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# Financial Accounting Series

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## Statement of Financial Accounting Standards No. 168

The *FASB Accounting Standards Codification*<sup>™</sup>  
and the Hierarchy of  
Generally Accepted Accounting Principles

a replacement of FASB Statement No. 162



Financial Accounting Standards Board  
of the Financial Accounting Foundation

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## Summary

### **Why Is the FASB Issuing This Statement and When Is It Effective?**

The *FASB Accounting Standards Codification*<sup>™</sup> (Codification) will become the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this Statement, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. This Statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009.

Following this Statement, the Board will not issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates. The Board will not consider Accounting Standards Updates as authoritative in their own right. Accounting Standards Updates will serve only to update the Codification, provide background information about the guidance, and provide the bases for conclusions on the change(s) in the Codification.

FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, which became effective on November 13, 2008, identified the sources of accounting principles and the framework for selecting the principles used in preparing the financial statements of nongovernmental entities that are presented in conformity with GAAP. Statement 162 arranged these sources of GAAP in a hierarchy for users to apply accordingly. Once the Codification is in effect, all of its content will carry the same level of authority, effectively superseding Statement 162. In other words, the GAAP hierarchy will be modified to include only two levels of GAAP: authoritative and nonauthoritative. As a result, this Statement replaces Statement 162 to indicate this change to the GAAP hierarchy.

### **What Is the Scope of This Statement?**

This Statement applies to financial statements of nongovernmental entities that are presented in conformity with GAAP.

## **How Will This Statement Change Current Practice?**

In the Board's view, the issuance of this Statement and the Codification will not change GAAP, except for those nonpublic nongovernmental entities that must now apply the American Institute of Certified Public Accountants Technical Inquiry Service Section 5100, "Revenue Recognition," paragraphs 38–76.

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June 2009



Financial Accounting Standards Board  
of the Financial Accounting Foundation

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**June 2009**

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# Statement of Financial Accounting Standards No. 168

## The *FASB Accounting Standards Codification*<sup>™</sup> and the Hierarchy of Generally Accepted Accounting Principles

### a replacement of FASB Statement No. 162

June 2009

## INTRODUCTION

1. This Statement replaces FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*.
2. This Statement identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy).

## OBJECTIVE

3. The objective of this Statement is to replace Statement 162 and to establish the *FASB Accounting Standards Codification*<sup>™</sup> (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants.

All paragraphs in this Statement have equal authority.  
Paragraphs in **bold** set out the main principles.

# STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

## Scope

4. This Statement applies to financial statements of nongovernmental entities that are presented in conformity with GAAP.

## Key Terms

5. The following terms are used in this Statement with the following definitions:

- a. *Nonpublic entity*—Any entity that does not meet any of the following conditions:
  - 1. Its debt or equity securities trade in a public market either on a stock exchange (domestic or foreign) or in an over-the-counter market, including securities quoted only locally or regionally.
  - 2. It is a conduit bond obligor for *conduit debt securities* that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets).
  - 3. It files with a regulatory agency in preparation for the sale of any class of debt or equity securities in a public market.
  - 4. It is required to file or furnish financial statements with the SEC.
  - 5. It is controlled by an entity covered by criteria (1)–(4).
- b. *Nongovernmental entity*—An entity that is not required to issue financial reports in accordance with guidance promulgated by the Governmental Accounting Standards Board or the Federal Accounting Standards Advisory Board.

## The GAAP Hierarchy

6. **This Statement establishes the Codification as the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under federal securities laws are also sources of authoritative GAAP for SEC registrants. All guidance contained in the Codification carries an equal level of authority.**

7. In addition to the SEC's rules and interpretive releases, the SEC staff issues Staff Accounting Bulletins that represent practices followed by the staff in administering SEC disclosure requirements, and it utilizes SEC Staff Announcements and Observer

comments made at Emerging Issues Task Force (EITF) meetings to publicly announce its views on certain accounting issues for SEC registrants.

