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File Reference No. 2012-230
Private Company Decision-Making Framework

Dear FASB:

Overall, the discussion paper contains very interesting and potentially useful ideas to meet the needs of private companies. I also read it with not-for-profit entities in mind since they may benefit from some of the “concessions” made for private companies, particularly with respect to delayed implementation dates, simplified transition procedures, and less detailed notes in at least some situations. I have organized my comments in accordance with the questions posed by the FASB. In particular, I have emphasized the portions of the decision-making framework that might be applicable to nonpublic not-for-profit entities.

For purposes of classifying comment letters, my title is professor emeritus at the University of Idaho (retired June 2011). I have held my CPA license since 1977. Prior to beginning my 29-year academic career, I held a variety of positions including staff accountant in a small public accounting firm, controller for several small to medium-size business entities, and as director of finance for a large not-for-profit entity. As an active donor and small investor, I have occasion to read the financial information of charities and publicly-traded companies. I currently have the honor of serving on FASB’s Nonprofit Advisory Committee (NAC) and I have been involved with the disclosure framework task force over the last several years.

Comments on Flowcharts

I liked the flowcharts in paragraphs 3.4, 4.6 and 5.7. They were very helpful in understanding the proposed decision process. Since I sort of started backwards from the easier issues (e.g. delayed implementation), I found the lack of a comparable flowchart for the recognition and measurement issues problematic. So I decided to try to put the ITC wording into

a more useful frame of reference – to aid my own understanding. You can see the results in my Appendix B at the end of the letter. I also made some preliminary attempts to modify the flowcharts so that they would be appropriate for comparable decisions about modifications, exceptions and delays for not-for-profit entities. Those flowcharts are in my Appendix C at the end of the letter. Please feel free to use this material if it is helpful!

Question 1: Please describe the individual or organization responding to this Invitation to Comment.

a. In the rather distant past, I worked for private companies as bookkeeper, controller, etc. During my brief stint in public accounting, all of the clients I worked with were private companies. Currently, I am neither a preparer nor user of private company financial statements. I do bring extensive experience with not-for-profit organizations both directly and through academic research and I'm interested in this document because it might be useful in determining differences in accounting standards for not-for-profit (NFP) entities.

b. The private companies for which I served as controller ranged from 5 employees to about 100 employees. These companies included a firm in the oil field services industry, three manufacturing firms, and medical practices (mostly sole-proprietors). Some were audited, others were not. I was generally responsible for preparing financial statements and other interim information that our lenders wanted (aging of accounts receivable, etc.)

d. The CPA firm I worked for consisted of three partners and 3-4 staff members so it would be considered small. Our clients were all private companies and included a few banks as well as other small businesses and physicians. I was most commonly involved with tax return preparation but with a small firm, we all went out on the "surprise" bank audits. I also helped clients set up their bookkeeping systems.

Question 2: Has the staff identified and focused on the appropriate differential factors between private companies and public companies (see paragraphs DF1–DF13)? If it has not, please explain why and include additional factors, if any, that you believe should be considered along with their potential implications to private company financial reporting.

The differential factors appear to be appropriate although the accounting resources and professional education factors are closely related and could perhaps be combined. To usefully accommodate NFPs within the general framework, I believe the "investment strategies" factor should be divided between debt and equity investors since NFPs have no equity investors. Note that the "access to management" factor is equally relevant for lenders of private companies and NFP entities. Consequently, the level of disclosures for creditors appears to hinge on whether the debt is publicly traded. See discussion by factors that follows and Appendix A which contains a factors chart that adds a column for NFPs.

Factors relevant for not-for-profit entities

Users. As discussed by the NAC, not-for-profits have more public accountability obligations than would be true of private companies. Some not-for-profits even have publicly-traded debt. However, the public accountability needs are associated with donors rather than stockholders. Accordingly, the sector as a whole fits with neither public nor private on the financial statement users factor. The NFP sector has unique user needs related to donors and grantors. In addition, the generally volunteer boards of directors function more like outside donors than management or preparers of financial statements.

Access to Management. With respect to the access to management factor, NFP entities more closely fit with public companies although major resource providers (banks, foundations, government agency grantors) may demand special interim information from management. However, most donors and regulators are limited to what is in the audited financial statements or the Form 990 tax return which is public information (unlike tax returns of public and private companies).

Investment Strategies. The investment strategies factor provides little guidance for NFPs since there are no owners. Disclosures relevant to lenders would arguably have equal relevance across the three sectors. Banks and similar lenders to NFPs would have access to management for additional information while bondholders would not. In this setting, disclosure level should reflect the structural differences:

- Disclosures that help users value the company as a whole (to predict future share prices) would be less relevant for both private companies and not-for-profit entities.
- Disclosure intended to help bondholders evaluate credit worthiness and likelihood of repayment would be relevant for public companies and NFPs with publicly traded debt.
- Disclosures intended for other lenders (banks, etc.) would be helpful for both private companies and NFPs with debt. This information could be less detailed than what is provided by public companies because these lenders can generally obtain additional information from the borrower.

Ownership structure. With respect to commonly controlled entities, consolidation issues are not unique across the three sectors. I'm not sure what special needs private companies might have, but we already have some unique standards with respect to goodwill for certain NFP mergers. Accordingly, making some exceptions for private companies along these lines could also be appropriate.

However, the primary difference in ownership structure for NFPs is the *lack of owners*. Upon dissolution, NFP assets must generally be transferred to another NFP. Donors do not anticipate economic returns from their "investments." With respect to long-term or short-term focus, there may be differences for donors who make long-lived gifts (endowments, art work, etc.) as compared to those who focus on meeting immediate needs (soup kitchen and other social services). While some people in the NFP field attempt to categorize donors as investors (long-term focus) or customers (short-term focus), there is really no way to usefully distinguish gifts intended for one purpose or another unless the gift is specifically designated for a particular purpose. This raises another "unique" NFP factor – donor restricted net assets. These restrictions cause confusion in determining liquidity and financial viability and warrant specialized disclosures.

Accounting resources and Education. For these two factors, the bulk of NFP organizations are closely aligned with the issues and problems faced by private companies. There are, of course, exceptions such very large NFP entities. In addition, some NFP industry segments are closely involved in standard setting through their associations. For example, the National Association of College and University Business Officers (NACUBO) routinely provides comment letters and its Accounting Principles Council goes to Norwalk every other year to meet with representatives of FASB and GASB. However, most charities focus on maximizing mission-related expenditures, often to the detriment of well-staffed accounting functions and professional education. Smaller NFPs may even rely on volunteers to maintain

accounting records. Accordingly, the internal accounting personnel at NFPs are too busy to pay close attention to new standards proposed or enacted. Any delayed implementation dates warranted for private companies would also benefit not-for-profit organizations.

