FASB Codification: What, Why and Practical Implications
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FASB Codification Summary
• Effective July 1, 2009, the Financial Accounting Standards Board’s (FASB) Codification of U.S. Generally Accepted Accounting Principles became the sole source of authoritative generally accepted accounting principles in the United States.
• The FASB Accounting Standards Codification (the "Codification") replaced the existing GAAP hierarchy (as currently used by all nongovernmental entities) with two levels of guidance; authoritative and non-authoritative.

Why was the Codification Necessary?
With multiple types of standards issued by a variety of standard setters, there were multiple indexing schemes, and different levels of authority. This made it difficult to identify and therefore retrieve all relevant U.S. GAAP.

Constituent concern that U.S. GAAP is overly confusing and difficult to research.
Need for Change

User survey — Over 1,400 participants
• 80% believed the structure of U.S. GAAP was confusing
• 85% believed that research took an excessive amount of time
• 95% agreed that the FASB should pursue a codification

Structure survey
• 90% agreed that the structure is easy to understand and will simplify access
• 97% believed that the structure is an improvement or significant improvement when compared with existing GAAP
Need for Change

➢ Research system survey – over 3,200 participants
  • Priority – Topic, Search, GoTo
  • 90% expect to access electronically rather than hard copy

FASB Codification Summary

• The Codification is effective for financial statements that cover interim and annual periods ending after September 15, 2009.
• The Codification is organized by accounting topic. Each topic includes all accounting guidance that should be applicable to it. The FASB believes this will significantly improve the accounting research process. It will likely reduce the possibility that relevant accounting literature may be overlooked.

FASB Codification Summary

• Now that the Codification is effective, new guidance will be incorporated into the Codification in real time. The FASB believes that users will have much quicker access to the information stemming from FASB deliberations.
FASB Codification Summary
• Guidance contained in the Codification is now updated by FASB with the use of “Accounting Standards Updates”.
  – Goodbye to FASB Statements, FASB Staff Positions (FSPs), FASB Interpretations (FINs), or Emerging Issues Task Force (EITF) Abstracts, they will no longer be issued or refunded.
  – Updates will be numbered numerically, for example, 2009-01, 2009-02, etc. Brilliant!!
    • Indexed by year and sequentially thereafter

FASB Codification SEC Content
• To assist public companies, the Codification will also contain relevant authoritative guidance issued by the Securities and Exchange Commission.
  – Regulation S-X
  – Financial Reporting Releases/Accounting Series Releases
  – Interpretive Releases
  – Staff Accounting Bulletins
  – EITF Topic D including comments of the SEC Staff Observer

FASB Codification SEC Content
• The Codification will NOT include all guidance issued by the SEC that relate to issues outside the basic financial statements such as guidance pertaining to MDA, independence, etc.
FASB Codification Excluded Items

- Certain items have been excluded from the Codification
  - All governmental accounting standards (FARs etc.) have been omitted from the codification.
  - All standards that were outdated or superseded by December 31, 2008.

The Codification Format

- The Codification is based on a hierarchy that is presented at four basic levels:
  - Topics
  - Sub-topics
  - Sections
  - Paragraphs

The Codification Format

- Topics are organized into various common accounting subjects:
  - Presentation
    - Issues pertaining to basic financial statements and notes to the financial statements without regard to recognition and/or measurement issues
  - Financial Statement Accounts
    - Includes topics on basic accounts such as cash, receivables, inventory, revenue recognition, etc.
  - Broad Transactions
    - Includes broader topics such as business combinations, leasing, derivatives, etc.
  - Industry Specific Guidance
The Codification Format – Topics

- Presentation
  - 205 – Presentation of Financial Statements
  - 210 – Balance Sheets
  - 215 – Statement of Shareholder Equity
  - 220 – Comprehensive Income
  - 225 – Income Statement
  - 230 – Statement of Cash Flows
  - 235 – Notes to Financial Statements
  - 250 – Accounting Changes and Error Corrections
  - 255 – Changing Prices
  - 260 – Earnings per Share
  - 270 – Interim Reporting
  - 272 – Limited Liability Entries
  - 275 – Risks and Uncertainties
  - 280 – Segment Reporting

The Codification Format – Topics

- Financial Statement Line Item
  - 305 – Cash and Cash Equivalents
  - 310 – Receivables
  - 320 – Investments – Debt and Equity Securities
  - 323 – Investments – Equity Method and Joint Ventures
  - 325 – Investments – Other
  - 330 – Inventory
  - 340 – Other Assets and Deferred Costs
  - 350 – Intangibles – Goodwill and Other
  - 360 – Property, Plant, and Equipment
  - 405 – Liabilities
  - 410 – Asset Retirement and Environmental Obligations
  - 420 – Exit or Disposal Cost Obligations
  - 430 – Deferred Revenue
  - 440 – Commitments
  - 450 – Contingencies
  - 460 – Guarantees
  - 470 – Debt
  - 480 – Distinguishing Liabilities from Equity
  - 505 – Equity
  - 605 – Revenue Recognition
  - 705 – Cost of Sales and Services
  - 710 – Compensation – General
  - 712 – Compensation – Nonretirement Postemployment Benefits
  - 715 – Compensation – Retirement Benefits
  - 718 – Compensation – Stock Compensation
  - 720 – Other Expenses
  - 730 – Research and Development
  - 740 – Income Taxes
The Codification Format – Topics

