

ACC 300 · BEFORE CLASS

Before-class trivia

What animal is the most successful predator,
with a 97% success rate?

ACC 300 · SESSION 4

Understanding GAAP in the US

Which source governs the company's
accounting?

What We've Covered So Far

The accounting cycle turns economic events into financial statements.

From records to an acceptable report

1 Record transactions

Journal entries capture the company's economic events.

2 Adjust balances

Adjusting entries update the accounts for the reporting date.

3 Build statements

Adjusted balances become linked financial statements.

4 Report the results

Linked financial statements communicate the company's results and position.

What if companies chose their rules?

Imagine every company could choose its own method of accounting.

An investor's decision

Two companies report the same profit using different methods. How could you decide where to invest?

A regulator's decision

A company follows its own rules but misleads investors. How could a regulator judge its reporting?

Distinguish accounting authorities

Identify which organization and literature govern the question.

Learning objective 1.4a

UNDERSTAND ●●○○○○

Distinguish US GAAP from other standards by source and authority.

EVIDENCE OF SUCCESS

Name the FASB, the SEC, the PCAOB, and the Accounting Standards Codification.

Find authoritative GAAP

Trace a reporting question to the guidance that governs it.

Learning objective 1.4b

ANALYZE ●●●●○

Determine the authoritative US GAAP that governs a reporting question.

EVIDENCE OF SUCCESS

Locate a relevant Codification topic and identify its scope.

Evaluate financial information

Connect a reporting choice to a user's decision.

Learning objective 1.4c

EVALUATE ●●●●○

Evaluate financial information for decision usefulness.

EVIDENCE OF SUCCESS

Defend how a reporting choice helps or harms relevance or faithful representation for the stated user and decision.

US GAAP · SOURCE AND AUTHORITY

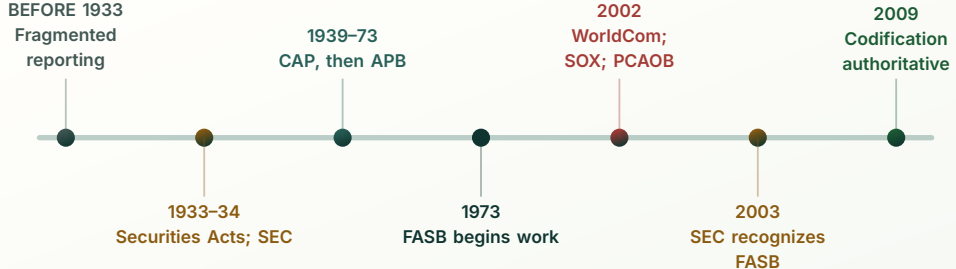
Who sets the rules?

Trace accounting standards, reporting duties, and audit oversight.

Trace US reporting authority

Federal disclosure, accounting standards, and audit oversight developed separately.

From fragmented reporting to a common system

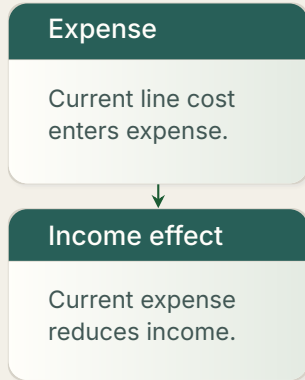


CAP: Committee on Accounting Procedure · APB: Accounting Principles Board · SOX: Sarbanes-Oxley Act

Map WorldCom's classification

One cost flows to different accounts and statements under the two treatments.

CORRECT TREATMENT



Network line costs

WorldCom used capacity supplied by other telecommunications companies.

INCORRECT TREATMENT



Source: SEC v. WorldCom, First Amended Complaint, paragraphs 1–3 and 25.

(Mis)classification: a \$2B profit

Correcting the same 2001 activity changed reported income to a loss.

Reported result

\$2.393B

Income before taxes
and minority interests

Read the correction

Correcting the unsupported capitalization produced a **\$622 million loss** before taxes and minority interests.

False capitalization also overstated assets. The network activity did not change.

The wider fraud: Income was overstated by at least \$11 billion over several years.

Sources: SEC v. WorldCom, First Amended Complaint, paragraphs 1–3;
Restoring Trust (2003), Introduction.

