

WILEY

GAAP

2012

Interpretation and Application of
GENERALLY ACCEPTED
ACCOUNTING PRINCIPLES

Steven M. Bragg

Buy this Book.
Get the ebook
FREE!

WILEY

GAAP 2012

Interpretation and Application
of GENERALLY ACCEPTED
ACCOUNTING PRINCIPLES



Steven M. Bragg



WILEY

JOHN WILEY & SONS, INC.

Copyright © by the American Institute of Certified Public Accountants, Inc. Several items were quoted or referred to with permission.

Portions of this book have their origin in copyrighted materials from the Financial Accounting Standards Board. These are noted by reference to the specific pronouncement except for the definitions introduced in bold type that appear in a separate section at the beginning of each chapter. Complete copies are available directly from the FASB. Copyright © by the Financial Accounting Standards Board, 401 Merritt 7, PO Box 5116, Norwalk, Connecticut 06856-5116, USA.

This book is printed on acid-free paper. ∞

Copyright © 2011 by John Wiley & Sons, Inc. All rights reserved.

Published by John Wiley & Sons, Inc., Hoboken, New Jersey

Published simultaneously in Canada

No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning or otherwise, except as permitted under Section 107 or 108 of the 1976 United States Copyright Act, without either the prior written permission of the Publisher, or authorization through payment of the appropriate per-copy fee to the Copyright Clearance Center, 222 Rosewood Drive, Danvers, MA 01923, 978-750-8400, fax 978-646-8600, or on the Web at www.copyright.com. Requests to the Publisher for permission should be addressed to the Permissions Department, John Wiley & Sons, Inc., 111 River Street, Hoboken, NJ 07030, 201-748-6011, fax: 201-748-6008, or online at <http://www.wiley.com/go/permissions>.

Limit of Liability/Disclaimer of Warranty: While the publisher and author have used their best efforts in preparing this book, they make no representations or warranties with respect to the accuracy or completeness of the contents of this book and specifically disclaim any implied warranties of merchantability or fitness for a particular purpose. No warranty may be created or extended by sales representatives or written sales materials. The advice and strategies contained herein may not be suitable for your situation. You should consult with a professional where appropriate. Neither the publisher nor author shall be liable for any loss of profit or any other commercial damages, including but not limited to special, incidental, consequential, or other damages.

For general information on our other products and services, please contact our Customer Care Department within the US at 800-762-2974, outside the US at 317-572-3993 or fax 317-572-4002.

Wiley also publishes its books in a variety of electronic formats. Some content that appears in print may not be available in electronic books. For more information about Wiley products, visit our Web site at www.wiley.com.

**ISBN 978-0-470-92396-2 (paperback); 978-1-118-15625-4 (ebk); 978-1-118-15626-1 (ebk);
978-1-118-15627-8 (ebk)**

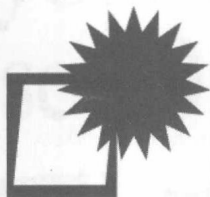
Printed in the United States of America

10 9 8 7 6 5 4 3 2 1

WILEY

GAAP 2012

Interpretation and Application of
GENERALLY ACCEPTED
ACCOUNTING PRINCIPLES



Subscriber Update Service

BECOME A SUBSCRIBER!

Did you purchase this product from a bookstore?

If you did, it's important for you to become a subscriber. John Wiley & Sons, Inc. may publish, on a periodic basis, supplements and new editions to reflect the latest changes in the subject matter that you **need to know** in order stay competitive in this ever-changing industry. By contacting the Wiley office nearest you, you'll receive any current update at no additional charge. In addition, you'll receive future updates and revised or related volumes on a 30-day examination review.

If you purchased this product directly from John Wiley & Sons, Inc., we have already recorded your subscription for this update service.

