

# A Bridge to Nowhere and Other Financial Issues

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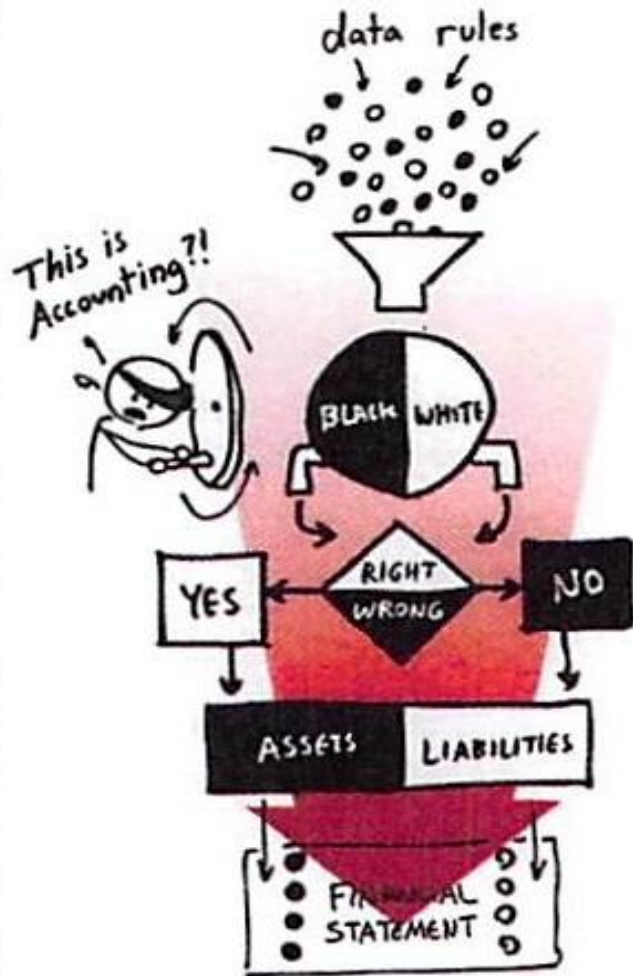
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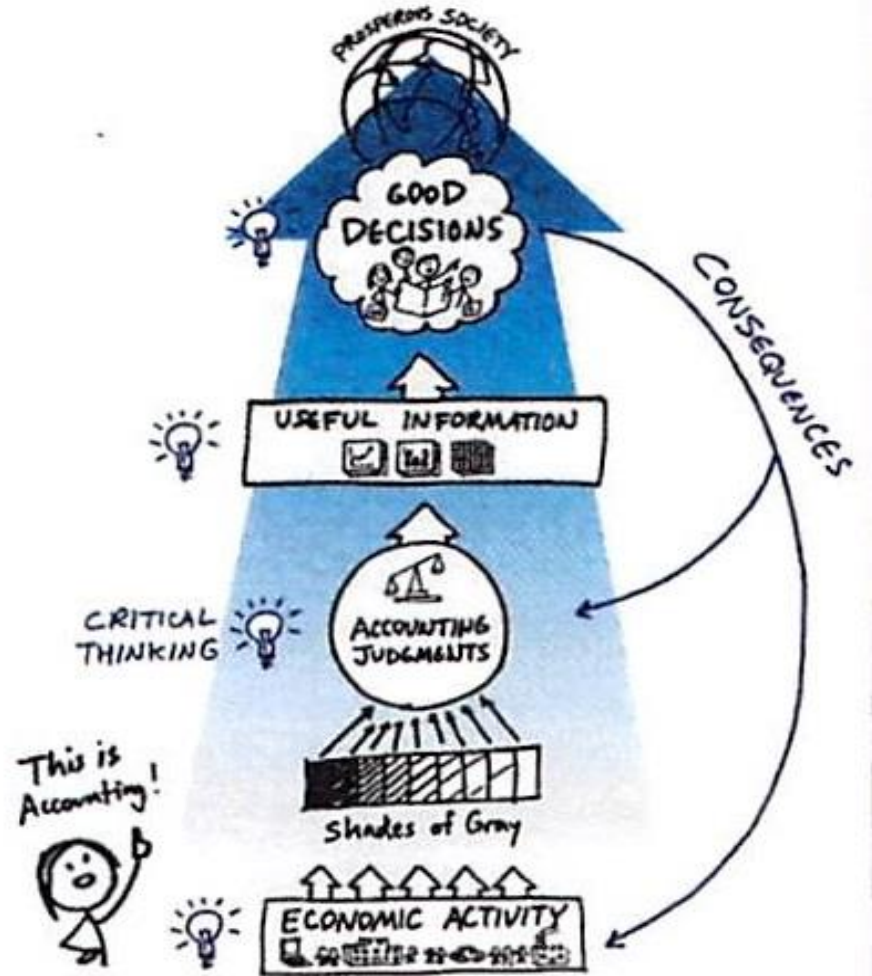
# What is Accounting?

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## The perception



## The reality



# Big GAAP vs. Little GAAP

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## **FASB Response:**

Proposed *GAAP alternatives* for private companies

Private Company Council (PCC)

# Big GAAP vs. Little GAAP

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## 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

# Big GAAP vs. Little GAAP

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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

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## **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

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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

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FASB Codification (ASC)

Code of Professional Conduct Codification



# Code of Professional Conduct

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## **Three parts:**

Members in public practice

Members in business

Members who are retired or between jobs

# Code of Professional Conduct

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**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

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Existing code organized by rule

Revised code organized by topic, subtopics and sections

# Code of Professional Conduct

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## 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

# Code of Professional Conduct

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- 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

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Revenue Recognition (Issued May, 2014)

Leases

# Revenue Recognition

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

“Transfer of control” rather than transferring risks and rewards of ownership

# Revenue Recognition

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Examples of industries affected in major ways:

Telecommunications

Software

Real Estate



# Revenue Recognition

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Five step process:

1. Identify the contract with a customer
2. Identify the separate performance obligations in the contract
3. Determine the transaction price

# Revenue Recognition

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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

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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

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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

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Simplification of measurement of inventory

Elimination of the concept of “extraordinary items”

Convergence with IASB on “Accounting for Financial Instruments: Credit Impairment”

# Requested Topics for FASB Study

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Disclosure framework with purpose to reduce “clutter”

Accounting for financial instruments: Hedging

Financial instruments with characteristics of equity

# Gifts-In-Kind Valuation

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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

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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

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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

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Questions?

Thank you!

# References

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