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## Sea Change at the FASB: From a Universal to a Stakeholder-Oriented Approach

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### Abstract

This paper studies the impact the financial accounting standards board's (FASB) recent initiative to simplify accounting standards to reduce the cost of preparing financial reports by filers. Accounting standards have generally been uniform, particularly for profit-oriented companies and without consideration to the firm's size. These standards applied equally to both private and public companies, primarily to enhance comparability in analyzing a firm's performance. Various committees in the early part of the new millennium culminated in the establishment of the private company council (PCC), an advisory unit to the FASB in supporting simplified accounting standards. The slogan of "one size fits all" has now shifted to "different strokes for different folks". This study examines 179 accounting standards issued by the FASB from 2009-2019. The empirical results indicated that the FASB has promulgated many standards permitting simplified accounting procedures that have benefited both private and public companies since the establishment of the PCC. The last two years of our data demonstrates that the overwhelming number of accounting standards was focused on simplifying rules in an attempt to achieve cost savings for both private and publicly listed companies.

**Keywords:** accounting standards, clarify, private companies, private company council, simplify.

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### I. INTRODUCTION

Historically, accounting standards have been promulgated without consideration to the characteristics of the reporting entity or the unique requirements of its stakeholders. Specifically, accounting standards have been issued by the financial accounting standards board's (FASB) without regard to a reporting entity's legal status, size or whether it was a public company registered with the securities and exchange commission (SEC) or a nonpublic entity. For example, standards regarding the accounting for leases were required by all entities without regard to the specific profile of the reporting organization. We have identified a significant shift in the promulgation of recent standards by the FASB, where the objective was to simplify complex and/or costly accounting procedures, particularly after the establishment of the private company council (PCC) in 2012. This paper also reviews the background and history of the establishment of the PCC.

In general, many accounting standards address complex transactions that require significant compliance costs. Private companies, who often have limited resources, experience enormous difficulty and significant costs in applying these standards. The

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PCC was established, because the needs of their users of accounting standards differ from public companies. In general, there are fewer users of private companies' financial statements and these users generally have greater access to the company's management (Schofield, 2014). It is estimated that there are approximately 14,000 publicly traded companies that are regulated by the SEC, and over 28 million private companies that require accounting services in preparing tax returns, or securing loans from financial institutions (Buchholz & Pilato, 2014).

In 2006, the FASB and the American institute of certified public accountants (AICPA) co-sponsored the private company financial reporting committee (PCFRC). The committee's mission was to accommodate the specific needs of all nonpublic companies regardless of their size (FASB, 2006). Prior to the establishment of the PCC, the financial accounting foundation (FAF) conducted a round-table discussion in various regions throughout the United States regarding the specific issues concerning private companies. Various other organizations, such as the AICPA, "the financial accounting foundation (FAF), the parent organization of the FASB, and the national association of state boards of accountancy (NASBA) established a "blue-ribbon" panel (the panel or BRP) to address how accounting standards can best meet the needs of users of U.S. private company financial statements" (FASB, n.d., paras. 6). The PCC was finally established in May 2012 by the FAF in addressing the impact future accounting standards have on private companies. In addition, the FASB would address any existing accounting standards that may require modification, and even exceptions regarding its application for private companies.

One of the main responsibilities of the PCC is to serve in an advisory role to the FASB regarding the impact of both new and existing accounting standards have on private companies. The FASB did not wish to create another authoritative standards setter that would create additional confusion. The emergence of simplified accounting for private companies has influenced the reporting standards for publicly listed companies. Specifically, since the inception of the PCC, accounting standard setters have issued standards that are less complex and costly. The focus of this paper is to chronicle the FASB's transition to simplified accounting rules. The last two years of our data resulted in an overwhelming number of simplified and cost savings standards. Of the 20 standards issued in 2018, 13, or 65% were focused on simplification. All of the 12 standards issued by the FASB in 2019, the last year of our data, were simplified accounting standards.

