

FASB CODIFICATION EXPECTED TO BECOME SINGLE SOURCE OF AUTHORITATIVE U.S. GAAP ON JULY 1, 2009

United States accounting and reporting standards are undergoing a major restructuring, and preparers and auditors of financial reports need to be aware of, and prepared for, the significant changes that will occur next year. **On July 1, 2009, the *FASB Accounting Standards Codification*[™] is expected to become the single official source of authoritative, nongovernmental U.S. generally accepted accounting principles (GAAP), superseding existing FASB, AICPA, EITF, and related literature.** After that date, only one level of authoritative GAAP will exist, excluding the guidance issued by the Securities and Exchange Commission (SEC). All other literature will be non-authoritative.

The Codification does not change GAAP; instead, it introduces a new structure—one that is organized into an easily accessible, user-friendly online research system. The Codification reorganizes the thousands of U.S. GAAP pronouncements into roughly 90 accounting Topics, and displays all Topics using a consistent structure. Also included is relevant SEC guidance that follows the same topical structure used in the Codification.

The new system will:

- reduce the amount of time and effort required to solve an accounting research issue;
- mitigate the risk of noncompliance with standards through improved usability of the literature;
- provide accurate information with real-time updates as new standards are released; and
- assist the FASB with the research and convergence efforts required during the standard-setting process.

To prepare constituents for the change, the FASB offers a free online Codification tutorial at <http://asc.fasb.org>. In addition, there is a recorded webcast at www.fasb.org. For more information, log on to www.fasb.org.

FASB Codification: Answers to commonly-asked questions

How will U.S. accounting literature change on July 1, 2009?

The Codification is a major restructuring of accounting and reporting standards. It will supersede all accounting standards in existing FASB, Emerging Issues Task Force (EITF), American Institute of Certified Public Accountants (AICPA), and related standards. At that time, only two levels of U.S. GAAP will exist: authoritative represented by the Codification, and nonauthoritative represented by all other literature. For reference by public companies, the Codification also includes SEC content, although the SEC content is displayed separately below the related topical content.

Why did the FASB decide to embark on this major restructuring of existing accounting standards?

Currently, there are thousands of standards by numerous standard-setters in various forms. Additionally, there is no defined organization within each standard to assist in retrieval. Users must read the entire standard to find relevant material.

Due to the dispersed nature of the current literature, many users of that literature do not feel comfortable that they have accessed all relevant material during their research. As a result, individuals may rely inadvertently on one piece of literature when another standard may be more relevant.

The Codification was launched to organize and simplify authoritative U.S. GAAP literature. All the authoritative literature related to a particular topic will be located in one place. Consequently, the Codification makes it much easier for preparers to research specific accounting issues.

What literature is included?

The Codification will include all level A–D GAAP issued by a standard setter, including pronouncements issued by the FASB, EITF, the Accounting Standards Executive Committee (AcSEC), the Accounting Principles Board, etc.

The source of material used to create the Codification is from the as-amended versions of accounting standards. Therefore, the Codification does NOT identify as sources any documents that solely amend other standards. For example, FASB Statement No. 149 is an amendment of FASB Statement No. 133, so the content of Statement No. 149 is included through the as-amended version of Statement No. 133.

Does the Codification include SEC content?

Yes. To increase the utility of the Codification for public companies, relevant portions of authoritative content issued by the SEC and selected SEC staff interpretations and administrative guidance have been included for reference in the Codification, such as Regulation S-X, Financial Reporting Releases (FRR)/Accounting Series Releases (ASR), Interpretive Releases (IR), and SEC staff guidance in Staff Accounting Bulletins (SAB), EITF Topic D, and SEC Staff Observer comments.

It is important to note that the SEC Sections contain SEC content related to matters within the basic financial statements, but the Codification does not contain the entire population of SEC rules, regulations, interpretive releases, and staff guidance. For example, the Codification does not include content related to matters outside of the basic financial statements, such as Management’s Discussion and Analysis (MD&A), or to auditing or independence matters.

Content in the SEC Sections is expected to change over time pursuant to the normal procedures of the SEC and SEC staff for making changes to SEC rules, regulations, interpretations, and staff guidance. The FASB intends to work with the SEC to make every effort to provide timely updates as SEC content changes. However, the SEC and SEC staff shall continue to use existing SEC procedures for communicating new or revised SEC content. Accordingly, there may be delays between SEC and SEC staff changes and corresponding updates to the Codification.