Assign each reporting role

The same failure can involve accounting, preparation, auditing, and oversight.

PARTICIPANT	PRIMARY ROLE	BOUNDARY
FASB	Develops US GAAP	Does not prepare statements
Management	Prepares statements	Remains responsible
Auditor	Tests and opines	Does not prepare statements
SEC	Enforces reporting rules	Does not perform the audit
PCAOB	Oversees audit firms	Does not audit issuers

Which source answers your question?

Identify the reporting system and the kind of question first.

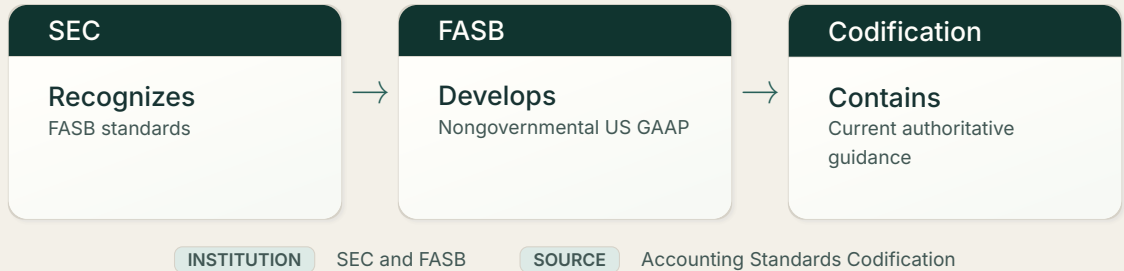
Match the question to its source

Question	Source
Accounting under US GAAP	FASB Codification
SEC filing requirements	Applicable SEC requirements
Public-company audit work	PCAOB standards
Accounting under IFRS	IFRS Accounting Standards

The International Accounting Standards Board (IASB) develops IFRS Accounting Standards.

Trace authority to the Codification

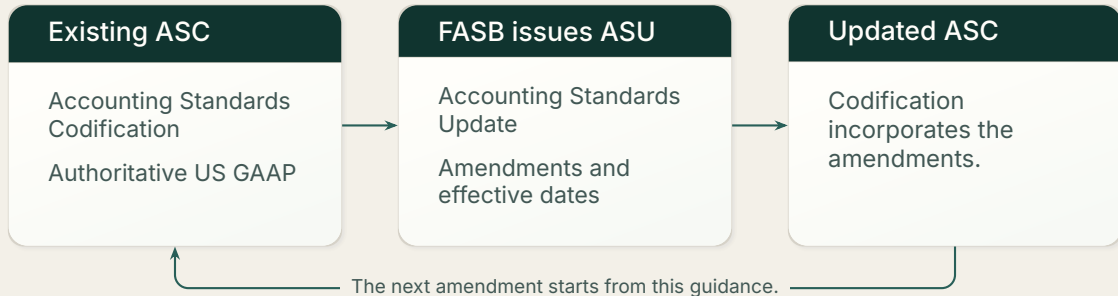
The arrows state how the agency, board, and source are connected.



How does FASB amend GAAP?

The Codification holds the guidance; an Update communicates amendments.

The SEC recognizes FASB standards for federal securities-law purposes.



An ASU is not authoritative on its own. Check when its amendments apply.

Who remains responsible?

iClicker · Question 1 of 5

Choose one answer

60 seconds

After an external audit, who remains responsible for a public company's financial statements?

- ☐ A The external auditor
- ☐ B The company's management
- ☐ C The Financial Accounting Standards Board (FASB)
- ☐ D The Public Company Accounting Oversight Board (PCAOB)

Management remains responsible

An external audit does not transfer responsibility for the financial statements.

iClicker · Answer 1 of 5

Correct answer: B

A

The external auditor

B

The company's management

Management prepares the statements and applies the accounting guidance.

C

The Financial Accounting Standards Board (FASB)

D

The Public Company Accounting Oversight Board (PCAOB)

FASB • STANDARD SETTING

The Conceptual Framework

How FASB develops and explains accounting standards.



What guides FASB's decisions?

The Conceptual Framework for Financial Reporting gives FASB a common basis for reasoning.

Develop and revise standards

FASB uses shared objectives and concepts to compare reporting choices and draft requirements.

