
CCH *U.S. MASTER* SERIES

2013
*U.S. MASTER*TM
GAAP GUIDE

RICHARD H. GESSECK AND LAWRENCE GRAMLING



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U.S. Master™

GAAP Guide

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Preface

CCH's 2013 *U.S. Master™ GAAP Guide* provides summaries, explanations, and applications of generally accepted accounting principles (GAAP) for non-governmental entities in the United States of America, as authoritatively documented in the Financial Accounting Standards Board's (FASB's) *Accounting Standards Codification™* (ASC).

This book is organized into nine chapters that correspond to the areas of the ASC. The ASC topics within each area are listed on the detailed contents page at the beginning of each chapter. Each topic is then addressed individually within the chapter.

Within each topic, three levels of explanation and analysis are generally offered. This three-level approach includes flowchart material, where appropriate; general discussion; and detailed example material, where appropriate. First, a flowchart illustrates the general decision process and accounting procedures required by GAAP. Next, a general discussion of the major provisions of the standards is presented. This discussion is more detailed than the material presented in the flowchart, but it does not attempt to incorporate computational aspects of the standards. The third level of explanation and analysis consists of detailed examples that show the reader specific computational and accounting requirements of the standards. The example material is designed to progress from simple to complex considerations. Specific implementation problems are discussed in this section of the analysis.

In cases where ASC topics have been significantly changed by recent updates, a list of the applicable FASB Accounting Standards Updates (ASUs) appears at the conclusion of the topic's coverage under the heading "Recent Changes." Additionally, Appendix B of this book provides a chronological listing of all recent ASUs and indicates the ASC topics that they significantly changed. Appendix C lists proposed ASUs that the FASB has issued in the form of Exposure Drafts (EDs). The list indicates the ASC topic(s) that each ED would significantly change.

Appendix D explains how readers can cross-reference specific ASC content with the historical pronouncements the Codification was originally derived from. This will help experienced practitioners in making the transition to codified GAAP. Readers should keep in mind that all ASC content is uniformly authoritative, unlike prior pronouncements of GAAP.

Readers are encouraged to refer to authoritative standards in conjunction with reading the corresponding portions of this book. The ASC and, where appropriate, Securities and Exchange Commission (SEC) guidance should always be considered as the final authority on accounting, reporting, and disclosure matters.

Accounting practitioners should view this book as a working guide for solving complex accounting problems. CPA examination candidates will also benefit from this book because a high percentage of the financial accounting questions are directly related to specific standards of U.S. GAAP. Candidates are

encouraged to pay particular attention to the computational notes and journal entries associated with the detailed example material.

This book has also proven to be invaluable when used by accounting students as an interpretative instrument. Many accounting students become confused by the concise and technical presentation found in the original standards. Interpretative material included in the standards often does little to overcome this obstacle. The use of this book will minimize classroom time devoted to explanations of the technical provisions of U.S. GAAP and free instructors to spend more time dealing with the many conceptual issues of accounting. In undergraduate courses, this book may be used as a supplement (e.g., in Intermediate Accounting) or as a main text (e.g., in Advanced Financial Accounting). Additionally, MBA and other graduate students can benefit from the technical detail in this book that may otherwise be missing from their coursework.

It is the authors' hope that the *U.S. Master™ GAAP Guide* will provide you with new insights into, and practical understanding of, the standards that constitute U.S. GAAP. Readers' comments and suggestions for improvements in subsequent editions are welcome. Comments and suggestions should be sent to tony.powell@WoltersKluwer.com.

Acknowledgments

The authors thank the American Institute of Certified Public Accountants, the Financial Accounting Standards Board, and the Securities and Exchange Commission for use of their publications, and the editors of the *CPA Journal* for permission to reproduce certain flowchart materials. All FASB publications are copyrighted by the Financial Accounting Standards Board, 401 Merritt 7, P.O. Box 5116, Norwalk, Conn., 06856-5116, U.S.A. Copies of the complete documents are available from the FASB. All AICPA publications are copyrighted by the American Institute of Certified Public Accountants, Inc., New York, N.Y. Copies of the complete documents are available from the AICPA. All SEC publications are copyrighted by the Securities and Exchange Commission, Washington, D.C. Copies of the complete documents are available from the SEC.