A complication is that many NFPs have fiscal years that are different from the calendar year more common for private companies. For example, colleges and universities have fiscal years ending during the summer months. This means that the timing of professional education might differ from that of private company accounting personnel. The FASB might consider whether timing differences warrant different implementation dates: I suspect that private companies would want to take advantage of any extensions sought by NFPs!

Question 3: Overall, do the staff recommendations result in a framework that would lead to decisions that provide relevant information to users of private company financial statements in a more cost-effective manner? If they do not, what improvements can be made to achieve those objectives?

This would be hard for me to evaluate since I am not a user of private company financial statements. However, omission of disclosures of information already prepared and used for internal decision making purposes is unlikely to reduce costs of preparation by any measurable amount. Once a system is set up to accumulate the necessary data, a year-end report is easy to produce. Since private companies are not (apparently) making their financial statements widely available, an extra ten pages or so of paper is probably neither too costly nor harmful for the environment. I guess I don't see "what the big deal is" for some of the furor about things like roll-forward tables for select balance sheet amounts.

Question 4: Do you agree that private companies that apply industry-specific accounting guidance generally should follow the same industry-specific guidance that public companies are required to follow because of the presumption that guidance is relevant to financial statement users of both public companies and private companies operating in those industries? If not, why?

I believe that industry-specific guidance for measurement and recognition exists because there are legitimate differences inherent in the nature of the activities of that industry. For example, not-for-profit entities have industry-specific guidance on how to handle contributions and donor-restricted net assets. These unique standards have little or no relevance to other types of entities. However, I can understand that differences in type and level of disclosure might be warranted for private companies and NFPs without publicly-traded debt, based on differences in user needs.

If I were running a private company, I might want to compare operations with publicly-traded companies. [This appears to be a one-way street since private companies are generally pretty secretive and do not share their financial statements.] For comparison purposes, following the same measurement and recognition standards would be very helpful, even if a lower level of related disclosures were deemed suitable for private companies. If I were a banker, it would also be helpful to know that a private company in the oil industry (for example) was measuring revenues and oil reserves the same way that public companies do. To me, it makes sense to permit a lower level of disclosure while maintaining comparable measurement and recognition standards. Private company users have better access to management for additional information – but it is unlikely that they could get information prepared on a totally different basis of accounting (a costly effort for the private company). Wouldn't it be easier for the private company to follow the same industry standards than to have to go back and try to figure everything out if a user wanted to make comparisons to public companies? Don't many private companies ultimately plan IPOs or sales?

Question 5: Do the different areas of the framework appropriately describe and consider the primary information needs of users of private company financial statements and the ability of those users to access management, and does the disclosure area of the framework appropriately describe the *red-flag approach* often used by users when reviewing private company financial statements (see paragraphs BR43 and BR44)? If not, why?

I believe I understand this *red-flag approach* and it may be useful for private companies. However, this part of the framework would rarely be descriptive of not-for-profit entities and their relationships with donors. Of course, NFPs can have closer relationships with major funders/grantors and lenders. These parties may have access to management and may be able to obtain interim or special reports related to the entity as a whole (lenders) or to specific programs (funders/grantors). Nevertheless, I believe the public accountability responsibilities of NFPs make this aspect of the private company framework less useful for NFPs. It is not a good basis, in general, for permitting NFP exceptions for required disclosures.

Question 6: Has the staff identified the appropriate questions for the Board and the PCC to consider in the recognition and measurement area of the framework (see paragraphs 1.5 and 1.6)? If it has not, why, and what additional factors should be considered?

General comments and thoughts. Not being involved with the long process of determining the need for the PCC, I am not really aware of the hot-button issues with respect to measurement and recognition which makes meaningful evaluation of this section of the ITC challenging. A recent article in the Journal of Accountancy says the new PCC is interested in first looking at FIN 48 (uncertain tax positions), fair values, variable interest entities, derivatives, warrants as liabilities (maybe a typo for warranties?), and separately identified intangible assets. I would assume that many of the private company concerns are with respect to disclosures. However, I anticipate that measurement or recognition differences could be requested with respect to fair values, derivatives and intangibles. VIEs and derivatives might also be challenged for complexity.

In reaching a useful decision framework for recognition and measurement, I see a problem that may not be amendable to fixing: distinguishing between elements of financial statements of more relevance to holders of public equity instruments than to any other group of users. Lenders are common to all types of entities (public and private companies, NFPs, governments). We can suppose that lenders are more interested in current assets and marketable investments that could be used for debt service and less interested in long-term assets (unless used for collateral.) They are probably interested in most types of liabilities too. I don't think we can say that stockholders (public companies) are uninterested in any of these lender-focus items. The ITC argues that stockholders have a short-term focus and an interest in evaluation of the entity as a whole. Is this setting the stage for saying that fair values are of primary use to the stockholders of public companies? After all, changes in fair values give rise to noncash unrealized gains and losses that are presumably excluded from EBITDA when private company users evaluate organizational performance.

To my mind, reporting fair values for assets with readily obtainable market values (particularly what we refer to as Level 1 and maybe Level 2) is not a particularly costly recognition and measurement task. On the other hand, disclosures are extensive and measurement and recognition for Level 3 assets may be costly. Modifications/exceptions for private companies (and possibly NFPs) could therefore be useful for Level 3 measurements and all existing fair value disclosures. I certainly hope the PCC is NOT planning on getting rid of all fair value measurements! On the other hand, the financial instrument exposure draft issued a few years ago garnered a lot of opposition to reporting receivables and liabilities at fair value (I was

one of the opposition for application of this type of fair value accounting by NFPs). If we ultimately adopt IFRS and they decide to make the fair value reporting of plant assets required instead of optional, I would likewise be very opposed, particularly for not-for-profit entities. Depreciation of historical cost is arguably useful for costing services and products. I see no comparable utility for recognizing depreciation of unrealized gains and pretending that such a noncash expense has anything to do with delivering mission-related services! So I guess the unknowable future direction of standard setting is the 900-pound gorilla hiding in the forest of existing practices. Having an “out” for NFPs and/or private companies for this type of recognition and measurement process would be wonderful!

