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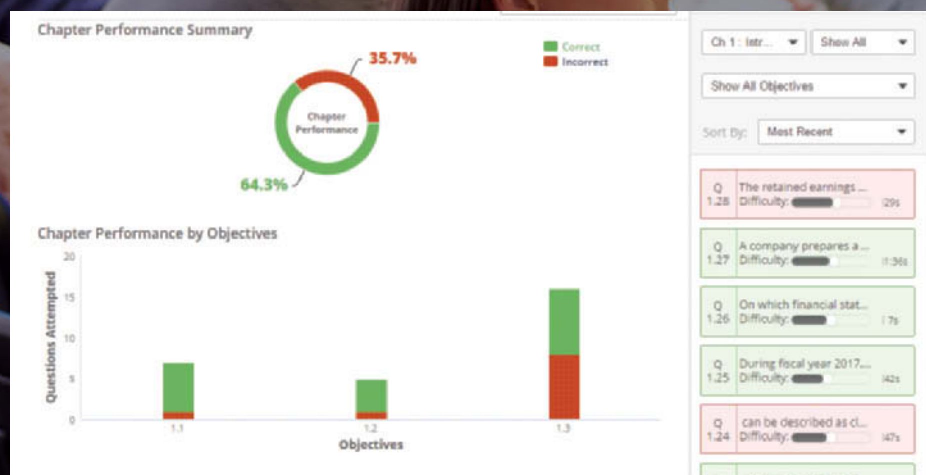

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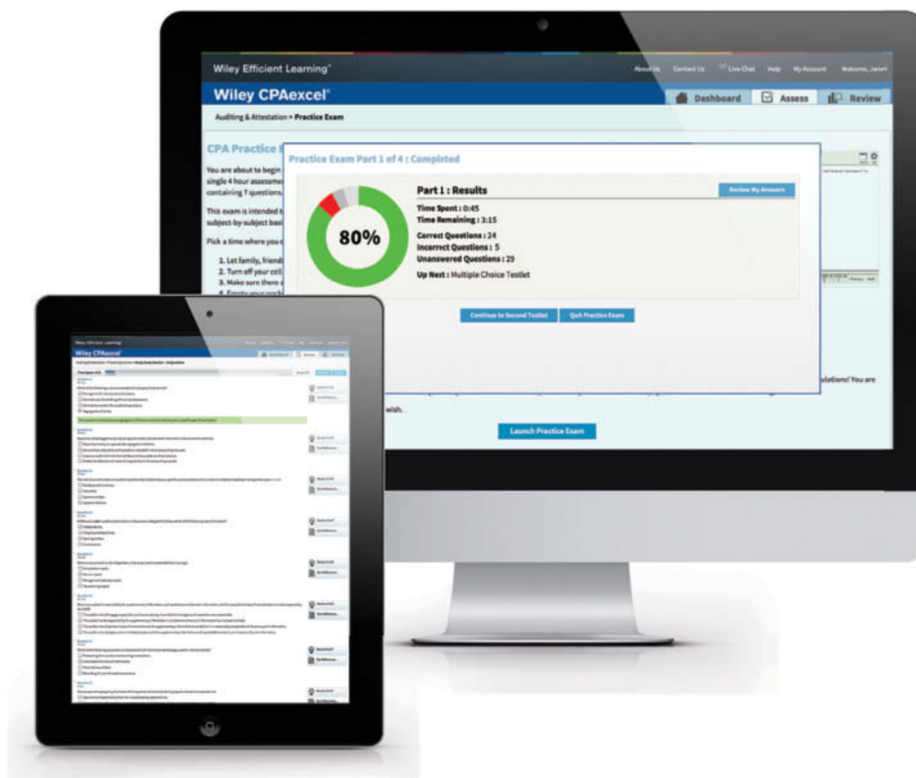

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ISBN-13 978-1-118-74320-1

BRV ISBN-13 978-1-118-74297-6

The inside back cover will contain printing identification and country of origin if omitted from this page. In addition, if the ISBN on the back cover differs from the ISBN on this page, the one on the back cover is correct.

Printed in the United States of America

10 9 8 7 6 5 4 3 2 1

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From the Authors

Through many editions, this textbook has continued to reflect the constant changes taking place in the GAAP environment. This edition continues this tradition, which has become even more significant as the financial reporting environment is exploding with major change. Here are three areas of major importance that are now incorporated extensively into this edition of the textbook.

Convergence of GAAP and IFRS One of the most important innovations shaping our capital markets was the idea of GAAP. It might be said that it would be even better if we had one common set of accounting rules for the whole world, which would make it easier for international investors to compare the financial results of companies from different countries. Fortunately, GAAP and international accounting standards have converged to result in a number of common standards between GAAP and **International Financial Reporting Standards (IFRS)**. And you have the chance to be on the ground floor as we develop for you the similarities and differences in the two systems that ultimately will be one.

> "If this textbook helps you appreciate the challenges, worth, and limitations of financial reporting, if it encourages you to evaluate critically and understand financial accounting concepts and practice, and if it prepares you for advanced study, professional examinations, and the successful and ethical pursuit of your career in accounting or business in a global economy, then we will have attained our objectives."

A Fair Value Movement The FASB believes that fair value information is more relevant to users than historical cost. As a result, there is more information that is being reported on this basis, and even more will occur in the future. The financial press is full of articles discussing how financial institutions must fair value their assets, which has led to massive losses during the recent credit crisis. In addition, additional insight into the reliability related to fair values is being addressed and disclosed to help investors make important capital allocation decisions. We devote a considerable amount of material that discusses and illustrates fair value concepts in this edition.

A New Way of Looking at Generally Accepted Accounting Principles (GAAP) Learning GAAP used to be a daunting task, as it is comprised of many standards that vary in form, completeness, and structure. Fortunately, the profession has developed the Financial Accounting Standards Board Codification (often referred to as the Codification). This Codification provides in one place all the GAAP related to a given topic. This textbook is the first to incorporate this Codification—it will make learning GAAP easier and more interesting!

Intermediate Accounting is the market-leading textbook in providing the tools needed to understand what GAAP is and how it is applied in practice. With this Sixteenth Edition, we strive to continue to provide the material needed to understand this subject area. The textbook is comprehensive and up-to-date. We also include proven pedagogical tools, designed to help you learn more effectively and to answer the changing needs of this course.

We are excited about *Intermediate Accounting*, Sixteenth Edition. We believe it meets an important objective of providing useful information to educators and students interested in learning about both GAAP and IFRS. Suggestions and comments from users of this textbook will be appreciated. Please feel free to e-mail any one of us at *AccountingAuthors@yahoo.com*.

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Author Commitment

Don Kieso

DONALD E. KIESO, PhD, CPA, received his bachelor's degree from Aurora University and his doctorate in accounting from the University of Illinois. He has served as chairman of the Department of Accountancy and is currently the KPMG Emeritus Professor of Accountancy at Northern Illinois University. He has public accounting experience with Price Waterhouse & Co. (San Francisco and Chicago) and Arthur Andersen & Co. (Chicago) and research experience with the Research Division of the American Institute of Certified Public Accountants (New York). He has done post-doctorate work as a Visiting Scholar at the University of California at Berkeley and is a recipient of NIU's Teaching Excellence Award and four Golden Apple Teaching Awards. Professor Kieso is the author of other accounting and business books and is a member of the American Accounting Association, the American Institute of Certified Public Accountants, and the Illinois CPA Society. He has served as a member of the Board of Directors of the Illinois CPA Society, then AACSB's Accounting Accreditation Committees, the State of Illinois Comptroller's Commission, as Secretary-Treasurer of the Federation of Schools of Accountancy, and as Secretary-Treasurer of the American Accounting Association. Professor Kieso is currently serving on the Board of Trustees and Executive Committee of Aurora University, as a member of the Board of Directors of Kishwaukee Community Hospital, and as Treasurer and Director of Valley West Community Hospital. From 1989 to 1993, he served as a charter member of the National Accounting Education Change Commission. He is the recipient of the Outstanding Accounting Educator Award from the Illinois CPA Society, the FSA's Joseph A. Silvoso Award of Merit, the NIU Foundation's Humanitarian Award for Service to Higher Education, a Distinguished Service Award from the Illinois CPA Society, and in 2003 an honorary doctorate from Aurora University.

