

PKF PERSPECTIVES

ACCOUNTING STANDARDS CODIFICATION: New Single Source of Accounting Literature

Background

On Monday, June 29, 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 168, entitled *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (Codification). SFAS No. 168 replaces the guidance that existed in SFAS No. 162.

In essence, SFAS No. 168 makes the Codification the sole source of authoritative U.S. generally accepted accounting principles (U.S. GAAP) for nongovernmental entities, replacing the mix of accounting standards that had evolved over the last 50-plus years.

It is important to note that all guidance included in the Codification is considered equally authoritative, even guidance that comes from what used to be a non-authoritative section of a standard, such as the "Basis for Conclusions."

All accounting guidance that is not included in the Codification is now considered to be non-authoritative. Accordingly, there are now two levels of U.S. GAAP, authoritative and non-authoritative.

The FASB had three principal goals in developing the Codification:

1. Simplify user access by codifying all authoritative U.S. GAAP in one location.
2. Ensure that the codified content accurately represented authoritative U.S. GAAP as of July 1, 2009.
3. Create an electronic codification end-user research system that is up to date for the released results of standard-setting activity.

In addition to developing the Codification, the FASB developed the FASB Accounting Standards

Codification™ Research System (Codification Research System) to streamline the research process.

The FASB's intent is to update the Codification Research System concurrent with the release of the results of standard-setting activities (Accounting Standards Updates) to ensure that users have the benefit of the most current content.

Among other things, the Codification is expected to:

1. Reduce the amount of time and effort required to solve an accounting research issue.
2. Mitigate the risk of noncompliance through improved usability of the literature.
3. Provide accurate information with real-time updates as Accounting Standards Updates are released.
4. Assist the FASB with research and convergence efforts.

Public Companies

While the Codification does include a significant amount of guidance associated with SEC literature, to the extent that SEC rules and interpretive releases are not included in the FASB Codification, the guidance therein still would need to be followed by issuers, i.e. public companies. 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), auditing, or independence matters.

Effective Date

SFAS No. 168 is effective for financial statements issued for interim and annual periods **ending after September 15, 2009**.

Impact

The Codification is not intended to change U.S. GAAP, other than resolving certain minor inconsistencies that currently exist.

The Codification is a new structure which takes accounting pronouncements and organizes them by approximately 90 accounting topics. By compiling all authoritative guidance in one place, the Codification is anticipated to reduce the amount of time and effort required to research and resolve accounting issues. Users can select a topic and gain access to all of the guidance that should be applicable to that topic. This will help mitigate the risk that a relevant piece of guidance is overlooked.

The Codification Research System has numerous features to assist with research. Users may want to take the time to become familiar with the format of the Codification, as many are familiar with existing accounting standards and paragraphs in those standards. However, paragraphs in existing standards will be located in different places throughout the Codification. One suggested approach is to refer to the Codification *after* researching a matter through existing means and identifying how the research will differ using the Codification.

The FASB has made available a tutorial of the Codification on their website www.fasb.org.

The technological platform and format of the Codification is consistent with the on-line International Financial Reporting Standards (IFRS) system. This will assist the FASB with research and convergence efforts during its standard-setting process.

Broad References in Footnotes

The Codification will affect the way companies reference U.S. GAAP in financial statements and in their accounting policies. While the FASB does not provide guidance on how specific requirements of GAAP are referred to in footnotes of financial statements, it notes that prior to the issuance of the Codification it was not unusual for footnotes to refer to specific standard numbers, for example, "as required by Statement 133 ...".

Since these references are no longer the source of GAAP, such references will change. The FASB encourages the use of plain English to describe broad topic references in the future. For example, to refer to the requirements of the derivatives and hedging topic, the FASB suggests a reference similar to " ... as required by the derivatives and hedging topic of the FASB Accounting Standards Codification ... ".

Access

One of the ways to access the Codification is through the FASB website whereby you have two options:

- Basic view – available at no charge
- Professional view – available at a charge

If you choose to go with the basic view alternative available at no charge, you will have access to the FASB Codification, including topically-organized access to all authoritative U.S. GAAP, ability to identify the location of original technical literature documents, and basic print functionality.

For more detail on the background of the project and the structure of the Codification, you are referred to the FASB website www.fasb.org.

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