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2010  
*U.S. MASTER*™  
GAAP GUIDE

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BRUCE POUNDER



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2010

# U.S. Master<sup>TM</sup> GAAP Guide

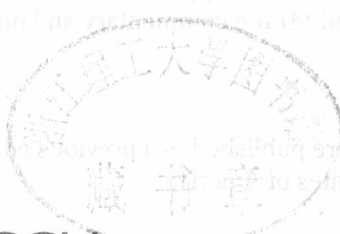
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CCH's 2010 U.S. Master™ GAAP Guide provides summaries, explanations, and applications of the standards that constitute generally accepted accounting principles (GAAP) in the United States.

Historically, U.S. GAAP has been documented in many different kinds of pronouncements issued by different standard-setting organizations over time. Those pronouncements include Accounting Research Bulletins (ARBs), Accounting Principles Board Opinions (APBs), Statements of Financial Accounting Standards (SFASs), Financial Accounting Standards Board (FASB) Interpretations (FINs), FASB Technical Bulletins (TBs), FASB Emerging Issues Task Force (EITF) Abstracts, FASB Staff Positions (FSPs), Statements of Financial Accounting Concepts (SFACs), American Institute of Certified Public Accountants (AICPA) Statements of Position (SOPs), and Securities and Exchange Commission (SEC) Staff Accounting Bulletins (SABs).

Recently, the FASB introduced the Accounting Standards Codification (ASC), which completely changes the way that U.S. GAAP is documented, updated, referenced, and accessed. This edition of the *U.S. Master™ GAAP Guide* helps accounting practitioners make the transition from working with GAAP as a collection of diverse historical pronouncements having different degrees of authoritativeness to working with the ASC as the single source of uniformly authoritative GAAP.

This book is organized into chapters that closely follow major balance-sheet headings. This organization allows the reader to find all standards that deal with a given subject in one place. Relevant historical pronouncements are listed on the detailed contents page at the beginning of each chapter. Next, proposed changes to GAAP that are relevant to the topic of the chapter are described. Keep in mind that all proposals are subject to substantial change or withdrawal.

Within each chapter, closely related groups of major standards are addressed in separate Paragraphs. At the beginning of each Paragraph is a list of references to historical pronouncements as well as to the ASC. Within each Paragraph, 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.

Readers are encouraged to refer to authoritative standards in conjunction with reading the corresponding portions of this book. The ASC and, where appropriate, 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 author's 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](mailto:tony.powell@WoltersKluwer.com).

### *Acknowledgments*

The author thanks 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.

Previous editions of the *U.S. Master™ GAAP Guide* were ably authored by Bill D. Jarnagin, Ph.D., CPA. The author thanks Dr. Jarnagin and the many individuals who provided technical assistance to him for establishing a legacy of excellence on which to build.

**June 2009**

## About the Author

Bruce Pounder, MBA, CMA, CFM, DipIFR (ACCA), is an expert on financial accounting and reporting under U.S. GAAP. He is currently President of the professional services firm Leveraged Logic, a leader in the development and delivery of educational products and services for accounting professionals. In his role as an educator, Mr. Pounder has presented hundreds of accounting seminars, conference sessions, and webcasts, drawing participants from "Global 500" companies, the FASB, the SEC, and each of the six largest accounting firms.

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In addition to being a highly regarded educator and author, Mr. Pounder has nearly two decades of practical experience as the Chief Financial Officer of a privately held corporation. He has also served as a consultant to many public corporations for whom he has provided expert advice on the design, development, and implementation of financial planning and reporting systems.

## What's New in This Edition

The 2010 edition of CCH's *U.S. Master™ GAAP Guide* includes analysis, discussion, and summaries of new FASB Statements of Financial Accounting Standards (SFASs), FASB Staff Positions (FSPs), FASB Emerging Issues Task Force (EITF) Abstracts, Securities and Exchange Commission (SEC) Staff Accounting Bulletins (SABs), FASB exposure drafts, and proposed FSPs issued since the publication of the 2009 edition. No new FASB Interpretations (FINs), FASB Technical Bulletins (TBs), FASB Statements of Financial Accounting Concepts (SFACs), or American Institute of Certified Public Accountants (AICPA) Statements of Position (SOPs) have been issued within the last year.

Also included for the first time in this edition are cross-references between the former "Level A" GAAP pronouncements listed within each chapter and the corresponding topics and/or subtopics in the FASB Accounting Standards Codification™.

## New FASB Statements

The FASB has issued SFAS Nos. 162 and 163 since the last edition of the *U.S. Master™ GAAP Guide*.

SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles," is covered in Chapter 1. SFAS No. 162 defines for the first time a hierarchy of authoritativeness among the pronouncements and practices that historically have constituted U.S. GAAP. The GAAP hierarchy had previously been defined in auditing standards, specifically, the AICPA's Statement of Auditing Standards (SAS) No. 69. SFAS No. 162 carries forward the SAS No. 69 GAAP hierarchy with minor changes. The SFAS No. 162 GAAP hierarchy will be eliminated by the FASB's adoption of its Accounting Standards Codification.

SFAS No. 163, "Accounting for Financial Guarantee Insurance Contracts," is covered in Chapter 15. SFAS No. 163 clarifies that the item scope of SFAS No. 60 includes financial guarantee insurance contracts if those contracts (1) are issued by entities that are within the scope of SFAS No. 60 and (2) are not derivative instruments that fall within the scope of SFAS No. 133. Additionally, SFAS No. 163 clarifies how premium revenue and claim liabilities are to be recognized and measured for such contracts. SFAS No. 163 also requires expanded disclosures about financial guarantee insurance contracts.

## New FASB Staff Positions (FSPs)

Fifteen new FASB Staff Positions are included in the 2010 edition of the *U.S. Master™ GAAP Guide*. They are summarized in the pertinent chapters of this book.

## New FASB Emerging Issue Task Force Abstracts

The FASB's Emerging Issues Task Force has issued 17 new FASB Emerging Issue Task Force Abstracts (EITFs) since the last edition of the *U.S. Master™ GAAP Guide*. Consensus was reached by the Task Force on some of the new EITF issues; some are still under discussion, some have been combined with other issues, and



some have been removed from the Task Force's agenda. The new EITFs cover a variety of issues and are included throughout the *U.S. Master™ GAAP Guide*. Changes were also made to several existing EITFs. The reader can determine the location of the discussion of EITFs in the *U.S. Master™ GAAP Guide* by reviewing the table of contents for each chapter of the book or consulting the index.

## **New SEC Staff Accounting Bulletin**

One new SEC Staff Accounting Bulletin (SAB) has been included in the 2010 edition of the *U.S. Master™ GAAP Guide*. SAB No. 111, "Other Than Temporary Impairment of Certain Investments in Equity Securities," is covered in Chapter 3.

## **Outstanding FASB Exposure Drafts**

The FASB has the following outstanding exposure drafts:

- Consolidated Financial Statements: Purpose and Policy (revised) (proposed statement).
- Not-for-Profit Organizations: Goodwill and Other Intangible Assets Acquired in a Merger or Acquisition—an Amendment of FASB Statement No. 142 (proposed statement)
- Not-for-Profit Organizations: Mergers and Acquisitions (proposed statement)
- The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information (proposed Conceptual Framework for Financial Reporting)
- Disclosure of Certain Loss Contingencies—an Amendment of FASB Statements No. 5 and 141(R) (proposed statement)
- Accounting for Hedging Activities—an Amendment of FASB Statement No. 133 (proposed statement)
- Accounting for Transfers of Financial Assets—an Amendment of FASB Statement No. 140 (proposed statement)
- Earnings per Share—an Amendment to FASB Statement No. 128 (proposed statement)
- Amendments to FASB Interpretation No. 46(R) (proposed statement)
- Going Concern (proposed statement)
- Subsequent Events (proposed statement)
- Rescission of FASB Technical Bulletin No. 01-1, Nullification of EITF Topics No. D-33 and No. D-67, Amendments, and Technical Corrections (proposed statement)
- The Hierarchy of Generally Accepted Accounting Principles—a Replacement of FASB Statement No. 162 (proposed statement)



The exposure draft on consolidated financial statements is a revision of a prior exposure draft issued in 1995. This exposure draft covers consolidation policy and purpose. SFAS No. 160 amended ARB No. 51 relative to certain consolidation issues covered by this exposure draft. However, the FASB still lists this exposure draft as outstanding. This exposure draft is discussed at the beginning of Chapters 3 and 13.

The proposed statement related to goodwill and intangible assets of a not-for-profit organization is covered in Chapter 5. The proposed statement amends SFAS No. 142 and specifies the accounting and reporting requirements for identifiable intangible assets and goodwill reported by a not-for-profit entity from a merger or acquisition. Identifiable intangibles are accounted for using the provisions of SFAS No. 142. Goodwill, when reported by a not-for-profit entity, is not amortized but is tested for impairment. The proposed statement provides guidelines to be used when the not-for-profit entity tests the goodwill for impairment.

The proposed statement related to mergers and acquisitions of not-for-profit entities specifies the accounting and reporting requirements for mergers and acquisitions by not-for-profit organizations and is covered in Chapter 13. The proposed statement eliminates the pooling-of-interests method of accounting and requires not-for-profit organizations to use the acquisition method. The proposed statement defines a merger or acquisition by a not-for-profit entity and provides accounting and reporting guidance for the following issues: determining the acquirer and the acquisition date, measurement and recognition of assets and liabilities acquired in the merger or acquisition, and determining the amount of goodwill or contribution received.