On the other hand, I’m not sure the NFP sector has any burning issues regarding recognition and measurement standards currently in existence (other than a strong preference for reporting temporarily restricted net assets as deferred revenue!). Note that we already have an exception for capitalizing and depreciating museum-type assets (seen to have little utility for users of NFP financial statements). This exception is based on a thought-process similar to the private company focus on EBITNA. Buying artwork or historical artifacts is a cash outflow clearly related to the institution’s mission. To not report it as an expense might make the reported change in net assets misleading to donors: they might presume the museum didn’t need gifts because it was operating at a surplus. Perhaps this NFP exception for recognition sets a precedent for modification or exceptions that will be sought by private companies. We also have an exception with respect to goodwill related to merger of two NFPs. The rationale is similar. There is no utility for reporting the noncash “amortization of intangibles” as a mission-related expense.

Comments on Specific Elements of Proposed ITC guidance (Paragraphs 1.2 to 1.10).

- **Question 1.5a.** I have been trying to think of a version of question 1.5a that would identify key issues for the users of NFP financial statements. Adjusted EBITNA is roughly equivalent to what many charities report as “operating income” in a statement of activities that has a subtotal. In other words, charities often put noncash items like unrealized gains and losses on investments and the portion of endowment earnings not yet appropriated for use in an “other” section on the income statement. Some in the NFP field are still not too keen on reporting depreciation either although that battle has mostly been won. Question 1.5a also says to me that both private company and NFP users would benefit from a direct method presentation of cash provided by operations. If private companies had a direct method SCF, maybe there would be less need for the adjusted EBITNA analysis. Such an analysis is certainly useful when one has nothing but a confusing indirect presentation on the statement of cash flows! The FASB and PCC might also consider whether moving something from the income statement to the “other comprehensive income” section might also be useful for private company financial statements.
- I particularly like **Questions 1.5 h and j** (although “i” is rarely important for NFPs). Both private companies and NFPs are unlikely to issue financial statements as quickly as public companies. Accordingly, any fair value information may be pretty obsolete by the time users have a chance to study the financial statements.
- **Question 1.5 d** is a useful consideration that reflects actual user preferences and needs.
- The criteria on cost and complexity in **paragraph 1.6 (k-n)** are all applicable to NFPs as well as private companies

- **Question 1.5 e** seems to be worded in a confusing fashion because it seems to involve a double negative. If a “no” answer supports modification, we would be saying that information useful for predicting future cash flows SHOULD be considered for modification. If this isn’t what you intended, you might think of rewording it and maybe moving it to the “yes answer supports modification” group: Is the primary purpose of the guidance to provide information about historical events and transactions? Then a “yes” answer suggests that this is information of less relevance and that makes modification more reasonable. The more I think about this one, the more confused I get! Maybe you really did intend to make exceptions for information with predictive value????? I tried dividing question e into two parts – see the NFP version in Appendix C at end of letter.
- Finally, here are some suggestions for “additional” criteria along the lines of my discussion at the beginning of this question:
 - Is the primary purpose of the guidance to provide information to aid equity investors in their evaluation of the company as a whole to determine an appropriate current or future share price? (If yes, consider modifications or exceptions for private companies and not-for-profit entities.)
 - Is the primary purpose of the guidance to provide information about current and future dividend payout ratios? (If yes, consider modifications or exceptions for private companies and not-for-profit entities.)

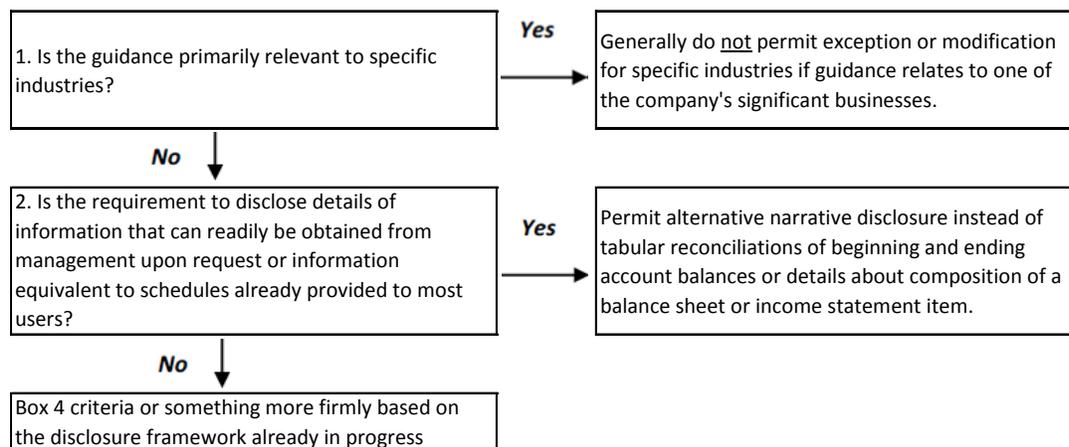
Question 7: Has the staff identified the appropriate areas of disclosure focus by private company financial statement users for the Board and the PCC to consider (see paragraph 2.8)? If it has not, why, and what additional areas of disclosure focus should be considered?

I do NOT like flowchart 2.10. I’ve recently made comments on the disclosure framework ITC. It seems to me that the issues in that framework are relevant to this section. In particular, I see absolutely no need to automatically waive “roll-forward” and disaggregated disclosures for private companies. Users tend to prefer tabular disclosures over narrative. Arguably one would have to look at a reconciliation of beginning and ending balances to be able to explain in narrative form the reasons for any significant differences. If that is the case, there is little or no cost savings for preparers so why not share the reconciliation with users. Even when there are significant differences, the reconciliation may be pretty obvious and unnecessary. For example, the most interesting thing about a reconciliation of accounts receivable would be write-off of bad debts, assuming sales, collections of cash from customers, and bad debt expense are disclosed elsewhere. Unless the level of debt write-offs was significant, no roll forward table (or narrative discussion) would be needed. However, preparers do make it harder for users when the information is spread over multiple statements and footnotes. I recommend that the PCC consider paragraph 2.15b in 2012-220: if disclosures concern practices that are well accepted and known to users, no disclosures are needed. For example, why repeat “land is not depreciated” in every set of financial statements. In other words, disclosures should highlight uncommon practices and unusual events. If roll-forward tables or disaggregation are useful for these disclosures, they should be used.

