

Accounting Research On The Fast Track

By Caroline O. Ford and C. William Thomas December 2008 FASB Delays Codification Launch to July

In January, FASB released the FASB Accounting Standards Codification (ASC or codification). The codification simplifies the classification of accounting standards by restructuring all authoritative U.S. GAAP for nongovernmental entities into one online database under a common referencing system. The codification is a first step in organizing U.S. accounting standards for convergence with IFRS.

When it becomes authoritative, which is expected to happen in July rather than in April as originally scheduled, the codification will become the single source of authoritative U.S. accounting standards for nongovernmental entities, superseding all then-existing non-SEC accounting and reporting standards. A summary of the content and structure of the codification was featured in the JofA earlier this year ("[Framing the Future](#)," May 08, page 40). This article continues with a more detailed discussion of the structure of the codification and Web-based research system, which offers several options for accessing, viewing and using its contents.

A brief accounting research case study in this article offers a firsthand look at how to use the codification research system. We compare the results of research using the new system with those of traditional research methods.

We encourage readers to test-drive the system while they read the article to better understand the system and experience its benefits firsthand. FASB is not charging for using the system now but has not said whether that will change after the codification becomes authoritative. Register to use the codification at <http://asc.fasb.org> and consider commenting before FASB closes the verification period on Jan. 15.

TIERED, TOPICAL STRUCTURE: AREAS AND TOPICS

The codification is organized in a tiered structure. Information is organized into eight areas, ranging from industry specific to general financial statement matters. Within each area are topics, subtopics, sections, subsections and paragraphs, where details of the technical content reside.

At the topic and section levels, the codification material correlates to IFRS. The codification topical organization is expected to ease the convergence of U.S. GAAP and IFRS standards.

Each area represents a collection of related topics, which are designated with 3-digit topic codes. The areas are: presentation; assets; liabilities; equity; revenue; expenses; broad transactions; and industry.

Topics in the "Presentation" area relate only to general presentation matters and do not address recognition, measurement, and de-recognition issues. Within the five financial statement account areas—from assets through expenses—various types of financial statement accounts are treated as separate topics. Topics in the "Broad Transactions" area relate to multiple financial statement accounts and are generally categorized by type of transaction. As the name implies, topics in the "Industry" area deal with transactions that are unique to specific industries or types of activities.

SUBTOPICS

Subtopics represent two-digit subsets of a topic and are generally distinguished by type or by scope. Subtopics unique to a topic use classification numbers between 00 and 99. Topics contain an overall subtopic, which is always coded 10. Unique or incremental subtopics are assigned higher numbers. Industry topics may contain subtopics that mirror general topics where applicable.

SECTIONS

Sections represent the nature of the content within a subtopic. Every subtopic uses the same sections, unless there is no content for a particular section within that subtopic. See the sidebar "Standard Section Content Within Codification" for the standard content specifications for sections.

Sections that cover SEC disclosure requirements for public companies are designated with the prefix "S." The codification does not contain the entire population of SEC rules, regulations, interpretations and staff guidance. In particular, it excludes content related to matters outside the basic financial statements, such as management's discussion and analysis, auditing and independence matters. The codification does not replace or affect SEC guidance as it does with FASB and other standards. SEC content is expected to be updated periodically as SEC rules change. Users should always refer to the SEC Web site for the most recent updates regarding SEC rules and regulations.

SUBSECTIONS AND PARAGRAPHS

Subsections occur only in a limited number of cases. They further segregate content of a particular section. Each section has at least one general subsection. Subsections are not numbered. They differ from a paragraph heading in that the system provides a feature to combine all subsection content for a topic.

For example, the "Receivables" topic— "Overall" subtopic—"Overview and Background" section (ASC 310-10-05) includes a subsection for acquisition, development and construction arrangements. This allows CPAs doing research to combine all content related to acquisition, development and construction arrangements.