Jerry Weygandt

JERRY J. WEYGANDT, PhD, CPA, is Arthur Andersen Alumni Emeritus Professor of Accounting at the University of Wisconsin—Madison. He holds a Ph.D. in accounting from the University of Illinois. Articles by Professor Weygandt have appeared in the *Accounting Review, Journal of Accounting Research, Accounting Horizons, Journal of Accountancy*, and other academic and professional journals. These articles have examined such financial reporting issues as accounting for price-level adjustments, pensions, convertible securities, stock option contracts, and interim reports. Professor Weygandt is author of other accounting and financial reporting books and is a member of the American Accounting Association, the American Institute of Certified Public Accountants, and the Wisconsin Society of Certified Public Accountants. He has served on numerous committees of the American Accounting Association and as a member of the editorial board of the Accounting Review; he also has served as President and Secretary-Treasurer of the American Accounting Association. In addition, he has been actively involved with the American Institute of Certified Public Accountants and has been a member of the Accounting Standards Executive Committee (AcSEC) of that organization. He has served on the FASB task force that examined the reporting issues related to accounting for income taxes and served as a trustee of the Financial Accounting Foundation. Professor Weygandt has received the Chancellor's Award for Excellence in Teaching and the Beta Gamma Sigma Dean's Teaching Award. He is on the board of directors of M & I Bank of Southern Wisconsin. He is the recipient of the Wisconsin Institute of CPA's Outstanding Educator's Award and the Lifetime Achievement Award. In 2001, he received the American Accounting Association's Outstanding Educator Award.

Terry Warfield

TERRY D. WARFIELD, PhD, is the PwC Professor in Accounting at the University of Wisconsin—Madison. He received a B.S. and M.B.A. from Indiana University and a Ph.D. in accounting from the University of Iowa. Professor Warfield's area of expertise is financial reporting, and prior to his academic career, he worked for five years in the banking industry. He served as the Academic Accounting Fellow in the Office of the Chief Accountant at the U.S. Securities and Exchange Commission in Washington, D.C. from 1995–1996. Professor Warfield's primary research interests concern financial accounting standards and disclosure policies. He has published scholarly articles in *The Accounting Review, Journal of Accounting and Economics, Research in Accounting Regulation*, and *Accounting Horizons*, and he has served on the editorial boards of *The Accounting Review, Accounting Horizons*, and *Issues in Accounting Education*. He has served as president of the Financial Accounting and Reporting Section, the Financial Accounting Standards Committee of the American Accounting Association (Chair 1995–1996), and on the AAA-FASB Research Conference Committee. He also served on the Financial Accounting Standards Advisory Council of the Financial Accounting Standards Board, and he currently serves as a trustee of the Financial Accounting Foundation. Professor Warfield has received teaching awards at both the University of Iowa and the University of Wisconsin, and he was named to the Teaching Academy at the University of Wisconsin in 1995. Professor Warfield has developed and published several case studies based on his research for use in accounting classes. These cases have been selected for the AICPA Professor-Practitioner Case Development Program and have been published in *Issues in Accounting Education.*

WHAT'S NEW?

The Sixteenth Edition expands our emphasis on student learning and improves upon a teaching and learning package that instructors and students have rated the highest in customer satisfaction. Based on extensive reviews, focus groups, and interactions with other intermediate accounting instructors and students, we have developed a number of new pedagogical features and content changes, designed both to help students learn more effectively and to answer the changing needs of the course.

WileyPLUS with ORION Over 3,500 questions, including new medium-level, computational, and accounting-cycle-based questions, are available for practice and review. **WileyPLUS with ORION** is an adaptive study and practice tool that helps students build proficiency in course topics.

WileyPLUS Videos Over 150 videos are available in WileyPLUS. The videos walk students through relevant homework problems and solutions and review important concepts.

Review and Practice and Solutions New practice opportunities with solutions are integrated throughout the textbook and WileyPLUS course. Each textbook chapter now provides students with a **Review and Practice** section that includes learning objective summaries, a key term listing, and a practice problem with solution.

Updated IFRS Insights Content We have updated the end-of-chapter section, **IFRS Insights,** throughout the textbook. In addition, in the *Relevant Facts* section, we now present *Similarities* as well as *Differences* between GAAP and IFRS to increase student understanding.

Major Content Revisions In response to the changing environment, we have significantly revised several chapters.

CHAPTER 4 Income Statement and Related Information

- Revised discussion and presentation of unusual and infrequent gains and losses, as well as discontinued operations, per recent accounting standards.
- Deleted discussion of extraordinary items to reflect the most recent accounting standards.

CHAPTER 9 Inventories: Additional Valuation Issues

- New discussion and end-of-chapter material on lower-of-cost-or-net realizable value and lower-of-cost-or-market to reflect the most recent accounting standards.

CHAPTER 17 Investments

- Discussion and update of material in response to the recent standard on classification and measurement.

CHAPTER 18 Revenue Recognition

- New discussion based on the recent FASB ruling on the revenue recognition principle. Legacy GAAP discussion is available online.

See the next two pages for a complete list of content revisions by chapter.

Content Changes by Chapter

Chapter 1: Financial Accounting and Accounting Standards

- Updated discussion on diminishing role of AICPA in standard-setting process.
- Added discussion on potential abuse of historical cost valuation within Evolving Issue box on fair value.
- New discussion on whether convergence of GAAP and IFRS will really occur.
- New Concepts of Analysis case on financial crisis of 2008.
- Significantly updated *IFRS Insights* section to include most recent information on convergence efforts.

Chapter 2: Conceptual Framework for Financial Reporting

- New discussion on how the IASB is now moving forward on its own conceptual framework instead of a continuation of a joint FASB/IASB project.
- New WDNM boxes on (1) how the use of unconventional financial terms in statements can mislead investors and (2) the use of pro forma measures.

Chapter 3: The Accounting Information System

- Completely revised and updated opening story on economic crime and importance of effective internal controls of a company's accounting information system.

Chapter 4: Income Statement and Related Information

- New opening story on how **Groupon**'s adjusted EBITDA reflects trend of companies employing pro forma reporting and concerns with that practice.
- Completely revised Discontinued Operations section per recent FASB standard.
- Completely revised Unusual and Infrequent Gains and Losses section per recent FASB standard.
- Deleted Extraordinary Items section per recent FASB standard.

Chapter 5: Balance Sheet and Statement of Cash Flows

- New discussion of **IBM**'s financial flexibility within WDNM box on importance of cash flow information for investors.
- Moved **P&G**'s financial statements to Appendix B at end of textbook; the complete annual report is available online.

Chapter 6: Accounting and the Time Value of Money

- Changed interest rates on many of the in-chapter examples to reflect more realistic data.