The Codification does not replace or affect requirements or guidance issued by the SEC or its staff for public companies in their filings with the SEC. In addition, as has been a long-standing SEC policy, SEC staff guidance does not constitute rules or interpretations of the SEC, nor does such guidance bear official Commission approval.

Will the Codification include content that is not yet required for entities?

Yes. The content from new standards that is not yet fully effective for all entities will appear as boxed text and labeled as "Pending Content." The Pending Content text box includes the earliest transition date and a link to the related transition guidance.

What content is excluded from the Codification?

The FASB concluded that the Codification represents authoritative GAAP. Therefore, the Codification does not include guidance for non-GAAP matters such as Other Comprehensive Basis of Accounting (OCBOA), Cash Basis, Income Tax Basis, and Regulatory Accounting Principles (RAP).

The Codification also does not include governmental accounting standards.

How will one be able to find the original source of the Codification paragraphs?

The Codification includes a Cross-reference report that allows users to identify where current standards reside in the Codification, or the source of material included in the Codification.

Users of the Codification can input the Codification reference, in which case the report will provide source information from current GAAP (e.g., standard type, number, and paragraph). Alternatively, a user can input the current GAAP source information to determine where the guidance exists in the Codification.

How does someone find information about a particular issue in the Codification?

There are three primary ways to get to the guidance related to a particular accounting issue. First, one can go directly to the Topic (e.g., Revenue Recognition) and then expand the Topic outline to find the relevant material. Secondly, the Codification includes a robust word search function. Finally, one can go directly to the Paragraph if the reference is known.

How is the guidance arranged in the Codification?

The Codification content is arranged within **Topics, Subtopics, Sections, and Subsections**.

Topics represent a collection of related guidance. The Topics correlate closely to standards issued by the International Accounting Standards Board (IASB).

Topics reside in four main areas as follows:

- *Presentation*—Topics relating only to presentation matters; they do not address recognition, measurement, and derecognition matters. Examples: Income Statement, Balance Sheet, and Earnings per Share.
- *Financial Statement Accounts*—The Codification organizes Topics into a financial statement order including Assets, Liabilities, Equity, Revenue, and Expenses. Topics include Receivables, Revenue Recognition, and Inventory.
- *Broad Transactions*—These Topics relate to multiple financial statement accounts and are generally transaction-oriented. Topics include Business Combinations, Derivatives, and Nonmonetary Transactions.
- *Industries*—These Topics relate to accounting that is unique to an industry or type of activity. Topics include Airlines, Software, and Real Estate.

Subtopics represent subsets of a Topic and are generally distinguished by type or by scope. For example, Operating Leases and Capital Leases are two Subtopics of the Leases Topic, distinguished by type of lease. Each Topic contains an Overall Subtopic that generally represents the pervasive guidance for the Topic. In other words, the Overall Subtopic includes guidance that applies to all other subtopics. Each additional Subtopic represents incremental or unique guidance not contained in the Overall Subtopic.

Sections represent the nature of the content in a Subtopic such as Recognition, Measurement, Disclosure, etc. The sectional organization for all Subtopics is the same. Similar to Topics, Sections correlate closely with sections of individual International Accounting Standards.

Sections are further broken down into **Subsections, Paragraphs, and Subparagraphs**, depending on the specific content of each Section.

How are Topics, Subtopics, Sections, and Paragraphs classified?

The FASB developed a hybrid classification system specifically for the Codification.

The following is the structure of the classification system:

XXX-YY-ZZ-PP where XXX = Topic, YY = Subtopic, ZZ = Section, PP = Paragraph.

In the case of SEC content, an "S" precedes the Section number.

How will new standards be incorporated into the Codification?

New standards will be composed of two items: the standard (similar to existing standards with a Basis for Conclusions) and an appendix of Codification Update instructions. The title of the combined set of standard and instructions will be "Codification Update YY-XX," where YY is the last two digits of the year and XX is the sequential number for each Update. For example, the combined numbers would be 09-01, 09-02, etc. All authoritative GAAP issued by the FASB will be issued in this format, regardless of the form in which such guidance may have been issued previously (for example, EITF Abstracts, FASB Staff Positions, FASB Statements, and FASB Interpretations).

