An Assessment of Three Accounting Frameworks: U.S., International and Pakistan

Mariam Quettawala

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NORTHERN ILLINOIS UNIVERSITY

"An Assessment of three Accounting Frameworks:
U.S., International and Pakistan"

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By
Mariam Quettawala

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Abstract

This paper is an assessment of the International Accounting Standards (AIS) and its relationship with the Accounting Standards of United States (GAAP) and Pakistan. The purpose of this paper is to understand the differences between the three accounting frameworks. This will help understand the requirements for a U.S. Company to change its financial statements in accordance with the International Accounting Standards and a Pakistani Company to change its financial statements in accordance with the International or U.S. Accounting Standards. The scope of the paper is to provide an in-depth analysis of some of the major differences between the three accounting frameworks. However, it is important to point out that due to space and time limitations, this paper does not provide a complete list of differences, but addresses some of the major ones.

Majority of the information provided is through secondary sources, extracted from various Internet websites of various accounting organizations like, AICPA, Asian Development Bank etc. Also, prior to writing the paper, extensive reading about IAS and U.S. GAAP was done in order to gain an overall understanding of the Accounting frameworks.

Upon completion of the project, it was concluded that there is a great possibility that the U.S. Accounting Standards will eventually be eliminated or replaced by International Accounting Standards. However, prior to such a change various other regulating bodies will be required to change their rules and procedures.
Introduction
This paper is an assessment of International Accounting Standards (IAS) and their relationship with the United States Generally Accepted Accounting Principles (US GAAP) and the Accounting Standards adopted by Pakistan. It gives a broad understanding of the key similarities and differences between three accounting frameworks: International Accounting Standards (IAS), U.S. Generally Accepted Accounting Principles (US GAAP) and the Accounting Standards Adopted by Pakistan.

It is important to point out that this is a summary paper and does not provide a complete list of similarities and differences among the three accounting frameworks. However, it focuses on some of the general and specific similarities and differences most commonly found in practices. Also, due to requirement limitations, a comparison of Auditing Standards followed by the three above-mentioned structures of accounting is not included.

In an effort to better analyze the three different accounting frameworks, this paper is divided into three separate sections. The first section addresses some general questions about the use and formation of accounting standards within United States, internationally and in Pakistan. It also gives an overview of some of the
governmental entities involved in the creation of these standards.

The second section then proceeds with a comparison between the International Accounting Standards and the United States Generally Accepted Accounting Principles. It first informs the reader about the different accounting standards used in United States and then analyzes the similarities and differences between the International Accounting Standards and the U.S. Generally Accepted Accounting Principles.

Finally, the third section of the paper points out some of the major differences and similarities between the Accounting Standards adopted by Pakistan and the International Accounting Standards.
Section 1
This section starts by explaining the importance and use of accounting standards and is followed by an analysis of the governmental entities involved in the creation of accounting standards within U.S., Internationally and in Pakistan.

**Accounting Standards and their importance**

Accounting standards are authoritative statements of how particular types of transaction and other events should be reflected in financial statements. Accordingly, compliance with accounting standards will normally be necessary for financial statements to give a true and fair view. The following are some of the reasons why accounting standards are central to the integrity of successful financial systems:

- They provide the foundation for credible financial statements and other disclosures that are key means of communicating a firm’s operational results and its overall health.

- They provide a basis of reliable and relevant measures of assets, liabilities, equity and overall operating income.
They facilitate the disclosure of reliable information that further reduces the chances of rumors and misconceptions.

- They serve an important purpose because disclosure of financial information to the general public is essential.

- They provide to businesses, an accurate picture of their financial position that can be easily compared to the financial position of other businesses.

**Formation of Accounting Standards in United States**

The Securities and Exchange Commission (SEC) has statutory authority to establish financial accounting and reporting standards for publicly held companies under the Securities Exchange Act of 1934. Throughout its history, however, the Commission's policy has been to rely on the private sector for this function to the extent that the private sector demonstrates ability to fulfill the responsibility in the public interest.

Since 1973, the Financial Accounting Standards Board (FASB) has been the designated organization in the private sector for establishing standards of financial accounting
and reporting. These standards govern the preparation of financial reports. The Securities and Exchange Commission (SEC) and the American Institute of Certified Public Accountants officially recognize FASB as authoritative.

Overall, it is the job of the FASB to establish the "Generally Accepted Accounting Principles," or GAAP, to which public financial reporting by U.S. corporations must conform and to keep these principles current.\(^i\)

GAAP, or generally accepted accounting principles, are uniform minimum standards of financial accounting and reporting. The Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB) are authorized by the Securities and Exchange Commission (SEC) to establish these principles. The seven-member board of the Financial Accounting Standards Board authorizes and makes the accounting rules of the United States under the auspices of the SEC. The AICPA provides technical support and standard setting guidelines (including GAAP) in conjunction with FASB's work.\(^i\)
Formation of International Accounting Standards

(IAS)

The International Accounting Standards were set by the International Accounting Standards Commission (IASC). IASC was founded in June 1973 as a result of an agreement by accountancy bodies in Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and Ireland and the United States of America, and these countries constituted the Board of IASC at that time.