Chapter 7: Cash and Receivables

- New opening story on companies moving their profits to overseas operations to avoid taxes. Previous opening story, on sources of companies' earnings, now updated and placed as a WDNM box.
- New WDNM box, on where companies park their cash.
- Thoroughly updated discussion of recognition and valuation of accounts receivable, per latest FASB standard, including deleting percentage-of-sales approach.
- Updated discussion of securitizations, now placed as a WDNM box.
- Appendix 7B, Impairments of Receivables, now Collectibility Assessment Based on Expected Cash Flows, per recent FASB standard. Impairment Evaluation Process in *IFRS Insights section* also deleted accordingly.

Chapter 8: Valuation of Inventories: A Cost-Basis Approach

- Updated discussion on ownership of goods and costs to include in inventory, per recent FASB standard.
- Inventory errors discussion moved to end of chapter, for improved flow of discussion.

Chapter 9: Inventories: Additional Valuation Issues

- Updated discussion of lower-of-cost-and-net realizable value and lower-of-cost-or-market, per recent FASB pronouncement. New EOC Exercises and Problems related to this discussion.
- New table highlighting disadvantages of the gross profit method.
- New WDNM box on price fixing, and how new technology on changing store prices can reduce the cost of implementing the retail inventory method.

Chapter 10: Acquisition and Disposition of Property, Plant, and Equipment

- Updated opening story on importance of and capital expenditures related to property, plant, and equipment for many companies.

Chapter 11: Depreciation, Impairments, and Depletion

- Generally updated for new design, content, and recent developments.

Chapter 12: Intangible Assets

- New WDNM boxes on (1) including internally generated intangible assets in the financial statements and (2) global R&D incentives.
- New footnotes on recent guidance for private companies in the accounting for goodwill.
- Moved up Presentation of Intangible Assets section within chapter for improved flow of topics.

Chapter 13: Current Liabilities and Contingencies

- Moved discussion of current maturities of long-term debt and short-term obligations expected to be

refinanced to end of Current Liabilities section for improved flow of discussion.
- New illustrations highlighting the entries required to record unearned revenues, payroll deductions, and bonus agreements.
- New footnote on refinancing criteria, to inform about FASB's latest deliberations regarding them in light of the Board's simplification initiative.
- Rewritten discussion of warranties, per latest FASB standard.
- New WDNM box, on how companies' extension of payment terms affects their current ratios and therefore analysis of them.

Chapter 14: Long-Term Liabilities
- Updated WDNM box on bond ratings for most recent trends and information.
- New footnote explaining why the effective-interest rate will be higher on bonds issued at a discount rate based on the reduced carrying value.
- Deleted Costs of Issuing Bonds section per latest FASB standard.

Chapter 15: Stockholders' Equity
- Moved up discussion of preferred stock for improved flow of discussion.
- New illustrations on common stock issuance, cash dividends, property dividends, liquidating dividends, and stock dividends to highlight journal entry procedures.
- Updated WDNM boxes for the most recent corporate information and trends on stock buybacks, classes of stock, stock splits, and dividends.

Chapter 16: Dilutive Securities and Earnings per Share
- Revised WDNM box on convertible bonds, to include most recent information and trends.
- New WDNM box on FASB's proposal of fair value method for accounting for stock options.

Chapter 17: Investments
- Discussion reflects proposed 2016 FASB pronouncement on accounting for investments.
- New WDNM boxes on (1) recent trend of many large banks shifting debt investment portfolios into the held-to-maturity category as protection against market volatility, and (2) issue of how mutual funds assign a current value to private technology companies.
- Rewrote Impairment section, as well as Fair Value Hedge section in Appendix 17A, to reflect proposed FASB pronouncement.
- Deleted Appendix 17B on variable-interest entities.

Chapter 18: Revenue Recognition
- New section with extended example of the five-step revenue recognition model, to give students a good understanding/overview before more advanced issues are discussed.
- Right of Return section completely rewritten as Sales Returns and Allowances, with more explanations and examples, per new FASB standard.
- EOC material includes many new Brief Exercises, Exercises, and Problems, to reflect new FASB standard and terminology.

Chapter 19: Accounting for Income Taxes
- New section on financial statement effects of future taxable amounts and deferred taxes.
- Rewrote balance sheet classification section, to reflect recent FASB pronouncement.
- Completely revised Financial Statement Presentation section, including new material on note disclosure.

Chapter 20: Accounting for Pensions and Postretirement Benefits
- Generally updated for new design, content, and recent developments.

Chapter 21: Accounting for Leases
- Updated Evolving Issue boxes, to coincide with expected new FASB leasing rules.
- New WDNM box on how **GM** realized losses due to inaccurate estimates of residual value profits.

Chapter 22: Accounting Changes and Error Analysis
- New WDNM box on whether changes for accounting estimates are motivated by attempt to provide more useful information or to make financial results look better.
- Motivations for Change of Accounting Method section now a WDNM box.

Chapter 23: Statement of Cash Flows
- Extraordinary Items section now Unusual and Infrequent Items, to conform to new FASB treatment.
- Expanded footnote on reporting of significant noncash transactions, as they can significantly affect analysts' assessments of capital expenditures and free cash flow.
- New marginal T-accounts in Use of a Worksheet section, to help demonstrate adjustments made to the accounts.
- New WDNM box, on COROA (cash operating return on assets), a new measure of profitability.

Chapter 24: Full Disclosure in Financial Reporting
- Updated Evolving Issue box on issue of financial disclosure, to include recent developments on the FASB's Disclosure Framework project.
- Deleted discussion of extraordinary items, to conform to new FASB treatment.

New Appendices A-E
- Appendix A: Private Company Accounting (private company alternatives for intangible assets and goodwill)
- Appendix B: Financial statements for The Procter & Gamble Company
- Appendix C: Financial statements for The Coca-Cola Company
- Appendix D: Financial statements for PepsiCo, Inc.
- Appendix E: Financial statements for Marks and Spencer plc

Key Learning Features

This edition continues to provide numerous key learning aids to help you master the textbook material and prepare you for a successful career.

CHAPTER PREVIEW

The Chapter Preview summarizes the major issues discussed in the chapter, and provides students with a visual outline of the key topics.

PREVIEW OF CHAPTER 12 As our opening story indicates, sustainability strategies are taking on increased importance for companies like **Southwest Airlines** and **Clorox**. Reporting challenges for effective sustainability investments are similar to those for intangible assets. In this chapter, we explain the basic conceptual and reporting issues related to intangible assets. The content and organization of the chapter are as follows.

This chapter also includes numerous conceptual and international discussions that are integral to the topics presented here.

INTANGIBLE ASSETS

INTANGIBLE ASSET ISSUES	TYPES OF INTANGIBLES	IMPAIRMENT AND PRESENTATION OF INTANGIBLES	RESEARCH AND DEVELOPMENT COSTS
• Characteristics • Valuation • Amortization	• Marketing-related • Customer-related • Artistic-related • Contract-related • Technology-related • Goodwill	• Limited-life intangibles • Indefinite-life intangibles other than goodwill • Goodwill • Presentation	• Identifying R&D • Accounting for R&D • Similar costs • Presentation

UNDERLYING CONCEPTS

The Underlying Concepts highlight and explain major conceptual topics in the chapter.

INTERNATIONAL PERSPECTIVE

International Perspectives provide students with specific examples of how global companies (and countries) implement key accounting regulations. They also provide examples of how and where IFRS differs from GAAP.