For many years, the FASB and the International Accounting Standards Board (IASB) have been working on a project to develop a common conceptual framework for financial reporting. A single conceptual framework would ultimately improve upon and replace the separate frameworks that currently underlie U.S. GAAP and International Financial Reporting Standards (IFRS). The exposure draft, which consists of the first two proposed chapters of the FASB and IASB's common conceptual framework, is covered in Chapter 15 of this book.

The exposure draft related to loss contingencies would enhance the disclosure requirements for loss contingencies recognized in a business combination as well as other loss contingencies. It is covered in Chapter 7.

The proposed statement on accounting for hedging activities, covered in Chapter 12, would amend SFAS No. 133 and other literature. It is intended to simplify accounting for hedging activities; improve the usefulness and understandability of the SFAS No. 133 accounting model and associated disclosures, resolve major practice issues related to hedge accounting, and address differences resulting from recognition and measurement anomalies between the accounting for derivative instruments and the accounting for hedged items or transactions.

The exposure draft related to earnings per share would amend SFAS No. 128 so as to clarify and simplify earnings-per-share computations. The IASB has also issued an Exposure Draft proposing amendments to International Accounting Standard (IAS) 33, "Earnings per Share." Together, the FASB and IASB's proposed amendments would result in the use of the same denominator for earnings-per-share

calculations under both U.S. GAAP and IFRS, with some exceptions. The boards have also proposed the inclusion of several additional kinds of instruments in the calculation of basic earnings per share and the use of the end-of-period market price rather than the average market price for the period when determining the denominator of diluted earnings per share under the treasury stock and reverse treasury stock methods. Additionally, the proposed statement contains guidance on computing diluted earnings per share under the two-class method. This proposed statement is covered at the beginning of Chapter 9.

The proposed statement related to the transfer of financial assets, covered at the beginning of Chapter 15, would eliminate a category of variable interest entities (VIEs) known as qualifying special-purpose entities (QSPEs), which are currently defined in SFAS No. 140. Additionally, this proposed statement would remove the scope exception for QSPEs from FIN No. 46(R). This proposed statement would also revise and clarify (1) the derecognition requirements for transfers of financial assets and (2) the initial measurement of beneficial interests that are received as proceeds by a transferor in connection with transfers of financial assets. Furthermore, this proposed statement would enhance the disclosure requirements regarding transfers of financial assets and a transferor's continuing involvement with such transferred financial assets.

The proposed statement amending FIN 46(R), covered in Chapter 13, would amend guidance on consolidation and disclosure requirements for enterprises that hold an interest in a variable interest entity (VIE). The proposed amendments would change the manner in which a VIE's primary beneficiary is determined and potentially change whether a particular VIE would be consolidated by a reporting entity. Furthermore, this proposed statement would require enhanced disclosures about a reporting entity's involvement with VIEs.

The proposed going-concern statement would establish, for the first time, an accounting standard for the preparation of financial statements as a going concern. Going-concern guidance is now found in auditing standards, specifically, the AICPA Codification of Statements on Auditing Standards (AU) Section 341, "The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern." Under the proposed statement, a reporting entity's management, rather than the entity's auditor, would bear explicit responsibility for evaluating the entity's ability to continue as a going concern. Compared to the provisions of AU Section 341, the proposed statement would change the time horizon for the going-concern assessment and the scope of information that management must consider in making the assessment. Certain disclosures would also be required when either financial statements are not prepared on a going-concern basis or there is substantial doubt as to an entity's ability to continue as a going concern. This exposure draft is covered in Chapter 1.

The proposed subsequent-events statement would establish for the first time an accounting standard for the recognition and disclosure of subsequent events. Subsequent events are events (or transactions) that occur after the balance sheet date but before financial statements are issued (or, as proposed, available to be issued). Recognition and disclosure guidance on subsequent events is now found in auditing standards, specifically, the AICPA Codification of Statements on Auditing Standards (AU) Section 560, "Subsequent Events." Under the proposed statement, a reporting

entity's management, rather than the entity's auditor, would bear explicit responsibility for recognizing and disclosing information about subsequent events. The new standard would carry forward the provisions of AU Section 560 subject to certain modifications that are not expected to result in a change in current practice. This exposure draft is covered in Chapter 1.

Chapter 1 also covers the proposed statement that would make several housekeeping changes to existing standards in order to address inconsistencies and provide clarifications to reflect the FASB's intent in previously issued pronouncements. The proposed statement would also eliminate outdated guidance and make nonsubstantive technical corrections.

