

Ready for FASB's Accounting Standards Codification?

By ROSEMARY SCHLANK, CPA

The FASB is in the final stages of readying its Accounting Standards Codification, the document that will soon be designated as the single source of authoritative U.S. accounting and reporting standards. With an expected launch date of July 1, the codification packs real power as a way to improve financial reporting. To help NYSSCPA members understand and harness that power, here are some practical tips on the steps to take now and the trends to monitor over the months ahead.

Steps to Take Now

In effect, the codification will push the reset button for U.S. Generally Accepted Accounting Principles (GAAP). The thousands of familiar accounting pronouncements written over the years by different authors and in different formats will be reorganized into an orderly and logical framework with less than a hundred topics, all of which follow a consistent outline. A few simple steps can help ensure a smooth transition.

1. Arrange access to the formats you prefer.

Arranging access to U.S. GAAP information should be a top priority now as the options are becoming clearer for the materials available from the Financial Accounting Standards Board (FASB).

For the familiar formats, such as FASB Statements, Interpretations, Emerging Issues Task Force (EITF) Issues and FASB Staff Positions (FSPs), the FASB is planning one final update to its *Original Pronouncements*, *Current Text* and *EITF Abstracts* volumes. FASB Board Member Larry Smith said that this update will be through the date of the conversion to the codification, and the materials will be available for purchase from the FASB in print format and as a part of FARS (Financial Accounting Research System).

For the newly codified format, the FASB expects to announce a print edition for release in August 2009, as well as some level of free online access. But the free materials will not necessarily be the same as those available at <http://asc.fasb.org/home> during the verification period. Most notably, the cross-reference tables may be moved to a fee-based program. These tables can be quite useful, if you have manuals to update and/or you have not had time to experiment with the new codified format during the verification period.

If you use materials offered by licensees (providers other than the FASB), you should check with your account representative on the plans for conversion to the codification.

2. Start updating your internal accounting manuals and SEC filings.

It may not happen overnight, but the switch to the new codified format will soon prompt corporate accounting departments and CPA firms to update their accounting manuals and publications to reflect the new style. These updates are not without their challenges. For starters, the approach suggested in the FASB's Notice to Constituents can result in a numbering system that is functional, but neither mnemonic (easy to memorize) nor easy to relate in a presentation to investors or directors. Examples: The "Receivables Topic" is FASB ASC 310, and a specific paragraph of this Topic is FASB ASC 310-10-15-2.

Even tougher challenges arise when applying the new system to a standard that consists of multiple topics, such as FASB Statement 143, *Accounting for Asset Retirement Obligations*. Conversion of Statement 143 to a codification reference produces a long string of numbers like this: FASB ASC 410-20, 450-20, 835-20, 360-10, 840-10, 840-40, and 980-410. For simplicity, you could just truncate everything after 410-20, but then the result would be neither all-inclusive nor entirely accurate.

What are the other options? Well, it may seem like a leap of faith, but you could try to eliminate the reference to the pronouncement and just refer to "current GAAP" or "the latest guidance on asset retirement obligations." Another option is to stop relying on shortcuts altogether and just try to summarize the technical accounting guidance in a concise, plain-English explanation.

3. Evaluate any impact on accounting policies from the change in the hierarchy.

The FASB's objective in developing the codification was to reorganize U.S. GAAP, not to change it. But there is at least one exception that may result in an accounting change for nonpublic companies. The FASB explained this change and requested comments on other possible areas of change in its exposure draft on "The Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162."

The area known to have a potentially significant effect on accounting policies is the inclusion of the AICPA's Technical Inquiry Service (TIS) Section 5100, "Revenue Recognition," paragraphs 38-76, in the codification as authoritative literature. Although this guidance was previously labeled nonauthoritative, many accountants considered it to be pervasive industry practice, and public companies were generally expected to follow it.

If the exposure draft is adopted as proposed, nonpublic entities that are affected by the inclusion of TIS 5100 will need to apply this guidance as a change in accounting principle for revenue arrangements entered into or materially modified in fiscal years beginning on or after Dec. 15, 2009, and interim periods within those years.

4. Know what to expect for future codification updates, and plan accordingly.

After the codification is effective, new accounting standards will have a new format and a different level of significance. For example, the EITF is scheduled to meet in June and throughout 2009. Its agenda may continue to be structured around EITF Issues. But CPAs will likely never again see another authoritative EITF Issue.

Instead, the FASB will issue nonauthoritative documents known as "Codification Updates." A Codification Update is a two-part document that communicates background information, such as the basis for conclusions, together with "Codification Update Instructions." The FASB plans to update the codification itself concurrent with the release of each new Codification Update. For changes that are approved but not yet effective, the codification will reflect both the current and the new accounting standards until the change becomes effective, then the outdated guidance will be removed.

These changes will affect disclosures in Securities and Exchange Commission (SEC) filings, such as SAB 74 disclosures.

In the absence of any more specific guidance from the SEC, companies could write something like this: "In July 2009, the FASB issued Codification Update 09-01 to reflect the consensus on the milestone method reached in EITF Issue 08-9, ratified by the FASB in July 2009, and codified at FASB ASC 605-25. We do not believe this guidance will have a material impact on our financial statements."