UNDERLYING CONCEPTS

The controversy surrounding the accounting for R&D expenditures reflects a debate about whether such expenditures meet the definition of an asset. If so, then an "expense all R&D costs" policy results in overstated expenses and understated assets.

INTERNATIONAL PERSPECTIVE

IFRS requires the capitalization of certain development expenditures. This conflicts with GAAP.

WHAT DO THE NUMBERS MEAN?

The "What do the numbers mean?" boxes further students' understanding of key concepts with practical, real-world examples.

WHAT DO THE NUMBERS MEAN? — **KEEP YOUR HANDS OFF MY INTANGIBLE!**

Companies go to great extremes to protect their valuable intangible assets. Consider how the creators of the highly successful game *Trivial Pursuit* protected their creation. First, they copyrighted the 6,000 questions that are at the heart of the game. Then they shielded the *Trivial Pursuit* name by applying for a registered trademark. As a third mode of protection, they obtained a design patent on the playing board's design as a unique graphic creation.

Another more recent example is the case of **Converse** and its efforts to protect its classic Chuck Taylor trademark. Converse (owned by **Nike**) accused 31 companies (including **Wal-Mart Stores, Inc.**, **Kmart**, and **Skechers**) of trademark infringement for co-opting its widely recognizable Chuck Taylor® sneakers. While Converse is suing for monetary damages, its main goal is to get these imposters off store shelves. The company went as far as filing a separate complaint with the International Trade Commission to stop any shoes considered to be counterfeit from entering the country. That Converse (Nike) is going to these ends to protect its trademark is understandable given that Nike reinvigorated the brand by expanding the franchise, introducing more colors and styles, and helping to push All Stars® into overseas markets.

Source: "Converse Sues to Protect Its Chuck Taylor All Stars," *The New York Times* (October 14, 2014).

EVOLVING ISSUE

The Evolving Issue feature introduces and discusses a current topic in the accounting industry in which the profession may be encountering controversy or nearing resolution. The feature shows how the key standard-setting organizations make decisions to adjust to the changing global business environment.

EVOLVING ISSUE — **RECOGNITION OF R&D AND INTERNALLY GENERATED INTANGIBLES**

The requirement that companies expense immediately all R&D costs (as well as start-up costs) incurred internally is a practical solution. It ensures consistency in practice and uniformity among companies. But the practice of immediately writing off expenditures made in the expectation of benefiting future periods is conceptually incorrect.

Proponents of immediate expensing contend that from an income statement standpoint, long-run application of this standard frequently makes little difference. They argue that because of the ongoing nature of most companies' R&D activities, the amount of R&D cost charged to expense each accounting period is about the same, whether there is immediate expensing or capitalization and subsequent amortization.

Others criticize this practice. They believe that the balance sheet should report an intangible asset related to expenditures that have future benefit. To preclude capitalization of all R&D expenditures removes from the balance sheet what may be a company's most valuable asset.

Indeed, research findings indicate that capitalizing R&D costs may be helpful to investors. For example, one study showed a significant relationship between R&D outlays and subsequent benefits in the form of increased productivity, earnings, and shareholder value for R&D-intensive companies. Another study found that there was a significant decline in earnings' usefulness for companies that were forced to switch from capitalizing to expensing R&D costs, and that the decline appears to persist over time.

The current accounting for R&D and other internally generated intangible assets represents one of the many trade-offs made among relevance, faithful representation, and cost-benefit considerations. The FASB and IASB have completed some limited-scope projects on the accounting for intangible assets, and the Boards have contemplated a joint project on the accounting for identifiable intangible assets (i.e., excluding goodwill). Such a project would address concerns that the current accounting requirements lead to inconsistent treatments for some types of intangible assets depending on how they arise.

Sources for research studies: Baruch Lev and Theodore Sougiannis, "The Capitalization, Amortization, and Value-Relevance of R&D," *Journal of Accounting and Economics* (February 1996); and Martha L. Loudder and Bruce K. Behn, "Alternative Income Determination Rules and Earnings Usefulness: The Case of R&D Costs," *Contemporary Accounting Research* (Fall 1995).

REVIEW AND PRACTICE

NEW Review and Practice section includes Key Terms Review, Learning Objectives Review, and a Practice Problem with Solution. In addition, multiple-choice questions with solutions, review exercises with solutions, and a full glossary of all key terms are available online.

REVIEW AND PRACTICE

KEY TERMS REVIEW

amortization, *613*
bargain purchase, *622*
business combination, *612(n)*
copyright, *616*
development activities, *628*
fair value test, *623*
franchise, *617*
goodwill, *619*
impairment, *622*
indefinite-life intangibles, *613*
intangible assets, *612*
license (permit), *617*
limited (finite)-life intangibles, *613*
master valuation approach, *621*
organizational costs, *631*
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recoverability test, *623*
research activities, *628*
research and development (R&D) costs, *628*
start-up costs, *631*
trademark, trade name, *615*

LEARNING OBJECTIVES REVIEW

1 Describe the characteristics, valuation, and amortization of intangible assets. **Intangible assets have two main characteristics:** (1) they lack physical existence, and (2) they are not financial instruments. In most cases, intangible assets provide services over a period of years and so are normally classified as long-term assets.

Intangibles are recorded at cost. Cost includes all acquisition costs and expenditures needed to make the intangible asset ready for its intended use. If intangibles are acquired in exchange for stock or other assets, the cost of the intangible is the fair value of the consideration given or the fair value of the intangible received, whichever is more clearly evident. When a company makes a "basket purchase" of several intangibles or a combination of intangibles and tangibles, it should allocate the cost on the basis of fair values.

Intangibles have either a limited useful life or an indefinite useful life. Companies amortize limited-life intangibles. They do not amortize indefinite-life intangibles. Limited-life intangibles should be amortized by systematic charges to expense over their useful life. The useful life should reflect the period over which these assets will contribute to cash flows. The amount

PRACTICE PROBLEM

Sky Co., organized in 2017, provided you with the following information.

1. Purchased a license for $20,000 on July 1, 2017. The license gives Sky exclusive rights to sell its services in the tri-state region and will expire on July 1, 2025.
2. Purchased a patent on January 2, 2018, for $40,000. It is estimated to have a 5-year life.
3. Costs incurred to develop an exclusive Internet connection process as of June 1, 2018, were $45,000. The process has an indefinite life.
4. On April 1, 2018, Sky purchased a small circuit board manufacturer for $350,000. Goodwill recorded in the transaction was $90,000.

USING YOUR JUDGMENT

The Using Your Judgment section provides students with real-world homework problems covering topics such as financial reporting and financial statement analysis.

USING YOUR JUDGMENT

Financial Reporting Problem

The Procter & Gamble Company (P&G)

The financial statements of P&G are presented in Appendix B. The company's complete annual report, including the notes to the financial statements, is available online.

Instructions

Refer to P&G's financial statements and the accompanying notes to answer the following questions.

(a) Does P&G report any intangible assets, especially goodwill, in its 2014 financial statements and accompanying notes?

(b) How much research and development (R&D) cost was expensed by P&G in 2013 and 2014? What percentage of sales revenue and net income did P&G spend on R&D in 2013 and 2014?

Comparative Analysis Case

The Coca-Cola Company and PepsiCo, Inc.

The financial statements of Coca-Cola and PepsiCo are presented in Appendices C and D, respectively. The companies' complete annual reports, including the notes to the financial statements, are available online.

Instructions

Use the companies' financial information to answer the following questions.

