

2022

Practitioner's Guide to GAAP

Interpretation and Application of
GENERALLY ACCEPTED
ACCOUNTING PRINCIPLES

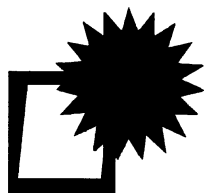
With updates
to Credit
Losses, Leases,
and an Online
Presentation
and Disclosure
Checklist

Joanne M. Flood, MBA, CPA

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**Practitioner's
Guide
to GAAP
2022**



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PREFACE

Wiley GAAP 2022: Interpretation and Application provides analytical explanations, copious illustrations, and nearly 300 examples of all current generally accepted accounting principles. The book integrates principles promulgated by the FASB in its *Accounting Standards Codification*.TM *Wiley GAAP* is organized to align fully with the structure of the FASB Codification. Each chapter begins with a list of the subtopics included within the topic, scope, scope exceptions, technical alerts of any FASB Updates, and an overview of the topic. The remainder of each chapter contains a detailed discussion of the concepts and practical examples and illustrations. This organization facilitates the primary objective of the book—to assist financial statement preparers and practitioners in resolving the myriad practical problems faced in applying GAAP.

Hundreds of meaningful, realistic examples guide users in the application of GAAP to the 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 explains 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. It facilitates 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.

As a bonus, a comprehensive presentation and disclosure checklist, available online to all *Wiley GAAP* purchasers, offers practical guidance on preparing financial statements for commercial and not-for-profit entities in accordance with GAAP. For easy reference and research, the checklist also follows the order of the Codification. Go to www.wiley.com/go/GAAP2022 (password: Flood2022).

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.

ASUs Issued Since Previous Edition. The following FASB Accounting Standards Updates (ASUs) were issued since *Wiley GAAP 2021* and through June 2021. Their requirements are incorporated into this edition of *Wiley GAAP*, as and where appropriate, and/or in the Technical Alert section at the beginning of the topic referenced in the ASU title.

- ASU 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets
- ASU 2020-08, Codification Improvements to Subtopic 310-20, Receivables, Nonrefundable Fees, and Other Costs
- ASU 2020-09, Debt (Topic 470): Amendments to SEC Paragraphs Pursuant to SEC Release No. 33-10762
- ASU 2020-10, Codification Improvements
- ASU 2020-11, Financial Services—Insurance (Topic 944): Effective Date and Early Application
- ASU 2021-01, Reference Rate Reform (Topic 848): Scope
- ASU 2021-02, Franchisors—Revenue from Contracts with Customers (Subtopic 952-606): Practical Expedient

- ASU 2021-03, Intangibles—Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events
- ASU 2021-04, Earnings Per Share (Topic 260), Debt—Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40): Issuer’s Accounting for Certain Modifications or Exchanges of Freestanding Equity Classified Written Call Options (a consensus of the FASB Emerging Issuers Task Force)

On the Horizon. Significant accounting changes are on the horizon. In the next year, the FASB is expected to make strides on the following major projects and others:

- Conceptual framework projects on elements, measurement, and presentation
- Leases
- Goodwill
- Credit losses
- Hedge accounting
- Identifiable intangible assets
- Numerous narrow scope projects

Readers are encouraged to check the FASB website for status updates to the above and other FASB projects.

Joanne M. Flood
June 2021

ABOUT THE AUTHOR

Joanne Flood, MBA, CPA, is an author and independent consultant on accounting and auditing technical topics and e-learning. She has experience as an auditor in both an international firm and a local firm and worked as a senior manager in the AICPA's Professional Development group. She received her MBA summa cum laude in accounting from Adelphi University and her bachelor's degree in English from Molloy College. Joanne received the New York State Society of Certified Public Accountants Award of Honor for outstanding scholastic achievement at Adelphi University. Joanne also has a certificate in Designing Interactive Multimedia Instruction from Teachers College, Columbia University.

While in public accounting, Joanne worked for a Big Four accounting firm, auditing on major clients in retail, manufacturing, and finance and on small business clients in construction, manufacturing, and professional services. At the AICPA, she developed and wrote e-learning, text, and instructor-led training courses on U.S. and international standards. She also produced training materials in a wide variety of media, including print, video, and audio, and pioneered the AICPA's e-learning product line. Joanne resides on Long Island, New York, with her daughter, Elizabeth. Elizabeth is also Joanne's editorial assistant, providing valuable production and copyediting services. Joanne is the author of the following Wiley publications:

Financial Disclosure Checklist

Wiley GAAP 2022: Interpretation and Application of Generally Accepted Accounting Principles

Wiley Practitioner's Guide to GAAS 2021: Covering all SASs, SSAEs, SSARSs, and Interpretations

Wiley GAAP: Financial Statement Disclosures Manual

Wiley Revenue Recognition

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2022**

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PERSPECTIVES AND ISSUES

What Is GAAP?

