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GAAP

Codification Enhanced

- Contains instructions for how to access and use FASB's new GAAP Codification Web site
- Cross-references previous GAAP references against the new Accounting Standards Codification (ASC)
- Notes relevant ASC at the beginning of each chapter

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Table of Contents

[Title Page](#)

[Copyright Page](#)

[PREFACE](#)

[ABOUT THE AUTHORS](#)

[Chapter 1 - RESEARCHING GAAP MATTERS](#)

[DEVELOPMENT OF GAAP](#)

[RESEARCHING GAAP PROBLEMS](#)

[Chapter 2 - BALANCE SHEET](#)

[PERSPECTIVE AND ISSUES](#)

[DEFINITIONS OF TERMS](#)

[CONCEPTS, RULES, AND EXAMPLES](#)

[Chapter 3 - STATEMENTS OF INCOME AND COMPREHENSIVE INCOME](#)

[PERSPECTIVE AND ISSUES](#)

[DEFINITIONS OF TERMS](#)

[CONCEPTS, RULES, AND EXAMPLES](#)

[Chapter 4 - STATEMENT OF CASH FLOWS](#)

[PERSPECTIVE AND ISSUES](#)

[DEFINITIONS OF TERMS](#)

[CONCEPTS, RULES, AND EXAMPLES](#)

Chapter 5 - ACCOUNTING POLICIES, CHANGES, AND RESTATEMENTS

PERSPECTIVE AND ISSUES
DEFINITIONS OF TERMS
CONCEPTS, RULES, AND EXAMPLES

Chapter 6 - FAIR VALUE

PERSPECTIVE AND ISSUES
DEFINITIONS OF TERMS
CONCEPTS, RULES, AND EXAMPLES

Chapter 7 - CASH, RECEIVABLES, AND PREPAID EXPENSES

PERSPECTIVE AND ISSUES
DEFINITIONS OF TERMS
CONCEPTS, RULES, AND EXAMPLES

Chapter 8 - SHORT-TERM INVESTMENTS AND FINANCIAL INSTRUMENTS

PERSPECTIVE AND ISSUES
DEFINITIONS OF TERMS
CONCEPTS, RULES, AND EXAMPLES

Chapter 9 - INVENTORY

PERSPECTIVE AND ISSUES
DEFINITIONS OF TERMS
CONCEPTS, RULES, AND EXAMPLES

Chapter 10 - REVENUE RECOGNITION—EVOLVING PRINCIPLES AND SPECIALIZED APPLICATIONS

REVENUE RECOGNITION—GENERAL PRINCIPLES
LONG-TERM CONSTRUCTION CONTRACTS
SERVICE REVENUES
SALES WHEN COLLECTION IS UNCERTAIN
REVENUE RECOGNITION WHEN RIGHT OF RETURN
EXISTS
PROFIT RECOGNITION ON REAL ESTATE SALES
REAL ESTATE OPERATIONS
FRANCHISING: ACCOUNTING BY FRANCHISORS
OTHER SPECIAL ACCOUNTING AND REPORTING ISSUES

Chapter 11 - LONG-LIVED ASSETS

PERSPECTIVE AND ISSUES
DEFINITIONS OF TERMS

Chapter 12 - LONG-TERM INVESTMENTS

PERSPECTIVE AND ISSUES
DEFINITIONS OF TERMS
CONCEPTS, RULES, AND EXAMPLES

Chapter 13 - BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS

PERSPECTIVE AND ISSUES
DEFINITIONS OF TERMS
CONCEPTS, RULES, AND EXAMPLES
APPENDIX STANDARDS APPLICABLE TO PRE-2009
BUSINESS COMBINATIONS
DEFINITIONS OF TERMS
CONCEPTS, RULES, AND EXAMPLES
INTERPRETIVE GUIDANCE

