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A Bridge to Nowhere and Other Financial Issues

Annetta M. Gibson

Andrews University, gibson@andrews.edu

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A Bridge to Nowhere and Other Financial Issues

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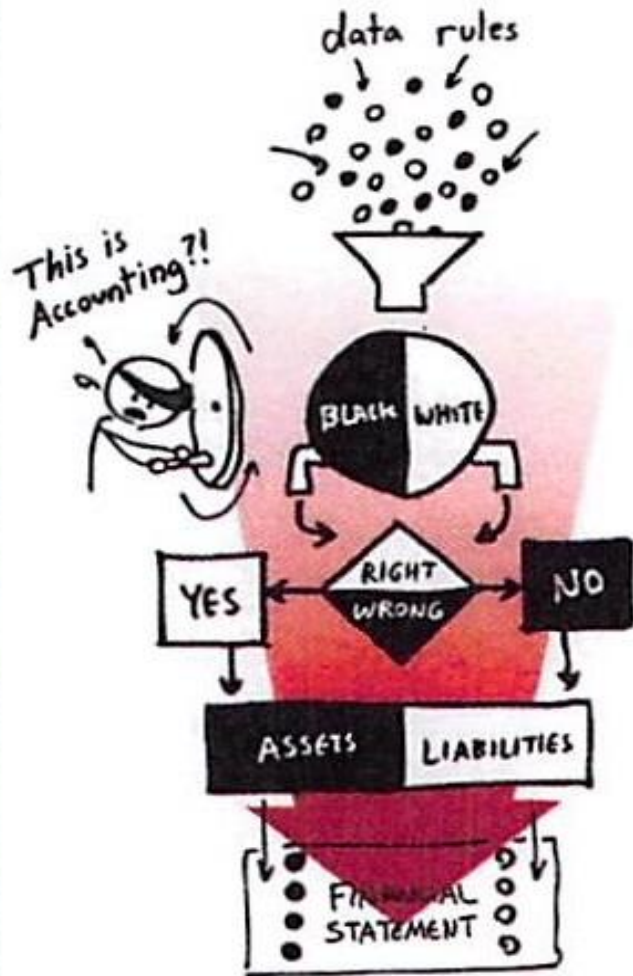
LAKE UNION TRUST SERVICES SEMINAR
OCTOBER 19-22, 2014

Ann Gibson, PhD, CPA
Andrews University

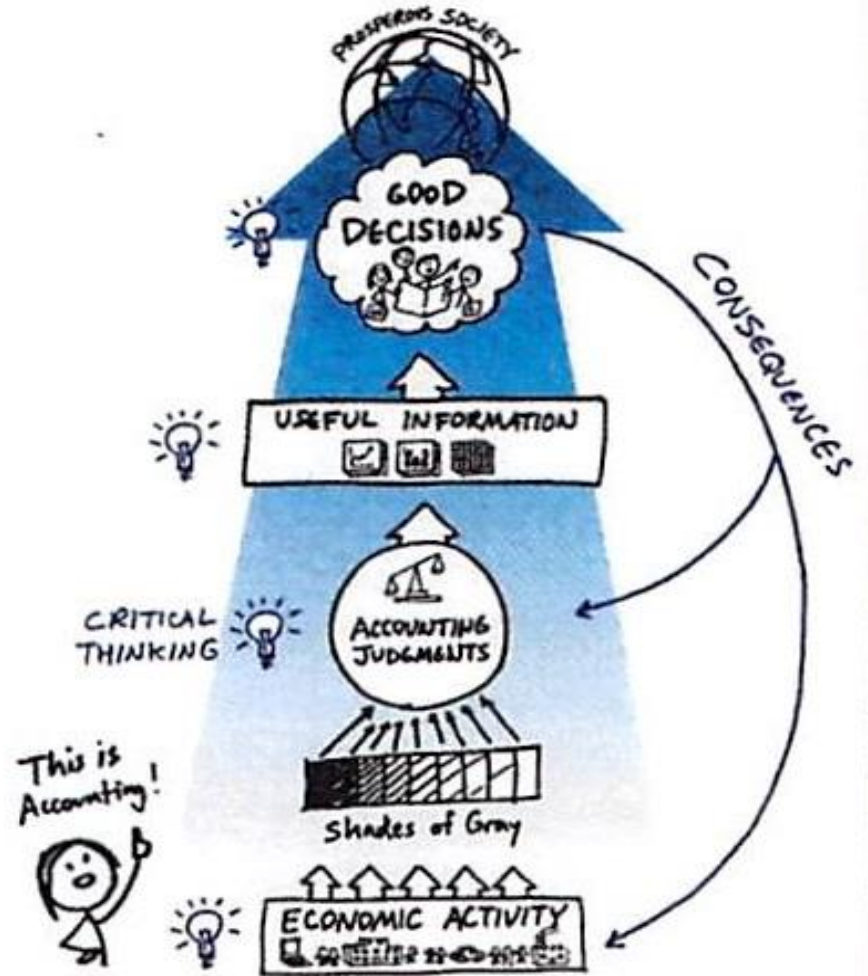
What is Accounting?

