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G A A P G U I D E VOLUME I

**Restatement and Analysis of
Current FASB Standards**

JAN R. WILLIAMS
JOSEPH V. CARCELLO
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2012 GAAP GUIDE, VOLUME I

**Restatement and Analysis of
Current FASB Standards and Other Current FASB, EITF,
and AICPA Announcements**

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GAAP Guide, Volumes I & II

By Jan R. Williams, Joseph V. Carcello, Terry L. Neal, and Judith Weiss

Highlights

The 2012 CCH *GAAP Guide* analyzes financial reporting standards contained in the FASB's Accounting Standards Codification™ (ASC). The former books, *GAAP Guide, Volume I*, covering former Level A GAAP, and *GAAP Guide, Volume II*, covering GAAP levels B, C, and D, have been combined so that all authoritative literature on a subject is covered in a single chapter. The book organizes the authoritative literature in a manner consistent with the ASC and uses the numbering system in the ASC.

2012 Edition

This edition of the *GAAP Guide*, for the first time, incorporates all GAAP for a subject into a single chapter, separated into general guidance and implementation guidance. New and expanded coverage is presented for the following subjects:

- ASC 220 has been revised to include ASU 2011-05, *Presentation of Comprehensive Income*.
- ASC 310 has been revised to include ASU 2011-02, *Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*.
- ASC 350, "Goodwill and Other," has been revised to incorporate ASU 2010-28, *When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts*.
- ASC 720, "Other Expenses," has been revised to incorporate ASU 2010-27, *Fees Paid to the Federal Government by Pharmaceutical Manufacturers*, and ASU 2011-06, *Fees Paid to the Government by Health Insurers*.
- ASC 805, "Business Combinations," has been revised to incorporate ASU 2010-29, *Disclosure of Supplementary Pro Forma Information for Business Combinations*.
- ASC 820 has been revised to include ASU 2011-04, *Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs*.
- ASC 944, "Financial Services-Insurance," has been revised to include ASU 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contract*.
- ASC 954, "Health Care Entities," has been revised to include ASU 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*.

- ASC 962, Plan Accounting-Defined Contribution Pension Plans, has been revised to include ASU 2010-25, *Reporting Loans to Participants in Defined Contribution Pension Plans*.

Exposure drafts of Accounting Standards Updates are found in the appropriate chapters throughout the book:

- *Presentation of Financial Statements Disclosure of Certain Loss Contingencies*
- *Disclosure of Certain Risks and Uncertainties and the Liquidation Basis of Accounting*
- *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*
- *Derecognition of In-Substance Real Estate*

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11/11

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Our Peer Review Policy

Thank you for ordering the 2012 *GAAP Guide*. Each year we bring you the best accounting and auditing reference guides. To confirm the technical accuracy and quality control of our materials, CCH voluntarily submitted to a peer review of our publishing system and our publications (see the Peer Review Report on the following page).

In addition to peer review, our publications undergo strict technical and content reviews by qualified practitioners. This ensures that our books meet “real-world” standards and applicability.

Our publications are reviewed every step of the way—from conception to production—to ensure that we bring you the finest guides on the market.

Updated annually, peer reviewed, technically accurate, convenient, and practical—the 2012 *GAAP Guide* shows our commitment to creating books and practice aids you can trust.

Peer Review Statement



Caldwell, Becker, Dervin, Petrick & Co., L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

Quality Control Materials Review Report

November 12, 2009

Executive Board
CCH, a Wolters Kluwer business
and the National Peer Review Committee

We have reviewed the system of quality control for the development and maintenance of GAAP Guide (2010 Edition) (hereafter referred to as *materials*) of CCH, a Wolters Kluwer business (the organization) and the resultant materials in effect at October 31, 2009. Our quality control materials peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The organization is responsible for designing a system of quality control and complying with it to provide users of the materials with reasonable assurance that the materials are reliable aids to assist them in conforming with those professional standards that the materials purport to encompass. Our responsibility is to express an opinion on the design of the system and the organization's compliance with that system based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a Quality Control Materials Review are described in the standards at www.aicpa.org/prsummary.