CLASSIFICATION CODES

Unlike any previous GAAP references, the codification follows an established pattern. The hybrid classification system is XXX-YY-ZZ- PP, where XXX = topic, YY = subtopic, ZZ = section, and PP = paragraph.

USING THE CODIFICATION RESEARCH SYSTEM

Navigation within the codification research system can be accomplished four ways: browsing by topical structure, crossreferencing original standards and the codification, searching, or by using a "go to" feature. The system's home page offers tutorials that include audio and animated screens demonstrating how to navigate the codification research system.

Browsing by topic, FASB's intended method of navigation, requires the user to first click on a link from an always-present list of areas, followed by topics and another click to a subtopic link. A table of contents displays sections and allows the user to expand the view to list all subsections and paragraphs. A "breadcrumb" navigation stream is listed at the top of the page for reference and navigation.

The cross-reference feature links original standards with the codification either by standard or by codification. Queries by standard allow users to determine where original standard content is located within the codification. After first choosing a standard type from a dropdown menu of 19 sources and choosing the standard number, the system generates a report linking original source paragraph numbers to codification paragraphs. Clicking on the links within the report takes users to original standards and/or paragraphs in the codification.

Searching "by codification" follows the same pattern, except codification topics, subtopics and/or section numbers are entered to generate a report linking to related original standard paragraphs. As users familiarize themselves with the system, the cross-reference feature will likely be their preferred choice of navigation. However, it is unclear how long this feature will remain once the codification becomes effective.

The search feature within the codification research system is similar to other Boolean operator (key character) search engines. Search results can be narrowed by related terms or by area. The "Go To" feature allows advanced users to jump to a requested document location within the system, as long as the researcher knows at least the topic number at issue.

Standard Section Content Within Codification

XXX-YY-00 Status

XXX-YY-05 Overview and Background

XXX-YY-10 Objectives

XXX-YY-15 Scope and Scope Exceptions

XXX-YY-20 Topical Definitions—Glossary

XXX-YY-25 Recognition

XXX-YY-30 Initial Measurement

XXX-YY-35 Subsequent Measurement

XXX-YY-40 Derecognition

XXX-YY-45 Other Presentation Matters

XXX-YY-50 Disclosure

XXX-YY-55 Implementation Guidance and Illustrations

XXX-YY-60 Relationships

XXX-YY-65 Transition and Open Effective Date Information

XXX-YY-70 Links to Grandfathered Material

XXX-YY-75 XBRL Definitions

RESEARCHING A VENUE RECOGNITION ISSUE: COMPARING OLD AND NEW

The following discussion compares the research process using a traditional research system versus the codification research system. The scenario is a Trueblood Case Study reproduced with permission from the Deloitte Foundation. The question at issue is how the business, Lighthouse, should recognize revenue for sales of its devices and service.

Lighthouse is a provider of locating services to the shipping industry. Lighthouse's Ship Finder service is a one-way messaging service that routes messages from the ships at sea to the shipping company's offices. These messages provide the shipping company with detailed information related to ship location, speed and current local weather. Lighthouse must install a dedicated hardware unit or device on the ship before the Ship Finder service can be used. Customers generally sign two contracts, one governing the sale of devices and the other governing the provision of the service.

Service contracts generally span 12 months and are billed monthly. The services are priced at standard rates, although discounts are offered depending on the number of devices sold. The devices also have been sold at a discount. However, the discount is based on the number of units purchased (or to be purchased) and does not appear to be unreasonable.

Standard pricing for the devices and service is as follows:

<u>Product or Service</u>	<u>Price</u>	
Ship Finder Device	\$10,000 per unit, MSRP	The Lighthouse devices are made to be used exclusively with the Lighthouse services and, currently, no competitor makes devices that work with the Lighthouse services.
Ship Finder Service	\$300 per month, per unit	

Customers may cancel the service at any time. However, amounts paid related to the devices are nonrefundable. Payments for the devices are due upon completion of the installation and final acceptance by the customer.

