



Financial Accounting Standards

Accounting standards are needed so that financial statements will fairly and consistently describe financial performance. Without standards, users of financial statements would need to learn the accounting rules of each company, and comparisons between companies would be difficult.

Accounting standards used today are referred to as Generally Accepted Accounting Principles (GAAP). These principles are "generally accepted" because an authoritative body has set them or the accounting profession widely accepts them as appropriate.

Securities and Exchange Commission (SEC) The Securities and Exchange Commission is a U.S. regulatory agency that has the authority to establish accounting standards for publicly traded companies. The Securities Act of 1933 and the Securities Exchange Act of 1934 require certain reports to be filed with the SEC. For example, Forms 10-Q and 10-K must be filed quarterly and annually, respectively. The head of the SEC is appointed by the President of the United States.

When the SEC was formed there was no standards-issuing body. However, rather than set standards, the SEC encouraged the private sector to set them. The SEC has stated that FASB standards are considered to have authoritative support.

Committee on Accounting Procedure (CAP)

In 1939, encouraged by the SEC, the American Institute of Certified Public Accountants (AICPA) formed the Committee on Accounting Procedure (CAP). From 1939 to 1959, CAP issued 51 Accounting Research Bulletins that dealt with issues as they arose. CAP had only limited success because it did not develop an overall accounting framework, but rather, acted upon specific problems as they arose.

Accounting Principles Board (APB)

In 1959, the AICPA replaced CAP with the Accounting Principles Board (APB), which issued 31 opinions and 4 statements until it was dissolved in 1973. GAAP essentially arose from the opinions of the APB.

The APB was criticized for its structure and for several of its positions on controversial topics. In 1971 the Wheat Committee (chaired by Francis Wheat) was formed to evaluate the APB and propose changes.

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Financial Accounting Standards Board (FASB)

The Wheat Committee recommended the replacement of the Accounting Principles Board with a new standards-setting structure. This new structure was implemented in 1973 and was made up of three organizations:

Financial Accounting Foundation (FAF)

Financial Accounting Standards Board (FASB)

Financial Accounting Standards Advisory Council (FASAC).

Of these organizations, FASB (pronounced "FAS-B") is the primary operating organization.

Unlike the APB, FASB was designed to be an independent board comprised of members who have severed their ties with their employers and private firms. FASB issues statements of financial accounting standards, which define GAAP. The AICPA issues audit guides. When a conflict occurs, FASB rules.

International Accounting Standards Committee (IASC)

The International Accounting Standards Committee (IASC) was formed in 1973 to encourage international cooperation in developing consistent worldwide accounting principles. In 2001, the IASC was succeeded by the International Accounting Standards Board (IASB), an independent private sector body that is structured similar to FASB.

Governmental Accounting Standards Board (GASB)

The financial reports of state and local government entities are not directly comparable to those of businesses. In 1984, the Governmental Accounting Standards Board (GASB) was formed to set standards for the financial reports of state and local government. GASB was modeled after FASB.

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