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CHAPTER 1

GENERAL PRINCIPLES

CONTENTS

The *General Principles* area of the FASB *Accounting Standards Codification* contains one topic:

105 Generally Accepted Accounting Principles

Topic 105: Generally Accepted Accounting Principles

Topic 105, *Generally Accepted Accounting Principles*, contains one subtopic:

10 Overall

This Topic establishes the Financial Accounting Standards Board (FASB) *Accounting Standards Codification*™ as the source of authoritative generally accepted accounting principles (GAAP) for nongovernmental entities in the United States of America.

CHAPTER 2

PRESENTATION

CONTENTS

The *Presentation* area of the FASB Accounting Standards Codification contains 15 topics:

205	Presentation of Financial Statements
210	Balance Sheet
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 Entities
274	Personal Financial Statements
275	Risks and Uncertainties
280	Segment Reporting

Topic 205: Presentation of Financial Statements

Topic 205, *Presentation of Financial Statements*, contains 11 subtopics:

- 10 Overall
- 20 Discontinued Operations
- 905 Agriculture *
- 915 Development Stage Entities *
- 946 Financial Services—Investment Companies *
- 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*
- 972 Real Estate—Common Interest Realty Associations*

* See the corresponding topic in Chapter 9 for coverage of this shared subtopic.

Discontinued Operations—Flowchart and General Discussion

ASC 205-20 provides guidance on when the results of operations of a component of an entity that either has been disposed of or is classified as held for sale would be reported as a discontinued operation in the entity's financial statements.

The first determination required when dealing with discontinued operations is whether a component of an entity either has been disposed of or is classified as held for sale. A component of an entity comprises operations and cash flows that can be clearly distinguished, both operationally and for reporting purposes, from the operations and cash flows of the rest of the entity. The component may be a subsidiary, an operating segment (as defined in ASC 280-10-50), an asset group (as defined in ASC 205-20-20), or a reporting unit (as defined in ASC 205-20-20). Held for sale criteria are defined in ASC 360-10-45, paragraphs 9 through 14.

