

2017

Wiley

GAAP

Interpretation and Application of
**GENERALLY ACCEPTED
ACCOUNTING PRINCIPLES**

With updates
to Revenue
Recognition,
Leases, Financial
Instruments
and more

Joanne M. Flood

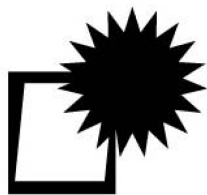
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GENERALLY ACCEPTED
ACCOUNTING PRINCIPLES

Joanne M. Flood

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PREFACE

Wiley GAAP 2017: Interpretation and Application provides analytical explanations, copious illustrations, and nearly 300 examples of all current generally accepted accounting principles. The book integrates principles promulgated by the FASB in its *Accounting Standards Codification*.TM This edition of *Wiley GAAP* is organized to align fully with the structure of the FASB Codification. Each chapter begins with a list of the Subtopics included within the Topic, major scope and scope exceptions, technical alerts of any FASB Updates, and an overview of the Topic. The remainder of each chapter contains a detailed discussion of the concepts and practical examples and illustrations. This organization facilitates the primary objective of the book—to assist financial statement preparers and practitioners in resolving the myriad practical problems faced in applying GAAP.

Hundreds of meaningful, realistic examples guide users in the application of GAAP to the 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 explains 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. It facilitates 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 author's belief that proper application of GAAP demands an understanding of the logical underpinnings of all its technical requirements.

As a bonus, a comprehensive disclosure checklist, following the main text, offers practical guidance to preparing financial statements for commercial entities in accordance with GAAP. For easy reference and research, the checklist follows the order of the codification.

The following FASB Accounting Standards Updates were issued since *Wiley GAAP 2016* and through May 2016. Their requirements are incorporated in this edition of *Wiley GAAP*, as and where appropriate and at a minimum in the Technical Alert section at the beginning of the Topic referenced in the ASU title.

- ASU 2015-10, *Technical Corrections and Improvements*
- ASU 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*
- ASU 2015-12, *Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): (Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, (Part III) Measurement Date Practical Expedient (consensuses of the FASB Emerging Issues Task Force)*
- ASU 2015-13, *Derivatives and Hedging (Topic 815): Application of the Normal Purchases and Normal Sales Scope Exception to Certain Electricity Contracts within Nodal Energy Markets (a consensus of the FASB Emerging Issues Task Force)*
- ASU 2015-14, *Revenue from Contracts with Customers: (Topic 606): Deferral of the Effective date*
- ASU 2015-15, *Interest—Imputation of Interest (Topic 835): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements—*

*Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting (SEC Update)*¹

- ASU 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments*
- ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes 40)*
- ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*
- ASU 2016-02, *Leases (Topic 842)*
- ASU 2016-03, *Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), Consolidation (Topic 810), Derivatives and Hedging (Topic 815); Effective Date and Transition Guidance (a consensus of the Private Company Council)*
- ASU 2016-04, *Liabilities—Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products (a consensus of the Emerging Issues Task Force)*
- ASU 2016-05, *Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships (a consensus of the Emerging Issues Task Force)*
- ASU 2016-06, *Derivatives and Hedging (Topics 815): Contingent Put and Call Options in Debt Instruments (a consensus of the Emerging Issues Task Force)*
- ASU 2016-07, *Investments—Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting*
- ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*
- ASU 2016-09, *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*
- ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*
- ASU 2016-11, *Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting.*

Significant accounting changes are on the horizon. In the next year, the FASB is expected to make strides on the following major projects and others:

- Revenue Recognition—technical improvements and corrections
- Financial Instruments—Impairment
- Financial Instruments—Hedging
- Disclosure Framework

Readers are encouraged to check the FASB website for status updates to the above and other FASB projects.

In response to the 2011 report of the Blue Ribbon Panel on Standard Setting for Private Companies, the FASB began important initiatives. The FASB created the Private Company Council to address the Blue Ribbon Panel’s report. The FASB issued a framework for the FASB

¹ This book does not cover ASU 2015-15. The ASU is an EITF consensus, narrow in scope and only affects two paragraphs in the SEC guidance section of ASC 835, which are not otherwise covered in this book.

and the PCC to use in determining whether alternatives to existing and proposed U.S. GAAP are warranted for private companies. Since 2013, FASB has issued three ASUs that are consensus of the PCC and in 2016 issued another. That is listed on the table above.