To become a subscriber, please call **1-877-762-2974** or send your name, company name (if applicable), address, and the title of the product to

mailing address: **Supplement Department
John Wiley & Sons, Inc.
One Wiley Drive
Somerset, NJ 08875**

e-mail: **subscriber@wiley.com**
fax: **1-732-302-2300**
online: **www.wiley.com**

For customers outside the United States, please contact the Wiley office nearest you:

Professional & Reference Division
John Wiley & Sons Canada, Ltd.
22 Worcester Road
Etobicoke, Ontario M9W 1L1
CANADA
Phone: 416-236-4433
Phone: 1-800-567-4797
Fax: 416-236-4447
Email: canada@jwiley.com

John Wiley & Sons Australia, Ltd.
33 Park Road
P.O. Box 1226
Milton, Queensland 4064
AUSTRALIA
Phone: 61-7-3859-9755
Fax: 61-7-3859-9715
Email: brisbane@johnwiley.com.au

John Wiley & Sons, Ltd.
The Atrium
Southern Gate, Chichester
West Sussex, PO19 8SQ
ENGLAND
Phone: 44-1243 779777
Fax: 44-1243 775878
Email: customer@wiley.co.uk

John Wiley & Sons (Asia) Pte. Ltd.
2 Clementi Loop #02-01
SINGAPORE 129809
Phone: 65-64632400
Fax: 65-64634604/5/6
Customer Service: 65-64604280
Email: enquiry@wiley.com.sg

PREFACE

GAAP: Interpretation and Application provides analytical explanations and copious illustrations of all current generally accepted accounting principles. The book integrates principles promulgated by all the relevant standard-setting bodies—the FASB, including its Emerging Issues Task Force’s consensus summaries and discussion issues and staff positions, and the AICPA’s Accounting Standards Executive Committee (AcSEC)—which have now been officially withdrawn and integrated into the FASB’s recently released *Accounting Standards Codification*.™

With the completion and public release of the FASB’s codification project, virtually all formerly promulgated and still-extant US GAAP has been superseded by a unified, codified set of standards. All such guidance is now presented in a single, integrated set of materials, and former individual standards, interpretations, and other requirements have been withdrawn. This book represents a complete integration of the new Accounting Standards Codification (ASC) references into the *Wiley GAAP* reference work that is now in its 28th annual edition.

The principal intended audience for the book is the practitioner, with the primary objective being to assist in resolving the myriad practical problems faced in applying GAAP. Accordingly, meaningful, realistic examples abound, guiding users in the application of GAAP to complex fact situations that must be dealt with in the real world practice of accounting. In addition to this emphasis, a major strength of the book is that it does explain the theory of GAAP in sufficient detail to serve as a valuable adjunct to accounting textbooks. Much more than merely a reiteration of currently promulgated GAAP, it provides the user with the underlying conceptual bases for the rules, in order to facilitate the process of reasoning by analogy that is so necessary in dealing with the complicated, fast-changing world of commercial arrangements and transaction structures. It is based on the author’s belief that proper application of GAAP demands an understanding of the logical underpinnings of all its technical requirements.

Each chapter of this book, or major section thereof, provides an overview discussion of the perspective and key issues associated with the topics covered; a listing of the professional pronouncements which guide practice; and a detailed discussion of the concepts and the accompanying examples. A comprehensive disclosure checklist, following the main text, offers practical guidance to preparing financial statements in accordance with GAAP, with supplemental insights into SEC-mandated disclosures as needed.

The author’s wish is that this book will serve preparers, practitioners, faculty, and students, as a reliable reference tool to facilitate their understanding of, and ability to apply, the complexities of the authoritative literature.