The international professional activities of the accountancy bodies were organized under the International Federation of Accountants (IFAC) in 1977. In 1981, IASC and IFAC agreed that IASC would have full and complete autonomy in the setting of international accounting standards and in the issue of discussion documents on international accounting issues. At the same time, all members of IFAC became members of IASC. This relationship continued until the IASC's Constitution was changed in May 2000 as part of the reorganization of the IASC at which time this membership link was discontinued.

Recently, IASC is no longer in charge of the International Accounting Standards and hence has been
replaced by International Accounting Standards Board (IASB). The International Accounting Standards Board is an independent, privately funded accounting standard setter based in London, UK. Board Members come from nine countries and have a variety of functional backgrounds. The Board is committed to developing, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require transparent and comparable information in general purpose financial statements. In addition, the Board cooperates with national accounting standard setters to achieve convergence in accounting standards around the world.

Effective 1 April 2001, the International Accounting Standards Board (IASB) assumed accounting standard setting responsibilities from its predecessor body, the International Accounting Standards Committee.iii

Formation of Accounting Standards used in Pakistan

In Pakistan, International Accounting Standards (IAS), issued by International Accounting Standards Committee, as adopted by the Securities and Exchange Commission of Pakistan (SECP) from time to time are used for the purposes of Accounting and Financial Reporting. In Pakistan, SECP is
the governing body that enacts regulations for the issuance of financial statements like adoption of the International Accounting Standards for compliance by commercial, industrial or business enterprises falling within the regulatory framework of SECP.

The IAS are adopted by SECP on recommendation of the Institute of Chartered Accountants of Pakistan (ICAP). These standards are first adopted by the Council of ICAP and are communicated to SECP for adoption to ensure compliance by all the entities operating in Pakistan. Also, all companies must follow IASC Standards as well as comply with reporting requirements of the Companies Ordinance of 1984, the Banking Ordinance of 1964, and the Insurance Act of 1935.
Section 2
After a brief description of accounting standards and the governmental entities involved in the formation of these standards, this section summarizes some of the general and specific similarities and differences between U.S. GAAP and International Accounting Standards. It is important to mention that the following is not a complete set of similarities and differences, but highlights some of the major ones. Also, the specific differences and similarities are based on five categories. Due to its limitations, apart from the general similarities, this paper will focus on differences between the two systems of accounting rather than on the similarities.

### General Differences and Similarities

<table>
<thead>
<tr>
<th>SUBJECT IN QUESTION</th>
<th>DIFFERENCE SIMILARITY</th>
<th>US GAAP TREATMENT</th>
<th>IAS TREATMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Statements Available</td>
<td>Difference</td>
<td>Approximately 144 statements available</td>
<td>Approximately 40 statements available</td>
</tr>
<tr>
<td>Utility of Standards</td>
<td>Difference</td>
<td>Very specific guidelines provided with details given</td>
<td>General requirements are mentioned and details are not given</td>
</tr>
<tr>
<td>Judgment Calls</td>
<td>Difference</td>
<td>Requires less of a judgment call from</td>
<td>Requires a great deal of judgment calls from</td>
</tr>
<tr>
<td>Required on behalf of accountants</td>
<td>Similarity, due to the presence of details</td>
<td>Materiality</td>
<td>The materiality of the information should be considered</td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>---------------------------------------------</td>
<td>-------------</td>
<td>--------------------------------------------------------</td>
</tr>
<tr>
<td>Similarity</td>
<td></td>
<td>Difference</td>
<td>Three years balance sheets, income statements, recognized gains and losses, cash flow statements, changes in equity, accounting policies and notes are required</td>
</tr>
<tr>
<td>Substance over form</td>
<td>Similarity</td>
<td></td>
<td>Accounting records must reflect the economic substance of transaction if it is different from its legal form</td>
</tr>
<tr>
<td>Difference</td>
<td>Override of standards is not permitted</td>
<td></td>
<td>In certain cases override of standards is permitted to give a &quot;true and fair view&quot;</td>
</tr>
<tr>
<td>Changes in accounting estimates</td>
<td>Similarity</td>
<td></td>
<td>Similar to U.S. GAAP</td>
</tr>
</tbody>
</table>

The above-presented chart summarizes some of the major general differences and similarities. Of the above, the most significant difference between GAAP and IAS is the difference in the number of statements. GAAP are currently a set of 144 statements. These statements are extremely explicit and detailed, whereas there are only 33 statements available for IAS. This leads to the second major difference that is the difference in quality of the standards. IAS being less in number are not very explicit and detailed. These are mainly general guidelines and fail to explain various specific cases. Due to this difference...
accountants using IAS are required to make
calls much more than are required when using GAAP.
Apart from these differences, some other important
differences that can be generalized are the differences in
the content of financial statements, the changes in
accounting policies and correction of fundamental errors.
If GAAP are used, three years balance sheets, income
statements, recognized gains and losses, cash flow
statements, changes in equity, accounting policies and
notes are required. Whereas using IAS, only two years of
the above-mentioned statements are required. If there are
changes in accounting policies, according to GAAP the
effect should be included in the current year net income.
For IAS, there is a choice and the effect could either be
included in the current year net income, or one could
restate comparatives and prior year opening retained
earnings. For changes in fundamental errors, GAAP requires
restatement of comparatives whereas IAS once again gives a
choice. Hence, it can be seen that in many cases, IAS are
much more liberal and require judgment from accountants.

