FASB Codification of GAAP

September 24, 2009 – 3:00pm Eastern

We’ll be starting soon

If you experience any technical difficulties, please contact 888.228.4388 or support@learnlive.com

Awarding CPE for this session

<table>
<thead>
<tr>
<th>In general</th>
<th>The rule</th>
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<tbody>
<tr>
<td>Respond to all polling questions</td>
<td>Respond to at least 75% of the polling questions to pass with full credit</td>
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<tr>
<td>Group participation will not receive CPE</td>
<td>You have to be logged in individually to receive credit</td>
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</table>

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Addressing your questions through Q&A

**Step 1**

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**Step 2**

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Other helpful features you can use
Learning objectives

- Describe the FASB’s objectives in developing the Codification
- Describe what is included in and excluded from the Codification, and how it is structured
- Describe how the Codification facilitates research
- Describe what actions you should take as a result of the Codification
Agenda

• What is the Codification?
  – Purpose
  – Content
  – Structure

• What does the Codification launch mean to you?
  – Research
  – Updating documentation

Description

• The *FASB Accounting Standards Codification*™ (“Codification”) is the single source of authoritative nongovernmental U.S. GAAP, except for SEC guidance

• It is included in a topical online research system

• It eliminated levels a through d GAAP and replaced with authoritative and nonauthoritative

• SEC rules and interpretive releases are also authoritative GAAP for SEC registrants
Why FASB developed the Codification

• To address weaknesses identified in previous GAAP structure
  – U.S. GAAP was unwieldy, difficult to understand, and difficult to use
  – Appropriate authoritative guidance was difficult to retrieve under previous structure, with numerous authoritative standards from various standard-setters
• To simplify standard-setting process and align with FASB’s objectives

Benefits of the Codification

• All non-SEC authoritative guidance in one place
• Updates and additions to guidance will be incorporated into appropriate topics rather than by standard setter
• Users can have more confidence that all authoritative guidance has been reviewed or considered in researching an accounting matter
Statement 168

- FASB Statement 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles*, established the Codification as the sole source of authoritative nongovernmental U.S. GAAP

- Statement 168 supersedes Statement 162, which defined the U.S. GAAP hierarchy prior to the Codification (Levels a through d)

- Statement 168 was the last numbered Statement that the FASB will issue

Effective date and transition

- The Codification was **launched** on July 1, 2009

- The Codification is **effective** for financial statements for interim and annual periods ending after September 15, 2009
Effective date and transition

- Significant transitional issues are not expected, except if a nonpublic entity is adopting the AICPA TIS guidance on software revenue recognition.
- Transition and effective date guidance is provided for nonpublic entities adopting AICPA TIS on software revenue recognition.

Changes

- Codification was not intended to change U.S. GAAP.
- Language from the original pronouncements was edited for consistency and certain words were changed (for example, “should” and “must” were replaced with “shall”).
- If you believe that adoption of the Codification requires a change in accounting policy, consult with your accountants.
Guidance included in the Codification

- Standards included in Levels a – d of the previous U.S. GAAP hierarchy
- Guidance from the FASB, EITF, Derivative Implementation Group, Accounting Principles Board, and AICPA
- Certain guidance that was not previously considered authoritative GAAP has been included in the Codification and thus made authoritative

Guidance included in the Codification

- SEC guidance is included in the Codification for convenience
- SEC guidance presented in the Codification is not complete
- SEC continues to have authority for updating and amending SEC accounting guidance
Guidance included in the Codification

AICPA Technical Inquiry Service (TIS) guidance for software revenue recognition (Section 5100 paragraphs 38-76) has been elevated for non-SEC registrants.

Guidance excluded from the Codification

- Governmental accounting standards
- Standards that were outdated or superseded as of December 31, 2008
- Grandfathered material
- Guidance for non-GAAP matters such as cash or income tax basis accounting
Ongoing standard setting process

• The Codification will be updated by Accounting Standards Updates (ASUs) issued by the FASB
• These will include:
  – Background
  – Basis for conclusions
  – Update instructions
• ASUs are not authoritative in their own right
• ASUs may be accessed via the FASB website
• ASUs are numbered by the year and a sequential identifier (for example, 2009-01)

Ongoing standard setting process

• No change to FASB due process
• Guidance will continue to be exposed for comment in the same manner as prior to the launch of the Codification
• EITF will continue to deliberate issues on its agenda and reach consensuses-for-exposure
• Regardless of the standard-setter that exposes the guidance for comment (FASB, EITF), it will be incorporated into the Codification via an ASU
Structure