In our opinion, the system of quality control for the development and maintenance of the quality control materials of CCH, a Wolters Kluwer business was suitably designed and was being complied with during the year ended October 31, 2009, to provide users of the materials with reasonable assurance that the materials are reliable aids to assist them in conforming with those professional standards the materials purport to encompass. Also, in our opinion, the quality control materials referred to above are reliable aids at October 31, 2009. Organizations can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. CCH, a Wolters Kluwer business has received a peer review rating of *pass*.

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Preface

The 2012 *GAAP Guide* explains and analyzes promulgated accounting standards in use today as reflected in the FASB's Accounting Standards Codification (ASC). This edition is current through the issuance of Accounting Standards Update 2011-07 and assists users by including citations to the ASC throughout

New Accounting Standards Updates and Outstanding Exposure Drafts

- ASU 2010-25 Reporting Loans to Participants in Defined Contribution Plans
- ASU 2010-26 Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts
- ASU 2010-27 Fees Paid to the Federal Government by Pharmaceutical Manufacturers
- ASU 2010-28 When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Value
- ASU 2010-29 Disclosure of Supplemental Pro Forma Information for Business Combinations
- ASU 2011-02 A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring
- ASU 2011-04 Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs
- ASU 2011-05 Presentation of Comprehensive Income
- ASU 2011-07 Presentation and Disclosure of Patient Services Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities
- ASU Exposure Draft Derecognition of In-Substance Real Estate
- ASU Exposure Draft Presentation of Financial Statements
- ASU Exposure Draft Disclosure of Certain Loss Contingencies
- ASU Exposure Draft Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities
- ASU Exposure Draft Disclosures about Risks and Uncertainties and the Liquidation Basis of Accounting

How to Use the 2012 *GAAP Guide*

The 2012 *GAAP Guide* organizes accounting pronouncements around the major sections of the Accounting Standards Codification™ of the FASB. The Codifica-

tion brings together in a single location all GAAP for a particular transaction or other financial reporting situation.

The complete *GAAP Guide* is available on CD-ROM. Researching the *GAAP Guide* is now easier than ever.

The *GAAP Guide* is written in clear, comprehensible language. Each section of the Codification covered in the 2012 *GAAP Guide* is discussed in a comprehensive format that makes it easy to understand and apply. Practical illustrations and examples demonstrate and clarify specific accounting principles.

The **Practice Pointers** throughout this edition do just that: they point out in plain English how to apply the standards just discussed.

Observations enrich the discussion by presenting interesting aspects of GAAP.

To facilitate research, the *GAAP Guide* includes extensive codification references to pertinent paragraphs of the original pronouncements.

The 2012 *GAAP Guide* meets accounting industry standards overseen by the peer review system. A document covering the peer review of this book is reprinted for your reference.

Abbreviations

The following abbreviations are used throughout the text to represent accounting and auditing principles:

APB	Accounting Principles Board Opinion
ARB	Accounting Research Bulletin
ASC	FASB Accounting Standards Codification™
ASR	Accounting Series Release
ASU	FASB Accounting Standards Update
CON	FASB Concepts Statements
FAS	FASB Statement of Financial Accounting Standards
FIN	FASB Interpretation
SAS	Statement on Auditing Standards
SOP	AICPA Statement of Position

About the Authors

Jan R. Williams, Ph.D., CPA, is the Stokely Foundation Leadership Chair and Dean of the College of Business Administration at the University of Tennessee, Knoxville, where he has been on the faculty since 1977. Formerly, he was on the faculties of the University of Georgia and Texas Tech University. He received a Ph.D. in business administration from the University of Arkansas and is a CPA licensed in Arkansas and Tennessee.