## **II. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT**

There have been various advocates for the need of diverse accounting standards for large public companies and small private firms. One of the earliest accounting standards on accounting for start-up costs of new companies was addressed by the FASB in 1975. Specifically, firms that are in the formative process of their development incur significant start-up costs. Start-up costs, also called organization costs require various expenditures such as recruiting employees, acquiring financing, securing office space and advertising in order to launch the business operations. The FASB standard required all of these organization costs be expensed because that was the correct protocol for established operating firms (FASB, 1975). Advocates for start-up companies suggested that expensing such costs rather than have them capitalized would depress their income and thus prevent them from acquiring the necessary financing. The FASB clearly stated that start-up or organization costs are generally expensed and are not determined by the size or status of the business entity.

Martin Benis was an early proponent of “small GAAP” for nonpublic firms because there is generally no separation between ownership and management in these companies. Therefore, the owners have greater control in the preparation the financial statements. In addition, creditors generally focus on budgets of future cash flows and collateral for potential loans. Benis also surmised that the focus of GAAP is biased toward the public company.

“Generally accepted accounting principles and reporting standards developed in recent years have created problems for small and/or closely held business enterprises since such enterprises do not have the technical expertise to implement many of these principles and standards...generally accepted accounting principles and reporting standards developed in recent years have been developed primarily to improve the information content of financial statements of publicly held corporations” (1978, p. 33).

In 1983, Katz recommended that nonpublic companies be permitted to use alternative accounting standards to reduce compliance costs. Private companies suggested that their users did not need the same extensive disclosures required by generally accepted accounting principles (GAAP). These companies expressed their dissatisfaction with the FASB’s “accounting standards overload syndrome ...” (Katz, 1983, p. 179). Proponents of private company GAAP supported their position by referring to how different standards are “used in various parts of the world, such as IFRS for small and medium-size entities (SME)” (Cospers et al., 2013, p.43).

Many researchers have studied the impact of ownership and governance structure on business performance and management behavior (Takahashi, 2017). The SEC requires (2002) all its registrants’ financial statements be audited by an independent accounting firm before they are submitted for the annual shareholders’ meeting and filed with the agency. The purpose is to afford the board of directors and investors the confidence and reliable financial information. On the other hand, private companies are not subjected to the costly requirement. The main difference is that private companies do not have the same corporate governance structure as the public companies in terms of separation of ownership and control. Public companies, by definition, have the inherent agency problems—a direct result of separation of decision and risk-bearing (Fama & Jensen, 1983). As a result, “there are no dominant owners, and control is maintained in large measure apart from ownership” (Berle & Means, 1932, p. 117). Private companies have the benefits of concentrated ownership, thus, a more direct and stronger control (Coffee, 2001).

Private companies have been critical of the accounting standards promulgated by the FASB as primarily accommodating the needs of financial analysts representing large institutional investors, other equity and credit investors, regulators, and major investment bankers. For example, filers were required to apply a complex and costly “two-step” procedure in determining the impairment of goodwill (FASB, 2001). The FASB attempted to simplify accounting for goodwill impairment by allowing alternative and less costly approaches; such as the “qualitative approach” (FASB, 2011), and the “one-step” procedure (FASB, 2017). Although these standards did not completely satisfy the needs of private companies, the FASB subsequently issued an alternative amortization method exclusively for private companies (Lange et al., 2015). The Master Glossary of the FASB’s Accounting Standards Codification, as amended by Accounting Standards Update (ASU) 2013-12, does not directly define the characteristics of a private company. The Master Glossary lists various qualifying criteria for a public

company, such as filing financial statements with the SEC, issuing debt or equity securities on an exchange, or on an over-the-counter market. Hence, a private company is any business entity other than a public company, a non-for-profit entity or an employee benefit plan (FASB, 2013).