TRADITIONAL RESEARCH SYSTEM

To Illustrate The Traditional Research System Method, We Used The Financial Accounting Research System (FARS) ([Www.Fasb.Org/Fars](http://www.fasb.org/fars)), As Well As The SEC Web Site As Sources Of Evidence. The Research Process Described Below, However, Is Applicable To Most Traditional Research Systems Oriented To The GAAP Hierarchy.

First, a keyword search or reference to a topical index for such keywords as revenue recognition, right of return, service contracts, and/or multiple deliverables identified a vast number of authoritative sources from various levels of the GAAP hierarchy. For example:

<u>Keyword</u>	<u>Search Results (abbreviated)</u>
Revenue recognition:	ARB 43; APB Opinion 10; FAS 48; FAS 111; FTB 90-1; SAB Topic 13; SAB 101; SAB 104
Service contracts:	FIN 46R; EITF 97-2; FAS 141R; EITF 08-1; EITF 99-19
Multiple deliverables:	EITF 01-4; EITF 00-21; EITF 00-3; SAB 104; SAB 101

Actual search results far exceeded the abbreviated list above. Wading through unrelated search results created an inefficient research process. Adding to the inefficiency, the various levels of the GAAP hierarchy in the search results required the researcher to spend considerable time and effort referencing each related result. Because the GAAP hierarchy places a higher significance on level A sources (see GAAP hierarchy in FASB Statement no. 162), the search results from the higher levels are investigated first. However, the lower levels, such as EITF results from level C, cannot be ignored. They may be relevant for the specifics of Lighthouse's accounting issue.

Even after narrowing the search when possible, the researcher spent valuable time reading authoritative sources that ultimately did not apply to this case. Finally, the researcher narrowed the applicable sources to Lighthouse's revenue recognition issue to the following: SAB 101, EITF 00-21, ARB 43 and APB Opinion 10. These sources provide the foundation for the two accounting alternatives:

Alternative 1. The device and service agreements represent a single unit of accounting, and both elements should be recognized as the service is provided.

Alternative 2. The delivery of the devices represents a separate earnings process and should be recognized once the devices are delivered, installed and accepted by the customer.

Advocates of alternative 1 point to the fact that the service cannot be used without the device, and the device alone has no function. The three criteria, outlined in EITF 00-21, paragraph 9, to determine whether a delivered item is a separate unit of accounting, are not met. Therefore, EITF 00-21, paragraph 10, indicates that the device revenue should be combined with the undelivered item (services) to determine the appropriate recognition of revenue. The device revenue should be recognized over the service period. SAB 101, now codified in SAB Topic 13, reiterates the need to defer the device revenue until service is

provided (see SAB Topic 13 A(3)(c)).

Alternative 2 advocates, on the other hand, believe that the device and service are separate units of accounting. They note that Lighthouse prepares separate contracts for the device and service, and amounts paid for devices are nonrefundable even if service is canceled. Revenue recognition for devices does not depend on customers using the service. Therefore, device revenue should be recognized at the time the transaction is completed because it is realized or realizable and earned, as noted in ARB 43, chapter 1A, and APB Opinion 10, paragraph 12.

To complete the research process, the researcher must draw a conclusion and communicate it to the appropriate person(s).

FASB CODIFICATION RESEARCH SYSTEM

Rather than beginning the research process with a general keyword search, using the codification research system, the researcher began by browsing the main areas list, which always appears on the left-hand side of the screen. The researcher chose the area "Revenue" and the corresponding topic "Revenue Recognition" (605) and then browsed the adjoining subtopic links (see screenshot below), choosing the subtopic "Multiple-Element Arrangements (25)."

