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GAAP vs. IFRS

*Principles Based vs. Rules Based*

1. A major difference between GAAP and IFRS is that GAAP is rule-based, whereas IFRS is principle-based.
2. Another difference between IFRS and GAAP is the methodology used to assess an accounting treatment. Under GAAP, the research is more focused on the literature whereas under IFRS, the review of the facts pattern is more thorough.
3. Consolidation — IFRS favors a [control](https://www.boundless.com/accounting/definition/control/) model whereas GAAP prefers a risks-and-rewards model. Some [entities](https://www.boundless.com/accounting/definition/entity/) consolidated in accordance with FIN 46(R) may have to be shown separately under IFRS.
4. Statement of [Income](https://www.boundless.com/accounting/definition/income/) — Under IFRS, [extraordinary](https://www.boundless.com/accounting/definition/extraordinary/) items are not segregated in the[income statement](https://www.boundless.com/accounting/definition/income-statement/). With GAAP, they are shown below the [net income](https://www.boundless.com/accounting/definition/net-income/).
5. [Inventory](https://www.boundless.com/accounting/definition/inventory/) — Under IFRS, [LIFO](https://www.boundless.com/accounting/definition/lifo/) cannot be used, but GAAP, companies have the choice between LIFO and [FIFO](https://www.boundless.com/accounting/definition/fifo/).
6. Earning-per-Share — Under IFRS, the earning-per-share calculation does not average the individual interim period calculations, whereas under GAAP the computation averages the individual interim period incremental shares.
7. [Development](https://www.boundless.com/accounting/definition/development/) costs — These costs can be [capitalized](https://www.boundless.com/accounting/definition/capitalized/) under IFRS if certain criteria are met, while it is considered as "expenses" under U.S. GAAP.

Convergence

The convergence of accounting standards refers to the goal of establishing a single set of accounting standards that will be used internationally, and in particular the effort to reduce the differences between the US Generally Accepted Accounting Principles (US GAAP), and the International Financial Reporting Standards (IFRS). Convergence in some form has been taking place for several decades, and efforts today include projects that aim to reduce the differences between accounting standards.

The goal of and various proposed steps to achieve convergence of accounting standards has been criticized by various individuals and organizations. For example, in 2006 senior partners at PricewaterhouseCoopers (PwC) called for convergence to be "shelved indefinitely" in a draft paper, calling for the IASB to focus instead on improving its own set of standards.

Convergence is also taking place in other countries, with "all major economies" planning to either adopt the IFRS or converge towards it, "in the near future. " For example, Canada required all listed entities to use the IFRS from January 1, 2012, and Japan permitted the use of IFRS for certain multinational companies from 2010, and is expected to make a decision on mandatory adoption in "around 2012. "