Private Companies Practice Section

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AICPA

An Introduction to the Financial Reporting Framework for Small and Medium-Sized Entities

for financial statement users

Contents

Why develop the FRF for SMEs accounting framework?

Recent efforts by the U.S. accounting profession to provide additional financial reporting options for private companies revealed a clear and strong demand by small and medium-sized entities (SMEs), the CPAs who serve them, and those who use their financial statements for a more robust and reliable accounting framework when GAAP is not required. These stakeholders expressed a need for a framework that is targeted to Main Street businesses. Other special-purpose frameworks, such as income tax or cash bases of accounting, remain and could be appropriate. Main Street businesses and users of their financial information looking for more comprehensive and consistent financial statements may want to explore the FRF for SMEs™ reporting option.

In response to that marketplace demand, American Institute of CPAs (AICPA) staff and a task force consisting of CPA practitioners and a representative from the banking community developed the FRF for SMEs accounting framework. It is a non-GAAP special purpose framework developed by the CPA profession, underscoring the CPAs' role as trusted business advisers for America's small business community.

What types of organizations may want to use the FRF for SMEs accounting framework?

The FRF for SMEs accounting framework has been developed for small to medium-sized entities that require reliable non-GAAP financial statements for internal and external uses. This framework can be used by entities, whether incorporated or unincorporated, in many industry groups.

What is a small and medium-sized entity (SME)?

There is no set quantifiable definition in the United States (dollar amount of revenues, number of locations, etc.) for determining what an SME is. However, the term is intuitive, widely recognized and effectively descriptive of the scope of entities for which the FRF for SMEs accounting framework is intended. AICPA staff and the task force identified certain characteristics of typical entities that might utilize the framework. The following is a list of those characteristics to consider. This list is not all-inclusive and an entity does not have to have these characteristics to use the framework.

Characteristics of small and medium-sized entities utilizing the FRF for SMEs accounting framework

- The entity may be closely held and owner-managed.
- The entity does not have regulatory reporting requirements that essentially require it to use GAAP-based financial statements.
- The entity is for-profit.
- Most of the owners and management of the entity have no intention of going public.

- Management and owners of the entity rely on a set of financial statements to confirm their assessments of performance, cash flows and of what they own and what they owe.

- The entity does not operate in an industry in which the entity is involved in transactions that require highly specialized accounting guidance, such as financial institutions and governmental entities.

- The entity does not engage in overly complicated transactions.

- The entity does not have significant foreign operations.

- Key users of the entity's financial statements have direct access to the entity's management.

- Users of the entity's financial statements may have greater interest in cash flows, liquidity, statement of financial position strength and interest coverage.

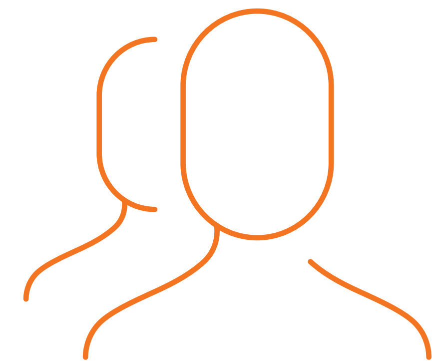
- The entity's financial statements support applications for bank financing when the banker does not base a lending decision solely on the financial statements but also on available collateral or other evaluation mechanisms not directly related to the financial statements.

These characteristics are presented as helpful guidelines for management and other stakeholders to consider when determining the appropriateness and suitability of the FRF for SMEs accounting framework in the preparation of financial statements. Ultimately, the decision regarding which accounting framework best meets an entity's financial reporting needs rests with management. The FRF for SMEs accounting framework should only be used if the resulting financial statements are intended to be consistent with the concepts, principles, and criteria described in Chapter 1 of Financial Reporting Framework for Small and Medium-Sized Entities.

The framework is not intended to be a substitute for GAAP when GAAP-based financial statements are necessary, as determined by the management of an entity and its financial statement users (i.e., bankers, sureties, etc.).

The AICPA has no authority to prevent or require the use of a special purpose framework like the FRF for SMEs accounting framework.

Benefits to stakeholders



The FRF for SMEs framework is designed specifically to suit the needs of small and medium-sized entities and their stakeholders.