The author's 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.

Joanne M. Flood
June 2016

ABOUT THE AUTHOR

Joanne M. Flood, CPA, is an author and independent consultant on accounting and auditing technical topics and e-learning. She has experience as an auditor in both an international firm and a local firm and worked as a senior manager in the AICPA's Professional Development group. She received her MBA Summa Cum Laude in Accounting from Adelphi University and her Bachelor's degree in English from Molloy College.

While in public accounting, Joanne worked on major clients in retail, manufacturing, and finance and on small business clients in construction, manufacturing, and professional services. At the AICPA, Joanne developed and wrote e-learning, text, and instructor-led training courses on U.S. and International Standards. She also produced training materials in a wide variety of media, including print, video, and audio, and pioneered the AICPA's e-learning product line. Joanne resides on Long Island, New York, with her daughter, Elizabeth. Joanne is the author of several articles for and contributor to Wiley Insight IFRS and the following Wiley publications:

Financial Disclosure Checklist

Wiley GAAP 2017: Interpretation and Application of Generally Accepted Accounting Principles

Wiley Practitioner's Guide to GAAS 2017: Covering all SASs, SSAEs, SSARs, and Interpretations

Wiley GAAP: Financial Statement Disclosures Manual (Wiley Regulatory Reporting)

Wiley Revenue Recognition

And the following AICPA online and live CPE programs:

Audit Staff Essentials, Level 1—New Hire

Audit Staff Essentials, Level 2—Experienced Staff

Audit Staff Essentials, Level 3—Audit Senior/In-Charge

CODIFICATION TAXONOMY

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	205	Presentation of Financial Statements	205-10 Overall
			205-20 Discontinued Operations
			205-30 Liquidation Basis of Accounting
			205-40 Going Concern
	210	Balance Sheet	210-10 Overall
			210-20 Offsetting
	215	Statement of Shareholders' Equity	215-10 Overall
	220	Comprehensive Income	220-10 Overall
	225	Income Statement	225-10 Overall
			225-20 Extraordinary and Unusual Items
			225-30 Business Interruption Insurance
	230	Statement of Cash Flows	230-10 Overall
	235	Notes to Financial Statements	235-10 Overall
	B. Various Financial Reporting, Presentation, and Display Matters		
	250	Accounting Changes and Error Corrections	250-10 Overall
	255	Changing Prices	255-10 Overall
	260	Earnings Per Share	260-10 Overall
	270	Interim Reporting	270-10 Overall
			270-40 Income Taxes
	272	Limited Liability Entities	272-10 Overall
	274	Personal Financial Statements	274-10 Overall
	275	Risks and Uncertainties	275-10 Overall
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	310	Receivables	310-10 Overall
			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	320-10 Overall
	323	Investments—Equity Method and Joint Ventures	323-10 Overall
			323-30 Partnerships, Joint Ventures, and Limited Liability Entities

Codification Taxonomy

<u>Topic # and title</u>	<u>Subtopic # and title</u>
325 Investments—Other	325-10 Overall
	325-20 Cost Method Investments
	325-30 Investments in Insurance Contracts
	325-40 Beneficial Interests in Securitized Financial Assets
330 Inventory	330-10 Overall
340 Other Assets and Deferred Costs	340-10 Overall
	340-20 Capitalized Advertising Costs
	340-30 Insurance Contracts that Do Not Transfer Insurance Risk
	340-40 Contracts with Customers
	350-10 Overall
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
	360-10 Overall
360 Property, Plant, and Equipment	360-20 Real Estate Sales
	405-10 Overall
405 Liabilities	405-20 Extinguishment of Liabilities
	405-30 Insurance-Related Assessments
	405-40 Obligations Resulting from Joint and Several Liabilities
	410-10 Overall
410 Asset Retirement and Environmental Obligations	410-20 Asset Retirement Obligations
	410-30 Environmental Obligations
	420-10 Overall
420 Exit or Disposal Cost Obligations	430-10 Overall
430 Deferred Revenue	440-10 Overall
440 Commitments	450-10 Overall
450 Contingencies	450-20 Loss Contingencies
	450-30 Gain Contingencies
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460 Guarantees	470-10 Overall
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480 Distinguishing Liabilities from Equity	505-10 Overall
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	605-35 Construction-Type and Production-Type Contracts
	605-40 Gains and Losses
	605-45 Principal-Agent Considerations
	605-50 Customer Payments and Incentives
606 Revenue from Contracts with Customers	606-10 Overall ¹
610 Other Income	610-10 Overall ¹
	610-20 Gains and Losses from the Derecognition of Nonfinancial Assets
	610-30 Gains and Losses on Involuntary Conversions
705 Cost of Sales and Services	705-10 Overall
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710 Compensation—General	710-10 Overall
712 Compensation—Nonretirement Postemployment Benefits	712-10 Overall
715 Compensation—Retirement Benefits	715-10 Overall
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718 Compensation—Stock Compensation	718-10 Overall
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	720-20 Insurance Costs
	720-25 Contributions Made
	720-30 Real and Personal Property Taxes
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730 Research and Development	730-10 Overall
	730-20 Research and Development Arrangements