There have also been contrarian voices opposed to having diverse accounting standards for nonpublic and public firms. In a survey conducted by the CFA Institute, investors were concerned that diverse accounting standards would result in more complexity by limiting comparability of financial reporting between firms (Cohn, 2015). The respondents to the survey indicated that the cost savings of using an alternative set of standards would require additional costs for users of financial reporting in their investment decisions. This reservation that ignores the needs of investors was also previously reported by Singh (2020). Singh also surmised that differential standards would result in additional costs for standard setters as well as educators, where diverse standards in lieu of uniform standards would crowd the accounting curriculum.

Finally, if small GAAP and big GAAP are not enough alternatives, the AICPA issued the Financial Reporting for Small and Medium Sized Entities which specifically provides a non-GAAP option. Several accounting principles are permitted to be modified in order to simplify the measurements of various assets and liabilities. As an example, goodwill may be amortized using the same method applied for taxes. AICPA (2017) recommends that:

“Goodwill should be recognized on an entity’s statement of financial position at the amount initially recognized, less amortization. Goodwill should be amortized generally over the same period as that used for federal income tax purposes or, if not amortized for federal income tax purposes, then a period of 15 years. For equity method investments, the portion of the difference between the investor’s cost and the amount of its underlying equity in the net assets of the investee that is similar to goodwill (equity method goodwill) is amortized” (p. 64).

In the following section, we trace the chronology of the accounting rules for goodwill and how it has transcended from a complex exercise to a more simplified procedure. Goodwill is generally the premium part of the acquisition costs in a business combination. After this premium is added to the asset side of the balance sheet, it requires an annual valuation to determine any potential impairment. Goodwill accounting has evolved from a complex sequence of procedures to simplified options for private companies and publicly listed firms. We have developed an example in tracing the chronology of goodwill accounting using the following example in Exhibit 1:

#### Exhibit 1

##### **Simplification Example: Accounting for Goodwill**

On January 10, 2020, large corporation purchases all the outstanding stock of small corporation, a real estate company which has the following balance sheet:

<b>Small Corporation</b>		
<b>Balance Sheet</b>		
<b>January 10, 2020</b>		
<b>Assets</b>		
Cash (payroll checking account)		\$10,000
Apartment building (appraisal value, \$330,000)	250,000	
Less: accumulated depreciation	<u>50,000</u>	<u>200,000</u>
Total assets		<u>\$210,000</u>

To be continued Exhibit 1.

<b>Liabilities and Shareholders' Equity</b>		
Mortgage note payable		\$40,000
Common stock	70,000	
Retained earnings	<u>100,000</u>	<u>170,000</u>
		<u>\$210,000</u>

Large company purchases all the common stock of Small Corporation for \$500,000 and assumes the mortgage loan of \$40,000. The acquisition cost is allocated to the following assets and liabilities:

Acquisition cost		\$500,000
Cash (payroll checking account)	\$10,000	
Apartment building (appraisal value)	<u>30,000</u>	
Total assets		340,000
Less: assumption of mortgage notes payable		<u>40,000</u>
Purchase price allocated to identifiable net assets		<u>300,000</u>
Purchase price attributable to goodwill		<u>\$200,000</u>

Now let us review the timeline of FASB's changes in promulgating accounting standards for goodwill in Exhibit 2:

### Exhibit 2

#### The Chronology of Accounting for Goodwill: From Complex to Simple

Standard/Date	Authoritative Guidance
<b>FASB 142</b> June 2001	Goodwill classified as an indefinite live asset subject to an annual valuation in determining impairment using a "two-step" procedure. "Step-one" required a quantitative analysis of each of the company's reporting units and comparing it to the carrying value. In our example, if we assume the fair value of the entity was \$600,000, and the equity value was \$550,000, this would result in no impairment for goodwill. A fair value of \$460,000 would require the "step-2" analysis where each asset and liability would require an appraisal. Assuming the appraisal of the net assets was estimated to be \$380,000, the remaining \$80,000 would be attributable to goodwill resulting in an impairment of \$120,000 (\$200,000 - \$80,000 = \$120,000). "Step-2" requires significant costs involving several appraisal specialists. The accounting guidance was required for both private and public companies.
<b>ASU 2011-08</b> Sept. 2011	Companies could use a "qualitative" evaluation of the fair value of their reporting units and potentially avoid the costly procedures of the "two step" protocol.
<b>ASU 2014-02</b> Jan. 2014	Nonpublic companies have the option to treat goodwill as a finite lived asset and amortize its costs over 10 years or less if there was a shorter economic life. This was the first major simple accounting rule for private companies after the establishment of the PCC.
<b>ASU 2016-03</b> March 2016	Allowed private companies to implement the amortization alternative immediately and avoid the delayed timeline of ASU 2014-02.
<b>ASU 2017-04</b> Jan. 2017	Eliminated the costly "Step-2" procedure. Using the previous example, where the fair value of the firm was \$600,000 and the firm's equity was \$550,000 in "step-one," no impairment of goodwill was reported. If the fair value was \$460,000, or a \$90,000 decrease, goodwill would be reduced to \$110,000 (\$200,000 - \$90,000 = \$110,000).

#### 2.1. Examination of the Related ASUs

The main objective of this study is to determine whether the FASB has shifted its focus to simplify accounting standards resulting in a sea change from a universal to a stakeholder-oriented approach, specifically, since the establishment of the PCC. In

attempting to determine whether the FASB has shifted its mission to simplify accounting standards, we have reviewed all the ASUs from 2009 to 2019 (four years before and seven years after the establishment of the PCC in 2012) to determine how many standards are for simplification. We will be examining the following hypotheses:

## 2.2. Hypotheses

**H1<sub>0</sub>:** there was not a significant shift by the FASB in enacting standards that simplified accounting procedures after the establishment of the PCC.

Or **H<sub>0</sub>:**  $\mu_2 - \mu_1 = 0$

**H1<sub>A</sub>:** there was a significant shift by the FASB in enacting standards that simplified accounting procedures after the establishment of the PCC.

Or **H<sub>A</sub>:**  $\mu_2 - \mu_1 > 0$

## III. RESEARCH METHODOLOGY

### 3.1. Data Collection Method

In this longitudinal study, we examined each ASU from the FASB website (<http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156316498#2017>). Although the establishment of the PCC was in May 2012, we used the date of the first issuance of the applicable accounting standards (ASU no. 2014-02) as the pivotal data point. The data for our study covered four years before (2009-2012) and seven years (2013-2019) after the establishment of the PCC. After analyzing the data, we coded each data point according to the aforementioned coding scheme.

We retrieved 179 ASUs, 65 for the period from 2009-2012 and 114 for the period from 2013-2019. For each ASU, we applied a keyword search for the terms of: "clarify", "complexity", "delayed compliance", "election", "expedient", "nonpublic", "private", "prospective", "relief", "reduced cost", "simplification", "simplify" and "simplifying". This technique helped us identify any relevant references to potential simplification and cost savings in each pronouncement. We also manually reviewed and scrutinized the entire contents of the summary and introduction of each ASU to avoid any discrepancy.

### 3.2. Classification of Data

The simplification of accounting standards is an abstract concept and subject to interpretation. To measure such a construct, we developed the following coding scheme:

- 1)  $X_a$  – ambiguous.
- 2)  $X_c$  – clarify.
- 3)  $X_o$  – not applicable.
- 4)  $X_s$  – simplified.
- 5)  $X_t$  – total.

We coded any ASU as  $X_s$  where the FASB indicated that the new standard would result in cost savings for reporting companies. Therefore, we coded an ASU as  $X_s$  where the new accounting standard would simplify, expedite, and/or in any way would reduce the complexity of accounting procedures in recording and preparing financial reports. Any ASU that clarified an ambiguous and/or complex accounting standard or the terminology of an accounting standard was coded as  $X_c$ . We coded an ASU as  $X_a$  where the new accounting standard did not provide any benefit of either  $X_s$  or  $X_c$ . Any ASU that did not have any reference to our key word list above was classified as not applicable and coded as  $X_o$ .