8. The Codification contains the authoritative standards that are applicable to both public nongovernmental entities and nonpublic nongovernmental entities. Content contained in the SEC Sections of the Codification is provided for convenience and relates only to SEC registrants. The SEC Sections are not the authoritative sources of such content and do not contain the entire population of SEC rules, regulations, interpretive releases, and staff guidance. Content in the SEC Sections is expected to change over time, and there may be delays between SEC and staff changes to guidance and Accounting Standards Updates. The Codification does not replace or affect guidance issued by the SEC or its staff for public entities in their filings with the SEC.

9. If the guidance for a transaction or event is not specified within a source of authoritative GAAP for that entity, an entity shall first consider accounting principles for similar transactions or events within a source of authoritative GAAP for that entity and then consider nonauthoritative guidance from other sources. An entity shall not follow the accounting treatment specified in accounting guidance for similar transactions or events in cases in which those accounting principles either prohibit the application of the accounting treatment to the particular transaction or event or indicate that the accounting treatment should not be applied by analogy.

10. Sources of nonauthoritative accounting guidance and literature include, for example, practices that are widely recognized and prevalent either generally or in the industry, FASB Concepts Statements, American Institute of Certified Public Accountants (AICPA) Issues Papers, International Financial Reporting Standards of the International Accounting Standards Board (IASB), pronouncements of professional associations or regulatory agencies, Technical Information Service Inquiries and Replies included in AICPA Technical Practice Aids, and accounting textbooks, handbooks, and articles. The appropriateness of other sources of accounting guidance depends on its relevance to particular circumstances, the specificity of the guidance, the general recognition of the issuer or author as an authority, and the extent of its use in practice.

11. Accounting Standards Updates issued after the effective date of this Statement will not be considered authoritative in their own right. Instead, the Accounting Standards Updates will serve only to update the Codification, provide background information about the guidance, and provide the bases for conclusions on the change(s) in the Codification. After the effective date of this Statement, all nongrandfathered non-SEC accounting literature not included in the Codification is superseded and deemed nonauthoritative.

## Grandfathered Guidance

12. Statement 162 contained a description of the categories of the GAAP hierarchy that existed before this Statement. An entity that has followed, and continues to follow, an accounting treatment that was previously in category (c) or category (d) of that GAAP hierarchy as of March 15, 1992, need not change to an accounting treatment in a higher category ((b) or (c)) of that hierarchy (now included in the Codification in accordance with this Statement) if its effective date was before March 15, 1992. For example, a nongovernmental entity that followed a prevalent industry practice (category (d)) as of March 15, 1992, does not have to change to an accounting treatment included in a standard that was in category (b) or category (c) (such as an accounting principle in a cleared AICPA Statement of Position or Accounting Standards Executive Committee Practice Bulletin that is now included in the Codification in accordance with this Statement) whose effective date is before March 15, 1992. For standards whose effective date is after March 15, 1992, and for entities initially applying an accounting principle after March 15, 1992 (except for EITF consensus positions issued before March 16, 1992, which become effective in the hierarchy for initial application of an accounting principle after March 15, 1993), an entity shall follow the guidance in the Codification.

13. Certain accounting standards have allowed for the continued application of superseded accounting standards for transactions that have an ongoing effect in an entity's financial statements. That superseded guidance has not been included in the Codification, shall be considered grandfathered, and shall continue to remain authoritative for those transactions after the effective date of this Statement. While not comprehensive, the following are examples of such grandfathered items:

- a. Pooling of interests in a business combination (originally addressed by APB Opinion No. 16, *Business Combinations*) described in paragraph B217 of FASB Statement No. 141, *Business Combinations*
- b. Pension transition assets or obligations described in paragraph 77 of FASB Statement No. 87, *Employers' Accounting for Pensions*
- c. Employee stock ownership plan shares (originally addressed by AICPA Statement of Position 76-3, *Accounting Practices for Certain Employee Stock Ownership Plans*) purchased by, and held as of, December 31, 1992, as described in paragraphs 97 and 102 of AICPA Statement of Position 93-6, *Employers' Accounting for Employee Stock Ownership Plans*
- d. Loans restructured in a troubled debt restructuring before the effective date of FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*,

described in paragraph 24 of FASB Statement No. 118, *Accounting by Creditors for Impairment of a Loan—Income Recognition and Disclosures*

