

FASB Accounting Standards Codification System Is Now Effective

The *Financial Accounting Standards Board Accounting Standards Codification*™ system (FASB ASC) recently became the official authoritative source of nongovernmental generally accepted accounting principles (GAAP). Rules and interpretive releases of the U.S. Securities and Exchange Commission (SEC) also remain sources of authoritative GAAP for SEC registrants. The codification is not intended to change GAAP or any requirements of the SEC, but rather it is intended to make the accounting and reporting standards easier to find and use by organizing them by topic.

The codification is effective for nongovernmental financial statements issued for interim and annual periods ending after Sept. 15, 2009, and supersedes previously existing non-SEC accounting and reporting standards. The GAAP hierarchy now consists of just two levels: authoritative, represented by the FASB ASC; and nonauthoritative, represented by all other accounting literature. All non-SEC guidance in the codification carries an equal level of authority.

From now on, the FASB will not issue new standards in the form of statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts. Instead it will issue "Accounting Standards Updates" to the FASB ASC.

Objectives

Prior to the codification, standard setters issued guidance in various forms, without a consistent organizational structure. The dispersed nature of the literature made it difficult to determine that all guidance relevant to a particular issue had been considered. The FASB ASC

is intended to organize and simplify authoritative GAAP literature. The FASB has indicated that the expected benefits of the codification include:

- Reducing the amount of time and effort required to solve an accounting research issue;
- Mitigating the risk of noncompliance with standards making the literature easier to use; and
- Providing real-time updates as new standards are released.

ASC Organization

The codification reorganizes previously existing GAAP literature into roughly 90 accounting topics. Topics are grouped into four main areas:

- **Presentation** – topics providing guidance relating only to presentation matters; they do not address recognition or measurement issues. Examples include Balance Sheet, Income Statement, and Earnings Per Share.
- **Financial Statement Accounts** – topics organized by financial statement account descriptions such as Receivables, Inventory, and Revenue Recognition.
- **Broad Transactions** – generally transaction-oriented topics relating to multiple financial statement accounts. Examples include Business Combinations, Derivatives and Hedging, and Nonmonetary Transactions.
- **Industries** – topics relating to accounting that is unique to an industry or type of activity such as Agriculture, Financial Services, and Not-for-Profit Entities.

Guidance within each topic becomes more specific as it is further grouped into subtopics, sections, and subsections. Subtopics refer to subjects within a topic. Each topic contains an overall subtopic that generally

represents the pervasive guidance applicable to the topic. Additional subtopics represent incremental or unique guidance not contained in the overall subtopic. For example, Operating Leases and Capital Leases are subtopics of the Lease topic. Sections, such as Recognition, Measurement, and Disclosure, further define the content in a subtopic. Sections are further broken down into subsections, paragraphs, and subparagraphs, as the specific content of each section requires.

To increase the usefulness of the FASB ASC for public companies, relevant portions of content issued by the SEC and SEC administrative guidance have been included. It is important to note that the SEC sections are not the authoritative sources of such content and do not contain the entire population of SEC rules, regulations, interpretative releases, and staff guidance.

Summary

The FASB ASC significantly changes the structure and hierarchy of U.S. accounting and reporting standards. Financial statement preparers, auditors, and other users of financial statements will have to learn to perform accounting research using the codification.

While the FASB ASC does not change GAAP, it does change how specific standards within financial statements are referenced. References in financial statements for periods ending after the effective date should no longer use the legacy GAAP citations, but rather should refer to the codification topic numbers. For example, a reference to accounting policies for income taxes would refer to "FASB ASC 740" rather than to "FAS Statement No. 109."

The FASB offers an online tutorial, available by logging on to its Web site at <http://asc.fasb.org/help>. Registration for access to a free basic view of the codification is available at <http://asc.fasb.org>. Enhanced access, including expanded search and retrieval functions, is available on a paid subscription basis.

Contact Information

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