Once some of the general differences are analyzed,
some of the intricate differences can be divided into four
main categories.
Types of Differences

In an effort to understand the differences between U.S. GAAP and IAS, these can be categorized into four different categories. Hence, the differences can be of the following four kinds:

Recognition

Recognition differences are those that correspond to whether an item is recognized or unrecognized, whether a similar item is treated differently in different methods of accounting and whether an item is recognized at different timings. These recognition issues affect financial statements and hence increase the complexity of comparing U.S. GAAP prepared financial statements with those prepared using IAS.

Measurement

A single item if measured under different methods may have different impacts on the financial statements. Thus, some of the differences between U.S. GAAP and IAS pertain to measurement differences.

Alternative

Some differences also arise when one standard permits a choice between two different alternative methods of accounting for a specific transaction, while another
standard requires one single method rather than a choice among two methods.

**Lack of requirements or guidance**

Some major differences are related to lack of proper requirements set by one of the accounting frameworks. Hence, the lack of complete guidance leads to some differences between U.S. GAAP and IAS.

Once the different basis of similarities and differences are mentioned, we can take a detailed look at some of the specific differences.

**Recognition Differences**

Recognition differences are further divided into three sub-categories.

1. Recognized vs. unrecognized
2. Same item different accounting treatment
3. Timing differences

**Recognized vs. unrecognized**: Some types of recognition differences would require an item to be recognized under one standard, but the same item would be required to go unrecognized under its counterpart standard. The following are some examples worth mentioning:
1. **Income Taxes:** Statement 109 for GAAP prohibits, whereas IAS 12 requires recognition of deferred taxes for temporary differences related to foreign currency and intercompany transfers of inventory.

2. **Employee Benefits:** Under IAS 19 expenses for equity compensation benefits such as stock options for employees is not recognized, whereas its GAAP counterpart requires such as expense to be recognized. Also, prior service costs are required to be capitalized according to U.S. GAAP while these need to be expensed under IAS 19.

**Same item, Different Accounting Treatment:** A common type of difference between IAS and U.S. GAAP is one in which same items are treated differently under two counterpart standards. The following are some examples:

1. **Research and Development Costs:** According to IAS 38, all identified research costs are to be expensed, whereas development costs are to be capitalized if they meet certain criteria. However, under U.S. GAAP both the research and the development costs are to be expensed as incurred.
2. Depreciation or amortization: When confronted with changes resulting from a change in depreciation or amortization methods, U.S. GAAP and IAS treat such a change differently. Under IAS such a change of method is recognized as an adjustment to depreciation or amortization expense in current and prospective periods affected by the change, whereas GAAP requires recognition in the current period of the cumulative effect of the change.

3. Leases, Recognition of Profit/Loss: Under FASB statement 13 of GAAP, profit or loss on certain sale-leaseback transactions of a capital lease is deferred whereas under IAS 17, such a profit or loss is immediately recognized.

4. Business Combinations, In-process research and development: Under IAS 22 in-process research and development purchase price is capitalized either separately or as part of goodwill, whereas such a price is expensed under its U.S. GAAP counterpart.

5. Borrowing Costs: If the benchmark treatment for accounting for borrowing costs is used, then under IAS 23 borrowing costs for acquisition, construction or
production of an asset are expensed whereas such costs are required to be capitalized under U.S. GAAP.

**Timing Differences:** Even if two items are similar in recognition and are treated in the same manner they may be recognized in a different reporting period. Some examples are as follows:

1. **Effect of changes in tax laws:** Under IAS 12 the effect of changes in tax laws is recognized when such a change is "substantially enacted". This is to say that though a certain tax law may already be enacted, it may be after several months that such a law is substantial. Hence, that's when such a change is required to be recognized. Whereas under U.S. GAAP 109, the effect of changes in tax laws is to be recognized as soon as the law is enacted or in simple words, as soon as the President signs off on the tax law.

2. **Discontinuing Operations:** Under IAS a discontinuing operation is a separate major component of an enterprise that is being disposed. This disposal can take place over several months or longer. Under U.S. GAAP, a discontinued operation is a segment of an
enterprise that has or will be sold or disposed. This disposal is to be recorded within the year of the measurement date, or the date the management commits to a formal plan for discontinuance.

3. Impairment of Assets: Due to different recognition thresholds, timings of recognition may differ for the impairment of assets. Under IAS 36 impairment losses are recognized in the income statement unless they relate to revalued assets. Such losses are accounted for in accordance with the standard relating to that asset, for e.g. property or plant. Whereas under U.S. GAAP 121, the impairment loss recognized is based on the asset’s fair value. Also, reversals of impairment assets are prohibited.

