A Bridge to Nowhere and Other Financial Issues

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What is Accounting?

The perception

This is Accounting?!

BLACK WHITE

RIGHT WRONG

YES NO

ASSETS LIABILITIES

FINANCIAL STATEMENT

The reality

PROSPERMS SOCIETY

GOOD DECISIONS

USEFUL INFORMATION

ACCOUNTING JUDGMENTS

CRITICAL THINKING

Shades of Gray

ECONOMIC ACTIVITY

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Big GAAP vs. Little GAAP

FASB Response:

Proposed *GAAP alternatives* for private companies

Private Company Council (PCC)
Relief provided:

1. Relief from separately recognizing certain intangible assets acquired in a business combination (i.e., goodwill)
2. Exempt from having to perform impairment tests for goodwill subsequent to a business combination; can amortize goodwill over 10 years
3. Provide simplified hedge accounting for interest rate swaps for the purpose of converting variable-rate debt to fixed-rate debt

Effective after December 15, 2014
Big GAAP vs. Little GAAP

AICPA Response:

A *non-GAAP alternative* for smaller businesses

Blue Ribbon Panel (FRF for SMEs)

Framework for Small- and Medium-Sized Entities
Big GAAP vs. Little GAAP

A special-purpose framework (OCBOA)

Uses historical cost; usual inventory cost-flow assumptions; usual depreciation methods

Management choice: either income tax accounting or deferred-income-taxes method

Not required to test for goodwill impairment; amortize goodwill over 15 years
Codification Activity

FASB Codification (ASC)

Code of Professional Conduct Codification
Code of Professional Conduct

Three parts:

Members in public practice
Members in business
Members who are retired or between jobs
Major change: Incorporation of conceptual frameworks for members in public practice and in business

Conceptual frameworks incorporate a “threats and safeguards” approach to assist users in analyzing relationships and circumstances that the code does not specifically address
Code of Professional Conduct

Existing code organized by rule

Revised code organized by topic, subtopics and sections
Part 2: Guidance for members in business

2.000 Introduction
2.100 Integrity and Objectivity
   2.110 Conflicts of Interest
   2.120 Gifts & Entertainment
      2.120.010 Offering/Accepting
   2.130 Preparing & Reporting Info
   2.140 Educational Services
2.300 General Standards
2.310 Compliance with Standards
2.320 Accounting Principles
2.400 Acts Discreditable

http://pub.aicpa.org/codeofconduct

Effective December 15, 2014; delayed date for the implementation of the conceptual frameworks
Recent Pronouncements

Revenue Recognition  (Issued May, 2014)

Leases
Revenue Recognition

Focus is on “performance and obligation” rather than realization and realizability

“Transfer of control” rather than transferring risks and rewards of ownership
Examples of industries affected in major ways:

Telecommunications
Software
Real Estate
Revenue Recognition

Five step process:

1. Identify the contract with a customer
2. Identify the separate performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the separate performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation
Revenue Recognition

Percentage-of-completion method will move to “cost-to-cost” ratio rather than “units of delivery”

Effective date: December 15, 2016 for U.S. public companies; January 1, 2017 for companies using IFRS
Leases

Hoped-for move is to record all leases on the Balance Sheet, with operating leases a thing of the past.

Focus is on “rights and obligations”

Pronouncement continues to be “under study”
What’s Coming

- Simplification of measurement of inventory
- Elimination of the concept of “extraordinary items”
- Convergence with IASB on “Accounting for Financial Instruments: Credit Impairment”
Disclosure framework with purpose to reduce “clutter”

Accounting for financial instruments: Hedging

Financial instruments with characteristics of equity
Gifts-In-Kind Valuation

Measure at fair value, which may not be donor-provided value and may not be set by the location where the goods will be distributed

Set by the market where the greatest volume occurs
Gifts-in-Kind Valuation

Presume purchase at the date the contribution occurs

If fee exchanged is substantially less than the fair value of the goods received, presume a “bargain purchase” and that the transaction includes an inherent contribution that should be recognized.
Gifts-in-Kind Valuation

Management is responsible for the financial statement numbers:

- Have a policy
- Be consistent
- Use a reasonable process to assess and record the fair value of GIK
- Document the approach
Questions?

Thank you!
References