The screenshot displays the FASB Accounting Standards Codification Research System interface. The top left features the FASB logo and the text "ACCOUNTING STANDARDS CODIFICATION". Below this is a "BROWSE" section with a search box containing "ex: 740-10-25" and a "GO TO ?" button. A navigation menu on the left lists various categories, with "Revenue" highlighted in red. The main content area shows "Home > Revenue" and "Revenue" with a subtopic "605 Revenue Recognition" selected. On the right, a table of contents for 605-25 is displayed, listing various subtopics such as "10 - Overall", "15 - Products", "20 - Services", "25 - Multiple-Element Arrangements", "30 - Rights to Use", "35 - Construction-Type and Production-Type Contracts", "40 - Gains and Losses", "45 - Principal Agent Considerations", "50 - Customer Payments and Incentives", "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", and "926 - Entertainment—Films".

The table of contents for 605-25 displayed the various related sections, subsections and paragraphs. The "Expand" function allowed the researcher to quickly and easily view each specific area within 605-25. From there, the researcher could choose one specific section/subsection/paragraph to explore. The researcher also used the "Join All Sections" (see screenshot below) function to read each section/subsection/paragraph consecutively, rather than just one source at a time.

Home > Revenue > 605 Revenue Recognition > 25 Multiple-Element Arrangements

605 Revenue Recognition

25 Multiple-Element Arrangements

To join all Sections within this Subtopic, click JOIN ALL SECTIONS.

JOIN ALL SECTIONS

Collapse | Expand



- [-] 605 Revenue Recognition
 - [-] 25 Multiple-Element Arrangements
 - [-] 05 Overview and Background
 - General
 - [-] 15 Scope and Scope Exceptions
 - [-] General
 - > Entities
 - > Transactions
 - > Other Considerations
 - [-] 25 Recognition
 - [-] General
 - > Units of Accounting
 - [-] 30 Initial Measurement
 - General
 - [-] 50 Disclosure
 - General
 - [-] 55 Implementation Guidance and Illustrations
 - [-] General
 - [-] > Implementation Guidance
 - >> Diagram of Overview of Subtopic Provisions

In addition to exploring 605-25, the researcher investigated additional subtopics under the main topic "Revenue Recognition" (605), including the "Overall" subtopic 10 (see screenshot below), subtopic 15 (Products), and subtopic 20 (Services). Each subtopic falls under the topic heading "Revenue Recognition" (605). For each subtopic chosen, the researcher reviewed related SEC material, which is listed along with all other sections but prefaced with the letter "S."

605 Revenue Recognition

10 Overall

To join all Sections within this Subtopic, click JOIN ALL SECTIONS.

JOIN ALL SECTIONS

Collapse | Expand

[-] 605 Revenue Recognition

[-] 10 Overall

[+] 05 Overview and Background

[+] 15 Scope and Scope Exceptions

[+] 25 Recognition

[+] 60 Relationships

[+] S25 Recognition

[+] S50 Disclosure

[-] S99 SEC Materials

[-] General

[-] > SEC Staff Guidance

[-] >> Staff Accounting Bulletins

[-] >>> SAB Topic 13, Revenue Recognition

While the alternatives regarding Lighthouse's revenue recognition issue are the same, the process using the codification research system is significantly streamlined, reducing time and resource requirements. Note that this method did not require the researcher to investigate various levels of GAAP literature, determining which was most authoritative, nor did the researcher have to use literature from multiple sources. Instead, the alternative was formed after researching within one main topic (605) and two subtopics (605-25 and 605-10).

The authoritative guidance used to form alternative 1 using the traditional method (EITF 00-21, paragraphs 9 and 10, and SAB Topic 13) is worded identically in the codification research system and can be found at FASB ASC 605-25-25-5, 605-25-25-6, and 605-10-S99, respectively. This can be verified using the "Printer-Friendly with sources" function within the codification research system. This option, which may be available only during the verification period, shows the original source of codification material in parentheses after the codification paragraph.

The wording in the authoritative guidance used to form alternative 2 (ARB 43, APB Opinion 10) was also identical to that within the codification research system (FASB ASC 605-10-25-3). In forming the second alternative, note that only one section/subsection was needed.