- e. Stock compensation for nonpublic and other entities (originally addressed by FASB Statement No. 123, *Accounting for Stock-Based Compensation*, or APB Opinion No. 25, *Accounting for Stock Issued to Employees*) described in paragraph 83 of FASB Statement No. 123 (revised 2004), *Share-Based Payment*
- f. For nonpublic entities electing the deferral of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, FASB Statement No. 109, *Accounting for Income Taxes*, and related standards
- g. For business combinations with an acquisition date before the first annual reporting period beginning on or after December 15, 2008, Statement 141 and any other relevant standards
- h. For not-for-profit entities, pooling of interests as allowed for under Opinion 16, even though it has been superseded by Statement 141 until FASB Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions*, is effective
- i. For goodwill and intangible assets arising from a combination between two or more not-for-profit entities or acquired in the acquisition of a for-profit business entity by a not-for-profit entity until Statement 164 is effective, Opinion 16 and APB Opinion No. 17, *Intangible Assets*.

## EFFECTIVE DATE AND TRANSITION

14. This Statement shall be effective for financial statements issued for interim and annual periods ending after September 15, 2009, except for nonpublic nongovernmental entities that have not followed the guidance included in the AICPA Technical Inquiry Service (TIS) Section 5100, “Revenue Recognition,” paragraphs 38–76. Those entities shall account for the adoption of that guidance as a change in accounting principle on a prospective basis for revenue arrangements entered into or materially modified in those fiscal years beginning on or after December 15, 2009, and interim periods within those years. If an accounting change results from the application of that guidance, an entity shall disclose the nature and reason for the change in accounting principle.

15. On the effective date of this Statement, all then-existing non-SEC accounting and reporting standards are superseded, except as noted in this paragraph. Concurrently, all nongrandfathered, non-SEC accounting literature not included in the Codification is deemed nonauthoritative. Notwithstanding, the following standards shall remain authoritative until such time that each is integrated into the Codification:

- a. FASB Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions*
- b. FASB Statement No. 166, *Accounting for Transfers of Financial Assets*
- c. FASB Statement No. 167, *Amendments to FASB Interpretation No. 46(R)*
- d. FASB Statement No. 168, *The FASB Accounting Standards Codification<sup>TM</sup> and the Hierarchy of Generally Accepted Accounting Principles*.

16. Except as described in paragraph 14, any effect of applying the provisions of this Statement shall be accounted for as a change in accounting principle or correction of an error, as applicable, in accordance with FASB Statement No. 154, *Accounting Changes and Error Corrections* (Section 250-10-50 of the Codification). An entity shall follow the disclosure requirements of Statement 154 and disclose the accounting principles that were used before and after the application of the provisions of this Statement and the reason that applying this Statement resulted in a change in accounting principle or correction of an error.

**The provisions of this Statement need  
not be applied to immaterial items.**

*This Statement was adopted by the affirmative votes of four members of the Financial Accounting Standards Board. Mr. Siegel abstained.*

Robert H. Herz, *Chairman*  
Thomas J. Linsmeier  
Leslie F. Seidman  
Marc A. Siegel  
Lawrence W. Smith

## **Appendix A**

# **BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS**

## **Introduction**

A1. This appendix summarizes considerations that Board members deemed significant in reaching the conclusions in this Statement. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

A2. This Statement replaces Statement 162. It establishes the Codification as the source of authoritative U.S. accounting and reporting standards recognized by the FASB for use in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. This Statement also revises the framework for selecting the accounting principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP.

## **Background Information and the GAAP Hierarchy**

### **Statement 162**

A3. In July 2003, the SEC issued the Study Pursuant to Section 108(d) of the Sarbanes-Oxley Act of 2002 on the Adoption by the United States Financial Reporting System of a Principles-Based Accounting System (Study). Consistent with the recommendations presented in the Study, the FASB undertook a number of initiatives aimed at improving the quality of standards and the standard-setting process, including improving the conceptual framework, codifying existing accounting literature, transitioning to a single standard-setter regime, and converging FASB and IASB standards.

