Jeremy is feeling anxious; he has been asked to research an issue related to his company’s “volatility” assumption, one of the variables used to estimate the fair value of his company’s outstanding stock compensation awards. Jeremy is a staff accountant, with only a limited understanding of stock compensation accounting.

He gets right to work. First, he asks his supervisor for more background on the issue then reviews a memo describing how the company has estimated this assumption in the past. Next, Jeremy logs into the FASB Accounting Standards Codification (the “Codification”) and begins reading more about this assumption within the stock compensation topic. Before long, he has a basic understanding of the requirements for estimating volatility, and he is pleased to have learned something new in the process of researching this issue.

As you begin working with the Codification, your experience may be similar. You may be asked to research topics that you know very little about, and this may initially be uncomfortable; however, users of the Codification quickly learn that research is a skill you learn by doing.

After reading this chapter and performing the exercises herein, you will be able to

1. Understand the role of the Codification in researching accounting issues.
2. Describe the difference between authoritative and nonauthoritative guidance.
3. Identify standard setters who have contributed to the current body of authoritative guidance.
4. Understand the organization of guidance within the Codification.
5. Search the Codification, using basic Browse, keyword, and glossary searches, and using the Cross Reference feature.
6. Know which sections of the guidance are considered “required reading” in order for a search effort to be thorough.
Organization of This Chapter

This chapter begins by introducing readers to the FASB Codification, including (1) who created the Codification; (2) what its role is in accounting research; and (3) how guidance is organized within the Codification. Examples abound in this chapter, as it is critical for beginning researchers to develop a hands-on feel for how information is organized within this research tool.

Following the introduction to the Codification, the chapter describes several methods for performing searches of the Codification, including techniques for efficiently performing those searches. Readers will learn not only how to find information, but also what other steps must be performed to ensure that the research effort has been thorough. A checklist is provided to assist users with determining when a search effort is complete.

The two key themes in this chapter build upon one another. Properly understanding the Codification is key to efficiently performing research, as illustrated in the preceding diagram.
**WHAT IS THE FASB CODIFICATION?**

The FASB *Accounting Standards Codification* ("ASC" or the "Codification") is considered the sole source of authoritative, generally accepted accounting principles (GAAP) for non-governmental entities. The Codification became effective in 2009, and its primary objective is to simplify research. Prior to the issuance of the Codification, accounting guidance in the form of individual standards had piled up for nearly a century. Accounting practitioners often had to search several different standards to find guidance on a single topic. This created the risk that practitioners could miss important sources when searching for guidance. The Codification reduces that risk by organizing accounting guidance by topic, within a single research source.

What does it mean for the Codification’s guidance to be authoritative? It means that the Codification establishes GAAP. In order to receive an unqualified audit opinion, U.S. nongovernmental entities must prepare their financial statements in accordance with Codification guidance.

The FASB gets its authority to set GAAP primarily from two sources.

- First, the SEC, acting in its authority under the Securities Exchange Act and Sarbanes-Oxley, has identified the FASB as the designated private sector standard setter with authority to establish GAAP.¹
- Second, in Rule 203-2 of its Code of Professional Conduct, the AICPA recognizes the FASB as the organization with the authority to establish GAAP for nongovernmental entities. An auditor may not issue an unqualified opinion for financial statements containing a material departure from GAAP.² ³

Using this authority, the FASB has designated the Codification as the sole source of its authoritative guidance.

The term **nongovernmental entities** encompasses both public and nonpublic (private) entities, as well as not-for-profit entities. However, these entities are not always treated as equals within the Codification. That is, due to resource constraints and perceived lesser demand for nonpublic entity financial statements, nonpublic entities are exempt from some requirements (such as segment reporting requirements) and are frequently given longer transition periods for adopting new guidance. As noted in Chapter 1, the Private Company Council (PCC) was created in 2012 and has already begun to identify possible new exceptions and modifications within U.S. GAAP for nonpublic companies. Over the next few years, the work of the PCC is expected to increase the number of differences within U.S. GAAP between public and nonpublic entities.


² AICPA Code of Professional Conduct, Rule 203—*Accounting Principles*, par. 01: “A member shall not (1) express an opinion or state affirmatively that the financial statements or other financial data of any entity are presented in conformity with generally accepted accounting principles or (2) state that he or she is not aware of any material modifications that should be made to such statements or data in order for them to be in conformity with generally accepted accounting principles, if such statements or data contain any departure from an accounting principle promulgated by bodies designated by Council to establish such principles that has a material effect on the statements or data taken as a whole.”

³ AICPA Code of Professional Conduct, Rule 203-2—*Status of FASB, GASB and FASAB Interpretations*, par. 03: “Council is authorized under Rule 203 [sec. 203 par. 01] to designate bodies to establish accounting principles. Council has designated the Financial Accounting Standards Board (FASB) as such a body and has resolved that FASB Accounting Standards Codification™ (ASC) constitutes accounting principles as contemplated in Rule 203 [sec. 203 par. 01].”
Accounting guidance for *industries*, including *not-for-profit entities*, also falls within the Codification’s authority. However, as industries often have unique activities and transactions, industry-specific content must be followed *in addition to* the other general requirements of the Codification. That said, in limited cases, industry-specific content may indicate that it should be applied in lieu of a specified topic or paragraphs from the Codification’s general requirements. Industries addressed in the Codification include airlines, financial services, not-for-profit entities, real estate, and software.

Students are often confused by the role of industry guidance in the Codification. Remember: Industry guidance in the Codification generally applies *in addition to* other general Codification content.

**What Sources of Guidance Were Used to Populate the Codification?**

The Codification is an aggregation of many, many accounting standards that have been issued over the course of the past century. These include, for example,

- FASB Statements,
- FASB Interpretations,
- Emerging Issues Task Force (EITF) Abstracts, and
- AICPA Statements of Position.

Additionally, the Codification includes all still-effective guidance from the two standard-setting bodies that preceded the FASB, namely,

- The Committee on Accounting Procedure (CAP), which issued Accounting Research Bulletins (ARBs) between 1939 and 1962, and

In 2009, when the guidance from these original standards was moved into the Codification, the original standards were superseded and became *nonauthoritative*. Today, these so-called “pre-Codification standards” still serve a limited role in research. This role is discussed further in Chapter 4, which describes the use of nonauthoritative guidance.

The Codification also includes certain content issued by the Securities and Exchange Commission (SEC), which is authoritative for public companies. This guidance is identified in the Codification with an “S” preceding the section reference number. However, not all SEC content has been incorporated within the Codification. Some SEC rules and requirements, such as management’s discussion and analysis (MD&A) disclosure requirements, are also authoritative for public companies but are only available at [www.sec.gov](http://www.sec.gov), and in related accounting research databases. Portions of the following SEC guidance have been included within the Codification:

- Regulation S-X (SX)
- Financial Reporting Releases (FRRs)/Accounting Series Releases (ASRs)
- Interpretive Releases (IRs)
- SEC Staff guidance in
  - Staff Accounting Bulletins (SABs)
  - EITF Topic D and SEC Staff Observer comments

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4To view the complete list of guidance used to populate the Codification as of its adoption in 2009, consult the *Notice to Constituents* accessible from the home page of the Codification.
Figure 2-1 depicts the many sources of guidance used to populate the Codification.