Owner-managers of small businesses need reliable financial information to inform their business decisions and outside stakeholders. They need ways to work smarter, control costs and gain strategic operational insights. While GAAP and the other special purpose frameworks serve a valuable purpose, the FRF for SMEs provides another non-GAAP alternative. The FRF for SMEs framework assists small business owner-managers and other stakeholders in focusing on the performance of the company and its assets, liabilities, and cash flows. Moreover, the FRF for SMEs is a cost-effective, simplified financial reporting framework with targeted disclosure requirements.

Management of smaller to medium-sized private companies may find the FRF for SMEs framework an appealing financial reporting option because it closely aligns with how they run their businesses.

Some of the key advantages of FRF for SMEs include:

- Historical cost is the primary measurement basis, steering away from complicated fair value measurements.

- Financial statements will more closely align with income tax returns because there will be fewer book-to-tax adjustments.

- Many accounting policy options, like the ability to choose the current taxes payable method or the deferred tax method, will allow management to select what is best for their purposes and those of their financial statements users and potentially reduce costs.

- The framework is concise and self-contained without excess narrative and prescriptive rules (the entire FRF for SMEs accounting framework is approximately 200 pages).

- The framework will be stable, yet nimble. Frequent changes to the framework are not contemplated, however it will be modified in response to significant developments in accounting and financial reporting matters affecting SMEs.
- Only relevant principles are included and the accounting is simplified.
  - No other comprehensive income (OCI)
  - No variable interest entities (VIEs); parent-only financial statements are allowed
  - No complicated accounting for stock compensation and derivatives
  - No hedge accounting
- Disclosures are targeted and not excessive.
- Accounting for long-lived assets follows an amortized/depreciated cost approach. No impairment testing is required.
- Goodwill is amortized over the same period as for federal tax purposes. No impairment testing is required.

Bankers, surety companies and other financial statement users who receive financial statements prepared based on the FRF for SMEs will find relevant information they need to understand the company and its finances. It will enable bankers and other financial statement users to help their customers because use of the framework by small and medium-sized businesses is cost-effective. The bottom line is the financial statement users get the information they need to make a credit or business decision while the company potentially saves money.

More specifically, bankers and other users need financial statements that are prepared in a reliable and consistent manner in accordance with a framework that has undergone public comment and professional scrutiny. The FRF for SMEs is that kind of framework. The accounting principles composing the FRF for SMEs are intended to be the most appropriate for the preparation of a smaller business's financial statements based on the needs of bankers and other users.

GAAP

The FRF for SMEs is the tool to prepare streamlined, relevant financial statements for privately held small and medium-sized entities that do not need GAAP-compliant reports. With this tool, a CPA can prepare financial statements that clearly and concisely report what a business owns, what it owes and its cash flow. Lenders and others can clearly understand key measures of a business and its credit-worthiness. The framework consists of traditional accounting principles and accrual income tax accounting methods that are very familiar to lenders and other users and should be welcomed as an insightful alternative reporting framework.

Key features of the FRF for SMEs accounting framework

Historical cost
Uses historical cost basis, steering away from complicated fair value measurements

Optionality
Offers tailored reporting to meet user needs

Relevant
Includes only financial reporting topics typically encountered by small businesses

Simplified
Avoids complicated, prescriptive rules

Targeted disclosures
Provides what a user needs to see in financial statements

Chapter overviews

Let's look at how the framework is organized and some of the key concepts of each chapter. Note, however, that reading these chapter overviews is no substitute for reading and understanding the actual framework.

Chapter 1

Financial statement concepts

Describes the concepts underlying the development and use of accounting principles in general purpose financial statements

This chapter ...

- Defines financial statements, the objectives of those statements, and when they are available to be issued
- Defines the elements of financial statements — assets, liabilities, equity, revenues, expenses, and gains and losses
- Discusses the qualitative characteristics of information provided in financial statements that make that information useful to users
- Establishes the criteria for recognizing an item in the financial statement
- Defines the measurement of items recognized in the financial statements and establishes historical cost as the primary measurement basis

Chapter 2

General principles of financial statement presentation and accounting policies

Establishes general principles of financial statement presentation

This chapter ...

- Presents the requirements for a fair presentation of financial statements in accordance with the FRF for SMEs accounting framework
- Requires and describes management's assessment of whether the going concern basis of accounting is appropriate
- Sets out specifics of financial statements and comparative information
- Provides guidance on the disclosure of accounting policies
- Requires an entity to state prominently in the notes to the financial statements that the FRF for SMEs framework is the basis of presentation

Chapter 3

Transition

Provides guidance on transitioning to the FRF for SMEs framework

This chapter ...