Chapter 14 - CURRENT LIABILITIES AND CONTINGENCIES

PERSPECTIVE AND ISSUES

DEFINITIONS OF TERMS

CONCEPTS, RULES, AND EXAMPLES

Chapter 15 - LONG-TERM LIABILITIES

PERSPECTIVE AND ISSUES

DEFINITIONS OF TERMS

CONCEPTS, RULES, AND EXAMPLES

Chapter 16 - LEASES

PERSPECTIVE AND ISSUES

DEFINITIONS OF TERMS

CONCEPTS, RULES, AND EXAMPLES

Chapter 17 - INCOME TAXES

PERSPECTIVE AND ISSUES

DEFINITIONS OF TERMS

CONCEPTS, RULES, AND EXAMPLES

Chapter 18 - PENSIONS AND OTHER POSTRETIREMENT BENEFITS

PERSPECTIVE AND ISSUES

DEFINITIONS OF TERMS

CONCEPTS, RULES, AND EXAMPLES

Chapter 19 - STOCKHOLDERS' EQUITY

PERSPECTIVE AND ISSUES

DEFINITIONS OF TERMS
CONCEPTS, RULES, AND EXAMPLES
APPENDIX A - FINANCIAL STATEMENT PRESENTATION

Chapter 20 - EARNINGS PER SHARE

PERSPECTIVE AND ISSUES
DEFINITIONS OF TERMS
CONCEPTS, RULES, AND EXAMPLES
APPENDIX - COMPREHENSIVE EXAMPLE

Chapter 21 - INTERIM REPORTING

PERSPECTIVE AND ISSUES
DEFINITIONS OF TERMS
CONCEPTS, RULES, AND EXAMPLES

Chapter 22 - SEGMENT REPORTING

PERSPECTIVE AND ISSUES
DEFINITIONS OF TERMS
CONCEPTS, RULES, AND EXAMPLES

Chapter 23 - FOREIGN CURRENCY

PERSPECTIVE AND ISSUES
DEFINITIONS OF TERMS
CONCEPTS, RULES, AND EXAMPLES
APPENDIX - ACCOUNTS TO BE REMEASURED USING
HISTORICAL EXCHANGE RATES

Chapter 24 - PERSONAL FINANCIAL STATEMENTS

PERSPECTIVE AND ISSUES

DEFINITIONS OF TERMS
CONCEPTS, RULES, AND EXAMPLES
APPENDIX - HYPOTHETICAL SET OF PERSONAL
FINANCIAL STATEMENTS

Chapter 25 - SPECIALIZED INDUSTRY GAAP

BANKING AND THRIFT
BROADCASTING
CABLE TELEVISION
COMPUTER SOFTWARE DEVELOPERS
EMPLOYEE BENEFIT PLANS, INCLUDING PENSION FUNDS
FINANCE COMPANIES
GOVERNMENT CONTRACTORS
INSURANCE
INVESTMENT COMPANIES
MORTGAGE BANKING
MOTION PICTURES
NOT-FOR-PROFIT ORGANIZATIONS
OIL AND GAS PRODUCERS
RECORDING AND MUSIC PERSPECTIVE AND ISSUES
REGULATED OPERATIONS
TITLE PLANT
APPENDIX A - DISCLOSURE CHECKLIST FOR COMMERCIAL
BUSINESSES
APPENDIX B - INTERNATIONAL VS. US ACCOUNTING
STANDARDS
Index



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Fax: 416-236-4447

Email: canada@jwiley.com

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AUSTRALIA
Phone: 61-7-3859-9755
Fax: 61-7-3859-9715
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WILEY

GAAP

Codification

Enhanced


Barry J. Epstein
Ralph Nach
Steven M. Bragg



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PREFACE

GAAP 09: Codification Edition provides analytical explanations and copious illustrations of all current generally accepted accounting principles. The book integrates principles promulgated by all the relevant standard-setting bodies—the FASB, including its Emerging Issues Task Force’s consensus summaries and discussion issues and staff positions, and the AICPA’s Accounting Standards Executive Committee (AcSEC),

With the completion and public release of the FASB’s codification project, virtually all extant U.S. GAAP has been superseded by a unified, codified set of standards. All such guidance is now presented in a single, integrated set of materials, and former individual standards, interpretations, and other requirements are to be withdrawn. This book represents a complete integration of the new Accounting Standards Codification (ASC) references into the Wiley GAAP reference work that is now in its 25th annual edition.