A4. In the Study, the SEC also recommended that the FASB improve the GAAP hierarchy as presented in AICPA Statement on Auditing Standards No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. The SAS 69 GAAP hierarchy drew criticism because (a) it was directed to

the auditor rather than the entity, (b) it was complex, and (c) it ranked FASB Concepts Statements, which are subject to the same level of due process as FASB Statements, below industry practices that are widely recognized as generally accepted but that are not subject to due process.

A5. In response to the Study, the Board issued *FASB Response to SEC Study on the Adoption of a Principles-Based Accounting System*. In that response, the Board stated that issuing the GAAP hierarchy as an FASB standard, recategorizing the existing GAAP hierarchy into two levels of accounting literature (authoritative and nonauthoritative), and elevating the conceptual framework within the GAAP hierarchy are key objectives of achieving the FASB's goal of improving the quality of accounting standards and the standard-setting process.

A6. In April 2005, the Board issued an Exposure Draft, *The Hierarchy of Generally Accepted Accounting Principles*, for a 60-day comment period. Thirty-two entities and individuals commented on the Exposure Draft. The Board issued Statement 162 in May 2008, and it became effective in November 2008.

## **Codification**

A7. In 2004, the FASB committed to creating the Codification to become the source of authoritative nongovernmental GAAP. Before the Codification, there were a large number of standards issued by various standard setters in different forms. Additionally, the lack of a consistent organizational structure among various standards made it difficult to locate appropriate GAAP guidance. Due to the dispersed nature of the literature issued before the Codification, many users had concerns about whether they had accessed all relevant material during their research. As a result, these individuals had concerns that they may have inadvertently applied one standard when another standard may have been more relevant.

A8. The Codification project was launched to organize and simplify authoritative GAAP literature. The Codification is meant to simplify user access to all authoritative GAAP by reorganizing GAAP pronouncements into roughly 90 accounting topics within a consistent structure. Its purpose is not to create new accounting and reporting guidance. To increase the utility of the Codification for public nongovernmental companies, relevant portions of authoritative content issued by the SEC and selected SEC Staff Interpretations and administrative guidance have been included in the Codification for reference, such as Regulation S-X, Financial Reporting Releases, Accounting Series Releases, interpretive releases, and SEC staff guidance in Staff Accounting Bulletins, SEC Staff Announcements, and SEC Staff Observer comments



made at EITF meetings. It is important to note that the SEC Sections of the Codification contain SEC content related to matters within the basic financial statements, but the Codification does not contain the entire population of SEC rules, regulations, interpretive releases, and staff guidance. For example, the Codification does not include content related to matters outside the basic financial statements, such as management's discussion and analysis, or to auditing or independence matters.

A9. Other than the standards listed in paragraph 15 of this Statement, Accounting Standards Updates issued after the effective date of this Statement will not be considered authoritative in their own right. Instead, the new standards will serve only to update the Codification, provide background information about the guidance, and provide the bases for conclusions on the change(s) in the Codification. Guidance from new standards will be appropriately labeled as *Pending Content* within the Codification and will include information on the effective date of the new guidance. Issued Exposure Drafts will be readily accessible by the public on the FASB website.

A10. On the effective date of this Statement, all nongrandfathered, non-SEC accounting literature not included in the Codification is superseded and deemed nonauthoritative. The FASB will no longer update or maintain the superseded standards, but those standards will be available for reference on the FASB website. The archived standards will include the original bases for conclusions.

A11. On January 15, 2008, the Board launched a one-year verification phase of the Codification. That time period gave potential users a chance to (a) verify whether the Codification accurately captured the accounting and reporting guidance about each topic before it became authoritative and (b) become familiar with the structure and functionality of the Codification. Overall, most comments received during the verification phase were supportive of the Codification. That support is consistent with FASB surveys conducted in 2004 that showed an overwhelming majority of constituents in favor of a codification to make U.S. accounting and reporting guidance less complex and more streamlined.