Explain the reasoning

The concepts help FASB explain its decisions and help readers understand the reasoning behind a standard.

Which source governs the company?

The applicable Codification guidance governs the accounting. The Framework does not establish GAAP or override an ASC requirement.

Source: FASB, Non-Authoritative Concepts Statement No. 8.

The Framework developed over decades

FASB revised its concepts as it developed its approach to financial reporting.

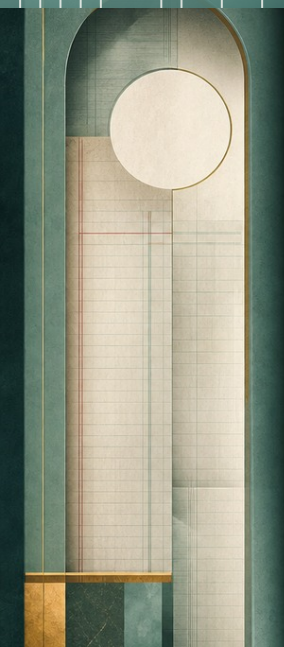
Three milestones



An authority boundary in practice

ASU 2024-02 removed unnecessary references to Concepts Statements from the Codification. The operative ASC requirements remained the authority.

Sources: SEC Chief Accountant, August 12, 2024; FASB, ASU 2024-02.



CODIFICATION · RESEARCH

How to Use the ASC

Find the topic, read the paragraph, and check what applies.

How large is the ASC?

A single accounting question sits within thousands of pages of guidance.

Breadth

About 100 topics

From revenue and expenses to specialized industries.

Volume

About 4,500 pages

Requirements, definitions, disclosures, and examples.

How does FASB organize the guidance?

Think of a library: related subjects stay together, and each item has an address.

Finding a library book

- 1 Choose a broad subject.
- 2 Narrow to the subject you need.
- 3 Use the call number to find the book.

Finding accounting guidance

- 1 Choose an ASC Area.
- 2 Narrow to a Topic and Subtopic.
- 3 Use the Section and paragraph number.

A full ASC citation lets another accountant find the same passage.

Explore the ASC's nine areas

The topic tree groups general guidance, transactions, and industry guidance.

AREA	TOPICS	SUBTOPICS	SECTIONS	SEC SECTIONS
General Principles	1	1	8	0
Presentation	15	85	639	128
Assets	11	115	1,020	96
Liabilities	9	58	484	45
Equity	1	9	92	19
Revenue	3	41	321	29
Expenses	8	76	593	44
Broad Transactions	19	110	998	94
Industry	32	353	2,399	192
Total	99	848	6,554	647

Read an ASC paragraph address

ASC 720-35-25-1 points to one paragraph about advertising costs.

Topic	Subtopic	Section	Paragraph
720 Other Expenses	35 Advertising Costs	25 Recognition: when to record an item	1 The specific passage

The address locates the text. Scope, facts, and effective dates determine whether it applies.

Use section numbers to navigate

The same section numbers identify recurring accounting questions.

SECTION	SUBJECT	QUESTION
15	Scope	Does this guidance apply?
20	Glossary	What does this term mean?
25	Recognition	When is an item recorded?
30 / 35	Measurement	What amount is reported?
45	Presentation	Where does it appear?
50	Disclosure	What must the notes explain?
55	Implementation guidance	How does the guidance work?

An S before the section number identifies SEC content, such as S50.

Large topics require precise citations

These subtopics collect hundreds of paragraphs across several ASC sections.

Examples from the Codification

Subtopic	Paragraphs
606-10 · Revenue, Overall	679
260-10 · Earnings Per Share	258
310-10 · Receivables, Overall	254
326-20 · Credit Losses, Amortized Cost	192
320-10 · Debt Securities, Overall	177

Read an Update's number

ASU 2024-02 identifies a publication, not a Codification paragraph.

2024 · Year

Issued in 2024

The year identifies publication, not the effective date.

02 · Sequence

Second Update of that year

The number does not identify an ASC Topic.

Follow the amendment into the ASC

Read the Update's affected paragraphs, effective dates, and transition instructions. Then check the Codification text for the reporting period.