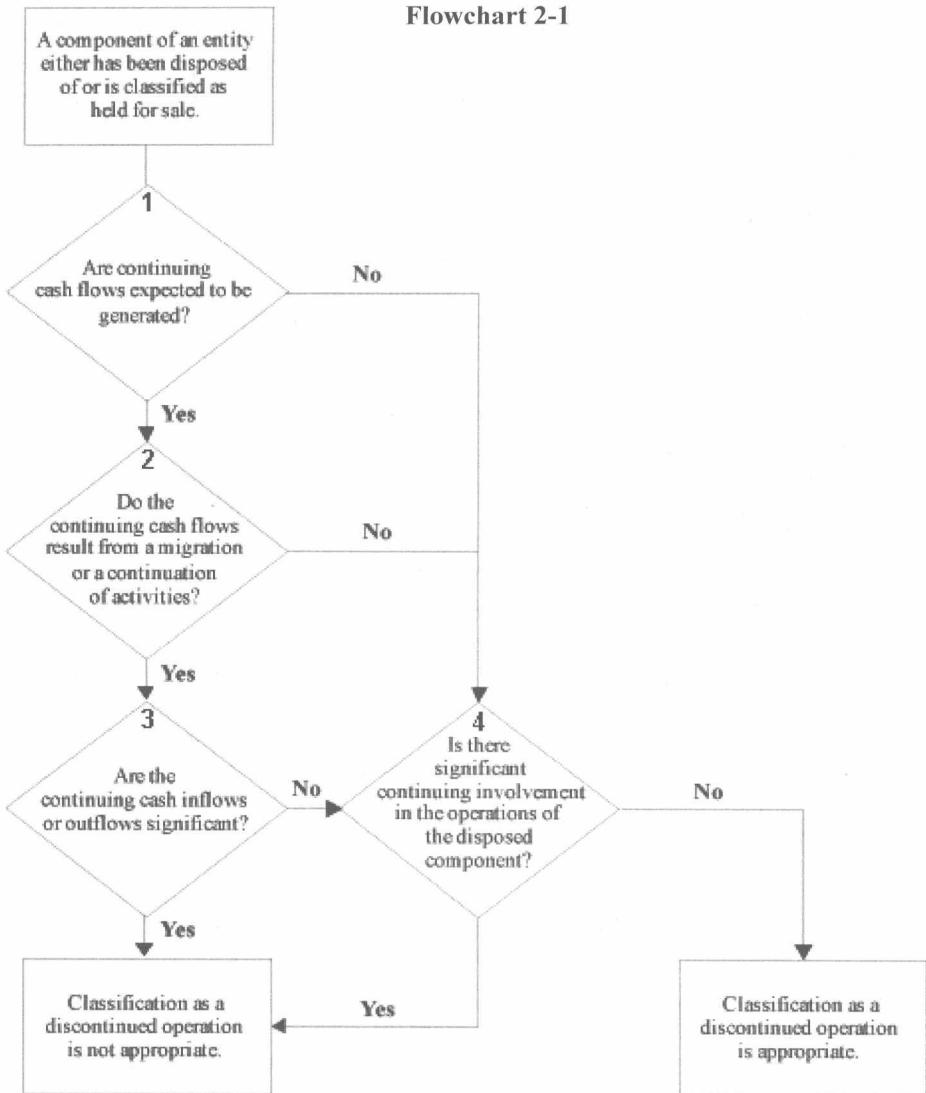
The following examples may help when trying to determine whether operations of an entity meet the definition of a component of an enterprise (ASC 205-20-55, paragraphs 35 and 44):

An entity franchises a line of fast-food restaurants and also operates some company owned restaurants. Each individual company owned restaurant would be considered a component of the entity because this is the lowest level at which operations and cash flows can be distinguished from the rest of the entity both financially and operationally.

A sporting goods manufacturer has a treadmill division that designs, manufactures, and markets treadmills. The treadmill division is a component of the entity because this is the lowest level at which operations and cash flows can be distinguished from the rest of the enterprise both financially and operationally.

Once it is determined that a disposition or expected sale involves a component of an entity, Flowchart 2-1 shows the subsequent major decisions required by ASC 205-20.

Flowchart 2-1



The component's results of operations are reported in discontinued operations when the following two conditions are met (ASC 205-20-45-1): (1) as a result of the disposition or sale transaction, cash flows and operations have been or will be eliminated from the ongoing operations of the entity (Blocks 1, 2, and 3) and (2) after the transaction, the entity will not have any significant involvement in the component's operations (Block 4).

ASC 205-20-55 provides additional guidance for these two criteria. ASC 205-20-55 states that whether cash flows and operations of the disposal are eliminated is based on whether cash flows will continue to be generated and if so whether those cash flows are classified as direct or indirect cash flows. Cash

flows that are generated by the ongoing entity and that relate to the activities of a disposed component are considered to be continuing cash flows. If continuing cash flows are generated by the entity and the cash flows are classified as direct cash flows, the disposal is not classified as discontinued operations. However, if the continuing cash flows are classified as indirect, the disposal is classified as discontinued operations.

Determining If Cash Flows Are Direct or Indirect

Determination of whether continuing cash flows are direct or indirect is based on the nature and significance of the cash flows and management expectations. Continuing cash flows of a disposed component include those cash inflows and cash outflows related to activities that produce revenue or incur costs of the component. These continuing cash flows are considered direct costs when the following conditions are met: significant cash inflows or outflows will be generated or incurred from the ongoing enterprise from a migration of the revenue or costs from the disposed component or significant cash inflows or outflows will be reported by the continuing entity from activities between the continuing entity and the disposed component subsequent to the date of disposal. Migration of revenue exists when the continuing entity expects to incur costs and/or receive revenue from the sale of similar goods or services to the disposed element's specific customers.

