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A Study on the Impact of Differences Between US and UK Accounting Standards on Multinational Corporations' Financial Reporting: The Case of Alibaba

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Abstract. This paper explores the divergent financial reporting standards between the U.S. and the International Financial Reporting Standards (IFRS) framework, focusing on how these discrepancies impact the preparation and adjustment of financial statements. To address this research gap, it employs a case study of the Alibaba Group, a corporation listed on both the Hong Kong stock exchange and New York stock exchanges. This study finds that while global accounting practices trend toward standardization, measurement differences between U.S. Generally Accepted Accounting Principles (GAAP) and IFRS continue to exert substantial influence on financial reporting outcomes. Alibaba exemplifies this phenomenon: the firm is required to prepare two distinct sets of financial statements to comply with the transactional and regulatory demands of its dual listings. In addressing this issue, Alibaba has adopted a targeted reconciliation policy, which clearly delineates the reconciliation information between standards in its reports, thereby ensuring transparency and facilitating the identification of discrepancies and non-compliance. The findings offer practical implications for multinational corporations, underscoring the necessity and complexity of harmonizing international accounting standards.

Keywords: Generally Accepted Accounting Principles, International Financial Reporting Standards, Accounting Standards Differences, Financial Reporting, Alibaba

1. Introduction

In economic globalization, numerous large enterprises maintain listings across multiple jurisdictions, as exemplified by Alibaba. Such cross-listing inevitably exposes firms to different financial reporting regimes, most notably the contrast between U.S. Generally Accepted Accounting Principles (U.S. GAAP), a rules-based system overseen by the Financial Accounting Standards Board (FASB), and U.S. International Financial Reporting Standards (IFRS), a principles-based framework issued by the International Accounting Standards Board (IASB). Despite long-standing international efforts to promote convergence, substantial historical and practical differences persist between the two systems, shaping both the orientation of financial reporting and the specific accounting treatments applied across markets [1].

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To the best of current academic knowledge, no existing research has explored the underlying transmission mechanisms of these financial reporting differences among multinational companies and their corporate response behaviour. This paper conducts an in-depth case analysis of Alibaba Group, a multinational company listed in both Hong Kong and New York, and therefore required to prepare financial reports in accordance with HK IFRS and US GAAP. By examining how U.S.-IFRS accounting divergences manifest in Alibaba's disclosures, this research provides empirical insights into the practical implications of dual-standard reporting. The study adopts a qualitative case study approach supported by a systematic review of Alibaba's annual reports, interim reports, and accounting policy disclosure. Comparative analysis of adjustments between the two reporting systems reveals concrete differences in recognition, measurement, and presentation.

This study has two broad implications. First, investors and regulators can utilize the empirical case to analyze the investment risks of multinational corporations by interpreting specific translations in financial statements. Second, it presents strategic guidance for other multinationals to streamline cross-market disclosures while addressing accounting standards differences. The paper further incorporates retrospective predictions in a pragmatic sense, alongside prospective deviations in global accounting standards.

2. Core differences between British and American accounting standards

2.1. Fundamental concepts and characteristics

GAAP encompass accounting standards designed to standardize the recording and analysis of financial information. These standards are widely recognized as mandatory for financial statement preparation by U.S.-listed entities. In contrast, the IFRS represent standards issued by the International Accounting Standards Board (IASB). The principles that are to be followed when reporting financial information are described in this paper. A fundamental distinction between GAAP and IFRS lies in their respective approaches to accounting. GAAP standards are more rule-based, while IFRS is principle-based. This phenomenon can be observed in their fundamental characteristics. IFRS principles are of fundamental importance to the conduct of financial reporting. For U.S. GAAP, historical cost measurement and consistent application are prioritized, supported by detailed operational guidelines that limit flexibility in accounting treatments. For IFRS, broad overarching principles are central—these standards emphasize capturing the economic substance of transactions over their legal form, aiming to present a realistic view of an entity's financial position.

In terms of fundamental characteristics, GAAP standards emphasize the importance of historical cost measurement and the prudence principle, requiring conservative estimates for asset and liability valuation. In contrast, IFRS prioritizes fair value measurement. This approach enhances the relevance and transparency of financial reporting, as it more accurately reflects the current market value of an entity's assets and liabilities.

2.2. Development and institutional context

The differences in U.K. and U.S. accounting standards are also shaped by their institutional and historical frameworks in which their standard-setting systems have evolved. In the U.S., the FASB governs standard-setting to enhance the transparency and reliability of information, protect investors, and regulate financial reporting through standardization. It also facilitates international communication to reduce cross-border financial information discrepancies and safeguard the smooth operation of capital markets. In contrast, the U.K.'s accounting standards, overseen by the Financial

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Reporting Council (FRC) and its subsidiary Accounting Standards Board (ASB), exhibit a stronger principle-based orientation, emphasizing flexibility and the substance-over-form principle.

