology industry. (Zeff 2005, 26–28.)

The next issue in the agenda of FASB was dealing with comprehensive income. In 1997 the board tried to induce companies to display in an individual statement or as a part of income statement comprehensive income together with other gains and losses which had not yet been recognized in the earnings, primarily comprising earnings originated from marketable securities and foreign exchange. (Reporting Comprehensive Income 1997.) Businesses opposed this initiative because of the fear of having this information overly exposed to third parties, and insisted in adding comprehensive income in rarely read Statement of Changes in Shareholders' Equity (Zeff 2005, 30).

At the turn of twenty first century FASB decided to continue what once was started by APB and elaborated accounting on business combinations. Unlike its predecessor FASB succeeded with its attempt and forbade pooling-of-interests as well as introduced stricter control of goodwill by enacting yearly impairment check of goodwill. It was victory for FASB since despite their endeavors standard setters as APB and FASB could not curb pooling-of-interests misuse by companies with merger and acquisition tendencies for long time before. (Zeff 2005, 30-31.)

Another new century prominent event in shaping of Generally Accepted Accounting Principles was that in 2002 legendary Sarbanes-Oxley act also known as Corporate Responsibility act came in force the purpose of which was to prevent and intercept any attempt of fraudulence among companies. Major scandals related to cases of Enron and other companies served as a reason behind and a starting point for establishment of Sarbanes-Oxley act. The act was designed to protect interests of current and potential stockholders by enforcing greater transparency and played a crucial role in further development of accounting practices. Among other transparency measures of Sarbanes-Oxley act there was requirement to thoroughly disclose "pro forma income" on US GAAP earnings due to growth of tendency to use "pro forma income" approach that was expressed through excluding from financial statements some of the costs which are not incurred by companies' regular operations. That practice could

distort view of company's real situation emphasizing investors' attention on positive aspects. (Sarbanes-Oxley Act of 2002/Public Law 107-204.)

From 2003 to 2007 FASB managed to establish a few bodies responsible for assistance in dealing with the relevant issue related to financial data users giving feedback and communicating solution ideas on FASB and FASB activities. In 2003 FASB founded User Advisory Council which comprised investors and financial specialists with purpose of providing feedback to the Board in order to improve cooperation with financial data users in process of standard setting. In 2005 FASB founded Investor Task Force that included the most outstanding institutional asset managers in the United States. At last, in 2007 FASB established Investors Technical Advisory Committee, members of which were technical accounting professionals. (Financial Accounting Standards Board... 2007.)

As the second decade of 2000-s Financial Accounting Foundation initiated the Post-Implementation Review (PIR) process in 2010, which was meant to be a tool to aid to Trustees of FAF to assess standards and standard setting procedure of FAF's FASB and GASB. The purpose of PIR was to control whether the Boards achieved the goals set for significant standards and if not to give a feedback to them. (Post-Implementation Review... n.d.) In 2014 FASB together with International Accounting Standards Board (IASB) – the creator of International Financial Reporting Standards (IFRS) – introduced converged guidance on recognizing revenue in contracts with customers as part of lengthy process of convergence with IFRS (IASB and FASB Issue… 2014). And as the latest important event in standard setting in the United States of America, FASB issued a new standard on matter of leases which was also a joint enterprise of FASB and IASB. In the standard FASB required adding lease obligations to balance sheet to promote more accurate information about companies' leasing activities. (Accounting for Leases 2016.)

To sum up above-mentioned milestones in the evolution of Generally Accepted Accounting Principles of the United States of America it is obvious that throughout its history standard setting boards were working towards addressing issues and pursuing goals which were in one way or another related to either bringing in uniformity in US GAAP by restricting accounting flexibility and liquidating al-

ternative accounting methods in order to ensure better comparability on national and global levels or to promoting transparency and eliminating misleading practices for protecting investors' interests as well as providing more truthful and detailed financial information in capital markets.

3.1.2 Distinctive principles of US GAAP

As it follows from the name of Generally Accepted Accounting Principles, the framework is a set of principles created for improvement, facilitation and unification of accounting practices in the United States of America. There are usually considered to be eleven major principles of GAAP. All of them constitute the core of GAAP concept. They are Matching Principle, Historical Cost Principle, Revenue recognition principle, Full Disclosure Principle, Going Concern Principle, Monetary Unit Principle, Economic Entity Principle, Materiality Principle, Conservatism Principle, Specific Time Period Principle and Objectivity Principle (Kumaran 2015). All aforementioned principles were carefully shaped over the course of time to make US GAAP as efficient as possible. In general, they represent an attempt to compel attention to some aspects of accounting or, vice versa, point out moments which can be omitted due to their irrelevance.

Built upon history summary described in the previous part as well as on description above the most significant eleven principles of Generally Accepted Accounting Principles as well as their short explanation follow below.

TABLE 1. Summary of major GAAP principles (Kumaran 2015)

Principle	Explanation
Matching principle	It requires that revenues are recorded in the same accounting period as expenses tied to earning these revenues according to Accrual Basis of Accounting.
Historical cost principle	It states that cost of assets is recorded with value on a moment of purchase of

	the asset. The value does not change on balance sheet with the course of time.
Revenue recognition principle	It requires to recognize revenues as soon as a good or service is sold, not when money for them is received.
Full disclosure principle	According to the principle, all data that has effect on financial statements should be included in financial statements.
Going concern principle	The principle assumes that a company carries on its operations with no end date in the foreseeable future.
Monetary unit principle	The principle requires choosing specific currency for financial statements. There is also an assumption that purchasing power of unit of money, US dollar in US GAAP case, remains the same over the time.
Economic entity principle	The principle is based on an idea that a company and its owner are kept separately. Owner's affairs are independent from company's transactions.
Materiality principle	In the principle accountants are allowed to use their own judgement in recording transactions depending on scale and importance of them.
Conservatism principle	It states that if there are a few options of how to report an item, an option which causes less income or asset amount should be recorded.
Specific time period principle	The principle defines that each financial statement must relate to a particular period of time. In case of income

	statement and statement of cash flow, the start and the end dates must be stated, while in case of balance sheet, the definite point of time up to which records take place should be stated.
Objectivity principle	Objectivity principle requires that all accounting data must be recorded only if there is an objective evidence of transactions.

3.1.3 History and description of IFRS

History of International Financial Reporting Standards (IFRS) started in Europe in 1973 when Board of the International Accounting Standards Committee (IASC) began working on shaping new more elaborate accounting standards by issuing International Accounting Standards (IAS), the antecedent of IFRS. First of all, in early years of IAS financial statements required under IAS were presented as well as what had to be disclosed in them was stated. These financial statements were balance sheet, income statement, cash flow statement as well as statement of changes in equity. (Who we are n.d.)

IAS was replaced by IFRS in 2001 by new standard-setting board called International Accounting Standards Board (IASB). By the moment when IAS was superseded by IFRS, 41 IAS standards were issued in total. These standards are used to present day, with many of them later refined under IFRS. The initial goal of IFRS was balancing out accounting practices across European Union which was experiencing the heyday after its creation in 1993. Therefore in four years after introducing IFRS, listed companies' of all member countries of European Union were required to make their consolidated financial statements under the standards. European Union proclaimed IFRS as required accounting standards for listed companies in 2005. (Collings 2013, 1–9.)