(a) (1) What amounts for intangible assets were reported in their respective balance sheets by Coca-Cola and PepsiCo at year-end 2014?

(2) What percentage of total assets is each of these reported amounts at year-end 2014?

(3) What was the change in the amount of intangibles from 2013 to 2014 for Coca-Cola and PepsiCo?

BRIDGE TO THE PROFESSION

NEW to this edition, this section now includes FASB Codification References, Codification Exercises, and a Codification Research Case, all designed to refer students to the relevant FASB literature for key concepts in the text and provide assessment of their understanding.

BRIDGE TO THE PROFESSION

FASB Codification References

[1] FASB ASC 350-10-05. [Predecessor literature: "Goodwill and Other Intangible Assets," *Statement of Financial Accounting Standards No. 142* (Norwalk, Conn.: FASB, 2001).]

[2] FASB ASC 350-30-35. [Predecessor literature: "Goodwill and Other Intangible Assets," *Statement of Financial Accounting Standards No. 142* (Norwalk, Conn.: FASB, 2001), par. 11.]

[3] FASB ASC 805-10. [Predecessor literature: "Business Combinations," *Statement of Financial Accounting Standards No. 141R* (Norwalk, Conn.: FASB, 2007).]

[4] FASB ASC 350-30-35. [Predecessor literature: "Goodwill and Other Intangible Assets," *Statement of Financial Accounting Standards No. 142* (Norwalk, Conn.: FASB, 2001), par. B55.]

[5] FASB ASC 805-10-20. [Predecessor literature: "Business Combinations," *Statement of Financial Accounting Standards No. 141R* (Norwalk, Conn.: FASB, 2007).]

[6] FASB ASC 805-10-30. [Predecessor literature: "Business Combinations," *Statement of Financial Accounting Standards No. 141R* (Norwalk, Conn.: FASB, 2007).]

[7] FASB ASC 805-20-15. [Predecessor literature: None]

IFRS INSIGHTS

IFRS Insights offer students a detailed discussion and assessment material of international accounting standards at the end of each chapter.

IFRS Insights

LEARNING OBJECTIVE 6
Compare the accounting for intangible assets under GAAP and IFRS.

There are some significant differences between IFRS and GAAP in the accounting for both intangible assets and impairments. IFRS related to intangible assets is presented in *IAS 38* ("Intangible Assets"). IFRS related to impairments is found in *IAS 36* ("Impairment of Assets").

RELEVANT FACTS

Following are the key similarities and differences between GAAP and IFRS related to intangible assets.

Similarities

- Like GAAP, under IFRS intangible assets (1) lack physical substance and (2) are not financial instruments. In addition, under IFRS an intangible asset is identifiable. To be identifiable, an intangible asset must either be separable from the company (can be sold or transferred) or it arises from a contractual or legal right from which economic benefits will flow to the company.

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Acknowledgments

Intermediate Accounting has benefited greatly from the input of focus group participants, manuscript reviewers, those who have sent comments by letter or e-mail, ancillary authors, and proofers. We greatly appreciate the constructive suggestions and innovative ideas of reviewers and the creativity and accuracy of the ancillary authors and checkers.

Prior Edition Reviewers

We greatly appreciate the over 300 reviewers who have assisted with the prior editions of Intermediate Accounting. *These instructors have been invaluable in the development and continued improvement of our textbook.*

Sixteenth Edition

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Special thanks to Kurt Pany, Arizona State University, for his input on auditor disclosure issues, and to Stephen A. Zeff, Rice University, for his comments on international accounting.

In addition, we thank the following colleagues who contributed to several of the unique features of this edition.

Codification Cases

Katie Adler
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Erik Frederickson
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Advisory Board

We gratefully acknowledge the following members of the Intermediate Accounting Advisory Board for their advice and assistance with this edition.

Barbara Durham
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Pamela Graybeal
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Jeffery Hales
Georgia Institute of Technology

Melissa Larson
Brigham Young University—Provo

Practicing Accountants and Business Executives

From the fields of corporate and public accounting, we owe thanks to the following practitioners for their technical advice and for consenting to interviews.

Mike Crooch
FASB (retired)

Tracy Golden
Deloitte LLP

John Gribble
PricewaterhouseCoopers (retired)

Darien Griffin
S.C. Johnson & Son

Michael Lehman
Sun Microsystems, Inc.

Tom Linsmeier
FASB

Michele Lippert
Evoke.com

Sue McGrath
Vision Capital Management

David Miniken
Sweeney Conrad

Robert Sack
University of Virginia

Clare Schulte
Deloitte LLP

Willie Sutton
Mutual Community Savings Bank, Durham, NC

Lynn Turner
former SEC Chief Accountant

Rachel Woods
PricewaterhouseCoopers

Arthur Wyatt
Arthur Andersen & Co., and the University of Illinois—Urbana

Finally, we appreciate the exemplary support and professional commitment given us by the development, marketing, production, and editorial staffs of John Wiley & Sons, including the following: George Hoffman, Michael McDonald, Emily McGee, Rebecca Costantini, Valerie Vargas, Allie Morris, Greg Chaput, Harry Nolan, and Maureen Eide. Thanks, too, to Jackie Henry and the staff at Aptara®, Inc. for their work on the textbook, and the staff at SPI Global for their work on the solutions manual.

We also appreciate the cooperation of the American Institute of Certified Public Accountants and the Financial Accounting Standards Board in permitting us to quote from their pronouncements. We also acknowledge permission from the American Institute of Certified Public Accountants, the Institute of Management Accountants, and the Institute of Internal Auditors to adapt and use material from the Uniform CPA Examinations, the CMA Examinations, and the CIA Examinations, respectively.

Suggestions and comments from users of this book will be appreciated. Please feel free to e-mail any one of us at *AccountingAuthors@yahoo.com.*

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1 Financial Accounting and Accounting Standards

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

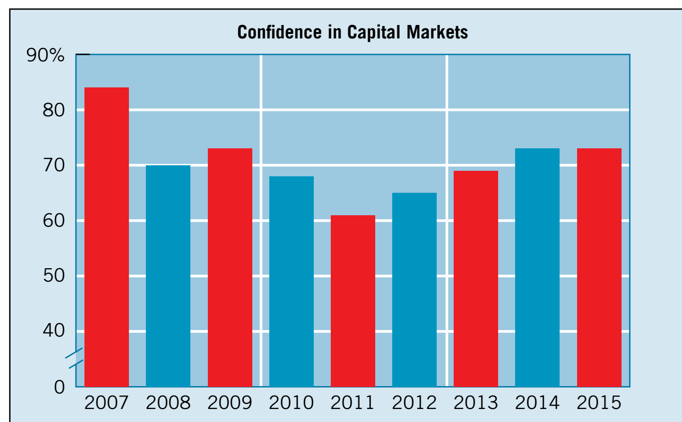
1. Understand the financial reporting environment.
2. Identify the major policy-setting bodies and their role in the standard-setting process.
3. Explain the meaning of generally accepted accounting principles (GAAP) and the role of the Codification for GAAP.
4. Describe major challenges in the financial reporting environment.

WE CAN DO BETTER

A recent report says it best: "Accounting information is central to the functioning of international capital markets and to managing small businesses, conducting effective government, understanding business processes, and . . . how economic decisions are made. . . . Across the globe, a common characteristic of economies that flourish is the presence of reliable accounting information."

Many in the United States take pride in our system of financial reporting as being the most robust and transparent in the world. But most would also comment that we can do better, particularly in light of the many accounting scandals that have occurred at companies like **AIG**, **WorldCom**, and **Lehman Brothers**, and the financial crisis of 2008.

