

Comments

Private Company Financial Reporting

September 10, 2010

These comments are made by a CPA (now also Ph.D.) who has been a member of the AICPA since 1956. I have been engaged in the public accounting profession for all of the years since then. My years in practice included client firms which filed with the SEC, as well as those firms which were private, and thus not required to file. I have spent the last several years teaching graduate students at Florida Atlantic University, primarily financial reporting, as well as maintaining a small public practice.

2 (a) Current GAAP applicable to private companies

Starting somewhere with the standards issued in the early 1980s, the standards issued were primarily for specific industries. Most of these industries are today operated by publicly owned corporations. Also, by making these standards applicable to all corporations issuing financial statements, unnecessary research was required by all to exclude the many private corporations from the disclosures required by those standards.

2 (b) and (c) Systemic? Private Companies?

I believe that the standards mentioned above make the concerns systemic. My concerns are limited to the privately owned, non-public corporations; I believe that the work of the FASB has been outstanding as its standards relate to the public companies.

3 Long-term and short-term actions

I believe that in the short term, two or three years, the FASB and the committee should either adopt, or create something similar to the IFRS-SME standard.

4 Effect of Adopting IFRS by Public Companies

In these comments, I have assumed that the "convergence" of FASB standards and IFRS will happen; not necessarily on the present time-table, but relatively soon. Many public companies already prepare "international" statements, and the large accounting firms have prepared themselves. The finance world will continue to insist on congruent standards, and the US will not want to be left out of the global financial world.

It is inconceivable that the basics of accounting and reporting be different for public and non-public companies. An alternative to requiring all domestic non-public corporations to continue recognizing FASB standards as GAAP, would be the preparation of a "small GAAP," perhaps similar to the current IASB-SME standard. An even simpler approach would be to encourage domestic non-public corporations to adopt the present SMEs, which has the advantage in the long run of having financial

statements issued by those corporations largely based on international standards. The present SMEs are essentially the same as US current practice, with a few (e.g. LIFO) differences.

In conclusion, I suggest that the committee approach its deliberations by accepting the convergence of United States and International standards as an accomplished fact. Further, private, non-public companies should have the same general accounting standards as the public companies have and will have. However, those non-public company standards should be promulgated with the needs of the users of those statements, who can obtain additional information directly from the issuer. The non-public company does not have an audience of thousands or hundreds of thousands reading and relying on those statements.

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