

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.

TIP from the Trenches

Describe what types of entities the Codification applies to. Does it apply equally to these entities? Explain.

Now YOU Try
1.1

What Sources of Guidance Were Used to Populate the Codification?

The Codification is an aggregation of many, many accounting standards issued over the course of the past century. These include, for example,⁴

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

LO2 Identify standard setters that have contributed to the current body of authoritative guidance.

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) and
- The Accounting Principles Board (APB), which issued APB Opinions.

In 2009, when the guidance from these original standards was moved into the Codification, the original standards were superseded and became *nonauthoritative*.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.

Figure 1-1 depicts the many sources of guidance used to populate the Codification. All guidance in the Codification today has equal authority.

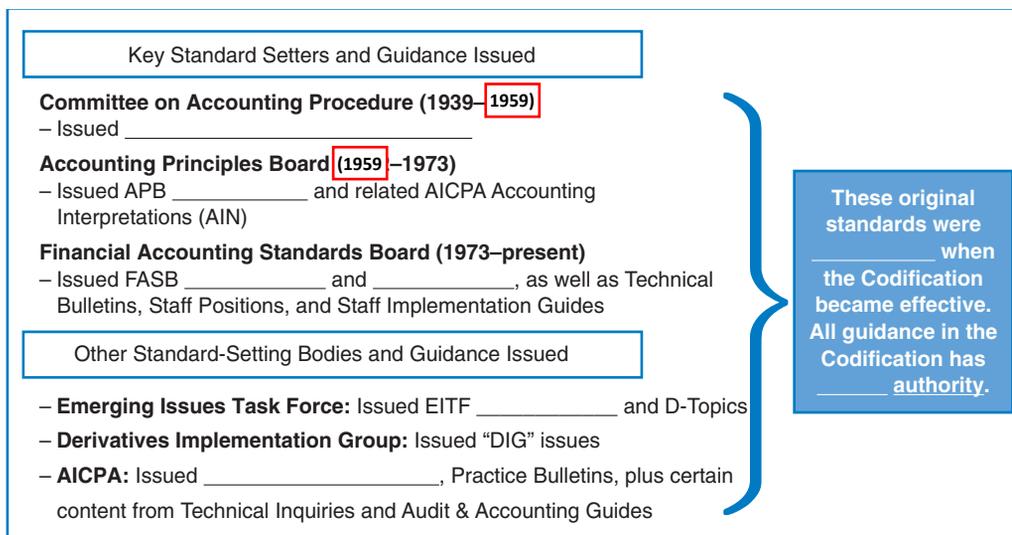


Figure 1-1

Sources of guidance used to populate the Codification

The APB was in existence from 1959 to 1973 but issued its first Opinion in 1962. The CAP was replaced by the APB in 1959.

⁴To view the complete list of guidance used to populate the Codification as of its adoption in 2009, consult the FASB notice *About the Codification*, accessible from the homepage of the Codification.

Payable to Company Founder Jensen Inc. has a \$500,000 note payable due to its founder, Jen Jensen. Ms. Jensen is recently deceased and has no heirs that Jensen Inc.'s executive team is aware of. The company has asked for your help to determine whether it is appropriate to derecognize the liability from its financial statements. 1.4

Required:

1. Respond to Jensen Inc. Describe the applicable guidance requirements, including excerpts as needed to support your response.
2. Next, explain how you located the relevant guidance, including the search method used and which section you searched within the appropriate topic.

Goodwill Accounting Alternative An “accounting alternative” is available within the Goodwill topic of the Codification (ASC 350-20), specifically as it relates to the subsequent measurement of goodwill. Locate this alternative, and explain: 1) What measurement approach does the accounting alternative permit?; 2) What types of companies are eligible to apply this accounting alternative, and where did you locate this information?; 3) How does the accounting alternative differ from the measurement requirements for companies that do not (or cannot) elect this treatment?; 4) What was the effective date for this guidance, and where did you locate this information? 1.5

Applying Transition, Effective Date Guidance You are on the audit team for a publicly traded insurance company with a calendar year-end. The company needs help understanding the FASB's recent standard (ASU 2018-12) on insurance contracts and has asked you the following questions: 1) In what annual period are we first required to apply the new standard? 2) In what interim period? 3) When we apply the new standard, are we required to recast comparative periods to conform to the new requirements? 4) What topic does this ASU update within the Codification? 5) What are some of the key changes brought about by this new standard? 1.6

For each question, explain where within the guidance (ASU or Codification) you located the information.

Early Payment Discount Jones Equipment is a private company that sells and installs HVAC systems. Jones offers payment terms of 2/10, n/30, where customers making payment within 10 days of installation will receive a discount of 2% off the purchase price or must pay the full balance due within 30 days. Jones has just received payment from a new customer who paid within the 10-day window and is thus entitled to the 2% discount. The gross sales price of the equipment and installation, before discount, was \$10,000. This discount will not result in a loss to Jones on the sale of the product and service. Jones needs your help to determine when the 2% early-payment discount should be recognized and how it should be recorded—for example, as a reduction in revenue or as a cost of sales? 1.7

1. Citing from the guidance as support, show the approximate journal entries that Jones would make upon installation of the equipment and upon receipt of customer payment. 2. Explain how you located the relevant guidance, including the search method used and which section you searched within the appropriate topic.

Case 1.7

Instruction clarification: Please use ASC 606 (the revised revenue model) and not ASC 605 (the superseded revenue model) in researching your response.

Determining Inventory Costs Pro Packs, Inc. manufactures its own backpacks, marketed to customers primarily for camping and travel needs. The company is reviewing its policy for capitalizing inventory costs and wants your help to determine whether the following costs should be capitalized as part of the cost of inventory: 1. Canvas used in the construction of the packs; 2. Zippers purchased from YKK (a supplier), including the cost of freight for the zippers to be shipped; 3. Wages paid to employees operating industrial sewing machines; 4. Electric utility bills related to operation of the plant; and 5. Contract labor paid to update and maintain the company website, through which customers can directly place backpack orders. For each cost noted, explain your position and the source you consulted. 1.8

Purchase of a Vineyard Your client has just purchased land on which it intends to build a vineyard. In doing so, the client incurs the following costs: 1) land surveys; 2) costs of leveling the land; 3) installation of fencing; 4) installation of a sprinkler system. Refer to industry guidance in the Codification to determine whether these costs should be capitalized and whether there are restrictions surrounding the capitalization period. Also, educate your client on how the Codification classifies these different types of costs. Finally, locate one other example of a cost that may be capitalized and explain any restrictions on the period during which the cost may be capitalized. 1.9

Falling Boxes On January 31, an improperly stacked box fell from the top shelf of a warehouse, injuring an employee. The employee was hit, fell, and broke his wrist. Your company self-insures for the risk of such incidents rather than paying an insurance company to absorb the risk of such claims. The employee has been treated for his injuries and has retained a lawyer. The lawyer has not yet filed a formal claim with the company. According to your internal risk management team, the amount of claim likely to be sought by the employee could range between \$50,000 and \$300,000. Is your company required to record a liability for this incident? When, and for what amount? What disclosures are required, if any? 1.10

Sale of Custom Merchandise Custom Wares is a public company that sells custom merchandise, including engraved picture frames. On December 15, the company received a purchase order and payment from a customer (Jim Burke) for the purchase of 200 custom frames. The frames will be used as a wedding favor and engraved “Jim and Jess, 2020.” 1.11