Steven M. Bragg
June 2011

ABOUT THE AUTHOR

Steven Bragg, CPA, has been the chief financial officer or controller of four companies, as well as a consulting manager at Ernst & Young. He received a master's degree in finance from Bentley College, an MBA from Babson College, and a Bachelor's degree in Economics from the University of Maine. He has been the two-time President of the Colorado Mountain Club, and is an avid alpine skier, mountain biker, and certified diver. Mr. Bragg resides in Centennial, Colorado. He has written the following books:

Accounting and Finance for Your Small Business
Accounting Best Practices
Accounting Control Best Practices
Accounting Policies and Procedures Manual
Advanced Accounting Systems
Billing and Collections Best Practices
Business Ratios and Formulas
Controller's Guide to Costing
Controller's Guide to Planning and Controlling Operations
Controller's Guide: Roles and Responsibilities for the New Controller
Controllershship
Cost Accounting
Cost Reduction Analysis
Essentials of Payroll
Fast Close
Financial Analysis
GAAP Guide
GAAP Policies and Procedures Manual
GAAS Guide
Inventory Accounting

Inventory Best Practices
Investor Relations
Just-in-Time Accounting
Management Accounting Best Practices
Managing Explosive Corporate Growth
Mergers and Acquisitions
Outsourcing
Payroll Accounting
Payroll Best Practices
Revenue Recognition
Run the Rockies
Running a Public Company
Sales and Operations for Your Small Business
The Controller's Function
The New CFO Financial Leadership Manual
The Ultimate Accountants' Reference
Throughput Accounting
Treasury Management
Vest Pocket Controller
Vest Pocket GAAP
Vest Pocket IFRS Guide

FREE ONLINE RESOURCES BY STEVE BRAGG

Steve issues a free accounting best practices podcast. You can sign up for it at www.accountingtools.com, or access it through iTunes. The www.accountingtools.com Web site also contains hundreds of articles about a broad range of accounting topics.

ABOUT THE ONLINE RESOURCES

Because you have purchased this print edition of *Wiley GAAP 2012: Interpretation and Application of Generally Accepted Accounting Principles*, you are eligible to download a free e-Book version of it (in e-PDF format). Please see the inside back cover of this book to find your unique ACCESS CODE giving you online access to the e-Book file.

Please Note

Your unique ACCESS CODE is located on the back of the printed card sealed on the inside back cover of this book. Once the stop label is torn, this print book is nonreturnable.

In addition, this offer only provides the e-Book of *GAAP 2012* in e-PDF format (which can be viewed by using Adobe Digital Editions).

CODIFICATION TAXONOMY

<i>Topic # and title</i>	<i>Subtopic # and title</i>
I. General Principles and Objectives	
105 Generally Accepted Accounting Principles	105-10 Overall
II. Overall Financial Reporting, Presentation, and Display Matters	
A. Overall Presentation of Financial Statements	
205 Presentation of Financial Statements	205-10 Overall
	205-20 Discontinued Operations
210 Balance Sheet	210-10 Overall
	210-20 Offsetting
215 Statement of Shareholders' Equity	215-10 Overall
220 Comprehensive Income	220-10 Overall
225 Income Statement	225-10 Overall
	225-20 Extraordinary and Unusual Items
	225-30 Business Interruption Insurance
230 Statement of Cash Flows	230-10 Overall
235 Notes to Financial Statements	235-10 Overall
B. Various Financial Reporting, Presentation, and Display Matters	
250 Accounting Changes and Error Corrections	250-10 Overall
255 Changing Prices	255-10 Overall
260 Earnings Per Share	260-10 Overall
270 Interim Reporting	270-10 Overall
272 Limited Liability Entities	272-10 Overall
274 Personal Financial Statements	274-10 Overall
275 Risks and Uncertainties	275-10 Overall
280 Segment Reporting	280-10 Overall
III. Transaction-Related Topics	
A. Financial Statement Accounts	
305 Cash and Cash Equivalents	305-10 Overall
310 Receivables	310-10 Overall
	310-20 Nonrefundable Fees and Other Costs
	310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality
	310-40 Troubled Debt Restructurings by Creditors
320 Investments—Debt and Equity Securities	320-10 Overall
323 Investments—Equity Method and Joint Ventures	323-10 Overall
	323-30 Partnerships and Unincorporated Joint Ventures
325 Investments—Other	325-10 Overall
	325-20 Cost Method Investments
	325-30 Investments in Insurance Contracts
	325-40 Beneficial Interests in Securitized Financial Assets