A12. In March 2009, the Board issued an Exposure Draft, *The Hierarchy of Generally Accepted Accounting Principles*, for a 42-day comment period that ended in May 2009. Twenty-nine entities and individuals commented on that Exposure Draft.

## **Effective Date and Transition**

A13. The guidance in AICPA TIS Section 5100, paragraphs 38–76, which may cause a change in accounting for nonpublic nongovernmental entities, has been included in the

Codification. The Board understands that some nonpublic nongovernmental entities may not have previously followed that guidance because it was labeled nonauthoritative; however, many constituents had considered that guidance to be pervasive industry practice and, therefore, within level (d) GAAP. Because that guidance was labeled nonauthoritative, the Board decided to provide specific transition provisions in this Statement for those nonpublic nongovernmental entities that had not previously applied the guidance. The Board sought to reduce the cost of applying that guidance by requiring that it be applied prospectively. Respondents to the Exposure Draft generally supported these transition provisions with some noting that, in their view, many nonpublic nongovernmental companies were already applying the guidance.

A14. The Board decided that this Statement should be effective for financial statements issued for interim and annual periods ending after September 15, 2009, except for guidance related to AICPA TIS Section 5100, paragraphs 38–76, which has a later effective date. The goal of the Codification is to simplify the application of GAAP by including authoritative GAAP in one location in a consistently organized manner. The Board does not believe that the Codification changes GAAP, except with respect to guidance related to AICPA TIS Section 5100, paragraphs 38–76, for some nonpublic, nongovernmental entities. In the Board’s view, an extended transition period is not necessary for this Statement because it is not expected to change GAAP and constituents have been able to access and use the Codification since January 2008. Respondents to the Exposure Draft were generally supportive of the proposed effective date, which was July 1, 2009. To clarify when this Statement should be applied and to provide additional time for constituents to update their financial statement disclosures, the Board decided to revise the effective date to interim and annual periods ending after September 15, 2009.

A15. The Board received feedback from constituents about accounting changes resulting from replacing the term *should* with *shall* and the removal of generic terms, such as *usually*, *generally*, *ordinarily*, and similar terms from accounting and disclosure requirements included in the Codification. In the Board’s view, the removal of such terms further clarifies that a particular standard must be followed. If an entity believes such a modification would result in an accounting change, the Board believes the entity should evaluate the matter to determine whether the change should be accounted for as an accounting change or as a correction of an error in accordance with Statement 154.

A16. The Board also received feedback from constituents about whether to provide specific transition for entities that become aware of errors in their previous accounting as a result of identifying guidance in the Codification of which they were previously unaware. The Board acknowledges that the GAAP structure has contributed to some accounting errors due to unintentional oversight of applicable guidance by constituents.

Indeed, that structure was one of the primary factors behind the Board's decision to proceed with the Codification. However, in the Board's view, the source of how an entity discovers an accounting error should not factor into the accounting for the error. Statement 154 provides the applicable guidance for accounting for corrections of both intentional errors and unintentional errors.

A17. Most respondents to the Exposure Draft agreed that this Statement would not change GAAP. Several respondents also mentioned that while they agree that the Codification was not intended to change GAAP, they recommend that the FASB ensure that it has a process in place to address unintended changes or questions that may arise once the Codification is effective. The Board agreed with those comments and intends to continue to accept constituent feedback on Codification content after the effective date for this Statement to improve content and address unintentional changes, when applicable.

A18. Some respondents noted that the demotion of practices that are widely recognized and prevalent either generally or in the industry from level *(d)* GAAP to nonauthoritative GAAP could result in a change in accounting. In the Board's view, any such change would be rare because it would be limited to those situations in which a generally accepted practice conflicts with guidance in level *(d)* GAAP that was included in the Codification. The Board acknowledges that there may be situations in which an entity determines that guidance in other nonauthoritative GAAP is more appropriate than a generally accepted practice the entity has followed. However, this Statement would not create that accounting change, but, rather, the entity would need to follow the guidance in Statement 154. Such a change would require the entity to determine that the alternative accounting principle is preferable.