- Requires an entity to prepare an opening statement of financial position at the date of transition to the FRF for SMEs framework
- Requires an entity to:
  - Recognize all assets and liabilities whose recognition is required
  - Not recognize items as assets or liabilities if the framework does not permit recognition
  - Reclassify items that it recognized previously as one type of asset, liability or component of equity but are now recognized as a different type of asset, liability or component of equity under the framework
  - Apply the framework when measuring all recognized assets and liabilities
- Allows management to elect certain exemptions to the principle that an entity's opening statement of financial position should comply with the framework
- Prohibits retrospective application of some aspects of other principles
- Requires certain disclosures, including the amount of each charge or credit to equity at the date of transition to the FRF for SMEs framework

Chapter 4

Statement of financial position

Establishes the line items to be separately presented in the statement of financial position

This chapter ...

- Requires the statement of financial position to present fairly the financial position at the period end
- Describes categories to be presented in the statement of financial position and the types of assets and liabilities that should be presented separately

Chapter 5

Current assets and current liabilities

Establishes presentation and disclosure principles for current assets and current liabilities

This chapter ...

- Requires current assets to include those assets ordinarily realizable within one year from the date of the statement of financial position or within the normal operating cycle, when the normal operating cycle is longer than a year
- Requires current liabilities to include amounts payable within one year from the date of the statement of financial position or within the normal operating cycle, when the normal operating cycle is longer than a year
- Requires current assets and liabilities to be segregated among the major classes
- Establishes criteria for the current and non-current classification of debt

Chapter 6

Special accounting considerations for certain financial assets and liabilities

Establishes principles for recognizing, measuring and presenting certain financial assets and financial liabilities; provides guidance on offsetting, derecognition and disclosure

This chapter ...

- Except for derivatives, requires an entity to recognize a financial asset or a financial liability when the entity becomes a party to the contract:
- Derivatives are accounted for by recognizing the net cash paid or received at settlement
- Except for derivatives, when a financial asset is originated or acquired or a financial liability is issued or assumed in an arm's length transaction, requires an entity to measure it at its transaction amount adjusted by financing fees and transaction costs
- Requires the issuer of a financial instrument to classify the instrument, or its component parts, as a liability or as equity in accordance with the substance of the contractual arrangement on initial recognition and the definitions of a financial liability and an equity instrument
- Provides principles for the derecognition of financial assets and financial liabilities
- Provides disclosure requirements for financial assets, financial liabilities, derivatives, transfers of financial assets

Chapter 7

Statement of operations

Establishes the line items to be separately presented in the statement of operations

This chapter ...

- Requires the statement of operations to present fairly the results of operations for the period
- Sets out the items to be distinguished separately in the statement of operations:
  - Income or loss before discontinued operations
  - Results of discontinued operations
  - Net income or loss for the period
- When arriving at the income or loss before discontinued operations, requires the statement of operations to present major elements
- Describes typical items that are distinguished in the statement of operations

Chapter 8

Statement of cash flows

Requires providing information about the historical changes in cash and cash equivalents through a cash flow statement classifying cash flows arising from operating, investing and financing activities

This chapter ...

- Provides that a statement of cash flows is required as an integral part of a complete set of financial statements for each period for which financial statements are presented
- Defines cash equivalents
- Requires the statement of cash flows to report cash flows during the period classified by operating, investing and financing activities and provides principles and criteria for those classifications
- Allows an entity to report cash flows from operating activities using either the direct method or the indirect method
- When the direct method is used, requires a separate schedule that reconciles net income to net cash flows from operating activities to be presented
- Allows cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short to be reported on a net basis
- Provides guidance and disclosure requirements for cash flows related to business combinations and disposals of business units, and noncash transactions
- Sets out other disclosure requirements related to cash and cash equivalents, and restrictions on cash

Chapter 9

Accounting changes, changes in accounting estimates and correction of errors

Prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors

This chapter ...