<i>Topic # and title</i>	<i>Subtopic # and title</i>
330 Inventory	330-10 Overall
340 Deferred Costs and Other Assets	340-10 Overall
	340-20 Capitalized Advertising Costs
	340-30 Insurance Contracts That Do Not Transfer Insurance Risk
350 Intangibles—Goodwill and Other	350-10 Overall
	350-20 Goodwill
	350-30 General Intangibles other than Goodwill
	350-40 Internal-Use Software
	350-50 Web Site Development Costs
360 Property, Plant, and Equipment	360-10 Overall
	360-20 Real Estate Sales
405 Liabilities	405-10 Overall
	405-20 Extinguishment of Liabilities
	405-30 Insurance-Related Assessments
410 Asset Retirement and Environmental Obligations	410-10 Overall
	410-20 Asset Retirement Obligations
	410-30 Environmental Obligations
420 Exit or Disposal Cost Obligations	420-10 Overall
430 Deferred Revenue	430-10 Overall
440 Commitments	440-10 Overall
450 Contingencies	450-10 Overall
	450-20 Loss Contingencies
	450-30 Gain Contingencies
460 Guarantees	460-10 Overall
470 Debt	470-10 Overall
	470-20 Debt with Conversion and Other Options
	470-30 Participating Mortgage Loans
	470-40 Product Financing Arrangements
	470-50 Modifications and Extinguishments
	470-60 Troubled Debt Restructurings by Debtors
480 Distinguishing Liabilities from Equity	480-10 Overall
505 Equity	505-10 Overall
	505-20 Stock Dividends and Stock Splits
	505-30 Treasury Stock
	505-40 Quasi Reorganizations
	505-50 Equity-Based Payments to Nonemployees
	505-60 Spin-offs and Reverse Spin-offs
605 Revenue Recognition	605-10 Overall
	605-15 Products
	605-20 Services
	605-25 Multiple-Element Arrangements
	605-28 Milestone Method
	605-30 Rights to Use
	605-35 Construction-Type and Production- Type Contracts

<u>Topic # and title</u>	<u>Subtopic # and title</u>
	605-40 Gains and Losses
	605-45 Principal-Agent Considerations
	605-50 Customer Payments and Incentives
705 Cost of Sales and Services	705-10 Overall
710 Compensation—General	710-10 Overall
712 Compensation—Nonretirement Postemployment Benefits	712-10 Overall
715 Compensation—Retirement Benefits	715-10 Overall
	715-20 Defined Benefit Plans—General
	715-30 Defined Benefit Plans—Pensions
	715-60 Other Postretirement Benefit Plans
	715-70 Defined Contribution Plans
	715-80 Multiemployer Plans
718 Compensation—Stock Compensation	718-10 Overall
	718-20 Awards Classified as Equity
	718-30 Awards Classified as Liabilities
	718-40 Employee Stock Ownership Plans
	718-50 Employee Share Purchase Plans
720 Other Expenses	720-10 Overall
	720-15 Start-Up Costs
	720-20 Insurance Costs
	720-25 Contributions Made
	720-30 Real and Personal Property Taxes
	720-35 Advertising Costs
	720-40 Electronic Equipment Waste Obligations
	720-45 Business and Technology Reengineering
730 Research and Development	730-10 Overall
	730-20 Research and Development Arrangements
740 Income Taxes	740-10 Overall
	740-20 Intraperiod Tax Allocation
	740-30 Other Considerations or Special Areas
B. Broad Transactional Categories	
805 Business Combinations	805-10 Overall
	805-20 Identifiable Assets and Liabilities, and Any Noncontrolling Interest
	805-30 Goodwill or Gain from Bargain Purchase, Including Consideration Transferred
	805-40 Reverse Acquisitions
	805-50 Related Issues
808 Collaborative Arrangements	808-10 Overall
810 Consolidation	810-10 Overall
	810-20 Control of Partnerships and Similar Entities
	810-30 Research and Development Arrangements