In 2007 the names of financial of the main statements required under IFRS were amended, thereby since that moment balance sheet was called statement

of financial position, cash flow statement was changed to statement of cash flows, and income statement was renamed as statement of comprehensive income (Bragg 2010, 154).

Aside from developing original accounting standards, IASB was also borrowing and refining some of concepts and ideas from other standard setting bodies around the world; for example, using one of frameworks initially created by FASB as foundation for its own one, IASB created its own called “Framework for the preparation and presentation of Financial Statements” that stated basic principles for IFRS in 1989. The Framework contained definitions all major characteristics, assumptions and objectives of preparation and presentation Financial Statements under IFRS and is believed to be a backbone of IFRS financial reporting to present day. (Collings 2013, 15.)

In 2008 Board of the International Accounting Standards Committee created Monitoring Board (MB). The purpose of it was to ensure greater independence of standard setting from political influences and to protect IASB and IFRS from fair market value chaos entailed by financial crisis of the same year (Shamrock 2012, 1).

After European Union issued a regulation that set International Financial Reporting Standards as required accounting system for publicly traded companies in July 2002 (Regulation 2002/1606/EU), other countries overtook the idea of switching to IFRS due to evident benefits of it and in year 2006 New Zealand, Australia, South Africa and Hong Kong decided to join to counties with IFRS as a national accounting standard system as well as Japan agreed to work towards convergence. Russia was one of the last countries to adopt IFRS: it changed its accounting standards in 2012. Japan, Korea and Thailand still keep under consideration adoption of IFRS in the present, while even though the USA had moments of hesitation deciding whether it is worth to adopt IFRS or not it still remains far from making up its mind, since current accounting standards it has are believed to be so called “golden standards” for the USA. (Adoption of IFRS by country n.d.)

The paragraph above implies that even though from the very beginning the idea of IFRS was to create not a tailor made national standard system like US GAAP, but standards applicable for a few countries, the focus of IFRS still rapidly switched from only European Union to the whole world scale. IASB concentrated on forming and issuing global standards that could facilitate accounting for multinational business, make financial information of companies easier to interpret for larger amount of interested parties, ensure transparency as well as improve comparability of companies in the world with phenomenon of wide spreading globalisation which at the same time caused increase in the number of international stockholders and boosted trade rates.

As it follows from above-stated paragraphs, the amount of IFRS adopting countries has been growing exponentially since the creation of the standards. Nowadays a great number of countries worldwide prefer to use International Financial Reporting Standards over their national accounting standards. As of 2017 all in all 150 countries demand use of IFRS at least for some types of companies. Out of these countries the number of those which chose to completely conform with IFRS for all type of companies currently totals 126. (Pacter 2017, 4.) More thorough description of countries' division by IFRS adoption can be seen in the figure below.

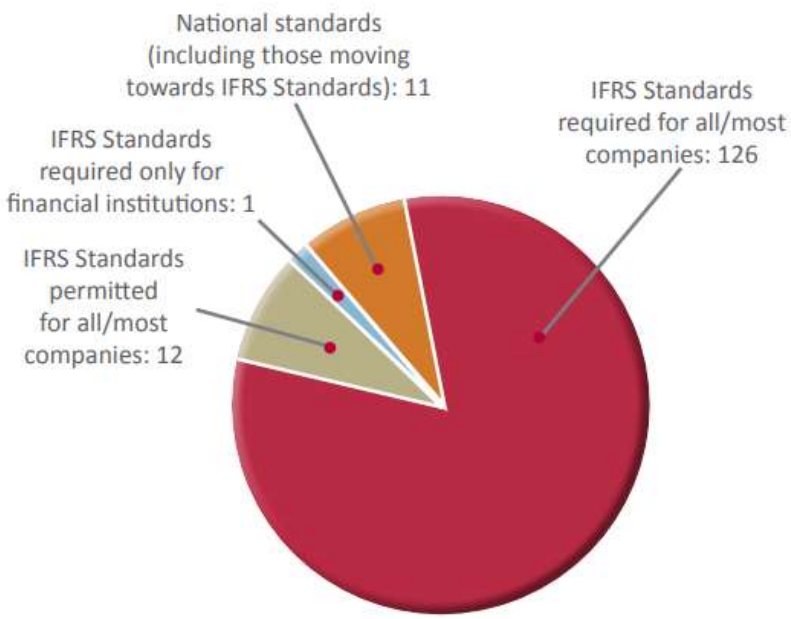

FIGURE 1. IFRS adoption world-wide (Pacter 2017, 4)

One of the core benefits IFRS accounting standards framework can offer to its numerous participants is that IFRS allows more flexibility, because it is principle-based, unlike rule-based US GAAP where there are rather strict standards which require their complete application and use of rules by accountants in all matters regarding accounting. Since IFRS is based more on principles, it can be interpreted more widely, allowing accountants to use their own judgement. (Shamrock 2012, 2.) The reason behind this is, first of all, connected to the fact that IFRS are used by multiple countries and requirement of strict application of standards without possibility to provide more flexible options could cause difficulties, since each IFRS adopted jurisdiction differs from any other one, and accounting for companies of each case should often be looked into separately.

3.1.4 Description of standards of IFRS

When it comes to describing standards which are used under IFRS framework, it should be understood that standards are usually divided into International Accounting Standards (IAS) which were inherited from the framework of the same name and International Financial Reporting Standards (IFRS). IAS are older standards which often are identified with what certain financial statements or accounts in them, what they represent and what they comprise, while IFRS focuses more on practicalities of implementation financial reporting and describes how certain financial practices should be carried out. (Standards n.d.)

IAS standards play a significant role for IFRS, since even though first IAS is issued long before IFRS, they still often served as foundation for development of IFRS. IAS is still used and are often looked into, get amended and reissued by IASB along with IFRS to present day. IAS covered such topics as all major financial statements, their presentation and information disclosed in them; accounting for income taxes; requirements for revenue recognition, policies for accounting for leases; recommendations for employee benefits accounting; accounting for some types of investments; accounting for business combinations, etc. Many of these subjects were later elaborated further in IFRS. (International Accounting Standards n.d.)

IFRS standards are presented as well as their short description is provided in the table below.

TABLE 2. Standards of IFRS (List of IFRS Standards n.d.)

Number and year	Name	Short Description
IFRS 1 2008	First-time Adoption of IFRS	The standard defines the procedures an entity should perform for IFRS adoption.
IFRS 2 2004	Share-based Payment	The standard instructs how an entity should recognize share-based payment transactions in financial statements.
IFRS 3 2008	Business Combinations	The standard depicts requirements for accounting for mergers and acquisitions.
IFRS 4 2004	Insurance Contracts	The standard encompasses all insurance contracts an entity issues and reinsurance contracts it may have.
IFRS 5 2004	Non-current Assets Held for Sales and Discontinued Operations	The standard requires not to depreciate assets held for sale, to measure them lower of carrying amount and fair value less costs to sell and then record them separately in balance sheet.
IFRS 6 2004	Exploration for and Evaluation of Mineral Assets	The standard covers accounting practices for costs incurred by exploration for and evaluation of mineral resources. It also focuses on dealing with impairment of assets related to mineral resources.
IFRS 7 2005	Financial Instruments: Disclosures	The standard is devoted to disclosure of significant financial instruments of a company as well as risks linked to them.

