

GAAP 2011

HANDBOOK OF POLICIES AND PROCEDURES

Joel G. Siegel, Ph.D., CPA
Marc H. Levine, Ph.D., CPA
Anique A. Qureshi, Ph.D., CPA, CIA
Jae K. Shim, Ph.D.



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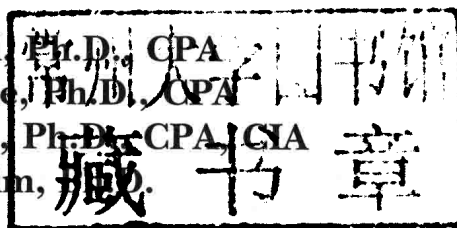
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Portions of this work were published in previous editions.

In Chapter 1, "Reporting, Presentation, and Disclosures for the Income Statement," information and examples on the binomial option-pricing model are adapted from "Valuing Employee Stock Options Using a Lattice Model," by Les Barenbaum, Walt Schubert, and Bonnie O'Rourke, *The CPA Journal* (December 2004), pp. 16–20. Adapted with permission.

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WHAT THIS BOOK WILL DO FOR YOU



The *GAAP Handbook of Policies and Procedures* is a valuable reference in applying generally accepted accounting principles (GAAP) in practice. It can be used by either a certified public accountant (CPA) in the performance of his or her accounting and advisory functions to clients, or by accountants responsible for the accounting policies and procedures of a business entity. It also provides guidance in resolving any issues and problems that the accountant might be faced with day to day in applying GAAP. The book helps the professional accountant in determining what to look for, what to watch out for, what to do, and how to do it.

This volume will become an essential reference in assisting you in dealing with the complex, ever changing world of financial accounting. It provides many rules of thumb to guide you in evaluating and solving the problems of accounting and disclosure that a CPA encounters on the job. This is a practical, real-life, comprehensive, and useful working book. Its content includes informative rules, policies, and procedures applicable to public accountants at any level working for CPA firms and to private accountants working for large, medium, or small businesses. It may also be used as a training medium. The uses of this book are as varied as the topics presented.

This practical reference contains all of the important authoritative pronouncements on GAAP and is the most up-to-date source of such pronouncements. The GAAP pronouncements include Financial Accounting Standards Board (FASB) Accounting Standards Updates (ASUs) as well as statements, interpretations, technical bulletins, and concepts as well as the unsuperseded GAAP of the American Institute of CPAs (AICPA). This includes the Accounting Principles Board opinions, accounting research bulletins, and statements of position. Securities and Exchange Financial Reporting Releases are also covered when appropriate. Specialized industry accounting principles are included. Consideration is also given to Emerging Issues Task Force (EITF) Consensus Summaries. In general, the SEC follows EITF consensus opinions. In fact, the SEC Chief Accountant has stated that he would challenge any accounting principle that differs from the EITF consensus opinions. EITF issuances have the full effect of GAAP and are positioned in Category C of the GAAP hierarchy. Future developments in

GAAP, such as FASB exposure drafts and proposed interpretations are considered.

This volume contains accounting principles, financial reporting presentation requirements, required and recommended disclosures, and specialized accounting topics to keep you on the forefront of GAAP. It avails you of instant answers to any accounting application question you may have in the course of your work and allows you to perform your duties correctly, productively, and successfully.

The book is comprehensive and detailed, so each topic is presented thoroughly. It includes examples, tables, exhibits, and practice aids to show how GAAP is practically applied. The material—clear, understandable, concise, current, and user friendly—is presented in a logical, sequential order to aid reader comprehension.

Guidelines, checklists, diagrams, illustrations, step-by-step instructions, and practical applications make this a valuable reference tool. Complex accounting issues are simplified. In some cases, flowcharts are presented to explain in clearer terms the practitioner's decision process in applying a pronouncement. For explanatory purposes, references including footnotes from annual reports are presented. Keep this book handy for easy reference and daily use.

In conclusion, the book explains and evaluates in easy-to-read terms promulgated GAAP. It analyzes how to apply GAAP to everyday business situations. The focus of this book is on the accounting practitioner working for a CPA firm rendering accounting and audit services to clients, the corporate accountant applying accounting rules and standards, and the CPA candidate whose future goals include a career in financial accounting.

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DEDICATION

Roberta M. Siegel,
loving wife, colleague, and partner
Carol Levine,
dedicated wife and friend
Reva, Daniel, and Sori Levine,
loving children
Tessie and Samuel Levine,
my dear departed parents

Shaheen Qureshi,
loving and devoted wife
Mohammad Rafique Qureshi and
Zakia Qureshi,
loving parents
Aamera N. Ahmed, Uzma Qureshi,
and Jawad Qureshi,
wonderful sisters and brother
Chung Shim,
dedicated wife

A WORD ABOUT THE FASB ACCOUNTING STANDARDS CODIFICATION™

On July 1, 2009, the FASB's new Accounting Standards Codification (ASC) became the single official source of authoritative, nongovernmental U.S. generally accepted accounting principles (GAAP). The Codification is effective for interim and annual periods ending on or after September 15, 2009.