FEEDBACK

We Introduced The Codification In A Senior-Level Undergraduate University Course In Accounting Research And Communication. We Required 75 Students To Research Six Accounting Cases Similar To The One Used Above Using Both FARS And The Codification Research System. Students Unanimously Preferred The Codification Research System For Reasons Including Ease Of Navigation And The Benefits Of Having Multiple Ways To Search.

For its part, FASB has been gathering comments on the system since the verification period began Jan. 15. FASB has received more than 700 comments from roughly 300 individuals, according to Christine Klimek, communications manager for the Financial Accounting Foundation. The comments are not public, but Klimek said most of them are content-related rather than general or system-related and that overall the feedback has been "extremely positive."

As CPAs adjust to the codification and research system, there are two potential downsides—the obvious learning curve and costs associated with redesigning firms' research systems. We believe the learning curve associated with using the codification will be short. For reasons stated earlier, such as the cross-reference feature and topical index, the codification makes it fairly easy for researchers to learn the new system.

While this article provides exposure to the codification, there is no substitute for practice. We recommend readers register at <http://asc.fasb.org>, retrace the research steps outlined in the short case study used in this article, and see firsthand the advantages of using the codification research system over traditional research systems. Additionally, we encourage readers to explore the codification by Jan. 15, FASB's deadline for comments, and provide feedback to FASB about any inadvertent changes to GAAP that may have occurred as a result of the codification process. □

AICPA RESOURCES

JofA article "[Framing the Future](#)," May 08, page 40

Publication

FASB Codification Developments—2008: Strengthening Financial Management and Reporting, a Financial Reporting Alert, offers an overview of the codification project and case study examples (#029209)

CPE

- Understanding FASB's Accounting Standards Codification, a CPE on-demand Web event (#780131)
- Navigating the New FASB Codification: Research Real Life Accounting Issues, a CPE self-study course (#745600)

For more information or to place an order, go to www.cpa2biz.com or call the Institute at 888-777-7077.

On-Site Training

Navigating the New FASB Codification: Research Real Life Accounting Issues (course acronym: CL4CODI). Click [here](#) or call 800-634-6780 for more information.

EXECUTIVE SUMMARY

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□ Browsing by topic—FASB's intended method—requires the user to click on a link from an area list, followed by topic and subtopic. A table of contents displays sections and allows the user to expand the view to list all subsections and paragraphs. A "breadcrumb" navigation stream is listed at the top of the page for reference and navigation.

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Framing the Future

In 2009, FASB's Accounting Standards Codification will affect the day-to-day work of nearly every CPA who practices, teaches or researches accounting in accordance with U.S. GAAP.

By July 2009, FASB is expected to make the codification the single source of authoritative GAAP, overriding all existing literature. In other words, the codification content—not the original pronouncements from which the content was derived—will be GAAP. And the online codification research system—not books, loose-leaf services or CDs—will be the primary way that accountants access GAAP.

For many historical reasons, GAAP has become a minimally organized collection of many kinds of accounting pronouncements issued by various standard setters over many decades, as well as “widely recognized and prevalent” industry practices that are not the product of any formal standard-setting process. The present components of GAAP vary greatly in format, structure, completeness, authority and accessibility. As a result, practicing CPAs and financial statement preparers who attempt to apply GAAP often find themselves confused and frustrated. Likewise, accounting students frequently struggle to learn GAAP.

If a standard setter were to develop a body of accounting standards from scratch today, those standards presumably would not resemble the challenging jumble that GAAP has become. Rather than start from scratch, FASB has done the next best thing in an attempt to make GAAP more understandable and user-friendly—FASB has sought to simplify the structure of GAAP by codifying it.

In January, FASB released the *Accounting Standards Codification* for public review and verification. The codification is not merely a new entrant into the market for products and services designed to help CPAs understand and apply GAAP. Rather, the codification completely changes the way that GAAP will be documented, updated, referenced and accessed. It organizes in an entirely new way thousands of existing authoritative financial accounting and reporting standards and delivers the content via an Internet based research system that helps users search and access the material.