To better understand where we are today, the Center for Audit Quality conducts a yearly survey that measures investor confidence in such categories as U.S. capital markets, audited financial information, and U.S. publicly traded companies. As shown in the chart on the right, the results indicate that the 2008 financial crisis took a bite out of investor confidence. While investor confidence in U.S. markets has stabilized, it has not returned to pre-crisis levels. So the question is, how can we improve? Here are some possibilities on how we can enhance the existing system of financial reporting.



1. Today, equity securities are broadly held, with approximately half of American households investing in stocks. This presents a challenge—investors have expressed concerns that **one-size-fits-all financial reports do not meet the needs of the spectrum of investors** who rely on those reports. While many individual investors are more interested in summarized, plain-English reports, market analysts and other investment professionals may desire information at a far more detailed level than is currently provided. Technology may help customize the information that the different types of investors desire.
2. Companies also express concerns with the complexity of the financial reporting system. Companies assert that **when preparing financial reports, it is difficult to ensure compliance with the voluminous and complex requirements contained in U.S. GAAP and SEC reporting rules**. This is a particularly heavy burden on smaller, non-public companies, which may have fewer resources to comply with the wide range of rules.
3. We also need to consider the broader array of information that investors need to make informed decisions. As some have noted, the percentage of a company's market value that can be attributed to accounting book value has declined significantly from the days of a bricks-and-mortar economy. **Thus, we may want to**

consider a more comprehensive business reporting model, including both financial and nonfinancial key performance indicators.

4. Finally, we must also consider **how to deliver all of this information in a timelier manner**. In a world where messages can be sent across the world in a blink of an eye, it is ironic that the analysis of financial information is still subject to many manual processes, resulting in delays, increased costs, and errors.

Thus, improving financial reporting involves more than simply trimming or reworking the existing accounting literature. In some cases, major change is already underway. For example:

- The FASB and IASB are working on a convergence project, which will contribute to less-complex, more-understandable standards in the important areas of revenue recognition, leasing, and financial instruments.
- Standard-setters are exploring expanded reporting of key performance indicators, including reports on sustainability and a disclosure framework project to improve the effectiveness of disclosures to clearly communicate the information that is most important to users of financial statements. This project, combined with the introduction of a private-company reporting framework, could go a long way to address one-size-fits-all challenges.
- The SEC now requires the delivery of financial reports using eXtensible Business Reporting Language (XBRL). Reporting through XBRL allows timelier reporting via the Internet and allows statement users to transform accounting reports to meet their specific needs.

Each of these projects will hopefully support improvements in the quality of financial reporting and increase confidence in U.S. capital markets.

Sources: Adapted from The Pathways Commission, "Charting a National Strategy for the Next Generation of Accountants" (AAA, AICPA, July 2012); Conrad W. Hewitt, "Opening Remarks Before the Initial Meeting of the SEC Advisory Committee on Improvements to Financial Reporting," U.S. Securities and Exchange Commission, Washington, D.C. (August 2, 2007); and Center for Audit Quality, *Main Street Investor Survey* (September 2015). See *www.fasb.org* for updates on FASB/IASB convergence, disclosure, and private company decision-making projects.

PREVIEW OF CHAPTER 1

As our opening story indicates, the U.S. system of financial reporting has long been the most robust and transparent in the world. However, to ensure that it continues to provide the most relevant and reliable financial information to users, a number of financial reporting issues must be resolved. These issues include such matters as evaluating global standards, increasing fair value reporting, and meeting multiple user needs. This chapter explains the environment of financial reporting and the many factors affecting it, as follows.

This chapter also includes numerous **conceptual and international discussions** that are integral to the topics presented here.

FINANCIAL ACCOUNTING AND ACCOUNTING STANDARDS

FINANCIAL REPORTING ENVIRONMENT
- Accounting and capital allocation
- Objective of financial reporting
- Need to develop standards

PARTIES INVOLVED IN STANDARD-SETTING
- Securities and Exchange Commission
- American Institute of CPAs
- Financial Accounting Standards Board

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
- FASB Codification

MAJOR CHALLENGES IN FINANCIAL REPORTING
- Political environment
- Expectations gap
- Financial reporting issues
- International accounting standards
- Ethics

REVIEW AND PRACTICE

Go to the REVIEW AND PRACTICE section at the end of the chapter for a targeted summary review and practice problem with solution. Multiple-choice questions with annotated solutions as well as additional exercises and practice problem with solutions are also available online.

LEARNING OBJECTIVE 1
Understand the financial reporting environment.

FINANCIAL REPORTING ENVIRONMENT

The essential characteristics of accounting are (1) the identification, measurement, and communication of financial information about (2) economic entities to (3) interested parties. **Financial accounting** is the process that culminates in the preparation of financial reports on the enterprise for use by both internal and external parties. Users of these financial reports include investors, creditors, managers, unions, and government agencies. In contrast, **managerial accounting** is the process of identifying, measuring, analyzing, and communicating financial information needed by management to plan, control, and evaluate a company's operations.

Financial statements are the principal means through which a company communicates its financial information to those outside it. These statements provide a company's history quantified in money terms. The **financial statements** most frequently provided are (1) the balance sheet, (2) the income statement, (3) the statement of cash flows, and (4) the statement of owners' or stockholders' equity. Note disclosures are an integral part of each financial statement.

Some financial information is better provided, or can be provided only, by means of **financial reporting** other than formal financial statements. Examples include the president's letter or supplementary schedules in the corporate annual report, prospectuses, reports filed with government agencies, news releases, management's forecasts, and social or environmental impact statements. Companies may need to provide such information because of authoritative pronouncement, regulatory rule, or custom. Or they may supply it because management wishes to disclose it voluntarily.

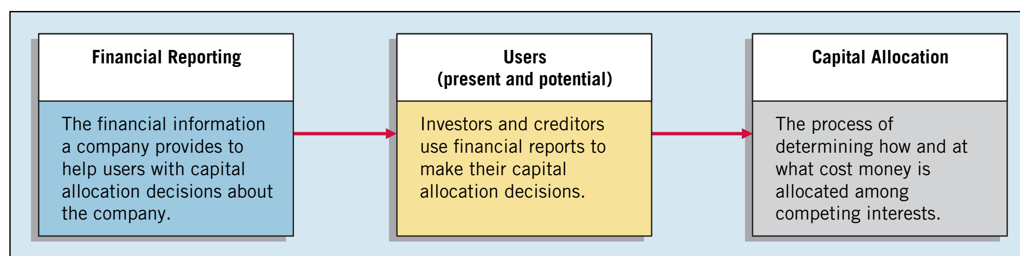
In this textbook, we focus on the development of two types of financial information: (1) the basic financial statements and (2) related disclosures.

Accounting and Capital Allocation

Resources are limited. As a result, people try to conserve them and ensure that they are used effectively. Efficient use of resources often determines whether a business thrives. This fact places a substantial burden on the accounting profession.

Accountants must measure performance accurately and fairly on a timely basis, so that the right managers and companies are able to attract investment capital. For example, relevant and reliable financial information allows investors and creditors to compare the income and assets employed by such companies as **Nike**, **McDonald's**, **Microsoft**, and **Berkshire Hathaway**. Because these users can assess the relative return and risks associated with investment opportunities, they channel resources more effectively. Illustration 1-1 shows how this process of capital allocation works.