In addition, the FASB’s initiative in simplifying accounting standards is a subjective concept; therefore, there is no direct or precise method of measuring this benefit. In an effort to ascertain the FASB’s shift and attention to enacting simplified accounting standards, we have developed an effective and efficient data operationalization method to measure any changes toward simplified accounting standards by the FASB after the establishment of the PCC. Following an example in market research, to indirectly measure the degree of thirst of test-subjects, social scientists counted how many glasses of water or cans of Coke are ingested by sampled participants (Price & Mueller, 1986; Sekaran & Bougie, 2016). Another example is that in accounting, there is no direct measure for the abstract concept of cost savings in using the “qualitative option” in the valuation of goodwill impairment. To quantify the cost savings for goodwill accounting, a coding scheme was employed; where the authors compared the annual percentage changes of “step-0” adopters. In this study, we used a similar data operationalization approach in identifying any ASU that resulted in simplifying accounting procedures and to measure whether or not there was a significant shift by the FASB in enacting such standards after the establishment of the PCC.

To make the necessary and meaningful comparisons, we used the following formula to calculate the percentage of simplified accounting standards (and other categories) for this study:

$$Y_n = X_n / X_t \dots\dots\dots (1)$$

In the above formula, the dependent variable  $Y_n$  is the percentage of each of the four classifications: simplified, not applicable, clarify, and ambiguous. The independent variables are  $X_n$  and  $X_t$ , where  $X_n$  is for different categories of ASUs issued in the measuring period. Therefore,  $X_t$  is the total number of independent variables. For example, for the “simplified” category, the formula will be:  $Y_s = X_s / X_t$ , where  $Y_s$  represents the percentage of simplified standards for a specific measuring period. We used the same formula to calculate the ratio of the other categories.

**3.3. Findings of the Study**

We organized the various coded samples as presented in Tables 1 and 2 below. Table 1 presents the data for the sample frame from 2009-2012, and Table 2 presents the data for the sample frame from 2013-2019. We selected the end of 2012 as the cut-off point for our analysis because ASU no. 2013-02 was the first “simplified” standard ( $X_s$ ) after the establishment of the PCC.

**Table 1**

**Empirical Data (2009-2012)**

The data consist of  $X_a$ ,  $X_c$ ,  $X_o$ , and  $X_s$  for each year from 2009 to 2012.

Year	$X_a$	$X_c$	$X_o$	$X_s$	$X_t$
2009	0	1	13	3	17
2010	0	0	29	0	29
2011	0	0	11	1	12
2012	0	0	7	0	7
<b>Total</b>	0	1	60	4	65
	<b>0%</b>	<b>1.54%</b>	<b>92.31%</b>	<b>6.15%</b>	<b>100%</b>

Table 1 indicates that in 2009 there was three standards that simplified accounting procedures, one standard was a clarification, there were no ambiguous standards and 16 standards were not applicable. In 2010, all the 29 standards were not applicable. In 2011, there was one standard that simplified accounting procedures and



11 standards were not applicable. All the seven standards enacted in 2012 were not applicable.

**Table 2**

**Empirical Data (2013-2019)**

The data consist of X<sub>a</sub>, X<sub>c</sub>, X<sub>0</sub>, and X<sub>s</sub> for each year from 2013 to 2019.

Year	X <sub>a</sub>	X <sub>c</sub>	X <sub>0</sub>	X <sub>s</sub>	X <sub>t</sub>
2013	1	0	8	3	12
2014	0	1	12	5	18
2015	0	0	14	3	17
2016	0	0	17	3	20
2017	0	4	9	2	15
2018	4	1	2	13	20
2019	0	0	0	12	12
<b>Total</b>	5	6	62	41	114
	4.39%	5.26%	54.39%	35.966%	100%

