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Current Issues In Accounting: Will London Rule the Accounting World?

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Current Issues In Accounting:

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WILL LONDON RULE THE ACCOUNTING WORLD?

Ann Gibson, PhD, CPA
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Current Issues in Accounting

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Five Current Issues:

- Converging U.S. GAAP and International GAAP (IFRS)
- Fair Value Accounting
- Accounting Standards for Non-public Companies
- Accounting Standards Codification (ASC)
- Recent Pronouncements:
 - ✦ Subsequent Events
 - ✦ Communicating Internal Control Matters Identified During Audit

Current Issues in Accounting: Converging U.S. GAAP and IFRS

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1973: Financial Accounting Standards Board Formed

1973: International Accounting Standards Committee
Formed

Pressure: Need for international accounting standards
because of global investment opportunities

Current Issues in Accounting: Converging U.S. GAAP and IFRS

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2002: Norwalk Agreement

An MOU to work toward convergence

2005: European Union mandates IASB rules for financial statements from their countries

2007: SEC eliminates requirement for international companies to reconcile financial statements for NYSE

Current Issues in Accounting: Converging U.S. GAAP and IFRS

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Goals for convergence per FASB:

- Improve U.S. reporting
- Simplify U.S. standards and standard-setting
- Provide international convergence

Current Issues in Accounting: Converging U.S. GAAP and IFRS

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Convergence issues pending:

- Financial instruments accounting
- Fair value measurement
- De-recognition (removal) of assets when the entity is no longer involved (SPE/VIE issues)
- Equity instruments (separating them from debt instruments)

Current Issues in Accounting: Converging U.S. GAAP and IFRS

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Converging Issues Pending continued:

- Consolidations where control and majority ownership may not coincide (SPE/VIE arrangements)
- Revenue recognition (e.g. bundled services)
- Lease accounting
- Financial statement presentation uniformity
- FASB/IASB Conceptual Framework uniformity

Current Issues in Accounting: Fair Value Accounting

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The “why” of accounting (FASB):

- To provide information:
 - Useful in investment and credit decisions
 - Useful in assessing future cash flows
 - Knowing about enterprise resources, claims to resources and changes in them

Current Issues in Accounting: Fair Value Accounting

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Mark-to-Market (SFAS157):

Market value determined over three levels:

Level 1: Most reliable - Observation

Level 2: Somewhat reliable – Inquiry

Level 3: Questionable reliability - Calculation

Current Issues: Fair Value Accounting

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The Burning Question:

Did accounting cause the 2007-08 recession?

Current Issues in Accounting: Non-Public Company Accounting Standards

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- IASB-SME has been recognized by the AICPA as a legitimate standard
- FASB has not included private company reporting on the list of convergence project items
- Big-GAAP/Little-GAAP is back center stage

Current Issues in Accounting: Accounting Standards Codification (ASC)

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ASC Codification address: asc.fasb.org

Mandated by SFAS168

All accounting guidance now carries equal authority

Current Issues in Accounting: Accounting Standards Codification (ASC)

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Codification Organization:

- Topics – the organizing elements
 - Presentation 205-299
 - Accounts 305-700
 - Transactions 805-899
 - Industries 905-999
- Subtopics – related to each of the above organizing elements
 - Example: under “accounts” would be “receivables”

Current Issues in Accounting: Accounting Standards Codification (ASC)

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Codification Organization Continued:

- **Sections:**
 - Overview
 - Objectives
 - Scope
 - Glossary
 - Recognition
 - Measurement
 - Disclosure
 - Presentation
 - Implementation
 - XBRL

Current Issues in Accounting: Recent Pronouncements

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SFAS165 (ASC855): Subsequent Events

The disclosure of events occurring after the balance sheet date but before the statements are issued are the *primary responsibility of management* and not the auditor.

The question of the “date of issue” is decided by the Board for non-public companies.

Current Issues in Accounting: Communicating Internal Control Matters

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SAS 115: Communicating Internal Control Matters Identified During Audit:

Control Deficiency: When the design or operation of a control does not allow management or employees to prevent or detect misstatements on a timely basis in the normal course of business

Current Issues in Accounting: Communicating Internal Control Matters

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Deficiency in Design:

When a control necessary to meet the control objective is missing or when it is not properly designed, so that if the control operates as designed, the control objective is not always met.

Current Issues in Accounting: Communicating Internal Control Matters

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Deficiency in Operation:

When a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively

Current Issues in Accounting: Communicating Internal Control Matters

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Material Weakness:

A deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Current Issues in Accounting: Communicating Internal Control Matters

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Significant Deficiency:

A deficiency or combination that, in the auditor's professional judgment, is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Current Issues in Accounting: Communicating Internal Control Matters

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Required Communication with Management:

Every control deficiency that reaches the level of a significant deficiency or that is a material weaknesses must be communicated to management and those charged with governance. Management decides whether or not they wish to act on the auditor's communication.

Thank you very much!

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Any questions or comments?