One often-overlooked aspect of the codification is that it will eliminate or flatten the GAAP hierarchy. In other words, there will be no more House of GAAP—a tiered structure with varying levels of authority on each floor. Under the codification, there's no distinction—all standards are uniformly authoritative.

FASB expects that the codification will help mitigate the risk of noncompliance with accounting standards, provide real time updates as standards change and reduce the amount of time and effort required to research accounting issues.

A MAJOR RESTRUCTURING

The primary goal of the codification project is not to change GAAP's content, but rather to organize it in a more useful way. The codification will contain all current, authoritative accounting standards for nongovernmental entities that have been issued by U.S. standard setters, including FASB, FASB's Emerging Issues Task Force (EITF), and the AICPA Accounting Standards Executive Committee (AcSEC). Certain SEC guidance also is included.

The codification has, for the most part, left standards unchanged. Appendix A of the *Notice to Constituents*, an overview document on the codification Web site, highlights areas in which FASB is recommending changes to standards to resolve conflicts in GAAP.

As used above, the word “authoritative” refers to GAAP from levels A through D in the current GAAP hierarchy. Undocumented industry practices and documented but-nonauthoritative guidance have been excluded from the codification. Because there are some exceptions regarding what is included in the codification, users are advised to consult FASB's *Notice to Constituents*.

The project effectively disassembled each existing authoritative pronouncement and reassembled the pieces, organizing them into approximately 90 topics. Contents in each topic are further organized first by subtopic, then section and finally paragraph. 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.

A number is assigned to specific content at each level. Citing particular content in the codification simply involves specifying the unique numeric path to the content through the topic, subtopic, section and paragraph structure. The conceptual organizational structure and citation scheme are summarized in Exhibit 1.

Exhibit 1 Organizational Structure

Level	Example Title	Example Citation
Topic	Inventory	330
Subtopic	Overall	330-10
Section	Initial Measurement	330-10-30
Paragraph	Cost Basis	330-10-30-1

This approach organizes the codification content without regard to the original standard setter or standard from which the content was derived. Once the codification is officially adopted by FASB, citations of standards such as Statement of Financial Accounting Standards no. 133 will no longer be used

because such standards will no longer be considered authoritative GAAP. References to standards will consist solely of the numbers used in the codification's structural organization.

“One thing I've observed is for people that are very used to the standards and quoting chapter and verse out of particular paragraphs, this is almost like learning a foreign language for them...,” Jay Hanson, national director of accounting for McGladrey & Pullen LLP and an Emerging Issues Task Force member, said during FASB's March 13 webcast on the codification.

CPAs who serve public companies and others with SEC reporting requirements should note that FASB plans to make relevant SEC guidance on accounting and financial reporting available through the codification, although such guidance will not be considered authoritative GAAP. The SEC guidance in the codification will be provided strictly on a convenience basis, and FASB has made extensive disclaimers regarding reliance on it.

Going forward, only FASB will issue authoritative accounting standards. Only one type of standard will be issued, and all standards will be numbered sequentially within each calendar year. The standards

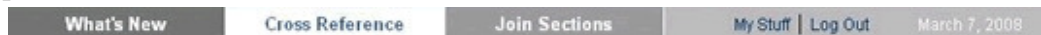
themselves will not be authoritative but will specify how the authoritative codification is to be updated.

THE RESEARCH SYSTEM

The codification's online research system at <http://asc.fasb.org> is the primary means through which FASB will provide access to the codification's content. During the public verification period, the online research system will be the *only* way to access the codification content.

Access to the research system during the verification period is free to those who register. Tutorials are available to help new registrants learn to use the system. Financial Accounting Foundation (FAF) trustees, who oversee FASB, have not decided whether to charge for access after the codification is formally adopted.

Users can browse codification content directly via an outline structure that reflects the content's organizational layers or perform advanced keyword searches to find specific content. Searching by specific citation is also an option. Content can be copied and pasted, printed and/or e-mailed. A cross-reference feature (see screensho) reconciles specific codification content back to its source, that is, the pronouncements from which it was derived.



