

Heads Up

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Deloitte's Accounting Manuals

Deloitte's accounting manuals will be updated to reflect the Codification and will be available to subscribers of Technical Library: The Deloitte Accounting Research Tool upon the Codification's effective date. The manuals offer access to the entire Codification as well as Deloitte's interpretive guidance (updated to reflect the Codification references) and other relevant literature. Find out [how to subscribe](#).

Ready . . . Set . . . Codify!

What Preparers Need to Know About the FASB Codification

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Overview

On July 1, 2009, the FASB Accounting Standards Codification™ (the "Codification") is expected to become the single source of authoritative generally accepted accounting principles (GAAP) in the United States. The current GAAP hierarchy consists of four levels of authoritative accounting and reporting guidance (levels A through D), including original pronouncements¹ of the FASB, EITF abstracts,² and other accounting literature ("pre-Codification GAAP" or "current GAAP"). The Codification eliminates this hierarchy and replaces current GAAP (other than rules and interpretive releases of the SEC),³ as used by all nongovernmental entities, with just two levels of literature: *authoritative* and *nonauthoritative*.

[Register](#) now for the June 8 Deloitte *Dbriefs* webcast, "Quarterly Accounting Roundup." The webcast, which will take place from 2:00–3:30 p.m. (EDT), will discuss the Codification and its impact on preparers of financial statements.

Once effective, the Codification will significantly change the way users refer to GAAP and research accounting issues. For example, under the current GAAP hierarchy, someone researching the accounting for a nonmonetary transaction may look for guidance in APB Opinion No. 29, *Accounting for Nonmonetary Transactions*; EITF Issue No. 01-2, "Interpretations of APB Opinion No. 29"; EITF Issue No. 04-13, "Accounting for Purchases and Sales of Inventory With the Same Counterparty"; or EITF Issue No. 93-11, "Accounting for Barter Transactions Involving Barter Credits." Under the Codification, topic 845 (ASC 845, *Nonmonetary Transactions*) will contain all of the authoritative guidance on accounting for a nonmonetary transaction. (For a list of all the Codification's topics, see [Appendix B](#) below.)

The transition from current GAAP to the Codification may present challenges for users who have become familiar with references to paragraphs in existing standards or who need to update references to pre-Codification GAAP in various documents. However, preparers and users should ultimately benefit from the research efficiencies and simplification the Codification offers.

[Appendix A](#) below lists frequently asked questions and answers about the Codification, including how it will affect financial statements issued [after its effective date](#).

¹ FASB Statements of Financial Accounting Standards, AICPA Pronouncements, FASB Interpretations, FASB Technical Bulletins, FASB Staff Positions, and the FASB Concept Statements.

² Summaries of the proceedings of the FASB's Emerging Issues Task Force.

³ In accordance with the proposed Statement of Financial Accounting Standards, *The Hierarchy of Generally Accepted Accounting Principles* — a replacement of FASB Statement No. 162.

Appendix A — Frequently Asked Questions and Answers About the Codification

What is the Codification?

The Codification is a reorganization of current GAAP into a topical format that eliminates the current GAAP hierarchy and establishes instead two levels of guidance — *authoritative* and *nonauthoritative*. According to the FASB, all “non-grandfathered, non-SEC accounting literature” that is not included in the Codification would be considered nonauthoritative.

Why did the FASB decide to develop the Codification?

The FASB’s purpose was primarily “to simplify user access to all authoritative U.S. GAAP by providing all the authoritative literature related to a particular Topic in one place.”⁴

Does the Codification change GAAP?

Except for nonpublic entities that will be required to apply certain paragraphs in AICPA Technical Practice Aids, TIS Section 5100, “Revenue Recognition” (discussed in the next paragraph), the FASB has indicated that the Codification does not change current GAAP. Instead, the proposed changes aim to (1) reduce the time and effort it takes for users to research accounting questions and (2) improve the usability of current accounting standards. However, the FASB acknowledges that combining standards in various formats into one topical organization may have introduced “the possibility of unintentional changes to existing standards.” The FASB solicited feedback during the verification period, during which constituents were encouraged to provide comments on areas in which they believed unintended changes to existing guidance may have occurred. The FASB will continue to accept such feedback through the effective date of the Codification. If after the effective date preparers identify areas in which GAAP may have changed as a result of the Codification, they should consult an accounting professional and consider informing the FASB so that any unintended changes can be addressed.

The FASB has noted that because paragraphs 38–76 of TIS Section 5100, which provides guidance on software revenue recognition arrangements, were included in the Codification, current practice may change for certain entities. Before the effective date of the Codification, this guidance was not considered authoritative for nonpublic entities, and accordingly the FASB has stated that “nonpublic entities would be required to apply the guidance prospectively for revenue arrangements entered into or materially modified in annual periods beginning on or after December 15, 2009, and interim periods within those years.”