IFRS 8 2006	Operating Segments	It obliges publicly traded companies to publish information which could help users of financial data to assess financial effects of companies' business operations.
IFRS 9 2014	Financial Instruments	The financial instruments this standard includes are recognition, derecognition, measurement, impairment and general hedge accounting.
IFRS 10 2011	Consolidated Financial Statements	The standard requires creation of consolidated financial statements for companies which hold subsidiaries.
IFRS 11 2011	Joint Arrangements	The standard describes accounting solutions for entities' joint arrangements which commonly are joint ventures and joint operations.
IFRS 12 2011	Disclosure of Interests in Other Entities	The standard requires to disclose in subsidiaries, joint arrangements, associates and unconsolidated structured entities as well as financial results of these interests.
IFRS 13 2011	Fair Value Measurement	The standard delineates fair value on exit price principle as well as employs fair value hierarchy for its measurement. It also provides fair value measuring framework.
IFRS 14 2014	Regulatory Deferral Accounts	This standard pertains to accounting for impacts of rate regulation of price-regulated companies. The standard also allows to account for regulatory deferral accounts for first-time IFRS adopters under accounting standards it used before.

IFRS 15 2014	Revenue from Contracts with Customers	The standard provides five step approach for recognition of revenue originated from contracts with customers.
IFRS 16 2016	Leases	The standard outlines the rules for recognition, measurement and disclosure of leases on financial statements.
IFRS 17 2017	Insurance Contracts	The standard will come in force in 2021, and it will be devoted to measuring and recognizing profit associated with insurance contracts its presentation on financial statements.

3.1.5 Description of key differences between US GAAP and IFRS standards

It is crucial to understand that there are differences between standards of US GAAP and IFRS and what the key differences are in order to comprehend what potential advantages or disadvantages these accounting frameworks carry for the companies of jurisdictions where they are used. Therefore this part of the thesis aims to suggest the description of the major differences of accounting under US GAAP and IFRS.

There are differences in both the idea how accounting is done under a particular accounting framework and the way how some of the accounts should be treated and reported. As it was mentioned before, the first ponderable difference of the concepts lies in that US GAAP is meant to be used only by one and the only jurisdiction - that is the United States of America, while IFRS is designed to be used by multiple jurisdictions all around the world. Another important distinction is that IFRS principle-based framework and it heavily relies on judgement of accountants, when, on the contrary, US GAAP is rules-based and often dictates all the details of accounting for certain industries and specific situations. It ensues from the difference of usage scale of these accounting frameworks worldwide, since in case of IFRS it is rather difficult to provide specific details on accounting in numerous countries and it is more reasonable to create general

guidelines. The discrepancies also appear in some financial statements. For example, IFRS requires exposing the details of nature of expenses in income statement, while extraordinary items are included in it unlike under US GAAP. IFRS also uses much more simplified revenue recognition standards compared to US GAAP. When it comes to the asset treatment, there are clearly different rules of valuation intangible assets as well as fixed assets. IFRS values intangibles through estimation of future economic value when US GAAP uses fair market value for these purposes. There are also two contrasting model of fixed assets valuation used by IFRS and US GAAP. GAAP requires cost model for valuing fixed assets, while IFRS also allows revaluation model. Liabilities are cut into current and non-current under US GAAP. In case of IFRS all the liabilities are put together. (Top 10 Differences Between.... n.d.) There is also a large difference in treatment of inventories. LIFO approach is completely prohibited under IFRS while it is allowed and commonly used under US GAAP. Based only on the aforementioned differences, it can be assumed that switch from US GAAP to IFRS may result in a need for companies to change their pricing and business model to adjust to another accounting framework. (Ingram n.d.)

3.2 Impacts of adoption of IFRS in Russia and US GAAP in the US for publicly traded companies

3.2.1 Introduction

All types of companies are required to apply US GAAP in the US. But since IFRS use in Russia is much more limited and it mainly covers questions related to publicly traded companies (Russia. Who uses IFRS… n.d.), than to any other types of companies, it makes more sense to make this research primarily concentrated on comparison of usage of different major accounting frameworks by two jurisdictions on publicly traded companies, Thereby, there is a great amount of analysis information from both sides of Russia and the US.

US GAAP in the US and IFRS in Russia hold their own benefits and disadvantages for the jurisdictions applying them. Unlike US GAAP which was

shaped by the US for American companies, IFRS was an alien accounting framework which replaced or supplemented Russian Accounting Standards to some extent. Thereby, the reasons behind adoption of IFRS and its impacts in Russia should be treated and analyzed differently.

For convenience of comparison, the first chapter below shortly covers Russian GAAP, the Russian Accounting Standards (RAS) sometimes also referred to as Russian Accounting Principles (RAP) used throughout the history of post-Soviet Russia in order to define differences and similarities with IFRS and to facilitate finding a reason behind IFRS adoption in Russian Federation and the starting point of IFRS history in the given country. Then the second separate chapter below pertains to the whole IFRS adoption process in Russia for all types of organizations affected by it as well as IFRS for Russian publicly traded companies in particular and illustrates major advantages and disadvantages entailed by IFRS adoption in Russia. In the end, a part devoted to a short description of effects of accounting under US GAAP for American publicly traded companies follows, since the process of US GAAP shaping was illustrated in a greater detail in history of US GAAP part, therefore, the part below is less elaborate and concerns more advantages and disadvantages of US GAAP use for publicly traded companies from both international and American perspectives.

3.2.2 RAS and its similarities and differences from IFRS

The rise of market economy after collapse of Soviet Union in 1990-s in Russia entailed business opportunities that could never be possible before in era of command economy system of Soviet Union. These opportunities included, first of all, development and increase in number of privately owned companies, possibility of privatization of previously state-owned organizations, creation of new forms of enterprises and appearance of foreign investors interested in Russian companies. (Vysotskaya & Prokofieva 2013, 1.)

The reasons above drove the government to understanding that it was the time when accounting system had to be changed. The government had to create a new system to do accounting for ever-growing number companies taking into

account that the major user of financial information was not the State anymore, but private entities and investors. For this purpose Russian Accounting Standards (RAS) were introduced.

From the very beginning of RAS history Russian government and Ministry of Finance of Russia in particular have been showing interest to do accounting as close as possible to international standards, at first to IAS and later to IFRS. The mechanism of gradual convergence with IAS started when a decree named "Programme for the reformation of accounting in accordance with International Accounting Standards" was issued in 1998. (Aletkin 2014, 5.)