<u>Topic # and title</u>	<u>Subtopic # and title</u>
815 Derivatives and Hedging	815-10 Overall
	815-15 Embedded Derivatives
	815-20 Hedging—General
	815-25 Fair Value Hedges
	815-30 Cash Flow Hedges
	815-35 Net Investment Hedges
	815-40 Contracts in Entity's Own Equity
	815-45 Weather Derivatives
820 Fair Value Measurements and Disclosures	820-10 Overall
825 Financial Instruments	825-10 Overall
830 Foreign Currency Matters	825-20 Registration Payment Arrangements
	830-10 Overall
	830-20 Translation of Transactions
	830-30 Translation of Financial Statements
835 Interest	835-10 Overall
	835-20 Capitalization of Interest
	835-30 Imputation of Interest
840 Leases	840-10 Overall
	840-20 Operating Leases
	840-30 Capital Leases
	840-40 Sale-Leaseback Transactions
845 Nonmonetary Transactions	845-10 Overall
850 Related-Party Disclosures	850-10 Overall
852 Reorganizations	852-10 Overall
	852-20 Quasi-Reorganizations
855 Subsequent Events	855-10 Overall
860 Transfers and Servicing	860-10 Overall
	860-20 Sales of Financial Assets
	860-30 Secured Borrowings and Collateral
	860-40 Transfers to Qualifying Special-Purpose Entities
	860-50 Servicing Assets and Liabilities
IV. Industry/Unique Topics	
905 Agriculture	905-10 Overall
908 Airlines	908-10 Overall
910 Contractors—Construction	910-10 Overall
	910-20 Contract Costs
912 Contractors—Federal Government	912-10 Overall
	912-20 Contract Costs
915 Development Stage Entities	915-10 Overall
920 Entertainment—Broadcasters	920-10 Overall
922 Entertainment—Cable Television	922-10 Overall
924 Entertainment—Casinos	924-10 Overall
926 Entertainment—Films	926-10 Overall
	926-20 Other Assets—Film Costs
928 Entertainment—Music	928-10 Overall
930 Extractive Activities—Mining	930-10 Overall
932 Extractive Activities—Oil and Gas	932-10 Overall

<i>Topic # and title</i>	<i>Subtopic # and title</i>
940 Financial Services—Brokers and Dealers	940-10 Overall
	940-20 Broker Dealer Activities
942 Financial Services—Depository and Lending	942-10 Overall
944 Financial Services—Insurance	944-10 Overall
	944-20 Insurance Activities
	944-30 Acquisition Costs
	944-40 Claim Costs and Liabilities for Future Policy Benefits
	944-50 Policyholder Dividends
	944-60 Premium Deficiency and Loss Recognition
	944-80 Separate Accounts
946 Financial Services—Investment Companies	946-10 Overall
	946-20 Investment Company Activities
948 Financial Services—Mortgage Banking	948-10 Overall
950 Financial Services—Title Plant	
952 Franchisors	952-10 Overall
954 Health Care Entities	954-10 Overall
958 Not-for-Profit Entities	958-10 Overall
	958-20 Financially Interrelated Entities
	958-30 Split-Interest Arrangements
960 Plan Accounting—Defined Benefit Pension Plans	960-10 Overall
	960-20 Accumulated Plan Benefits
	960-30 Net Assets Available for Plan Benefits
	960-40 Terminating Plans
962 Plan Accounting—Defined Contribution Pension Plans	962-10 Overall
	962-40 Terminating Plans
965 Plan Accounting—Health and Welfare Benefit Plans	965-10 Overall
	965-20 Net Assets Available for Plan Benefits
	965-30 Plan Benefits Obligations
	965-40 Terminating Plans
970 Real Estate—General	970-10 Overall
972 Real Estate—Common Interest Realty Associations	972-10 Overall
974 Real Estate—Real Estate Investment Trusts	974-10 Overall
976 Real Estate—Retail Land	976-10 Overall
978 Real Estate—Time-Sharing Activities	978-10 Overall
980 Regulated Operations	980-10 Overall
	980-20 Discontinuation of Rate-Regulated Accounting
985 Software	985-10 Overall
	985-20 Costs of Software to Be Sold, Leased or Marketed
995 US Steamship Entities	

