



The FASB Codification

What you need to know before quarter end

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For years we've heard about the FASB's GAAP codification project to consolidate all of US GAAP into one source. Finally, it's here, but some may be wondering what do I really need to know? Is this just a new reference tool? Below are some frequently asked questions and answers for the key things you need to know.

What is the Codification?

The [FASB Accounting Standards Codification™](#) is the new single official source of authoritative, nongovernmental U.S. generally accepted accounting principles (GAAP), combining information from FASB, AICPA, EITF, and related literature. All existing standards that were used to create the Codification are superseded by the adoption of the Codification. The Codification even includes SEC content related to basic financial statements, such as Financial Reporting Releases and Staff Accounting Bulletins. It does not, however, contain all SEC rules for matters outside the basic financial statements such as auditing or independence matters.

When did it become effective?

The Codification is effective as US GAAP guidance effective July 1, 2009.

Why?

For years accountants have had to consult multiple sources, such as FAS statements, EITF pronouncements, and AICPA literature, to find the information on a single topic. Often times, this meant following a trail of which standard or pronouncement had been superseded. This could be time-consuming and prone to error as it could be difficult to ensure that all the information and most recent version of information was found. For this reason, most research is often performed with research tools produced by accounting research firms or Big 4 accounting firms. These tools consolidated all the literature in one place by topic, but the guidance still spanned multiple source documents. The Codification project was designed to organize information by topic area similar to what other research tools have been doing, but also combining the data to be consistently organized within topics.

Did this change GAAP?

The Codification was not intended to change US GAAP, but just re-organize and combine the information about GAAP. 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". Where this is believed to be the case, one can contact FASB.

What does this mean to financial statements issued from July 1, 2009 and forward?

The Codification will be effective for interim and annual periods ending after September 15, 2009, which means that preparers must begin to use the Codification for periods that begin on or about July 1, 2009.

Financial statements issued for periods ending prior to September 15, 2009 and prior may still refer to prior standards naming conventions, such as FAS 109.

Financial statements issued for periods ending after September 15, 2009 need to be updated to reflect references to US GAAP standards by the new codification scheme. A company may also refer to both the new codification and pre-codification reference in financial statements.

Companies are not required to make references to specific GAAP in financial statements but will often encounter times when they cannot avoid doing so, such as adopting a new standard.

Where is the codification? And how do you use it?

The [Codification](#) is available on the FASB website. A “Basic view” of the Codification is available free of charge. A “Professional View” is available for an annual subscription fee (starting at \$850 for one user, with discounts for multiple users). The Professional View provides extra search and annotation features, but is probably not needed by most users. Most research tools that were previously available on a subscription basis from accounting research companies and accounting firms have been updated to reflect the codification.

The Codification content is arranged within **Topics**, **Subtopics**, **Sections**, and **Subsections**. **Topics** closely resemble the standards of the International Accounting Standards Board (IASB) and fall into four categories: Presentation (such as Balance Sheet, Statement of Cash Flow, etc.), Financial statement accounts (for example Cash and Cash Equivalents), Broad Transactions (for example Business Combinations), and Industries (for industry-specific guidance). **Subtopics** represent subsets of a Topic which are generally specific in nature to the Topic. **Sections** represent the nature of the content in a Subtopic such as Recognition, Measurement, Disclosure, etc. The sectional organization for all Subtopics is the same. Sections may be further broken down into **Subsections**, **Paragraphs**, and **Subparagraphs**. Each topic, subtopic, section and subsection is assigned a number. The numbering scheme is structured as:

XXX-YY-ZZ-PP

where XXX = Topic, YY = Subtopic, ZZ = Section, PP = Paragraph

The codification can be browsed by topic, searched by keyword, or cross-referenced from a prior standard.

How do you find the new codification number for one of the original standards?

A [cross-reference system](#) is available on the Codification website (free of charge in the Basic View after registering and logging in). This allows one to cross-reference from one of the former standards to the specific Codification Section down to the paragraph level.

What other documents (in addition to financial statements) need to be updated?

All memos on accounting topics such as research or position papers, template documents, schedules used in accounting or financial reporting, policies or procedures created prior to the Codification will require update to the new classification scheme if intended to be used going forward to ensure users reference the correct literature.

About Sanders Consulting, LLC

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