During its time RAS adopted numerous provisions from International Accounting Standards, thereby Russian Accounting Standards were, in fact, strongly influenced by IAS and IFRS. In the first International Accounting Standards conformity attempts Russian Accounting Standards tried to take over also such principles as consistency accounting policies, materiality and substance over form. Preparation of the most of financial statements under RAS was also similar to IFRS practices. There were balance sheet, income statement known in RAS as statement of financial results and cash flow statement, first two of which had to be prepared using accrual basis of accounting. Even though both IFRS and RAS shared comparable rules for three financial statements, unlike IFRS RAS did not require a separate statement for changes in shareholders' equity, what was usually presented as an appendix of balance sheet. (IFRS, US GAAP and … 2016.)

Notwithstanding conformity attempts, as of 2009 - not long before IFRS transition, distinguishable differences of RAS from IFRS were still easily noticed. Differences could be seen in both financial reporting details and in principles under which reporting was done. Some of differences could be rather subtle while others were drastic.

There were numerous provisions requiring treating balance sheet accounts as well as other balance sheet related matters differently. For example, in Russian Standards comparative data must have been disclosed for two previous years in balance sheet, while under IFRS comparative information only of the previous

year was usually required to be disclosed. Interim reports were permitted, but unlike in IFRS RAS did not have any particular accounting guidelines for treating certain costs in quarterly financial reports. (IFRS, US GAAP and … 2016.)

There was a noticeable difference between RAS and IFRS in treatment of some items related to non-current assets. These distinctions became the most apparent in capitalization of interest, assets held for sale, overhaul costs, depreciation as well as lack of guidance for investment property. Unlike in IFRS, borrowing cost of capitalized interest under RAS was meant to exclude exchange rate differences. Russian Accounting standards required all assets held for sale to be shifted to inventory account. Expenses related to already owned long-lived assets could be capitalized only in the case of their upgrading and rebuilding. At last, there were significant limitations in accounting for depreciation compared to IFRS. For instance, the depreciable amount was calculated without taking residual value into account, while changes in economic useful life were mainly prohibited allowing only rare exceptions. In order to recognize intangible assets an entity had to have exclusive rights for them, however such intangible as goodwill was recognized only in case if it was tied to acquired asset. Acquired goodwill, as a rule, was amortized for over twenty years. (IFRS, US GAAP and … 2016.)

Statement of financial results, that was the analogue of income statement in RAS, also had some differences in preparation. RAS allowed reporting extraordinary items in the statement of financial results, while IFRS prohibited them. The only permitted basis to classify expenses in the statement of financial results was their function. While IFRS permits more flexibility in headings for components and subtotals in the income statement, RAS strictly required use of gross profit, profit from sales, and net profit before and after tax. (IFRS, US GAAP and … 2016.)

The most significant differences related to principles included lack of inflation accounting, lack of accounting rules for treatment of business combinations and absence of guidance for long-term assets impairment as well as frequent neglect of consolidated financial statements in general and consolidation of foreign operations in particular (Combs, Samy & Myachina 2013, 16). Accounting for

financial instruments under RAS was also incomplete, since it did not include any accounting guidelines for derivatives, hedging and fair value measurement. Neither share-based payments accounting nor other employee benefits accounting were also not practised under Russian Accounting Standards. All these aforementioned points, that differentiate the two accounting frameworks, still exist to present day. (IFRS, US GAAP and … 2016.)

As it can be judged by the paragraphs above, Russian Accounting Standards still remains rather inferior accounting framework compared to IFRS, since RAS do not take into consideration accounting for multiple business situations and do not adequately cover rules for how certain accounts of financial statements should be treated. Therefore, adoption of IFRS let Russian Federation make a considerable step forward in accounting practices for companies doing business in this country.

3.2.3 IFRS adoption in Russia

Despite of the long path of shifting to IFRS through initial convergence of RAS and IFRS with purpose of later transition, switching to mandatory use of IFRS by some types of organizations happened rather recently. The first expectations of the complete adoption of IFRS came up in 2010 appearing in law requiring conformity with IFRS which came in force in 2011 and was finalized in 2012. Based on plans of adoption of IFRS the official accurate translation of IFRS to Russian language was issued in November 2011 for the first time, what, in fact, was a big step, since all earlier translations had multiple mistakes and could lead to misunderstanding of IFRS practices. In the end of December 2011 Russian Ministry of Finance published a document named “International Financial Reporting Standards and the Interpretations” which marked the beginning of official transition to IFRS. It started from convergence of RAS by allowing voluntary adoption of IFRS for some companies what later turned into a requirement of IFRS application for all listed companies and companies that are owned by companies located abroad. (IFRS in Russia n.d.)

An amendment of Russian Law 208-FZ on Joint-Stock companies of July 27, 2010 set the scope of particular types of companies for which it was obligatory to start reporting under IFRS for consolidated financial statements (Federal Law 2010/208-FZ). In spite of new requirement to do IFRS accordant accounting for consolidated financial statements Russian Ministry of Finance set additional rules which were different from regular IFRS practices. These additional rules obliged entities to present their consolidated statements mandatory in Russian language, use national currency in statements and report them with period of calendar year starting from the beginning of January and ending in the end of December. On the contrary, IFRS usually allowed companies to use currency, language and reporting period of companies' choice. (IFRS, US GAAP and … 2016.)

As of 2019 all publicly listed companies with securities traded in a public market are required to comply with IFRS. Aside of already mentioned cases when use of IFRS is required in Russian Federation, there are also a great number of examples of Russian organizations that do not trade their securities in the market but still must present their consolidated financial statements applying IFRS standards. The most prominent of them are banks, non-state pension funds, investment funds, insurance companies, clearing organizations, etc. (Use of IFRS Standards… n.d.) Some government owned organizations like federal state enterprises and joint-stock companies shares of which are in the federal property must also prepare their financial statements under International Financial Reporting Standards. (About consolidated financial Statements 2017). However, all of above stated types of companies should also do accounting compliant with Russian Accounting Standards (IFRS in Russia n.d.).

As for small and medium-sized enterprises (SME) and their relation to IFRS, they remained loyal to RAS since it is permitted not to use IFRS for this type of companies. Nonetheless, IFRS transition did not leave SME's untouched: the Federal law introduced simplified balance sheet and income statements loosely based on IFRS for SME's. Though possibility of transition to IFRS for SME's is under consideration, it is still unlikely to happen in the nearest future, since costs of shifting to IFRS is believed by Russian Ministry of Finance to be excessive compared to benefits it can provide. (Use of IFRS Standards… n.d.)

Based on the information above, we can assume that IFRS did not completely replace RAS, but two accounting standard systems are coexistent in the same country simultaneously. The only difference is that the application of International Financial Reporting Standards framework is required to be used in particular types of the companies that release financial statements, while all IFRS based statements are meant to be doubled with statements prepared under RAS for use within the country (IFRS in Russia n.d.).

The most outstanding accounting developments, which were gained from convergence with IFRS, were implementation of concepts of prudence and true and fair view, common application fair value, division of accounting into financial and managerial, separation of tax and financial accounting and employment of "substance over form" principle (Moderov & Generalova n.d.). Another important achievement was related to the fact that Russian accountants had to learn to rely on judgement in accounting under IFRS, since during times of exclusive RAS rule accountants had to follow strict rules while any deflection from the rules was undesirable (Generalova, Soboleva & Sokolova 2015, 8–9).