The new codification of accounting and reporting standards differs significantly from the *structure* of pre-codification standards. The primary goal of the new design is to simplify user access to generally accepted accounting principles (GAAP) by centralizing the location of all authoritative literature relating to a given topic. In addition, for the benefit of public companies, the codification includes authoritative information issued by the Securities and Exchange Commission (SEC), as well as certain SEC staff interpretations and administrative guidance. Although the project represents a major restructuring of GAAP, the FASB's intent is that the restructured content accurately represent pre-codification standards. In fact, the writers of the codification were explicitly requested to make minimal changes to the actual content of GAAP. Thus, the structure, not the content, of GAAP changed.

The codification supersedes all other previously existing accounting guidance other than that of the SEC. Thus, all other accounting literature is deemed nonauthoritative.

The FASB issued a final standard to flatten the GAAP hierarchy and replace FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. The new standard FASB Statement No. 168 (ASC 105), *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, reduces the GAAP hierarchy into two levels: one that is authoritative (ASC) and one that is not (not in ASC). In the former, all accounting standards are deemed uniformly authoritative. Exceptions that will be incorporated into the ASC include all rules and interpretative releases of the SEC that are sources of authoritative GAAP for SEC registrants. For more detail regarding the content included and excluded from the ASC, see the codification content descriptions at the end of this section.

Codification Content

The FASB codification contains all level A through D U.S. GAAP. This includes:

- FASB statements.
- FASB interpretations.
- FASB technical bulletins.
- FASB staff positions.
- FASB staff implementation guides (Q and A).
- FASB Statement No. 138 examples.
- EITF abstracts and Topic D.
- Derivative implementation group issues.
- Accounting principles board (APB) opinions.
- Accounting research bulletins.
- APB accounting interpretations.
- AICPA statements of position.
- AICPA practice bulletins.
- Incremental accounting guidance from audit and accounting guides.
- Technical inquiry service questions and answers only for software revenue recognition.

SEC content is included in separate SEC sections. Relevant portions of the authoritative content issued by the SEC as well as selected staff interpretations and administrative guidance have been included in the codification; however, the SEC sections do not contain all SEC rules, regulations, interpretive releases and staff guidance. Examples of the content included in the codification are:

- Regulation S-X.
- Financial accounting releases (FRR)/Accounting series releases (ASR).
- Interpretive releases (IR).
- Staff guidance in staff accounting bulletins.
- EITF Topic D and *SEC Staff Observer* comments.

Content Excluded from the Codification

Content excluded from the FASB codification includes:

- Certain materials that were grandfathered into the first release of the codification but are currently excluded by the FASB. (See the FASB *Notice to Constituents* and ASC 105-10-70 for the list of items in this category.)
- Some of the SEC rules, regulations, interpretive releases, and staff guidance in the SEC sections.
- Non-GAAP matters, such as other comprehensive bases of accounting. Examples include cash basis, income tax basis, and regulatory accounting principles.
- Governmental accounting standards.
- Summaries of, for example, existing standards, historical content, and discussions of previous practice, all of which are nonessential.
- Standards to be superseded or outdated by December 31, 2008.

Codification Structure*

The content of the ASC is structured as follows:

XXX-YY-ZZ-PP

where:

XXX = Topic

YY = Subtopic

ZZ = Section and

PP = Paragraph

Topics: Topics represent the collection of guidance of the ASC. All existing authoritative pronouncements have been restructured into approximately 90 topics, which are categorized into four main areas shown below:

Presentation:

Presentation relates to presentation considerations only and includes, for example, matters relating to the balance sheet, income statement, and statement of stockholders' equity matters.

Financial Statement Accounts:

Financial statement accounts include assets, liabilities, equity, revenue, and expenses. Topics, therefore, include, for example, receivables, revenue recognition, and inventory.

*This material is based on the discussions in the *Notice to Constituents* on the ASC Web site. Note that the ASC can be accessed by going to <http://asc.fasb.org>.

Broad Transactions:

Broad transactions generally include multiple financial statement accounts that relate to transaction-oriented activities. These include, for example, business combinations, derivatives, and monetary transactions.

Industries:

Industries include topics that are unique to a particular industry or industry-related activity. Topics in this category include, for example, airlines, real estate, and broadcasting.

Subtopics: Subtopics are subsets of a Topic representing its scope or componential types. For example, two subtopics of the leases topic are operating leases and capital leases.

Sections: Sections describe the nature of the content in a subtopic. All subtopics use the same configuration unless there is no content for a given section. The standard designations of the sections of each subtopic are:

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 and 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

A user may obtain a comprehensive view of the content of multiple subtopics by joining sections for these subtopics. For more details regarding this concept, see the section entitled *Joining and Combining Content* in the *Notice to Constituents* on the ASC Web site (<http://asc.fasb.org>).

Paragraphs: Paragraphs are the only the levels that contain the actual GAAP content.

Configuration of the ASC Citations in the *GAAP 2011 Handbook of Policies and Procedures*

Each citation in the *GAAP 2011 Handbook of Policies and Procedures* will have its ASC topic number and description, ASC citation (XXX-YY-ZZ-PP)—(see the Codification structure topic on the prior page for a description), and traditional GAAP hierarchical format shown in parentheses; for example, ASC 718, *Compensation—Stock Compensation* (ASC 718-10-15-3) (FAS-123(R)).

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Part

FINANCIAL STATEMENTS

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1

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