<u>Topic # and title</u>	<u>Subtopic # and title</u>
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	740-20 Intraproduct Tax Allocation
	740-30 Other Considerations or Special Areas
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805 Business Combinations	805-10 Overall
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	805-30 Goodwill or Gain from Bargain Purchase, Including Consideration Transferred
	805-40 Reverse Acquisitions
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	805-740 Income Taxes
808 Collaborative Arrangements	808-10 Overall
810 Consolidation	810-10 Overall
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	810-30 Research and Development Arrangements
815 Derivatives and Hedging	815-10 Overall
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	815-45 Weather Derivatives
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825 Financial Instruments	825-10 Overall
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830 Foreign Currency Matters	830-10 Overall
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835 Interest	835-10 Overall
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840 Leases	840-10 Overall
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	840-40 Sale-Leaseback Transactions
845 Nonmonetary Transactions	845-10 Overall
850 Related-Party Disclosures	850-10 Overall
852 Reorganizations	852-10 Overall
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	852-740 Income Taxes
853 Service Concession Arrangements	853-10 Overall
855 Subsequent Events	855-10 Overall

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	860-20 Sales of Financial Assets
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	860-40 Transfers to Qualifying Special-Purpose Entities
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908 Airlines	908-10 Overall
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	910-20 Contract Costs
912 Contractors—Federal Government	912-10 Overall
	912-20 Contract Costs
915 Development Stage Entities	915-10 Overall
920 Entertainment—Broadcasters	920-10 Overall
922 Entertainment—Cable Television	922-10 Overall
924 Entertainment—Casinos	924-10 Overall
926 Entertainment—Films	926-10 Overall
	926-20 Other Assets—Film Costs
928 Entertainment—Music	928-10 Overall
930 Extractive Activities—Mining	930-10 Overall
932 Extractive Activities—Oil and Gas	932-10 Overall
940 Financial Services—Brokers and Dealers	940-10 Overall
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942 Financial Services—Depository and Lending	942-10 Overall
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948 Financial Services—Mortgage Banking	948-10 Overall
950 Financial Services—Title Plant	
952 Franchisors	952-10 Overall
954 Health Care Entities	954-10 Overall
958 Not-for-Profit Entities	958-10 Overall
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	958-30 Split-Interest Arrangements
960 Plan Accounting—Defined Benefit Pension Plans	960-10 Overall
	960-20 Accumulated Plan Benefits
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Codification Taxonomy

<u>Topic # and title</u>		<u>Subtopic # and title</u>	
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		962-40	Terminating Plans
965	Plan Accounting—Health and Welfare Benefit Plans	965-10	Overall
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995	U.S. Steamship Entities		

V. Glossary

¹ ASU 2014-09 added this Codification section. For more information on ASU 2014-09, see the Appendix to the chapter on ASC 606.

1 ASC 105 GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

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PERSPECTIVES AND ISSUES

What Is GAAP?

