

2025

Wiley
GAAP

Interpretation and Application of
**GENERALLY ACCEPTED
ACCOUNTING PRINCIPLES**

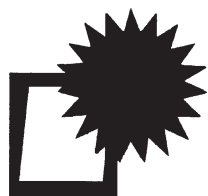
With updates to
leases, crypto assets,
segments, joint
ventures, and income
tax disclosures.

Joanne M. Flood

WILEY

WILEY

**Practitioner's
Guide
to GAAP
2025**



Subscriber Update Service

BECOME A SUBSCRIBER!

Did you purchase this product from a bookstore?

If you did, it's important for you to become a subscriber. John Wiley & Sons, Inc. may publish, on a periodic basis, supplements and new editions to reflect the latest changes in the subject matter that you ***need to know*** in order to stay competitive in this ever-changing industry. By contacting the Wiley office nearest you, you'll receive any current update at no additional charge. In addition, you'll receive future updates and revised or related volumes on a 30-day examination review.

If you purchased this product directly from John Wiley & Sons, Inc., we have already recorded your subscription for this update service.

To become a subscriber, please call **1-877-762-2974** or send your name, company name (if applicable), address, and the title of the product to

mailing address: **Supplement Department**
 John Wiley & Sons, Inc.
 One Wiley Drive
 Somerset, NJ 08875

e-mail: **subscriber@wiley.com**
fax: **1-732-302-2300**
online: **www.wiley.com**

For customers outside the United States, please contact the Wiley office nearest you:

Professional & Reference Division
John Wiley & Sons Canada, Ltd.
22 Worcester Road
Etobicoke, Ontario M9W 1L1
CANADA
Phone: 416-236-4433
Phone: 1-800-567-4797
Fax: 416-236-4447
Email: canada@jwiley.com

John Wiley & Sons Australia, Ltd.
33 Park Road
P.O. Box 1226
Milton, Queensland 4064
AUSTRALIA
Phone: 61-7-3859-9755
Fax: 61-7-3859-9715
Email: brisbane@johnwiley.com.au

John Wiley & Sons, Ltd.
The Atrium
Southern Gate, Chichester
West Sussex, PO19 8SQ
ENGLAND
Phone: 44-1243 779777
Fax: 44-1243 775878
Email: customer@wiley.co.uk

John Wiley & Sons (Asia) Pte. Ltd.
2 Clementi Loop #02-01
SINGAPORE 129809
Phone: 65-64632400
Fax: 65-64634604/5/6
Customer Service: 65-64604280
Email: enquiry@wiley.com.sg

WILEY

Practitioner's Guide to GAAP 2025

Interpretation and Application of
GENERALLY ACCEPTED
ACCOUNTING PRINCIPLES

Joanne M. Flood, MBA, CPA

WILEY

Copyright © 2025 by John Wiley & Sons, Inc. All rights reserved All rights reserved, including rights for text and data mining and training of artificial technologies or similar technologies.
Copyright © by the American Institute of Certified Public Accountants, Inc. Several items were quotes or referred to with permission.

Portions of this book have their origin in copyrighted materials from the Financial Accounting Standards Board. These are noted by reference to the specific pronouncement except for the definitions introduced in bold type that appear in a separate section at the beginning of each chapter. Complete copies are available directly from the FASB. Copyright © by the Financial Accounting Standards Board, 401 Merritt 7, PO Box 5116, Norwalk, Connecticut 06856-5116, USA.

Published by John Wiley & Sons, Inc., Hoboken, New Jersey.
Published simultaneously in Canada.

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning, or otherwise, except as permitted under Section 107 or 108 of the 1976 United States Copyright Act, without either the prior written permission of the Publisher, or authorization through payment of the appropriate per-copy fee to the Copyright Clearance Center, Inc., 222 Rosewood Drive, Danvers, MA 01923, (978) 750-8400, fax (978) 750-4470, or on the web at www.copyright.com. Requests to the Publisher for permission should be addressed to the Permissions Department, John Wiley & Sons, Inc., 111 River Street, Hoboken, NJ 07030, (201) 748-6011, fax (201) 748-6008, or online at <http://www.wiley.com/go/permission>.

