



PHENOMENOLOGICAL STUDY OF THE IMPACT OF FASB/PCC CHANGES ON SMALL AND MEDIUM PRIVATE COMPANIES

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INTRODUCTION

To simplify accounting standards and alleviate financial burden for private businesses, in 2012 the Financial Accounting Standard Board (FASB) formed a new body, the private Company Council (PCC). From the 2013 to 2015, FASB and the PCC worked together to identify several alternatives or modifications within Generally Accepted Accounting Principles (GAAP) for private companies. In the future, they are expected to propose and bring more changes to accounting standards for private businesses. This research using the phenomenological research method analyzes how modifications to-date have impacted small and medium-size private business in this region, and investigates to what extent the changes made by FASB align with changes desired by small and medium private businesses.

BACKGROUND

FASB accounting standards are perceived to be overly complex and burdensome for private companies. The PCC identifies areas where modifications may be warranted. Thus far, four standard updates released

- Intangibles—Goodwill and Other (Topic 350)
- Business Combinations (Topic 805)
- Consolidation (Topic 810)
- Derivatives and Hedging (Topic 815)

PURPOSE OF THE RESEARCH PROJECT

The primary purpose of our research is to assess how well the recent accounting standard modifications, emanation from the PCC, address the needs of the small and medium private companies in our region.

RESEARCH QUESTIONS

1. Do the small and medium private businesses in the study region comply with FASB accounting standards?
2. What areas of FASB accounting standards are perceived as most burdensome for these small and medium private businesses?
3. To what extent do the modification emanating from the PCC align with changes desired by small and medium private businesses in the study region?

PHENOMENOLOGICAL RESEARCH METHOD

In phenomenological research, the goal is not to identify “truth” but to discern and understand the subjects’ perceptions and understanding of what is known; to discover patterns of meaning. The phenomenological method is appropriate for our research because one objective is to discover what aspects of the FASB accounting standards induce the most stress or the greatest dilemma for small and medium private companies. Also, we want to gauge how these companies experience the initial accounting standard modifications. Further, we choose this method to explore its potential in accounting pedagogy.

References: Creswell, John. 2013. Qualitative Inquiry and Research Design: Choosing Among Five Approaches. SAGE: Thousand Oaks, CA ; Humphrey, Christopher and Bill Lee. 2004. The real-Life Guide to Accounting Research: A Behind the Scenes View of Using Qualitative Research Methods. Elsevier: Oxford.

PHENOMENOLOGICAL RESEARCH FEATURES

- Personal interviews are a primary source of data collection— Follow-up required
- Other forms of data are incorporated (Academic journals, news articles)
- Seeks pattern of experience and understanding— Not objective truth

RESEARCH DESIGN AND IMPLEMENTATION

Many small and medium private companies rely on public accounting firms for accounting services. Public accountants occupy an ideal vantage point from which to assess the impact of accounting standard changes. Thus, we interviewed 5 practicing accountants in 4 firms during fall 2015 to spring 2016. Four of the participants are current CPA’s; one is actively working toward CPA. To minimize response bias, we designed a two-step, semi-structured interview process. In the first interview, we avoided mentioning FASB or PCC to reduce the bias. During the second interview, we specifically asked about the FASB standards and the modifications made by the PCC.

RESEARCH RESULTS

Research Question 1. Do the small and medium private businesses in the study region comply with FASB accounting standards?

- Both FASB and OCBOA (3)
- Cash or tax
- “We follow all the accounting standards” (1)
- Do not use FASB

Research Question 2. What areas of FASB accounting standards are perceived as most burdensome for these small and medium private businesses?

- Complicated, cumbersome, costly to implement (5)
- Constant change - hard to keep up (3)
- Difficult to understand (2)
- Specifically: Fair value, tax standards, acquisitions (1)

Research Question 3. To what extent do the modification emanating from the PCC align with changes desired by small and medium private businesses in the study region?

- Changes in accounting for goodwill, other intangibles is helpful (3)
- Changes in consolidations -Variable Interest Entities helpful (2)
- Not valuable (1)
- Not applicable (1)

ADVICE FOR FASB – PCC

“Just make things easier to understand. At the end of the day, it is important to help business owners relate to what is happening to their business and what is reported in the financial statements.”

“Clients may not recognize the numbers in their own financial statements” (after FASB standards applied)

CONCLUSION

- Practicing CPAs are indifferent; no strong endorsement either way
- To date, FASB-PCC changes have little impact for their small and medium private clients
- Phenomenological research is suitable and beneficial for undergraduate accounting students