<table>
<thead>
<tr>
<th>Key standard setters and guidance issued</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Committee on Accounting Procedure (1939–1962)</strong></td>
</tr>
<tr>
<td>– Accounting Research Bulletins</td>
</tr>
<tr>
<td><strong>Accounting Principles Board (1962–1973)</strong></td>
</tr>
<tr>
<td>– APB Opinions, and related AICPA Accounting Interpretations (AIN)</td>
</tr>
<tr>
<td><strong>Financial Accounting Standards Board (1973–present)</strong></td>
</tr>
<tr>
<td>– FASB Statements, Interpretations, Technical Bulletins, Staff Positions, Staff Implementation Guides</td>
</tr>
<tr>
<td><strong>Other standard-setting bodies and guidance issued</strong></td>
</tr>
<tr>
<td>– Emerging Issues Task Force: EITF Abstracts, D-Topics</td>
</tr>
<tr>
<td>– Derivatives Implementation Group: “DIG” issues</td>
</tr>
<tr>
<td>– AICPA: Statements of Position, Practice Bulletins, plus certain content from Technical Inquiries and Audit &amp; Accounting Guides</td>
</tr>
<tr>
<td>– SEC: Regulation S-X, Financial Reporting Releases, Accounting Series Releases, Interpretive Releases, Staff Accounting Bulletins, EITF D-Topics and SEC Staff Observer comments</td>
</tr>
</tbody>
</table>

The FASB is responsible for maintaining the Codification. As the FASB issues new accounting standards (referred to as **Accounting Standards Updates**), the FASB amends or adds to the content in the Codification. Accounting Standards Updates are not authoritative in their own right; rather, they serve only to update or amend Codification content. The Codification includes links to proposed and final Accounting Standards Updates; these are also available on the FASB’s website (www.fasb.org).

Students are often confused by the role of SEC guidance in the Codification. Here’s what you need to know:

- Guidance from the SEC is authoritative for public companies.
- Portions—but not all—of the SEC’s guidance have been included in the Codification. Companies can access the full population of SEC guidance at www.sec.gov.
- Nonpublic companies may find it helpful, but are not required, to follow SEC guidance in the Codification.

1. What does it mean for the Codification’s guidance to be considered “authoritative” for nongovernmental entities?
2. Name four standard-setting bodies whose guidance has been included within the Codification.
3. What type of entity must follow the guidance in the SEC sections of the Codification?

**Knowledge Check**

**HOW IS INFORMATION ORGANIZED WITHIN THE CODIFICATION?**

The Codification is organized into

- **Areas**—nine broad categories from which to start your search, such as “Assets,” “Liabilities,” “Expenses,” and “Presentation”
- **Topics**—broadly describe the subject matter you are searching, such as “Leases”
Subtopics—provide a more narrow definition of the subject matter, such as “Operating Leases”

Sections—a standard set of section headers, such as Scope, Glossary, Initial Measurement, and Disclosure

Subsections—headers within a topic that narrow a paragraph’s applicability, such as “Lessees,” or “Lessors”

Paragraphs—where the guidance is found

The format for a Codification reference is as follows:

Topic (XXX)-Subtopic (YY)-Section (ZZ)-Subsection (if applicable)-Paragraph (PP)

Here’s an example of a Codification reference using this format:

Leases (Topic 840)-Operating Leases (Subtopic 20)-Initial Measurement (Section 30)-Paragraph 1

In a memo, guidance on measuring a lessee’s liability for residual value guarantees would be shown as ASC 840-20-30-1 (Leases—Residual value guarantees). Figure 2-2 illustrates a browse search for this content.

Areas and Topics

Guidance within the Codification is organized by topic. Topics are generally titled in a way that indicates the subject matter they cover. For example, if you have a question related to inventory valuation, begin by locating the topic “Inventory.” Topics are organized into nine broad areas, all listed on the left-hand side of the Codification. For example, certain topics are organized by balance sheet category:

- The topic “Inventory” is available under the Assets area.
- For a search involving the topic “Debt,” start by clicking on the Liabilities area.
- For a search involving the topic “Treasury Stock,” start by clicking on the Equity area.

Figure 2-2
Illustration of Codification reference
ASC 840-20-30-1

Straightforward, yes? However, where would you start a search for guidance on Leases? This topic is found under Broad Transactions. When you think about the different types of leases
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(e.g., capital, operating), you may notice that leases don’t fit neatly into either area—Assets or Expenses—because they could be classified as either. Therefore, lease guidance is organized under a transaction-specific topic located in the Broad Transactions area of the Codification.

Where would you find guidance on employee pensions? This topic is found under Expenses. Costs related to paying employees are considered compensation expenses. Therefore, you would navigate to the Expenses area, then Compensation, to find the topic entitled “Compensation-Retirement Benefits.” You’ll find that locating the right starting point in the Codification requires a certain amount of trial and error. But after a fairly short period of experience, these starting points will become much more intuitive.

Here is a brief description of other Browse areas:

- **The General Principles area** includes information on broad conceptual matters.
  Example topic: Generally Accepted Accounting Principles
- **The Presentation area** includes topics related to how information is “presented” on the financial statements.
- **The Broad Transactions area** includes topics relating to specific transactions, or topics involving multiple financial statement accounts.
  Example topics: Business Combinations, Fair Value Measurement, and Derivatives
- **The Industry area** includes topics where the accounting is unique for an industry or type of activity.
  Example topics: Airlines, Software, and Real Estate

In particular, familiarize yourself with the list of topics located in the Broad Transactions area (see Figure 2-3). Topics listed under Broad Transactions are subject to specialized, transaction-specific guidance. It is inappropriate to apply general revenue recognition guidance, for example, to a transaction subject to transaction-specific accounting guidance.

Finally, notice the link to access the “Master Glossary,” shown on the left-hand side of Figure 2-3, immediately following the nine areas of the Codification. The Master Glossary is discussed later in this chapter.

**Subtopics**

Each topic is broken down into one or several subtopics. For example, the Leases topic (ASC 840) is broken down into subtopics including Overall (“10”), Operating Leases (“20”), Capital
Leases (“30”), Sale-Leaseback Transactions (“40”), and so on. It is important to understand how these subtopics interact.

Each topic contains an “Overall” subtopic (“10”), which often contains guidance that is pervasive to the topic. When researching accounting issues, take a moment to review guidance contained within the Overall subtopic. For example, even if you know with certainty that you are dealing with an operating lease (addressed in the “Operating Lease” subtopic), you’re still responsible for complying with any guidance available under the Overall subtopic as well.