Trademarks: Wiley and the Wiley logo are trademarks or registered trademarks of John Wiley & Sons, Inc. and/or its affiliates in the United States and other countries and may not be used without written permission. All other trademarks are the property of their respective owners. John Wiley & Sons, Inc. is not associated with any product or vendor mentioned in this book.

Limit of Liability/Disclaimer of Warranty: While the publisher and author have used their best efforts in preparing this book, they make no representations or warranties with respect to the accuracy or completeness of the contents of this book and specifically disclaim any implied warranties of merchantability or fitness for a particular purpose. No warranty may be created or extended by sales representatives or written sales materials. The advice and strategies contained herein may not be suitable for your situation. You should consult with a professional where appropriate. Further, readers should be aware that websites listed in this work may have changed or disappeared between when this work was written and when it is read. Neither the publisher nor authors shall be liable for any loss of profit or any other commercial damages, including but not limited to special, incidental, consequential, or other damages.

For general information on our other products and services or for technical support, please contact our Customer Care Department within the United States at (800) 762-2974, outside the United States at (317) 572-3993 or fax (317) 572-4002.

Wiley also publishes its books in a variety of electronic formats. Some content that appears in print may not be available in electronic formats. For more information about Wiley products, visit our web site at www.wiley.com.

Library of Congress Cataloging-in-Publication Data is Available:

ISBN 9781394199747 (Paperback)
ISBN 9781394199761 (ePDF)
ISBN 9781394199754 (ePub)

Cover Design and Image: Wiley

CONTENTS

	Preface	ix
	About the Author	xi
	Codification Taxonomy	xiii
1	ASC 105 Generally Accepted Accounting Principles	1
2	ASC 205 Presentation of Financial Statements	27
3	ASC 210 Balance Sheet	39
4	ASC 215 Statement of Shareholder Equity	49
5	ASC 220 Income Statement—Reporting Comprehensive Income	51
6	ASC 230 Statement of Cash Flows	67
7	ASC 235 Notes to Financial Statements	91
8	ASC 250 Accounting Changes and Error Corrections	99
9	ASC 255 Changing Prices	119
10	ASC 260 Earnings per Share	123
11	ASC 270 Interim Reporting	157
12	ASC 272 Limited Liability Entities	169
13	ASC 274 Personal Financial Statements	173
14	ASC 275 Risks and Uncertainties	181
15	ASC 280 Segment Reporting	185
16	ASC 310 Receivables	197
17	ASC 320 Investments—Debt Securities	215
18	ASC 321 Investments—Equity Securities	229
19	ASC 323 Investments—Equity Method and Joint Ventures	235
20	ASC 325 Investments—Other	267
21	ASC 326 Financial Instruments—Credit Losses	273
22	ASC 330 Inventory	287
23	ASC 340 Other Assets and Deferred Costs	327
24	ASC 350 Intangibles—Goodwill and Other	341