T. Gordon comments

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Here is a possible alternative for boxes 2 and 3 on flowchart 2.10:



In summary, I would rather see the disclosure framework (ITC 2012-220) applied than a blanket policy of letting private companies ALWAYS omit any type of disclosure, regardless of relevance and regardless of whether users can obtain the information from management. I certainly would not like to see this type of process applied to not-for-profit entities since most users have little access to management and therefore no ability to obtain additional information.

Question 8: Do you agree that, generally, private companies should apply the same display guidance as public companies? If not, why?

Yes. A balance sheet should pretty much look like a balance sheet whether it is public, private or not-for-profit and that goes for statements of cash flows as well. Obviously, NFPs currently have some pretty complicated looking “income statements” but you can still find the revenues and the expenses. I believe that the way information is displayed should be as comparable as possible across the three groups (private companies, public companies and not-for-profit entities). Otherwise, the learning curve for financial statement users and preparers is too high. Also, think about the problems for educators and therefore those who need to hire accounting expertise. It is bad enough that we are currently trying to teach IFRS and US GAAP plus governmental accounting. I don’t think we need more “accounting languages” to learn. Too many differences make comparisons harder but that may not even be the biggest issue since a vast number of people will need to be re-trained to use, prepare or audit financial statements. I already see this problem between the FASB and GASB standards. The proliferation of differences in display or recognition & measurement is not really in society’s best interest. Exceptions related to the level of detail in disclosures, extended implementation dates, or simplified transition methods are much less likely to be costly or harmful.

I took a stab at modifying your flowchart 3.4 to encompass not-for-profits. The major thing I tried to add is a need for special consideration of comparability problems when an industry operates across the boundaries. For example, tuition and tuition discounts are reported most helpfully when public, NFP, and for-profit colleges and universities use the same basic measurement and display. For health care, the level of charity care provided is an issue for all three groups and the FASB should consider whether a proposed change adds to comparison problems. If so, perhaps additional disclosures that are compatible with GASB (for example) should be considered. See Appendix C at end of this letter for the NFP flowcharts.

Question 9: Do you agree that, generally, private companies should be provided a one-year deferral beyond the first annual period required for public companies to adopt new guidance? If private companies are provided a deferred

effective date, do you agree that a private company should have the option to adopt the amendments before the deferred effective date for private companies but no earlier than the required or permitted date for public companies? If not, why?

Yes. I believe that an extra year to implement new guidance is a fine idea for both private companies and not-for-profit entities. An additional year of delay, in certain cases, would also be helpful. I have no problem with early adoption as long as it is not earlier than what is allowed for public companies. I have attached a modification of flowchart 4.7 that would work for NFPs as well. There are very few changes needed (indicated in red). See Appendix C.

Question 10: Do you agree with the staff recommendation that some circumstances may warrant consideration of different transition methods for private companies? If not, why? If yes, has the staff identified the appropriate considerations for the Board and the PCC to evaluate? If not, what additional factors should be considered?

This discussion is excellent and generally applicable to not-for-profit entities as well. Please see attached version of a modification of flowchart 5.7 that could work for NFPs. Note that the modifications are to address information that is highly useful to users of NFP financial statements including mission-related expenses (rather than EBITNA), fundraising costs & results, and financial viability (rather than a narrower focus on short-term liquidity since the financial statements may not be issued for 3 or more months after the end of the fiscal year). At a minimum, donors are looking for some indication that the entity will be around at least long enough to utilize the gifts donors may make in the near future.

Question 11: Do you agree with the basis for the Board's tentative decisions reached to date about which types of companies should be included in the scope of the framework (see paragraphs B8–B23 in Appendix B)? If not, why?

Yes. The arguments seem reasonable.

The problem area is for public companies that own private companies and vice versa. If keeping two sets of books (public company and private company) is too costly, the consolidated entity might decide to follow public company standards to keep costs lower, particularly when users of the private company subsidiary have no real objection. Presumably the controlling public company would represent the bulk of the “users” anyway. However, a public company controlled by a private company still has to issue public company financial statements. For consolidation purposes, it might be forced to also keep private company “books” at some cost. Since the private company is in control, it would be up to it to decide whether it would be less costly and easier to continue to use public company GAAP for their reporting to facilitate consolidation or make the subsidiary keep two sets of books. So it doesn't look to me like the FASB or PCC should have to make the decision. What FASB and PCC will need to determine is what happens when an entity decides to switch to or from private company framework: what justification is needed, what sort of transition should be used, what needs to be restated in from prior years, etc.

Question 12: Are there other types of entities that you believe the Board should specifically consider when determining which types of companies should be included in the scope of the framework (see paragraphs B6 and B7 in Appendix B)? If yes, please explain.

Probably not. I believe the issue of whether NFPs are private or public is already underway. As already discussed, most NFPs have a greater obligation for public accountability than private companies have. Obviously, consolidation issues will arise if an NFP controls public or private companies. I'm not sure how common a problem this is but I suspect it may be most relevant for health care including colleges and universities with medical schools.

Question 13a: Do you think that a private company that elects to apply any difference in **recognition or measurement** guidance should be required to apply all existing and future differences in recognition and measurement guidance? Please explain your response, including how you separately considered the benefits to preparers of private company financial statements and the effect on users of private company financial statements.

Obviously, differences in recognition or measurement are potentially more problematic than the other possible changes that will result from the efforts of the PCC. Delayed implementation, simplified transition methods and even modification of required disclosures will be much less of a problem for preparers, auditors and users.

My first observation is that comparability of private company financial statements is a rather meaningless goal since most private companies are quite secretive and rarely provide financial statements to any outsiders other than lenders. I've heard private company CFOs say that they don't even share financial statements with their own employees! Any one lender would presumably have a relatively small number of private companies which might not even be in the same industry. Sufficient disclosure of differences could facilitate adjustments if comparisons to another company were feasible but no differences would be even better. In fact, I suspect that the greater interest of lenders and private company investors would be comparability to public companies in the same industry because that information is readily available!

Accordingly, consistency would appear to be a more worthwhile goal for a private company: avoiding unnecessary changes in accounting methods. If that is the case, certainly a one-time "big bath" change in methods would probably be less costly and less disruptive of year-to-year comparisons. I suggest that the PCC consider a common earliest implementation date for measurement and recognition changes related to existing GAAP that may be arrived at over the next several of years. This common implementation date would help make the change less costly for preparers, auditors and users. In addition, educators and other providers of professional education would have more time to make changes in textbooks and other materials.

