

The evolution of us gaap



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(Assignment) The Evolution of US GAAP It is a difficult task in a country like the US to impose highly prescriptive standards through rigorous enforcement process by a government regulator. It is very evident from the history of the effort made to secure compliance with accounting standards. When such changes stand to affect the strategies and plans of businesses, the changes are vehemently opposed from all levels; companies and even branches of government. Some such events took place after 1990. In 1995, FASB issued SFAS 123, requiring the recognition of the stock option expense in companies' income statements. However, high-tech companies, with the help of Congress, effectively stopped this move. Instead, the amount of expense for options recently granted was to be mentioned in a footnote. Then, FASB started developing a standard that would force companies to expense the fair value of stock options granted to executives and other employees. However, as Zeff points out, company CEOs were quick in opposing as it would affect their personal compensation packages. When it became clear that FASB would continue with its efforts, the companies sought the help of Congress. It was discussed in the House and the Senate where majority of the members opposed, evidently under pressure from companies. As FASB further proceeded in issuing a standard, the Senate passed a resolution stopping FASB from acting further in that regard. More issues were to come. FASB issued the directive on reporting the comprehensive income either through a separate statement of comprehensive income or an additional section in the income statement. The companies wanted to disclose it in the Statement of Changes in Shareholders' Equity. However, FEI pressured FASB to allow presenting it in a financial statement that few readers notice. FASB succeeded in issuing SFAS

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133 on accounting for derivative instruments and hedging activities despite attempts to force FASB to back down. In 2004, FASB issued an exposure draft to converge with the International Accounting Standards Board's IFRS 2 on share-based payments. As usual, the high-technology industry opposed this, and received a strong support from 300 members of Congress. The law was enacted but according to the Act, the applicability was only in the case of options issued to the CEOs and the four most highly paid executives. The term GAAP is the abbreviation for Generally Accepted Accounting Principles (GAAP). It is a set of principles that firms and corporations should follow in preparing and presenting their business income and expense. The GAAP had its beginning following the collapse of stock market in 1929. Following the fall, AIA, in correspondence with the New York Stock Exchange, suggested five broad principles in an effort to better accounting practice. However, from the principles, it is evident that more stress is given on disclosing the details than on the methods followed. In other words, the recommendation states that the precise rules adopted by a firm are less important to the investors as far as they are assured that the disclosure is perfect. After the crash, it was necessary for the government to regain the lost investor confidence. For that purpose, Securities Acts were approved. In addition, the Securities and Exchange Commission was created to oversee the way firms prepared their financial reports. In addition, the SEC created the Division of Corporation Finance which was solely meant to check if the companies follow the SEC guidelines precisely. However, it is surprising to note that America is the only nation where a governing body was created to ensure compliance with GAAP before a body to prepare GAAP was developed. However, it has become evident that as the government does not intend to adopt strict

policies. The AIA suggestion in 1939 to use the wording “ present fairly..... in conformity with generally accepted accounting principles” can be considered as an indication towards the kind of principles and practices as seen in UK “ true and fair view” (Zeff). In total, it becomes evident that the US business environment is less likely to yield to strict imposition of regulatory principles that affect their business plans. As far as the government is bound to support the companies, it is fruitless for regulatory bodies to try to impose strict regulations. Works Cited Zeff, Stephen A. “ The evolution of U. S. GAAP: The political forces behind professional standards”. The CPA Journal, January 2005. Web 20 March Zeff, Stephen A. “ The evolution of U. S. GAAP: The political forces behind professional standards”. The CPA Journal, January 2005. Web 20 March