

1 RESEARCHING GAAP IMPLEMENTATION PROBLEMS

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OVERVIEW

This chapter is designed to give pointers to additional information in areas besides GAAP concepts. Though there are Concepts and Examples sections in each of the following chapters that give summarized versions of the relevant GAAP issues, the primary focus of this book is to provide information about ancillary topics that allow one to implement GAAP, such as accounting policies and procedures, controls, and reporting footnotes. Unfortunately, there are no authoritative sources for these GAAP implementation topics. Instead, the sections of this chapter devoted to each implementation topic list some organizations that can provide additional information, as well as key books that summarize or discuss related topics, including the name of each book's author, publisher, and date of publication. But first, we will address the GAAP hierarchy of accounting standards and rules, followed by the general approach for researching GAAP-related issues.

The GAAP Hierarchy

Generally accepted accounting principles (GAAP) are standards and rules for reporting financial information, as established and approved by the Financial Accounting Standards Board.

There are three primary players in the promulgation of GAAP. First is the Financial Accounting Standards Board (FASB), which plays the lead role in establishing GAAP. Its Web site is located at www.fasb.org. Its mission is to "establish and improve standards of financial accounting for the guidance and education of the public, including issuers, auditors, and users of financial information." A subset of the FASB is the Emerging Issues Task Force (EITF), which (as its name implies) handles emerging accounting issues as soon as they become apparent, so that a standard approach can be created before any competing approaches come into use. This group typically deals with only very narrowly defined accounting issues, and its opinions are considered to be GAAP only if it can first reach a consensus opinion among its members. Finally, the American Institute of Certified Public Accountants (AICPA) is the principal representative body for certified public accountants within

the United States. Its Web site is located at www.aicpa.org. It periodically issues research bulletins, audit and accounting guides, statements of position, and practice bulletins that, if approved by the FASB, are considered to be GAAP. Some GAAP is still ascribed to the Accounting Principles Board (APB), though this entity was phased out in 1973.

There are many documents issued by these three accounting entities that are considered part of GAAP. Each one is described in the following bullet points:¹

- *FASB Statements of Financial Accounting Standards*. The highest form of GAAP, the SFAS series is the primary publication of the FASB, and is the most carefully formulated (and debated) of all GAAP documents.
- *FASB Interpretations*. Used to clarify Statements of Financial Accounting Standards or the pronouncements made by prior accounting entities that are still considered to be GAAP.
- *APB Opinions*. The primary publication of the old Accounting Principles Board, this was the equivalent of an SFAS prior to the formation of the FASB.
- *FASB Technical Bulletins*. Provide guidance on issues not covered by existing standards, and where the guidance is not expected to be costly or create a major change.
- *AICPA Statements of Position*. Provide guidance on financial accounting and reporting issues.
- *AICPA Industry Audit and Accounting Guides*. Provide guidance to auditors in examining and reporting on financial statements of entities in specific industries and provide standards on accounting problems unique to a particular industry.
- *EITF Consensus Positions*. Provide positions on the correct treatment of emerging accounting issues.
- *AICPA Practice Bulletins*. Provide guidance on narrowly defined accounting topics.
- *FASB Implementation Guides*. Provide notes on how to implement specific Statements of Financial Accounting Standards, written by the FASB staff. The guides are organized in a question, background, and answer format.

GAAP is organized in a descending pyramid of authoritative sources, as shown in Exhibit 1-1. It contains the following four categories:²

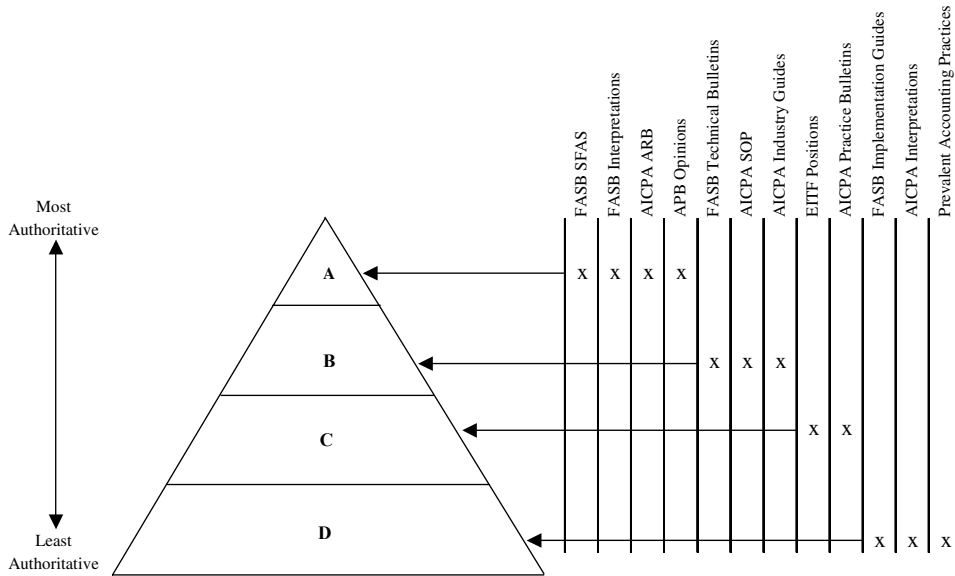
1. Category A is the most authoritative GAAP, containing the Statements of Financial Accounting Standards and related Interpretations (as promulgated by the FASB), as well as AICPA Accounting Research Bulletins and Opinions of the Accounting Principles Board.
2. Category B contains all FASB Technical Bulletins, as well as all AICPA Statements of Position and AICPA Industry Audit and Accounting Guides that have been approved by the FASB.