25	ASC 360 Property, Plant, and Equipment	375
26	ASC 405 Liabilities	403
27	ASC 410 Asset Retirement and Environmental Obligations	411
28	ASC 420 Exit or Disposal Cost Obligations	431
29	ASC 430 Deferred Revenue and Contract Liabilities	437
30	ASC 440 Commitments	439
31	ASC 450 Contingencies	443
32	ASC 460 Guarantees	451
33	ASC 470 Debt	461
34	ASC 480 Distinguishing Liabilities from Equity	493
35	ASC 505 Equity	507
36	ASC 605 Revenue Recognition	529
37	ASC 606 Revenue from Contracts with Customers	537
38	ASC 610 Other Income	609
39	ASC 705 Cost of Sales and Services	613
40	ASC 710 Compensation—General	617
41	ASC 712 Compensation—Nonretirement Post-Employment Benefits	623
42	ASC 715 Compensation—Retirement Benefits	627
43	ASC 718 Compensation—Stock Compensation	669
44	ASC 720 Other Expenses	713
45	ASC 730 Research and Development	721
46	ASC 740 Income Taxes	727
47	ASC 805 Business Combinations	783
48	ASC 808 Collaborative Arrangements	835
49	ASC 810 Consolidations	847
50	ASC 815 Derivatives and Hedging	885
51	ASC 820 Fair Value Measurements	959
52	ASC 825 Financial Instruments	981
53	ASC 830 Foreign Currency Matters	989
54	ASC 832 Government Assistance	1011
55	ASC 835 Interest	1015

56	ASC 842 Leases	1035
57	ASC 845 Nonmonetary Transactions	1071
58	ASC 848 Reference Rate Reform	1083
59	ASC 850 Related Party Disclosures	1095
60	ASC 852 Reorganizations	1099
61	ASC 853 Service Concession Arrangements	1105
62	ASC 855 Subsequent Events	1107
63	ASC 860 Transfers and Servicing	1111
64	ASC 900s Specialized Industry GAAP	1147
	Appendix A: Definitions of Terms	1251
	Appendix B: Disclosure and Presentation Checklist for Commercial Businesses	1293
	Index	1295

PREFACE

Wiley GAAP 2025: 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*.[®] *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/GAAP2025 (password: Flood2025).

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 2024* and through June 2024. 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 2023-03**, Presentation of Financial Statements (Topic 205), Income Statement—Reporting Comprehensive Income (Topic 220), Distinguishing Liabilities from Equity (Topic 480), Equity (Topic 505), and Compensation—Stock Compensation (Topic 718): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 120, SEC Staff Announcement at the March 24, 2022, EITF Meeting, and Staff Accounting Bulletin Topic 6.B, Accounting Series Release 280—General Revision of Regulation S-X: Income or Loss Applicable to Common Stock (SEC Update)
- **ASU 2023-04**, Liabilities (Topic 405): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 121 (SEC Update)
- **ASU 2023-05**, Business Combinations—Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement

- **ASU 2023-06**, Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative
- **ASU 2023-07**, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures
- **ASU 2023-08**, Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets
- **ASU 2023-09**, Income Taxes (Topic 740): Improvements to Income Tax Disclosures
- **ASU 2024-01**, Codification Improvements—Amendments to Remove References to the Concepts Statements
- **ASU 2024-02**, Compensation—Stock Compensation (Topic 718): Scope Application of Profits Interest and Similar Awards

Concept Statement Issued Since Last Edition In August 2023, the Financial Accounting Standards Board (FASB) issued a new chapter of the Conceptual Framework, Chapter 5, Recognition and Derecognition of FASB Concepts Statement No. 8, Conceptual Framework for Financial Reporting. For more information, see the Technical Alert in Chapter 1.

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 measurement, recognition, and derecognition
- Credit losses—Purchased Financial Assets
- Derivatives Scope Refinement
- Disaggregation—Income Statement Expenses
- Environmental credit programs
- Government Grants
- Hedge Accounting Improvements
- Induced Conversions of Convertible Debt Instruments
- Interim Reporting
- Scope Applications of Profit Interest Awards: Compensation—Stock Compensation
- Software Costs
- Statement of Cash Flows—Targeted Improvements

New this year!: Joanne Flood will be posting status updates to FASB projects and other useful GAAP information. The newsletter can be found at www.JoanneFlood.net.