The FASB Accounting Standards Codification™ (ASC) is the:

. . . source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. In addition to the SEC's rules and interpretive releases, the SEC staff issues Staff Accounting Bulletins that represent practices followed by the staff in administering SEC disclosure requirements, and it utilizes SEC Staff Announcements and Observer comments made at Emerging Issues Task Force meetings to publicly announce its views on certain accounting issues for SEC registrants. (ASC 105-10-05-1)

In the absence of authoritative guidance, the FASB Codification (the Codification) offers the following approach:

If the guidance for a transaction or event is not specified within a source of authoritative GAAP for that entity, an entity shall first consider accounting principles for similar transactions or events within a source of authoritative GAAP for that entity and then consider nonauthoritative guidance from other sources. An entity shall not follow the accounting treatment specified in accounting guidance for similar transactions or events in cases in which those accounting principles either prohibit the application of the accounting treatment to the particular transaction or event or indicate that the accounting treatment should not be applied by analogy. (ASC 105-10-05-2)

GAAP establishes:

- 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 best to accomplish those items. 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 Recognition principles determine the timing and measurement of items that enter the accounting cycle and impact the financial statements. These are reflected in quantitative standards that require economic information to be reflected numerically.

Disclosure Principles Disclosure principles deal with factors that are not always quantifiable. 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 also complement recognition principles by dictating that disclosures

- expand on some quantitative data,
- explain assumptions underlying the numerical information, and
- provide additional information on accounting policies, contingencies, uncertainties, etc., which are essential to fully understand the performance and financial condition of the reporting enterprise.

DEFINITIONS OF TERMS

See Appendix A, *Definitions of Terms*, for terms related to this topic: Conduit Debt Securities, Financial Statements Are Available to Be Issued, Nongovernmental Entity, Nonpublic Entity, Not-for-Profit Entity, and Public Business Entity.

CONCEPTS, RULES, AND EXAMPLES

History of 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. In response to the stock market crash of 1929, the AICPA appointed the Committee on Accounting Procedure. This was superseded in 1959 by the Accounting Principles Board (APB) created by the AICPA. Because of operational problems, in 1972 the profession replaced the APB with a three-part organization consisting of the Financial Accounting Foundation (FAF), Financial Accounting Standards Board (FASB), and the Financial Accounting Standards Advisory Council (FASAC). Since 1973 the FASB has been the organization designated to establish standards of financial reporting.

GAAP Codification

In 2009, FASB's Codification became the single official source of authoritative, non-governmental U.S. generally accepted accounting principles. It superseded all non-grandfathered (see ASC 105-10-70-2 for a list of grandfathered guidance), non-SEC accounting guidance. Only one level of authoritative GAAP exists, excluding the guidance issued by the Securities and Exchange Commission (SEC). All other literature is nonauthoritative.

Other and Nonauthoritative Sources Not all GAAP resulted from the issuance of pronouncements by authoritative bodies, and not all GAAP is found in the codification. For example, depreciation methods such as straight-line and declining balance have long been accepted. There are, however, no definitive pronouncements that can be found to state this. Furthermore,

there are many disclosure principles that evolved into general accounting practice because they were originally required by the SEC in documents submitted to them. Much of the content of statements of financial position and income statements has evolved over the years in the absence of adopted standards.

The Codification lists some possible nonauthoritative sources:

- Practices that are widely recognized and prevalent either generally or in the industry,
- FASB Concepts Statements,
- American Institute of Certified Public Accountants (AICPA) Issues Papers,
- International Financial Reporting Standards of the International Accounting Standards Board,
- Pronouncements of professional associations or regulatory agencies,
- Technical Information Service Inquiries and Replies included in AICPA Technical Practice Aids,
- Accounting textbooks, handbooks, and articles. (ASC 105-10-05-3)

SEC Guidance in the Codification 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 are included for reference in the Codification. The sources include:

- 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.

The Codification does not, however, incorporate the entire population of SEC rules, regulations, interpretive releases, and staff guidance. SEC guidance not incorporated in the codification includes content related to auditing or independence matters or matters outside of the basic financial statements, including Management's Discussion and Analysis (MD&A).

The Standards-Setting Process

The FASB has long adhered to rigorous "due process" when creating new guidance. The goal is to involve constituents who would be affected by the newly issued guidance so that the standards created will result in information that reports economic activity as objectively as possible without attempting to influence behavior in any particular direction. Ultimately, however, the guidance is the judgment of the FASB, based on research, public input, and deliberation.

Accounting Standards Updates The Board issues guidance through Accounting Standards Updates (ASU), which describe amendments to the Accounting Standards Codification. Once issued, the provisions become GAAP after the stated effective date. Accounting Standards Updates (ASUs) are composed of:

- A summary of the key provisions of the project that led to the changes,
- The specific changes to the Codification, and
- The Basis for Conclusions.