- States that management should change an accounting policy only if:
  - The change is required by the FRF for SMEs framework
  - Or results in the financial statements providing reliable and more relevant information
- Generally requires an entity to account for a change in accounting policy retrospectively and details limitations on retrospective application
- Provides that the effect of a change in an accounting estimate should be recognized:
  - Prospectively by including it in net income in the period of the change, if the change affects that period only
  - In the period of the change, and future periods, if the change affects both
- Requires management to correct material prior period errors retrospectively in the first set of financial statements available to be issued after their discovery and provides related guidance
- Establishes disclosure requirements for changes in accounting policies, changes in estimates and errors

Chapter 10

Risks and uncertainties

Establishes disclosure principles for certain risks and uncertainties in the financial statements

This chapter ...

- Requires an entity to include in the financial statements a description of the major products or services the entity sells or provides and its principal markets, including the locations of those markets
- Requires an entity to include in the financial statements an explanation that the preparation of financial statements in conformity with the FRF for SMEs accounting framework requires the use of management's estimates
- Provides that an entity should include a discussion of significant estimates when, based on known information available before the financial statements are available to be issued, it is reasonably possible that the estimate will change in the near term and the effect of the change will be material
- Requires an entity to disclose certain concentrations if, based on information known to management before the financial statements are available to be issued, certain criteria are met

Chapter 11

Equity, debt and other investments

Establishes principles for accounting for, measuring and disclosing equity and debt investments and certain other investments

This chapter ...

- Requires an investor that can exercise significant influence over an investee that is not a subsidiary to account for the investment using the equity method; an investor that is not able to exercise significant influence over an investee should account for the investment using the cost method, except for investments in securities held for sale that are accounted for at market value

- Provides that the financial statements of equity-method investees should be adjusted, if necessary, to conform with principles in the FRF for SMEs accounting framework, unless it is impracticable to do so

- Provides guidance on applying the equity method

- Establishes presentation and disclosure requirements for investments

Chapter 12

Inventories

Prescribes the accounting treatment for inventories and provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value; it also provides guidance on the cost formulas that are used to assign costs to inventories

This chapter ...

- Requires inventories to be measured at the lower of cost or net realizable value

- States that the cost of inventories should comprise all costs of purchase, costs of conversion, and other costs incurred when bringing the inventories to their present location and condition

- Allows the capitalization of interest costs for inventories that require a substantial period of time to get them ready for their intended use or sale

- Requires the specific identification method for the cost of inventories that are not ordinarily interchangeable, and goods or services produced and segregated for specific projects; the cost of other inventories should be assigned by using the FIFO, LIFO, or weighted average cost formulas

- When inventories are sold, requires the carrying amount of those inventories to be recognized as an expense in the period in which the related revenue is recognized; the amount of any write-down of inventories to net realizable value and all losses of inventories should be recognized as an expense in the period the write-down or loss occurs; the use of a valuation allowance account is permitted

- Sets out disclosure requirements related to inventories

Chapter 13

Intangible assets

Establishes principles for the recognition, measurement, presentation and disclosure of intangible assets, including goodwill

This chapter ...

- Defines intangible assets

- Requires an intangible asset to be recognized at cost if it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; the cost of the asset can be measured reliably; and the useful life of the asset can be estimated

- Provides additional guidance on the accounting for separately acquired and internally generated intangible assets

- States that internally generated goodwill should not be recognized as an asset

- Requires that no intangible asset arising from research should be recognized

- Allows management to make an accounting policy choice to either expense development expenditures as incurred or capitalize such expenditures as an intangible asset, provided certain conditions are met

- Allows management to make an accounting policy election to either expense start-up costs as incurred or capitalize start-up costs and amortize the amount over 15 years

- Requires a recognized intangible asset to be amortized over its useful life; all intangible assets are considered to have a finite useful life

- Requires goodwill to be recognized at the amount initially recognized, less amortization; goodwill should be amortized generally over the same period as that used for federal income tax purposes or, if not amortized for federal income tax purposes, then a period of 15 years

- Establishes presentation and disclosure requirements for intangible assets and goodwill

Chapter 14

Property, plant and equipment

Establishes principles for the recognition, measurement, presentation and disclosure of property, plant and equipment

This chapter ...