Joanne M. Flood
July 2024

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 University. 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 major clients in retail, manufacturing, and finance and for a small firm auditing 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 in 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 2025: Interpretation and Application of Generally Accepted Accounting Principles

Wiley Practitioner's Guide to GAAS 2023: Covering all SASs, SSAEs, SSARSs, and Interpretations

Wiley GAAP: Financial Statement Disclosures Manual

Wiley Revenue Recognition

CODIFICATION TAXONOMY

<i>Topic # and title</i>	<i>Subtopic # and title</i>
I. General Principles and Objectives	
105 Generally Accepted Accounting	105-10 Overall Principles
II. Overall Financial Reporting, Presentation, and Display Matters	
A. Overall Presentation of Financial Statements	
205 Presentation of Financial Statements	205-10 Overall
	205-20 Discontinued Operations
	205-30 Liquidation Basis of Accounting
	205-40 Going Concern
210 Balance Sheet	210-10 Overall
	210-20 Offsetting
215 Statement of Shareholders' Equity	215-10 Overall
220 Income Statement-Reporting Comprehensive Income	220-10 Overall
	220-20 Unusual or Infrequently Occurring Items
	220-30 Business Interruption Insurance
230 Statement of Cash Flows	230-10 Overall
235 Notes to Financial Statements	235-10 Overall
B. Various Financial Reporting, Presentation, and Display Matters	
250 Accounting Changes and Error Corrections	250-10 Overall
255 Changing Prices	255-10 Overall
260 Earnings Per Share	260-10 Overall
270 Interim Reporting	270-10 Overall
272 Limited Liability Entities	272-10 Overall
274 Personal Financial Statements	274-10 Overall
275 Risks and Uncertainties	275-10 Overall
280 Segment Reporting	280-10 Overall
III. Transaction-Related Topics	
A. Financial Statement Accounts	
310 Receivables	310-10 Overall
	310-20 Nonrefundable Fees and Other Costs
	310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality
	310-40 Troubled Debt Restructurings by Creditors

<u>Topic # and title</u>		<u>Subtopic # and title</u>	
320	Investments—Debt Securities	320-10	Overall Securities
321	Investments—Equity Securities	321-10	Overall
323	Investments—Equity Method and Joint Ventures	323-10	Overall Joint Ventures
		323-30	Partnerships, Joint Ventures, and Limited Liability Entities
325	Investments—Other	325-10	Overall
		325-20	Cost Method Investments
		325-30	Investments in Insurance Contracts
		325-40	Beneficial Interests in Securitized Financial Assets
326	Financial Instruments—Credit Losses	326-10	Overall
		326-20	Measured at Amortized Cost
		326-30	Available-for-Sale Debt Securities
330	Inventory	330-10	Overall
340	Other Assets and Deferred Costs	340-10	Overall
		340-20	Capitalized Advertising Costs
		340-30	Insurance Contracts That Do Not Transfer Insurance Risk
		340-40	Contracts with Customers
350	Intangibles—Goodwill and Other	350-10	Overall
		350-20	Goodwill
		350-30	General Intangibles Other Than Goodwill
		350-40	Internal-Use Software
		350-50	Website Development Costs
360	Property, Plant, and Equipment	360-10	Overall
		360-20	Real Estate Sales
405	Liabilities	405-10	Overall
		405-20	Extinguishments of Liabilities
		405-30	Insurance-Related Assessments
		405-40	Obligations Resulting from Joint and Several Liabilities
410	Asset Retirement and Environmental Obligations	410-10	Overall
		410-20	Asset Retirement Obligations
		410-30	Environmental Obligations
420	Exit or Disposal Cost Obligations	420-10	Overall
430	Deferred Revenue	430-10	Overall
440	Commitments	440-10	Overall
450	Contingencies	450-10	Overall
		450-20	Loss Contingencies