On the other hand, assume you are evaluating an arrangement and need to determine whether it qualifies for operating lease accounting. Since you have not yet determined which subtopic applies to your transaction (capital leases or operating leases), you would begin your search at “Overall.” In this case, the Overall subtopic contains guidance for distinguishing between operating and capital leases.

In addition to transaction-specific subtopics, several industry-specific subtopics are available under Leases. Industry-specific content should be followed in addition to the other general content (unless stated otherwise). Assume that a not-for-profit entity is evaluating an operating lease. In this case, the researcher should check not only the “Not-For-Profit” subtopic, but also “Operating Leases” and, of course, “Overall” for guidance related to that transaction.

Identifying Subtopics to Review

Assume that you are accounting for the sale of a product that has a right of return. You are trying to determine when it is appropriate to recognize revenue from the sale.

Following is an excerpt of subtopics available under the Revenue Recognition topic.

10 - Overall
15 - Products
20 - Services
25 - Multiple-Element Arrangements
28 - Milestone Method
30 - Rights to Use

Which two subtopics should you review in order to find potentially applicable guidance?

1. ____________________________
2. ____________________________

A final note: The subtopics listed under Revenue Recognition may describe accounting treatments that are unfamiliar to you (for example, “Rights to Use”). If a subtopic appears to be potentially relevant based on its title, read the Overview and Background of the subtopic to learn about common arrangements accounted for using this model.

Sections

Good news—guidance within the Codification is organized very logically, once you become familiar with the sections. Sections are used to organize guidance within each subtopic; each subtopic uses the same section titles, to the extent they apply.

Figure 2-4 illustrates a list of sections available under the subtopic Investments—Equity Method and Joint Ventures—Overall. Notice that each section includes a + sign, indicating that a user must click on the section title to be directed to content. Finally, notice that a user’s search path is shown at the top of the screenshot. In this case, the search for the Investments topic began in the “Assets” area.
So, how do you know which section is relevant to your search? Take a moment to understand what information is located within each section, as described below.

<table>
<thead>
<tr>
<th>Section Number (xxx-yy-00)</th>
<th>Section Name</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>00</td>
<td>Status</td>
<td>Provides references and links to Accounting Standards Updates that have changed the content of the subtopic.</td>
</tr>
<tr>
<td>05</td>
<td>Overview and Background</td>
<td>Provides general overview and background information for subtopics. Describes in general terms what transactions the subtopic is intended to address.</td>
</tr>
<tr>
<td>10</td>
<td>Objectives</td>
<td>States the high-level objectives of the subtopic.</td>
</tr>
<tr>
<td>15</td>
<td>Scope and Scope Exceptions</td>
<td>Answers the question: Does this guidance apply to my transaction? It is assumed that all transactions and entities are subject to guidance unless granted a scope exception.</td>
</tr>
<tr>
<td>20</td>
<td>Glossary</td>
<td>Defines all glossary terms used in a subtopic. The Codification also includes a Master Glossary, which includes all glossary terms used within the Codification.</td>
</tr>
<tr>
<td>25</td>
<td>Recognition</td>
<td>Describes what items can be recorded in the financial statements, when an item can be recorded, and how an item should be recorded.</td>
</tr>
<tr>
<td>30</td>
<td>Initial Measurement</td>
<td>Describes at what value (i.e., how much?) a financial statement item should be initially recognized. Also known as “day 1” measurement.</td>
</tr>
<tr>
<td>35</td>
<td>Subsequent Measurement</td>
<td>Provides guidance on how to change the value of an item after it is initially recorded. Also known as “day 2” measurement.</td>
</tr>
</tbody>
</table>
Certain of these sections warrant additional discussion. Following is additional background and tips for reviewing these key sections.

**Overview and Background (-05)**
The *Overview and Background* section provides users with general knowledge about a Codification topic and highlights types of transactions covered by the guidance. Read this section to obtain a basic understanding of guidance that is new to you.

Try to avoid citing the Overview as a source. For example, this section may say: “This topic introduces the requirement that . . .” Beware: Quoting this sentence is not as impactful as quoting the requirement itself. You would be better off finding the actual requirement in the guidance, for example under a Recognition or Measurement section.

**Objectives (-10)**
The *Objectives* section answers the question: What were the standard setters hoping to achieve when they created these requirements? Like the Overview section, “Objectives” should not be read as actual requirements; rather, this section provides users with overarching principles to consider when applying guidance requirements.

**Scope (-15)**
The *Scope* section is one of the most critical sections of an accounting topic. It indicates which transactions or entities are subject to the guidance within the topic. However, beginning researchers
often overlook this section, choosing instead to focus on the more “useful” guidance they expect to find under Recognition or Measurement. Pages and pages of professional literature have been devoted to analyzing nuances of the scope guidance contained within the Codification, as recognizing when you are within the scope of a standard is critical to properly applying the guidance.

For example, before you apply general multiple-element revenue accounting requirements, you must first review the list of multiple-element arrangements covered by other specific topics (ASC 605-25-15). Before you account for a 51% equity investment as a consolidated entity, you must first conclude that you are not within the scope of nontraditional, “variable-interest entity” consolidation guidance (ASC 810-10-15).

Scope guidance is commonly presented in one of two ways:

- The guidance may list transactions that are not within scope. For example, scope guidance in ASC 350-10 (Intangibles—Goodwill and Other) states

  15-3 The guidance in the Intangibles—Goodwill and Other Topic does not apply to the following transactions and activities: a. The accounting at acquisition for goodwill acquired in a business combination (for guidance see Subtopic 805-30). . .

- Alternatively, some scope guidance contains tests to determine what transactions should be included within the scope of the topic. For example, scope guidance in ASC 840-10 (Leases) states

  15-6 An arrangement [qualifies as a lease] . . . if any of the following conditions [are] met . . . Therefore, before you even start the test to determine what type of lease you have (capital or operating), you should first ensure that you pass the test for the arrangement to fall within the scope of lease guidance.

See Chapter 5 of this book for additional discussion and illustrative examples of scope guidance in the Codification.

Recognition (-25)
Guidance in the Recognition section describes what, when, and how an item should be recorded in the financial statements. Following are examples of each issue:

- What should be recorded? Asset retirement obligation (ARO) guidance tells you that the obligation to pay money upon retirement of an asset must be recognized in the financial statements (ASC 410-20-25).

- When should items be recorded? Revenue recognition guidance tells you whether revenue can be recognized at the time of sale, for a product with a right of return attached (ASC 605-15-25).

- How should items be recorded? Derivatives guidance states that derivatives should be recognized as assets or liabilities in the balance sheet (ASC 815-10-25).

See Chapter 6 of this book for additional discussion and illustrative examples of recognition guidance in the Codification.