The principal intended audience for the book is the practitioner, with the primary objective being to assist in resolving the myriad practical problems faced in applying GAAP. Accordingly, meaningful, realistic examples abound, guiding users in the application of GAAP to complex fact situations that must be dealt with in the real world practice of accounting. In addition to this emphasis, a major strength of the book is that it does explain the theory of GAAP in sufficient detail to serve as a valuable adjunct to accounting textbooks. Much more than merely a reiteration of currently promulgated GAAP, it provides the user with the underlying conceptual bases for the rules, in order to facilitate the process of reasoning by analogy that is so necessary in

dealing with the complicated, fast-changing world of commercial arrangements and transaction structures. It is based on the authors' belief that proper application of GAAP demands an understanding of the logical underpinnings of all its technical requirements.

Each chapter of this book, or major section thereof, provides an overview discussion of the perspective and key issues associated with the topics covered; a listing of the professional pronouncements which guide practice; and a detailed discussion of the concepts and the accompanying examples. A comprehensive disclosure checklist, following the main text, offers practical guidance to preparing financial statements in accordance with GAAP, with supplemental insights into SEC-mandated disclosures as needed. Also included is a comprehensive comparison of GAAP to International (IFRS) standards, increasingly the norm for entities reporting outside the US, and soon, for U.S.-based entities as well.

The authors' wish is that this book will serve preparers, practitioners, faculty, and students, as a reliable reference tool to facilitate their understanding of, and ability to apply, the complexities of the authoritative literature. Comments from readers, both as to errors and omissions and as to proposed improvements for future editions, should be addressed to Barry J. Epstein, c/o John Wiley & Sons, Inc., 155 N. 3rd Street, Suite 502, DeKalb, Illinois 60115.

Barry J. Epstein
Ralph Nach
Steven M. Bragg
March 1, 2009

ABOUT THE AUTHORS

Barry J. Epstein, PhD, CPA, is a partner with Chicago-based Russell Novak & Company, LLP, where he specializes in technical consultation on accounting and auditing matters and corporate governance, and maintains a national practice as a consulting and testifying expert for commercial and other litigation matters, including accountants' malpractice, contractual dispute resolution, damages modeling, and white-collar criminal defense. He has previously served in senior technical and litigation consulting positions with several regional and national CPA firms, and as a corporate finance executive and college professor. Dr. Epstein has authored or coauthored six books (including *Wiley IFRS Interpretation and Application*), hundreds of professional education courses, several articles in business or professional journals, and a weekly business column for an international newspaper. He has served on several state and national technical committees, including the AICPA's Board of Examiners, served as chair of the Illinois CPA Society's senior accounting technical committee, and held teaching positions at several universities. Dr. Epstein received his doctorate from the University of Pittsburgh, and also holds degrees from DePaul University and the University of Chicago. He is a member of the Illinois CPA Society, the AICPA, and the American Accounting Association.

Ralph Nach, CPA, is a Senior Consultant with AuditWatch, part of Thompson Reuters, for which he writes, teaches, and consults on a wide range of accounting, auditing, and financial reporting matters. He has been a practitioner for

over thirty years, during which he has served in capacities including accountant, auditor, quality control director, peer reviewer, educator, chief learning officer, and consultant for several public accounting firms, including Arthur Anderson LLP. Most recently Mr. Nach served as a partner in the National Office of Audit and Accounting of McGladrey & Pullen, LLP. He is a former adjunct lecture in graduate accounting and finance at Northwestern University in Evanston, Illinois. Mr. Nach holds a BSBA with honors from the Walter E. Heller School of Business Administration of Roosevelt University in Chicago, and is a licensed CPA in Illinois. Mr. Nach has coauthored several other books and speaks nationally on accounting, auditing, and financial reporting topics. He is a member of the American Institute of Certified Public Accountants, the Information Systems Audit and Control Association (ISACA), the Illinois CPA Society, where he has served as a chairman and/or member of numerous committees, and an associate member of the Association of Certified Fraud Examiners.