Dr. Williams has, for many years, been actively involved in the American Institute of Certified Public Accountants, the Tennessee Society of Certified Public Accountants, and several other professional organizations. Throughout his career, he has taught continuing professional education for CPAs. In 1994, Dr. Williams received the Outstanding Accounting Educator Award from both the Tennessee Society of CPAs and the AICPA. He was president of the American Accounting Association in 1999–2000 and has authored or co-authored five books and more than 70 articles and other publications on issues related to financial reporting and accounting education. Dr. Williams is currently the chair of the Board of Directors of the AACSB (Association to Advance Collegiate Schools of Business) International, the largest accreditation organization for business schools in the world.

Joseph V. Carcello, Ph.D., CPA, CMA, CIA, is the Ernst & Young Professor in the Department of Accounting and Information Management at the University of Tennessee. Dr. Carcello also is co-founder and Director of Research for the University's Corporate Governance Center. He has taught continuing professional education courses for two of the Big 4 accounting firms, the AICPA, the Institute of Internal Auditors, the Institute of Management Accountants, and the Tennessee and Florida Societies of CPAs. He has provided consulting services to public companies on revenue recognition and on Section 404 of the Sarbanes-Oxley Act. Dr. Carcello has served the Securities and Exchange Commission as an expert witness.

Dr. Carcello is the co-author of CCH's *GAAS Guide*. He is also the co-author of funded research studies by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission that examines fraudulent financial reporting between 1987 and 2007. Dr. Carcello also is the co-author of a monograph published by the AICPA entitled, *Fraud-Related SEC Enforcement Actions Against Auditors: 1987-1997*. Dr. Carcello serves a member of the Public Company Accounting Oversight Board's (PCAOB) Investor Advisory Group and Standing Advisory Group. He formerly served on COSO's Small Business Controls Guidance Task Force.

Terry L. Neal, Ph.D., CPA, is the Dennis Hendrix Professor in Accounting in the Department of Accounting and Information Management at the University of Tennessee. He also is a Research Fellow at the University of Tennessee's Corporate Governance Center. Dr. Neal currently teaches a graduate course in advanced financial accounting topics, an undergraduate intermediate accounting course, and has also taught undergraduate auditing. He has also taught continu-

ing professional education courses for one of the Big 4 accounting firms for several years. Dr. Neal serves as the director of the Ph.D. program in Accounting and teaches a doctoral seminar in empirical/archival research, with an emphasis on auditing and corporate governance issues. Dr. Neal also serves as a research fellow of the ERM Initiative at North Carolina State University.

Dr. Neal received a B.S. in accounting from Tennessee Technological University (1988) and a Ph.D. from the University of Tennessee (1998). Prior to joining the faculty at the University of Tennessee, Dr. Neal was on the faculty of the Douglas J. Von Allmen School of Accountancy at the University of Kentucky.

Judith Weiss, CPA, has an M.S. in Accounting from Long Island University, Greenvale, New York, and an M.S. in Education from Queens College, Flushing, New York. After several years in public accounting and private industry, she worked as a technical manager in the AICPA's Accounting Standards Division, where she helped industry committees to develop Audit and Accounting Guides and Statements of Position. As a senior manager in the national offices of Deloitte & Touche LLP and Grant Thornton LLP, she was involved in projects related to standard-setting by the FASB and the AICPA. Ms. Weiss has followed the work of the EITF since its inception and has attended its meetings in person or through the internet regularly since 1991.

Since 1993, Ms. Weiss has combined her extensive experience in the development and implementation of accounting and auditing standards with her technical writing background in writing projects related to accounting standards. She has contributed to several books in the area of accounting and auditing. She also has coauthored articles on accounting standards for several publications, including the *Journal of Accountancy*, *The CPA Journal*, *The Journal of Real Estate Accounting and Taxation*, and the *Journal of Corporate Accounting and Finance*. Ms. Weiss is also one of the authors of the *GAAP Update Service*.

