Institute of Internal Auditors
Dallas Chapter

FASB Codification
September 3, 2009

Presented by:
Rob Bright, Principal
Learning Objectives

In this session you will learn...

1. How the FASB *Accounting Standards Codification* will change the way that U.S. GAAP is documented, updated, referenced, and accessed

2. How the Codification might / will impact a company’s internal control over financial reporting
US Generally Accepted Accounting Principles (GAAP)

- A minimally-organized collection of many different kinds of accounting pronouncements
- Issued by many different standard-setters over many decades
- Plus "widely recognized and prevalent" industry practices that are not the product of any formal standard-setting process
For many historical reasons, the present component of US GAAP varies greatly in:

- Format
- Structure
- Quality
- Completeness
- Accessibility
- Authoritativenss
The Hierarchy of US GAAP

Four categories of authoritative literature for non-governmental entities:

1. Accounting Research Bulletins (ARBs) and Accounting Principles Board (APB) Opinions that are not superseded by action of the Financial Accounting Standards Board (FASB), FASB Statements of Financial Accounting Standards (SFASs) and Interpretations (FINs), FASB Statement 133 Implementation Issues, and FASB Staff Positions (FSPs) (Most Authoritative)

2. FASB Technical Bulletins and, if cleared by the FASB, AICPA Industry Audit and Accounting Guides and Statements of Position
The Hierarchy of US GAAP (continued)

3. AICPA Practice Bulletins that have been cleared by the FASB, consensus positions of the Emerging Issues Task Force (EITF), and EITF "Appendix D" topics *

4. Implementation Guides (Q&As) published by the FASB staff, AICPA accounting interpretations, AICPA Industry Audit and Accounting Guides and Statements of Position not cleared by the FASB, and practices that are widely recognized and prevalent either generally or in the industry (Least Authoritative)

* Topics discussed by the EITF that do not relate specifically to a numbered EITF Issue. Also includes comments of the EITF's SEC observer, which are considered Category "A" GAAP for SEC registrants.
The Codification and Retrieval Project

- **September 2004:** The Financial Accounting Foundation (FAF) trustees approved the FASB's "Codification and Retrieval" project.

- **Project Objective:** To create a single, authoritative codification of U.S. GAAP.

- **Project Deliverables:**
  1. The Codification *content:* Thousands of existing authoritative standards organized in an entirely new way
  2. A new Internet-based *research system:* Enables users to access the Codification content
New Structure, New System

• With very few exceptions, **the Codification is not intended to change how financial accounting and reporting is done under U.S. GAAP**

• Instead, the Codification imposes a new structure on U.S. GAAP—one that is organized in an easily accessible, user-friendly online research system

• The FASB expects that the new structure and new system will:
  - Reduce research time and effort
  - Mitigate the risk of noncompliance with authoritative standards
  - Provide information updated in real-time
  - Assist the FASB with Convergence
  - Become the authoritative source for the U.S. GAAP XBRL taxonomies
  - Make clear that guidance not contained in the Codification is not considered to be authoritative
A Single, Authoritative Source

- On July 1, 2009, the FASB made the Codification the **single source of authoritative U.S. GAAP**, superseding all existing historical pronouncements.
  - The Codification content—not the historical pronouncements from which it was derived—is GAAP.
  - The online Codification research system—not books, loose-leaf services, or CD-ROMs—is the primary way that accountants will access GAAP.

- Only one level of authoritative GAAP exists, *i.e.*, **there is no more hierarchy of authoritativeness within GAAP**.

- Any literature not included in the Codification will be considered non-authoritative.
Organization of Content

- Each existing authoritative pronouncement of U.S. GAAP has been dis-assembled and the tens of thousands of pieces have been re-assembled into a new topically-organized hierarchical structure.

- Standards are organized into approximately 90 topics.

- Contents within each topic are further organized hierarchically by subtopic, then section, then paragraph.

- A numeric identifier is assigned to the content at each level of the hierarchical structure.
## Example of Organizational Structure

<table>
<thead>
<tr>
<th>Hierarchy Level</th>
<th>Title</th>
<th>Citation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Topic</td>
<td>Inventory</td>
<td>330</td>
</tr>
<tr>
<td>Subtopic</td>
<td>Overall</td>
<td>330-10</td>
</tr>
<tr>
<td>Section</td>
<td>Initial Measurement</td>
<td>330-10-30</td>
</tr>
<tr>
<td>Paragraph</td>
<td>Cost Basis</td>
<td>330-10-30-1</td>
</tr>
</tbody>
</table>
Bonus Content: SEC Guidance

- The Codification online research system includes relevant guidance from the U.S. Securities and Exchange Commission (SEC) that is organized in the same manner as other content.

- The included SEC guidance is not maintained by the FASB; it is merely included as a convenience to users of the Codification and is kept separately from FASB-maintained guidance.

- SEC guidance will remain an additional source of authoritative GAAP for SEC registrants only.
http://asc.fasb.org
http://asc.fasb.org
A Look Ahead

• Now that the Codification is effective, authoritative standards will be issued only by the FASB.

• The FASB will modify its standard setting process to focus on updating and maintaining the Codification.
  – Only one type of pronouncement will be issued, and each will be numbered sequentially within each calendar year.
  – Such pronouncements will not be authoritative themselves, but will specify how the authoritative Codification standards are to be updated.
  – Each newly issued pronouncement will contain an appendix or section with the new or revised Codification language.

• Once the FASB releases a new pronouncement, the Codification publishing team will update a central database.
A basic view of the Codification content will be accessible online free of charge.

For those who require an additional effort to research U.S. GAAP, enhanced access to the Codification will be available as a subscription
  - Will provide high level search and retrieval functions
  - Cross reference features, personal annotation, and dynamic linking capabilities.