The FASB Accounting Standards Codification™ (ASC) is the:

. . . source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. In addition

to the SEC's rules and interpretive releases, the SEC staff issues Staff Accounting Bulletins that represent practices followed by the staff in administering SEC disclosure requirements, and it utilizes SEC Staff Announcements and Observer comments made at Emerging Issues Task Force meetings to publicly announce its views on certain accounting issues for SEC registrants. ASC 105-10-05-1

In the absence of authoritative guidance, the FASB Codification (the Codification) offers the following approach:

If the guidance for a transaction or event is not specified within a source of authoritative GAAP for that entity, an entity shall first consider accounting principles for similar transactions or events within a source of authoritative GAAP for that entity and then consider nonauthoritative guidance from other sources. An entity shall not follow the accounting treatment specified in accounting guidance for similar transactions or events in cases in which those accounting principles either prohibit the application of the accounting treatment to the particular transaction or event or indicate that the accounting treatment should not be applied by analogy. ASC 105-10-05-2

Nonauthoritative Sources. The Codification lists some possible nonauthoritative sources:

- Practices that are widely recognized and prevalent either generally or in the industry,
 - FASB Concepts Statements,
 - American Institute of Certified Public Accountants (AICPA) Issues Papers,
 - International Financial Reporting Standards of the International Accounting Standards Board,
 - Pronouncements of professional associations or regulatory agencies,
 - Technical Information Service Inquiries and Replies included in AICPA Technical Practice Aids,
 - Accounting textbooks, handbooks, and articles.
- (ASC 105-10-05-3)

GAAP establishes:

- 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 best to accomplish those items. 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. Recognition principles determine the timing and measurement of items that enter the accounting cycle and impact the financial statements. These are reflected in quantitative standards that require economic information to be reflected numerically.

Disclosure Principles. Disclosure principles deal with factors that are not always quantifiable. 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 also complement recognition principles by dictating that disclosures expand on some quantitative data, explain assumptions underlying the numerical information and provide additional information on accounting policies, contingencies, uncertainties, etc., which are essential to fully understand the performance and financial condition of the reporting enterprise.

DEFINITIONS OF TERMS

See Appendix A, *Definitions of Terms*, for terms related to this topic: Conduit Debt Securities, Financial Statements are Available to be Issued, Nongovernmental Entity, Nonpublic Entity, Not-for-Profit Entity, and Public Business Entity.

CONCEPTS, RULES, AND EXAMPLES

History of 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. In response to the stock market crash of 1929, the AICPA appointed the Committee on Accounting Procedure. This was superseded in 1959 by the Accounting Principles Board (APB) created by the AICPA. Because of operational problems, in 1972 the profession replaced the APB with a three-part organization consisting of the Financial Accounting Foundation (FAF), Financial Accounting Standards Board (FASB), and the Financial Accounting Standards Advisory Council (FASAC). Since 1973 the FASB has been the organization designated to establish standards of financial reporting.

Other sources. Not all GAAP has resulted from the issuance of pronouncements by authoritative bodies. For example, depreciation methods such as straight-line and declining balance have long been accepted. There are, however, no definitive pronouncements that can be found to state this. Furthermore, there are many disclosure principles that evolved into general accounting practice because they were originally required by the SEC in documents submitted to them. Much of the content of statements of financial position and income statements has evolved over the years in the absence of adopted standards.

GAAP Codification

In 2009, FASB's Codification became the single official source of authoritative, non-governmental US generally accepted accounting principles. It superseded all nongrandfathered (see ASC 105-10-70-2 for a list of grandfathered guidance), non-SEC accounting guidance. Only one level of authoritative GAAP exists, excluding the guidance issued by the Securities and Exchange Commission (SEC). All other literature is nonauthoritative.

SEC Guidance in the Codification. To increase the utility of the Codification for public companies, relevant portions of authoritative content issued by the SEC and selected SEC staff interpretations and administrative guidance are included for reference in the Codification. The sources include:

- Regulation S-X,
- Financial Reporting Releases (FRR)/Accounting Series Releases (ASR),
- Interpretive Releases (IR), and
- SEC staff guidance in:
 - Staff Accounting Bulletins (SAB),
 - EITF Topic D and SEC Staff Observer comments.

The Codification does not, however, incorporate the entire population of SEC rules, regulations, interpretive releases, and staff guidance. SEC guidance not incorporated in the codification includes content related to auditing or independence matters or matters outside of the basic financial statements, including Management's Discussion and Analysis (MD&A).

Standards-setting Process

The FASB has long adhered to rigorous "due process" when creating new guidance. The goal is to involve constituents who would be affected by the newly issued guidance so that the standards created will result in information that reports economic activity as objectively as possible without attempting to influence behavior in any particular direction. Ultimately, however, the guidance is the judgment of the FASB, based on research, public input, and deliberation.

The Board issues guidance through Accounting Standards Updates (ASU) which describe amendments to the Accounting Standards Codification. Once issued, the provisions become GAAP after the stated effective date.