But perhaps the better option would be to just describe the change and its impact in plain English: "The FASB approved the use of a milestone method of revenue recognition in certain circumstances. The Company has no transactions that would qualify for the application of this method. Hence we do not believe this guidance will have a material impact on our financial statements."

5. Get familiar with the XBRL references needed for SEC reporting.

Another key objective for the FASB in developing the codification was to provide the authoritative source of literature for the completed XBRL taxonomy. XBRL stands for eXtensible Business Reporting

Language, a technology that allows companies to tag the information provided to the SEC in a way that allows investors and prospective investors to read the tags and interact with the data. Among other things, the tags assigned to line items in the financial statements provide references to GAAP pronouncements in the familiar array of FASB Statements, EITF Issues, FSPs, etc. This information can be enormously helpful to investors who may lack knowledge of accounting in general or of U.S. GAAP in particular.

To date, XBRL reporting has been voluntary. But this will change under an SEC mandate issued on Jan. 30, 2009. Starting with quarterly reports for fiscal periods ending on or after June 15, 2009, the largest companies who file using U.S. GAAP (i.e., those with a public float above \$5 billion) will be required to provide their reports in XBRL format. Just in time for these filings, the XBRL U.S. organization plans to issue a tool called a "taxonomy extension" that will convert the GAAP references to codification references.

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The extension tool is scheduled for release near the end of July 2009, leaving companies little time to verify the references prior to their required SEC filing dates. So anyone who plans to use these codification references may want to check with the FASB and the XBRL U.S. organization for updates on the XBRL references as they become available.

Trends to Monitor

Although it will take some time to get used to and CPAs may experience some minor frustrations and inconveniences in the interim, the long-term power and promise of the codification are enormous. The key trends to monitor:

- **Private company GAAP.** Increasing discussions about possible adoption by U.S. public companies of International Financial Reporting Standards (IFRS) are creating major uncertainties for accountants in non-public entities. In the United States, standards setters have long tried to keep GAAP consistent for both public and private companies. But the IASB is taking a different tack and readying a separate standard on *IFRS for Private Entities*. The FASB has not yet discussed whether or not it will follow suit.

The codification is a handy tool to deal with uncertainties like this because it provides a convenient way to track any differences between public and private company accounting principles. The codification prefaces any reference to an accounting requirement that applies only to public companies with an "S"—short for SEC. CPAs will need to monitor future developments in this area. But whatever future direction is selected for private entities, the codification system provides a solid and flexible framework on which to build.

- **Simplification of disclosure requirements.** Another area to monitor closely is the growing controversy over disclosure requirements, especially after the measures taken to deal with the financial crisis. This area is causing a rift of sorts, as users of financial statements seem to be demanding more and more disclosures, resulting in page upon page of ad hoc accounting literature, while preparers are questioning whether the resulting literature can't be simplified and, perhaps, systematically examined to determine if all of it is really cost-justified.

There are also questions about whether some of the disclosures overlap with the SEC's requirements and whether all the requirements are necessary for private as well as public companies. For cross-cutting issues like this, the codification represents a handy starting point because its consistent framework positions all the disclosure guidance in the same place for each of the main

topics. The structure of the codification, combined with the discipline of the XBRL reporting taxonomies, leaves the FASB well-positioned to come to grips with thorny questions like these, if and when a project of this magnitude can be fit into its already crowded agenda.

- **Greater financial and accounting literacy.** The final area to monitor is the difficult-to-measure intangible called financial and accounting literacy. As anyone who has ever tried to understand the ups and downs of stock prices knows, the markets are not always rational. Gains and losses can be caused by misunderstandings or presumed awareness. Sometimes, the yardsticks of corporate performance seem to shift almost overnight. The best protection against undue risk and volatility is an educated investor. Education is one of the biggest dividends of the FASB's codification, thanks to its public availability and use with XBRL. Investors benefit in other ways as well because the awkward numbering structure nudges companies toward more plain-English disclosures. So, it may be fitting that the codification should go live in July 2009, the 40th anniversary of the first time any man ever set foot on the moon. To paraphrase Neil Armstrong's widely quoted observation, the launching of the codification is "one small step for the FASB; one giant leap for financial literacy."

Resources to Use

To get familiar with the codification, go to the FASB's Web site at <http://asc.fasb.org/home> and try out the tutorials and cross-reference tables. If you have a question, you can get help by using the feedback feature.

For more information, visit the FASB's Notice to Constituents on the codification Web site, the FASB's archived webcast at www.fasb.org/fasb_webcast_series/index.shtml.

A four-part webinar series, "Fundamentals of the FASB Accounting Standards Codification," is available through FAE's new e-CPE online classroom venue beginning June 18. Go to www.nysscpa.org/e-cpe for more information.

NYSSCPA member Rosemary Schlank, CPA, is president of Raster Enterprises and founder of the Center for Financial and Accounting Literacy. She served as a member of the Editorial Advisory Team for the FASB's codification project and participated in the Major Firm Topical Review of the U.S. GAAP XBRL Taxonomy v 1.0 while a director at BDO Seidman, LLP. Ms. Schlank can be reached at rschlank@raster-enterprises.com.

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