A19. One respondent also questioned whether the Board intended the FASB Concepts Statements to be more influential than other nonauthoritative guidance because the Exposure Draft included a statement that the Concepts Statements would normally be more influential than other sources in nonauthoritative guidance. While the Board may elevate the Concepts Statements into the Codification as part of its conceptual framework project, the Board decided that the Concepts Statements should have the same level of influence as other nonauthoritative GAAP until such a decision is made. Accordingly, that reference was removed from this Statement to avoid any confusion.

A20. The Board decided to carry forward the grandfathering provisions for certain industry practices that may be in conflict with other guidance found within the Codification as described in paragraph 12 of this Statement. Those grandfathering provisions, which are found in Statement 162, have been carried forward to avoid unintended accounting changes for entities that follow that industry guidance. In

deciding whether to carry forward those provisions, the Board followed the overall principle that the Codification should not change GAAP. The Board notes that some of the industry practices subject to that grandfathering provision will be reconsidered as part of current standard-setting activities.

## **Benefits and Costs**

A21. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement a new standard are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing an accounting standard is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement an accounting standard or to quantify the value of improved information in financial statements.

A22. The Board expects that the Codification will reduce the amount of time and effort required to research an accounting issue, will mitigate the risk of noncompliance with standards through improved usability of the literature, and will provide real-time updates as new Accounting Standards Updates are released.

A23. The Board does not anticipate significant costs for constituents to use the Codification. The Board realizes there will be costs in updating accounting resource materials, carrying out appropriate training, and so forth, but, in its view, the benefits of the Codification outweigh those costs. A basic view of the Codification Topics will be accessible free of charge. The FASB plans to issue the Codification in print and will evaluate whether to print future editions of the Codification on the basis of demand for the printed version.

## Appendix B

### AMENDMENTS TO THE *FASB ACCOUNTING STANDARDS CODIFICATION*<sup>TM</sup>

#### Introduction

B1. This appendix outlines how this Statement affects the *FASB Accounting Standards Codification*<sup>TM</sup> rather than outlining how this Statement will affect current accounting standards.

B2. This Statement will create a new Topic 105, Generally Accepted Accounting Principles, in the General Principles and Objective Section of the Codification.

#### Amendments to the Codification

B3. Insert Topic 105 and Subtopic 10 as follows with a link to transition paragraph 105-10-65-1: [Added text is underlined.]

### 105 Generally Accepted Accounting Principles > 10 Overall

#### 105-10-05 Overview and Background

**05-1** This Topic establishes the *Financial Accounting Standards Board (FASB) Accounting Standards Codification*<sup>TM</sup> (Codification) as the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. In addition to the SEC's rules and interpretive releases, the SEC staff issues Staff Accounting Bulletins that represent practices followed by the staff in administering SEC disclosure requirements, and it utilizes SEC Staff Announcements and Observer comments made at Emerging Issues Task Force meetings to publicly announce its views on certain accounting issues for SEC registrants.

**05-2** If the guidance for a transaction or event is not specified within a source of authoritative GAAP for that entity, an entity shall first consider accounting principles for similar transactions or events within a source of authoritative GAAP for that entity and then consider nonauthoritative guidance from other sources. An entity shall not follow the accounting treatment specified in accounting guidance for similar transactions or events in cases in which those accounting principles either prohibit the application of the accounting treatment to the particular transaction or event or indicate that the accounting treatment should not be applied by analogy.

**05-3** Accounting and financial reporting practices not included in the Codification are nonauthoritative. Sources of nonauthoritative accounting guidance and literature include, for example, the following:

- a. Practices that are widely recognized and prevalent either generally or in the industry
- b. FASB Concepts Statements
- c. American Institute of Certified Public Accountants (AICPA) Issues Papers
- d. International Financial Reporting Standards of the International Accounting Standards Board
- e. Pronouncements of professional associations or regulatory agencies
- f. Technical Information Service Inquiries and Replies included in AICPA Technical Practice Aids
- g. Accounting textbooks, handbooks, and articles.

The appropriateness of other sources of accounting guidance depends on its relevance to particular circumstances, the specificity of the guidance, the general recognition of the issuer or author as an authority, and the extent of its use in practice.