How is the Codification organized?

The Codification is organized by topic, subtopic, section, and paragraph, each of which is identified by a numerical designation. The topics are divided into four general categories: industry content, broad transactions, presentation, and financial statement line items. For example, guidance on not-for-profit entities, business combinations, segment reporting, and accounts receivable would be organized into each of these categories, respectively. Topics are further broken down into subtopics and sections, which help facilitate navigation of the Codification. [Appendix B](#) below lists the Codification’s topics.

Is the Codification currently available?

During the verification period and until the Codification is effective, the Codification is [available](#) for no cost on the FASB’s Web site. The content will continue to change as it is updated for new standards and in response to user feedback. Once the Codification is effective, the FASB plans to continue to offer a “basic view” at no cost, and will offer for a fee an enhanced view with additional features and functionality.

What resources are available that supply cross-references from pre-Codification GAAP to the Codification?

A [cross-reference tool](#) is available on the FASB’s Web site that allows users to cross-reference from the original standards to the Codification (and vice versa). A [free tutorial](#) is also available to help constituents use the tool.

What documents will entities most likely have to update for the Codification?

Financial statements and research memos will most likely require updating to reflect Codification references. For example, entities should consider updating memos documenting accounting conclusions that are carried forward to periods beyond the effective date of the Codification. Entities may also have specific references to GAAP in their accounting policy manuals and may want to make sure users of the manuals refer to the appropriate authoritative source. Specific references to pre-Codification GAAP citations in an entity’s financial statements may need to be updated.

⁴ According to the FASB Accounting Standards Codification Notice to Constituents.

Are entities *required* to refer to specific GAAP in their financial statements?

No. Although it may be difficult for entities to avoid references to specific GAAP in certain disclosures (e.g., the impact of the adoption of a new standard), the Codification may provide an opportunity for them to make financial statements more useful to users by redrafting language in their financial statements to avoid specific references and to more clearly explain accounting concepts. For example, instead of specifically referring to FASB Statement No. 131, *Disclosures About Segments of an Enterprise and Related Information*, or ASC 280, *Segment Reporting*, an entity may choose to simply refer to general accounting principles for segment reporting or describe its reason for providing segment information.

Should references to specific GAAP in financial statements for periods ending June 30, 2009 (or earlier), that are issued after the effective date of the Codification continue to refer to pre-Codification GAAP or be updated to reflect the Codification reference?

The Codification is expected to be effective on July 1, 2009. In financial statements for periods ending before but issued after the effective date of the Codification, entities may continue to refer exclusively to pre-Codification GAAP (if they use specific references to GAAP). Entities may also elect to provide references to both current GAAP and the Codification (perhaps parenthetically) in their financial statements, but are not required to do so. If entities use only Codification references in financial statements for periods ending before the effective date, they should consider whether that presentation would be appropriate because the basis for preparing the financial statements would be pre-Codification GAAP.

For example, in its financial statements, an entity may refer to the recognition of revenue in accordance with AICPA Statement of Position SOP 81-1, *Accounting for Performance of Construction-Type and Certain Product-Type Contracts*. In the entity's June 30, 2009, interim financial statements, it may continue to refer to SOP 81-1 or it may elect to refer to both SOP 81-1 and Accounting Standards Codification subtopic 605-35, *Revenue Recognition: Construction-Type and Production-Type Contracts* (or ASC 605-35).

Should references to specific GAAP in financial statements for periods ending (and issued) after the effective date of the Codification (e.g., September 30, 2009, interim or year-end financial statements) continue to be to pre-Codification GAAP for prior periods included in those financial statements or be updated to reflect the Codification?

Because the Codification is expected to be effective on July 1, 2009, if entities refer to specific GAAP in their financial statements for periods ending after the effective date (e.g., September 30, 2009), the references should be updated to refer to the Codification. Since the Codification is not expected to change GAAP, the consistent use of references only to the Codification for all periods presented (including periods before the effective date of the Codification) would be most appropriate.⁵ Entities may also elect to provide references to both the Codification and pre-Codification GAAP (perhaps parenthetically) since the financial statements include periods before the effective date of the Codification, but they are not required to do so. The use of only pre-Codification GAAP references in financial statements for periods that include or are after the effective date of the Codification would not be appropriate.⁶

Entities that consistently refer only to the Codification for all periods presented in their financial statements that include periods ending after the effective date of the Codification **would not** be expected to revise previous filings (e.g., 2008 Forms 10-K) for the changed references.