- Requires PP&E to be recorded at cost
- Provides guidance on the cost of PP&E, including that direct construction or development costs and overhead costs directly attributable to the construction or development activity are included in the cost of PP&E
- Allows management to capitalize interest costs when the cost of an item of PP&E is acquired, constructed or developed over time
- Requires depreciation to be recognized over the useful life of the asset, calculated on the cost less any expected residual value
- Sets disclosure requirements for PP&E

Chapter 15

Disposal of long-lived assets and discontinued operations

Establishes principles for the recognition, measurement, presentation and disclosure of the disposal of long-lived assets

Establishes principles for the presentation and disclosure of discontinued operations

This chapter ...

- Requires a long-lived asset to be sold and to be classified as held for sale in the period when certain criteria are met and measured at its carrying amount and not amortized while it is classified as held for sale
- Provides that a long-lived asset to be disposed of other than by sale should continue to be classified as held and used until it is disposed of
- States that the results of operations of a component of an entity that either has been disposed of or is classified as held for sale should be reported in discontinued operations if the operations and cash flows of the component have been (or will be) eliminated from the ongoing operations of the entity because of the disposal transaction; and the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction
- Establishes presentation and disclosure requirements for the disposal of long-lived assets

Chapter 16

Commitments

Establishes disclosure requirements with respect to commitments

This chapter ...

- Requires commitments that are material in relation to the current financial position or future operations to be disclosed
- Requires the accrual of a contingent loss when it is probable that a future event will confirm that the value of an asset has diminished or a liability incurred at the date of the financial statements and the amount of the loss can be reasonably estimated

Chapter 17

Contingencies

Establishes principles for the treatment of contingencies in financial statements

This chapter ...

- States that contingent gains usually should not be accrued in financial statements
- Requires disclosure of the existence of a contingent loss at the date of the financial statements when the occurrence of the confirming future event is probable, but the amount of the loss cannot be reasonably estimated; the occurrence of the confirming future event is probable, and an accrual has been made, but an exposure to loss more than the amount accrued exists; or the occurrence of the confirming future event is reasonably possible
- Requires disclosure of the existence of a contingent gain when it is probable that a future event will confirm that an asset has been acquired or a liability reduced at the date of the financial statements
- States that a guarantor should disclose certain information about each guarantee, or each group of similar guarantees, even when the likelihood of the guarantor having to make any payments under the guarantee is remote
- Establishes principles for the recognition, measurement, and disclosure of liabilities for asset retirement obligations and the associated asset retirement costs

Chapter 18

Equity

Establishes principles for the presentation of equity, changes in equity, capital transactions and disclosure of capital stock

Establishes principles for the presentation and disclosure of the equity and capital accounts of unincorporated businesses, partnerships, and limited liability entities

This chapter ...

- When an entity redeems or acquires its own shares, the difference between the cost and the par, stated or assigned values should be excluded from net income
- Allows two methods of accounting for the acquisition by an entity of its own shares: the cost method and the constructive retirement method
- States that dividends should be recognized when declared and an entity cannot receive dividend income on its own shares
- Provides that no compensation expense is recognized when stock or other equity compensation are issued in lieu of cash compensation; disclosure requirements are provided for such arrangements; additionally, exercised stock options are accounted for as a normal stock issuance transaction
- Requires transactions in which an entity acquires goods and services by granting equity to be recognized when the entity obtains the goods, or the counterparty renders the services these transactions are measured based on the value of the consideration received, or the value of the equity instruments given, whichever can be measured more reliably
- Sets out presentation and disclosure requirements related to equity and equity transactions, including limited liability entities
- Requires a limited liability entity to present information related to changes in owners' (members') equity for the period

Chapter 19

Revenue

Establishes principles for the timing of recognition of revenue

Addresses the recognition of revenue during the ordinary activities of an entity, normally from the sale of goods, the rendering of services, or combination of both

This chapter ...

- Establishes that revenue from sales and service transactions should be recognized when the requirements regarding performance are satisfied, the revenue is measurable, and at the time of performance ultimate collection is reasonably assured
- Provides guidance on determining when performance has been achieved
- In the case of rendering of services and long-term contracts, requires that performance should be determined using either the percentage of completion method or the completed contract method, whichever relates the revenue to the work accomplished
- States that completed contract method is used when the entity cannot reasonably estimate the extent of progress toward completion; the completed contract method may also be used if the completed contract method is used for income tax reporting purposes and the financial position and results of operations of the entity would not vary materially from those resulting from the use of the percentage of completion method
- Provides that in certain circumstances, it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction to reflect the substance of the transaction
- Provides that revenue from contract-related claims should be recorded if certain conditions are met
- Sets out presentation and disclosure requirements related to revenue

Chapter 20

Consolidated retirement and other postemployment benefits

Establishes principles for the recognition, measurement, and disclosure of the cost of retirement and other postemployment benefits

This chapter ...