There are a great number of reasons that led to adoption of IFRS standards in Russia. In time of the ever-growing globalization in the world the motives behind IFRS adoption primarily comprise such aspects as an objective to increase allocation of international investments to Russian enterprises, to raise their competitiveness among the companies worldwide and at the same time to improve Russian securities market situation through enhanced comparability, comprehensibility, transparency and improved credibility coming from use of better known financial reporting standards for foreign investors, facilitation of access to capital markets for Russian companies as well as increase economic growth of the country through capital inflow. Another reason that cannot be ignored is growing pressure of some European debt issuers which put conformity with IFRS as one of the key requirements for providing a loan. (Albu & Mustapa 2013, 28-29; Malyshenkov n.d., 149–150.)

Since in 2010 RAS scored just 39.17 out of 100 in national financial standards ranking, the need of IFRS adoption was also fuelled by desire to build up better

financial reputation world-wide and to become a comparable to other important business players member of global business community as well as to improve quality and accuracy of information recorded in financial statements and striving for achievement of advancement in financial standards in order to correspond to changes happening in business environment of modern Russia after collapse of USSR and shift from command economy to market economy in 1990-s. (Borker 2012, 256.)

Almost simultaneously with the final decision to adopt IFRS Russia joined the World Trade Organization (WTO) (Russian Federation and the WTO n.d.) and it also played a role in IFRS adoption in Russia, since after entering WTO interest of international investors towards Russian companies boosted and need of easily understandable financial reporting rose.

However, a few opponents of IFRS adoption idea in Russia deemed that the adoption would result in more unnecessary paper work to take care of and could become extremely expensive, what, in the end, according to them would surpass the most of benefits gained from transition (IFRS in Russia n.d.).

Despite of numerous positive changes believed to be brought by IFRS adoption, transition did not go as impeccable as it was desired. It was impeded by multiple IFRS adoption difficulties related to conflicting Russian legislation, large differences between RAS and IFRS, high cost of transition to new standards as well as difficulties of IFRS education (Titova 2011).

According to A. Vysotskaya and M. Prokofieva (2013) – the authors of “The difficulties of teaching IFRS in Russia” article – the process of adoption of IFRS was also complicated by insufficient IFRS education of students in universities. It happened because of lack of emphasis on financial accounting in general and IFRS in particular with only broad covering of the subject with usually is taught as a part of economics degree program in Russian universities. As a rule, curriculum of bachelor degree programs in economics covered accounting topics only during the second or the third year of four year program what obviously was not enough for educating capable specialists to work in the field of accounting.

The major reason behind this is that too short time has passed since the fall of Soviet education system and complete transformation to new education system has not yet been finalized, thereby many professors tend to teach in the way they were taught and pay a lot of unneeded attention in professional studies to general subjects not concentrating enough on financial accounting which was nearly non-existent and major point of which was to record financial information for tax purpose in the time of USSR. Therefore, according to the evidences, the importance of financial reporting for external users is not yet grasped to the full extent in Russia. (Vysotskaya & Prokofieva 2013, 312.)

Another related to IFRS education issue hid in the expensiveness of IFRS professional development courses for practicing accountants. Inability of some accountants to take the original internationally accredited IFRS courses because of their high price led them to take cheaper Russian IFRS interpretation options in attempt to receive newly adopted standard training. The quality of such courses was often rather questionable. In the end, the whole IFRS education problem severely exacerbated by the lack of teachers in both universities and accountant courses who know how application of IFRS works on practice, thereby absence of experience and unpreparedness to teach the standards among teachers made it extremely difficult to convey knowledge of working with IFRS properly. (Vysotskaya & Prokofieva 2013, 312–314.)

As any change of this scale, adoption of IFRS led to certain consequences. It may be too early to sum up the consequences of the transition, because too little time has passed since IFRS adoption law came in force, however, there are still both positive and negative trends that can be traced down to it. From the point of view of positive consequences, the most significant ones include aforementioned improved comprehensibility of financial information of Russian companies for stockholders globally, improved overall position of non-governmentally owned companies and publicly traded companies in particular in the country as well as more opportunities for them. (Kim 2013, 8, 26.) The IFRS adoption shifted the emphasis from benefit for tax authorities to advantages for shareholders (Khazimuratova 2006). At last, despite of difficulties of teaching accountants in Russia, overall quality and value profession of accountant enhanced (Moderov & Generalova n.d.).

The first consequence is that better comprehensibility through improved quality of financial information for international investors was reached. This directly corresponds to the objective of IFRS adoption which has been described above. However, from this point of view, this objective was fulfilled only partially: it is obvious that IFRS accordant reporting let investors understand better what the position of listed Russian companies is. (Kim 2013, 26.) Nonetheless, it is quite difficult to measure whether it opened up greater investment opportunities for Russia and to what extent change in flow of capital to or out of Russian market was resulted purely by transition to IFRS.

The difficulty to measure pure impact of IFRS adoption on flow of capital is tied to the fact that around the same time as IFRS was adopted, Russian government drove economy of the country into a disastrous situation by carrying out a few geopolitical decisions like meddling with internal affairs of Ukraine what certainly had a harsh impact on influx of capital to the country. It deteriorated and destabilized economic situation on the countrywide level. The imposed by foreign countries sanctions led to shrinkage Russian economy through oil crisis which contributed to devaluation of rouble and financial crisis. (Dabrowski & Collin 2019, 4–6.) These aspects, in turn, made Russian market too risky and caused foreign investments plummet down. According to United Nations Conference on Trade and Development, Foreign Direct Investment decreased by 92 per cent in 2015. (Investing in Russia… 2017.) However, by the end of 2018 Russia managed to recuperate from the capital flow collapse and experienced record capital inflow since 1994. (Russia Capital Flow n.d.) The figure below illustrates the changes in capital flows to Russia from year 2012 when IFRS was adopted.

FIGURE 2. Changes in capital flows to Russia 2012-2018 (Russia Capital Flow n.d.)

Though Russian market has experienced such drastic changes in recent years it is still hard to believe that IFRS introduction had any significant effect on them, and all of changes in the capital flow should be analysed within larger scale, since numerous political as well as macro- and microeconomic reasons have tendency to have a dramatic impact on capital flows.

As for the second consequence, non-governmental publicly traded companies gained a lot of benefits through adoption of IFRS since there were much more aspects of business life taken into consideration than in RAS. The international standards were created by professional organizations one of the main goals of which was to facilitate businesses and their stakeholders while RAS was often primarily concentrating on advantages for government-owned entities such as tax and other state authorities. IFRS adoption resulted in opening doors to global market and increased opportunities of finding partners from abroad. (Russia. Jurisdictions. IAS Plus n.d)

Some professional accountants were concerned with that RAS used to put major emphasis on advantages for the tax authorities. According to them, the government designed RAS to maximize their own benefits over benefits of stakeholders of companies. Fortunately, IFRS adoption changed the situation in favor of shareholders, what increased investors' interest in Russian companies. (Khazimuratova 2006.)