Initial Measurement (-30)
Guidance in the Initial Measurement section describes at what value (or for how much?) a financial statement item should be recognized. This value is also known as an item’s “day 1” measurement. For example, in general,

- Inventory is initially measured at cost (ASC 330-10-30).

- Guarantee liabilities are initially measured at fair value (ASC 460-10-30).

- Property, plant, and equipment is initially measured at historical cost, including interest (ASC 360-10-30).
**Subsequent Measurement (-35)**
Guidance in the *Subsequent Measurement* section describes how to change the value of an item after it is initially recorded. This value is also known as an item’s “day 2” measurement. For example, in general,

- Inventory obsolescence would be considered in determining its “day 2” value (ASC 330-10-35).
- Collectibility of an account receivable (for risk of uncollectible accounts) would be considered in determining its “day 2” value (ASC 310-10-35).
- Depreciation of property, plant, and equipment is considered in determining its “day 2” value (ASC 360-10-35).

Chapters 7 and 8 of this book provide additional discussion and illustrative examples of measurement guidance in the Codification.

**Other Presentation Matters (-45)**
The *Other Presentation Matters* section provides additional guidance on how a transaction should be presented in the financial statements. This goes beyond the presentation guidance provided under the Recognition section. For example,

- Treasury Stock—Other Presentation Matters addresses where within the Equity section of the balance sheet to classify repurchased shares, when the repurchased shares may not be retired (ASC 505-30-45).
- Earnings Per Share (EPS)—Other Presentation Matters states that entities with only common stock outstanding must present basic EPS for continuing operations and for net income on the face of the income statement (ASC 260-10-45).

**Disclosure (-50)**
The *Disclosure* section sets forth required and recommended disclosures for a particular transaction or financial statement item. This section provides disclosures related only to the specific subtopic being addressed; other general disclosure requirements are addressed in Topic 235, (Notes to Financial Statements). For example,

- Inventory topic—This topic requires disclosure of “substantial and unusual losses” resulting from the application of the lower of cost or market rule (ASC 330-10-50-2).
- Consolidation topic—This topic requires companies with consolidated financial statements to disclose the consolidation policy they are following (ASC 810-10-50-1).

**Implementation Guidance and Illustrations (-55)**
The *Implementation Guidance and Illustrations* section includes the following, as applicable to each topic:

- Interpretive guidance describing how the guidance should be applied to specific scenarios.
- Examples illustrating application of the guidance.

For example, according to the Recognition guidance in the topic “Loss Contingencies,” an estimated loss from a loss contingency must be accrued if the loss is probable and reasonably estimable (ASC 450-20-25-2).

- The Implementation Guidance section for loss contingencies identifies additional factors that should be considered in determining whether the “probable” threshold has been met (ASC 450-20-55-12).
- Sample cases within the Implementation Guidance section illustrate appropriate accruals and disclosures for sample loss contingency cases.
4. Based on the preceding section descriptions, which section would you consult to determine whether lease guidance applies to natural resources, such as land with mineral deposits?

5. Which section might you read first if you are unfamiliar with a topic and need general information?

6. Which section might you consult if the requirements under the Recognition section seem vague, and you are looking for additional interpretive guidance?

**Subsections and Paragraphs**

Paragraphs are where the actual guidance is found within the Codification. Paragraphs are often organized into groups, called **subsections**. For example, within the Leases topic, under the Recognition section, you’ll find a subsection containing guidance for Lessees, and a separate subsection containing guidance for Lessors. Whenever you find a paragraph with content that appears relevant to your search, be certain that you understand the context. That is, be sure you are reading guidance within a subsection that is relevant to your issue.

For example, assume you word search (ctrl + f) within the Leases topic for “contingent rent” and land in section “c” below.

Before you share this paragraph with your supervisor, wait! Consider the context. What if your company is actually the lessor in this arrangement? To avoid errors, be sure to scroll up and down on the page to understand all related section and subsection headers when you find guidance that appears to be on point.

In addition to understanding what subsection you are in within the guidance, you must also pay attention to paragraph groups, indicated by a header and >> notations. For example, paragraphs could be organized as follows:

**Issue header**

> Issue 1
>> Subissue A
>> Subissue B
> Issue 2

Assume that you encounter paragraphs organized in this fashion, and the guidance in Subissue B is relevant to your research. Since Subissues A and B are extensions of the guidance in Issue 1, it would not be appropriate to follow the guidance in Subissue B without also reading Issue 1. You would not be required to read Subissue A if it does not appear to be applicable.
Subsections and Paragraphs

Following is an example from ASC 820 (Fair Value Measurement), showing the organization of paragraphs within the Subsequent Measurement section.

If you find guidance you are looking for under the header “Highest and Best Use for Nonfinancial Assets,” what two other issues should you also read?

> Definition of Fair Value
>> The Asset or Liability
>> The Transaction
>> The Principal (or Most Advantageous) Market
>> Market Participants
>> The Price
>> Application to Nonfinancial Assets
>>> Highest and Best Use for Nonfinancial Assets
>>> Valuation Premise for Nonfinancial Assets
>> Application to Liabilities and Instruments Classified in a Reporting Entity’s Shareholders’ Equity

1. 
2. 

If you lose track of where you are in the Codification, you can hover your mouse over the paragraph number to be reminded of the subtopic and section number for your current location.

For example, by hovering your mouse over par. 15-6 (circled in the illustration), you’ll see the “Currently Viewing” screen, which describes your location.

Pending Content and Effective Dates

What is “Pending Content”?

When new guidance (that is, an “Accounting Standards Update”) is issued by the FASB, it is added to the Codification as pending content.
Pending content shows up in a box, immediately following existing paragraphs in the Codification. Often, pending content has the same paragraph number as the content just above it, meaning that it will replace that guidance once it becomes fully effective. This process can take up to several years, given that companies can have different fiscal year-ends, and given that small or nonpublic entities are occasionally granted delayed effective dates. Once the pending content becomes fully effective, the previous (nonboxed) guidance will be removed from the Codification and the revised content will remain.5

If you see pending content directly under a paragraph that appears to be relevant to your research, click on the “Transition Guidance” link provided next to the pending content paragraph. Carefully read the transition guidance to determine whether the pending content will be effective for the transaction you are accounting for. If so, you should read the pending content in lieu of the identical paragraph number that precedes it. If pending content is in addition to existing content (for example, if there is existing content labeled par. 1-2, and pending content begins at par. 3), then consider whether this guidance should be followed in addition to existing content.

**Understanding Effective Dates**
As the FASB issues new guidance, it is common for that guidance to have a delay between its issuance date and its effective date. This gives companies time to review and implement the new guidance. Here are three examples of how effective dates are commonly worded:

- For fiscal years ending after December 15, 20x1
- For fiscal years beginning after December 15, 20x1
- For fiscal quarters beginning after December 15, 20x1

Each implies quite a different time frame. For example, assume it is the year 20x1.

