



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
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IN REPLY REFER TO

PAC 730.4.A.01/2010-21

December 6, 2010
10-PAC-034(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA
HEADS OF PRINCIPAL STAFF ELEMENTS, HQ, DCAA

SUBJECT: Audit Guidance on Impact of Codification of Generally Accepted Accounting Principles (GAAP)

SUMMARY

This MRD provides guidance relating to the impact of the Financial Accounting Standards Board (FASB) incorporating all prior Generally Accepted Accounting Principles (GAAP) into a single authoritative codification called the FASB Accounting Standards Codification (ASC). The FASB ASC is the single source of authoritative non-governmental U.S. GAAP for financial statements issued for interim and annual periods ending after September 15, 2009. When referencing the GAAP, auditors should use the FASB ASC citation for any costs that are incurred during a contractor's financial statement periods ending after September 15, 2009. In addition, FAOs and regions should update their core library with the new reference material listed in the audit guidance below.

BACKGROUND

The FASB issued Financial Accounting Standard (FAS) No. 168 in June 2009. FAS 168 approved the ASC as the single source of authoritative non-governmental U.S. GAAP for financial statements issued for interim and annual periods ending after September 15, 2009. The ASC became authoritative as of September 16, 2009, at which time all existing GAAP pronouncements were superseded. The FASB ASC incorporates the prior GAAP pronouncements (e.g., FASB Statements, Accounting Research Bulletins, and Accounting Principles Board Opinions) into various accounting topics using a consistent structure. The FASB ASC did not change accounting standards and principles contained in the superseded GAAP pronouncements. The objective of the ASC project was to integrate and combine existing GAAP pronouncements, not to create new GAAP. All other accounting literature (e.g., FASB Concepts Statements, American Institute of Certified Public Accountants Issues Papers, etc.), which is not incorporated into the ASC, is now considered non-authoritative.

After September 15, 2009, the FASB ASC serves as the sole source of authoritative GAAP. Therefore, new or revised GAAP will only be reflected in the FASB ASC through incorporation of Accounting Standard Updates (ASU) issued by the FASB. Superseded

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pronouncements (e.g., FASB Statements, Accounting Research Bulletins, and Accounting Principles Board Opinions) will not be amended or updated.

The current version of the FASB ASC and ASU can be viewed electronically by setting up an account under the free access to the Basic View at the FASB store available on the internet at <https://www.fasb.org/store/subscriptions/fasb/registered>. Since the material obtained from the free site is copyright protected, the copyright rules specified at the site must be followed. The copyright warning states: "You may copy and retain for your own work files and related records and memoranda (including client specific memoranda prepared for and shared with such client(s), but not for general or commercial distribution or resale) a reasonable but limited number of electronic copies of excerpts of the Codification." This gives DCAA auditors the ability to copy portions of the Codification and include them in work papers, and to provide those materials to our clients (contracting officers and other Government personnel) and to contractors, since it is not for commercial distribution or resale purposes. Any other planned distribution should be coordinated with Headquarters through Regional Management to ensure no copyright law is violated.

GUIDANCE

Auditors researching GAAP issues should take care in selecting the GAAP source applicable to the time period related to the accounting treatment at issue. When referencing the GAAP, auditors should use the FASB ASC citation for any costs that are incurred during a contractor's financial statement periods ending after September 15, 2009. For costs incurred during periods ending on or before September 15, 2009, auditors should use prior GAAP citation. See the Enclosure to this memorandum for examples.

The ASC structure is significantly different from the previous structure of GAAP pronouncements. The FASB developed a hybrid classification system specifically for the ASC, as indicated below:

XXX-YY-ZZ-PP where XXX = Topic, YY = Subtopic, ZZ = Section, PP = Paragraph

As an example, auditors evaluating a lease for proper classification previously would have referred to Paragraph 7 of FAS 13, Accounting for Leases. Within the ASC, the lease classification criteria are now contained under Leases (Topic 840); Overall (Subtopic 10); Recognition (Section 25), Paragraph 1. The proper FASB ASC reference would be ASC 840-10-25-1. Auditors should reference both the ASC and the original pronouncement for the next few years until recipients of our audit reports are used to the ASC citation, such as: *We evaluated the contractor's lease classification using the criteria contained in FASB ASC 840-10-25-1 (formerly FAS 13).*

References to GAAP contained in the cost principles will continue to be the authoritative citation until such time as FAR Part 31 is revised. Provided below is a matrix of GAAP references identified in FAR Part 31 with the corresponding ASC topic.

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Cost Element	FAR Cost Principle	Original GAAP Pronouncement	FASB ASC Topic Reference
Rental Costs	31.205-36	FAS No. 13	840
Depreciation	31.205-11	FAS No. 13	840
Post Retirement Benefits	31.205-6	FAS No. 106	715

Also, the new FASB ASC impacts changes to the FAO and Region core libraries. The following changes should be made to the core library requirements specified on the DCAA intranet.

- FAOs should no longer purchase “Financial Accounting Standards Board (FASB) Accounting Standards, Current Text, Volumes I and II (includes General and Industry Standards).”
- FAOs should no longer purchase “Financial Accounting Standards Board (FASB) Accounting Standards, Original Pronouncements, Volumes I, II and III (includes FASB Statement of Standards, AICPA Pronouncements, FASB Interpretations, FASB Concept Statements, and FASB Technical Bulletins).”
- FAOs should include in its core library the 4 volume hard copy of the ASC available from the FASB store at www.fasb.org.
- Each Region should obtain one license each of the professional view version from the FASB store at www.fasb.org. Note that one license can have up to ten individuals listed as users.
- Each Region should purchase a subscription to the ASU available from the FASB store at www.fasb.org and maintain these as part of its core library.

CONCLUDING REMARKS

FAO personnel having questions on this subject should contact regional personnel. Regional personnel having questions should contact Accounting and Cost Principles Division, at (703) 767-3250 or e-mail: DCAA-PAC@dcaa.mil.

/Signed/
Kenneth J. Saccoccia
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Policy and Plans

Enclosure:
Examples of Periods Covered by ASC

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DISTRIBUTION: C

Examples of Period Covered by ASC

Example 1:

A contractor has a financial statement period that covers the period January 1, 2009 through December 31, 2009. Since the financial statement covers a period ending after September 15, 2009, the FASB ASC would be applicable for cost incurred from January 1, 2009 through December 31, 2009.

Example 2:

A contractor has a financial statement period that covers the period September 16, 2008 through September 15, 2009. Since the financial statement does not cover a financial statement period ending after September 15, 2009, the FASB ASC is not applicable for cost incurred during this period. The auditor should use the prior applicable GAAP reference for cost incurred during this period.

Example 3:

A contractor has a financial statement period that covers the period July 1, 2009 through June 30, 2010. Since this financial statement covers a period ending after September 15, 2009, the FASB ASC would be applicable for the period July 1, 2009 through June 30, 2010.