Introduction

This is a two part paper on Financial Accounting Standards Board (FASB) Statement No. 144 (Part 1) and Emerging Issues Task Force (EITF) Statement No. 89-3 (Part 2). The purpose of this paper is to compare and contrast FASB 144 with FASB 121 and APB 30 and to determine if the EITF has responded to EITF 89-3.

Part 1
FASB Statement No. 144
Compare and Contrast with FASB Statement No. 121 and APB Opinion 30

Overview of FASB Statement 144

In 2001, the FASB issued SFAS 144, superseding SFAS 121 and modifying APB 30 (Reinstein & Lander, 2004). SFAS 144 became effective in 2002 and continued the concept previously established in SFAS 121 that assets with carrying values exceeding their undiscounted future cash flows be adjusted downward as impairment losses. Assets are bundles of future services waiting to generate future cash flows. Should those future cash flows not exist, than what is the basis for carrying the excess as an asset (Soroosh & Ciesielski, 2002)?

SFAS 144 applies to long-lived tangible and certain intangible assets (Munter, 2002). Other than the normal capital assets of a business, examples of other types of long-lived assets include capital leases recorded by lessees, long-lived assets of lessors that are used for operating leases, oil and gas production facilities accounted for under the successful efforts method, and long-term prepaid assets (Munter, 2002). Its provisions also impact such other assets as inventories and accounts receivable (Reinstein & Lander, 2004).

Reasons for issuing FASB Statement No. 144

Because of problems with implementation issues regarding the determination of impairment losses on long-lived assets, the FASB issued SFAS 144 to clarify the then existing literature (Munter, 2002). One of the problems with SFAS 121 was that it considered only two categories in determining impairment-assets held for sale and assets to be disposed (Munter, 2002). SFAS 144 expanded the categories to include a third by splitting assets to be disposed into two separate categories-assets to be disposed of through sale and assets to be disposed of other than through sale.

Differences and Similarities between FASB Statement No. 144 and FASB Statement No. 121 and APB 30
In some areas SFAS 144 revised directives previous presented in SFAS 121 and APB 30 and retained other directives for the purpose of improving clarity and addressing implementation issues experienced under SFAS 121. Examples of the differences and similarities follow:

- SFAS 144 retains the conditions established in SFAS 121 regarding calculating the impairment loss by using undiscounted cash flows and comparing them to book value. If book value exceeds undiscounted cash flows, an impairment loss has occurred (Soroosh & Ciesielski, 2002).
- SFAS follows the guidance established in FASB Concepts Statement 7 by using present value concepts in the calculation of future cash flows and the determination of fair values (Soroosh & Ciesielski, 2002).
- SFAS 121 included goodwill in its asset definitions. SFAS 144 does not (Soroosh & Ciesielski, 2002).
- SFAS 144 relaxed the definition of a discontinued operation to include a component of the business, not the entire business as directed by APB 30 (Soroosh & Ciesielski, 2002). Additionally, under APB 30, expected operating losses through the date of disposal were to be recognized in the current reporting period. SFAS 144 eliminated that requirement and now only the actual losses incurred in the current period are to be reported (Soroosh & Ciesielski, 2002). The FASB determined that the definition of a liability was not met when considering future operating losses (FASB 144 Summary, 2001).
- Where groups of assets are being managed, SFAS 144 requires that the primary asset be used to estimate future cash flows. A primary asset is that asset that is the most significant of the group. Its cash flow characteristics will apply to the entire group of assets (Munter, 2002).
- SFAS maintains the disclosure treatment required by APB 30 regarding discontinued operations (Munter, 2002).
- SFAS 121 only considered expected future cash. SFAS 144 expands the consideration and provides direction on the estimation process, the estimation period, and the type of expenditure for asset to be considered (Reinstein & Lander, 2004).

**Impact of the changes to FASB Statement No. 144 on financial reporting**

Disclosure requirements under SFAS include the following (Soroosh & Ciesielski, 2002):

- A description of the asset that is impaired including a brief description of the events and circumstances leading to the impairment.
- The amount of the impairment loss.
- The method used to determine the fair value of the asset being impaired.
- The segment or component of the business in which the impaired asset is reported.
- Additionally, the impairment loss shall be part of income from continuing operations (Reinstein & Lander, 2004).
A survey conducted by Reinstein & Lander (2004) caused the authors to come to the following conclusions:

- Respondents felt that SFAS 144 improved financial reporting as compared to SFAS 121.
- The methods prescribed by SFAS 144 were accepted as reasonable.
- There was widespread acceptance of the change in operating section to operating component in regards to discontinued operations.
- SFAS would increase fairness in financial reporting.
- However, the respondents did not agree with the use of undiscounted cash flow as opposed to discounted cash flow for impairment calculations.
- There were also serious questions regarding the cost benefit relationship of SFAS 144. Many felt that the cost of implementation and maintenance was significantly higher than the benefits to be derived.

Part 2
EITF 89-3

The Emerging Issues Task Force (EITF) met in January, February, and March of 1989 to discuss the accounting treatment of deposits made by credit union members (EITF 89-3, 1989). The issue was to determine the appropriate treatment of the members’ saving accounts on the financial reports as to whether they were liabilities of the institution or an equity component. There was inconsistency in the treatment of the savings accounts throughout the industry. Some credit unions treated the savings accounts as liabilities, others treated the accounts as equity and received qualified opinions from auditors, and still other credit unions issued unclassified balance sheets and listed the savings accounts at the end of the liability and equity section before retained earnings.

The EITF concluded (EITF 89-3, 1989) that members savings account balances should be listed as indicated in the 1986 Audit Guide for Credit Unions (Audit Guide) as the first line item in the liabilities section of the statement of financial condition (now called the Balance Sheet). To do otherwise was not consistent with current generally accepted accounting principles (GAAP) (EITF 89-3, 1989). However, regulatory accounting practices at the time, as stated on page 24 of the Audit Guide provided for treatment of members savings accounts to be classified as equity. This difference was addressed by issuing a qualified or adverse audit opinion. Though regulatory reports allowed the treatment, GAAP did not. Consequently, the financial statements issued under GAAP were required to show members savings accounts as liabilities.
References