At last, there is evidence that IFRS use had an effect on a profession of accountant in Russia. Despite the flaws of Russia IFRS training, it still improved and added value to accountancy by making it more prestigious through enhanced necessary training. Accountants in turn had to learn to rely on their own judgement instead of strictly prescribed rules. (Moderov & Generalova n.d.). It opened better career and mobility opportunities for accountants both in Russia and abroad, since they became accounting literate according to international standards used in plenty of countries worldwide (Bhargava & Shikha 2013, 3).

Along with the aforementioned advantages of the change, some disadvantages were also observed. The major issues caused by IFRS, first of all, are IFRS high cost of IFRS transition and income misstatement under the standards. The more thorough depiction of the issues follows below.

The first disadvantage tied up to IFRS adoption is that it is also rather costly. It is proved to be expensive to educate financial accounting according to newly adopted rules and principles for accountants who got used to work using RAS. But it turns out to be rather pricy, time consuming and somewhat cumbersome for all parties affected by the transition. Accountants, companies and the government had to invest enormous resources for the transition to use of newly adopted standards. Companies had to pay for transformation of their financial documentation into IFRS compliant through hiring or outsourcing capable accountants or investing in professional development of already employed accountants as well as for all accompanying expenses. At the same time, since Russian companies are obliged to continue presenting their financial statements also using RAS for purpose of domestic use, the transition virtually doubled companies' responsibilities and respectively doubled costs. As for accounting professionals, they had to invest a relatively big sum of money in proper internationally recognized IFRS courses where they could obtain knowledge of financial statement preparation, calculations and financial data analysis under International Financial Reporting Standards, while the government had to find a way how to restructure education in the field of accounting in Russian Federation and provide an opportunity for students and practicing accountants to receive adequate IFRS training through investing in creating schools, in and outside of universities courses and publications related to the topic. (IFRS in Russia n.d.)

According to the research of T. N. Malofeeva (2018) introduction of IFRS also led to increased misstatement of profits among Russian companies. This is primarily connected to insufficient current control of financial statements issuance and increased freedom of judgement which when misapplied can lead to inept financial reporting. As a result, misleading financial information could jeopardize interests and investments of stockholders and potential investors.

To conclude this part, the complete IFRS adoption in Russia started in the beginning of the second decade of 2000-s and has been in the process of implementation ever since (IFRS in Russia n.d.). So far, it is hard to judge whether any groundbreaking changes have happened because of the transition, neither it is possible to say whether any dramatic positive consequences of IFRS in the economics are to be expected in the nearest future. It is connected to that more aspects than only an accounting system change should be taken into account, since Russia has been carrying out rather controversial political decisions (Dabrowski & Collin 2019, 4). The transition process has not been going flawlessly and many obstacles mainly originated from the legacy of the old system of Soviet Union had to be overcome (IFRS in Russia n.d.; Malofeeva 2018). Nonetheless, some constructive results have also been achieved (Kim 2013, 26; Russia. Jurisdictions. IAS Plus n.d; Moderov & Generalova n.d.).

3.2.4 Effects of accounting under US GAAP on American publicly traded companies

US GAAP accounting framework was designed from scratch in the United States of America and ever since has been in the process of its evolution (Zeff 2005). The fact that the most of operating in the US public companies, excluding some foreign enterprises doing business in the country, are obliged to report their financial information under US GAAP certainly bears both advantages and disadvantages for entities that are required to use this accounting framework. The most outstanding of the effects of US GAAP on publicly traded companies are unraveled below.

Development of the standards started in the beginning of twentieth century in the United States of America. Since US GAAP has been created in the US it was concentrating on maximization of gains, first of all, of American users of financial information of companies reporting under US GAAP. The standard-setters usually analyzed the situation in the country, domestic and global markets as well as political and economic tendencies before elaboration of the standards. These tailor-made American US GAAP standards have been adjusted throughout its history in order to balance out the benefits for the US govern-

ment, investors, American enterprises and other possible users of financial statements. (What we do: FASB n.d.; Lam 2015, 42; Bogopolsky 2015.)

Since, as it is described above, focus of US GAAP is directed, first of all, on internal and external matters from the point of view of the United States of America, this narrower scope of concentration primarily on economic needs and worries of financial information preparers and users of only one country makes these principles optimal for the parties they concern directly. (Gnanarajah 2015; Lam 2015, 42.) It can be considered the first and the strongest advantage of US GAAP.

Even though the principles were designed by non-governmental standard-setting bodies that previously was APB and currently is FASB, the government, companies, especially big publicly traded corporations, and their whole industries often pressured standard-setting board to revise standards and also had “veto power” on possibility of standard recognition what according to them could hamper their interests or cause damage to their business. The strong influence of these parties resulted in their capability to abolish attempts of standard-setting board to introduce changes in US GAAP nearly at any moment. (Zeff 2005, 4, 5, 8, 11.)

It can be assumed that enterprises and industries often tried to use their power and did the uttermost not to let standards that could potentially hinder their business to come in force and more often than not they succeeded. Even though standards were not directly shaped by organizations, they still contributed to finalizing standard and bringing it to the stage of introduction or its cancellation to a large extent, trying to make favorable environment for their business. Therefore, the another one of the major advantages of US GAAP for American publicly traded companies is that they often had a chance moderate standard creation and introduction process; thereby they always tried to use their influence power not to let accounting standards do possible harm to their business.

One of the main characteristics of US GAAP is that it requires accountants to follow strict rules in reporting and treating financial information in financial statements. There are rather ambivalent opinions towards the accounting ap-

proach based on rules. Thereby, depending on what point of view is taking as a guideline, it can be considered either an advantage or a disadvantage. (Ferring 2004, 1.)

Adherents of the rules-based accounting technique assert that strict rules are simpler and clearer in application and interpretation, ensure better comparability among companies that use the same standards and, finally, leave less room for accidental or deliberate misinterpretation of data in financial reporting. Therefore, according to them, stringent rules of US GAAP make position of investors much safer and contribute to smoother accounting processes for companies. Opponents of rigid rules in accounting, in turn, point out that in some cases application of accountants' judgement would be necessary, first of all, in situations when use of rules may result in misleading reports for particular companies when own opinion of an accountant could be more useful than generalization required under stringent rules approach. (Which is better – Principles… 2011.) Therefore, due to such disperse opinions on rules-based approach it cannot be unambiguously pronounced an advantage of US GAAP. Depending on what point of view is examined, some aspects of strict rules requirement of US GAAP can be considered another advantage while other aspects are deemed to be one of disadvantages.

As for the most prominent disadvantages for publicly traded companies using US GAAP, it can be certainly said that it is its singularity and lack of comparability worldwide. Since the United States of America is the only country that requires reporting companies' financial information under US GAAP while the most of the world has adopted IFRS it can be assumed that it obviously makes American companies less comparable to other countries in the world in global security market. (Jordan 2013.)

Lack of comparability contributes to possible difficulties in comprehension of financial statements of American countries for potential investors from other countries. Therefore, it may impose certain risks for the US enterprises to be bypassed by their global competitors in a race of searching and finding new investors.