For example, in prior financial statements, an entity may have referred to the recognition of revenue in accordance with SOP 81-1. If the entity chooses in its September 30, 2009, financial statements to continue referring to specific GAAP, it would need to refer to Accounting Standards Codification subtopic 605-35, *Revenue Recognition: Construction-Type and Production-Type Contracts* (or ASC 605-35). The entity may elect to refer to both ASC 605-35 and SOP 81-1 since the financial statements include periods before the effective date of the Codification. Referring only to SOP 81-1 in financial statements for periods ending after the effective date of the Codification would not be appropriate.

⁵ The use of pre-Codification references to specific guidance that was superseded before the Codification's effective date and therefore not included in the Codification would continue to be appropriate. For example, referring to FASB Statement No. 141, *Business Combinations*, may be appropriate in the financial statements as Statement 141 was not included in the Codification, but may still be applied to certain transactions.

⁶ Referring to guidance that has not been included in the Codification (e.g., certain grandfathered standards) and is still being applied by the entity would continue to be appropriate. For example, AICPA Statement of Position 76-3, *Accounting Practices for Certain Employee Stock Ownership Plans*, was not included in the Codification, but may still be applied to certain benefit plans.

Appendix B — List of Codification Topics

Presentation

- 205 – Presentation of Financial Statements
- 210 – Balance Sheet
- 215 – Statement of Shareholder Equity
- 220 – Comprehensive Income
- 225 – Income Statement
- 230 – Statement of Cash Flows
- 235 – Notes to Financial Statements
- 250 – Accounting Changes and Error Corrections
- 255 – Changing Prices
- 260 – Earnings per Share
- 270 – Interim Reporting
- 272 – Limited Liability Entities
- 275 – Risks and Uncertainties
- 280 – Segment Reporting

Financial Statement Line Item

Assets

- 305 – Cash and Cash Equivalents
- 310 – Receivables
- 320 – Investments — Debt and Equity Securities
- 323 – Investments — Equity Method and Joint Ventures
- 325 – Investments — Other
- 330 – Inventory
- 340 – Other Assets and Deferred Costs
- 350 – Intangibles — Goodwill and Other
- 360 – Property, Plant, and Equipment

Liabilities

- 405 – Liabilities
- 410 – Asset Retirement and Environmental Obligations
- 420 – Exit or Disposal Cost Obligations
- 430 – Deferred Revenue
- 440 – Commitments
- 450 – Contingencies
- 460 – Guarantees
- 470 – Debt
- 480 – Distinguishing Liabilities from Equity

Equity

- 505 – Equity

Revenue

- 605 – Revenue Recognition

Expenses

- 705 – Cost of Sales and Services
- 710 – Compensation — General
- 712 – Compensation — Nonretirement Postemployment Benefits
- 715 – Compensation — Retirement Benefits
- 718 – Compensation — Stock Compensation
- 720 – Other Expenses
- 730 – Research and Development
- 740 – Income Taxes

Broad Transactions

- 805 – Business Combinations
- 808 – Collaborative Arrangements
- 810 – Consolidation
- 815 – Derivatives and Hedging
- 820 – Fair Value Measurements and Disclosures
- 825 – Financial Instruments
- 830 – Foreign Currency Matters
- 835 – Interest
- 840 – Leases
- 845 – Nonmonetary Transactions
- 850 – Related Party Disclosures
- 852 – Reorganizations
- 855 – Subsequent Events
- 860 – Transfers and Servicing

Industry

- 905 – Agriculture
- 908 – Airlines
- 910 – Contractors — Construction
- 912 – Contractors — Federal Government
- 915 – Development Stage Entities
- 920 – Entertainment — Broadcasters
- 922 – Entertainment — Cable Television
- 924 – Entertainment — Casinos
- 926 – Entertainment — Films
- 928 – Entertainment — Music
- 930 – Extractive Activities — Mining
- 932 – Extractive Activities — Oil and Gas
- 940 – Financial Services — Broker and Dealers
- 942 – Financial Services — Depository and Lending
- 944 – Financial Services — Insurance
- 946 – Financial Services — Investment Companies
- 948 – Financial Services — Mortgage Banking
- 950 – Financial Services — Title Plant
- 952 – Franchisors
- 954 – Health Care Entities
- 958 – Not-for-Profit Entities
- 960 – Plan Accounting — Defined Benefit Pension Plans
- 962 – Plan Accounting — Defined Contribution Pension Plans
- 965 – Plan Accounting — Health and Welfare Benefit Plans
- 970 – Real Estate — General
- 972 – Real Estate — Common Interest Realty Associations
- 974 – Real Estate — Real Estate Investment Trusts
- 976 – Real Estate — Retail Land
- 978 – Real Estate — Time-Sharing Activities
- 980 – Regulated Operations
- 985 – Software
- 995 – U.S. Steamship Entities

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- [Quarterly Accounting Roundup](#) (June 8)

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