**Measurement Differences**

Valuations of items lead to considerable differences between IAS and U.S. GAAP. Some examples are as follows:

1. **Employee Benefits**: Under U.S. GAAP, it is required to recognize a minimum liability on the balance sheet equal to at least the unfunded accumulated pension benefit obligation, whereas IAS 19 does not require such recognition. Also, for employer’s benefit
obligation, under U.S. GAAP it is not permitted for an enterprise to take in effect anticipated changes in future post employment benefits, whereas such changes can be considered while calculating employer’s benefit obligation under IAS 19.

2. Discontinuing Operations: Under IAS 35, the actual operating results of a discontinuing operation are to be reported as part of discontinuing operations when incurred. On the other hand, under U.S. GAAP (APB. Opinion # 30) the estimated operating result is included when measuring expected gain or loss on disposal.

3. Impairment: Under U.S. GAAP statement 121, an impairment loss is measured as the amount by which an asset’s carrying amount exceeds its fair value, whereas under IAS 36, impairment loss is measured as the amount by which an asset’s carrying amount exceeds the higher of net selling price or value-in-use.

4. Interim Financial Reporting: IAS 34 requires recognizing loss of inventory due to market declines, at interim periods, whereas U.S. GAAP does not have any such requirement.
5. Financial Instruments - Commodity Contracts: Under IAS 39, certain commodity contracts would be measured at historical costs, whereas under U.S. GAAP these contracts have to be measured at fair value unless there is no mechanism to settle the contract. Also, an important difference regarding financial instruments is that under IAS all types of financial assets are categorized as trading, available-for-sale or held-to-maturity. Under U.S. GAAP however, only securities are categorized as the above three. Therefore, measurement differences arise when financial assets other than securities are measured using GAAP vs. using IAS.

Alternative Differences

Apart from recognition and measurement differences, some difference between IAS and U.S. GAAP occur due to the alternatives provided in different methods of accounting. These alternatives may be based on measurement, recognition, timing etc. Hence, when one method provides a choice while another does not provide such a choice or alternative, such a treatment leads to differences. The following are some examples:
1. Measurement of Property, Plant and Equipment: Under IAS 16, companies have a choice as to the measurement of their property, plant and equipment. They can either use the benchmark treatment, or they can periodically revalue their assets to fair value. However, under its U.S. GAAP counterpart, such a choice is not awarded. GAAP does not permit using the periodical revaluation method and only allows for the benchmark treatment to be used.

2. Cash flow statements: In order to prepare cash flow statements, IAS and U.S. GAAP are similar but differ on certain issues. According to U.S. GAAP Statement 95, interest paid and dividends received are to be recorded as operating cash flows and the dividends paid are to be recorded as financing cash flows. Under IAS GAAP however, there is a choice. Dividends and interest paid or received can either be recognized as operating cash flows, or dividend and interest paid can be recognized as financing cash flows and dividend and interest received can be recognized as investing cash flows.

3. Correction of an error and accounting changes:

According to IAS 8 there are two alternatives for the
correction of fundamental errors. Enterprises using the benchmark treatment can correct an error by adjusting the opening balance of retained earnings for the earliest period possible. On the other hand an alternative method is by including the correction in the net income and providing supplement disclosures. Under U.S. GAAP however, only the benchmark treatment is required and there are no other alternatives. Not only are there different alternatives for both accounting frameworks, but there is a considerable difference between benchmark treatment under IAS 38 and benchmark treatment under U.S GAAP. If the benchmark treatment is used for accounting changes, then under IAS restatements of prior periods is required. IAS permits the application of either the cumulative-effect method or the prospective method if the amounts to be restated are not easily determinable. On the other hand, the general rule for GAAP is to use the cumulative-effect method for changes in accounting principles.

4. Foreign Currency Translations: There are two significant differences between IAS and U.S. GAAP regarding foreign currency translations.
a. IAS 21 allows two methods of accounting of exchange of losses on a liability for assets invoiced in a foreign currency. Either the losses can be charged as expenses or can be added to the cost of the asset. U.S. GAAP however, does not provide any alternatives and such losses have to be expensed in all cases.

b. IAS 21 also allows the use of either the current exchange rate or the historical exchange rate to translate goodwill and fair value adjustments. However, under U.S. GAAP Statement 52, the historical exchange rate is not permitted and only the current exchange rate is acceptable.

5. Investments in Associates: For enterprises that do not have subsidiaries, IAS 28, provides an alternative to either use the equity method, cost or fair value to record investments in associates. Under U.S. GAAP regardless of whether an entity has subsidiaries, the equity method is required to record investments in associates and hence no other alternative is provided.

6. Joint Ventures: In accounting for a joint venture, GAAP generally requires the use of the equity method whereas IAS 31 offers some alternatives. Under IAS 31,
either the equity method or the proportionate consolidation method of accounting for interests in corporate joint ventures is used.

7. Intangible Assets: According to IAS 38, there are two possible ways of measuring intangible assets. These assets can be measured and recorded based on the amortized cost less any accumulated impairment loss. Also, intangible assets that have an active market can be revalued at regular intervals. U.S. GAAP however, does not permit this revaluation method and only allows that recording of intangible assets based on the amortized cost less any accumulated impairment loss.