Emerging Issues Task Force. The Emerging Issues Task Force (EITF) was formed in 1984 by the FASB to assist the Board in identifying current or emerging issues and implementation problems before divergent practices become entrenched. The guidance provided has often been restricted to narrow issues that were of immediate interest and importance.

If an EITF consensus is approved by the FASB, it amends the FASB Codification through an ASU.

Accounting Standards Updates. Accounting Standards Updates (ASUs) are composed of:

- A summary of the key provisions of the project that led to the changes,
- The specific changes to the Codification, and
- The Basis for Conclusions.

The title of the combined set of new guidance and instructions is *Accounting Standards Update YY-XX*, where YY is the last two digits of the year and XX is the sequential number for each update. All authoritative GAAP issued by the FASB is issued in this format.

The FASB organizes the content of ASUs using the same Section headings as those used in the Codification. ASUs are not deemed authoritative in their own right; instead, they serve only to update the Codification and provide the historical basis for conclusions.

The content from updates that is not yet fully effective for all reporting entities appears in the Codification as boxed text and is labeled "pending content." The pending content text box includes the earliest transition date and a link to the related transition guidance, also found in the Codification.

Maintenance Updates. As with any publishing practice, irregularities occur. To make necessary corrections, the FASB staff issues Maintenance Updates. These are not addressed by the Board and contain nonsubstantive editorial changes and link-related changes.

American Institute of Certified Public Accountants. Although it currently plays a greatly reduced standard-setting role, the American Institute of Certified Public Accountants (AICPA) has authorized the Financial Reporting Executive Committee (FinREC) to determine the AICPA's policies on financial reporting standards and to speak for the AICPA on accounting matters. FinREC, formerly the Accounting Standards Executive Committee

(AcSEC), is the senior technical committee at the AICPA. It is composed of seventeen volunteer members, representative of industry, analysts, and both national and regional public accounting firms.

Researching GAAP Problems

These procedures should be refined and adapted to each individual fact situation.

Codification Structure. The FASB Codification is located on fasb.org. The site is intended to be easily searchable for research purposes. This section provides an overview of the site's contents and search functionality.

Areas. On all pages of the site, all categories of the Codification are listed down the vertical menu bar on the left side of the page, revealing the following Areas, and the numbering series for each one:

- General Principles (100). (Establishes the Codification as the source of GAAP.)
- Presentation (200). (Topics in this area relate only to presentation matters; they do not address recognition, measurement, and derecognition matters. Examples of these topics are income statement, balance sheet, and earnings per share.)
- Assets (300).
- Liabilities (400).
- Equity (500).
- Revenue (600).
- Expenses (700). (Clusters all types of expense-related GAAP into five broad categories, which are cost of goods sold, research and development, compensation, income taxes, and other expenses.)
- Broad Transactions (800). (Contains the major transactional topics, such as business combinations, derivatives, and foreign currency matters.)
- Industry (900). (Itemizes GAAP for specific industries, such as entertainment, real estate, and software.)
- Master Glossary.

Topics. The Codification content is arranged by Area and then further divided by Topics, Subtopics, Sections, and Subsections. FASB has developed a classification system specifically for the Codification. The following is the structure of the classifications system: XXX-YY-ZZ-PP, where:

- XXX = topic,
- YY = subtopic,
- ZZ = section, and
- PP = paragraph.

An "S" preceding the section number denotes SEC guidance. At the most granular level of detail, the Codification has a two-digit numerical code for a standard set of categories.

The Codification Taxonomy can be found in the section that precedes Chapter 1.

Subtopics. Subtopics represent subsets of a topic and are typically identified by type or by scope. For example, lessees and lessors are two separate subtopics of leases Topic 842. Each topic contains an "overall subtopic" (designated "-10") that generally represents the pervasive guidance for the topic, which includes guidance that applies to all other subtopics. Each

additional subtopic represents incremental or unique guidance not contained in the overall subtopic.