The FASB also plans to issue the Codification in print. Details will be announced closer to the July 1, 2009 launch date. The FASB will evaluate whether to print future editions of the Codification based on the demand for the printed version.
Grant Thornton Survey

- **March 23 – April 4, 2009:** Grant Thornton LLP conducted a national survey of 530 U.S. CFOs and senior comptrollers from both public and private companies.

- "Are you aware of the FASB's Accounting Standards Codification project?"
  - **Yes:** 46%
  - **No:** 54%
Impact of the Codification

• The Codification will profoundly change the way that U.S. GAAP is documented, updated, referenced, and accessed.

• As a result of the Codification, finance and accounting professionals will need to completely re-learn how to identify and cite authoritative GAAP.
Internal Control Over Financial Reporting

1. Competencies
2. Accounting Policies
3. Accounting-Policy Disclosures
4. Accounting-Principle Changes
5. Error Detection and Correction
Mitigating the Impact of the Codification

• Competencies
  – Review and update job descriptions
  – Re-train existing personnel to develop required competencies
  – Seek and evaluate required competencies when recruiting new personnel
  – Don't rely on traditional certifications (CPA, etc.) as guarantees of competencies

• Accounting Policies
  – Review your company's accounting policy manual
  – Update wording and references
Mitigating the Impact of the Codification (continued)

- Accounting Policy Disclosures
  - Review financial statements and accompanying narratives
  - Update wording and references

- Accounting Principle Changes
  - Review areas where GAAP (or scope) have changed
  - Be prepared to account for and disclose changes in accounting principles

- Error Detection and Correction
  - Review past accounting treatment in complex or uncertain areas
  - Be prepared to restate past financial statements
Focus on Competencies

• How the Codification content is organized
  • Topics, Subtopics, Sections, Paragraphs
  • Areas, Supertopics, Subsections, Paragraph Groups
  • Intersecting content
  • Industry-specific guidance
  • SEC guidance

• Major features of the online Codification research system
  • Glossaries
  • Cross Reference
  • What’s New
  • Codification Updates
  • Status Sections
  • Feedback
Focus on Competencies (continued)

- Finding Content
  - Browsing
  - Go To
  - Basic directed search
  - Advanced directed search

- Assembling Content
  - Join All Sections
  - Join Sections
  - Combine Subsections
Summary

• The FASB *Accounting Standards Codification* will profoundly change the way that U.S. GAAP is documented, updated, referenced, and accessed.

• Changes may be necessary in companies’ internal control over financial reporting.

• Once issued, action in a timely manner might be necessary to address changes.
FASB Codification

September 3, 2009

Presented by:
Rob Bright, Principal
Accounting Update

September 3, 2009
SFAS No. 164

- SFAS No. 164: *Not-for-Profit Entities - Mergers and Acquisitions -- Including An Amendment of FASB Statement No. 142*

- Effective for transactions in reporting periods beginning after 12/15/09

- Guidance for Non-profits in applying
  - Carryover method
  - Acquisition method
SFAS No. 165

- **SFAS No. 165: Subsequent Events**
- Effective for interim periods ending after June 15, 2009
- Requires disclosure of the date through which subsequent events have been evaluated.
  - Date the statements are issued OR
  - Date the statements were available to be issued
SFAS No. 166

- **SFAS No. 166: Accounting for Transfers of Financial Assets - An Amendment of FASB Statement No. 140**

- Effective for the first reporting period after November 15, 2009

- Removes the concept of a qualifying special-purpose entity from SFAS 140 and removes the exception from FIN-46R

- Clarifies the objective of surrendering control in a transfer of financial assets

- Defines “participating interest”
**SFAS No. 167**

- **SFAS No. 167: Amendments to FASB Interpretation No. 46(R)**
- Effective for reporting periods beginning after November 15, 2009
- Requires ongoing assessments about whether the reporting entity is the primary beneficiary of a VIE
- Eliminates the requirement to use quantitative approach for determining whether the reporting entity absorbs a majority of losses or returns
- Changes some of the guidance for evaluating VIE’s
- Additional disclosures
FASB Staff Position No. FAS 141(R)-1

- **FASB Staff Position No. FAS 141(R)-1**, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies

- Effective with SFAS 141R, transactions in periods beginning after December 15, 2008

- Clarifies how to record contingent liabilities at the acquisition date
  - If FMV can be determined during the measurement period
  - If FMV cannot be determined then it is recorded if
    - Probable
    - Can be reasonably estimated
FASB Staff Position No. FAS 157-4

- FASB Staff Position No. FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly

- Issued April 9, 2009

- Only applies to Level 2 and Level 3 inputs

- Result of government and industry pressure
FASB Staff Position No. FAS 115-2 and FAS 124-2

- **Recognition and Presentation of Other-Than-Temporary Impairments**

- Issued April 9, 2009

- Requires credit loss portion of OTTI for debt securities classified as “Held for Sale” or “Held to Maturity” be classified in the P&L

- Result of government and industry pressure
CONTACT INFO

Rob Bright, CPA, CFE
Managing Principal
1025 Andrew Drive
West Chester, PA  19380
Phone:  (610) 738-0100
rbright@aclordi.com
www.aclordi.com

Brian Amend, CPA, CIA, CIDA, CFSA, CCSA
Managing Principal
7616 LBJ Freeway, Suite 640
Dallas, TX  75251
Phone:  (972) 934-3344
bamend@aclordi.com
www.aclordi.com

Michelle Griffin, CPA
Business Development Manager
7616 LBJ Freeway, Suite 640
Dallas, TX  75251
Phone:  (972) 934-3344
mgriffin@aclordi.com
www.aclordi.com