**05-4** The Codification contains the authoritative standards that are applicable to both public nongovernmental entities and nonpublic nongovernmental entities. Content contained in the SEC Sections (designated by an “S” preceding the Section number) is provided for convenience and relates only to SEC registrants. The SEC Sections do not contain the entire population of SEC rules, regulations, interpretive releases, and staff guidance. Content in the SEC Sections is expected to change over time, and there may be delays between SEC and staff changes to guidance and Accounting Standards Updates. The Codification does not replace or affect guidance issued by the SEC or its staff for public entities in their filings with the SEC.

**05-5** As of the effective date in paragraph 105-10-65-1(a), the FASB will not consider Accounting Standards Updates as authoritative in their own right. Instead, new Accounting Standards Updates will serve only to update the Codification, provide

background information about the guidance, and provide the bases for conclusions on the change(s) in the Codification. Other than the standards listed in paragraph 105-10-65-1(d), all nongrandfathered non-SEC accounting guidance not included in the Codification is superseded and deemed nonauthoritative.

**05-6** The provisions of the Codification need not be applied to immaterial items.

## **105-10-10 Objectives**

**10-1** The objective of this Topic is to establish the *Financial Accounting Standards Board (FASB) Accounting Standards Codification*<sup>TM</sup> as the source of authoritative principles and standards recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles (GAAP). Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants.

**10-2** This Topic also identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP in the United States (the GAAP hierarchy).

## **105-10-15 Scope and Scope Exceptions**

### **> Entities**

**15-1** The *Financial Accounting Standards Board (FASB) Accounting Standards Codification*<sup>TM</sup> applies to financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP).

**15-2** Content in the Securities and Exchange Commission (SEC) Sections of the Codification is provided for convenience and relates only to financial statements of SEC registrants that are presented in conformity with GAAP.

## **105-10-20 Glossary**

### **Nonpublic Entity**

Any entity that does not meet any of the following conditions:

- a. Its debt or equity securities trade in a public market either on a stock exchange (domestic or foreign) or in an over-the-counter market, including securities quoted only locally or regionally.
- b. It is a conduit bond obligor for *conduit debt securities* that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets).
- c. It files with a regulatory agency in preparation for the sale of any class of debt or equity securities in a public market.
- d. It is required to file or furnish financial statements with the Securities and Exchange Commission.
- e. It is controlled by an entity covered by criteria (a) through (d).

### **Nongovernmental Entity**

An entity that is not required to issue financial reports in accordance with guidance promulgated by the Governmental Accounting Standards Board or the Federal Accounting Standards Advisory Board.

## **105-10-65 Transition and Open Effective Date Information**

### **> Transition Related to FASB Statement No. 168, *The FASB Accounting Standards Codification*<sup>TM</sup> and the Hierarchy of Generally Accepted Accounting Principles**

**65-1** The following represents the transition and effective date information related to FASB Statement No. 168, *The FASB Accounting Standards Codification*<sup>TM</sup> and the Hierarchy of Generally Accepted Accounting Principles:

- a. The pending content that links to this paragraph shall be effective for financial statements issued for interim and annual periods ending after September 15, 2009.



- b. The Financial Accounting Standards Board (FASB) Accounting Standards Codification™ shall become the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants.
- c. As of the effective date stated in paragraph 105-10-65-1(a), all then-existing non-SEC accounting and reporting standards that had been included in levels (a) through (d) GAAP are superseded, except as noted in paragraph 105-10-65-1(d) and as described in Section 105-10-70. Concurrently, all nongrandfathered, non-SEC accounting literature not included in the Codification is deemed nonauthoritative.
- d. The following standards shall remain authoritative until such time that each is integrated into the Codification:
  - 1. FASB Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions*
  - 2. FASB Statement No. 166, *Accounting for Transfers of Financial Assets*
  - 3. FASB Statement No. 167, *Amendments to FASB Interpretation No. 46(R)*
  - 4. FASB Statement No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles.*
- e. Nonpublic nongovernmental entities that previously have not applied the guidance in the paragraphs listed below shall account for the adoption of that guidance as a change in accounting principle on a prospective basis for revenue arrangements entered into or materially modified in those fiscal years beginning on or after December 15, 2009, and interim periods within those years:
  - 1. Paragraph 855-10-60-4
  - 2. Paragraphs 958-605-15-3 through 15-4
  - 3. Paragraphs 985-605-55-4 through 55-118
  - 4. Paragraphs 985-605-55-186 through 55-203
  - 5. Paragraphs 985-845-25-1 through 25-7
  - 6. Paragraphs 985-845-55-1 through 55-8.
- f. The appropriate disclosures related to that adoption shall be made in accordance with Section 250-10-50.