- Requires an entity to recognize pension cost for its defined contribution plans as an expense for the period; the pension cost to be recorded should normally be the contribution that applies to that period accounted for on the accrual basis

- Requires an entity to recognize pension cost for multi-employer plans it participates in as an expense for the period; pension cost consists solely of the contribution required for the year, unless termination of participation in the plan is probable; then, any amounts due should be accrued
- For individual deferred compensation contracts, provides that if the contract is based on current and future employment, only the cost of benefits attributable to current employment should be accrued; if benefits expected in the future are attributable to more than one year of service, the cost of those benefits should be accrued over the period of the employee's service; at the end of that service period, the total amount accrued should equal the present value of the benefits expected to be provided
- Allows management to make an accounting policy choice to account for defined benefit plans (except multiemployer plans) using either the current contribution payable method (only the contribution attributable to the current year is expensed) or one of the accrued benefit obligation methods (immediate recognition approach or the deferral and amortization approach)
- Requires termination benefits to be recognized as a liability and expense when it is probable that employees will be entitled to benefits, and the amount can be reasonably estimated
- Establishes disclosure requirements related to retirement and other postemployment benefits

Chapter 21

Income taxes

Establishes principles for the recognition, measurement, presentation and disclosure of income and refundable taxes in an entity's financial statements

This chapter ...

- Allows management to make an accounting policy choice to account for income taxes using either the taxes payable method or the deferred income taxes method
- States that no provision for income taxes should be made in the financial statements of businesses for which income is taxed directly to the owners
- Establishes that under the taxes payable method, only current income tax assets and liabilities are recognized and provides guidance for following that method
- Establishes that under the deferred taxes method, an entity recognizes a deferred income tax liability whenever recovery or settlement of the carrying amount of an asset or liability would result in deferred income tax outflows; similarly, an entity recognizes a deferred income tax asset whenever recovery or settlement of the carrying amount of an asset or liability would generate deferred income tax reductions; guidance for implementing the deferred taxes method is provided
- Sets out presentation and disclosure requirements related to income taxes

Chapter 22

Subsidiaries

Establishes principles for accounting for subsidiaries

This chapter ...

- Defines a subsidiary
- Allows management to make an accounting policy choice to either consolidate its subsidiaries or account for its subsidiaries using the equity method; all subsidiaries should be accounted for using the same method
- States that a material difference in the basis of accounting between a parent and a subsidiary precludes the preparation of consolidated financial statements and the use of the equity method
- Requires an entity to describe financial statements as being prepared either on a consolidated basis or non-consolidated basis
- Requires investments in non-consolidated subsidiaries to be presented separately from other investments
- Provides that management should provide a listing and description of all subsidiaries, including certain other information
- Requires that an entity that prepares non-consolidated financial statements should disclose the basis used to account for its subsidiaries; also, the entity should provide a listing and description of all subsidiaries, including certain other information

Chapter 23

Consolidated financial statements and noncontrolling interests

Establishes principles for the preparation of consolidated financial statements and for accounting for a non-controlling interest in a subsidiary in consolidated financial statements

This chapter ...

- States that combined financial statements may be useful, although they are not a substitute for consolidated financial statements; when combined financial statements are prepared, similar principles to those used when preparing consolidated financial statements apply
- States that a material difference in the basis of accounting between a parent and a subsidiary precludes the preparation of consolidated financial statements

- Requires that when consolidated financial statements are prepared, the investment account of the parent should be replaced by the identifiable assets and liabilities of the subsidiary, any non-controlling interest therein, and any goodwill arising as a result of the investment, consolidated financial statements prepared on dates subsequent to the date of an acquisition are based on the amount assigned to assets, liabilities and non-controlling interest at the date of acquisition and, in addition, indicate the effects of transactions subsequent to that date

- Requires intercompany balances to be eliminated upon consolidation

- Provides guidance on related topics, including the loss of control of a consolidated subsidiary, shareholders' equity transactions with interests outside the consolidated group

- Requires an entity to identify non-controlling interests in the net income and net assets of consolidated subsidiaries separately from the parent's ownership interests in them, when preparing consolidated financial statements

- Sets out presentation and disclosure requirements

Chapter 24

Interests in joint ventures

Establishes principles for accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, revenue, and expenses in the financial statements of venturers, regardless of the structures and forms under which the joint venture activities take place

This chapter ...