Source: FASB, ASU 2024-02, Codification Improvements.

Where can you read the ASC?

Separate authoritative text from the publisher's explanations and research tools.

FASB

Authoritative GAAP

Read the Codification.

Enhanced access is free.

PwC Viewpoint

US accounting resources

Free US content. Other licensed collections may require a subscription.

Deloitte DART

Accounting research library

Public guidance plus subscription content and research features.

The Financial Accounting Foundation (FAF) licenses the text to other publishers. Free access does not grant unrestricted redistribution rights.

The ASC is authoritative; firm commentary is not. Cite the applicable ASC paragraphs, not a firm's explanation.

What follows a search result?

iClicker · Question 2 of 5

Choose one answer

60 seconds

An ASC search returns a paragraph that seems relevant. What should you check before applying that paragraph?

- ☐ A Apply the first result because it is in the ASC.
- ☐ B Use the company account name as the accounting rule.
- ☐ C Check scope, context, cross-references, and effective dates.
- ☐ D Choose the result that produces the highest income.

Check whether the guidance applies

An ASC search returns a paragraph that seems relevant.

iClicker · Answer 2 of 5

Correct answer: C

A

Apply the first result because it is in the ASC.

B

Use the company account name as the accounting rule.

C

Check scope, context, cross-references, and effective dates.

A search result is a candidate. Verify that the guidance applies to the entity, transaction, and reporting period.

D

Choose the result that produces the highest income.

ASC · GUIDED EXAMPLE

Research advertising costs

Work through an example using the ASC.

Account for an advertisement

Your company advertises its own products. You are preparing its annual US GAAP statements.

Television advertisement · \$12,000 production cost



The company's existing policy

The company consistently records production costs as expense when an advertisement first airs.

How should you report the \$12,000 at December 31?

Research the accounting question

Follow along on the ASC website as we work through each step.

From the company facts to an ASC-supported answer

1 Frame the question

Identify the reporting issue and facts without assuming an answer.

2 Locate the guidance

Choose the source. Browse or search the ASC for the relevant section.

3 Check what applies

Read the scope, terms, and requirements. Check effective dates.

4 Support the conclusion

Apply the guidance to the facts and policy. Cite the ASC paragraphs.

Choose the Expenses area

Follow the ASC hierarchy from the broad subject to the relevant guidance.

AREA

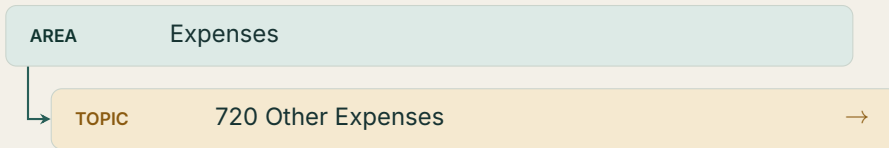
Expenses



In the Codification's topic menu, open Expenses.

Open Topic 720

Follow the ASC hierarchy from the broad subject to the relevant guidance.



Within Expenses, select 720 Other Expenses.

Open Subtopic 35

Follow the ASC hierarchy from the broad subject to the relevant guidance.



Within Topic 720, select 35 Advertising Costs. The address is now ASC 720-35.

Check Section 15

Follow the ASC hierarchy from the broad subject to the relevant guidance.



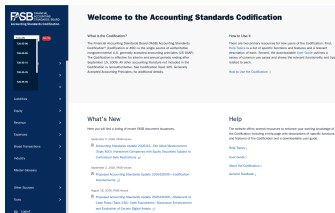
Open ASC 720-35-15. Does this guidance apply to our company and its advertising?

Open a known ASC address

The Go To field opens a location. Search looks for words.

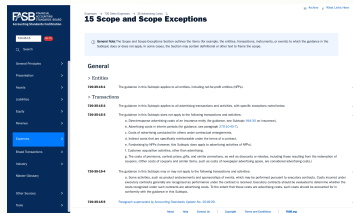
1 · Enter the address

Type 720-35-15 in the Go To field.



2 · Check the destination

Confirm 15 Scope and Scope Exceptions.



The next slide enlarges the relevant text for us to read together.

Check the advertising scope

Read the scope before using the recognition guidance.