- Broad Transactions
  - 805 – Business Combinations
  - 808 – Collaborative Arrangements
  - 810 – Consolidation
  - 815 – Derivatives and Hedging
  - 820 – Fair Value Measurements and Disclosures
  - 825 – Financial Instruments
  - 830 – Foreign Currency Matters
  - 835 – Interest
  - 840 – Leases
  - 845 – Nonmonetary Transactions
  - 850 – Related Party Disclosures
  - 852 – Reorganizations
  - 855 – Subsequent Events
  - 860 – Transfers and Servicing

- Industry
  - 905 – Agriculture
  - 908 – Airlines
  - 910 – Contractors – Construction
  - 912 – Contractors – Federal Government
  - 915 – Development State 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 – Broker 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
  - 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
The Codification Format – Topics

- Industry, continued
  - 972 – Real Estate – Common Interest Realty Associations
  - 974 – Real Estate – Real Estate Investment Trusts
  - 976 – Real Estate – Retail Land
  - 978 – Real Estate – Time-Sharing Activities
  - 980 – Regulated Operations
  - 985 – Software
  - 995 – U.S. Steamship Entities

Codification Format – Sub-topics, Sections and Paragraphs

- The nature of a sub-topic is of course dependent on the topic.
  - For example, the sub-topics underneath the related topic “Leases” consist of “overall”, “operating leases” and “capital leases”

Codification Format – Sub-topics, Sections and Paragraphs

- Beneath the sub-topic level are sections.
  - Using our leasing example, some of the sections are labeled “scope”, “recognition” and “measurement”
- The paragraph level is the only level that contains substantive content. All higher levels in the topical structure exist merely to organize the paragraph-level content.
What does the FASB Codification Mean to You?

- In researching and supporting accounting conclusions many of us were familiar with the location of certain important paragraphs. For example, “paragraph 59” of SOP 97-2, Software Revenue Recognition, has historically been an important paragraph for software vendors and their underlying revenue recognition models. The concepts underlying this paragraph remain unchanged by the Codification, however, its location has changed and therefore reference to “paragraph 59” is no longer appropriate with the adoption of the Codification.

- Researching accounting issues
- Understand the organization of the codification
  - There is no more hierarchy of GAAP – let it go
- Use online tools or updated reference sources
  - Accounting Research Manager (ARM)
  - GAAP Guide
What does the FASB Codification Mean to You?

- Remember - Only the reference numbers have changed
  - The Codification specifically does not change GAAP, only the referencing
  - Some handbooks (e.g. Vest Pocket CPA) that navigate accounting issues didn’t use references to start with
    - Vest Pocket CPA Guide

Your Financial Statements – 2010 and Beyond

- There is no requirement to reference to specific GAAP in financial statements
  - Some circumstances may be difficult to avoid (e.g. the impact of adopting a new accounting standard)
- You may elect to include GAAP references under the codification

Your Financial Statements – 2010 and Beyond

- If reporting of pre-codifications periods is presented then you may want to provide reference to both pre and post codification GAAP reference if you need to include a GAAP reference
  - Note the SEC indicates preference of exclusive use of the Codification when referring to specific GAAP in filings with the SEC
- It is not appropriate to refer to pre-codification GAAP only for either public or private company financial statements
How to Reference Codification GAAP

• The format for the Codification is XXX-YY-ZZ-PP where XXX is the Topic, YY is the Subtopic, ZZ is the Section, and PP is the Paragraph.

• Citing particular content in the Codification simply involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure.
  – FASB suggests that all citations begin with “FASB ASC,” where ASC stands for Accounting Standards Codification.

An Example of Citing Reference of Codification

• Example: The classification code for the Receivables Topic is 310; the code for the Overall Subtopic of Topic 310 is 310-10; and the code for the Scope Section of Subtopic 310-10 is 310-10-15.
  – In the case of SEC content, an “S” precedes the Section number.

• Therefore, continuing the preceding example, a proper citation to material in paragraph 2 of the Scope section of the Overall Subtopic of the Receivables Topic would be FASB ASC 310-10-15-2.

Next Steps for You and Your Team

• Identify a go to research reference tool for you and your team
  – Online tools provide:
    • Search capabilities
    • Tend to remain more current
  – Guides / books
    • Cheaper
    • Not reliant on internet connections
Next Steps for You and Your Team

- Personally get familiar with the new reference structure
- Discuss with your CPA firm what changes in their expectations of you
  - Drafting of footnotes
  - New pronouncements
  - Any other impacts

Questions?