The establishment of U.S. GAAP follows a rigorous due process. It begins with issue identification and project initiation, followed by in-depth research and analysis. The final stage involves public consultation, which may include the issuance of discussion papers, solicitation of feedback, and the conduct of consultations. Upon completion of this comprehensive process, the final standard is issued by the U.S. FASB. The organization engages in regular dialogue with business and investors through the Financial Accounting Standards Advisory Council, ensuring the standards align with practical demands for high quality. The U.K. FRC, on the other hand, gives more weight to harmonization with EU accounting directives and convergence with IFRS, using a comparatively centralized and efficient development process [2].

2.3. System-level and technical differences

U.S. GAAP and the U.K.'s IFRS-aligned framework exhibit distinct structural and foundational contrasts. U.S. GAAP represents a strict standard system, built upon the Financial Accounting Concepts Framework and enforced by the Code of Accounting Standards. Its rule-based nature results in detailed guidance, ensuring consistency but increasing complexity. The U.K. IFRS framework, in contrast, centers on principle-based standard under the Companies Act, emphasizing fairness, transparency, and international applicability.

Specifically, U.S. GAAP and IFRS are most prominent in asset impairment, valuation of inventories, and costs for R&D. Whilst U.S. GAAP prohibits the recognition of impairment loss reversals, while IFRS permits reversals in specific circumstances. As for inventory valuation, U.S. GAAP allows the use of last-in,first-out (LIFO) method, but IFRS bans this principle and only accepts FIFO and weighted average [3]. Variations in accounting for research and development costs also exist: U.S. GAAP generally expenses most of the R&D, while international standards allow capitalization of certain development expenditures.

2.4. Differences between British and American standards in specific fields

2.4.1. Financial instruments

Primary discrepancies between the U.K. and U.S. accounting principles lie in the categorization and assessment of financial products, revelation prerequisites, and reporting implementation of financial instruments. One of the most considerable differences in the accounting for financial instruments under U.S. GAAP and IFRS is the arrangement. For example, financial assets under U.S. GAAP standards can be split into three classes as follows: financial assets measured at amortized cost, financial assets measured at fair value through profit or loss,and financial assets measured at fair value through other comprehensive income. The primary classification of financial assets is based on the entity's business model for managing such assets and the contractual cash flow characteristics of those assets. The IFRS standards categorize financial tools into three categories: financial assets measured at amortized cost, financial assets measured at fair value through profit or loss and financial assets measured at fair value through other comprehensive income.

The primary differences between IFRS and U.S. GAAP regarding financial instrument standards can be determined in four directions. First, IFRS 9 adopts principle-based (classification is based on 'business model + contractual cash flow characteristics') versus US GAAP with certain rule-based judgement requirement. Second, in terms of FVOCI treatment, IFRS permits the reclassification of

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debt instruments from Other Comprehensive Income (OCI) to profit or loss, but the U.S. GAAP prohibit such reclassification and has effectively removed the FVOCI category for equity instruments. Third, IFRS allows non-trading equity instruments to be designated irrevocably at FVOCI, in contrast to U.S. GAAP, which only permits alternative measurement for a specific class of equity instruments. Fourth, regarding impairment, IFRS applies the ECL model, while U.S. GAAP utilizes the CECL model, with distinct differences in recognition timing and measurement.

2.4.2. Financial statements

Differences also exist in the preparation, format, and disclosure requirements of financial statements. The U.S. GAAP emphasizes full disclosure, mandating enterprises to provide highly detailed information. For example, it requires explicit disclosure of the calculation process for asset impairment provisions and detailed breakdowns of deferred tax liabilities. The U.K. FRS prioritize conciseness, emphasizing statement readability and practicality. They reduce disclosure of redundant information compared to U.S. GAAP.

Certain methods, such as LIFO, are allowed under U.S. GAAP (though not for foreign subsidiaries) but are prohibited under IFRS/FRS 102, which permits only FIFO or weighted average. U.S. GAAP is generally adopts a more conservative approach to asset impairment and R&D expenditure treatment than the U.K.'s IFRS-aligned standards.

2.4.3. Revenue recognition

Revenue recognition has seen convergence between U.S. GAAP and IFRS.This basic difference often led to different accounting treatments for transactions with identical economic substance under the two standards. A significant milestone emerged in 2014, as the two standard-setting bodies issued converged revenue recognition standards (IFRS 15 and ASC 606). These standards introduced a unified five-step model based on the transfer of control [4]. This convergence has aligned the key concepts and models for revenue recognition. However, subtle differences persist in disclosure requirements and practical application.