**Differences Due to Lack of Requirement or Guidance**

As mentioned earlier when discussing general differences between U.S. GAAP and IAS, there is a considerable difference between the quality of U.S. GAAP and IAS. IAS being less detailed differs considerably from U.S. GAAP. For example, U.S. GAAP provides guidance for a number of specialized industries and specialized transactions that are not specifically addressed by IAS.

Apart from the lack of guidance in specialized industries and transactions, IAS currently lack guidance in
insurance and rate-regulated enterprises, not-for-profit entities, the extractive (for example, oil and gas), health care associations and organizations, entertainment industries, agricultural and forests products and employee stock-compensation plans. However, it is not always the case that IAS lack guidance that is present in U.S. GAAP. In some rare cases, IAS has seen to provide guidance, whereas U.S. GAAP does not. For example, under IAS 20, accounting for government grants and disclosure of government assistance, a single standard is provided for accounting for these government grants and assistance. However, no U.S. GAAP standard specifically addresses this issue.

Some other examples in which one standard of an accounting framework provides guidance whereas another lacks such guidance are as follows:

1. **Inventories:** IAS provides specific guidance in the areas of disclosure and accounting for inventories of service providers. However, U.S. GAAP fails to provide comparable guidance. On the other hand U.S. GAAP provides specific guidance for inventories related to motion pictures, softwares and agricultural industries, whereas IAS does not.
2. Income Taxes: Three areas regarding Income Taxes specifically addressed by U.S. GAAP but not addressed by IAS are,

a. Measurement of income taxes when tax rates for distributed and undistributed income differ

b. Measurement of deferred income taxes in tax jurisdictions that have Alternative Minimum Tax systems

c. Accounting and disclosure of income taxes in separately issued financial statements of an entity that is a member of a group that files a consolidated return.

The following section will further compare the International Accounting Standards and the Accounting Standards used in Pakistan.
Section 3
In Pakistan, Securities and Exchange Commission of Pakistan (SECP) has adopted all of the International Accounting Standards (IAS) except the following:

- IAS - 15 Information Reflecting the Effects of Changing Prices
- IAS - 29 Financial Reporting in Hyperinflationary Economies
- IAS - 40 Investment Property

Apart from not adopting the above-mentioned standards, most IAS have been adopted in full. However, some minor deviations occur in the following:

- IAS - 1 Presentation of Financial Statements
- IAS - 10 Contingencies and Events Occurring After the Balance Sheet Date
- IAS - 12 Income Taxes
- IAS - 16 Property, Plant and Equipment
- IAS - 21 The Effects of Changes in Foreign Exchange Rates
- IAS - 32 Financial Instruments - Disclosure and Presentation

In order to compare the International Accounting Standards with Accounting Standards used in Pakistan, we will first look at the International Accounting Standards
that are not adopted by Securities and Exchange Commission of Pakistan, and identify major reasons for not adopting these standards. We will then identify major differences and alterations to the International Accounting Standards adopted by the Securities and Exchange Commission of Pakistan.

**International Accounting Standards not Adopted by SECP**

Though, most of the International Accounting Standards have been adopted by the Securities and Exchange Commission of Pakistan, some have been disregarded due to various reasons.

**IAS 15: Information Reflecting the Effects of Changing Prices** - This standard states that, enterprises applying IAS 15 should disclose the following information on a general purchasing power or a current cost basis:

- Depreciation adjustment;
- Cost of sales adjustment;
- Monetary items adjustment; and
- The overall effect of the above and any other adjustments.
However, as IAS Committee has classified this standard as non-mandatory, it has not been adopted by Pakistan.

**IAS 29: Financial Reporting in Hyperinflationary Economies**

- This states that hyperinflation is indicated if cumulative inflation over three years is 100 per cent or more (among other factors). In such a circumstance, financial statements should be presented in a measuring unit that is current at the balance sheet date. Pakistan fails to adopt this standard, as it is not relevant in its context.\(^{xi}\)

**IAS 40: Investment Property** - Under IAS 40, an enterprise must choose either:

- A *fair value model*: investment property should be measured at fair value and changes in fair value should be recognized in the income statement; or

- A *cost model* (the same as the benchmark treatment in IAS 16, Property, Plant and Equipment): investment property should be measured at depreciated cost (less any accumulated impairment losses). An enterprise that chooses the cost model should disclose the fair value of its investment property.\(^{xii}\)
Though Pakistan presently has not adopted this standard, implementation of this standard is being considered in the near future.

**International Accounting Standards adopted with Minor Deviations**

Some of the International Accounting Standards that have been adopted by Pakistan with some minor adjustments, keeping in mind the relevance to the economy of Pakistan.

**IAS 1: Presentation of Financial Statements** - According to IAS 1 four basic financial statements are required. These are,

1. Balance Sheet
2. Income Statement
4. Statement showing changes in Equity

These statements are to be fairly presented, using the accrual basis of accounting and have to be consistent. \(^{xiii}\)

IAS 1 is not mandatory in Pakistan for Banks and Insurance companies. The accounting requirements for banks are covered in the Banking Companies Ordinance 1962 and insurance companies are required to have separate classes of insurance accounts under the Insurance Ordinance 2000. \(^{xiv}\)
IAS 10: Contingencies and Events Occurring After the Balance Sheet Date - This standard provides guidance in identifying contingencies and events occurring after the balance sheet date. According to IAS 10, if dividends to holders of equity instruments are proposed or declared after the balance sheet date, an enterprise should not recognize those dividends as a liability. However, according to Pakistan standards, proposed dividends are accrued as liabilities at the Balance Sheet Date.