Sections (See explanation on the next page)		
Title	Number	Description
Status	00	Includes references to the Accounting Standards Updates that affect the subtopic.
Overview and background	05	Provides overview and background material.
Objectives	10	States the high-level objectives of the topic.
Scope and scope exceptions	15	Outlines the transactions, events, and other occurrences to which the subtopic guidance does or does not apply.
Glossary	20	Contains definitions for terms found within the subtopic guidance.
Recognition	25	Defines the criteria, timing, and location for recording an item in the financial statements.
Initial measurement	30	Provides guidance on the criteria and amounts used to measure a transaction at the initial date of recognition.
Subsequent measurement	35	Provides guidance on the measurement of an item after the recognition date.
Derecognition	40	Relates almost exclusively to assets, liabilities, and equity. Provides criteria, the method to determine the amount of basis, and the timing to be used when derecognizing a particular item for purposes of determining gain or loss.
Other presentation matters	45	Provides guidance on presenting items in the financial statements.
Disclosure	50	Provides guidance regarding disclosure in the notes to or on the face of the financial statements.
Implementation guidance and illustrations	55	Contains illustrations of the guidance provided in the preceding sections.
Relationships	60	Contains links to guidance that may be helpful to the reader of the subtopic.
Transition and Open Effective Date Information	65	Contains references to paragraphs within the subtopic that have open transition guidance.
Grandfathered Guidance	70	Contains descriptions, references, and transition periods for content grandfathered after July 1, 2009, by an Accounting Standards Update. ¹
XBRL Elements	75	Contains the related XBRL elements for the subtopic.
SEC Materials	S99	Contains selected SEC content for use by public companies.

¹ Certain accounting standards allowed for the continued application of superseded accounting standards for transactions that have an ongoing effect in an entity's financial statements. That superseded guidance has not been included in the Codification is considered grandfathered and continues to remain authoritative for those transactions after the effective date of the Codification. (ASC 105-10-70-2)

Sections. Sections represent the nature of the content in a subtopic—for example, recognition, measurement, and disclosure. The sectional organization for all subtopics is the same. In a manner similar to that used for topics, sections correlate closely with sections of individual International Accounting Standards. Sections are further broken down into *subsections*, *paragraphs*, and *subparagraphs*, depending on the specific content of each section.

Finding Information. By drilling down through the various topics and subtopics in the sidebar of the online Codification, a researcher can eventually locate the relevant GAAP information. However, there are other ways to access GAAP information through the Codification site that may prove to be easier:

- **Cross-referencing.** If the researchers know the reference number of an original GAAP source document, such as an EITF consensus or a FASB Staff Position, then they can enter this information through the Cross-Reference tab, which is located at the top center of the Codification home page.
- **Codification search.** If the researchers are searching for specific words or phrases, then the best search tool is the Codification search bar, which is located in the upper right corner of any page on the site. To use it for a precision search, enter quotes around the search text; for a less precise search that returns individual words within the search text, do not use quotes.

Codification Terminology. The FASB standardized on the term “entity” to replace terms such as company, organization, enterprise, firm, preparer, etc. So, too, the Codification uses “shall” throughout to replace “should,” “shall,” “is required to,” “must,” etc. The FASB believes these terms all represent the same concept—the requirement to apply a standard. “Would” and “should” are used to indicate hypothetical situations. To reduce ambiguity, the Codification also eliminated qualifying terminology, such as *usually*, *ordinarily*, *generally*, and similar terms.

Research Procedures

Step 1: Identify the problem. Most often it is found that incorrect answers (e.g., regarding the proper way to report revenue-producing activities) flow from improper definition of the actual question to be resolved. Consider the following:

- Gain an understanding of the problem or question.
- Challenge the tentative definition of the problem and revise, as necessary.
- Problems and research questions can arise from new authoritative pronouncements, changes in a firm’s economic operating environment, or new transactions, as well as from the realization that the problem had not been properly defined in the past.
- If proposed transactions and potential economic circumstances are anticipated, more deliberate attention can be directed at finding the correct solution, and certain proposed transactions having deleterious reporting consequences might be avoided altogether or structured more favorably.
- If little is known about the subject area, it may be useful to consult general reference sources to become more familiar with the topic, that is, the basic what, why, how, when, who, and where. Web-based research vastly expands the ability to gather useful information.
- Ensure that the issue you are researching is a GAAP issue or is an auditing issue so that your search is directed to the appropriate literature.

Step 2: Analyze the problem.

- Identify critical factors, issues, and questions that relate to the research problem.
- What are the options? Brainstorm possible alternative accounting treatments.
- What are the goals of the transaction? Are these goals compatible with full and transparent disclosure and recognition?
- What is the economic substance of the transaction, irrespective of the manner in which it appears to be structured?
- What limitations or factors can affect the accounting treatment?