Secondly, I would certainly be worried about making a commitment that subjects me to all future changes in recognition and measurement – even though such changes will presumably be favorable for private companies. However, that is probably the better approach. It is probably the more beneficial for auditors than any other group, since all their private company clients would be facing the same changes at the same time. That would make appropriate professional education for staff and auditors (and even users) more feasible. It would also be beneficial for educators and textbook writers since it would provide standardization of expectations of what students will likely find in practice. What fun they'll have! I can just imagine the PowerPoint slides that compare recognition and measurement with columns for IFRS, US public, and US private companies.

Question 13b. Do you think that a private company should have the option to choose which differences it applies in all other areas of the framework (**disclosure, display, effective date, and transition method**)? Please explain your response to the extent that you considered the benefits to preparers and the effect on users differently than you described in your response to Question 13(a).

Yes, however, I am less amendable for major differences in display as compared to differences in disclosure, effective date or transition method. FASB is clearly on track to try to improve the disclosure overload problem we all like to complain about (public companies and not-for-profit entities too). Those changes may be gradual and I doubt FASB, IASB or PCC would ever forbid voluntary disclosures at a higher level of detail! Transition and implementation dates are transitory problems and therefore of importance to users and preparers for a limited period of time.

It is hard to opine on the impact of unknown future differences in display. To tell the truth, I'm having a hard time envisioning differences in display that may result from the PCC efforts (no statement of comprehensive income, no statement of cash flows?). Accordingly, I think I'd prefer that display be considered with recognition and measurement as "must do all or none" issues. That would be better for preparers, educators, auditors and users.

Summary & Conclusion

We are certainly living in interesting era of accounting standard setting. I hope it is turns out to be more blessing than curse. For most of the topics I can think of, I would support the fewest possible differences in recognition, measurement and display. That would be in the best interest of private company accountants, auditors, users and educators. In contrast, differences in level of disclosures make sense given the differences in public and private companies' user needs. Transition and implementation issues are short-lived and would tend to be the least disruptive for preparers, auditors and users. As for educators, we tend to gloss over transition and implementation provisions since they will be largely irrelevant by the time our students graduate.

Despite the opinion expressed in the previous paragraph, I do believe we may find legitimate areas where public company measurement and recognition methods are not suitable or relevant for private companies. It is nice to know that there is now a way such differences can be debated and considered.

Sincerely,

Teresa P Gordon

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Appendix A

Factors Relevant for Standard Setting Differences between Public Companies, Private Companies and Not-for-Profit Entities

	Publicly Traded Companies	Private Companies	Not-for-Profit Entities
Financial statement users	Lenders, equity & debt investors, investment professionals	Lenders, equity investors and surety bond providers	Lenders & debt investors, donors, grantors, regulators, board of directors
Size of user base	Large numbers of investors are common	Investors generally limited in number	Donor base varies greatly in size and debt ranges from none to publicly traded
Focus of users	Diverse needs including information on net earnings and current value of investments	Information and disclosures that affect cash, cash earnings (EBITA), and liquidity	Lenders needs are similar across sectors. Donors and regulators often focus on use of resources and financial viability. Public accountability needs may go beyond information reported to public company users.
Access to management	User groups have little access to management for additional information, particularly given securities laws Interim and annual reporting must provide all relevant information	Users often have access to management and obtain supplemental information Audit is often confirmatory and users have less need for details	Lenders & large donors & grantors may have access to additional information. Other donors do not. Volunteers on board of directors are more users than preparers and may not receive interim reports. Audit may be confirmatory for those with access to additional information or interim reports from management IRS Form 990 is alternative source of information for many donors and regulators

	Publicly Traded Companies	Private Companies	Not-for-Profit Entities
Investment strategies	<p>Shorter-term focus: equity investors anticipate changes in share price and sale in a quoted market as primary source of return on investment.</p> <p>Dividend payout is a secondary source of return.</p>	<p>Longer-term focus: equity investors anticipate dividends and possible business combinations, buyouts or IPOs as source of return on investment.</p> <p>There is less concern over current fair value of investment and disclosures that reflect short-term volatility in reported earnings, assets and liabilities.</p>	<p>There are no equity investors. Donors do not anticipate economic returns from their gifts. Instead, they want to know about mission-related performance.</p> <p>Donors' interests vary with some more concerned about short-term performance and others more concerned over long-term performance and viability.</p>
Ownership structure	<p>Generally C-Corporations where tax issues are important for determining earnings.</p> <p>Sophisticated equity instruments provide readily transferable ownership interests but bring complexities for determination of earnings per share.</p> <p>Multiple entities often exist that result in consolidated financial statements. Related party transactions and cross-collateral arrangements with lenders may exist.</p>	<p>Often S-Corporations, sole-proprietorships, limited liability companies, etc. that pass through untaxed earnings to owners.</p> <p>Private companies place strong emphasis on income tax & estate planning, stock restrictions and limiting personal liability exposure.</p> <p>Multiple entities under common control results in related party transactions and cross-collateral arrangements with lenders.</p>	<p>Generally not-for-profit corporations, trusts, etc. without transferable ownership interests. Tax-exempt on most income.</p> <p>NFP entities often involved in major fundraising efforts.</p> <p>Donor restrictions on net assets place limits on management.</p> <p>Multiple entities (including for-profit corporations) under common control may be subject to consolidation. Related party transactions common.</p>

	Publicly Traded Companies	Private Companies	Not-for-Profit Entities
Accounting resources	<p>Specialized accounting personnel to deal with SEC filings and other complexities of large organizations</p> <p>Generally served by larger CPA firms</p>	<p>Fewer and less specialized accounting personnel as compared to public companies. Lack resources to participate in standard setting and less likely to be current on technical issues.</p> <p>Often served by smaller CPA firms that have fewer resources to anticipate changes in accounting standards and other technical issues</p>	<p>Many NFP entities are small with accounting resource constraints similar to private companies. However, there are also large NFPs with accounting resources approaching comparability with those of public companies.</p> <p>Both large and smaller CPA firms serve the sector but smaller NFPs are generally served by smaller CPA firms</p>
Education	<p>Large public companies generally provide continuous year-round professional education for accounting personnel.</p> <p>Routinely monitor changes in accounting guidance and more likely to participate in standard setting process</p>	<p>Private company preparers generally update their professional education in the second half of the calendar year. Significant updates likely occur only once or twice a year.</p> <p>Less likely to routinely monitor changes in accounting guidance.</p>	<p>NFP accounting staff professional education similar to that of private companies but timing may differ due to fiscal year differences.</p> <p>Smaller NFPs rely heavily on their external CPA firm to bring them up-to-date on new accounting guidance</p>

