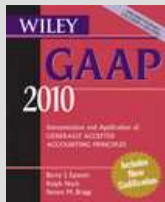




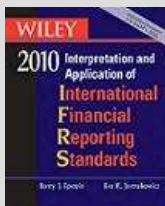
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## Accounting Standards Codification: Seven Tips for Attorneys

By

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Attorneys serving as advisors to business clients, as house counsel, or for purposes of assisting in structuring major transactions such as business combinations or filing registration statements with the SEC, should be familiar with the role and importance of generally accepted accounting principles (GAAP). While not accounting experts, *per se*, attorneys need to be assured that GAAP is being applied properly and, in the instance of certain transactions – such as business acquisitions involving earn-out arrangements, that their clients are being protected from contractual provisions that could be disadvantageous to them.

Previous familiarity with the structure and content of GAAP may be inadequate for the task, however. Last year, the Financial Accounting Standards Board (FASB) launched the Accounting Standards Codification (ASC), entirely superseding all prior standards. Prior to ASC, there were more than 20 sources of GAAP, which consisted of thousands of individual pronouncements. The ASC rendered all prior accounting literature obsolete; ASC is now the sole authoritative source for GAAP. New standards and interpretative guidance, which shows no sign of being issued at a reduced pace under the new structure, will occur via additions, deletions, or revisions to specific topics, sub-topics,

sections and paragraphs in ASC rather than as free-standing, numbered pronouncements.

The ASC project was the most extensive overhaul of GAAP in many years, and renders earlier guidance virtually useless as all referenced standards were withdrawn in July 2009. The following seven tips are being offered to attorneys who have yet to access ASC, as suggestions for easing the transition to, and effectively utilizing, this new system.

### **1. Obtain Access to ASC**

Lawyers can choose to access ASC either electronically or in print, with the former being highly recommended. FASB is currently offering three different viewing options on their website at <http://asc.fasb.org/home>. The Basic View is free of charge and offers registered users the ability to identify the new ASC location of legacy standards. It also confers basic printing and topical browsing functionality. The Academic View is also free of charge and offers registered accounting faculty and students, only, the same access as the Professional View. The Professional View costs \$850 annually and offers registered users greatly expanded functionality. In January of this year, the FASB also began to offer a four volume bound edition of ASC, current as of October 31, 2009. This bound edition does not include SFAS No. 164, *Not-for-Profit Entities: Mergers and Acquisitions*, as this standard had not yet been codified at that date. Since ASC is being constantly updated and revised (for example, 17 updates were issued in 2009 alone), the authors strongly urge an electronic subscription.

### **2. Become Familiar With the Codification Structure, Content, and Style**

Attorneys should be aware that even though the ASC was not intended to change GAAP, it radically altered the organization and presentation of existing GAAP into a single topically organized structure. The classification system is as follows:

ASC XXX-YY-PP where XXX = Topic, YY = Subtopic, ZZ = Section, and PP = Paragraph. An "S" precedes the Section number of SEC content.

The Topics correlate somewhat closely to the standards issued by the Financial Accounting Standards Board. Each Topic represents a collection of related accounting guidance such as financial statement presentation, financial statement accounts, transactions, and industries. The Subtopics represent subsets of a Topic and are generally distinguished by type or by scope. The Sections represent the nature of the contents in a subtopic.

### **3. Utilize the Cross Reference Tool**

Attorneys can utilize the Cross-Reference tool to identify where previous standards are classified in the Codification. The Cross-Reference tool displays a detailed listing of the specific locations of all the content included in the Codification. The Cross-Reference report will only list the source of content from existing authoritative literature that the FASB views as essential material.

It is important to understand that the various paragraphs of former FASB statements and other pronouncements may now be located in disparate Topics, and that there is no simple, one-to-one correspondence from the old to the new, which is why the electronic cross-reference tool is so important for users. If a given accounting rule is being explicitly referenced, e.g. in a contractual provision, it will be necessary to specifically cite the Topic, Subtopic, and perhaps Section and Paragraph reference, rather than merely calling out the FASB Statement or other source of guidance.

### **4. Create Personal Annotations**

Attorneys who register for the Professional View can create personal annotations. Annotations can easily be created by clicking on the appropriate button presented under each paragraph. Once created, an annotation is saved and can be viewed each time a particular page is accessed or by clicking on the "My Stuff" tab. Annotations are editable and provide attorneys with a convenient way to keep track of and comment on GAAP research. This may prove useful for creating standard referencing for items often cited in contractual provisions, for example.

### **5. Locate Terms in the Master Glossary**

Attorneys should utilize the Master Glossary feature, which is always accessible on the left-hand menu bar, to find the definition of a term. The Master Glossary contains all terms identified throughout the codification. Professional View users can also view where a term is used by clicking on the term in the Master Glossary.

### **6. Properly Reference the Codification**

Attorneys who provide legal opinions based on applications of GAAP should properly reference the Codification. Referencing the Codification differs from referencing of the previous standards. It is now only appropriate to still reference grandfathered guidance, guidance not included in ASC, when that guidance is relied upon.

The FASB is encouraging the use of plain English to describe ASC's broad topic references. When it is necessary to reference specific Codification content, the FASB

suggests the following approach: FASB ASC {Codification Reference}. The ASC can be referenced, for example, based on:

- Topic = FASB ASC 805
- Subtopic = FASB ASC 805-20
- Section = FASB ASC 805-20-55
- Paragraph = FASB ASC 805-20-55-44

## **7. Become Aware of Ongoing Accounting Standard Changes**

Attorneys should regularly refer to the FASB website for information on Codification updates and new accounting standards. The FASB intends to make changes to existing GAAP exclusively in the form of codification updates. The FASB will also publish new guidance in the form of ASU No. 20YY-XX, in which the “YY” represents the last two digits of the year and the “XX” is the sequential number for each update. As the FASB and the SEC amend existing Codification paragraphs, both the current and updated versions will remain in the Codification until the new guidance is completely effective. At that time, the outdated guidance will be removed and only the amended paragraph will remain.

Accountants are only now becoming familiar with this entirely new structure for GAAP. In the authors’ experience, many contractual and other provisions rely on GAAP interpretation, and some explicitly call out GAAP references. Attorneys would be wise to undertake their own familiarization program with ASC, which will have pervasive impact on their business client advisory practices.

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