¹ Adapted with permission from pp. 5–6 of Delaney et al., *Wiley GAAP 2003* (John Wiley & Sons, Inc., Hoboken, NJ, 2002).

² Adapted with permission from p. 3 of Delaney et al., *Wiley GAAP 2003* (John Wiley & Sons, Inc., Hoboken, NJ, 2002).

3. Category C includes consensus positions of the FASB's EITF, as well as those Practice Bulletins created by the AICPA's Accounting Standards Executive Committee that have been approved by the FASB. The positions of the EITF tend to cover such specialized topics that there is no more authoritative form of GAAP in Categories A or B, so these positions tend to be the most senior form of GAAP in their topical areas.
4. Category D includes implementation guides published by the FASB staff, as well as AICPA accounting interpretations and prevalent accounting practices.

Exhibit 1-1: The GAAP Source Pyramid



ARB = Accounting Research Bulletin
 SFAS = Statement of Financial Accounting Standards
 SOP = Statement of Position

Researching GAAP

The simplest approach to researching GAAP is to review the Concepts and Examples sections in this book. If this does not yield a detailed answer, a more comprehensive source of summarized GAAP information is the *Wiley GAAP 2007* guide. The *Wiley GAAP 2007* guide contains a more comprehensive Concepts section than this book, and also contains a list of authoritative pronouncements at its beginning, as well as the applicable page reference leading to a more complete discussion of the issues within the text. If this approach still does not yield a clear answer to a GAAP problem, one should review selected GAAP source documents, of which the most comprehensive is the FASB's Original Pronouncements and Accounting Standards three-volume series (noted in the following book list). It lists all FASB Statements of Standards, as well as AICPA Pronouncements, FASB Inter-

pretations, FASB Concepts Statements, and FASB Technical Bulletins. Of particular use is the topical index located at the end of the third volume, which cross-references each topic to a GAAP source. Other more narrowly defined topics are covered by the other GAAP sources noted in the following book list. If these sources still do not yield a clear answer, one can ask other entities in the same industry how they are handling the issue (if only to obtain alternative solutions). If all else fails, use basic accounting theory to resolve the issue, or consult with a technical expert at a CPA firm. The most useful GAAP source documents are noted in the following book list:

Audit and Accounting Guides

Author: AICPA

Publisher: AICPA

Publication Date: Various

Emerging Issues Task Force Abstracts

Author: FASB

Publisher: FASB

Publication Date: Annually

FASB Staff Implementation Guides

Author: FASB

Publisher: FASB

Publication Date: Annually

Original Pronouncements and Accounting Standards

Author: FASB

Publisher: FASB

Publication Date: Annually

Statements of Position

Author: AICPA

Publisher: AICPA

Publication Date: Various

Researching Accounting Terminology

The best source of information about accounting terminology is the Statements of Financial Accounting Standards (SFAS), as published by the FASB. These Statements generally begin with a definitions section that provides both clear and comprehensive definitions. However, definitions are provided only for the limited topics covered in each SFAS, so it can take some time to locate a specific definition from the various SFAS documents. Definitions are also provided in a variety of lower-level GAAP documents. Another source of definitions is an online glossary of definitions maintained by the AICPA, which can be accessed at www.aicpa.org/members/glossary. Given the minimal time most accountants will allocate to researching accounting definitions, a simpler form of access is the following accounting dictionary:

Dictionary of Accounting Terms

Author: Joel Siegel and Jae Shim

Publisher: Barron's Education Series, Inc.

Publication Date: 2005

Researching Accounting Policies and Procedures

There is no standard set of policies and procedures related to GAAP. This information can be found within the Policies and related Procedures sections of each chapter in this book. Another source is books listing sample policies and procedures for generic company operations, as described in the first two books in the following list. An alternative is to use documentation manuals as guides for the construction of company-specific policies and procedures; the last two books in the following list can assist with this effort:

Bizmanualz Accounting Policies, Procedures, and Forms

Author: Bizmanualz.com Inc.