Step 3: Refine the problem statement.

- Clearly articulate the critical issues in a way that will facilitate research and analysis.

Step 4: Identify plausible alternatives.

- Plausible alternative solutions are based upon prior knowledge or theory.
- Additional alternatives may be identified as Steps 5–7 are completed.
- The purpose of identifying and discussing different alternatives is to be able to respond to key accounting issues that arise out of a specific situation.
- The alternatives are the potential methods of accounting for the situation from which only one will ultimately be chosen.
- Exploring alternatives is important because many times there is no single cut-and-dried financial reporting solution to the situation.
- Ambiguity often surrounds many transactions and related accounting issues and, accordingly, the accountant and business advisor must explore the alternatives and use professional judgment in deciding on the proper course of action.

Step 5: Develop a research strategy.

- Determine which literature to search.
- Generate keywords or phrases that will form the basis of an electronic search.
- Consider trying a broad search to:
 - Assist in developing an understanding of the area,
 - Identify appropriate search terms, and
 - Identify related issues and terminology.
- Consider trying very precise searches to identify whether there is authoritative literature directly on point.

Step 6: Search authoritative literature (described in additional detail below). This step involves implementation of the research strategy through searching, identifying, and locating applicable information:

- Research published GAAP.
- Research using *Wiley GAAP*.
- Research other literature.
- Research practice.
- Use theory.
- Find analogous events and/or concepts that are reasonably similar.

Step 7: Evaluation of the Information Obtained.

- Analyze and evaluate all of the information obtained.
- This evaluation should lead to the development of a solution or recommendation. Again, it is important to remember that Steps 3–7 describe activities that will interact with each other and lead to a more refined process in total, and a more complete solution. These steps may involve several iterations.

Search Authoritative Literature (Step 6)—Further Explanation

The following sections discuss in more detail how to search authoritative literature as outlined in Step 6.

Researching Wiley GAAP. This publication can assist in researching GAAP for the purpose of identifying technical answers to specific inquiries. You can begin your search in one of two ways: by using the contents page at the front of this book to determine the chapter in which the answer to your question is likely to be discussed, or by using the index at the back of this publication to identify specific pages of the publication that discuss the subject matter relating to your question. The path chosen depends in part on how specific the question is. An initial reading of the chapter or relevant section will provide a broader perspective on the subject. However, if one's interest is more specific, it might be better to search the index.

Each chapter in this publication is organized in the following manner:

- A chapter table of contents on the first page of the chapter.
- Perspective and Issues, providing an overview of the chapter contents (noting any current controversy or proposed GAAP changes affecting the chapter's topics), scope of the Topic, and a list of major Topics and Subtopics in the FASB Accounting Standards Codification relevant to the chapter's topics.
- Concepts, Rules, and Examples, setting forth the detailed guidance and examples.

The appendices in this publication are Definitions of Terms and Disclosure Checklist for Commercial Businesses. After reading the relevant portions of this publication, the list of major topics and subtopics in the Codification can be used to find the sections in the Codification that are related to the topic, so that these can be appropriately understood and cited in documenting your research findings and conclusions. Readers familiar with the professional literature can use the Codification Taxonomy that precedes this chapter to quickly locate the pages in this publication relevant to each specific pronouncement.

Researching nonpromulgated GAAP. Researching nonpromulgated GAAP consists of reviewing pronouncements in areas similar to those being researched, reading accounting literature mentioned in ASC 105-10-05-3 and earlier in this chapter as "other sources," and carefully reading the relevant portions of the FASB Conceptual Framework (summarized later in this chapter). Concepts and intentions espoused by accounting experts offer essential clues to a logical formulation of alternatives and conclusions regarding problems that have not yet been addressed by the standard-setting bodies.

Both the AICPA and FASB publish a myriad of nonauthoritative literature. FASB publishes the documents it uses in its due process: Discussion Papers, Invitations to Comment, Exposure Drafts, and Preliminary Views as well as minutes from its meetings. It also publishes research reports, newsletters, and implementation guidance. The AICPA publishes Technical Practice Aids, Issues Papers, Technical Questions and Answers, Audit and Accounting Guides, as well as comment letters on proposals of other standard-setting bodies, and the monthly periodical, *Journal of Accountancy*. Technical Practice Aids are answers published by the AICPA to questions about accounting and auditing standards. AICPA Issues Papers are research documents