

# The Other C-Word

BY BRUCE POUNDER, CMA, CFM

Let's say you are working on one of *Strategic Finance's* challenging crossword puzzles and find yourself in need of a 12-letter word beginning with the letter "C." The clue is "Makeover for U.S. GAAP." Does the word *Convergence* spring to mind? If so, good! At this point, all accounting and finance professionals should

be aware that Convergence (i.e., the global convergence of financial reporting standards) is bringing profound change to U.S. Generally Accepted Accounting Principles (GAAP). Over the past several months, I've tried to ensure that readers of this column are well aware of the phenomenon of Convergence and its many implications for corporate financial reporting in the United States and elsewhere in the world.

But back to the crossword puzzle, where there's a slight problem: The word *Convergence* has only 11 letters, not 12. Could there be another "C-word" that fits the clue? A word that describes another phenomenon that will also have a significant impact on U.S. GAAP? The answer to both questions is "yes." This month's column is about that other C-word: *Codification*.

## Introducing the FASB Accounting Standards Codification

The Financial Accounting Standards Board (FASB) recently developed its *Accounting Standards Codification*<sup>TM</sup> in order to make U.S. GAAP more usable and to facilitate further comparison and convergence with International Financial Reporting Standards (IFRS). The Codification content is organized according to a topical hierarchy, and that content is available now through a new online research system.

In April 2009, the FASB will make the Codification the single, authoritative source of U.S. GAAP, replacing the confusing jumble of pronouncements and practices that constitute GAAP today (see "Framing the Future: A first look at FASB's GAAP codification," *Journal of Accountancy*, May 2008). In other words, the Cod-

ification content—not the historical pronouncements from which it was derived—will be GAAP. Additionally, the infamous "House of GAAP" will be flattened—there will no longer be a hierarchy of authoritativeness among the standards that make up U.S. GAAP.

The significance for accounting and finance professionals is that the Codification will profoundly change the way that U.S. GAAP is documented, updated, referenced, and accessed. In six months, any accounting or finance professional who isn't familiar with the Codification will be incapable of competently performing basic tasks such as:

- Documenting authoritative support for management decisions regarding accounting policy.
- Preparing notes to financial statements.
- Discussing accounting policies with auditors.
- Conducting general accounting research.

A practical example will help illustrate the impact that the Codification will have on the work of professionals who practice, teach, and research accounting in accordance with U.S. GAAP. The 2007 annual

report of General Electric Company (GE) contains 27 references to eight different Statements of Financial Accounting Standards (SFAS), a reference to an Accounting Research Bulletin (ARB), three references to two different FASB Interpretations (FIN), and six references to three different FASB Staff Positions (FSP). Those references are found primarily in “Management’s Discussion and Analysis” and in notes to the consolidated financial statements. The company’s 2008 annual report will probably have similar references to similar pronouncements. But all such references would be meaningless in GE’s 2009 annual report because they would refer to pronouncements that won’t be authoritative GAAP as of the end of 2009.

Like other companies that use U.S. GAAP, GE will need to replace references to Statement of Financial Accounting Standards (SFAS) No. 157, “Fair Value Measurements,” with references to Codification Topic 820, *Fair Value Measurements and Disclosures*. And references to the recognition provisions of FASB Interpretation (FIN) No. 48, “Accounting for Uncertainty in Income Taxes,” will need to be replaced by references to Codification Section 740-10-25, *Income Taxes-Overall Recognition*. Of course, these are just a few of the many details to be attended to in the preparation of financial reports going forward.

If the Codification references in this example are strange and unfamiliar to you, you’re not alone. Earlier this year I attended a meeting of the Institute of Management Accountants’ (IMA®) Financial Reporting Committee, where a member of the FASB said that, after many months of availability, approximately 23,000 people had registered for free

**On October 17, 2008, Bruce Pounder will present *The Convergence Seminar™* in Milwaukee, Wis. The event is cosponsored by IMA’s Mid-America Council and the Wisconsin Institute of Certified Public Accountants. For more information, visit <http://TheConvergenceSeminar.com>.**

online access to the Codification. Given that there are a million-plus accounting and finance professionals in the United States, the number of folks who actually had the opportunity to see the Codification at that point was a mere statistical blip. And, unfortunately, I have noticed little improvement since then in the level of awareness about the Codification among accounting and finance professionals.

Looking at the educational implications of the Codification, what college accounting students are learning about U.S. GAAP in the fall semester of this year will become obsolete during the spring semester of next year. Yet of the hundreds of educational sessions offered at the recent annual meeting of the American Accounting Association (AAA), none dealt specifically and exclusively with the Codification. Clearly, accounting professors and students are facing some immediate challenges to overcome.

Not only are college accounting textbooks about to become obsolete, so are most books about financial reporting that are written for working professionals. In order to avoid that undesirable fate, my forthcoming *Convergence Guidebook for Corporate Financial Reporting* (Wiley, 2009) includes both existing references to U.S. GAAP (e.g., SFAS No. 157) as

well as Codification references (e.g., Topic 820). Nowadays, if you are considering the purchase of a book that references U.S. GAAP, you should certainly look for dual references.

### **What’s the Hurry?**

Maybe you’re thinking, “If the official adoption of the Codification as GAAP is still several months away, why should I bother to prepare now?” The main reason to start preparing now is that you’ll need a significant amount of time to get used to the Codification, and you aren’t likely to have much spare time to devote to learning about it during the next six months. In particular, you probably won’t be able to devote any time to learning the Codification in the months immediately preceding the April 2009 cutover because most accounting and finance professionals find themselves to be rather busy in the first quarter of each calendar year.

The upshot is that *now* is the best time to begin preparing yourself, your staff, and your company for the impact of the Codification. And the best place to start is at the Codification website (<http://asc.fasb.org>). There you can register for free access to the Codification and find helpful information, including online tutorials. Also, watch for relevant continuing professional education (CPE) opportunities during the December “high season” for CPE. That may be your last chance to get ready for the big change before you must deal with the many duties and distractions that the new year will bring. ■

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