Acknowledgments

Judith Weiss gives thanks to the late Thomas W. McRae and to Paul Rosenfield, formerly of the AICPA, who taught her about writing and the accounting standards-setting process; former colleagues and friends who helped to make the Guide a reality; and four very important CPAs: her husband, Carl, sons, Daniel and Jonathan, and daughter-in-law, Robyn, for their interest and tireless encouragement in this project.

About the Accounting Standards Codification and the Former GAAP Hierarchy

For many years, generally accepted accounting principles comprised standards that were issued by different standard-setting bodies and professional organizations. To clarify the relative importance of these various standards, SAS-69 (The Meaning of “Present Fairly in Conformity with Generally Accepted Accounting Principles” in the Independent Auditor’s Report) organized them into a hierarchical structure with four levels of authority, commonly referred to as the GAAP hierarchy. The GAAP hierarchy was amended in 2008 by FAS-162 (The Hierarchy of Generally Accepted Accounting Principles). The purpose of the GAAP hierarchy was to inform preparers, auditors, and users of financial statements about the relative priority of the different sources of GAAP used by auditors to judge the fairness of the presentation in financial statements.

In June of 2009, after an extended period of preparation, experimentation, and testing, the FASB issued FAS-168 (The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles), which replaces FAS-162 and replaces all standards by establishing and codifying a single source of authoritative nongovernmental U.S. GAAP. The FASB’s Accounting Standards Codification (ASC) organizes the thousands of U.S. GAAP pronouncements into approximately 90 accounting topics, placing them in a consistent structure that includes relevant Securities and Exchange Commission guidance for public companies. The Codification did not change GAAP but, rather, introduced a new structure that is described by the FASB as easily accessible and user-friendly. The FASB expects the new system to assist in researching accounting topics. The improved usability of the authoritative literature and accessibility of updates to standards should mitigate the risk of noncompliance.

The Codification was generally effective for financial statements issued for interim and annual periods ending after September 15, 2009, with limited exceptions. At that time, all non-SEC accounting and reporting standards were superseded, with limited exceptions. Additional coverage of the Codification is found in Chapter 2 of CCH’s 2011 *GAAP Guide, Volume I*.

For the 2012 edition of the *GAAP Guide*, the pre-Codification tables of contents has been replaced with a new table of contents that is based on the Codification. Each chapter is separated into general guidance and implementation guidance to assist users of the *GAAP Guide* in understanding and applying GAAP for a particular transaction or financial reporting situation.

Contents

<i>Our Peer Review Policy</i>	xi
<i>Peer Review Statement</i>	xiii
<i>Preface</i>	xv
<i>About the Authors</i>	xvii
<i>About the Accounting Standards Codification and the Former GAAP Hierarchy</i>	xix

VOLUME I

Generally Accepted Accounting Principles

Chapter 1	ASC 105—Generally Accepted Accounting Principles	1003
Chapter 2	ASC 205—Presentation of Financial Statements	2001
Chapter 3	ASC 210—Balance Sheet	3001
Chapter 4	ASC 215—Statement of Shareholder Equity	4001
Chapter 5	ASC 220—Comprehensive Income	5001
Chapter 6	ASC 225—Income Statement	6001
Chapter 7	ASC 230—Statement of Cash Flows	7001
Chapter 8	ASC 235—Accounting Policies and Standards	8001
Chapter 9	ASC 250—Accounting Changes and Error Corrections	9001
Chapter 10	ASC 255—Changing Prices	10,001
Chapter 11	ASC 260—Earnings Per Share	11,001
Chapter 12	ASC 270—Interim Reporting	12,001
Chapter 13	ASC 272—Limited Liability Entities	13,001
Chapter 14	ASC 274—Personal Financial Statements	14,001
Chapter 15	ASC 275—Risks and Uncertainties	15,001
Chapter 16	ASC 280—Segment Reporting	16,001
Chapter 17	ASC 305—Cash and Cash Equivalents	17,001
Chapter 18	ASC 310—Receivables	18,001
Chapter 19	ASC 320—Investments—Debt and Equity Securities	19,001
Chapter 20	ASC 323—Investments—Equity Method and Joint Ventures	20,001
Chapter 21	ASC 325—Investments—Other	21,001
Chapter 22	ASC 330—Inventory	22,001
Chapter 23	ASC 340—Deferred Costs and Other Assets	23,001
Chapter 24	ASC 350—Intangibles—Goodwill and Other	24,001