ASC 205-20-55 provides additional guidance on when significant continuing involvement exists for disposed components. When operations and cash flows of a disposed component have been or will be eliminated from the continuing operations of the entity, the enterprise must determine whether there is significant continuing involvement with the disposed component subsequent to the disposal where the enterprise has the ability to influence the financial and/or operating policies of the disposed component. The existence of contractual agreements or other interest in the disposed component should be evaluated using both quantitative and qualitative factors and should consider all types of individual or aggregate continuing involvement.

An entity must determine whether the disposed component is accounted for as discontinued operations over an assessment period. The assessment period begins at the time that the component meets the requirement to be accounted for as held for sale or date of disposition, and the assessment period ends one year after the date of disposition. The assessment period may extend for longer than a year after disposition when events are beyond the control of the continuing enterprise.

The following examples may help when trying to determine whether a disposition or a component held for sale is reported as a discontinued operation (ASC 205-20-55, paragraphs 41, 40, 46, and 47):

A sale of a line of company owned fast-food restaurants in a specific region is considered a discontinued operation if the operations and cash flows from those restaurants are eliminated and the entity has no continued involvement in the restaurants.

A sale of a line of company owned fast-food restaurants in a specific region to a franchisee is not considered a discontinued operation if the operations and

cash flows from the restaurants are eliminated but the entity has continued involvement in the restaurants and will collect a franchise fee from the franchisee.

A sale of a treadmill division is a discontinued operation if the operations and cash flows are eliminated and the entity has no continued involvement in the treadmill division.

A sale of a treadmill manufacturing plant with the entity remaining in the treadmill business by outsourcing the manufacturing process is not a discontinued operation because the manufacturing plant is not a component of the entity.

Accounting and Disclosure Requirements for Discontinued Operations

Once an enterprise has determined that a disposition or expected sale is classified as a discontinued operation, the appropriate accounting and disclosures must be made in the financial statements. In the accounting period that a disposition occurs or a sale is expected, the results of operations for the component and any gain or loss expected on the disposition must be included in a separate section of the income statement after income from continuing operations and before the extraordinary item section. The results of operations must be presented not only for the current year, but for all prior periods, presented with current year statements. The amount of any gain or loss expected on disposition included in the total results of operations must be separately disclosed either on the face of the statements or in related footnotes (ASC 205-20-45-3). For an expected sale classified as discontinued operations, the results of operations are reported in the accounting period or periods that generated the results of operations. The loss, if any, reported as part of the gain or loss from discontinued operations is computed, when fair value is less than the carrying value, as the difference between the carrying value and fair value after reducing fair value for the cost to sell using the provisions of ASC 360-10-35-40. If fair value increases, a gain may be reported, but not in excess of the cumulative losses reported from prior write-downs. Any gains and losses from the disposal group should be used to adjust only long-lived assets and the long-lived assets should be reported in the balance sheet at the lower of carrying amount or fair value after reducing fair value by the cost to sell.

Assets and liabilities from discontinued operations for which the disposition has not occurred should not be offset, but should be reported separately as assets and liabilities on the balance sheet. In addition, major classes of assets and liabilities subject to disposition should be reported separately or disclosed in related footnotes.

In accounting periods subsequent to reporting discontinued operations, adjustments may be required for amounts previously reported. Such adjustments should be reported in discontinued operations in the accounting period that the adjustments occur. In addition, the enterprise should disclose the nature and amount of any adjustments. Examples of adjustments that may require subsequent reporting are resolution of contingencies that arose in connection with the disposition and contingencies that relate to the operation of the component before the disposition and settlement of employee benefits (ASC 205-20-45-5).