IAS 12: Income Taxes - According to IAS 12, deferred tax liability is accrued for nearly all-taxable temporary differences. Deferred tax assets are accrued for nearly all-deductible temporary differences if it is probable that a tax benefit will be realized. However, the modification under Pakistani standards is as follows: Deferred taxes are not accounted for based on the current IAS 12. These are calculated on the basis of timing differences rather than temporary differences and partial allocation is allowed.

IAS 16: Property, Plant and Equipment - According to IAS 16 revaluations of fixed assets can be recognized as income or can be shown as part of equity but according to Pakistan standards, except when realized on disposal, a surplus
arising on the revaluation of fixed assets can neither be recognized as income nor shown as part of equity. It is shown after capital and as a non-current liability.\textsuperscript{ix}

\textbf{IAS 21: The Effects of Changes In Foreign Exchange Rates -} According to IAS 21, transactions in foreign currencies should be recorded in the reporting currency of the enterprise and revalued at the closing exchange rate for reporting purposes.\textsuperscript{xx} Exchange difference arising from such transactions should be recognized as income for the period.

However, according to Pakistan standards, exchange gains and losses on foreign currency borrowings may be deducted or added to the cost of the relevant asset and should not be recorded as income for the period.\textsuperscript{xxi}

\textbf{IAS 32: Financial Instruments - Disclosure and Presentation -} According to IAS 32 shares with liability features are recorded as liabilities, whereas the Pakistan standards of accounting does not allow these shares to be recorded as liabilities.
Conclusion:

After analyzing three different accounting frameworks, we can see that though majority of the accounting standards do not differ significantly, but minor differences account for huge variances in financial statements. These differences need to be analyzed carefully and have to be an important part of the decision making process of the stakeholders such as, investors, analysts, standard setters and regulators.

Though these differences vary at a large extent, the global accounting society is now moving towards collaborating accounting standards in the U.S. with international standards. Such collaboration can be of great help to the global economy. Once majority of the countries start following the same accounting standards, a consistency among financial statements will be formed. Due to this, it will be easier to compare and contrast financial statements of companies within and outside the United States.

Though this collaboration will lead to immense benefits, a lot has to be done before such a change can take place. Due to such a change there will be many agencies and associations that will be effected and will be
required to change their rules and criteria accordingly. For e.g., before the U.S. GAAP and International Accounting Standards can merge or become one, the stock exchanges and Securities and Exchange Commission (SEC) will have to change their rules and procedures and will have to start accepting financial statements in the format followed by the International Accounting Standards.

All in all, the accounting society all over the world is moving closer and closer day by day. Many countries have already started accepting and following International Accounting Standards. The time is not far when U.S. GAAP will also be replaced by International Accounting Standards, and United States along with other countries will start applying International Accounting Standards in an effort to compete globally.
Footnotes:

i www.fasb.org
ii www.aicpa.org
iii www.iasc.gov.uk
iv Interview: “Syed Sajjad Ali, Director Technical Services (AICPA)”
  v http://www.pwc.cz/data/storage (Publication by PricewaterhouseCoopers)
  vi http://www.ustreas.gov/standard.PDF
  vii http://www.pwc.cz/data/storage
viii Interview: “Syed Sajjad Ali, Director Technical Services (AICPA)”
ix GAAP 2000 – A Survey of National Accounting Rules in 53 Countries (Christopher W Nobes - Editor)
  x http://www.adb.org/Documents/Bo.PDF (Asian Development Bank)
x http://www.iasc.org.uk/
xii Ibid
xiii Ibid
xv Ibid
xvi GAAP 2000 – A Survey of National Accounting Rules in 53 Countries (Christopher W Nobes - Editor)
xviii GAAP 2000 – A Survey of National Accounting Rules in 53 Countries (Christopher W Nobes - Editor)
xix Ibid
xx The International Accounting Standards Handbook 1996 is published by the International Accounting Standards Committee (IASC)
xxi GAAP 2000 – A Survey of National Accounting Rules in 53 Countries (Christopher W Nobes - Editor)

Other informational references used:
1. International Accounting Standards Committee, “International Accounting Standards Explained” 2000-Wiley & Sons Ltd.
Appendix

FASB Statements (GAAP)

