

# Governance

by Sophia



## WHAT'S COVERED

This tutorial will cover governing principles in accounting, as well as the range of governing bodies involved in regulating accounting practices.

Our discussion breaks down as follows:

## 1. Governing Principles

Let's begin by discussing governing principles in accounting, specifically GAAP and IFRS, exploring what they are and the differences between them.

	Generally Accepted Accounting Principles (GAAP)	International Financial Reporting Standards (IFRS)
Who it applies to	Represents the accounting standards for U.S. companies. Publicly traded U.S. companies are required to use U.S. GAAP; many privately held companies, although not required to use it, still do.	Represents the accounting standards for all international companies. This means that if you are doing business in any countries outside of the U.S., you would use IFRS.
Objectives	Help financial statements achieve three things: * <i>Relevance</i> . Is the information relevant to the message we are trying to send through our financial statements? * <i>Reliability</i> . Can we rely on the information? * <i>Comparability</i> . Can we compare the financial statements of two different entities?	Standardize the accounting procedures across all nations.

Now, the U.S. has tried to get somewhat involved, although, as mentioned, U.S. GAAP exists in the United States and all publicly traded U.S. companies must use it. However, any non-publicly traded companies--meaning non-SEC registrants--can use *either* U.S. GAAP or IFRS for non-U.S. SEC registrants.

---

## 2. Governing Bodies

Next, we will discuss some of the governing bodies that play a role in this principle setting process. There are quite a few, and they help to create and modify accounting principles, provide guidance, and even enforce rules and regulations. The first group to cover includes the AICPA, the GASB, and the FASB:

American Institute of Certified Public Accountants (AICPA)	Governmental Accounting Standards Board (GASB)	Financial Accounting Standards Board (FASB)
Established in 1887	Established in 1984	Established in 1973
It is the main professional association for CPAs and develops additional guides that assist them when they are implementing U.S. GAAP.	This board is in place to develop standards of financial reporting for state as well as local governments.	Likely the most important governing body in this group. They have a critical role relating in developing U.S. GAAP. The FASB develops new standards and controls the implementation of previous standards, as well as new standards that are coming out.

### 3. Federal Agencies

There are also several federal agencies that are involved in the principle setting process.

Securities and Exchange Commission (SEC)	Government Accountability Office (GAO)	Internal Revenue Service (IRS)
		
Established in 1934	Established in 1921	Established in 1862
Rule enforcer: develop rules and enforce securities law.	Government watchdog: work for Congress and play a very important role in investigating program spending related to the use of public funds.	Tax Man: deal with collecting taxes and enforcing the IRS code.



#### SUMMARY

Today we learned about the **governing principles** in accounting. The first, U.S. GAAP, is used by U.S. companies and helps to create three things: relevance, reliability, and comparability. GAAP is used by US companies. The second, IFRS, is used by non-U.S. companies.

We also learned about the **governing bodies** involved in regulating accounting practices. The FASB,

or Financial Accounting Standards Board, develops and controls U.S. GAAP--a very important role. So definitions, we had these six groups. The AICPA, or American Institute of Certified Public Accountants, is the professional association for CPAs. The GASB, or Governmental Accounting Standards Board, develops standards for government.

Lastly, we learned about the **federal agencies** involved in this process. The SEC, or Securities and Exchange Commission, develops rules and enforces securities law. The GAO, or Government Accountability Office, investigates the use of public funds. The IRS, or Internal Revenue Service, collects taxes and enforces internal revenue code.

Source: Adapted from Sophia instructor Evan McLaughlin.



## ATTRIBUTIONS

- [Securities and Exchange Commission](#) | Author: Wikipedia | License: Public Domain
- [Government Accountability Office](#) | Author: Wikipedia | License: Public Domain
- [Internal Revenue Service](#) | Author: Wikipedia | License: Public Domain