Steven Bragg, CPA, CMA, CIA, CPIM, has been the chief financial officer or controller of four companies, as well as a consulting manager at Ernst & Young and auditor at Deloitte & Touche. He received a master's degree in finance from Bentley College, an MBA from Babson College, and a Bachelor's degree in Economics from the University of Maine. He is the author of 28 books, including *Accounting Best Practices*, *The Ultimate Accountants' Reference*, and *Controllership*. He has been the two-time president of the Colorado Mountain Club. He resides with his wife and two daughters in Centennial, Colorado. Sign up for his free accounting best practices newsletter at www.stevebragg.com.

CODIFICATION TAXONOMY

<i>Topic # and title</i>	<i>Subtopic # and title</i>
I. General Principles and Objectives	
105 Generally Accepted Accounting Principles	
110 Conceptual Framework	
II. Overall Financial Reporting, Presentation, and Display Matters	
A. Overall Presentation of Financial Statements	
205 Presentation of Financial Statements	205-20 Discontinued Operations
210 Balance Sheet	210-20 Offsetting
215 Statement of Shareholders' Equity	
220 Comprehensive Income	
225 Income Statement	225-20 Extraordinary and Unusual Items
	225-30 Business Interruption Insurance (EITF 01-13)
230 Statement of Cash Flows	
235 Notes to Financial Statements	
B. Various Financial Reporting, Presentation, and Display Matters	
250 Accounting Changes and Error Corrections	
255 Changing Prices	
260 Earnings Per Share	
270 Interim Reporting	
275 Risks and Uncertainties	
280 Segment Reporting	
III. Transaction-Related Topics	
A. Financial Statement Accounts	
305 Cash and Cash Equivalents	
310 Receivables	310-20 Nonrefundable Fees and Other Costs
	310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality
	310-40 Troubled Debt Restructurings by Creditors
320 Investments—Debt and Equity Securities	
323 Investments—Equity Method and Joint Ventures	323-30 Partnerships and Unincorporated Joint Ventures
325 Investments—Other	325-20 Cost Method Investments
	325-30 Investments in Insurance Contracts

<i><u>Topic # and title</u></i>	<i><u>Subtopic # and title</u></i>
330 Inventory	325-40 Beneficial Interests in Securitized Financial Assets
340 Deferred Costs and Other Assets	340-20 Capitalized Advertising Costs
	340-30 Insurance Contracts That Do Not Transfer Insurance Risk
350 Intangibles—Goodwill and Other	350-20 Goodwill
	350-30 General Intangibles other than Goodwill
	350-40 Internal-Use Software
	350-50 Web Site Development Costs
360 Property, Plant, and Equipment	360-20 Real Estate Sales
405 Liabilities	405-20 Extinguishment of Liabilities
	405-30 Insurance-Related Assessments
410 Asset Retirement and Environmental Obligations	410-20 Asset Retirement Obligations
	410-30 Environmental Obligations
420 Exit or Disposal Cost Obligations	
430 Deferred Revenue	
440 Commitments	
450 Contingencies	450-20 Loss Contingencies
	450-30 Gain Contingencies
460 Guarantees	
470 Debt	
480 Distinguishing Liabilities from Equity	
505 Equity	505-20 Stock Dividends and Stock Splits
	505-30 Treasury Stock
	505-40 Quasi Reorganizations
	505-50 Equity-Based Payments to Nonemployees
	505-60 Spin-offs and Reverse Spin-offs
605 Revenue Recognition	605-15 Products
	605-20 Services
	605-25 Multiple-Element Arrangements
	605-30 Rights to Use
	605-35 Construction-Type and Production-Type Contracts
	605-40 Gains and Losses
	605-45 Principal-Agent Considerations
	605-50 Customer Payments and Incentives
705 Cost of Sales and Services	