Authoritative text

ASC 720-35-15-2

"The guidance in this Subtopic applies to all advertising transactions and activities, with specific exceptions noted below."

ASC 720-35-15-3 · Selected exceptions

"The guidance in this Subtopic does not apply to the following transactions and activities:"

(b) "Advertising costs in interim periods (for guidance, see paragraph 270-10-45-7)."

(c) "Costs of advertising conducted for others under contractual arrangements."

Check our facts

We are preparing annual statements. The company advertises its own products.

Do either of these exceptions describe our case?

Read the full list in ASC 720-35-15-3 before ruling out other exceptions.

Confirm the case scope

Use these additional facts to finish the applicability check.

Case assumptions

The company is a retailer, not an insurance company or a nonprofit.

The cost is solely for producing its own TV advertisement. No customer reimbursements or promotional prizes are involved.

Scope conclusion

None of the exceptions in ASC 720-35-15-3 describes this production cost.

The customer-advertising obligation in ASC 720-35-25-1A also does not describe our facts.

Use December 31, 2025 as the reporting date. The ad first airs January 10, 2026.

Open the recognition section

Keep the Topic and Subtopic. Change the section from 15 to 25.



Open ASC 720-35-25. Recognition guidance tells us when to record the expense.

Read the permitted policies

ASC 720-35-25-1 identifies the paragraph within the Recognition section.

ASC 720-35-25-1 · Excerpt

"The costs of advertising within the scope of this Subtopic shall be expensed either as incurred or the first time the advertising takes place, except for those costs described in paragraph 720-35-25-1A.

The accounting policy selected from these two alternatives shall be applied consistently to similar kinds of advertising activities."

Which permitted policy does our company already use?

Read the supporting requirements

Separate when production occurs from when the company records expense.

ASC 720-35-25-4

"Costs of producing advertising are incurred during production rather than when the advertising takes place."

ASC 720-35-25-1 · Excerpt

"Such costs shall be expensed immediately if such advertising is not expected to occur."

Production is complete on December 15. The advertisement is expected to air on January 10.

Check the amendment dates

Use the Status section to trace changes to the guidance we read.

Follow the source links

1 ASC 720-35-00-1

The Status table links the 25-1 amendment to ASU 2018-09.

2 ASU 2018-09, Issue 8

The amendment links to transition paragraph 105-10-65-4.

3 ASC 105-10-65-4

The archived paragraph says its transition period ended; it was superseded August 19, 2021.

For our 2025 case, that transition period has ended. The supplied September 2026 snapshot is our source for the quoted guidance.

Source: FASB, ASU 2018-09, Issue 8 and transition guidance.

When is the ad expensed?

iClicker · Question 3 of 5

Choose one answer

60 seconds

An ad is produced and paid for December 15, then first airs January 10. Under a consistent first-airing policy, when is production cost expensed?

- ☐ A December 15, when the company pays.
- ☐ B December 31, because the year ends.
- ☐ C Equally across December and January.
- ☐ D January 10, when the advertisement first airs.

Apply the company's first-use policy

The company consistently expenses production costs when its ads first air.

iClicker · Answer 3 of 5

Correct answer: D

A

December 15, when the company pays.

B

December 31, because the year ends.

C

Equally across December and January.

D

January 10, when the advertisement first airs.

ASC 720-35-25-1 permits this consistent policy. Production and payment do not determine the expense date under it.

Expense the ad when aired

Apply ASC 720-35-25-1 and 25-4 to the company's existing policy.

December 31, 2025

\$12,000 deferred

Report the cost as an asset.

This ad contributes \$0 to 2025 advertising expense.

January 10, 2026

\$12,000 expense

The advertisement first airs.

Remove the deferred cost from assets.

Why this conclusion follows

ASC 720-35-25-1 permits the company's first-use policy. The ad has not aired at year-end, but it is expected to air. Production and payment on December 15 do not change that policy.

Complete the reporting conclusion

The notes explain the policy and the advertising expense reported.

ASC 720-35-50-1 · Disclosure requirements

Disclose the selected accounting policy and total advertising expense for each income statement presented.

Our policy

The company expenses advertising production costs when the advertisement first airs.

Our amount

This ad adds no expense to 2025.
Determine total advertising expense from all advertising activity.