Table 2 indicates that of the 12 ASUs in 2013, three were in the “simplified” category, no standards were in the “clarify” category, one standard was in the “ambiguous” category, and eight standards were not applicable. Of the 18 ASUs in 2014, five were in the “simplified” category, one was in the “clarify” category, there was no ambiguous standard and 12 standards were not applicable. Of the 17 ASUs in 2015, there were three standards in the “simplified” category, and 14 standards were not applicable. Of the 20 ASUs in 2016, there were three standards in the “simplified” category, and 17 standards were not applicable. Of the 15 ASUs in 2017, two were in the “simplified” category, four were in the “clarify” category, there were no ambiguous standards and nine standards were not applicable. In 2018 there were 13 standards in the “simplified” category, one standard in the “clarify” category, four in the “ambiguous” category and two standards were not applicable. As evident from Table 2, simplified standards were dominant in 2018 where 13 out of 20 standards or 65.00% (13/20= 65.00%) were in this category. All of the 12 ASUs in 2019 were in the simplified category.

Our study indicates that in the four years prior to the cut-off point, there were only four standards that were in the “simplified” category. In applying formula 1 for the “simplified” category, we calculated Y<sub>s</sub> equals to 6.15% (4/65= 6.15%). In the seven years after the cut-off point, there were 41 standards in the “simplified” category. In applying formula 1, we calculated Y<sub>s</sub> equals to 35.96% (35.96%= 41/114). The increase of 29.81% (35.96% - 6.15%= 29.81%) represents a significant shift toward simplified accounting by the FASB.

Now let us verify the robustness and significance of our research results with some proven statistical analyses. Any study with a sample size fewer than 25 should use the small-sample test to avoid any serious statistical testing error (Hoel & Jessen, 1982, p. 255). The samples size for our study groups are four and seven (from 2009 to 2012, four years before, and from 2013-2019, seven years after the issuance of ASU no. 2013-02, or the first “simplified” accounting standard (X<sub>s</sub>) after the establishment of the PCC). Therefore, to test the null hypothesis and the alternative hypothesis statistically, we used the following formula (student’s t variable):<sup>1</sup>

$$t = \frac{\mu_1 - \mu_2}{\sqrt{(n_1 - 1)S_1^2 + (n_2 - 1)S_2^2}} \times \sqrt{\frac{n_1 n_2 (n_1 + n_2 - 2)}{n_1 + n_2}} \dots\dots\dots (2)$$

<sup>1</sup> See Hoel and Jessen (1982, p. 248-258), for related statistical formula and illustrative examples.

Where the degree of freedom of the test is:

$$v = n_1 + n_2 - 2 \dots\dots\dots (3)$$

The unbiased estimate of the mean of a sample variable is:

$$\mu = \frac{\sum_{i=1}^n x_i}{n} \dots\dots\dots (4)$$

and the standard deviation is:

$$s_i = \sqrt{\frac{\sum_{i=1}^n x_i - \mu}{n-1}} \dots\dots\dots (5)$$

**IV. RESULTS AND DISCUSSIONS**

To ascertain the normality of data distribution, the standard descriptions are reported as follows:

**Table 3**

**Empirical Results (2009-2012)**

The data consist of empirical results of X<sub>c</sub> and X<sub>s</sub> for each year from 2009 to 2012.

<b>Result Table 1 (2009-2012)</b>					
<b>Year</b>	<b>X<sub>c</sub></b>	<b>X<sub>c</sub> (Ratio)</b>	<b>X<sub>s</sub></b>	<b>X<sub>s</sub> (Ratio)</b>	<b>X<sub>t</sub></b>
2009	1	0.0588	3	0.1765	17
2010	0	0.0000	0	0.0000	29
2011	0	0.0000	1	0.0833	12
2012	0	0.0000	0	0.0000	7
<b>Total</b>	<b>1</b>	<b>0.0154</b>	<b>4</b>	<b>0.0615</b>	<b>65</b>

**Table 4**

**Empirical Results (2013-2019)**

The data consist of empirical results of X<sub>c</sub> and X<sub>s</sub> for each year from 2013 to 2019.

