

Prepare for transition— the FASB codification

by Brian Flynn

After decades of having a multitude of accounting pronouncements that defined generally accepted accounting principles (GAAP), the Financial Accounting Standards Board (FASB) has launched the FASB Codification of US GAAP (Codification). The Codification was launched July 1, 2009 as the sole source of authoritative nongovernmental US GAAP. The Codification will become effective for financial statements that cover interim and annual periods ending after September 15, 2009. The Codification is not supposed to change GAAP, but is a new structure that takes accounting pronouncements and organizes them by approximately 90 accounting topics.

The Codification compiles all accounting authoritative guidance in one place. This should help reduce the amount of time and effort required to research and resolve accounting issues. Having all guidance related to a specific topic in one place will reduce research time and should help mitigate the risk that a relevant piece of guidance is overlooked. The Codification includes all standards issued by a standard setter within levels A through D of the current GAAP hierarchy, as defined by Statement on Auditing Standards No. 69, *The Meaning of "Present Fairly in Conformity with Generally Accepted Accounting Principles."* The FASB will no longer issue FASB Statements, FASB Staff Positions, FASB Interpretations, and Emerging Issues Task Force Abstracts. Updates to the Codification will be through numbered references updated via Codification update instructions (CUIs). The numbered references within the Codification will begin with the year the update occurred. The Codification will continue to provide a Basis for Conclusions in the CUIs that evidence the board's rationale in reaching conclusions on new accounting guidance. All guidance included in the Codification will be considered authoritative, even guidance that comes from what is currently deemed to be a nonauthoritative section

of a standard, such as the Basis for Conclusions. There will then be two levels of US GAAP: authoritative and nonauthoritative. Relevant authoritative guidance issued by the Securities and Exchange Commission (SEC) and selected SEC staff interpretations and administrative guidance will also be included within the Codification.

The Codification is presented in a hierarchy with four basic levels: Topics, Sub-topics, Sections, and Sub-sections. The highest level, Topics, is aggregated into Presentation, Financial Statement Accounts, Broad Transactions, and Industry Specific-Guidance accounting areas. Familiarity with the format of the Codification is key to using it efficiently. Paragraphs in existing standards will be located in different places throughout the Codification. As an example, FASB Statement No. 157, *Fair Value Measurements*, is now referenced as Accounting Standard Codification (ASC) 820 (820 is the topic) under the Codification. Examples of other relevant guidance commonly referenced in financial statements are as follows: FASB Statement No. 161, *Disclosures About Derivative Instruments and Hedging Activity* (effective for interim and fiscal year-ends beginning after November 15, 2008), is now ASC 815; and FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, is ASC 740. A tutorial of the Codification is included on the FASB's website.

The Codification is available on the Codification website (<http://asc.fasb.org/home>) and certain basic views are free. It is also available through PwC Comperio to subscribers. Users should begin planning now to understand the changes the Codification will bring to the way accounting research is performed and the impact on the guidance references as currently disclosed within the financial statements. Reporting periods beginning after September 15, 2009 should begin to reference guidance, if applicable, using the Codification's reference scheme

versus historical standard references. US GAAP does not require a company's financial statement disclosures to refer to particular accounting standards by name, standard number, or Codification reference number. Preparers will need to use judgment in determining where numerical references to the Codification would contribute to a financial statement user's understanding of a particular disclosure. PwC's view is that companies should strive to describe and reference accounting standards and SEC requirements in their financial statements using plain English instead of specific numerical references. We believe that some preparers will decide to remove numerical referencing altogether, while others will continue to refer to accounting standards using appropriate Codification reference numbers. Both ways are acceptable, as long as the disclosures are sufficiently clear and transparent. The result of the Codification will be, primarily, a change to the way we research accounting, rather than to the form in which guidance is presented.

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