Appendix B – Proposed Flowcharts for Private Companies

Proposed Flowchart for ITC paragraphs 1.2 & 1.3

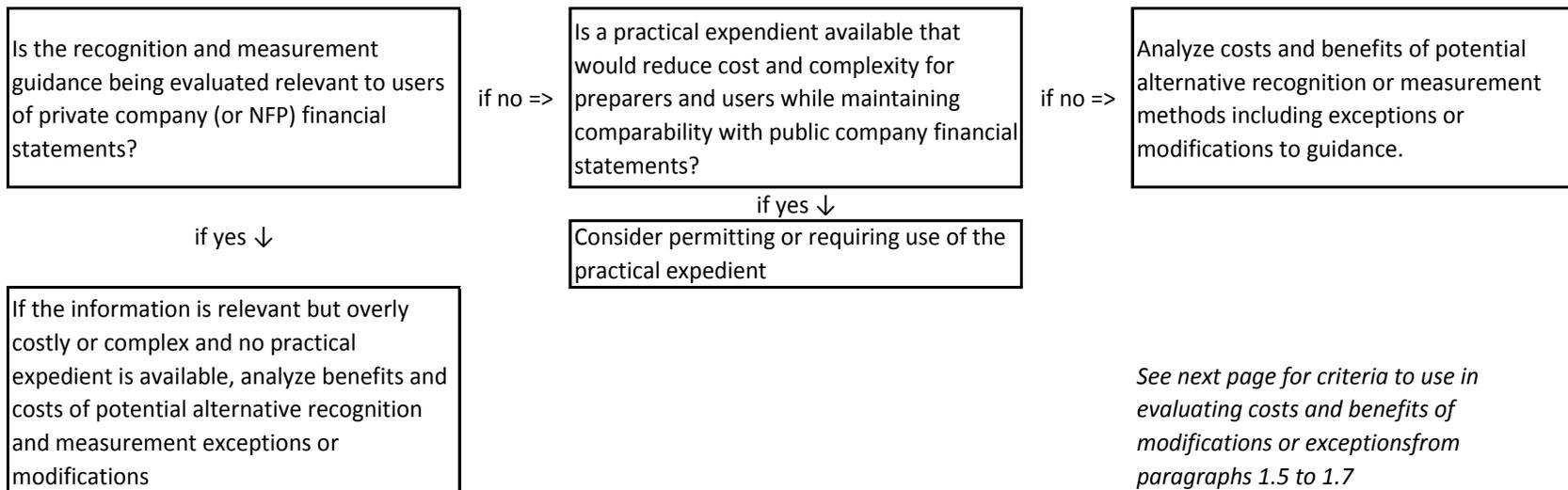


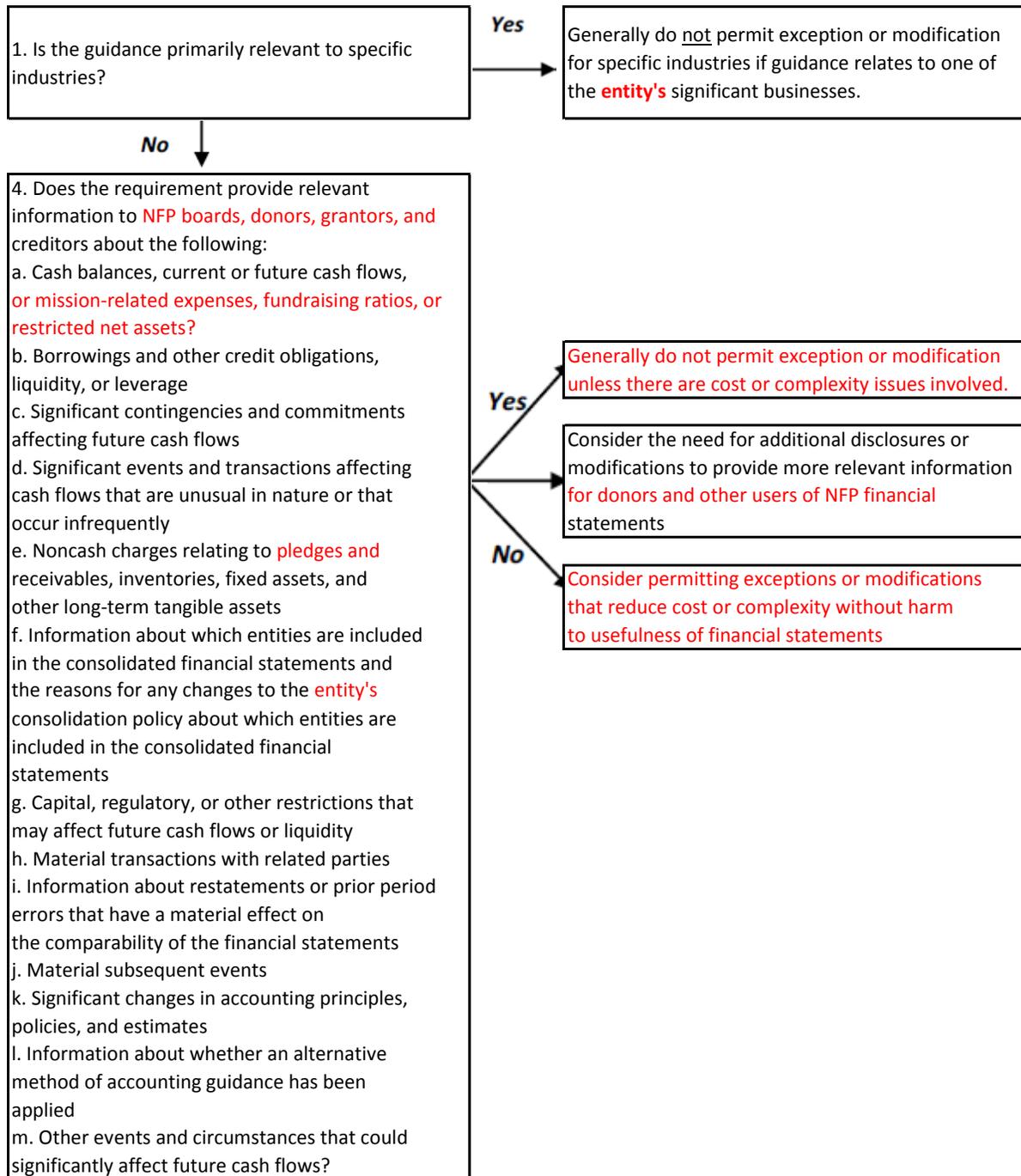
Chart with Guidance from ITC paragraphs 1.5, 1.6 and 1.7