<b>Result Table 2 (2013-2019)</b>					
<b>Year</b>	<b>X<sub>c</sub></b>	<b>X<sub>c</sub> (Ratio)</b>	<b>X<sub>s</sub></b>	<b>X<sub>s</sub> (Ratio)</b>	<b>X<sub>t</sub></b>
2013	0	0.0000	3	0.2500	12
2014	1	0.0556	5	0.2778	18
2015	0	0.0000	3	0.1765	17
2016	0	0.0000	3	0.1500	20
2017	4	0.2667	2	0.1333	15
2018	1	0.0500	13	0.6500	20
2019	0	0.0000	12	1.0000	12
<b>Total</b>	<b>6</b>	<b>0.0526</b>	<b>41</b>	<b>0.3596</b>	<b>114</b>

Before importing our empirical data onto our SPSS's data sheet, we processed and transformed the data from Table 1 into the meaningful ratios for X<sub>c</sub> and X<sub>s</sub> for each year from 2009 to 2012 and reported them on Table 3. We also processed and transformed the data from Table 2 into the meaningful ratios for X<sub>c</sub> and X<sub>s</sub> for each year from 2013 to 2019 and reported them on Table 4. Then we ran two separate tests on SPSS to obtain the necessary descriptive statistics as shown on Table 5 and Table 6.

Insert Table 5 here.

Applying the data from Table 5 on formula 3 and 4 for the four years before the issuance of ASU no. 2013-02, we found: μ<sub>1</sub> (mean) and s<sub>1</sub> (standard deviation) for the ratio of X<sub>c</sub> (X<sub>c</sub> Ratio) were 0.014705 and 0.02941 respectively. We also found: μ<sub>1</sub> and s<sub>1</sub> for ratio of X<sub>s</sub> (X<sub>s</sub> Ratio) were 0.06495 and 0.0840863 respectively.

**Table 5**  
**Descriptive Statistics (2009-2012)**

The data consist of all the relevant descriptive statistics of  $X_c$  and  $X_s$  for each year 2009-2012.

Descriptive Statistics							
	N	Min.	Max.	Mean	Std. Dev.	Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
$X_c$	4	0	1	0.25	0.500	4.000	2.619
$X_c$ Ratio	4	0.0000	0.0588	0.014705	0.0294100	4.000	2.619
$X_s$	4	0	3	1.00	1.414	1.500	2.619
$X_s$ Ratio	4	0.0000	0.1765	0.064950	0.0840863	-0.806	2.619
Valid N (listwise)	4						

**Table 6**  
**Descriptive Statistics (2013-2019)**

The data consist of all the relevant descriptive statistics of  $X_c$  and  $X_s$  for each year 2013-2019.

Descriptive Statistics							
	N	Min.	Max.	Mean	Std. Dev.	Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
$X_c$	7	0	4	0.86	1.464	4.735	1.587
$X_c$ Ratio	7	0.0000	0.2667	0.053186	0.0973988	5.543	1.587
$X_s$	7	2	13	5.86	4.634	-0.899	1.587
$X_s$ Ratio	7	0.1333	1.0000	0.376800	0.3265339	1.354	1.587
Valid N (listwise)	7						

Following the same procedure for the seven years after the issuance of ASU no. 2013-02, we found:  $\mu_2$  (mean) and  $S_2$  (standard deviation) for the ratio of  $X_c$  ( $X_c$  Ratio) were 0.053186 and 0.0973988 respectively. We also found:  $\mu_2$  and  $S_2$  for ratio of  $X_s$  ( $X_s$  Ratio) were 0.3768 and 0.3265339 respectively. Please note that the small differences of the means between the Excel calculation and the SPSS calculation are due to rounding.