ILLUSTRATION 1-1
Capital Allocation Process



An effective process of capital allocation is critical to a healthy economy. It promotes productivity, encourages innovation, and provides an efficient and liquid market for buying and selling securities and obtaining and granting credit. Unreliable and

irrelevant information leads to poor capital allocation, which adversely affects the securities markets.

WHAT DO THE NUMBERS MEAN? IT'S THE ACCOUNTING

"It's the accounting." That's what many investors seem to be saying these days. Even the slightest hint of any accounting irregularity at a company leads to a subsequent pounding of the company's stock price. For example, the *Wall Street Journal* has run the following headlines related to accounting and its effects on the economy:

- Stocks take a beating as accounting woes spread beyond **Enron**.
- Quarterly reports from **IBM** and **Goldman Sachs** sent stocks tumbling.
- **VeriFone** finds accounting issues; stock price cut in half.
- **Bank of America** admits hiding debt.
- **Facebook**, **Zynga**, **Groupon**: IPO drops due to accounting, not valuation.

It now has become clear that investors must trust the accounting numbers, or they will abandon the market and put their resources elsewhere. With investor uncertainty, the cost of capital increases for companies who need additional resources. In short, relevant and reliable financial information is necessary for markets to be efficient.

Objective of Financial Reporting

What is the **objective (or purpose) of financial reporting**? The objective of general-purpose financial reporting is to **provide financial information about the reporting entity that is useful to present and potential equity investors, lenders, and other creditors in** decisions about providing resources to the entity. Those decisions involve buying, selling, or holding equity and debt instruments, and providing or settling loans and other forms of credit. Information that is decision-useful to capital providers (investors) may also be helpful to other users of financial reporting who are not investors. Let's examine each of the elements of this objective.[1]

General-Purpose Financial Statements

General-purpose financial statements provide financial reporting information to a wide variety of users. For example, when **The Hershey Company** issues its financial statements, these statements help shareholders, creditors, suppliers, employees, and regulators to better understand its financial position and related performance. Hershey's users need this type of information to make effective decisions. To be cost-effective in providing this information, general-purpose financial statements are most appropriate. In other words, general-purpose financial statements provide at the **least cost the most useful information possible**.

Equity Investors and Creditors

The objective of financial reporting **identifies investors and creditors as the primary users for general-purpose financial statements**. Identifying investors and creditors as the primary users provides an important focus of general-purpose financial reporting. For example, when Hershey issues its financial statements, its primary focus is on investors and creditors because they have the most critical and immediate need for information in financial reports. Investors and creditors need this financial information to assess Hershey's ability to generate net cash inflow and to understand management's ability to protect and enhance the assets of the company, which will be used to generate future

UNDERLYING CONCEPTS

While the objective of financial reporting is focused on investors and creditors, financial statements may still meet the needs of others.

[1]Chapter 1, "The Objective of General Purpose Financial Reporting," and Chapter 3, "Qualitative Characteristics of Useful Financial Information," *Statement of Financial Accounting Concepts No. 8* (Norwalk, Conn.: FASB, September 2010), par. OB2.

net cash inflows. As a result, the primary user groups are not management, regulators, or some other non-investor group.

Entity Perspective

As part of the objective of general-purpose financial reporting, an **entity perspective** is adopted. Companies are viewed as separate and distinct from their owners (present shareholders) using this perspective. The assets of Hershey are viewed as assets of the company and not of a specific creditor or shareholder. Rather, these investors have claims on Hershey's assets in the form of liability or equity claims. The entity perspective is consistent with the present business environment where most companies engaged in financial reporting have substance distinct from their investors (both shareholders and creditors). Thus, a perspective that financial reporting should be focused only on the needs of shareholders—often referred to as the **proprietary perspective**—is not considered appropriate.

WHAT DO THE NUMBERS MEAN? DON'T FORGET STEWARDSHIP

In addition to providing decision-useful information about future cash flows, management also is accountable to investors for the custody and safekeeping of the company's economic resources and for their efficient and profitable use. For example, the management of **The Hershey Company** has the responsibility for protecting its economic resources from unfavorable effects of economic factors, such as price changes, and technological and social changes. Because Hershey's performance in discharging its responsibilities (referred to as its **stewardship** responsibilities) usually affects its ability to generate net cash inflows, financial reporting may also provide decision-useful information to assess management performance in this role.

Source: Chapter 1, "The Objective of General Purpose Financial Reporting," and Chapter 3, "Qualitative Characteristics of Useful Financial Information," *Statement of Financial Accounting Concepts No. 8* (Norwalk, Conn.: FASB, September 2010), paras. OB4–OB10.

Decision-Usefulness

Investors are interested in financial reporting because it provides information that is useful for making decisions (referred to as the **decision-usefulness** approach). As indicated earlier, when making these decisions, investors are interested in assessing (1) the company's ability to generate net cash inflows and (2) management's ability to protect and enhance the capital providers' investments. Financial reporting should therefore help investors assess the amounts, timing, and uncertainty of prospective cash inflows from dividends or interest, and the proceeds from the sale, redemption, or maturity of securities or loans. In order for investors to make these assessments, the economic resources of an enterprise, the claims to those resources, and the changes in them must be understood. Financial statements and related explanations should be a primary source for determining this information.

The emphasis on "assessing cash flow prospects" does not mean that the cash basis is preferred over the accrual basis of accounting. Information based on accrual accounting better indicates a company's present and continuing ability to generate favorable cash flows than does information limited to the financial effects of cash receipts and payments.

Recall from your first accounting course the objective of **accrual-basis accounting**: It ensures that a company records events that change its financial statements in the periods in which the events occur, rather than only in the periods in which it receives or pays cash. Using the accrual basis to determine net income means that a company recognizes revenues when it provides the goods or services rather than when it receives cash. Similarly, it recognizes expenses when it incurs them rather than when it pays them. Under accrual accounting, a company generally recognizes revenues

when it makes sales. The company can then relate the revenues to the economic environment of the period in which they occurred. Over the long run, trends in revenues and expenses are generally more meaningful than trends in cash receipts and disbursements.[2]

The Need to Develop Standards

The main controversy in setting accounting standards is, "Whose rules should we play by, and what should they be?" The answer is not immediately clear. Users of financial accounting statements have both coinciding and conflicting needs for information of various types. To meet these needs, and to satisfy the stewardship reporting responsibility of management, companies prepare a single set of **general-purpose financial statements**. Users expect these statements to present fairly, clearly, and completely the company's financial operations.

The accounting profession has attempted to develop a set of standards that are generally accepted and universally practiced. Otherwise, each company would have to develop its own standards. Further, readers of financial statements would have to familiarize themselves with every company's peculiar accounting and reporting practices. It would be almost impossible to prepare statements that could be compared.

UNDERLYING CONCEPTS

Preparing financial statements according to accepted accounting standards contributes to the comparability of accounting information.

This common set of standards and procedures is called **generally accepted accounting principles (GAAP)**. The term "generally accepted" means either that an authoritative accounting rule-making body has established a principle of reporting in a given area or that over time a given practice has been accepted as appropriate because of its universal application.[3] Although principles and practices continue to provoke both debate and criticism, most members of the financial community recognize them as the standards that over time have proven to be most useful. We present a more extensive discussion of what constitutes GAAP later in this chapter.

PARTIES INVOLVED IN STANDARD-SETTING

LEARNING OBJECTIVE 2

Identify the major policy-setting bodies and their role in the standard-setting process.