- A company with a calendar year-end would have to immediately apply any new guidance with the effective date described in (a) above (i.e., to its 12/31/20x1 financial statements).
- On the other hand, if new guidance was issued with the effective date described in (b), the company would first reflect the new guidance in its 12/31/20x2 financial statements.

For an example of the effective date in (c) above, see the Knowledge Check that follows.

7. How can you determine whether pending content is relevant to your research question?
8. Assume it is the year 20x1, and your company has a calendar year-end. The FASB has just issued new guidance with the transition requirements described in (c) above. In what period’s financial statements must this guidance first be applied?

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**Understanding Sections**
Let’s take a moment to practice your understanding of how guidance is organized within sections of the Codification. For this example, we’ll use guidance from possibly one of the most daunting topics in the Codification—Derivatives (ASC 815).

As you’ll notice in this example, the guidance within a topic becomes much more approachable once you understand how it is organized. In this example, your challenge is to match excerpts from the Derivatives topic to the section in which the excerpt is located.

That said, this example includes merely a sample of the extensive guidance included within Topic 815. For simplicity, many of the paragraphs included in this example have been excerpted.

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Match the excerpt to the appropriate section (ASC 815)

1. An entity shall recognize all of its derivative instruments in its statement of financial position as either assets or liabilities depending on the rights or obligations under the contracts.

2. Definition of a derivative instrument
   A derivative instrument is a financial instrument or other contract with all of the following characteristics. . . .

3. An entity with derivative instruments . . . shall disclose information to enable users of the financial statements to understand all of the following:
   a. How and why an entity uses derivative instruments (or such nonderivative instruments)
   b. How derivative instruments (or such nonderivative instruments) and related hedged items are accounted for under Topic 815 . . .

4. This section provides guidance on the following implementation matters:
   a. Determining whether a contract is within the scope of this Subtopic
   b. Unit of accounting—a transferrable option is considered freestanding, not embedded
   c. Definition of derivative instrument
   d. Instruments not within scope

5. All derivative instruments shall be measured initially at fair value.

6. 1. All derivative instruments shall be measured subsequently at fair value.
   2. . . . . Except as noted in the following paragraph, the gain or loss on a derivative instrument not designated as a hedging instrument shall be recognized currently in earnings.

7. Unless the conditions in paragraph 210-20-45-1 [Balance Sheet > Offsetting] are met, the fair value of derivative instruments in a loss position shall not be offset against the fair value of derivative instruments in a gain position.

Sources: ASC 815-10, paragraphs 15-83, 25-1, 30-1, 35-1 and 35-2, 45-4, 50-1, 55-1.

Identify the section (A–G) corresponding to each numbered excerpt above.

1. ______ 2. ______ 3. ______ 4. ______ 5. ______ 6. ______ 7. ______

SEARCHING THE CODIFICATION

Please log into the Codification, and follow along while you read this section. Instructions for accessing the Codification are provided in the Preface to this book.

Several methods are available for searching the Codification:

1. **Browse** by topic, clicking through the left-hand menu hierarchy to reach the desired entry.
2. Search by **keyword**, using the Search/Advanced Search feature.
3. Jump directly to guidance using the FASB ASC reference number (e.g., type in ASC 820-10-30-1 to jump directly to fair value measurement guidance).

4. Cross-reference by the “historical” GAAP designation (e.g., type in FAS 157 to be directed to ASC 820).

5. Search using the Master Glossary, finding a keyword of interest and clicking on that word to be directed to the guidance.

Beginning researchers may have an initial tendency to search using the “Search” feature, as this feature has the same feel as a Google search. However, the FASB suggests that researchers use the “Browse” feature as a starting point when conducting research, when possible. Indeed, experienced researchers will find that Browse searches are the most efficient search method, as the researcher can direct the search.

These five search methods are discussed further in the following section. Additionally, the following section addresses how to know when your search effort has been thorough. It is often not enough to navigate to guidance that appears to be on point, then to move on. We’ll provide a checklist of sources that researchers should treat as “required reading.”

**Browse Feature**

Now that you have a basic understanding of how the Codification is organized, you are capable of performing basic searches using the **Browse** feature.

The Browse feature is essentially a user-directed search. You, as the user, will click through a series of topics and subtopics that will, with a little experience, take you right to the appropriate guidance for a given transaction. As your understanding of the Codification increases, your efficiency in performing this search will improve.

The starting point in a Browse search is to locate the specific topic and subtopic that you are searching for. See Figure 2-5, illustrating a researcher browsing to the Loss Contingencies subtopic within the Codification. Once you reach the appropriate subtopic, you are ready to locate the appropriate sections and paragraphs that apply to your search.

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**Figure 2-5**

Example of a Browse search

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As discussed earlier in this chapter, the first section you should read, if you are unfamiliar with a subtopic, is the Overview section (05). Next, consult the Scope section (15) to confirm that your specific transaction is within the scope of this guidance. Then, think about what question you are asking: Is it about Recognition? Initial Measurement?

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Go to the appropriate section, and find guidance applicable to your search question. Let’s assume that relevant guidance was available in par. 1 under Recognition. You’ve found your answer; you’re done, right?

No. There are several important additional steps that you should “check off” before you can be confident that your research effort was thorough. In particular, treat any relevant Implementation Guidance and SEC content (particularly for public companies) as required reading. Often, the interpretive guidance located in these sections can confirm or change your view of how the guidance should be applied. While only public companies are required to follow SEC guidance, public and nonpublic companies alike can benefit from the SEC’s interpretations of GAAP. Also, remember that these sections are equally as authoritative as other sections within the topic.

Figure 2-6 illustrates the following steps:

1. First, confirm that your transaction (or entity) is within the scope of the guidance you are searching.
2. Next, find guidance that appears to respond to your search question by navigating to the section that you anticipate is most relevant. For example, after confirming that your transaction is within the scope of a topic, head straight to “Recognition” for questions about recognizing an asset.
3. Ensure that you have read any preceding paragraphs that are related (for example, pay attention to the hierarchy of paragraphs, indicated by “>”), as discussed earlier in this chapter.
4. Skim the rest of the section you are searching (for example, the Recognition section), to ensure that you have considered all relevant guidance. Subsequent paragraphs within that section may offer additional detail or situation-specific guidance that you should consider. Pay particular attention to boldfaced headings used to organize paragraphs, as they can assist you in quickly determining whether groups of paragraphs are potentially relevant.

Figure 2-6: A checklist of required reading
5. Next, review the list of topics included within the Implementation Guidance section of the Codification (55). In some cases, the first paragraph of the Implementation Guidance section includes a list of the topics it addresses; in other cases, you may have to skim through the guidance, reviewing for potentially relevant headings. For example, look for headings related to recognition.