Keep the question, scope check, policy, dates, ASC citations, and conclusion together in the research record.

DECISION USEFULNESS

Evaluate financial information

How does financial information help users make decisions?

Why does GAAP help users?

Shared reporting requirements reduce uncertainty about how companies prepare their statements.

Compare company reports

Common requirements help users compare similar transactions across companies and periods. Policy disclosures explain choices that GAAP permits.

Question accounting choices

Management must support its accounting under an external standard. Users, auditors, and regulators have a basis for questioning unsupported treatments.

GAAP provides safeguards, not a guarantee. Estimates, errors, and fraud still require scrutiny.

What makes information useful?

Investors and lenders use financial reports to decide whether to provide funds.

Relevance

Information is relevant when it can affect the user's decision.

Investors assess performance. Lenders assess the company's ability to repay.

Faithful representation

Information should depict what it claims to depict completely, neutrally, and without error.

The amounts and explanations should accurately describe the company's performance and resources.

These qualities help us evaluate the information. The applicable ASC guidance still determines the accounting.

Source: FASB Concepts Statement 8, Chapter 3, QC6 and QC12.

Why does the information matter?

iClicker · Question 4 of 5

Choose one answer

60 seconds

An investor uses reported profit trends to decide whether to buy shares. Which quality describes the information's ability to affect that decision?

A

Relevance

B

Faithful representation

C

An external audit guarantee

D

FASB's standard-setting authority

Relevance connects information to decisions

An investor uses reported profit trends to assess future performance.

iClicker · Answer 4 of 5

Correct answer: A

A

Relevance

Information is relevant when it can affect a user's decision. Faithful representation concerns how accurately it depicts the subject.

B

Faithful representation

C

An external audit guarantee

D

FASB's standard-setting authority

What did WorldCom's reports suggest?

Recall the operating costs that WorldCom incorrectly reported as assets.

The underlying business

WorldCom had used other companies' network capacity.

Changing the accounting did not undo that use or improve the business.

The reported picture

Profit and assets looked stronger than they should have.

Users received a misleading picture of performance and resources.

A stronger-looking report is not the same as a stronger business.

Source: SEC v. WorldCom, First Amended Complaint, paragraphs 1–3 and 25.

How could users be misled?

WorldCom's reports overstated profit and assets. Consider these two decisions.

Investor

You are deciding whether to buy shares.

How could the reported profit affect your view of the company's performance?

Lender

You are deciding whether to extend credit.

How could the reported assets and profit affect your assessment of repayment risk?

Explain why the difference matters

Misleading reports can change decisions without changing the underlying business.

Relevance

Reported performance and resources can affect investment and lending decisions. Overstated figures may make the company look more attractive or less risky.

Faithful representation

Reporting used network services as assets overstated resources and understated expenses. The reports did not faithfully describe the activity they claimed to report.

GAAP supplies a standard against which users can question that picture. It does not guarantee that management follows the rules.

What changed at WorldCom?

iClicker · Question 5 of 5

Choose one answer

60 seconds

WorldCom incorrectly reported operating costs as assets. Why did this misstatement matter to investors and lenders?

- ☐ A The accounting created more cash for the business.
- ☐ B Following GAAP is optional when users prefer higher profit.
- ☐ C Misleading reports could affect users' decisions.
- ☐ D Higher reported assets proved the company could repay its loans.

The reports changed the user's picture

WorldCom incorrectly reported operating costs as assets.

iClicker · Answer 5 of 5

Correct answer: C

A

The accounting created more cash for the business.

B

Following GAAP is optional when users prefer higher profit.

C

Misleading reports could affect users' decisions.

Overstated profit and assets could influence decisions without improving the business or creating cash.

D

Higher reported assets proved the company could repay its loans.

NEXT CLASS · TUESDAY, SEPTEMBER 15

Verify filing figures

Required before Tuesday: Read Chapter 4 on the course site.

Optional equivalent: Kieso Chapter 1, sections 1.1 through 1.2, pages 1-2 through 1-18.

Unit 1 review assignment: **EXTENDED** Wed. 9/16, 11:59 PM (D2L).

Extra practice: Optional Chapter 4 practice on the course site.