Using the results of the calculations above, we were ready to calculate and test the null hypothesis and the alternative hypothesis statistically with formula 1 to find the student's t-value for the difference between years before and after the issuance of ASU no. 2013-02:

For  $X_c$ :

$$t = \frac{.014705 - .053186}{\sqrt{(4-1) \times .02941^2 + (7-1) \times .0973988^2}} \times \sqrt{\frac{4 \times 7 \times (4+7-2)}{4+7}} = -.755$$

For  $X_s$ :

$$t = \frac{.06495 - .3768}{\sqrt{(4-1) \times .0840863^2 + (7-1) \times .3265339^2}} \times \sqrt{\frac{4 \times 7 \times (4+7-2)}{4+7}} = -1.836$$

Using formula 3, we calculated the degree of freedom for our tests:

$$v = 4 + 7 - 2 = 9$$

Referring to the student's t distribution table (Hoel & Jessen, 1982, p. 589), for 95% precision or  $\alpha = 0.05$ , the critical t-value based on 9 degree of freedom is 1.833. Since the absolute Student's t-value for the difference of the means for the ratios of  $X_c$  ( $X_c$  Ratio) between the four years before and the seven years after the issuance of ASU no. 2013-02 was only 0.755, or lower than this critical t-value, our first test is statistically not significant. On the other hand, the good news is that the absolute Student's t-value for the difference of the means for the ratios of  $X_s$  ( $X_s$  Ratio) between the four years before and the seven years after the issuance of ASU no. 2013-02 was 1.836, or higher

than the critical t-value. Thus, our empirical test for simplified accounting standards, or  $X_s$ , is statistically significant.

In summarizing the results of our study, because  $\mu_2 - \mu_1$  equals to 0.31185 ( $0.37680 - 0.06495 = 0.31185$ ), the empirical evidence rejected the null hypothesis that there was not a significant shift by the FASB in enacting standards that simplified accounting procedures after the establishment of the PCC. Conversely, the alternative hypothesis that there was a significant shift by the FASB in enacting standards that simplified accounting procedures after the establishment of the PCC is supported.

## **V. CONCLUSION AND SUGGESTIONS**

Prior to the establishment of the PCC, most of the accounting standards that dealt with complex business transactions were issued by the FASB without regard to the resources and compliance costs of the issuers of financial statements. We are at a new era, where the FASB has shifted its focus to the specific needs of the issuers of financial statements, especially nonpublic companies. There were prior attempts, such as the creation of the PCFRC and the “blue-ribbon” panel; however, their achievements were minimal.

As indicated in our study, the FASB shifted its focus in enacting accounting standards. Gone are the days when “one size fits all”. With the establishment of the PCC, many old standards have been significantly modified by the new ones in accommodating the needs of private companies. This attention has also benefited public companies, as evident in the FASB’s new mission to enact simplified accounting standards.

Our study indicates that after the cut-off point of 2012 (ASU no. 2013-02, the first simplification standard after the establishment PCC), there has been a significant change by the standard setters. From 2009-2012, there were only four out of 65 standards or 6.15% that simplified accounting procedures. From 2013-2019, there were 41 out of 114 standards or 35.96% that simplified accounting procedures—that truly represent a sea change. In the last two years, 25 of the 32 standards or 78.13% ( $78.13\% = 25/32$ ) were in the simplified category. This was demonstrated from our statistical analysis where the null hypothesis was rejected. The FASB has indeed shifted its focus in providing simplified accounting standards for both private and small cap publicly listed companies. It should be noted that some accounting transactions and reporting are inherently complex such as revenue recognition standards and accounting for derivatives. Simplifying these complex areas will not be easily achieved.

In summary, there was a significant shift by the FASB in enacting standards that simplified accounting procedures after the establishment of the PCC. This resulted in significant cost savings for the filers in their financial reporting. Although the initiative was to assist the private companies, many of these standards are also applicable for public companies. Since the inception of the PCC, we now have private company GAAP and public company GAAP. The simplification of accounting standards of private company GAAP has had a significant impact on accounting standards for publicly listed companies. As previously presented, the FASB is very focused on simplifying accounting standards where all of the 12 ASUs issued in 2019 were reported in the simplification category. We intent to monitor the FASB’s initiatives to simply accounting procedures in our future studies.

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