Intermediate accounting project

Finance

Evolution of Accounting Standards from FAS 115 to ASC 820 Accounting standards represents the various standardized procedures for the guidance and governance of the various accounting standards. One of the many accounting standards is the Financial Accounting Standard-115 (FAS 115). This is one of the various financial standard statements. This particular one provides the accounting and reporting for investments in equity securities with readily determinable fair values and in debt securities which are divided into three categories; held-to-maturity securities that are debt securities expected to be held till maturity by enterprises reported at amortized cost, trading securities which are debt and equity securities reported at fair value with earnings including the unrealized gains and losses and bought and held primarily for selling, and available-for-sale securities which are debt and equity securities reported at fair value with unrealized gains an losses excluded from earnings serving as a separate component in shareholder’s equity and which are neither classified as held-to-maturity securities or trading securities. The statement was mainly in response to the concerns expressed by the regulators and other financial market players related to the recognition and measurement of investment in debt securities, most specifically the ones held by financial institutions.

Despite providing the various standardized procedures related to debt and equity, there were certain issues that came to surface with FAS 115. The fair value measurements application in the financial reporting by all the statements of Financial Accounting Standards differed among the various dozens of pronouncements that necessitated a fair value measurement. As the time passed by, these different financial statements referring to different accounting concepts created various inconsistencies in applying the fair value measurements, thus meaning no standardization provided to the financial market. These inconsistencies and worries of the preparers of the financial statements regarding calculating the fair values in absence of the quoted market prices brought in the Accounting Standards Codification 820 (ASC 820). This coding is an umbrella under which all the various standards are pooled up, thus leading to easy referencing and maintaining of the most up to date records. This coding according to FASB would bring in increased consistency, reliability and comparability to the financial reporting. This coding was required because it simplifies access, improves accuracy of the research, alleviates risk of non-compliance, streamlines research processes and provides real-time updates.

According to ASC 820, Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This coding provides consistent guidance and framework in measuring fair value in financial reporting, apart from defining what fair value is (Carmichael, and Graham). According to ASC 820, the fair value of the restricted equity stock must be measured based on quoted price of an otherwise identical unrestricted security of the same issuer, adjusted for the affect of restriction in accordance with ASC 820 (ASC 320-10-35-2). The guidance to Investment-Debt and Equity Securities applies to all entities including cooperatives and mutual entities (credit unions and mutual insurance entities) and trusts that do not report all their securities at fair value. These report the debt securities whose fair value is not readily available.

According to ASC 820, for each interim and annual period, the entity must report the following information for assets and liabilities measured in terms of fair values on a recurring basis; the fair value measurements; level of hierarchy where these measurements are placed (which are three; Level 1 where inputs are quoted prices available in active markets as of measurement date, Level 2 where inputs are other than quoted prices in active markets, directly or indirectly observable for asset or liability, and Level 3 where inputs are unobservable in illiquid or inactive markets with little or no information on pricing on measurement date); the reconciliation statement of beginning and ending balances at Level 3 unobservable inputs that specify the realized and unrealized gains and losses, purchases, sales, issuances and settlements; the gains and losses from Level 3 inputs which are included in earnings due to changes in the unrealized gains and losses in assets and liabilities in question; the valuation techniques used and a discussion of changes of these techniques annually.

Lastly, the disclosures required for assets and liabilities (debts and equities) that are valued on a non recurring basis re as follows; fair value measurements and their reasons; hierarchy level of these measurements; a description and information employed to obtain Level 3 inputs; valuation of techniques and discussion on changes in them annually (Bragg).

Thus ASC 820 completely revolutionized the fair value measurement guidance as it includes all standards under its umbrella, more comparable, accurate and help design investment portfolio statements more accurately.

Works Cited

Bragg, Steven. Wiley GAAP 2012: Interpretation and Application of Generally Accepted

Accounting Principles. Wiley, 2012. Print.

Carmichael, D, and Paul Rosenfield. Accountants Handbook (Accountants

Handbook

Supplement). Wiley, 2010. Print