<u>Topic # and title</u>		<u>Subtopic # and title</u>	
		450-30	Gain Contingencies
460	Guarantees	460-10	Overall
470	Debt	470-10	Overview
		470-20	Debt with Conversion and Other Options
		470-30	Participating Mortgage Loans
		470-40	Product Financing Arrangements
		470-50	Modifications and Extinguishments
		470-60	Troubled Debt Restructurings by Debtors
480	Distinguishing Liabilities from Equity	480-10	Overall
505	Equity	505-10	Overall
		505-20	Stock Dividends and Stock Splits
		505-30	Treasury Stock
		505-50	Equity-Based Payments to Non-Employees
		505-60	Spin-offs and Reverse Spin-offs
605	Revenue Recognition	605-20	Revenue Recognition—Provisions for Losses on Separately Priced Extended Warranty and Product Maintenance Contracts
		605-35	Revenue Recognition—Provision for Losses on Construction-Type and Production-Type Contracts
606	Revenue from Contracts with Customers	606-10	Overall
610	Other Income	610-10	Overall
		610-20	Gains and Losses from the Derecognition of Nonfinancial Assets
		610-30	Gains and Losses on Involuntary Conversions
705	Cost of Sales and Services	705-10	Overall
		705-20	Accounting for Consideration Received from a Vendor
710	Compensation—General	710-10	Overall
712	Compensation—Nonretirement Postemployment Benefits	712-10	Overall

<u>Topic # and title</u>		<u>Subtopic # and title</u>	
715	Compensation—Retirement Benefits	715-10	Overall
		715-20	Defined Benefit Plans—General
		715-30	Defined Benefit Plans—Pensions
		715-60	Defined Benefit Plans—Other Postretirement
		715-70	Defined Contribution Plans
		715-80	Multiemployer Plans
718	Compensation—Stock Compensation	718-10	Overall
		718-20	Awards Classified as Equity
		718-30	Awards Classified as Liabilities
		718-40	Employee Stock Ownership Plans
		718-50	Employee Share Purchase Plans
720	Other Expenses	720-10	Overall
		720-15	Start-Up Costs
		720-20	Insurance Costs
		720-25	Contributions Made
		720-30	Real and Personal Property Taxes
		720-35	Advertising Costs
		720-40	Electronic Equipment Waste Obligations
		720-45	Business and Technology Reengineering
		720-50	Fees Paid to the Federal Government by Pharmaceutical Manufacturers and Health Insurer
730	Research and Development	730-10	Overall
		730-20	Research and Development Arrangements
740	Income Taxes	740-10	Overall
		740-20	Intraperiod Tax Allocation
		740-30	Other Considerations or Special Areas
B. Broad Transactional Categories			
805	Business Combinations	805-10	Overall
		805-20	Identifiable Assets and Liabilities, and Any Noncontrolling Interest
		805-30	Goodwill or Gain from Bargain Purchase, Including Consideration Transferred
		805-40	Reverse Acquisitions
		805-50	Related Issues
		805-60	Joint Venture Formations
808	Collaborative Arrangements	808-10	Overall

<u>Topic # and title</u>		<u>Subtopic # and title</u>	
810	Consolidation	810-10	Overall
		810-20	Control of Partnerships and Similar Entities
		810-30	Research and Development Arrangements
815	Derivatives and Hedging	815-10	Overall
		815-15	Embedded Derivatives
		815-20	Hedging—General
		815-25	Fair Value Hedges
		815-30	Cash Flow Hedges
		815-35	Net Investment Hedges
		815-40	Contracts in Entity's Own Equity
		815-45	Weather Derivatives
820	Fair Value Measurements	820-10	Overall
825	Financial Instruments	825-10	Overall
		825-20	Registration Payment Arrangements
830	Foreign Currency Matters	830-10	Overall
		830-20	Foreign Currency Transactions
		830-30	Translation of Financial Statements
832	Government Assistance	832-10	Overall
835	Interest	835-10	Overall
		835-20	Capitalization of Interest
		835-30	Imputation of Interest
842	Leases	842-10	Overall
		842-20	Lessee
		842-30	Lessor
		842-40	Sale and Leaseback Transactions
		842-50	Leveraged Lease Arrangements
845	Nonmonetary Transactions	845-10	Overall
848	Reference Rate Reform	848-10	Overall
		848-20	Contract Modifications
		848-30	Hedging-General
		848-40	Fair Value Hedges
		848-50	Cash Flow Hedges
850	Related-Party Disclosures	850-10	Overall