FAS 1: Disclosure of Foreign Currency Translation Information
FAS 2: Accounting for Research and Development Costs
FAS 3: Reporting Accounting Changes in Interim Financial Statements
FAS 4: Reporting Gains and Losses from Extinguishment of Debt
FAS 5: Accounting for Contingencies
FAS 6: Classification of Short-Term Obligations Expected to Be Refinanced
FAS 7: Accounting and Reporting by Development Stage Enterprises
FAS 8: Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements
FAS 9: Accounting for Income Taxes--Oil and Gas Producing Companies
FAS 10: Extension of "Grandfather" Provisions for Business Combinations
FAS 11: Accounting for Contingencies--Transition Method
FAS 12: Accounting for Certain Marketable Securities
FAS 13: Accounting for Leases
FAS 14: Financial Reporting for Segments of a Business Enterprise
FAS 15: Accounting by Debtors and Creditors for Troubled Debt Restructurings
FAS 16: Prior Period Adjustments
FAS 17: Accounting for Leases--Initial Direct Costs
FAS 19: Financial Accounting and Reporting by Oil and Gas Producing Companies
FAS 20: Accounting for Forward Exchange Contracts
FAS 21: Suspension of the Reporting of Earnings per Share and Segment Information by Nonpublic Enterprises
FAS 22: Changes in the Provisions of Lease Agreements Resulting from Refundings of Tax-Exempt Debt
FAS 23: Inception of the Lease
FAS 25: Suspension of Certain Accounting Requirements for Oil and Gas Producing Companies
FAS 26: Profit Recognition on Sales-Type Leases of Real Estate
FAS 27: Classification of Renewals or Extensions of Existing Sales-Type or Direct Financing Leases
FAS 28: Accounting for Sales with Leasebacks
FAS 29: Determining Contingent Rentals
FAS 30: Disclosure of Information about Major Customers
FAS 31: Accounting for Tax Benefits Related to U.K. Tax Legislation concerning Stock Relief
FAS 32: Specialized Accounting and Reporting Principles and Practices in AICPA SOPs and Audit and Accounting Guides
FAS 33: Financial Reporting and Changing Prices
FAS 34: Capitalization of Interest Cost
FAS 35: Accounting and Reporting by Defined Benefit Pension Plans
FAS 36: Disclosure of Pension Information
FAS 37: Balance Sheet Classification of Deferred Income Taxes
FAS 38: Accounting for Preacquisition Contingencies of Purchased Enterprises
FAS 39: Financial Reporting and Changing Prices: Specialized Assets--Mining and Oil and Gas
FAS 41: Financial Reporting and Changing Prices: Specialized Assets--Income-Producing Real Estate
FAS 42: Determining Materiality for Capitalization of Interest Cost
FAS 43: Accounting for Compensated Absences
FAS 44: Accounting for Intangible Assets of Motor Carriers
FAS 45: Accounting for Franchise Fee Revenue
FAS 46: Financial Reporting and Changing Prices: Motion Picture Films
FAS 47: Disclosure of Long-Term Obligations
FAS 48: Revenue Recognition When Right of Return Exists
FAS 49: Accounting for Product Financing Arrangements
FAS 50: Financial Reporting in the Record and Music Industry
FAS 51: Financial Reporting by Cable Television Companies
FAS 52: Foreign Currency Translation
FAS 53: Financial Reporting by Producers and Distributors of Motion Picture Films
FAS 54: Financial Reporting and Changing Prices: Investment Companies
FAS 55: Determining whether a Convertible Security Is a Common Stock Equivalent
FAS 56: Designation of AICPA Guide and SOP 81-1 and SOP 81-2 as Preferable for Purposes of applying APB Opinion 20
FAS 57: Related Party Disclosures
FAS 58: Capitalization of Interest Cost in Financial Statements That Include Investments Accounted for by the Equity Method
FAS 59: Deferral of the Effective Date of Certain Accounting Requirements for Pension Plans of State and Local Govt. Units
FAS 60: Accounting and Reporting by Insurance Enterprises
FAS 61: Accounting for Title Plant
FAS 62: Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants
FAS 63: Financial Reporting by Broadcasters
FAS 64: Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements
FAS 65: Accounting for Certain Mortgage Banking Activities
FAS 66: Accounting for Sales of Real Estate
FAS 67: Accounting for Costs and Initial Rental Operations of Real Estate Projects
FAS 68: Research and Development Arrangements
FAS 69: Disclosures about Oil and Gas Producing Activities
FAS 70: Financial Reporting and Changing Prices: Foreign Currency Translation
FAS 71: Accounting for the Effects of Certain Types of Regulation
FAS 72: Accounting for Certain Acquisitions of Banking or Thrift Institutions
FAS 73: Reporting a Change in Accounting for Railroad Track Structures
FAS 74: Accounting for Special Termination Benefits Paid to Employees
FAS 75: Deferral of the Effective Date of Certain Accounting Requirements for Pension Plans of State and Local Govt. Units
FAS 76: Extinguishment of Debt
FAS 77: Reporting by Transferors for Transfers of Receivables with Recourse
FAS 78: Classification of Obligations That Are Callable by the Creditor
FAS 79: Elimination of Certain Disclosures For Business Combinations by Nonpublic Enterprises
FAS 80: Accounting for Futures Contracts
FAS 81: Disclosure of Postretirement Health Care and Life Insurance Benefits
FAS 82: Financial Reporting and Changing Prices: Elimination of Certain Disclosures
FAS 83: Designation of Certain AICPA Guides and Statement of Position as Preferable for Purposes of Applying APB Opinion 20
FAS 84: Induced Conversions of Convertible Debt
FAS 85: Yield Test for Determining whether a Convertible Security Is a Common Stock Equivalent
FAS 86: Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed
FAS 87: Employers' Accounting for Pensions
FAS 88: Employers' Accounting for Settlements & Curtailments of Defined Benefit Pension Plans and for Termination Benefits
FAS 89: Financial Reporting and Changing Prices
FAS 90: Regulated Enterprises--Accounting for Abandonments and Disallowances of Plant Costs
FAS 91: Nonrefundable Fees & Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases
FAS 92: Regulated Enterprises--Accounting for Phase-in Plans
FAS 93: Recognition of Depreciation by Not-for-Profit Organizations
FAS 94: Consolidation of All Majority-Owned Subsidiaries
FAS 95: Statement of Cash Flows
FAS 96: Accounting for Income Taxes
FAS 97: Accounting by Insurance Cos. for Certain Long-Duration Contracts & Realized Gains & Losses on Investment Sales
FAS 98: Accounting for Leases
FAS 99: Deferral of the Effective Date of Recognition of Depreciation by Not-for-Profit Organizations
FAS 100: Accounting for Income Taxes--Deferral of the Effective Date of FASB Statement No. 96
| FAS 101 | Regulated Enterprises--Accounting for the Discontinuation of Application of FASB Statement No. 71 |
| FAS 103 | Accounting for Income Taxes--Deferral of the Effective Date of FASB Statement No. 96 |
| FAS 105 | Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Concentrations of Credit Risk |
| FAS 106 | Employers' Accounting for Postretirement Benefits Other Than Pensions |
| FAS 107 | Disclosures about Fair Value of Financial Instruments |
| FAS 108 | Accounting for Income Taxes--Deferral of the Effective Date of FASB Statement No. 96 |
| FAS 109 | Accounting for Income Taxes |
| FAS 110 | Reporting by Defined Benefit Pension Plans of Investment Contracts |
| FAS 111 | Rescission of FASB Statement No. 32 and Technical Corrections |
| FAS 112 | Employers' Accounting for Postemployment Benefits |
| FAS 113 | Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts |
| FAS 114 | Accounting by Creditors for Impairment of a Loan |
| FAS 115 | Accounting for Certain Investments in Debt and Equity Securities |
| FAS 116 | Accounting for Contributions Received and Contributions Made |
| FAS 117 | Financial Statements of Not-for-Profit Organizations |
| FAS 118 | Accounting by Creditors for Impairment of a Loan--Income Recognition and Disclosures |
| FAS 119 | Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments |
| FAS 120 | Accounting and Reporting by Mutual Life Insurance Enterprises and by Insurance Enterprises for Certain Long-Duration Participating Contracts |
| FAS 121 | Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of |
| FAS 122 | Mortgage Servicing Rights |
| FAS 123 | Accounting for Stock-Based Compensation |
| FAS 124 | Accounting for Certain Investments Held by Not-for-Profit Organizations |
| FAS 125 | Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities |
| FAS 126 | Exemption from Certain Required Disclosures about Financial Instruments for Certain Nonpublic Entities |
| FAS 127 | Deferral of the Effective Date of Certain Provisions of FASB Statement No. 125 |
| FAS 128 | Earnings per Share |
| FAS 129 | Disclosure of Information about Capital Structure |
| FAS 130 | Reporting Comprehensive Income |
| FAS 131 | Disclosures about Segments of an Enterprise and Related Information |
Employers’ Disclosures about Pensions and Other Postretirement Benefits
Accounting for Derivative Instruments and Hedging Activities
Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise
Recession of FASB Statement No. 75 and Technical Corrections
Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others
Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133 (an amendment of FASB Statement No. 133)
Accounting for Certain Derivative Instruments and Certain Hedging Activities (an amendment of FASB Statement No. 133)
Recession of FASB Statement No. 53 and amendments to FASB Statements No. 63, 89, and 121
Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (a replacement of FASB Statement 125)