## **105-10-70 Grandfathered Guidance**

**70-1** Financial Accounting Standards Board (FASB) Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, contained a description of the categories of the generally accepted accounting principles (GAAP) hierarchy that existed before the Codification. An entity that has followed, and continues to follow, an accounting treatment that was previously in category (c) or category (d) of that GAAP

hierarchy as of March 15, 1992, need not change to an accounting treatment in a higher category ((b) or (c)) of that hierarchy if its effective date was before March 15, 1992. For example, a nongovernmental entity that followed a prevalent industry practice (category (d)) as of March 15, 1992, does not have to change to an accounting treatment included in a standard in category (b) or category (c) (such as an accounting principle in a cleared American Institute of Certified Public Accountants [AICPA] Statement of Position or Accounting Standards Executive Committee Practice Bulletin) whose effective date is before March 15, 1992. For standards whose effective date is after March 15, 1992, and for entities initially applying an accounting principle after March 15, 1992 (except for Emerging Issues Task Force consensus positions issued before March 16, 1992, which become effective in the hierarchy for initial application of an accounting principle after March 15, 1993), an entity shall follow guidance in the Codification.

**70-2** Certain accounting standards have allowed for the continued application of superseded accounting standards for transactions that have an ongoing effect in an entity's financial statements. That superseded guidance has not been included in the Codification, shall be considered grandfathered, and shall continue to remain authoritative for those transactions after the effective date of FASB Statement No. 168, *The FASB Accounting Standards Codification<sup>TM</sup> and the Hierarchy of Generally Accepted Accounting Principles*. While not comprehensive, the following are examples of such grandfathered items:

- a. Pooling of interests in a business combination (originally addressed by APB Opinion No. 16, *Business Combinations*) described in paragraph B217 of FASB Statement No. 141, *Business Combinations*
- b. Pension transition assets or obligations described in paragraph 77 of FASB Statement No. 87, *Employers' Accounting for Pensions*
- c. Employee stock ownership plan shares (originally addressed by AICPA Statement of Position 76-3, *Accounting Practices for Certain Employee Stock Ownership Plans*) purchased by, and held as of, December 31, 1992, as described in paragraphs 97 and 102 of AICPA Statement of Position 93-6, *Employers' Accounting for Employee Stock Ownership Plans*
- d. Loans restructured in a troubled debt restructuring before the effective date of FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*, described in paragraph 24 of FASB Statement No. 118, *Accounting by Creditors for Impairment of a Loan—Income Recognition and Disclosures*
- e. Stock compensation for nonpublic and other entities (originally addressed by FASB Statement No. 123, *Accounting for Stock-Based Compensation*, or APB Opinion No. 25, *Accounting for Stock Issued to Employees*) described in paragraph 83 of FASB Statement No. 123 (revised 2004), *Share-Based Payment*

- f. For nonpublic entities electing the deferral of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, FASB Statement No. 109, *Accounting for Income Taxes*, and related standards
- g. For business combinations with an acquisition date before the first annual reporting period beginning on or after December 15, 2008, Statement 141 and any other relevant standards
- h. For not-for-profit entities, pooling of interests as allowed for under Opinion 16, even though it has been superseded by Statement 141 until FASB Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions*, is effective
- i. For goodwill and intangible assets arising from a combination between two or more not-for-profit entities or acquired in the acquisition of a for-profit business entity by a not-for-profit entity until Statement 164 is effective, Opinion 16 and APB Opinion No. 17, *Intangible Assets*.