- Defines joint ventures

- Allows a venturer to make an accounting policy choice to account for its interests in joint ventures using the equity method or the proportionate consolidation method (only applicable to unincorporated entities when it is an established industry practice)

- States that financial statements of equity method investees should be adjusted, if necessary, to conform with principles in the FRF for SMEs accounting framework, unless it is impracticable to do so

- Provides guidance on the application of the proportionate consolidation method

- Establishes presentation and disclosure requirements

Chapter 25

Leases

Establishes principles for methods of accounting for lease transactions and circumstances in which these methods are appropriate

This chapter ...

- Classifies leases as follows:
  - From the point of view of the lessee — capital and operating leases
  - From the point of view of the lessor — sales-type, direct financing, and operating leases

- Requires a lease that transfers substantially all the benefits and risks of ownership related to the leased property from the lessor to the lessee should be accounted for as a capital lease by the lessee and as a sales-type or direct financing lease by the lessor; a lease in which the benefits and risks of ownership related to the leased property are substantially retained by the lessor should be accounted for as an operating lease by the lessee and lessor

- Sets conditions for determining when a lease transfers substantially all the benefits and risks of ownership

- Provides guidance for accounting for a lease by a lessee and lessor and guidance on sale-leaseback transactions and leases involving land and buildings

- Requires lease transactions between related parties to be accounted for and classified in accordance with the terms of the lease agreement and the provisions of this chapter, like other leases

- Sets out presentation and disclosure requirements

Chapter 26

Related party transactions

Establishes principles for the measurement and disclosure of related party transactions in the financial statements

This chapter ...

- Provides guidance on the definition and identification of related parties

- Requires a related party transaction that occurs in the ordinary course of business to be measured in the same manner as the transaction would have been measured if it took place between unrelated parties. A related party transaction that does not occur in the ordinary course of business should be measured at the carrying amount, unless there is objective third-party evidence supporting the market value of what was exchanged in the transaction

- Sets out disclosure requirements for related party transactions

Chapter 27

Subsequent events

Establishes recognition and disclosure principles for events subsequent to the financial statement date

This chapter ...

- Sets out two types of subsequent events:
  - Those that provide further evidence of conditions that existed at the financial statement date
  - Those that are indicative of conditions that arose subsequent to the financial statement date
- Requires financial statements to be adjusted when events occurring between the date of the financial statements and the date the financial statements are available to be issued provide additional evidence relating to conditions that existed at the date of the financial statements
- Provides that financial statements should not be adjusted for those events occurring between the date of the financial statements and the date the financial statements are available to be issued that do not relate to conditions that existed at the date of the financial statements
- Requires disclosure of the date through which subsequent events have been evaluated and the fact that this is the date that the financial statements were available to be issued
- Requires disclosure of those events occurring between the date of the financial statements and the date the financial statements are available to be issued that do not relate to conditions that existed at the date of the financial statements but are of such a nature that they should be disclosed to keep the financial statements from being misleading

Chapter 28

Business combinations

Establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

This chapter ...

- Requires the acquisition method in accounting for a business combination and provides guidance on identifying a business combination, the acquirer, and the acquisition date
- Requires the acquirer to measure the identifiable assets acquired and the liabilities assumed at their acquisition-date market values and measure any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the acquiree's identifiable net assets
- Allows the acquirer to make an accounting policy choice to account for intangible assets acquired in a business combination either by separately recognizing the intangible asset as an identifiable asset or not separately recognizing the intangible asset as an identifiable asset and subsuming into goodwill the value of the intangible asset
- Provides guidance on recognizing and measuring goodwill or a gain from a bargain purchase
- Provides guidance on asset retirement obligations, income taxes, indemnification assets, employee benefits, business combinations achieved in stages, combinations of entities under common control and other areas
- Sets out disclosure requirements

Chapter 29

New basis (push-down) accounting

Establishes recognition, measurement and disclosure principles dealing with the comprehensive revaluation of assets and liabilities by entities to establish a new cost basis

This chapter ...

