

## Big GAAP vs. Little GAAP — A step in the right direction



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The debate about whether there should be two sets of Generally Accepted Accounting Principles (GAAP) has been going on for many years. Currently, the Financial Accounting Foundation is considering whether and how to establish differential accounting standards for public vs. private companies, which is referred to as Big GAAP vs. Little GAAP. The FAF, the American Institute of Certified Public Accountants and the National Association of State Boards of Accountancy co-sponsored and established a blue ribbon panel on private company accounting in 2009 to address the needs of private company accounting and determine if there is a need for separate private company standards.

Financial statement users need reporting practices that are accurate, transparent and meaningful, but generally, they have different needs for public and private company financial statements. Private company financial statement users generally consist of owners, management, lenders and creditors, and possibly regulatory agencies. The set of standards currently used has become both burdensome and complex to privately-held companies, resulting in financial statements that are not as meaningful to their users and are more costly to prepare.

The movement abroad to address the needs of private companies has already taken



place. The International Accounting Standards Board issued GAAP requirements for small- and medium-sized entities in July 2009. These standards are significantly smaller and less complex than the International Financial Reporting Standards (IFRS) or U.S. GAAP. For instance, U.S. GAAP and IFRS standards consist of approximately 20,000 and 2,500 pages, respectively, whereas IFRS for small- and medium-sized entities have approximately 250 pages. The International Accounting Standards Board has recognized that small, privately-held companies usually don't need the complex reporting standards and disclosures of public companies. Under IFRS, small privately-held companies can utilize and choose reporting standards that make the most sense for their particular size of entity.

In January 2011, the blue ribbon panel released its

recommendations for how accounting principles generally accepted in the United States can best meet the needs of private company financial statement users. Included in its report was a recommendation for a new board, to be overseen by the Financial Accounting Foundation, which would focus on developing the exceptions and modifications to U.S. GAAP for private companies to better respond to the needs of financial statement users.

The panel concluded that urgent and growing systemic issues need to be addressed within the current system of U.S. accounting standard setting. The belief is that the current system is inadequate in understanding the information that users of private company financial statements consider to be useful, and how those information needs differ from the needs of public company financial statements.

The result of these issues is a lack of relevance of many accounting standards along with an overall level of complexity in U.S. GAAP, which continues to be problematic for private company financial statement users and their preparers. In addition, the panel concluded that the current approach does not sufficiently weigh the costs and benefits of U.S. GAAP for the use of private company financial reporting.

The panel's report includes proposed enhancements to the current system to develop U.S. GAAP that would be aimed at fostering an accounting standards-setting system that would seek to maintain a high level of financial reporting comparability for businesses, but would also encompass potential differences, where warranted, related to financial reporting (measurement, recognition and presentation).

At the end of the day, the creation of a less burdensome and less complex set of accounting standards for private companies is a move in the right direction. Standards designed to meet the financial reporting needs of private companies will provide useful and relevant financial statements to their users as well as reduce the burden on the management of companies and financial statement preparers. **LE**