Sections

<table>
<thead>
<tr>
<th>Section</th>
<th>Name</th>
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<td>Status</td>
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<tr>
<td>05</td>
<td>Background</td>
</tr>
<tr>
<td>10</td>
<td>Objectives</td>
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<td>Scope</td>
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<td>20</td>
<td>Glossary</td>
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<td>25</td>
<td>Recognition</td>
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<tr>
<th>Section</th>
<th>Name</th>
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<tbody>
<tr>
<td>30</td>
<td>Initial Measurement</td>
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<tr>
<td>35</td>
<td>Subsequent Measurement</td>
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<td>Disclosure</td>
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<td>55</td>
<td>Implementation</td>
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Agenda

- What is the Codification?
  - Purpose
  - Content
  - Structure
- What does the Codification launch mean to you?
  - Research
  - Updating documentation
Codification changes

- How you reference accounting guidance
- How you research accounting issues

Referencing

To reference guidance from the Codification, the convention is to refer to “FASB ASC” followed by the topic, subtopic, section, and paragraph(s)

<table>
<thead>
<tr>
<th>Guidance</th>
<th>Reference</th>
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<tr>
<td>Leases - Topic</td>
<td>FASB ASC 840</td>
</tr>
<tr>
<td>Operating leases - Subtopic</td>
<td>FASB ASC 840-20</td>
</tr>
<tr>
<td>Lessees subsections in operating leases subtopic</td>
<td>FASB ASC 840-20, “Lessees” subsections</td>
</tr>
<tr>
<td>Disclosure requirements section in operating leases subtopic</td>
<td>FASB ASC 840-20-50</td>
</tr>
<tr>
<td>Specific disclosure requirements at the paragraph level</td>
<td>FASB ASC 840-20-50-1 through 50-2</td>
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General

05.1 The Leases Topic includes the following Subtopics:

a. Overall
b. Capital Leases
c. Operating Leases
d. Sale-Leaseback Transactions.

05.3 These Subtopics establish standards of financial accounting and reporting by lessees and lessors for all types of leases overall, and for specific types of leases according to their classification as capital leases, operating leases, or sale-leaseback transactions, respectively.
Research
Joining sections

Example: Join “Scope” sections under the “Leases” topic

Research
Combining subsections

Example: Combine “Lessees” subsections under the “Operating” subtopic
**Actions you need to take**

- Obtain access and become familiar with the Codification
- Update references in accounting policies and disclosures
- Discuss anticipated changes with auditors
  - Evaluate whether it is an error or a change resulting from change to literature

**Updating policies and disclosures**

- Accounting policy documentation should be updated to replace legacy references to authoritative literature
- Financial statement disclosures must be updated to replace legacy references to authoritative literature
  - Plain English
  - Codification references
Since September 1, 2005, the Company has recorded compensation expense for its employee stock options and share purchase rights in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123R, "Share-Based Payment" ("SFAS No. 123R"). Compensation expense is recognized over the requisite service period for awards of equity instruments to employees based on the grant-date fair value of those awards expected to ultimately vest (with limited exceptions). Forfeitures are estimated on the date of grant and revised if actual or expected forfeiture activity differs materially from original estimates.

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Disclosures – revised, Codification references

Since September 1, 2005, the Company has recorded compensation expense for its employee stock options and share purchase rights in accordance with the provisions of FASB ASC 718, Compensation - Stock Compensation. Compensation expense is recognized over the requisite service period for awards of equity instruments to employees based on the grant-date fair value of those awards expected to ultimately vest (with limited exceptions). Forfeitures are estimated on the date of grant and revised if actual or expected forfeiture activity differs materially from original estimates.

Accounting changes

- If an accounting change results from adopting the Codification, it should be accounted-for as a change in accounting principle or correction of an error under ASC 250, Accounting Changes and Error Corrections
- We don’t expect that there will be changes in accounting principles due to the Codification, outside of those related to nonpublic entities’ adoption of portions of AICPA TIS 5100
Summary

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Resources

• Grant Thornton On the Horizon bulletins (May 4 - July 20)
• Grant Thornton New Developments Summary 2009-27
• FASB Notice to Constituents
• FASB and AICPA websites
Wrap up

• Launch of Codification marks a significant shift in how we research and reference accounting guidance
• Access Codification and become familiar with its functionality
• Begin referencing accounting guidance using the Codification referencing scheme
• Discuss Codification with your auditors

Any final questions or comments?

Please type in your questions at any time.
Thank you for attending.

After the program:
- Respond to online evaluation form
- Print your CPE Certificate from a CPE confirmation email
- Note: Group participation will not receive CPE
- Download today's slides as a reference resource

For questions regarding your CPE certificate, contact Learnlive at 888.228.0988

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