The exposure draft on the GAAP hierarchy is covered in Chapter 1. It would designate the FASB Accounting Standards Codification as the single source of authoritative U.S. GAAP for all nongovernmental entities, with the exception that SEC rules and interpretive releases would continue to be additional sources of authoritative GAAP for SEC registrants. The proposed statement would also eliminate the hierarchy of authoritativeness among the pronouncements that the Codification was derived from, as defined in SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles," and instead establish only two levels of authoritativeness: authoritative and nonauthoritative.

## Proposed FASB Staff Positions

The FASB had the following proposed staff positions outstanding as of this edition of the *U.S. Master™ GAAP Guide* (a summary of each of the proposed staff positions is included at the beginning of the chapter that it relates to):

- *FSP FAS 144-d—Amending the Criteria for Reporting a Discontinued Operation* (covered in Chapters 1 and 4)
- *FSP FAS 157-f—Measuring Liabilities under FASB Statement No. 157* (covered in Chapter 12)

## New FASB Statements Issued as the Book Went to Press

Five new FASB Statements were issued as the book went to press:

1. *SFAS No. 164—Not-for-Profit Entities: Mergers and Acquisitions*. This statement finalizes, after substantial revisions, the exposure drafts "Not-for-Profit Organizations: Goodwill and Other Intangible Assets Acquired in a Merger or Acquisition—an Amendment of FASB Statement No. 142" (covered in Chapter 5) and "Not-for-Profit Organizations: Mergers and Acquisitions" (covered in Chapter 13). This statement is effective for (a) mergers on or after December 15, 2009, and (b) acquisitions in or after the first fiscal year beginning on or after December 15, 2009.
2. *SFAS No. 165—Subsequent Events*. This statement finalizes the "Subsequent Events" exposure draft covered in Chapter 1. Entities must apply this statement to interim or annual financial periods ending after June 15, 2009.

3. *SFAS No. 166—Accounting for Transfers of Financial Assets*. This statement finalizes the exposure draft “Accounting for Transfers of Financial Assets,” which is covered in Chapter 15. This statement must be applied as of the beginning of an entity’s first fiscal year that begins after November 15, 2009, for interim periods within that first fiscal year, and for interim and annual reporting periods thereafter.
4. *SFAS No. 167—Amendments to FASB Interpretation No. 46(R)*. This statement finalizes the exposure draft “Amendments to FASB Interpretation No. 46(R),” which is covered in Chapter 13. This statement must be applied as of the beginning of an entity’s first fiscal year that begins after November 15, 2009, for interim periods within that first fiscal year, and for interim and annual reporting periods thereafter.
5. *SFAS No. 168—The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. This statement finalizes the exposure draft on the GAAP hierarchy covered in Chapter 1, effective for financial statements issued for interim and annual periods ending after September 15, 2009.

## **New EITF as the Book Went to Press**

A new EITF issue was announced as this book went to press:

1. *EITF No. 09-E—Accounting for Distributions to Shareholders with Components of Stock and Cash in the Calculations and Presentation of Earnings per Share*. EITF No. 09-E addresses situations in which a distribution to shareholders contains components of cash and stock and allows shareholders to select their preferred form of the distribution. The Task Force will attempt to reach consensus on whether the stock portion of such a distribution should be accounted for as a stock dividend for purposes of applying the provisions of SFAS No. 128, Paragraph 54. Discussion is planned for future meetings.

## **New FASB Exposure Draft Issued as the Book Went to Press**

A new FASB exposure draft, “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses,” was issued as CCH’s *U.S. Master™ GAAP Guide* went to press. The proposed statement would require significantly enhanced disclosures about an entity’s allowance for credit losses and the credit quality of the entity’s financing receivables, which include loans and lessors’ capital-lease receivables.

## **New Proposed FASB Staff Positions Issued as the Book Went to Press**

The following proposed FASB Staff Positions were issued as the book went to press:

1. *FSP FIN 48-d—Application Guidance for Pass-through Entities and Tax-Exempt Not-for-Profit Entities and Disclosure Modifications for Nonpublic Entities.* FSP FIN 48-d would provide guidance on the application of FIN 48 to pass-through entities and tax-exempt not-for-profit entities.
2. *FSP FAS 157-g—Estimating the Fair Value of Investments in Investment Companies That Have Calculated Net Asset Value per Share in Accordance with the AICPA Audit and Accounting Guide, Investment Companies.* The proposed FSP FAS 157-g would amend SFAS No. 157 to provide application guidance for estimating the fair value of investments in investment companies that have calculated net asset value per share in accordance with the AICPA Audit and Accounting Guide *Investment Companies*.

## **New SEC Staff Accounting Bulletin Issued as the Book Went to Press**

SEC Staff Accounting Bulletin No. 112 was issued as CCH's *U.S. Master™ GAAP Guide* went to press. It amends and rescinds portions of the Staff Accounting Bulletin Series in order to bring the interpretive guidance into conformity with SFAS Nos. 141(R) and 160.

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