Home > Cross Reference

Cross Reference

Use this feature to cross reference between the original standards and the Codification. Insert information about a standard to identify the Codification Sections that contain the content. Alternatively, insert information about the Codification to identify the standards that populated that portion of the Codification. Click here for help with or to view a tutorial on the Cross Reference feature. NOTE: The report only includes content contained in published Topics.

For more details regarding the Codification process see Notice to Constituents.

By Standard		By Codification			
Standard Type	Standard Number	Topic	Subtopic	Section	Paragraph
FAS	158	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
<input type="button" value="GENERATE REPORT"/>		<input type="button" value="START OVER"/>			

Sort your results by *Standard Type* or by *Topic*.

Standard Type	Standard Number	Paragraph / Label	Sequence	Topic	Subtopic	Section	Paragraph
FAS	158	5	19.2	715	30	35	35-63
FAS	158	5	19.2	715	60	35	35-123
FAS	158	15	51	715	20	65	65-1
FAS	158	17	55	715	20	65	65-1
FAS	158	18	56	958	715	65	65-1
FAS	158	18	56	715	20	65	65-1
FAS	158	18	57	958	715	65	65-1

SO YOU THINK YOU KNOW GAAP? THE VERIFICATION PERIOD

Within five weeks of the Jan. 15 start of the verification period, more than 10,000 people had registered to use the online research system. Registered users can submit comments through a customized electronic feedback feature. "We're encouraging all our members to take the time to use the codification in the course of their daily work during the verification period and offer their feedback to FASB,"

AICPA President and CEO Barry Melancon said in a press release about the project.

FASB officials are encouraging users to submit feedback if they believe the codification fails to accurately reflect existing GAAP. The verification isn't a vehicle for expressing opinions on current standards if the standards are reflected accurately in the codification. Keep in mind that the codification doesn't reproduce current literature word for word or include text that is not essential to the standards. Users should look for any substantive technical changes that may have been introduced inadvertently into the codified standards as a result of the editorial practices that are explained in FASB's *Notice to Constituents* posted on the codification Web site.

To complete its work on time, FASB's codification team did not include standards issued after June 1, 2007, with one exception, Statement no. 141(R), *Business Combinations*. Those newer standards will be processed as "Codification Update Instructions" during the verification period. Because the codification is a work in progress, users should visit the "What's New" section of the site regularly during the verification

period to see what FASB has changed or added.

HOW THE CODIFICATION WILL AFFECT CPAs

Because the codification will profoundly change the way GAAP is documented, updated, referenced and accessed, CPAs, preparers and users of financial statements will need to learn how to effectively use the codification. With FASB's target date for officially adopting the codification less than a year away, now is the time to begin preparing.

Specifically, CPAs will need to become familiar with the codification content and online research system to identify and cite authoritative GAAP when documenting support for preparers' decisions regarding accounting policy, discussing accounting policies with audit clients and conducting general accounting research.

To provide resources for accountants and auditors, the AICPA will continue to develop industry specific accounting and auditing guidance and will update its professional literature, including the Audit and Accounting Guides, to reflect the codification, according to Arleen Thomas, AICPA senior vice president-member competency and development.

Marc Simon, a senior manager at BDO Seidman LLP, was among the codification research system's early registered users. He says the system could help CPAs better integrate Emerging Issues Task Force guidance into their research of an accounting issue. "EITF issues are one of the toughest parts of research," says Simon. "Because the EITF guidance will be integrated with all other guidance in the codification, CPAs who use the codification for research can be more confident that they haven't missed something important."

Because the planned April 2009 adoption of the codification as authoritative GAAP will coincide with the end of busy season for many CPAs, BDO Seidman plans to conduct firmwide training on the codification later this year and in early 2009, says Simon.

