

# Fasb asc project

Finance



**ASSIGN  
BUSTER**

FASB ASC Project 1. The inventory at your company consists of computer software that the company has developed and is selling. You capitalized (rather than expensed) the cost of duplicating the software, the instruction manuals, and training material that are sold with the software. FASB ASC CITATION: Product Masters 985-330-25-1 The costs incurred for duplicating the computer software, documentation, and training materials from the product masters and for physically packaging the product for distribution shall be capitalized as inventory on a unit-specific basis. Answer 1:

According to the FASB Codification, a completed version, ready for copying, of the computer software product, the documentation, and the training materials that are to be sold, are the property of the company. Also, the Codification states that all the costs incurred for copying the software should be capitalized rather than expensed. 2. Your company paid \$2, 000, 000 for a 30-second commercial to be aired during the SuperBowl 5 months from today. The ad has already been produced at a cost of \$1, 000, 000. You capitalized the \$2, 000, 000 cost of showing the ad on television rather than expensing it.

FASB ASC CITATION: Communicating Advertising 720-35-25-5 Costs of communicating advertising are not incurred until the item or service has been received and shall not be reported as expenses before the item or service has been received, except as discussed in paragraph 340-20-25-2. For example: \* a. The costs of television airtime shall not be reported as advertising expense before the airtime is used. Once it is used, the costs shall be expensed, unless the airtime was used for direct-response

advertising activities that meet the criteria for capitalization under paragraph 340-20-25-4.

Answer 2: The FASB Interpretation states that the costs of showing the ad on television should be expensed, rather than capitalized unless it is direct-response advertising. According to the FASB Interpretation 340-20-25-6, Criteria to Capitalize Direct-Response Advertising Costs, our example does not meet the criteria of direct-response advertising activities. For example, there are no means of getting files, coupons, response cards, or coded order forms, which would indicate the customer names and the related direct-response advertisement.

Therefore, we cannot capitalize any costs relating to the communicating advertising. Furthermore, Codification guides that the advertising cost should not be reported until the service is received and used. Thus, recording the expenses five months in advance we are breaking matching principle of accounting. 3. Your company sells a product in which the “right of return” exists. The amount of future returns cannot be reasonably estimated, therefore, you do not record the sale or cost of goods sold until the return privilege has expired.

FASB ASC CITATION: Sales of Product when Right of Return Exists 605-15-25-1 If an entity sells its product but gives the buyer the right to return the product, revenue from the sales transaction shall be recognized at time of sale only if all of the following conditions are met: \* a. The seller's price to the buyer is substantially fixed or determinable at the date of sale. \* b. The buyer has paid the seller, or the buyer is obligated to pay the seller and the obligation is not contingent on resale of the product.

If the buyer does not pay at time of sale and the buyer's obligation to pay is contractually or implicitly excused until the buyer resells the product, then this condition is not met. \* c. The buyer's obligation to the seller would not be changed in the event of theft or physical destruction or damage of the product. \* d. The buyer acquiring the product for resale has economic substance apart from that provided by the seller. This condition relates primarily to buyers that exist on paper, that is, buyers that have little or no physical facilities or employees.

It prevents entities from recognizing sales revenue on transactions with parties that the sellers have established primarily for the purpose of recognizing such sales revenue. \* e. The seller does not have significant obligations for future performance to directly bring about resale of the product by the buyer. f. The amount of future returns can be reasonably estimated (see paragraphs 605-15-25-3 through 25-4). Because detailed record keeping for returns for each product line might be costly in some cases, this Subtopic permits reasonable aggregations and approximations of product returns.

As explained in paragraph 605-15-15-2, exchanges by ultimate customers of one item for another of the same kind, quality, and price (for example, one color or size for another) are not considered returns for purposes of this Subtopic. Answer 3: According to the FASB Codification, revenue from the sale should not be recognized at the time of sale, unless all of the six following conditions are met: (1) The seller's price to the buyer is substantially fixed or determinable at the date of sale. (2) The buyer has paid the seller, or the buyer is obligated to pay the seller, and the obligation is not

contingent on resale of the product. 3)The buyer's obligation to the seller would not be changed in the event of theft or physical destruction or damage of the product. (4)The buyer acquiring the product for resale has economic substance apart from that provided by the seller. (5)The seller does not have significant obligations for future performance to directly bring about resale of the product by the buyer. (6)The seller can reasonably estimate the amount of future returns. Since we cannot estimate the amount of future returns in our example, condition #6 is not met.