<u>Topic # and title</u>		<u>Subtopic # and title</u>	
852	Reorganization	852-20	Quasi-Reorganization
853	Service Concession Arrangements	853-10	Overall
855	Subsequent Events	855-10	Overall
860	Transfers and Servicing	860-10	Overall
		860-20	Sales of Financial Assets
		860-30	Secured Borrowings and Collateral
		860-40	Transfers to Qualifying Special-Purpose Entities
		860-50	Servicing Assets and Liabilities
IV. Industry/Unique Topics			
905	Agriculture	905-10	Overall
908	Airlines	908-10	Overall
910	Contractors—Construction	910-10	Overall
		910-20	Contract Costs
912	Contractors—Federal Government	912-10	Overall
		912-20	Contract Costs
915	Development Stage Entities	915-10	Overall
920	Entertainment—Broadcasters	920-10	Overall
922	Entertainment—Cable Television	922-10	Overall
924	Entertainment—Casinos	924-10	Overall
926	Entertainment—Films	926-10	Overall
		926-20	Other Assets—Film Costs
928	Entertainment—Music	928-10	Overall
930	Extractive Activities—Mining	930-10	Overall
932	Extractive Activities—Oil and Gas	932-10	Overall
940	Financial Services—Brokers	940-10	Overall and Dealers
		940-20	Broker-Dealer Activities
942	Financial Services—Depository and Lending	942-10	Overall and Lending
944	Financial Services—Insurance	944-10	Overall
		944-20	Insurance Activities
		944-30	Acquisition Costs
		944-40	Claim Costs and Liabilities for Future Policy Benefits
		944-50	Policyholder Dividends
		944-60	Premium Deficiency and Loss Recognition
		944-80	Separate Accounts

<u>Topic # and title</u>		<u>Subtopic # and title</u>	
946	Financial Services—Investment	946-10	Overall Companies
		946-20	Investment Company Activities
948	Financial Services—Mortgage Banking	948-10	Overall
950	Financial Services—Title Plant	950-350	Intangibles—Goodwill and Others
952	Franchisors	952-10	Overall
954	Health Care Entities	954-10	Overall
958	Not-for-Profit Entities	958-10	Overall
		958-20	Financially Interrelated Entities
		958-30	Split-Interest Agreements
960	Plan Accounting—Defined Benefit	960-10	Overall
		960-20	Accumulated Plan Benefits
		960-30	Net Assets Available for Plan Benefits
		960-40	Terminating Plans
962	Plan Accounting—Defined	962-10	Overall Contribution Pension Plans
		962-40	Terminating Plans
965	Plan Accounting—Health and Welfare	965-10	Overall
		965-20	Net Assets Available for Plan Benefits
		965-30	Plan Benefits Obligations
		965-40	Terminating Plans
970	Real Estate—General	970-10	Overall
972	Real Estate—Common Interest Realty Associations	972-10	Overall
974	Real Estate—Real Estate	974-10	Overall
976	Real Estate—Retail Land	976-10	Overall
978	Real Estate—Time-Sharing Activities	978-10	Overall
980	Regulated Operations	980-10	Overall
		980-20	Discontinuation of Rate-Regulated Accounting
985	Software	985-10	Overall
		985-20	Costs of Software to Be Sold, Leased, or Marketed