<i>Topic # and title</i>	<i>Subtopic # and title</i>
710 Compensation—General	
712 Compensation—Nonretirement Postemployment Benefits	
715 Compensation—Retirement Benefits	715-20 Defined Benefit Plans-General
	715-30 Defined Benefit Plans-Pensions
	715-40 Defined Contribution Plans
	715-50 Multiemployer Plans
	715-60 Other Postretirement Benefit Plans
718 Compensation—Stock Compensation	718-20 Awards Classified as Equity
	718-30 Awards Classified as Liabilities
	718-40 Employee Stock Ownership Plans
	718-50 Employee Stock Purchase Plans
720 Other Expenses	720-15 Start-Up Costs
	720-20 Insurance Costs
	720-25 Contributions Made
	720-30 Real and Personal Property Taxes
	720-35 Advertising Costs
	720-40 Electronic Equipment Waste Obligations
	720-45 Business and Technology Reengineering
730 Research and Development	730-20 Research and Development Arrangements
740 Income Taxes	740-20 Intraperiod Tax Allocation
	740-30 Other Considerations or Special Areas
B. Broad Transactional Categories	
805 Business Combinations and Reorganizations	805-20 Reorganizations
	805.xx Superseded by Bus. Comb. 2 Project
810 Consolidation	810-20 Control of Partnerships and Similar Entities
815 Derivatives and Hedging	815-15 Embedded Derivatives
	815-20 Hedging—General
	815-25 Fair Value Hedges
	815-30 Cash Flow Hedges
	815-35 Net Investment Hedges
	815-40 Contracts in Entity's Own Equity
	815-45 Weather Derivatives
820 Fair Value Measurements and Disclosures	
825 Financial Instruments	825-20 Registration Payment Arrangements
830 Foreign Currency Matters	830-20 Translation of Transactions

<i>Topic # and title</i>	<i>Subtopic # and title</i>
835 Interest	830-30 Translation of Financial Statements
	835-20 Capitalization of Interest
	835-30 Imputation of Interest
840 Leases	840-20 Operating Leases
	840-30 Capital Leases
	840-40 Sale-Leaseback Transactions
845 Nonmonetary Transactions	
850 Related-Party Disclosures	
855 Subsequent Events	
860 Transfers and Servicing	860-20 Sales of Financial Assets
	860-30 Secured Borrowings and Collateral
	860-40 Transfers to Qualifying Special-Purpose Entities
	860-50 Servicing Assets and Liabilities

IV. Industry/Unique Topics

905	Agriculture
908	Airlines
910	Contractors—Construction
912	Contractors—Federal Government
915	Development Stage Entities
920	Entertainment—Broadcasters
922	Entertainment—Cable Television
924	Entertainment—Casinos
926	Entertainment—Films
928	Entertainment—Music
930	Extractive Activities—Mining
932	Extractive Activities—Oil and Gas
940	Financial Services—Brokers and Dealers
942	Financial Services—Depository and Lending
944	Financial Services—Insurance
946	Financial Services—Investment Companies
948	Financial Services—Mortgage Banking
950	Financial Services—Title Plant
952	Franchisors
954	Health Care Entities
956	Limited Liability Entities
958	Not-for-Profit Entities
960	Plan Accounting—Defined Benefit Pension Plans
962	Plan Accounting—Defined Contribution Pension Plans
965	Plan Accounting—Health and Welfare Benefit Plans
970	Real Estate—General
972	Real Estate—Common Interest Realty Associations

<u>Topic # and title</u>	<u>Subtopic # and title</u>
974 Real Estate—Real Estate Investment Trusts	
976 Real Estate—Retail Land	
978 Real Estate—Time-Sharing Activities	
980 Regulated Operations	
985 Software	
995 US Steamship Entities	

V. Glossary

1

RESEARCHING GAAP MATTERS

DEVELOPMENT OF GAAP

What Is GAAP?

The phrase “generally accepted accounting principles” is a technical accounting term that encompasses the conventions, rules, and procedures necessary to define accepted accounting practice at a particular time. It includes not only broad guidelines of general application, but also detailed practices and procedures. Those conventions, rules, and procedures provide a standard by which to measure financial presentations. Auditing Standards Board (ASB), AU Section 411

Generally accepted accounting principles (GAAP) are concerned with the measurement of economic activity, the time when such measurements are to be made and recorded, the disclosures surrounding this activity, and the preparation and presentation of summarized economic information in the form of financial statements. GAAP develops when questions arise about how to best accomplish those objectives—measurement, timing of recognition, disclosure, or presentation. In response to those questions, GAAP is either prescribed in official pronouncements of authoritative bodies empowered to create it, or it originates over time through the development

of customary practices that evolve when authoritative bodies fail to respond. Thus, GAAP is a reaction to and a product of the economic environment in which it develops. As such, the development of accounting and financial reporting standards has lagged the development and creation of increasingly intricate economic structures and transactions.