Therefore, sales revenue and cost of sales should be recognized either when the return privilege has substantially expired or if those conditions subsequently are met, whichever occurs first. 4. Your company has goods primarily held for resale. You have been asked whether or not they are considered nonmonetary assets. FASB ASC CITATION: Monetary and Nonmonetary Items 255-10-55-1 Paragraphs 255-10-55-1 through 55-13 of this Section provide guidance on the interpretation of paragraphs 255-10-50-50 through 50-55 for the classification of certain asset and liability items as monetary or nonmonetary.

The following table illustrates the application of the definitions to common cases under typical circumstances. In other circumstances the classification should be resolved by reference to the definitions. Answer 4: The FASB Codification provides guidance on how to classify monetary and nonmonetary assets and liabilities. For typical circumstances it suggests using a classification table, and for non-typical circumstances Codification guides to refer to the definitions. To begin with, let us appeal to the definition of “ inventory”.

The term inventory embraces goods awaiting sale (the merchandise of a trading concern and the finished goods of a manufacturer), goods in the course of production (work in process), and goods to be consumed directly or indirectly in production (raw materials and supplies). Thus, we assume that “goods held primarily for resale” can be treated as inventory. According to the classification table, inventories and commodity inventories should be treated as nonmonetary assets. 5. Your company has an unconditional legal obligation to perform an asset retirement activity (asset retirement obligation) in the future.

The only uncertainty is whether the obligation will be enforced. Should you record the asset retirement obligation? FASB ASC CITATION: Asset Retirement Obligation 410-20-25-4 An entity shall recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. If a reasonable estimate of fair value cannot be made in the period the asset retirement obligation is incurred, the liability shall be recognized when a reasonable estimate of fair value can be made.

If a tangible long-lived asset with an existing asset retirement obligation is acquired, a liability for that obligation shall be recognized at the asset's acquisition date as if that obligation were incurred on that date. Answer 5: This Interpretation clarifies that the term conditional asset retirement obligation refers to a legal obligation to perform the asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity.

The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Thus, an we are required to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. 6. You use accounting accruals to record probable loss contingencies. Does the recording of the accruals provide financial protection, for example, is it the same as setting aside specific assets to cover the probable claims?

FASB ASC CITATION: Loss Contingencies Recognition 450-20-25-2 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 (as discussed in Section 855-10-25) indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements.

Date of the financial statements means the end of the most recent accounting period for which financial statements are being presented. It is implicit in this condition that it must be probable that one or more future events will occur confirming the fact of the loss. \* b. The amount of loss can be reasonably estimated. The purpose of those conditions is to require accrual of losses when they are reasonably estimable and relate to the current or a prior period.

Paragraphs 450-20-55-1 through 55-17 and Examples 1-2 (see paragraphs 450-20-55-18 through 55-35) illustrate the application of the conditions. As discussed in paragraph 450-20-50-5, disclosure is preferable

to accrual when a reasonable estimate of loss cannot be made. Further, even losses that are reasonably estimable shall not be accrued if it is not probable that an asset has been impaired or a liability has been incurred at the date of an entity's financial statements because those losses relate to a future period rather than the current or a prior period.

Attribution of a loss to events or activities of the current or prior periods is an element of asset impairment or liability incurrence. Answer 6: According to GAAP, using accounting accruals is required if two conditions are met: - If the asset has been impaired or liability has been incurred prior to the date of financial statement, and, thus, relate to the current or prior period; - If the amount of loss can be reasonably estimated; Let us assume that both of the conditions are met in our example, and using of accounting accruals is justified.

Thinking of financial protection we can say that accruals certainly help companies to avoid unexpected losses on financial statements. Since it is necessary to be able to make a reasonable estimate of loss in the right period, accruing a liability technically looks like setting aside money to cover those needs. However, setting aside specific assets to satisfy future needs seems to be safer since restricting an asset we assume that it exists physically whereas accruing a liability does not guarantee the company will be able to pay.