V. Glossary

CONTENTS

	Preface	vii
	About the Author	ix
	About the Online Resources	xi
	Codification Taxonomy	xiii
1	Researching GAAP Matters	1
2	Statement of Financial Position	29
3	Statements of Income and Comprehensive Income	55
4	Statement of Cash Flows	89
5	Accounting Policies, Changes, and Restatements	105
6	Fair Value	141
7	Cash, Receivables, and Prepaid Expenses	177
8	Short-Term Investments and Financial Instruments	235
9	Inventory	305
10	Revenue Recognition—Evolving Principles and Specialized Applications	347
	Revenue Recognition—General Principles	349
	Long-Term Construction Contracts	357
	Service Revenues	372
	Sales When Collection Is Uncertain	380
	Revenue Recognition When Right of Return Exists	387
	Profit Recognition on Real Estate Sales	391
	Real Estate Operations	412
	Franchising: Accounting by Franchisors	416
	Other Special Accounting and Reporting Issues	421
11	Long-Lived Assets	431
12	Long-Term Investments	495
13	Business Combinations and Consolidated Financial Statements	587
14	Current Liabilities and Contingencies	671
15	Long-Term Liabilities	697
16	Leases	747
17	Research and Development	823

18	Nonmonetary Transactions	829
19	Income Taxes	839
20	Pensions and Other Postretirement Benefits	913
21	Stockholders' Equity	963
	Appendix A: Financial Statement Presentation	1034
22	Earnings Per Share	1037
	Appendix: Comprehensive Example	1063
23	Interim Reporting	1067
24	Segment Reporting	1081
25	Foreign Currency	1091
	Appendix: Accounts to Be Remeasured Using Historical Exchange Rates	1119
26	Personal Financial Statements	1121
	Appendix: Hypothetical Set of Personal Financial Statements	1126
27	Specialized Industry GAAP	1129
	Banking and Thrift	1131
	Broadcasting	1146
	Cable Television	1150
	Casinos	1153
	Computer Software Developers	1154
	Employee Benefit Plans, Including Pension Funds	1163
	Finance Companies	1171
	Government Contractors	1175
	Insurance	1177
	Investment Companies	1188
	Mortgage Banking	1194
	Motion Pictures	1201
	Not-for-Profit Organizations	1211
	Oil and Gas Producers	1226
	Recording and Music	1228
	Regulated Operations	1231
	Title Plant	1235
	Appendix A: Disclosure Checklist for Commercial Businesses	1237
	Index	1301

1 RESEARCHING GAAP MATTERS

Development of GAAP	1		
What Is GAAP?	1	Relevance	17
Who Created GAAP?	2	Reliability	18
Committee on Accounting Procedure	2	Trade-offs	19
Accounting Principles Board	2	Constraints	19
Financial Accounting Standards Board	3	Role of conservatism	19
American Institute of Certified Public Accountants (AICPA)	4	CON 3: Elements of Financial Statements of Business Enterprises	19
Emerging Issues Task Force (EITF)	4	CON 5: Recognition and Measurement in Financial Statements of Business Enterprises	19
Other sources	4	CON 6: Elements of Financial Statements	20
Accounting Standards Codification	5	CON 7: Using Cash Flow Information and Present Value in Accounting Measurements	23
How Is GAAP Created?	5	How CON 7 measures differ from previously utilized present value techniques	23
The Hierarchy of GAAP after Codification	7	Measuring liabilities	24
The Concept of Materiality	8	Interest method of allocation	24
Researching GAAP Problems	10	Accounting for changes in expected cash flows	24
Research Procedures	10	Application of present value tables and formulas	25
Search Authoritative Literature (Step 6)–Further Explanation	11	Example of the relevance of present values	26
Researching the GAAP Codification	11	Practical matters	27
Research <i>Wiley GAAP</i>	12	Conducting Research through the FASB Codification Web Site	27
Researching nonpromulgated GAAP	12		
Internet-based research sources	13		
The Conceptual Framework	14		
Components of the conceptual framework	15		
CON 1: Objectives of Financial Reporting by Business Enterprises	16		
CON 2: Qualitative Characteristics of Accounting Information	17		
Usefulness for decision making	17		

DEVELOPMENT OF GAAP

What Is GAAP?