6. Finally, particularly for public companies, check whether relevant SEC guidance is available. For example, see whether a section numbered S-25 (Recognition) is available for this topic. Beware: Creators of the Codification did not want to change content issued by the SEC; therefore, any content not fitting neatly within separate sections (e.g., S-25 for recognition) is available under S-99. Researchers searching for recognition guidance should check both sections: S-25 and S-99.

Be patient; it may initially be frustrating to use the Browse feature as your primary means for searching the Codification. However, it is essential that you learn how the guidance is organized. You will become more efficient with practice.

The following example illustrates how Implementation Guidance can assist in interpreting content within the Codification.

**EXAMPLE**

**Understanding Why Implementation Guidance (Section 55) Is Integral to Your Browse Search**

Assume that a customer slipped and fell in ABC Grocery, but the customer has not yet filed suit. Should ABC Grocery record a loss, due to the possibility that the customer will file a lawsuit? If the customer does file suit, the amount of loss is expected to be approximately $100,000.

*ASC 450-20* (Loss Contingencies) states:

25-2 An estimated loss from a loss contingency shall be accrued by a charge to income if both of the following conditions are met:

a. Information available before the financial statements are issued or are available to be issued . . . indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements . . .

b. The amount of loss can be reasonably estimated.

The preceding guidance states that a loss should be recorded if it is probable that a liability has been incurred; this determination involves judgment. Experienced researchers know that additional guidance, when available, can assist in framing judgmental issues. After finding this guidance under Recognition, look for Recognition guidance in the Implementation Guidance section (55) of the Codification. There, you can find the following guidance even more specific to this issue:

**Assessing Probability of the Incurrence of a Loss (ASC 450-20)**

55-14 With respect to unasserted claims and assessments, an entity must determine the degree of probability that a suit may be filed or a claim or assessment may be asserted and the possibility of an unfavorable outcome. If an unfavorable outcome is probable and the amount of loss can be reasonably estimated, accrual of a loss is required by paragraph 450-20-25-2.

Armed with this guidance, management should consider the probability that a suit will be filed, as well as the probability of an unfavorable outcome. Both guidance references (par. 25-2 and par. 55-14) should be cited in a memo documenting the position taken. Note: Even if no accrual is made, it is a best practice to document the basis for such a judgment.
As noted, particularly for public companies, SEC content often can be equally as critical as FASB content.

**EXAMPLE**

**Understanding Why SEC Content (Section “S”) Can Be Integral to Your Browse Search**

Consider the following requirements from the Codification regarding when revenue can be recognized.

*ASC 605-10-25-1* (Recognition) requires that revenue, in order to be recognized, must be both realized or realizable and earned.

*ASC 605-10-S99-1* (SEC guidance) states: “The staff [of the SEC] believes that revenue generally is realized or realizable and earned when all of the following criteria are met: . . .”

The SEC guidance goes on to list the following criteria for revenue recognition:

- Persuasive evidence of an arrangement exists.
- Delivery has occurred or services have been rendered.
- The seller’s price to the buyer is fixed or determinable.
- Collectibility is reasonably assured.

If a public company is documenting its policy for recognizing revenue, the documentation would be lacking if it did not include consideration of both sources of literature just shown.

Notice how the preceding SEC guidance came from Section S-99? As noted under the research checklist in this chapter, SEC content not clearly fitting within a single section (such as S-25 for recognition) is available under S-99. A researcher in this case should check for SEC recognition guidance in both Sections: S-25 and S-99.

Finally, this section on Browse searching concludes with a **TIP from the Trenches**.

New researchers may find it helpful to take advantage of the “Join All Sections” button available for each subtopic. This button displays all subtopic content on one page. For example, assume you are looking for a term (e.g., “collectibility”) that you know is somewhere within the revenue recognition overall subtopic. Select “join all sections” to put the full content of the subtopic on one page, then search the page for the term “collectibility” using “ctrl + F” (find).

9. **Which Codification search method should you try to use most often (e.g., Browse, text search)?**
10. **Why is it critical to review Implementation Guidance (Section 55) and SEC content, if available?**
11. **Describe how, in the preceding contingent liability example, the Implementation Guidance (Section 55) goes beyond the Recognition guidance (Section 25).**
12. **What four conditions for revenue recognition are provided in the SEC content, but are not in the FASB content, as just listed?**
Keyword Search (using the search bar, the advanced search tool, and identifying search terms)

A keyword search (i.e., a text search) is most useful when you are looking for a specific term in the guidance, or when you are uncertain where you would begin a browse search. For example, assume you want to find guidance on “involuntary conversions.” Unless you have experience with this topic, you would likely not know that this term is addressed primarily in revenue recognition guidance. In this case, a keyword search would be appropriate.

When a researcher performs a keyword search, the results of the search are listed by topic and include an excerpt from the guidance containing the term. As this type of search allows researchers to see a term in multiple contexts, keyword searches can be a useful brainstorming tool. Researchers can choose to pursue one or several search results, or the results can be used to generate ideas for other search terms that might be effective.

Figure 2-7 illustrates a simple search for the term “involuntary conversion” (see search bar at top right). Notice that seven search results were found, in areas including Revenue Recognition, Liabilities, and Broad Transactions. Researchers seeking to narrow instances of this term to a single (or multiple) areas—or by related term—can use the “Narrow” option shown on the right-hand side of Figure 2-7.

Users can choose to conduct either simple or advanced searches. A simple search involves a simple empty search bar, similar to Google. This is the type of search illustrated in Figure 2-7. Note the following about the simple keyword search:

- Multiple terms: Entering troubled debt is equivalent to searching for troubled and debt.
- Phrases: To search for an exact phrase, use quotes. For example, entering “development stage” returns results about Development Stage Entities.
- Singular/plural: A search for either intangible or intangibles will yield the same results.

An advanced search offers additional search options. For example, users can enter a phrase, such as involuntary conversion and can elect to search for

- “any” words (results will display any guidance containing the word involuntary OR conversion),
- “all” (results will display any guidance containing both involuntary AND conversion),

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“exact phrase,” or
- words that occur within “n” words of each other (for example, users can specify that involuntary and conversion must be within five words of each other).

The advanced search feature also allows users to choose a specific area to search; for example, a user could specify upfront that search results for involuntary conversion must be from the Revenue area. Figure 2-8 illustrates an advanced search for the exact phrase involuntary conversion, limited by area.

**Identifying Search Terms**

Keyword searches are based on specific language. Therefore, you must use proper search terms (terms that are actually found in the guidance), or you will not find the appropriate guidance.

Search terms are obviously necessary for performing keyword searches, but they have other uses, as well. For example, search terms can be used to quickly find key guidance on a page during a browse search (using the “find word on page” shortcut, or “ctrl+f”). Search terms also can help a researcher maintain focus during Codification searches, as beginning researchers can occasionally start reading guidance and lose sight of what they were looking for. Keep your search terms at top of mind to maintain efficiency and focus during a search for guidance.