Relevance to Users (more weight on overall responses to questions)		Cost and Complexity (lesser but still significant weight on overall responses)
1a	1b	2
"No" responses support exceptions or modifications		"Yes" answers support exceptions or modifications
<p>a. Does the transaction, event, or balance affect reported cash balances, cash flows, or adjusted EBITDA?</p> <p>b. Does the transaction, event, or balance significantly affect borrowings, liquidity, or leverage?</p> <p>c. Does the transaction or event affect, or does the balance relate to, trade receivables, inventories, fixed assets, other long-term tangible assets, accounts payable, or other liabilities?</p> <p>d. Do users typically consider the quantitative effect of the transaction, event, or balance when evaluating collateral, financial performance, or financial position? Consider whether users typically adjust financial statements by substituting an alternative accounting approach.</p> <p>e. Is the primary purpose of the guidance to provide information about historical events and transactions rather than to provide information with predictive value to help users in making their forecasts of future cash flows?</p> <p>f. Does the guidance require that the threshold for recognizing or measuring a transaction or event be at least probable of occurring?</p> <p>g. Does the guidance relate to loss contingencies or commitments that could significantly affect future cash flows? If yes, consider whether disclosing the event or circumstance would likely satisfy the needs of users.</p>	<p>h. Does the measurement guidance reflect volatility in financial statements resulting from underlying changes in market prices of debt instruments or certain derivatives that can reverse in the future because the instrument or derivative has a defined maturity or term?</p> <p>i. Is it likely that users that are interested in the transaction, event, or balance can obtain information directly from management that can reasonably satisfy the objective of the guidance?</p> <p>j. Is an untimely issuance of financial statements likely to significantly dilute the relevance of the information resulting from the guidance?</p>	<p>k. Does application of the guidance often require assistance from outside resources at a significant cost?</p> <p>l. Is significant complexity involved in determining the initial and/or ongoing accounting treatment?</p> <p>m. Are there expected to be significant changes to information systems, debt covenant agreements, other contracts, internal controls, or processes as a result of applying the new guidance?</p> <p>n. Is the accounting treatment challenging to audit, review, or compile?</p>

Appendix C – Modification of Private Company Flowcharts to accommodate Not-for-Profit Entities

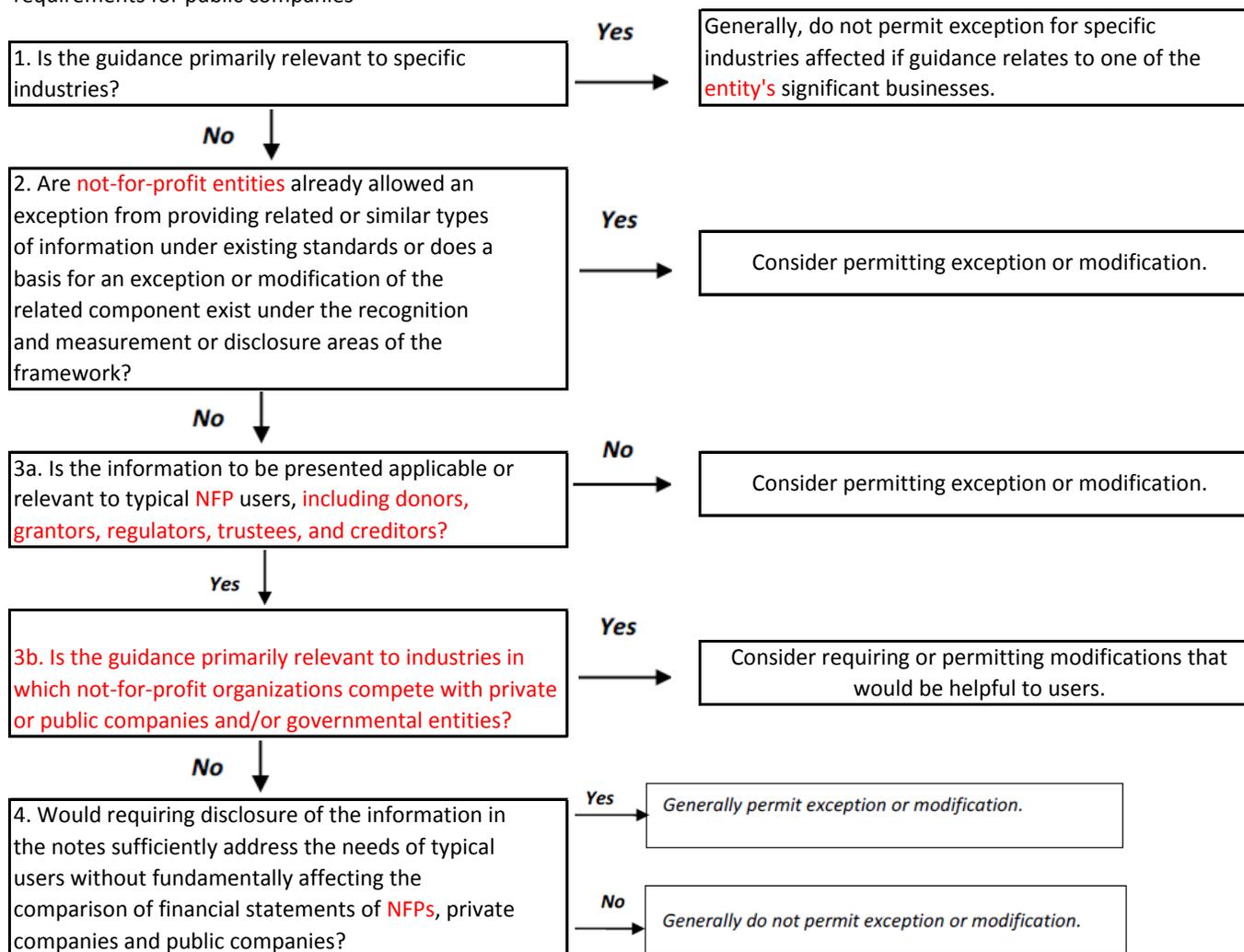
Relevance to Users (more weight on overall responses to questions)		Cost and Complexity (lesser but still significant weight on overall responses)
1a	1b	2
"No" responses support exceptions or modifications		"Yes" answers support exceptions or modifications
<p>a. Does the transaction, event, or balance affect reported cash balances, cash flows, mission-related expense or fundraising ratios?</p> <p>b. Does the transaction, event, or balance significantly affect borrowings, liquidity, or leverage?</p> <p>c. Does the transaction or event affect, or does the balance relate to, receivables including pledges, tangible assets, liabilities, or donor-restricted net assets?</p> <p>d. Do users typically consider the quantitative effect of the transaction, event, or balance when evaluating collateral, financial performance, or financial position? Consider whether users typically adjust financial statements by substituting an alternative accounting approach.</p> <p>e1. Is the primary purpose of the guidance to provide information with predictive value to help users in making their forecasts of future cash flows including future donations?</p> <p>f. Does the guidance require that the threshold for recognizing or measuring a transaction or event be at least probable of occurring?</p> <p>g. Does the guidance relate to loss contingencies or commitments that could significantly affect future cash flows? If yes, consider whether disclosing the event or circumstance would likely satisfy the needs of users.</p>	<p>h. Does the measurement guidance reflect volatility in financial statements resulting from underlying changes in market prices of debt instruments or certain derivatives that can reverse in the future because the instrument or derivative has a defined maturity or term?</p> <p>i. Is it likely that users that are interested in the transaction, event, or balance can obtain information directly from management that can reasonably satisfy the objective of the guidance?</p> <p>j. Is an untimely issuance of financial statements likely to significantly dilute the relevance of the information resulting from the guidance?</p> <p>e2. Is the primary purpose of the guidance to provide information about historical events and transactions?</p>	<p>k. Does application of the guidance often require assistance from outside resources at a significant cost?</p> <p>l. Is significant complexity involved in determining the initial and/or ongoing accounting treatment?</p> <p>m. Are there expected to be significant changes to information systems, debt covenant agreements, other contracts, internal controls, or processes as a result of applying the new guidance?</p> <p>n. Is the accounting treatment challenging to audit, review, or compile?</p>