In the United States, the General Accounting Standards (GAAP) provisions are particularly stringent, mandating the adherence to specific temporal criteria for revenue recognition. These criteria encompass the existence of a contract with commercial substance, delivery of goods, a fixed or determinable transaction price, and reasonable assurance of collectibility. In contrast, IFRS emphasized the substance of the agreement, stipulating that a sale can occur when risks and rewards have been transferred, provided that the seller does not retain all the risks. This discrepancy can result in different revenue recognition timelines for identical transactions under the two standards

3. Alibaba's practices and impact in harmonizing Anglo-American accounting standards

Alibaba has adopted a pragmatic and adaptable approach to reporting in the reconciliation of accounting practices. As a dual-listed company, the firm is obligated to produce reports that comply with both U.S. GAAP and IFRS, thereby adhering to two significantly divergent sets of regulations and investor requirements.

Alibaba must make meticulous adjustments to its accounts to address technical discrepancies, including those related to revenue recognition and asset impairment testing. It is also mandated to provide detailed explanatory notes in its reports. To manage such complexity optimally, the company has established an Accounting Standards Team. Supported by a robust financial

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information system, this team enhances data processing quality in a multi-standard environment. Such an approach ensures the obedient disclosure of financial information and cross-market comparability while also depicting the strategic intelligence with which multinational enterprises navigate a world where global accounting standards have not undergone full convergence.

3.1. Alibaba group's listing structure and choice of financial reporting standards

This paper sets out to explore the structural effects that arise from the discrepancies between U.K. and U.S. accounting standards on the financial reporting of multinational companies. In the context of global accounting practices, Alibaba's listing structure and accounting standard choice are identified as the two control variables [5]. The following essay will explore the concept of an "offshore incorporation, onshore operation" structure. Alibaba is incorporated in the Cayman Islands and governed by the Cayman Islands Overseas Companies Act, as a publicly listed company on the New York Stock Exchange (NYSE). Thus, publicly traded companies are obligated to comply with the regulations promulgated by the U.S. Securities and Exchange Commission (SEC), which stipulate the preparation of primary financial statements in accordance with U.S. GAAP.

From a strategic perspective, Alibaba incorporates an element of the IFRS in its financial presentations with a view to enhancing the comprehensibility and reliability of the information for investors abroad. This paper aims to address the potential absence of information from the divergent standards, with a specific focus on revenue recognition and asset development. However, the necessity to streamline both of the aforementioned standards serves only to compound the complexity of reporting. To illustrate, divergent treatment under GAAP and IFRS with regard to particular matters, including the timing of revenue recognition and the allocation of contractual liability, may result in subtle discrepancies in the financial information presented. This can impede the consistent interpretation of financial information by cross-border investors.

3.2. Manifestations of Anglo-American accounting differences in Alibaba's financial reporting

3.2.1. Profit and revenue differences

Differences between U.S. GAAP and U.K. standards of accounting resulted in varied profit recognition and measurement in Alibaba's cross-border financial reporting. Historically, U.S. GAAP was more oriented to historical costs and realized gains, whereas IFRS emphasizes fair value and the recognition of expected economic benefits. This is most striking in the measurement of financial assets. For equity investments, the IFRS generally requires measurement at fair value in cases even when no active market price exists, while historical U.S. GAAP permitted cost method accounting. Therefore, unlisted investments valued by Alibaba under IFRS at fair value could lead to a profit impact on the current period, while U.S. GAAP might have carried them only at cost, contributing to profit differences between the two financial statements. Despite the post-2018 convergence toward the transfer of control model, U.S. GAAP maintains more detailed application guidance and stricter disclosure requirements.

Alibaba applies U.S. GAAP for its NYSE listing and IFRS for its Hong Kong Stock Exchange (HKSE) listing. Variations between these two standards are directly reflected in the profit figures. For instance, in a specific fiscal year, Alibaba's net income under U.S. GAAP was USD 10 billion, compared to USD 9.5 billion under IFRS, as a result of different fair value measurement treatments of financial assets [6]. The gap not only affects the reported earnings but also influences investors'

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judgments. Discounting the norms, one cannot compare profit figures directly, and such ignorance can possibly bias these ratings towards a company's sustainable profit deficiencies.

3.2.2. Differences in assets and liabilities

U.S. GAAP and the U.K.'s Financial Reporting Standards (FRS) also exhibit significant divergences in asset and liability measurement. U.S. GAAP applies a historical cost principle more rigidly, requiring assets to be recorded at their original acquisition or construction cost. These assets are then systematically depreciate or amortize the amount to carrying value. The FRS, on the other hand, is more flexible, for although they do not require companies to revalue property again regularly, companies can and frequently do revalue in the accounts assets such as plant or land. This is indicative of different principles between the two frameworks, with U.S. GAAP tending towards reliability and verifiability, while FRS also maintains information reliability but prioritizes wider financial reporting impacts on reflecting the prevailing market state.