The FASB will organize the content of new standards using the same Section headings as those used in the Codification. The Codification Update Instructions are similar to the Amendments sections of current FASB standards. They will display marked changes to the pertinent sections of the Codification.

Following the FASB Board's approval of the Codification as the single source of non-SEC authoritative accounting and reporting standards, the FASB will no longer consider new standards as authoritative in their own right. Instead, the new standards will serve only to update the Codification and provide the historical basis for conclusions of a new standard.

Will new standards have a Basis for Conclusions? If so, how can it be accessed?

Yes. The format will be the same as the format used currently. Upon adoption of the Codification as authoritative, users will be able to access the new standards and the related Basis for Conclusions.

What happens to U.S. GAAP literature when the Codification goes live on July 1, 2009?

All existing standards that were used to create the Codification will become superseded upon the adoption of the Codification. The FASB will no longer update and maintain the superseded standards. Also, upon adoption of the Codification, the U.S. GAAP hierarchy will flatten from five levels to two—authoritative and non-authoritative. The following table illustrates the result:

U.S. GAAP Hierarchy	Authoritative Contained in Codification	Non-Authoritative Not contained in Codification
Level A	X	
Level B	X	
Level C	X	

Level D – Issued by a standard setter	X	
Level D – Practice		X
Level E – Concept Statements, Textbooks, etc.		X

Note – As described in the Notice to Constituents, certain items currently included below level D have been included in the Codification.

What happens to the Basis for Conclusions in standards issued before the Codification becomes authoritative?

Similar to new standards addressed in the previous question, upon adoption of the Codification as authoritative, all existing standards will be superseded yet available for reference from the Codification website. The archived standards will include the original Basis for Conclusions.

Does the Codification include grandfathered guidance for transactions scoped out of a newer standard (for example, APB 25 guidance scoped out of FAS 123(R))?

In some cases, a new standard allows some or all entities to retain "old" guidance for a specific class of transactions (referred to as "grandfathered GAAP"). Those transactions typically occur before a cutoff date defined by the new standard. Upon initial release of the Codification, it will exclude grandfathered GAAP because entities can no longer apply the guidance to new transactions. The Codification will supersede all standards in effect upon its adoption. However, users will be able to reference those standards—including the grandfathered GAAP—within an archived section of the Codification website.

What will be the search capabilities for locating archived standards?

There will be two approaches to locating an archived standard. First, as noted previously, after the adoption of the Codification, archived standards will be accessible from the left navigation panel of the <http://asc.fasb.org> Web site. In this case, users will be able to browse the standards by standard setter, type, and number. This will be similar to the organization of most existing accounting research tools. Second, users will be able to use the text search feature to locate archived standards (in pdf format) that contain the search expression.

How will the Codification fit into the FASB's work with the International Accounting Standards Board (IASB) to create a single set of converged, high-quality accounting standards?

As mentioned previously, the Codification will assist the FASB with the research and convergence efforts required during the standard-setting process. The FASB is working with the IASB to determine the role of the Codification in a converged accounting world.

Will there be a charge to access the Codification?

A basic view of the Codification Topics will be accessible free of charge. For those who require an integrated professional product to minimize the time and effort needed to research U.S. GAAP, enhanced access to the Codification will be available as a subscription, providing high level search and retrieval functions, cross reference features, personal annotation, and dynamic linking capabilities.

Will a print version of the Codification be issued as well?

The FASB plans to issue the Codification in print. Details will be announced closer to the July 1, 2009 launch date. The FASB will evaluate whether to print future editions of the Codification based on the demand for the printed version.

Where can I find out more specific information about how to use the Codification?

The home page at <http://asc.fasb.org> includes various items of which users should be aware, including a “Notice to Constituents” that describes Codification-related matters. It also includes general information about how to use the online research system and special features such as *Cross Reference Reports* (to locate where standards reside), *Join Sections* (to join similar Sections from multiple Topics and Subtopics into a single document), and *Go To* (to jump directly to a specific Topic, Subtopic, Section, or Paragraph).

Is Codification training available?

The FASB offers an online tutorial, available by logging on to www.fasb.org. The FASB website also includes an archived webcast offering step-by-step instructions

The American Institute of Certified Public Accountants (AICPA) also offers an archived webcast on the Codification. For more information, log on to www.aicpa.org.