Identifying search terms can be a sort of brainstorming exercise. Write down all possible terms that you think might be useful, including words that may be synonymous with other search terms you have identified. With time, you’ll learn the terms used most commonly in the accounting literature.

After entering a search term, a researcher will be directed to a search results page. At this point, a researcher can choose to pursue one or several search results, or the researcher could use the results to generate ideas for other search terms that might be effective.

Following are steps a researcher can take to determine whether a result he or she has pursued is relevant (and if not, what to do):

1. If you see a paragraph in the search results that appears to be directly on point, follow your instinct! Read that paragraph and determine whether it is responsive to your question.
2. If, however, the search results just lead you to a topic but no perfect paragraph, begin by reviewing the Overview and Background section of that topic. See whether the guidance appears to be on the right track for your search.
3. Next, review the scope section for the topic. Is your issue within the scope of this guidance?
4. As you perform the preceding steps, take note of other useful terms, or links to other related guidance. Perhaps these clues will lead to more relevant guidance, if what you’re reading is not already on point.
Finally, if you have hit a “dead-end” (the guidance doesn’t appear to apply, and you have not successfully identified alternate search terms), scroll down to Section 60 of that topic (Relationships). This section includes links to other related standards; reviewing this list might trigger ideas, as well.

Following are two examples illustrating the brainstorming exercise involved in identifying search terms. Note that a “researchable question” has been identified for each situation below. Researchable questions are discussed further in Chapter 3.

EXAMPLE

Situation 1:
Company A (your company) has acquired 51% of the common stock of Company B.

- Researchable question: How should Company A account for its investment in Company B?
- Possible search terms: equity investment, acquisition, investment, equity method, consolidation, consolidate, majority owner

Commentary—Situation 1:
Very little information is given about this situation; additional facts would be needed before an accounting position could be selected. That said, we have sufficient information to brainstorm some possible initial searches.

Unfortunately, beginning researchers often have to learn through trial and error which search paths are most effective for a given situation. For example, guidance on whether to consolidate an investee is located under the topic “Consolidation” (under the “Broad Transactions” area). A search for the term “acquisition,” on the other hand, will generally land you in business combinations guidance, which describes how to consolidate a majority-owned subsidiary. In this case, therefore, a search for “consolidation” would be more effective than guidance on “acquisitions,” since you need to decide whether consolidation is required.

A search for the terms “majority” or “majority owner” are likely to lead a researcher to click on the Consolidation topic, so these terms would be effective. However, a search for the term “equity investment” or “equity method” will land researchers in guidance that does not apply, given that this situation involves a purchase of greater than 50% of the outstanding common shares of an entity. Reviewing the Overview or the Scope guidance in these topics will indicate to the researcher that another search term should be tried.

With a little experience, you will learn to browse right to the “Consolidation” topic for this issue. This is appropriate because a purchase of greater than 50% of an entity’s common stock generally results in consolidation (assuming the investee’s capital structure is fairly simple). The Consolidation topic also addresses the accounting for an investor’s involvement in more complex “variable interest entities.”

EXAMPLE

Situation 2:
Company A (original debtor) has paid $10 million to Company B to assume its liability to pay off a 10-year loan obligation, payable to Bank. Bank agrees to release Company A from its payment obligation, but only on the condition that Company B assumes the obligation and that Company A will still pay if Company B defaults.

- Researchable question: Can Company A remove the loan obligation to Bank from its financial statements?
- Possible search terms: debt extinguishment, liability extinguishment, liability derecognition, secondary liability, guarantee, primary obligor, secondarily liable

Continued

[FASB Accounting Standards Codification topic 810-10 (Consolidation).]
Commentary—Situation 2:
Ultimately, the most relevant guidance for this research question would be found by keying “secondarily liable” into the search bar. Researchers would be directed to the derecognition section of the Liability Extinguishments topic (ASC 405-20-40), which indicates that the original debtor becomes a guarantor and must recognize a guarantee obligation.

Researchers entering “debt extinguishment” into the search bar will be led to guidance that includes links to the liability extinguishments topic; however, researchers unfortunately might overlook those links and get stuck reading a lot of guidance that does not apply.

A search of the term “guarantee” would result in guidance indicating how to value a guarantee, but such guidance doesn’t indicate whether this arrangement should be recorded as a guarantee. A link to liability extinguishment guidance is available in the Relationships section of the guarantee topic.

The lesson: Using the wrong search term will often get you close to the right guidance. You just have to keep your eye out for links, and follow one source of guidance to the next. Do not try to fit a round peg in a square hole; if it seems like the guidance page you are reading isn’t clear in responding to your question, look for links to related content or try another search term.

Identifying Search Terms
Read the following practice scenarios, then brainstorm search terms you would use to look for relevant guidance. Identify at least two possible search terms.

1. A company ships its widgets to a customer on December 31 but has not yet collected payment from the customer. The customer has promised to pay within 30 days but has never purchased goods from the company before.

   Possible search terms to use in researching the company’s accounting for the sales?
   a. ______________________
   b. ______________________

2. A customer is suing the local grocery store for a slip-and-fall incident. The grocery store believes the lawsuit will likely be considered frivolous and rejected by the court.

   Possible search terms to use in determining whether the grocery store should record or disclose the matter?
   a. ______________________
   b. ______________________

3. An investor is suing a corporation that has just absorbed another entity in a merger. The investor is alleging that the corporation overstated the values of certain equity investments on its balance sheet, which were acquired during the merger.

   Possible search terms to use in determining how the corporation should have valued the acquired investments?
   a. ______________________
   b. ______________________

Often, even using the wrong search term initially will lead you to the right answer eventually, if you keep following “leads” that appear to be potentially relevant. This is all part of the process; you will become more efficient with time.
Chapter 2 | The FASB Codification Research System

Caution: In some circumstances, keyword searches are inefficient (which is why, when possible, browse searches are preferable). Assume you need guidance on accounts receivable. A simple search for this term returns 47 search results, as shown in Figure 2-9. Notice how these search results would have a researcher running every which way, trying to identify the most relevant guidance. Of course, a researcher could “Narrow” the search by area or related term, but wouldn’t a browse search for this topic be much simpler?

![Figure 2-9](image)

First four search results for the term “accounts receivable”

Knowledge Check

13. When is it most appropriate to use the keyword search feature?

Search by ASC Reference Number

Researchers can use the “Go To” feature to jump directly to specific content, by typing in the content’s ASC reference number. Figure 2-10 illustrates the use of this feature. In this example, entering 605-10-25-1 in the box at top left takes the researcher directly to revenue recognition guidance.

![Figure 2-10](image)

Using the Go-To box

Cross Reference Tab

The Cross Reference feature allows users to link Codification topics with the original standards that were used to populate the Codification. Users can either key in the number of an original standard and be directed to the corresponding Codification topic, or they can key in the Codification topic number to find the original standard number. For example, entering FASB Statement No. 157, Fair Value Measurements (FAS 157) into a cross-reference search directs users to ASC Topic No. 820 (Fair Value Measurement), as illustrated in Figure 2-11.