This chapter reveals that there are both significant advantages and disadvantages of US GAAP. Nonetheless, it is hard to say whether the US will shift to other accounting framework in the nearest future. The US government and standard-setting bodies are not in hurry to replace the existent accounting standards with other one completely, since they see more overall economic benefits in the current system than in possible substitution option that is IFRS. Thereby, it is safe to assume that the US will continue aiming on mitigating disadvantages of US GAAP through working towards harmonization of some principles with IFRS, but it will still keep the core of traditional American accounting framework for quite a long time. (Bogopolsky 2015.) Possibly the US will switch to IFRS, but this change will probably happen not in the closest future, since the US government is still rather uneager to lose advantages its national accounting principles offer.

4 ACCOUNTING FRAMEWORK COMPARISON THROUGH DATA ANALYSIS

4.1 Introduction

This part of the thesis is built upon the analysis of the information obtained in the theoretical research part. It is devoted to drawing conclusions on gains and losses of a particular accounting standard framework, first of all, from the perspective of publicly traded companies in the United States of America where US Generally Accepted Accounting Principles are used for accounting purposes and in Russia that lately has been practising accounting under International Financial Reporting Standards as well as to comparison of their position.

In the end, the chapter is concluded by the subjective opinion of the author of this thesis regarding to the answers to the question in which of these two cases companies are given more opportunities for developing and sustaining their business activities as well as better conditions for enterprises to grow and prosper in the modern world are provided. The reason behind the author's choice of more beneficial accounting standards system for publicly traded companies in a particular country is also elaborated.

4.2 Analysis and comparison

Based on the chapters above it can be assumed that the US and Russia have been exploiting nearly diametrically opposite approaches towards the whole idea of accounting standards system from the start. It can be concluded from the fact that the US with help of standard-setting board has created its accounting standards from scratch in-house and has been refining them to augment their benefits for organizations, investors and the government for nearly a century, while Russia has recently decided to carry out the extensive IFRS adoption process for companies that publicly trade their securities and participate in business activities abroad as well as for some other types of organizations.

The certain choice of an approach of both countries is caused by solid reasons. The US as the motherland of corporations got a chance to start working on shaping its accounting principles as soon as the need for them appeared in the country, what had happened relatively long time ago, virtually, before the whole concept of international accounting standards applicable to multiple jurisdictions around the world has emerged. The reason behind it was that in the end of 20-s and in the beginning of 30-s of the twentieth century there was no urgency for international accounting standards yet. It was primarily related to the fact that the most of the world's countries' business environment was not yet that robust comparing to businesses in the US as well as globalization was not yet a common phenomenon.

Based on the reasons above it gets clear that the US had no other choice but to meet the accounting needs of American companies, which lacked knowledge and skills on how to report their financial information due to inadequate and infrequent accounting instructions of that time, by developing its own national accounting principle system. To deal with this issue the US government prepared the ground for smooth development of the principles by founding the board responsible for designing accounting principles and defining broad frames of what questions and matters the principles should have covered. Therefore, the accounting framework, which is now known as US GAAP, has been a product of lengthy collaboration of American accounting standard-setting board and the US government, at the same time, closely moderated by industries. The purpose of US GAAP was increase of American economic prosperity through providing comprehensive solutions for companies and shareholders.

By contrast, Russia decided to adopt already existent internationally acclaimed set of accounting standards for its financial reporting purposes. However, the motives for decision of Russia to choose IFRS path are also understandable and they are also primarily related to the history of the country. This historical reason is that during time of the USSR and planned economy there were no privately owned companies while the only user of financial information of governmentally owned companies was the Soviet government itself, thereby reported financial information was meant only to suit the goals of the government and was rather primitive and somewhat incomplete.

As soon as the situation changed - first of all, because of Russia became independent due to collapse of Soviet Union together with its command economy and rise of market economy and privatization in the country entailing the boom in business activity during last 20-25 years - the need for organized and clear financial reports for external users as well as for internal managerial purposes appeared.

By the time when that need arose, Russia had never got neither enough time nor resources to elaborate its very own comprehensive and sophisticated accounting standards to be able to promptly meet needs of changed economic environment in the country. With help of analysis of both domestic and international economic trends of the time when the need of accounting standards became extremely acute, Russia came to a conclusion that the most reasonable option would have been to work towards convergence with International Financial Reporting Standards which were used in more and more countries of the world and which could consequently offer advantages for development of Russian incipient businesses and Russian economy as a whole through attraction of investors from around the globe and decrease of fabricated financial information. More than a decade of work towards adoption of IFRS was crowned by complete switching to reporting under IFRS for some types of companies in 2012.

As it can be seen above, notwithstanding the fact that the US and Russia went through completely different ways of adoption their current accounting standards systems, they still had a similarity in that the accounting systems choices of both countries are attempts to make financial environment better for enterprises, investors and all other parties involved with given resources and options as well as accounting standards are products of lengthy process affected by multiple internal and external factors over more or less long time.

Although the US and its standard-setting body have invested a lot of time and energy in the development of own accounting principles for domestic users, lately they did not avoid the need to adjust their accounting system according to the reality of the modern world in order to be able to continue delivering value accounting solutions for American companies. These adjustments were, first of

all, concerned with the changes the world has undergone recently –to put it another way, to the soar up in financial globalization during 1990-s characterized primarily with facilitation of trade between countries as well as prominent rise in international flow of capital and more common cross-border corporate investments. To that end, in order to adapt to the changes in the world FASB had to start to work towards convergence in the matters concerning some accounting principles.

As it was mentioned in the first chapter of this thesis, in the beginning of the twenty first century FASB has undertaken a few convergence attempts with IFRS. They were expressed in creation of converged guidance on recognizing revenue in contracts with customers and the latest standard on leasing developed with IASB. At the same time, the United States of America still obliges American companies to perform US GAAP compliant accounting and does not plan to replace it with any other accounting system in the nearest future.

Nowadays it can be said that the US prefers to steer a middle course by balancing its traditional accounting principles with attempts of adaptation to changing global trends in the business environment. Thereby, on one hand, protecting its own nationally-developed accounting system, but, on the other hand, its numerous attempts of adoption of principles convergent with IFRS imply that the US still tries to harmonize its principles with international standards in order to smooth American companies' and international investors' interaction on the international financial market.

The work towards balance between national and international accounting standards, together with advantages discovered in the previous part give, numerous opportunities to American companies. These opportunities pertain especially to companies that trade there securities on the international market. US GAAP provides them the most convenient accounting solutions to maximize shareholders' value for companies of the given country on domestic scale, while converged with IFRS standards make their financial information more comprehensible for international users and more comparable to financial statements of other companies of the same industries worldwide, what, at the same time, makes process of analysis of the global competitors financial data easier for

American companies and possibly make better and more relevant own managerial decisions in the contemporary business world to enhance value of the company, boost own financial results in the future and increase the number of investors from all over the world.

Thereby, it can be assumed the United States of America has chosen the smart approach of “taking the best” out of the both accounting standard framework, what helps it to avoid risks tied to complete adoption of an alien accounting standard framework, at the same time, it adjusts its standards through convergence with some international standard provisions to conform with results of financial globalization. This smart accounting standard management puts American publicly traded companies in much more advantageous position over companies of some other countries that choose use either only national accounting standards or only adopted international standards.