Presentation of Financial Statements
Inventories
Cash Flow Statements
Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies
Events After the Balance Sheet Date
Construction Contracts
Income Taxes
Segment Reporting
Information Reflecting the Effects of Changing Prices
Property, Plant and Equipment
Leases
Revenues
Employee Benefits
Accounting for Government Grants and Disclosure of Government Assistance
The Effects of Changes in Foreign Exchange Rates
Business Combinations
Borrowing Costs
Related Party Disclosures
Accounting and Reporting by Retirement Benefit Plans
Consolidated Financial Statements
Investments in Associates
Financial Reporting in Hyperinflationary Economies
IAS 30: Disclosures in the Financial Statements of Banks and Similar Financial Institutions
IAS 31: Financial Reporting of Interests in Joint Ventures
IAS 32: Financial Instruments: Disclosure and Presentation
IAS 33: Earnings Per Share
IAS 34: Interim Financial Reporting
IAS 35: Discontinuing Operations
IAS 36: Impairment of Assets
IAS 37: Provisions, Contingent Liabilities and Contingent Assets
IAS 38: Intangible Assets
IAS 39: Financial Instruments: Recognition and Measurement
IAS 40: Investment Property
IAS 41: Agriculture

For detailed explanations you can visit:
www.fasb.org
www.iasc.org.uk