

Mind the GAAP – Understanding GAAP Alternatives | Video Transcript

Chad Martin & Travis Knight

Chad Martin: Hello. Thank you for joining us today as we talk about US generally accepted accounting principles. Today we're going to talk about those principles and some alternatives to that. Joining me is Travis and he's going to kick us off by talking about US GAAP.

Travis Knight: Thank you Chad. So US GAAP, United States generally accepted accounting principles, has often been the gold standard of reporting frameworks. It's required by public companies and has commonly been used by a lot of privately held companies as well. More recently there's been some additional pronouncements put forth by the Financial Accounting Standards Board, such as revenue recognition and the new lease accounting standard, both of which have required a lot of work for companies to comply with.

You may still need to be complying with US GAAP according to your board of directors or your financial covenants, but there are some alternatives that we can discuss today that might still keep you in compliance but reduce the amount of work you have to put forward. Chad, can you tell us about one of those?

Chad Martin: Yes. So one of the more recent sets of accounting rules that has come out is IFRS, International Financial Reporting Standards. So this came out in 2003 as an alternative to US GAAP. It was initially meant to be a global set of accounting standards to be used in countries around the world. Several countries have adopted it, but 144 jurisdictions have adopted IFRS for both their listed companies and privately held companies to be used there.

IFRS does encompass a lot of changes in accounting rules similar to US GAAP. Likewise, it does have a revenue recognition standard and a lease accounting standard that almost mirror US GAAP. But that is an option particularly for listed companies in other countries to use.



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Another set of accounting rules that is even newer than that is IFRS for SMEs. The International Financial Reporting for Small and Medium Enterprises. In order to use this accounting standard, a company has to issue financial statements and they have to issue them to an outside user of some sort. Whether that be to funding agencies, a bank, a surety, anything like that, and must be privately held. So the listed companies cannot use IFRS for SMEs.

IFRS for SMEs is a pretty simplified set of accounting rules. From the time it was first issued in 2009, there was one update in 2015 and it has largely stayed the same since then. Just like IFRS, it is considered US GAAP. So if you're issuing financial statements in the US and your covenants, your requirements are to issue financials under US GAAP, both IFRS and IFRS for SMEs qualify as US GAAP for those purposes.

So with that, those cover our accounting standards that are considered GAAP in this country. There are some other sets of accounting rules. You may be familiar with a few of those, a cash basis or a tax basis. You might have seen those in the past, but Travis, tell us about another one.

Travis Knight:

So another one that is becoming more popular is the financial reporting framework for small and medium size entities, FRFSMEs for short. This one is good if you do not have a requirement to report under US GAAP. Whether your covenants don't require those type of financial statements or you don't have any bank debt and you're a privately held company, you can use this reporting framework.

This framework is sometimes referred to as Old GAAP, but it is not GAAP. So it will not keep you in compliance with those rules. But it is a very simple framework and it has only a few deviations from US GAAP. Other than the big ones, which is you do not have to comply with the lease accounting standard or the financial or the revenue recognition standard. So you may find that this is a good solution if you have very little reporting requirements and you do not have to remain compliant with the US GAAP standards.

Chad Martin:

All right. Thank you very much Travis and thank you for joining us today.