The situation of Russia is rather different. In 1990-s, after Soviet Union collapsed, Russia started working on shaping Russian Accounting Standards. All along the majority of the standards have been designed to be as close to IAS and later to IFRS as possible. The Russian law on convergence of Russian Accounting Standards with international standards prescribed the process of convergence and allowed RAS to have minor alterations from IFRS. In 2012 Russia adopted IFRS on mandatory basis for majority of its companies that trade securities.

Notwithstanding the fact that Russia started to require application of more sophisticated, more detailed and used in numerous countries all around the world IFRS, it still caused a great number of issues and confusion. The first issue is related to the fact that there is still a great deficiency of qualified specialists who could competently process companies’ financial information under IFRS even though already seven years passed since IFRS was adopted in Russia. It contributes to generating a large amount of misstated financial data and creating discrepancy between actual information and information in financial reports.

The problem of misstatement of financial information concerns, first of all, smaller publicly traded companies who rarely go on international security mar-

ket, since bigger players usually can afford hiring well-trained certified professionals. However, it was reported that the rate of forging financial results in financial statements has increased. Both bigger and smaller companies were noticed to misuse it; thereby interests of both domestic and international investors can be jeopardized due to misleading financial information, what, at the same time, causes drop of trust for Russian companies in the international securities exchange market and reluctance of investors to deal with some Russian enterprises. This may impose a potential risk for Russian companies, since it may impede process of acquiring new international investors. These problems are deemed to happen, first of all, due to lack of adequate legislation covering these matters and shortage of supervising bodies that could control issues related to IFRS implementation and misuse on the territory of Russian Federation.

However, there were also advantages associated with IFRS adoption in Russia. The most significant advantage for Russian publicly traded companies is that through internationally standardized financial statements Russian enterprises got easier access to the larger pool of global investors. Another important benefit is applicable in the case of Russia - just like in the case of the USA after converging its principles with some of IFRS standards - is that Russian companies got a chance to analyze their own financial results and find ideas for their financial decisions through easier comparison with financial results of other country around the world.

4.3 The more beneficial accounting framework

Notwithstanding that SEC has shown interest to move from US GAAP to IFRS it is unlike to happen in the nearest future. US GAAP is undoubtedly not flawless and it has to deal with some problems arising from the fact it is not practiced worldwide and in the most countries financial reporting is done differently, but it also has a set of benefits which help American businesses to thrive.

In theoretical research part it was discovered that the major advantages for companies include US GAAP concentration on needs of American economy, power of industries to direct the standard-setting process towards more benefi-

cial for them and, at last, rules-based approach that gives much less room for misstatement.

Aside from aforementioned benefits I believe that one of the secrets also hides in that US GAAP had much more time to root into economy of the country, so US GAAP became rather organic for US companies. At the same time, throughout the time if some elements of principles, whether it was before they had come in force or after, had not been believed to work well for the companies or investors, they would have been often corrected or canceled completely. Thereby, it can be assumed that US GAAP often worked through the method of trial and error.

This opportunity of standard-setting board, the Congress and industries to reflect on and share their opinion about newly introduced principles often helped to avoid possible adverse results of new principles. Adding some converged with IFRS standards to US GAAP creates a perfect mixture that steadily continues its line of national standards but, at the same time, adapts to reality of the modern world. It benefits American companies and investors as well as the latest changes in US GAAP made interaction between US companies and international investors easier, since converged standards provide facilitation for American companies to some extent in term of achieving better comparability on the international securities market.

In case of Russia the problem lies not precisely in the accounting standards methodology it is using but in the way how it is implemented in the given country. As it was mentioned before, the major IFRS issues in Russia include inadequate training for accountants as well as numerous occasions of financial information misstatement which were reported after the adoption of IFRS in Russia.

Aside from lack of qualified professional accountants and misuse of the standards, another reason is that in case of Russia and IFRS, it is more about taking it or leaving, since Russian Government cannot conveniently adjust IFRS for the needs of companies operating in Russia or bring in the correction to the standards, since only body that has an authority to do, that is IASB.

However, the rise in capital inflow in 2018 may imply that IFRS adoption assisted some public companies of Russia in entering global securities market as well as attracting foreign investors, but it is still hard the measure the effects solely of IFRS in Russia due to short time of use in the country.

There is a potential that Russian companies will be able to benefit from transition to IFRS when aforementioned problems as well as some political and economic issues are curbed, but there is a big chance that it will still take a long time to stabilize the situation.

Through the analysis it gets obvious that both countries were attempting to choose the most suitable for their situation accounting standards framework in order to satisfy needs of investors and companies for stimulating business activities and interaction between these parties. At the same time, some issues tied to the accounting frameworks on both sides were unavoidable. However, taking into account aforementioned factors, it is still clear that currently US GAAP in the US fulfils its purpose better than IFRS in Russia.

5 CONCLUSION

To sum up, Russia has adopted IFRS for its public companies in 2012. Since then the country was trying to overcome issues entailed by new accounting standards adoption. It is believed that stabilizing the situation might last still for years. The Russian accounting predicament is also worsened by current economic and political position of the country. The US has chosen a different approach. The country does not rush too much towards IFRS adoption. It can be assumed that the US Government and FASB are guided by the idea that abrupt change of accounting standards framework can do more harm than good. The US prefers to stick to its domestic US GAAP, at the same time, slowly elaborating together with IASB principles that could erase the most prominent differences between US GAAP and IFRS without complete adoption of the latter.

Particular accounting standards framework undoubtedly have their own effects on public companies of a country, since they have differences and require to treat certain financial information, items and accounts in financial statements their own way. The main differences found between US GAAP and IFRS include such “ideological” aspects as domestic scale of US GAAP versus global prevalence of IFRS and stringent rule-based approach of the former and more reliant on judgement principle-based approach of the latter. Other distinctions pertain primarily to financial reporting itself and comprise differences of reporting some items in income statement as well as differences in asset valuation and treatment of inventories.

This thesis discovered that both US GAAP in the USA and IFRS in Russia have their own pluses and minuses. Advantages of the US GAAP are possibility to put emphasis on needs of American economy and financial information preparers and users, power of industries to influence standards according to their demands, more accurate and truthful financial statements due to rules-based approach and, finally, harmonization with IFRS followed by ever-improving comparability. The most prominent advantages of IFRS in Russia are improved comprehensibility of financial information and increased comparability in the international securities market.

Aside from already stated advantages, in my opinion, there are also general aspects which matter a lot. They are how deeply the given accounting framework and standards of it got roots into the system, the jurisdiction and companies, how smoothly the accounting under the standards is performed, how well accounting procedures are monitored in order to avoid misstatement of financial data, how properly the accounting standards are managed in the country as well as how healthy the economy of a given country is.

To conclude, the findings of this thesis imply that currently US GAAP proves to be more beneficial for American publicly traded companies than IFRS for Russian public companies respectively. However, it should not be perceived as criticism of IFRS and praise of US GAAP. This conclusion is applicable only to comparison of US GAAP to the particular case, i.e. IFRS in Russia. Thereby, I believe that if US GAAP was compared to IFRS in other country, the results would be different.

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