The phrase “generally accepted accounting principles” is a technical accounting term that encompasses the conventions, rules, and procedures necessary to define accepted accounting practice at a particular time. It includes not only broad guidelines of general application, but also detailed practices and procedures. Those conventions, rules, and procedures provide a standard by which to measure financial presentations. Auditing Standards Board (ASB), AU Section 411

Generally accepted accounting principles (GAAP) are concerned with the measurement of economic activity, the time when such measurements are to be made and recorded, the disclosures surrounding this activity, and the preparation and presentation of summarized economic information in the form of financial statements. GAAP develops when questions

arise about how to best accomplish those objectives—measurement, timing of recognition, disclosure, or presentation. In response to those questions, GAAP is either prescribed in official pronouncements of authoritative bodies empowered to create it, or it originates over time through the development of customary practices that evolve when authoritative bodies fail to respond. Thus, GAAP is a reaction to and a product of the economic environment in which it develops. As such, the development of accounting and financial reporting standards has lagged the development and creation of increasingly intricate economic structures and transactions.

There are two broad categories of accounting principles—recognition and disclosure. Recognition principles determine the timing and measurement of items that enter the accounting cycle and impact the financial statements. These are quantitative standards that require economic information to be reflected numerically.

Disclosure principles deal with factors that are not always numeric. Disclosures involve qualitative information that is an essential ingredient of a full set of financial statements. Their absence would make the financial statements misleading by omitting information relevant to the decision-making needs of the reader. Disclosure principles complement recognition principles by explaining assumptions underlying the numerical information and providing additional information on accounting policies, contingencies, uncertainties, etc., which are essential to fully understand the performance and financial condition of the reporting enterprise.

Who Created GAAP?

From time to time, the bodies given responsibility for the promulgation of GAAP have changed, and indeed more than a single such body has often shared this responsibility. GAAP established by all earlier standard-setting bodies, to the extent not withdrawn or superseded, remains in effect at the present time. These bodies are described in the following paragraphs.

Committee on Accounting Procedure. The first serious attempt to create formalized generally accepted accounting principles began in 1930, primarily as a consequence of the stock market crash of 1929 and the widespread perception that an absence of uniform and stringent financial reporting requirements had contributed to the rampant stock market speculation of the preceding decade that culminated with that crash. (Previously, GAAP had largely been defined by academic writings and general industry practices.) The American Institute of Accountants, (which in 1957 was renamed the American Institute of Certified Public Accountants [AICPA]), created a special committee to work with the New York Stock Exchange toward the goal of establishing standards for accounting procedures. The special committee recommended five rules to the Exchange that were published in 1938 as Accounting Research Bulletin (ARB) 1 of the Committee on Accounting Procedure. The Committee subsequently published 51 such bulletins, including Accounting Research Bulletin 43, which consolidated and superseded Bulletins 1–42. The Committee also attempted to achieve uniformity in accounting terminology. However, the Committee's limited resources and lack of serious research efforts in support of its pronouncements were questioned in the late 1950s, particularly as a number of very complex controversial topics loomed on the horizon.

Accounting Principles Board. The profession's response was to substitute, under its auspices, the Accounting Principles Board (APB) for the Committee on Accounting Procedure. This was done to facilitate the development of principles, which were to be based primarily on the research of a separate division of the AICPA, the Accounting Research Division. Under this strategy, the Division was to undertake extensive research, publish its