RETOOLING GAAP EDUCATION

The codification will dramatically alter accounting education in the United States, both at the college level and in continuing professional education. Every textbook, PowerPoint presentation, classroom lecture and self-study CPE program that references GAAP will need to be updated. The impact of the codification's research system on the Uniform CPA Examination cannot be overlooked, especially for research questions that require exam-takers to search authoritative literature.

GAAP's reorganized content could present challenges for providers of research products and services aimed at the CPA profession. FASB board member Lawrence Smith said during a March 13 webcast that FASB plans to publish a print version of the codification content after the codification becomes authoritative. Because the codification research system is likely to initially enjoy a substantial competitive advantage in the market for such products and services, CPAs may find themselves and their firms rethinking their purchasing decisions. BDO's Marc Simon says he'll be watching how third-party providers of research tools respond to the codification, and he notes that such tools could still add value if they incorporate non-authoritative content such as the "Basis for Conclusions" found in existing and future standards.

CPAs should also recognize that the codification is part of a bigger picture. It bolsters other initiatives to simplify accounting and financial reporting in the United States. Those initiatives include the activities of the SEC's Advisory Committee on Improvements to Financial Reporting. See the committee's Web page at <http://www.sec.gov/about/offices/oca/acifr.shtml> for details of the committee's recommendations, especially with regard to financial reporting standards and the standard-setting process.

The committee has proposed, for example, that industry-specific guidance that conflicts with "generalized GAAP" be removed or minimized. Because the codification places industry-specific standards in topics separate from more-general standards, it would be relatively easy for FASB to drop industry-specific standards from GAAP.

FASB intentionally organized the codification content to closely mirror the structure of International Financial Reporting Standards. That alignment will facilitate the ongoing comparison, convergence and mutual improvements to the two sets of standards.

The codification also comes at a time of growing use of XBRL technology for electronic financial reporting. The codification will help keep the newly developed GAAP XBRL taxonomies in sync with GAAP itself. ♦

AICPA RESOURCES

JofA articles “[Change Agent](#),” Feb. 08, page 30 “[A Future That Matters](#),” Feb. 06, page 35

Webcast

The AICPA’s free May 15 webcast on the GAAP codification (#WBCo8o44I for individuals or #WBCo8o44C for corporate/group viewers). Participants can earn one CPE credit.

For more information or to make a purchase, go to www.cpa2biz.com or call the Institute at 888-777-7077. The AICPA will offer self-study CPE courses to help CPAs understand the new codification and become familiar with its structure to effectively begin researching issues using the codification. Information will be available soon at www.cpa2biz.com regarding these resources and other offerings coming this fall.

OTHER RESOURCES

Web sites

FASB’s *Accounting Standards Codification*, <http://asc.fasb.org>

FASB’s *Notice to Constituents*, <http://asc.fasb.org/imageRoot/73/2334073.pdf>

Webcast

FASB’s archived March 13 webcast “The Move to Codification of U.S. GAAP,” www.fasb.org/fasb_webcast_series/03-13-08_fasb_webcast.shtml

EXECUTIVE SUMMARY

- **FASB’s *Accounting Standards Codification* consists of topically organized content** that will soon become the single authoritative source of GAAP as well as an online research system that will be the primary means of accessing the content.
- **CPAs who refer to GAAP in their work** should begin familiarizing themselves with the codification now because it will profoundly change the way GAAP is documented, updated, referenced and accessed in the near future.
- **The codification leaves standards mostly unchanged.** Appendix A of FASB’s *Notice to Constituents* highlights areas where FASB is recommending changes to standards to resolve conflicts in GAAP.
- **The codification organizes standards into approximately 90 topics.** Contents in each topic are further organized first by subtopic, then section and finally paragraph. 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. A number is assigned to specific content at each level.
- **Until January 2009** CPAs will have the opportunity to review the codification and provide feedback on it to FASB. Codification users should look for substantive technical changes that may have been introduced inadvertently into the codified standards as a result of wording FASB modified to improve the flow of the codification.

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