V. Glossary

WILEY

**Practitioner's
Guide to
GAAP
2025**

1 ASC 105 GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Perspectives and Issues	2		
Technical Alert	2	Qualitative Factors	13
Concepts Chapter: CON 8—Chapter 5,		Degree of Precision	14
Recognition and Derecognition	2	The Conceptual Framework	14
Current Project	2	Components of the Conceptual Framework	15
What Is GAAP?	2	CON 8—Chapter 1: The Objective of	
The GAAP Codification	2	General Purpose Financial Reporting	16
How GAAP Develops	3	CON 8—Chapter 2: The Reporting Entity	17
Recognition Principles	3	CON 8—Chapter 3: Qualitative	
Disclosure Principles	3	Characteristics of Useful Financial	
Definitions of Terms	3	Information	17
Concepts, Rules, and Examples	4	Fundamental Qualitative Characteristics	17
History of GAAP	4	Enhancing Qualities	18
GAAP Codification	4	Trade-Offs	19
Other and Nonauthoritative Sources	4	Cost Constraint	19
SEC Guidance in the Codification	4	CON 8—Chapter 4: Elements of Financial	
The Standards-Setting Process	5	Statements	19
Accounting Standards Updates	5	Definitions of Terms	20
Maintenance Updates	5	CON 8—Chapter 5: Recognition and	
American Institute of Certified Public		Derecognition	20
Accountants (AICPA)	5	CON 8—Chapter 7: Presentation	20
Codification Terminology	5	CON 8—Chapter 8: Notes to Financial	
Researching GAAP Problems	6	Statements	21
Codification Structure	6	CON 5: Recognition and Measurement	
Research Procedures	8	in Financial Statements of Business	
Step 1: Identify the Problem	8	Enterprises	21
Step 2: Analyze the Problem	8	CON 7: Using Cash Flow Information and	
Step 3: Refine the Problem Statement	8	Present Value in Accounting Measurements	21
Step 4: Identify Plausible Alternatives	8	How CON 7 Measures Differ from Previously	
Step 5: Develop a Research Strategy	9	Utilized Present Value Techniques	22
Step 6: Search Authoritative Literature	9	Measuring Liabilities	23
(Described in Additional Detail Below)	9	Interest Method of Allocation	23
Step 7: Evaluation of the Information		Accounting for Changes in Expected	
Obtained	9	Cash Flows	23
Search Authoritative Literature		Application of Present Value Tables and	
(Step 6)—Further Explanation	9	Formulas	24
Researching <i>Wiley GAAP</i>	9	Example of a Present Value Calculation	24
Researching Nonpromulgated GAAP	10	Example of an Annuity Present Value	
Internet-Based Research Sources	10	Calculation	25
Descriptions of Materiality	12	Example of the Relevance of Present Values	25
Quantitative Factors	13	Practical Matters	26

PERSPECTIVES AND ISSUES

Technical Alert

Concepts Chapter: CON 8—Chapter 5: Recognition and Derecognition In August 2023, the Financial Accounting Standards Board issued a new chapter of the Conceptual Framework, Chapter 5 of FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting—Recognition and Derecognition*. The new chapter establishes concepts that the Board will consider when developing standards of financial accounting and reporting, providing the Board with a framework for developing standards that meet the objective of financial reporting and enhance the understandability of information for existing and potential investors, lenders, donors, and other resource providers of a reporting entity.

The new chapter provides:

- Recognition criteria,
- Derecognition criteria,
- Guidance on when an item should be incorporated into financial statements, and
- Guidance on when an item should be removed from financial statements.

It also offers three criteria an item should meet to be recognized in financial statements:

- *Definitions*—The item meets the definition of an element of financial statements.
- *Measurability*—The item is measurable and has a relevant measurement attribute.
- *Faithful Representation*—The item can be depicted and measured with faithful representation.

The new chapter sets forth the concept of derecognition. Derecognition is the process of removing an item from financial statements of a reporting entity as an asset, liability, or equity. This should occur when an item no longer meets any one of the recognition criteria above.

Current Project The FASB currently has a conceptual framework project on measurement in development:

For current status on this project, see www.fasb.org.

What Is GAAP?

The GAAP Codification 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.

How GAAP Develops 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 nongrandfathered (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.

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) 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 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 of this volume 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.