There are two broad categories of accounting principles—recognition and disclosure. Recognition principles determine the timing and measurement of items that enter the accounting cycle and impact the financial statements. These are quantitative standards that require economic information to be reflected numerically.

Disclosure principles deal with factors that are not always numeric. Disclosures involve qualitative information that is an essential ingredient of a full set of financial statements. Their absence would make the financial statements misleading by omitting information relevant to the decision-making needs of the reader. Disclosure principles complement recognition principles by explaining assumptions underlying the numerical information and providing additional information on accounting policies, contingencies, uncertainties, etc., which are essential to fully understand the performance and financial condition of the reporting enterprise.

Who Created GAAP?

From time to time, the bodies given responsibility for the promulgation of GAAP have changed, and indeed more than a single such body has often shared this responsibility. GAAP established by all earlier standard-setting bodies, to the extent not withdrawn or superseded, remains in effect at

the present time. These bodies are described in the following paragraphs.

Committee on Accounting Procedure. The first serious attempt to create formalized generally accepted accounting principles began in 1930, primarily as a consequence of the stock market crash of 1929 and the widespread perception that an absence of uniform and stringent financial reporting requirements had contributed to the rampant stock market speculation of the preceding decade that culminated with that crash. (Previously, GAAP had largely been defined by academic writings and general industry practices.) The American Institute of Accountants, (which in 1957 was renamed the American Institute of Certified Public Accountants [AICPA]), created a special committee to work with the New York Stock Exchange toward the goal of establishing standards for accounting procedures. The special committee recommended five rules to the Exchange that were published in 1938 as Accounting Research Bulletin (ARB) 1 of the Committee on Accounting Procedure. The Committee subsequently published 51 such bulletins, including Accounting Research Bulletin 43, which consolidated and superseded Bulletins 142. The Committee also attempted to achieve uniformity in accounting terminology. However, the Committee's limited resources and lack of serious research efforts in support of its pronouncements were questioned in the late 1950s, particularly as a number of very complex controversial topics loomed on the horizon.

Accounting Principles Board. The profession's response was to substitute, under its auspices, the Accounting Principles Board (APB) for the Committee on Accounting Procedure. This was done to facilitate the development of principles, which were to be based primarily on the research of a separate division of the AICPA, the Accounting Research Division. Under this strategy, the

Division was to undertake extensive research, publish its findings, and then permit the Accounting Principles Board to take the lead in the discussions that would ensue concerning accounting principles and practices. The Board's authority was enforced primarily through prestige and Rule 203 of the AICPA Code of Professional Conduct. Furthermore, formal approval of Board issuances by the Securities and Exchange Commission (SEC) gave additional support to its activities.

During the Board's fourteen years of existence, it issued 31 authoritative opinions and 4 nonauthoritative statements. They dealt with amendments of Accounting Research Bulletins, opinions on the form and content of financial statements, and issuances requiring changes in both the recognition and disclosure principles of the profession. However, the Board did not make use of the efforts of the Accounting Research Division, which published fifteen research studies during its lifetime. Both the Board and the Division acted independently in selecting topics for their respective agendas. The Board issued pronouncements in areas where little research had been done, and the Division performed research studies without seeking to be all-inclusive or exhaustive in analysis. The Accounting Principles Board did not, ultimately, operate differently or more effectively than had the Committee on Accounting Procedure.

Financial Accounting Standards Board. As a result of these operational problems, in 1971 the AICPA appointed the "Wheat Study Group" chaired by Francis M. Wheat, a former SEC commissioner. The Wheat Study Group was charged with examining the standard-setting process and making recommendations regarding the form and structure of the standard-setting process as well as whether standard setting should reside in the government or in the private sector. Based on the recommendations of this group, the

Financial Accounting Standards Board (FASB) was formed in 1972. The Board consists of seven full-time members; they have diverse backgrounds with three coming from public accounting, two from private industry, and one each from academia and from an oversight body. The Board is assisted by a staff of professionals who conduct research and work directly with the Board.