Possible wording for a comparable 2.10 flowchart for not-for-profit organizations



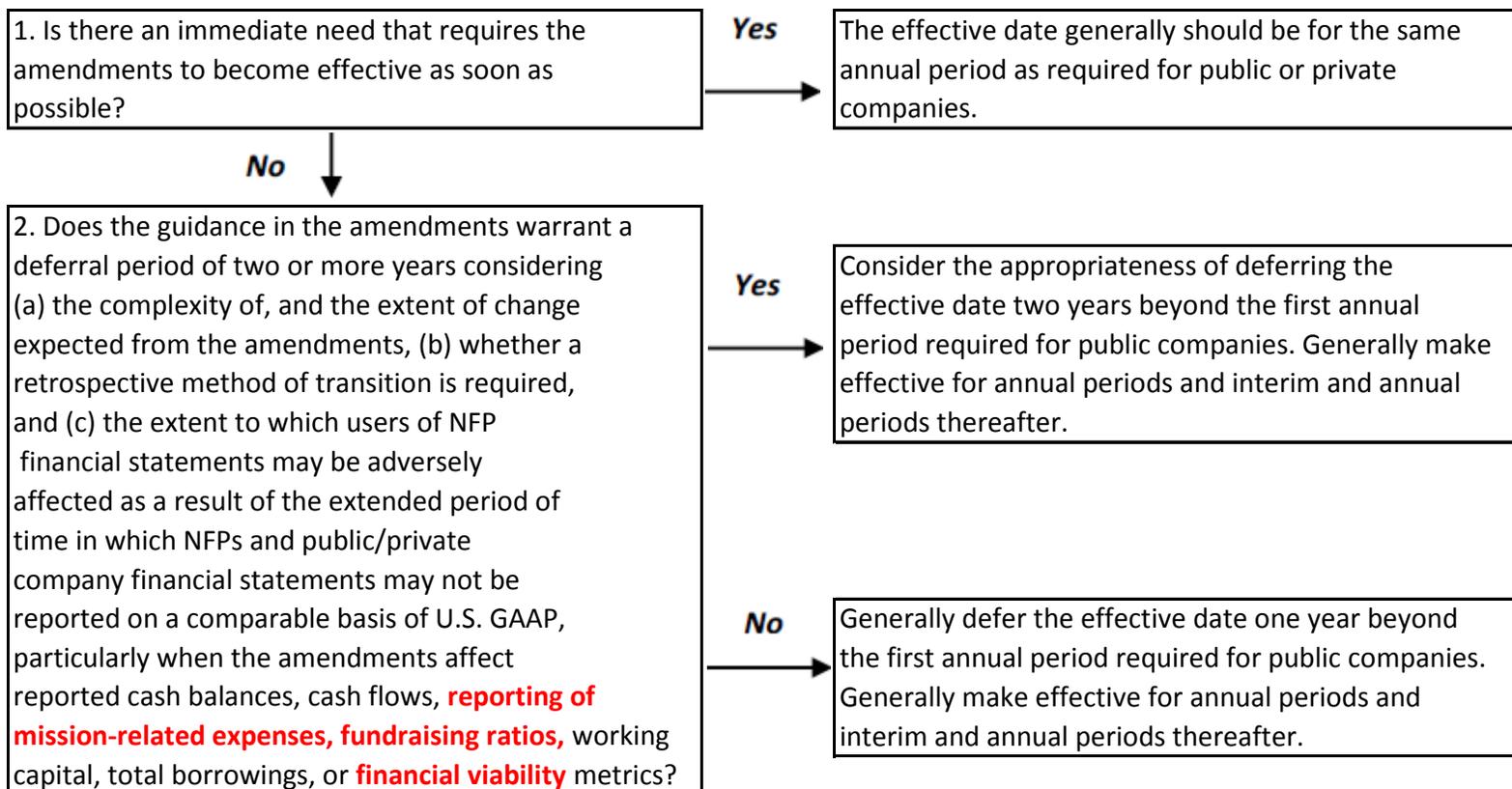
Modifications of Flow Chart 3.4 for Not-for-profit Entities

Decision Making Framework for evaluating whether NPPs should be provided exceptions or modifications to the display requirements for public companies



Modifications of Flow Chart 4.7 for Not-for-profit Entities

Decision Making Framework for evaluating the effective date of amendments for not-for-profit entities



Modifications of Flow Chart 5.7 for Not-for-profit Entities