Three organizations are instrumental in the development of financial accounting standards (GAAP) in the United States:

1. Securities and Exchange Commission (SEC)
2. American Institute of Certified Public Accountants (AICPA)
3. Financial Accounting Standards Board (FASB)

INTERNATIONAL PERSPECTIVE

The International Organization of Securities Commissions (IOSCO), established in 1987, consists of more than 100 securities regulatory agencies or securities exchanges from all over the world. Collectively, its members represent a substantial proportion of the world's capital markets. The SEC is a member of IOSCO.

Securities and Exchange Commission (SEC)

External financial reporting and auditing developed in tandem with the growth of the industrial economy and its capital markets. However, when the stock market crashed in 1929 and the nation's economy plunged into the Great Depression, there were calls for increased government regulation of business, especially financial institutions and the stock market.

As a result of these events, the federal government established the **Securities and Exchange Commission (SEC)** to help develop and standardize financial information

[2]As used here, cash flow means "cash generated and used in operations." The term *cash flows* also frequently means cash obtained by borrowing and used to repay borrowing, cash used for investments in resources and obtained from the disposal of investments, and cash contributed by or distributed to owners.

[3]The terms *principles* and *standards* are used interchangeably in practice and throughout this textbook.

presented to stockholders. The SEC is a federal agency. It administers the Securities Exchange Act of 1934 and several other acts. Most companies that issue securities to the public or are listed on a stock exchange are required to file audited financial statements with the SEC. In addition, the SEC has broad powers to prescribe, in whatever detail it desires, the accounting practices and standards to be employed by companies that fall within its jurisdiction. The SEC currently exercises oversight over 12,000 companies that are listed on the major exchanges (e.g., the New York Stock Exchange and the Nasdaq).

Public/Private Partnership

At the time the SEC was created, no group—public or private—issued accounting standards. The SEC encouraged the creation of a private standard-setting body because it believed that the private sector had the appropriate resources and talent to achieve this daunting task. As a result, accounting standards have developed in the private sector either through the American Institute of Certified Public Accountants (AICPA) or the Financial Accounting Standards Board (FASB).

The SEC has affirmed its support for the FASB by indicating that financial statements conforming to standards set by the FASB are presumed to have substantial authoritative support. In short, the **SEC requires registrants to adhere to GAAP**. In addition, the SEC indicated in its reports to Congress that "it continues to believe that the initiative for establishing and improving accounting standards should remain in the private sector, subject to Commission oversight."

SEC Oversight

The SEC's partnership with the private sector works well. The SEC acts with remarkable restraint in the area of developing accounting standards. Generally, **the SEC relies on the FASB to develop accounting standards**.

The SEC's involvement in the development of accounting standards varies. In some cases, the SEC rejects a standard proposed by the private sector. In other cases, the SEC prods the private sector into taking quicker action on certain reporting problems, such as accounting for investments in debt and equity securities and the reporting of derivative instruments. In still other situations, the SEC communicates problems to the FASB, responds to FASB exposure drafts, and provides the FASB with counsel and advice upon request.

INTERNATIONAL PERSPECTIVE

The U.S. legal system is based on English common law, whereby the government generally allows professionals to make the rules. The private sector, therefore, develops these rules (standards). Conversely, some countries have followed codified law, which leads to government-run accounting systems.

The SEC's mandate is to establish accounting principles. The private sector, therefore, must listen carefully to the views of the SEC. In some sense, the private sector is the formulator and the implementor of the standards.[4] However, when the private sector fails to address accounting problems as quickly as the SEC would like, the partnership between the SEC and the private sector can be strained. This occurred in the deliberations on the accounting for business combinations and intangible assets. It is also highlighted by concerns over the accounting for off-balance-sheet, special purpose entities. Examples include the failure of **Enron** and the subprime crises that led to the failure of **IndyMac Bank**.

Enforcement

As we indicated earlier, companies listed on a stock exchange must submit their financial statements to the SEC. If the SEC believes that an accounting or disclosure

[4]One writer described the relationship of the FASB and SEC and the development of financial reporting standards using the analogy of a pearl. The pearl (a financial reporting standard) "is formed by the reaction of certain oysters (FASB) to an irritant (the SEC)—usually a grain of sand—that becomes embedded inside the shell. The oyster coats this grain with layers of nacre, and ultimately a pearl is formed. The pearl is a joint result of the irritant (SEC) and oyster (FASB); without both, it cannot be created." John C. Burton, "Government Regulation of Accounting and Information," *Journal of Accountancy* (June 1982).

irregularity exists regarding the form or content of the financial statements, it sends a deficiency letter to the company. Companies usually resolve these deficiency letters quickly. If disagreement continues, the SEC may issue a "stop order," which prevents the registrant from issuing or trading securities on the exchanges. The Department of Justice may also file criminal charges for violations of certain laws. The SEC process, private sector initiatives, and civil and criminal litigation help to ensure the integrity of financial reporting for public companies.

American Institute of Certified Public Accountants (AICPA)

The **American Institute of Certified Public Accountants (AICPA)**, which is the national professional organization of practicing Certified Public Accountants (CPAs), has been an important contributor to the development of GAAP. Various committees and boards established since the founding of the AICPA have contributed to this effort.

Committee on Accounting Procedure

At the urging of the SEC, the AICPA appointed the Committee on Accounting Procedure in 1939. The **Committee on Accounting Procedure (CAP)** composed of practicing CPAs, issued 51 **Accounting Research Bulletins** during the years 1939 to 1959. These bulletins dealt with a variety of accounting problems. But this problem-by-problem approach failed to provide the needed structured body of accounting principles. In response, in 1959 the AICPA created the Accounting Principles Board.

Accounting Principles Board

The major purposes of the **Accounting Principles Board (APB)** were to (1) advance the written expression of accounting principles, (2) determine appropriate practices, and (3) narrow the areas of difference and inconsistency in practice. To achieve these objectives, the APB's mission was twofold: to develop an overall conceptual framework to assist in the resolution of problems as they become evident and to substantively research individual issues before the AICPA issued pronouncements. The Board's 18 to 21 members, selected primarily from public accounting, also included representatives from industry and academia. The Board's official pronouncements, called **APB Opinions**, were intended to be based mainly on research studies and be supported by reason and analysis. Between its inception in 1959 and its dissolution in 1973, the APB issued 31 opinions.

Unfortunately, the APB came under fire early, charged with lack of productivity and failing to act promptly to correct alleged accounting abuses. Later, the APB tackled numerous thorny accounting issues, only to meet a buzz saw of opposition from industry and CPA firms. It also ran into occasional governmental interference. In 1971, the accounting profession's leaders, anxious to avoid governmental rule-making, appointed a Study Group on Establishment of Accounting Principles. Commonly known as the **Wheat Committee** for its chair Francis Wheat, this group examined the organization and operation of the APB and determined the necessary changes to attain better results. The Study Group submitted its recommendations to the AICPA Council in the spring of 1972, which led to the replacement of the APB with the Financial Accounting Standards Board (FASB) in 1973.

Financial Accounting Standards Board (FASB)

The Wheat Committee's recommendations resulted in the creation of a new standard-setting structure composed of three organizations—the Financial Accounting Foundation (FAF), the Financial Accounting Standards Board (FASB), and the Financial Accounting Standards Advisory Council (FASAC). The **Financial Accounting Foundation** selects the members of the FASB and the Advisory Council, funds their activities, and generally oversees the FASB's activities.

The major operating organization in this three-part structure is the **Financial Accounting Standards Board (FASB)**. Its mission is to establish and improve standards