Publisher: Bizmanualz.com Inc.

Publication Date: 2002

Design and Maintenance of Accounting Manuals

Author: Steven Bragg

Publisher: John Wiley & Sons, Inc.

Publication Date: 2003

Documentation Improvement Methods

Author: Athar Murtuza

Publisher: John Wiley & Sons, Inc.

Publication Date: 2002

Researching Accounting Controls

There is no standard source document itemizing the key control areas related to all types of GAAP. Instead, controls are either described in general terms through the reports issued by various accounting review committees (see the *COSO Implementation Guide* below) or else one must infer the correct types of controls to use based on various types of fraud that may occur (several examples are noted below). A good source for controls-related publications is the Institute of Internal Auditors, whose Web site is www.theiia.org. It is located in Altamonte Springs, Florida, and its phone number is 407-937-1100. Several reference books related to this topic are as follows:

COSO Implementation Guide

Author: James P. Roth

Publisher: Institute of Internal Auditors

Publication Date: 1995

Financial Crime Investigation and Control

Author: K. H. Spencer Pickett, Jennifer M. Pickett

Publisher: John Wiley & Sons, Inc.

Publication Date: 2002

Financial Reporting Fraud

Author: Charles Lundelius Jr.

Publisher: AICPA

Publication Date: 2003

Financial Statement Fraud

Author: Zabihollah Rezaee

Publisher: John Wiley & Sons, Inc.

Publication Date: 2002

Fraud 101

Author: Howard Davia

Publisher: John Wiley & Sons, Inc.

Publication Date: 2000

Internal Control Integrated Frameworks

Author: Coopers & Lybrand

Publisher: AICPA

Publication Date: 1994

Process Development Life Cycle

Author: Albert Marcella Jr.

Publisher: Institute of Internal Auditors

Publication Date: 2001

Researching Accounting Forms and Reports

There is no single book or periodical containing a comprehensive set of forms or reports linked to GAAP. The best source is the Forms and Reports sections within this book. Another alternative is to review publications describing how to construct these documents. Such information can then be used to design forms and reports based on the specific accounting structures unique to a company. The following source book provides information about constructing forms and reports:

Design and Maintenance of Accounting Manuals

Author: Steven Bragg

Publisher: John Wiley & Sons, Inc.

Publication Date: 2003

Some examples of forms and reports can be found scattered through some of the larger accounting “how to” books, an example of which follows:

Controllershship

Author: James Willson et al.
Publisher: John Wiley & Sons, Inc.
Publication Date: 2004

Researching Accounting Footnotes

Source documents for GAAP will describe the general contents of footnotes to financial statements, but rarely give more than a few limited examples. A better source of information is a selection of examples culled from financial reports. One of the best sources is the *GAAP Financial Statement Disclosures Manual* listed in the following references. Another option is to access the Web site of the Securities and Exchange Commission at www.sec.gov and review the individual filings of various public companies, which can be accessed through the “Search for Company Filings” option on that Web page. The following source books can be used for additional information about footnote disclosures:

Financial Statement Presentation and Disclosure Practices for Employee Benefit Plans

Author: AICPA
Publisher: AICPA
Publication Date: 2000

Financial Statement Presentation and Disclosure Practices for Not-for-Profit Organizations

Author: Richard F. Larkin
Publisher: AICPA
Publication Date: 1999

GAAP Financial Statement Disclosures Manual

Author: George Georgiades
Publisher: CCH
Publication Date: 2005

The Coopers & Lybrand SEC Manual

Author: Robert Herz et al.
Publisher: John Wiley & Sons, Inc.
Publication Date: 1997

Researching Accounting Journal Entries

Examples of journal entry formats are listed in the Journal Entry sections of each chapter in this book. In addition, one can consult the *Wiley GAAP* guide for the most recent year, which may include different examples of journal entries for a specific topic. Another good source is the most recent edition of the standard textbooks for intermediate accounting, advanced accounting, and cost accounting. The following books can be consulted for this information:

Intermediate Accounting

Author: Donald Kieso et al.
Publisher: John Wiley & Sons, Inc.
Publication Date: 2006

Advanced Accounting

Author: Debra Jeter et al.
Publisher: John Wiley & Sons, Inc.
Publication Date: 2003

Ultimate Accountants' Reference

Author: Steven Bragg
Publisher: John Wiley & Sons, Inc.
Publication Date: 2006

Cost Accounting

Author: Steven Bragg
Publisher: John Wiley & Sons, Inc.
Publication Date: 2001

Researching Accounting Recordkeeping

Information about the proper time period over which to retain accounting documents is difficult to find, as are procedures and documentation for organizing and destroying documents. The principal organization concerning itself with these issues is the Association for Information Management Professionals, whose Web site is located at www.arma.org. It is located in Lenexa, Kansas, and its Web site lists a number of books related to records retention.