Chapter 25	ASC 360—Property, Plant, and Equipment	25,001
Chapter 26	ASC 405—Liabilities	26,001
Chapter 27	ASC 410—Asset Retirement and Environmental Obligations	27,001
Chapter 28	ASC 420—Exit or Disposal Cost Obligations	28,001
Chapter 29	ASC 430—Deferred Revenue	29,001
Chapter 30	ASC 440—Commitments	30,001
Chapter 31	ASC 450—Contingencies	31,001
Chapter 32	ASC 460—Guarantees	32,001
Chapter 33	ASC 470—Debt	33,001
Chapter 34	ASC 480—Distinguishing Liabilities From Equity	34,001
Chapter 35	ASC 505—Equity	35,001
Chapter 36	ASC 605—Revenue Recognition	36,001
Chapter 37	ASC 705—Cost of Sales and Services	37,001
Chapter 38	ASC 710—Compensation—General	38,001
Chapter 39	ASC 712—Compensation—Noretirement Postemployment Benefits	39,001
Chapter 40	ASC 715—Compensation—Retirement Benefits	40,001

VOLUME II

Chapter 41	ASC 718—Compensation—Stock Compensation	41,001
Chapter 42	ASC 720—Other Expenses	42,001
Chapter 43	ASC 730—Research and Development	43,001
Chapter 44	ASC 740—Income Taxes	44,001
Chapter 45	ASC 805—Business Combinations	45,001
Chapter 46	ASC 808—Collaborative Arrangements	46,001
Chapter 47	ASC 810—Consolidation	47,001
Chapter 48	ASC 815—Derivatives and Hedging	48,001
Chapter 49	ASC 820—Fair Value Measurement	49,001
Chapter 50	ASC 825—Financial Instruments	50,001
Chapter 51	ASC 830—Foreign Currency Matters	51,001
Chapter 52	ASC 835—Interest	52,001
Chapter 53	ASC 840—Leases	53,001
Chapter 54	ASC 845—Nonmonetary Transactions	54,001
Chapter 55	ASC 850—Related Party Disclosures	55,001
Chapter 56	ASC 852—Reorganizations	56,001
Chapter 57	ASC 855—Subsequent Events	57,001
Chapter 58	ASC 860—Transfers and Servicing	58,001

Appendices

Appendix A	ASC 912—Contractors—Federal Government	59,003
Appendix B	ASC 915—Development Stage Entities	60,001
Appendix C	ASC 92X—Entertainment	61,001
Appendix D	ASC 93X—Extractive Activities	62,001
Appendix E	ASC 94X—Financial Services	63,001
Appendix F	ASC 952—Franchisors	64,001
Appendix G	ASC 954—Health Care Entities	65,001
Appendix H	ASC 958—Not-For-Profit Entities	66,001
Appendix I	ASC 962—Plan Accounting	67,001
Appendix J	ASC 970—Real Estate—General	68,001
Appendix K	ASC 976—Real Estate—Retail Land	69,001
Appendix L	ASC 980—Regulated Operations	70,001
Appendix M	ASC 985—Software	71,001
<i>Accounting Resources on the Web</i>		72,001

For the most recent activities of the FASB and the AICPA, refer to the *GAAP Update Service* and the *GAAP Library* (www.CCHGroup.com).

Generally Accepted Accounting Principles