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The FASB continues to make its original pronouncements available on its website, as well as through a link included in the Codification (to “Pre-Codification Standards”). Chapter 4 discusses circumstances in which it can be valuable to reference pre-Codification standards.

Master Glossary

The Master Glossary is another useful starting point for researchers seeking further information about a specific term. Click on any term in the Master Glossary, and you will be directed to where that term is used within the Codification. Beware that some terms listed in the Glossary are listed more than once, and the definitions may differ slightly depending on what topic they are used in. Review all duplicate terms before deciding which context best fits the topic you are searching. Individual topics also include Glossaries (Section 20), which define terms specific to that topic.

CHAPTER SUMMARY

The FASB Codification is the essential source of authoritative accounting guidance for nongovernmental entities. Over the years, the guidance in the Codification has been created by a number of standard setters, but today it is the FASB that carries the torch, continually revising guidance included within the Codification. Content within the Codification is organized by topic, and then further segregated into subtopics and sections. For a research effort to be thorough, certain of these sections must be included in every search. Although several methods are available for searching the Codification, users will likely find that user-directed “Browse” searches are most efficient. With practice, you will become increasingly comfortable searching the Codification.

REVIEW QUESTIONS

1. Explain what it means for the Codification’s guidance to be “authoritative.”
2. Aside from the FASB, name three other standard-setting bodies whose guidance is included in the Codification.
3. What entities does guidance in the Codification apply to?
4. Is all SEC guidance contained within the Codification, and is SEC guidance considered authoritative for all entities?

5. In which area of the Codification would a researcher begin a Browse search for the Leases topic?

6. Which section, within the Inventory topic, is most relevant if you are interested in understanding the effects of inventory obsolescence?

7. Which section, within the Revenue Recognition topic, tells you whether revenue can be recorded at the time of sale for a product with a right of return attached?

8. Which search method does the FASB suggest that researchers use as a starting point when conducting research? (This is also generally the most efficient search method.)

9. Which additional areas in the guidance are considered “required reading” for a researcher who has found general guidance in the Initial Measurement section, but who needs to be sure his or her search was thorough? (Name three other areas the researcher should consider.)

10. What is the name of the guidance currently issued by the FASB to update the Codification? Is this guidance considered “authoritative” in its own right?

11. When should a researcher rely on guidance shown under “Pending Content” instead of existing content?

**EXERCISES**

Use the FASB Codification to answer the following questions. There is a specific, correct answer to each of the following questions. Keep looking in the Codification until you find the reference that directly responds to these questions.

1. Suppose you wanted to understand which types of receivables should be classified (presented) on the balance sheet as “current assets.”
   a. Show how you would navigate to the appropriate guidance using the “browse topics” feature on the left side of the screen. (example: liabilities-contingencies-loss contingencies-initial measurement)
   b. Now provide the numerical ASC reference for the relevant guidance, down to the paragraph.
   c. What search term(s) might I enter, if I wanted to perform a keyword search to locate this guidance?
   d. What is the Codification reference (ASC xxx-xxx) if I were looking specifically for guidance on agriculture receivables? Hint: This is an industry-specific topic.

2. Go to the tab entitled “cross reference” on the Codification homepage. What is the ASC overall topic (ASC xxx) that corresponds to FASB Statement No. 154?

3. Use the “advanced search” feature (search by exact phrase) to answer part (a).
   a. Find the ASC reference (ASC xxx-xx-xx-x) for the following guidance excerpt: “Rent shall be charged to expense by lessees (reported as income by lessors) over the lease term as it becomes payable (receivable).”
   b. Does this guidance (that is, the ASC topic just identified) apply to mineral exploration (mining) rights? Describe why or why not. Cite your source.

4. What is the ASC reference (ASC XXX)—down to the paragraph level of detail—for the following? Please respond using complete sentences.
   a. Criteria for determining whether a lease should be classified as capital versus operating
   b. Criteria for determining whether information about an operating segment should be reported separately (i.e., as a reportable segment) in the notes to a company’s financial statements
   c. Guidance on whether Treasury share transaction guidance in the Codification applies to nonpublic entities
   d. Guidance indicating which assets are generally classified on the balance sheet as “current assets”

5. Answer the following using the FASB Codification and cite your sources (down to the paragraph[s]). Please respond using complete sentences.
   a. Is SEC guidance considered authoritative GAAP, and is all SEC guidance housed within the Codification?
   b. Provide two examples from the Codification of “nonauthoritative” sources of GAAP.
   c. Name a circumstance in which a company selling a product subject to a customer right to return cannot recognize revenue at the time of sale.
   d. In determining whether the equity method should be applied to an investment in common stock, an investor should consider whether it can exercise significant influence. Significant influence is characterized by certain quantitative factors (20% ownership) and qualitative factors. What are two of the qualitative factors an investor should consider?
CASE STUDY QUESTIONS

For the following case studies, please respond in a brief paragraph (for part 1 of each case study). Start a new paragraph to respond to part 2. In your responses, remember that you are being asked not only to locate the appropriate guidance, but also to apply it to the case facts presented.

Sales Incentives  Rainbow Printers ("Rainbow") offers its customers payment terms of 2/10, n/30, where purchasers making payment within 10 days of product receipt will receive a discount of 2% off the purchase price, or must pay the full balance due within 30 days. Rainbow has just received payment from a new customer who paid within the 10-day window and is thus entitled to the 2% discount. This discount will not result in a loss to Rainbow on the sale of the product. Rainbow needs your help to determine when the 2% sales incentive should be recognized, and how it should be recorded—as a reduction in revenue, or as a cost of sales?

Required:
1. Citing guidance from the Codification, explain how Rainbow should account for the sales incentive.
2. Explain to Rainbow’s management how you located the relevant guidance, including search method used and which section you searched within the appropriate topic.

Derecognition of a Liability  Alliance Corp has a $1 million note payable due to its founder, Tom Baker. Mr. Baker is recently deceased and has no heirs that Alliance Corp’s executive team is aware of. Alliance Corp has asked for your help to determine whether it is appropriate to derecognize the liability from its financial statements.

Required:
1. Citing guidance from the Codification, respond to Alliance Corp.
2. Explain to Alliance Corp’s management how you located the relevant guidance, including search method used and which section you searched within the appropriate topic.

Asset Classification  Jones Brothers purchased U.S. Treasury notes 5 years ago, which are now 2 months away from maturity. Jones Brothers has asked you whether it is appropriate to reclassify these notes into the “current assets” category of its balance sheet.

Required:
1. Citing guidance from the Codification, respond to Jones Brothers.
2. Explain to Jones Brothers' management how you located the relevant guidance, including search method used, and which section you searched within the appropriate topic.