2

The perception



The reality



Big GAAP vs. Little GAAP

3

FASB Response:

Proposed *GAAP alternatives* for private companies

Private Company Council (PCC)

Big GAAP vs. Little GAAP

4

Relief provided:

1. Relief from separately recognizing certain intangible assets acquired in a business combination (i.e., goodwill)
2. Exempt from having to perform impairment tests for goodwill subsequent to a business combination; can amortize goodwill over 10 years

Big GAAP vs. Little GAAP

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3. Provide simplified hedge accounting for interest rate swaps for the purpose of converting variable-rate debt to fixed-rate debt

Effective after December 15, 2014

Big GAAP vs. Little GAAP

6

AICPA Response:

A non-GAAP alternative for smaller businesses

Blue Ribbon Panel (FRF for SMEs)

Framework for Small- and Medium-Sized Entities

Big GAAP vs. Little GAAP

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A special-purpose framework (OCBOA)

Uses historical cost; usual inventory cost-flow assumptions; usual depreciation methods

Management choice: either income tax accounting or deferred-income-taxes method

Not required to test for goodwill impairment; amortize goodwill over 15 years

Codification Activity

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FASB Codification (ASC)

Code of Professional Conduct Codification

Code of Professional Conduct

9

Three parts:

Members in public practice

Members in business

Members who are retired or between jobs

Code of Professional Conduct

10

Major change: Incorporation of conceptual frameworks for members in public practice and in business

Conceptual frameworks incorporate a “threats and safeguards” approach to assist users in analyzing relationships and circumstances that the code does not specifically address

Code of Professional Conduct

11

Existing code organized by rule

Revised code organized by topic, subtopics and sections

Code of Professional Conduct

12

Part 2: Guidance for members in business

2.000 Introduction

2.100 Integrity and Objectivity

2.110 Conflicts of Interest

2.120 Gifts & Entertainment

2.120.010 Offering/Accepting

2.130 Preparing & Reporting Info

2.140 Educational Services

Code of Professional Conduct

13

- 2.300 General Standards
- 2.310 Compliance with Standards
- 2.320 Accounting Principles
- 2.400 Acts Discreditable

<http://pub.aicpa.org/codeofconduct>

Effective December 15, 2014; delayed date for the implementation of the conceptual frameworks

Recent Pronouncements

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Revenue Recognition (Issued May, 2014)

Leases

Revenue Recognition

15

Focus is on “performance and obligation” rather than realization and realizability

“Transfer of control” rather than transferring risks and rewards of ownership

Revenue Recognition

16

Examples of industries affected in major ways:

Telecommunications

Software

Real Estate

Revenue Recognition

17

Five step process:

1. Identify the contract with a customer
2. Identify the separate performance obligations in the contract
3. Determine the transaction price

Revenue Recognition

18

4. Allocate the transaction price to the separate performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

Revenue Recognition

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Percentage-of-completion method will move to “cost-to-cost” ratio rather than “units of delivery”

Effective date: December 15, 2016 for U.S. public companies; January 1, 2017 for companies using IFRS

Leases

20

Hoped-for move is to record all leases on the Balance Sheet, with operating leases a thing of the past

Focus is on “rights and obligations”

Pronouncement continues to be “under study”

What's Coming

21

Simplification of measurement of inventory

Elimination of the concept of “extraordinary items”

Convergence with IASB on “Accounting for Financial Instruments: Credit Impairment”

Requested Topics for FASB Study

22

Disclosure framework with purpose to reduce “clutter”

Accounting for financial instruments: Hedging

Financial instruments with characteristics of equity

Gifts-In-Kind Valuation

23

Measure at fair value, which may not be donor-provided value and may not be set by the location where the goods will be distributed

Set by the market where the greatest volume occurs

Gifts-in-Kind Valuation

24

Presume purchase at the date the contribution occurs

If fee exchanged is substantially less than the fair value of the goods received, presume a “bargain purchase” and that the transaction includes an inherent contribution that should be recognized

Gifts-in-Kind Valuation

25

Management is responsible for the financial statement numbers:

Have a policy

Be consistent

Use a reasonable process to assess and record
the fair value of GIK

Document the approach

Questions

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Questions?

Thank you!

References

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