FASB is recognized as authoritative through Financial Reporting Release 1 of the Securities and Exchange Commission and through Rule 203 of the AICPA Code of Professional Conduct.

FASB is an independent body relying on the Financial Accounting Foundation for selection of its members and approval of its budgets. FASB is supported by the sale of its publications and by fees assessed on all public companies based on their market capitalizations. (The imposition of this fee was established by the Sarbanes-Oxley Act and replaces the voluntary private-sector contributions that previously supported the Foundation. The change was made to allay any public concerns about the FASB's perceived independence from contributors.) The Board of Trustees of the Foundation is composed of members of

- American Accounting Association
- American Institute of Certified Public Accountants
- CFA Institute
- Financial Executives International
- Government Finance Officers Association
- Institute of Management Accountants
- National Association of State Auditors, Comptrollers, and Treasurers
- Securities Industry Association

The Board issues several types of pronouncements.^{[1](#)} The most important of these are Statements of Financial Accounting Standards and Interpretations, which are used to

clarify or elaborate on existing Statements or pronouncements of predecessor bodies. Standards and Interpretations constitute category A GAAP, which also includes FASB staff positions—a relatively new form of guidance—and the Board’s FAS 133 implementation issues. Technical Bulletins, which are category B GAAP, usually address issues not covered directly by existing standards and are primarily used to provide guidance where it is not expected to be costly or create a major change. Bulletins are discussed at Board meetings and subject to Board veto. Both Bulletins and Interpretations are designed to be responsive to implementation and practice problems on relatively narrow subjects (the last Bulletin was issued in 2001; that role will now apparently be filled by FASB staff positions, a substantial number of which have already been produced).

The FASB staff can issue implementation guides and staff positions, which are category D GAAP. In a question-and-answer format, implementation guides address specific questions that arise when a standard is initially issued. Staff positions are responses to questions on appropriate application of FASB literature that are expected to have widespread relevance. The questions addressed in implementation guides and staff positions are submitted by phone, letter, or through the FASB Web site’s technical inquiry service. Implementation guides and staff positions are drafted by the staff and issued provided that a majority of the FASB Board members do not object. In addition, staff positions must be exposed on the FASB Web site for a 30-day comment period before issuance.

American Institute of Certified Public Accountants (AICPA). The Accounting Standards Executive Committee (AcSEC) is the senior technical committee at the AICPA. It is composed of fifteen volunteer members, representative of industry, academia, analysts, and both national and regional

public accounting firms. All AcSEC members are CPAs and members of the AICPA.

AcSEC is authorized to set accounting standards and to speak for the AICPA on accounting matters. The accounting standards that AcSEC issues are prepared largely through the work of AICPA committees and task forces. AcSEC issues Statements of Position (SOPs) and industry audit and accounting guides, which are reviewed and cleared by the FASB and thus constitute category B GAAP. SOPs provide guidance on financial accounting and reporting issues. Industry audit and accounting guides provide guidance to auditors in examining and reporting on financial statements of entities in specific industries and provide standards on accounting problems unique to a particular industry. AcSEC Practice Bulletins (category C GAAP) usually provide guidance on very narrowly defined accounting issues. Until recently, the standards issued by AcSEC addressed topics broadly applicable to all industries in addition to industry-specific topics. Effective November 2002, FASB reclaimed the sole authority to promulgate general-purpose GAAP, relegating AcSEC to the issuance of industry-specific accounting and auditing standards.

Emerging Issues Task Force (EITF). The Emerging Issues Task Force (EITF) was formed in 1984 by the FASB in order to assist the Board in identifying current or emerging issues and implementation problems before divergent practices become entrenched. The guidance provided is often on narrow issues that are of immediate interest and importance. Task Force members are drawn primarily from public accounting firms but also include individuals who would be aware of issues and practices that should be considered by the group. The Task Force meets every other month with nonvoting representatives of the SEC and the FASB attending for discussion purposes.