- Allows for assets and liabilities to be comprehensively revalued by means of push-down accounting when an acquirer gains control of an entity
- Provides that when an individual or entity already owns an equity interest in an entity, the revaluation or market value is proportionate to that owner's increase in ownership
- States that when new costs are not reasonably determinable for individual assets and liabilities, comprehensive revaluation is not appropriate
- States that the application of push-down accounting provides symmetry between the carrying amounts of assets and liabilities reported in the acquired entity's financial statements and the carrying amounts of assets and liabilities reported in the consolidated financial statements of the parent; when applying push-down accounting, the values used are those resulting from accounting for the acquisition(s) in accordance with the guidance on business combinations
- Provides guidance on the revaluation adjustment (the net effect of the revaluation of the entity's assets and liabilities)
- Sets out disclosure requirements

Chapter 30

Nonmonetary transactions

Establishes principles for the recognition, measurement, and disclosure of nonmonetary transactions

Defines when an exchange of assets is measured at market value and when an exchange of assets is measured at the carrying amount

This chapter ...

- Requires an entity to measure an asset exchanged or transferred in a non-monetary transaction at the more reliably measurable of the market value of the asset given up and the market value of the asset received, unless certain conditions apply; in those cases, the transaction is measured at the carrying amount of the asset given up, adjusted by the market value of any monetary consideration

- Provides that when an entity is able to reliably determine the market value of both the asset received and the asset given up, the market value of the asset given up is used to measure the asset received unless the market value of the asset received is more reliably measurable; if market value is not reliably measurable, then the transaction is based on the carrying amounts

- Requires an entity to measure a non-monetary non-reciprocal transfer to owners that represents a spin-off or other form of restructuring or liquidation at the carrying amount of the non-monetary assets or liabilities transferred

- Requires an entity to recognize any gain or loss resulting from a non-monetary transaction in net income

- Sets out disclosure requirements

Chapter 31

Foreign currency translation

Establishes principles for foreign currency transactions

This chapter ...

- Provides that at the transaction date, each asset, liability, revenue, or expense arising from a foreign currency transaction of the reporting entity should be translated into U.S. dollars using the exchange rate in effect at that date

- Provides that if a transaction denominated in a foreign currency that is not settled by the statement of financial position date and the exchange rate has changed, the receivable or payable should be translated at the equivalent amount of U.S. dollars that would be collected or paid at the statement of financial position date

- Requires that at each statement of financial position date, monetary items denominated in a foreign currency be translated to reflect the exchange rate in effect at the statement of financial position date

- Requires that at each statement of financial position date, for non-monetary assets of the reporting entity that are carried at net realizable value or market value, the U.S. dollar equivalent should be determined by applying the exchange rate in effect at the statement of financial position date to the foreign currency market price

- Requires an exchange gain or loss of the reporting entity that arises on translation or settlement of a foreign currency-denominated monetary item or a non-monetary item carried at net realizable value or market value to be included in the determination of net income and disclosed

Additional resources

Learn more about FRF for SMEs by checking out the additional resources the AICPA developed to help you and others in your practice understand the framework. You'll find these and other tools at aicpa.org/FRF-SMEs:

- Free download of the framework
- Implementation guidance including
  - Illustrations of the application of certain principles and criteria of the FRF or SMEs
  - Disclosure checklists
- PowerPoint you can use to explain the framework to
  - Others in your practice
  - Clients and financial statement users
- Summary comparison of FRF for SMEs to other bases of accounting
- Short video explaining the benefits of the framework
- Illustrative financial statements to give you an idea of what your clients' financials might look like if they transition to FRF for SMEs
- Sample communications to help explain the framework to clients, bankers and other financial statement users
  - Letters
  - Newsletter articles
  - Social media posts (LinkedIn, Twitter, Facebook and Foursquare)
- Frequently asked questions
- Logo to promote your firm's new service offering

Check the website frequently to explore new resources, training opportunities and more: aicpa.org/FRF-SMEs.

You can also follow the conversation on Twitter at #MainStFinancials.

If you have further questions, email us at FRFforSMEs@aicpa.org.

Technical hotline

AICPA members with technical questions about the FRF for SMEs may call the Accounting and Auditing Technical Hotline at 888.777.7077, menu option No. 5, followed by menu option No. 3. You may also submit questions to the online Accounting and Auditing Technical Hotline.

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