This discrepancy is particularly evident in Alibaba's financial reports on intangible assets and long-term investment-grade reporting [7]. Under U.S. GAAP, Alibaba recognizes intangible assets—such as brand rights and patents—at historical cost. These costs are then amortized or tested for impairment. Under FRS, fair value measurement is permitted in specific circumstances, resulting in the carrying values of certain assets exceeding the amounts reported under U.S. GAAP. In terms of the recognition of liability, the United States adopts a more conservative principles (U.S. GAAP). It typically does not recognize contingent liabilities unless it is both probable that the loss will occur and the amount can be reliably estimated. FRS requirements are less stringent and might stimulate earlier or even wider recognition of contingent liabilities. Therefore, Alibaba's liabilities may appear higher when measured against UK accounting standards.

These disparities affect not only the presentation of financial data but also the risk assessments and valuation of the company by investors.

3.2.3. Differences in disclosure requirements

Alibaba's financial reporting provides a clear illustration of these disclosure discrepancies. Reports prepared in accordance with U.S. GAAP (Generally Accepted Accounting Principles) frequently necessitate the inclusion of further business-specific information, including divisional revenue and cost breakdowns, details of asset impairment, and extensive details surrounding related-party transactions [8]. For instance, the 2019 Alibaba Annual Report discloses revenue and expenditure for its cloud computing business separately. This principle is also mentioned in the U.S. GAAP [9]. Conversely, disclosures of that nature in IFRS financial statements are more general in nature, with a focus on demonstrating the company's profitability and its financial state from a broader perspective.

3.3. Impact of English accounting standard differences on Alibaba's financial information

Divergent methodologies for recording asset impairment under U.K. and U.S. accounting standards had a significant impact on Alibaba's financial figures [10]. U.S. GAAP employs a two-step process, with impairment being recognized only when the asset's carrying amount is deemed unrecoverable. Conversely, the IFRS employs a one-step impairment test, which involves comparing the carrying amount with the recoverable amount (the greater of value in use and fair value less costs to sell). This methodological discrepancy frequently results in divergent impairment recognition for Alibaba

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across the two frameworks. It directly affects both the asset carrying values reported on the balance sheet and the net profit figures on the income statement

Disparities in revenue recognition standards also have also significantly influenced Alibaba's financial reporting [4]. With regard to the most critical differences in revenue recognition, U.S. GAAP and IFRS are conceptually polarized in terms of judgment. In accordance with U.S. GAAP, the principle of transfer of risks and rewards is adopted as a key threshold for revenue recognition. This means that revenue is recognized only if substantive risks and rewards related to goods or services have been transferred to the customer. This conservative position may delay revenue recognition for complex transactions, including multi-period software services. The transfer of control model as outlined by the IFRS is characterized by its adaptability and reliance on the specifics of each individual case. Alibaba's cross-border e-commerce operations exemplify this difference.. According to the standards set forth by the IFRS, Alibaba recognizes revenue earlier—even before goods are handed over to logistics providers, due to the partial transfer of control. At this stage, Alibaba has not yet assumed the risk of loss during transportation. These differences can result in a disparity of up to two or three financial quarters of the revenue recognition cycle for similar transactions under both standards, with implications for how efficiently that company is deemed by the market to be moving across its growth trajectory.

4. Conclusion

The study explores the divergences between U.S. GAAP and the U.K. IFRS and their impact on the financial reporting of a substantial corporation such as Alibaba. It conducts a detailed analysis of key areas, including inventory valuation, investment measurement, and asset and liability recognition, to determine how these standard differences shape reported financial outcomes. It has been determined that even when companies such as Alibaba invest significant resources in enhancing the clarity of their reports, including the addition of supplementary tables and the provision of further explanations, this does not address the fundamental challenge of facilitating the comparison of financial statements from disparate accounting systems. The root cause lies in the fundamental differences between U.S. GAAP and IFRS: they are built on distinct principles, employ divergent measurement methodologies, adopt different timing for recognizing economic events, and require varying disclosure scopes. Supplementary explanations cannot eliminate these inherent disparities. This issue prompts a more significant observation: the harmonization of accounting standards on a global scale necessitates more extensive modifications than a simple adjustment to existing regulations. The process is protracted and arduous as it involves not only accounting itself but also diverse legal systems, distinct business cultures, and differing perceptions of financial reporting objectives. Advancing this harmonization will require the collective efforts of numerous individuals, including, but not limited to, accountants responsible for establishing financial regulations, regulatory authorities, corporate entities, and those who utilize financial statements in the process of making decisions.

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