The title of the combined set of new guidance and instructions is *Accounting Standards Update YY-XX*, where YY is the last two digits of the year and XX is the sequential number for each update. All authoritative GAAP issued by the FASB is issued in this format.

The content from updates that is not yet fully effective for all reporting entities appears in the Codification as boxed text and is labeled “pending content.” The pending content text box includes the earliest transition date and a link to the related transition guidance, also found in the Codification.

Maintenance Updates As with any publishing practice, irregularities occur. To make necessary corrections, the FASB staff issues Maintenance Updates. These are not addressed by the Board and contain nonsubstantive editorial changes and link-related changes.

American Institute of Certified Public Accountants (AICPA) Although it currently plays a greatly reduced standard-setting role, the AICPA has authorized the Financial Reporting Executive Committee (FinREC) to determine the AICPA’s policies on financial reporting standards and to speak for the AICPA on accounting matters. FinREC, formerly the Accounting Standards Executive Committee (AcSEC), is the senior technical committee at the AICPA. It is composed of seventeen volunteer members, representative of industry, analysts, and both national and regional public accounting firms.

Codification Terminology The FASB standardized on the term “entity” to replace terms such as company, organization, enterprise, firm, preparer, etc. So, too, the Codification uses “shall” throughout to replace “should,” “is required to,” “must,” etc. The FASB believes these terms all represent the same concept—the requirement to apply a standard. “Would” and “should” are used to indicate hypothetical situations. To reduce ambiguity, the Codification also eliminated qualifying terminology, such as *usually*, *ordinarily*, *generally*, and similar terms.

Researching GAAP Problems

These procedures should be refined and adapted to each individual fact situation.

Codification Structure The FASB Codification is located on fasb.org. The site is intended to be easily searchable for research purposes. This section provides an overview of the site’s contents and search functionality.

Areas On all pages of the site, all categories of the Codification are listed down the vertical menu bar on the left side of the page, revealing the following Areas, and the numbering series for each one:

- General Principles (100). (Establishes the Codification as the source of GAAP.)
- Presentation (200). (Topics in this area relate only to presentation matters; they do not address recognition, measurement, and derecognition matters. Examples of these topics are income statement, balance sheet, and earnings per share.)
- Assets (300).
- Liabilities (400).
- Equity (500).
- Revenue (600).
- Expenses (700). (Clusters all types of expense-related GAAP into five broad categories, which are cost of goods sold, research and development, compensation, income taxes, and other expenses.)
- Broad Transactions (800). (Contains the major transactional topics, such as business combinations, derivatives, and foreign currency matters.)

- Industry (900). (Itemizes GAAP for specific industries, such as entertainment, real estate, and software.)
- Master Glossary.

Topics Areas are further divided by topics, subtopics, sections, and subsections. FASB has developed a classification system specifically for the Codification. The following is the structure of the classifications system: XXX-YY-ZZ-PP, where:

- XXX = topic,
- YY = subtopic,
- ZZ = section, and
- PP = paragraph.

An “S” preceding the section number denotes SEC guidance. At the most granular level of detail, the Codification has a two-digit numerical code for a standard set of categories.

The Codification Taxonomy can be found in the section that precedes Chapter 1.

Subtopics Subtopics represent subsets of a topic and are typically identified by type or by scope. For example, lessees and lessors are two separate subtopics of leases in Topic 842. Each topic contains an “overall subtopic” (designated “-10”) that generally represents the pervasive guidance for the topic, which includes guidance that applies to all other subtopics. Each additional subtopic represents incremental or unique guidance not contained in the overall subtopic.

Exhibit-Sections		
<i>Title</i>	<i>Number</i>	<i>Description</i>
Status	00	Includes references to the Accounting Standards Updates that affect the subtopic.
Overview and background	05	Provides overview and background material.
Objectives	10	States the high-level objectives of the topic.
Scope and scope exceptions	15	Outlines the transactions, events, and other occurrences to which the subtopic guidance does or does not apply.
Glossary	20	Contains definitions for terms found within the subtopic guidance.
Recognition	25	Defines the criteria, timing, and location for recording an item in the financial statements.
Initial measurement	30	Provides guidance on the criteria and amounts used to measure a transaction at the initial date of recognition.
Subsequent measurement	35	Provides guidance on the measurement of an item after the recognition date.
Derecognition	40	Relates almost exclusively to assets, liabilities, and equity. Provides criteria, the method to determine the amount of basis, and the timing to be used when derecognizing a particular item for purposes of determining gain or loss.
Other presentation matters	45	Provides guidance on presenting items in the financial statements.
Disclosure	50	Provides guidance regarding disclosure in the notes to or on the face of the financial statements.