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Teaching and educational note

The FASB exposure draft on accounting for business combinations and intangible assets: an instructional assignment

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Abstract

Accounting standards are constantly evolving to meet the needs of a rapidly changing business environment and changes in accounting theory. Accounting students need to be familiar with the content of Exposure Drafts, since these documents reflect the Financial Accounting Standards Board's (FASB) position on current financial reporting issues. Students are generally not well versed on the standard setting process and how contextual factors affect this process. The purpose of this instructional assignment is to enhance students' understanding of how contextual factors affect the standard setting process within the context of the Exposure Draft on "Business Combinations and Intangible Assets." The assignment requires that students examine the Exposure Draft and answer questions designed to elicit responses as to why the FASB is considering a new standard and the impact the standard would have on current accounting procedures and financial statements. © 2002 Elsevier Science Ltd. All rights reserved.

Keywords: Business combinations; Pooling of interests; Intangible assets; Goodwill; Exposure draft

1. Introduction

The standard setting process used by the Financial Accounting Standards Board (FASB) can be a bewildering topic for accounting students. The amount of information published by the FASB on a topic can be overwhelming and students often lack an appreciation for how various contextual factors affect standard setting. As a case in point, the FASB's (1999) original ED on "Business Combinations and Intangible Assets" contains over 200 pages of material, including important information on why the FASB is considering, among other things, the elimination of the pooling of

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interests method and the way in which goodwill is reported. Numerous issues are addressed in the ED that can help a student understand the contextual background of the proposed new standard. Some of these contextual factors include the regulatory environment, international accounting practices, changes in the business environment (e.g. the increase in merger activity), the demand for accounting information, and the financial press.

The instructional assignment presented in this paper is designed to familiarize students with the accounting standard setting process and to illustrate how contextual factors affect that process. The assignment also requires students to apply their new knowledge to related accounting situations. The ED covers technical, theoretical, historical, and global issues, so this assignment can be used in advanced accounting courses, accounting theory courses, and international accounting courses. Since numerous EDs are being considered by the FASB at any given point in time, the paradigm in this assignment can also be used to introduce students to other circumstances where the FASB has proposed changes to existing accounting standards.

2. The assignment

The assignment involves (a) gaining an understanding of the FASB's standard setting process and (b) reading and interpreting the FASB's (1997) Exposure Draft (ED) on "Business Combinations and Intangible Assets" issued in September 1999.¹ Students should complete the assignment based on material provided in the ED, general accounting theory, and other sources identified throughout the assignment.

The assignment consists of seven questions. Question 1 addresses the standard setting process of the FASB. Questions 2–5 focus on accounting for business combinations including the elimination of the pooling of interests method and the application of the "fresh-start" method. Questions 6 and 7 address the presentation of goodwill and the controversial rules regarding the "nonamortization" of intangible assets, respectively.

Question 1: FASB standard setting process. To gain an understanding of the due process followed by the FASB in developing a new standard, students are required to read the following document accessible via the FASB website:

www.rutgers.edu/Accounting/raw/fasb/facts/fasfact4.html

In their own words, students are asked to (1) *briefly* discuss the stages of due process followed by the FASB in developing a new standard and (2) navigate through the FASB website and indicate the current status of the ED on business combinations and intangibles within that process.

Question 2: Reasons the FASB proposed eliminating pooling. Students are required to review the relevant sections of the ED related to accounting for business combinations. An important feature of the ED is eliminating the pooling of interests method of accounting for business combinations in favor of the purchase method.

¹ The ED can be obtained by sending a request for a copy to the following address: FASB, 410 Merritt 7, PO Box 5116, Norwalk, CT 06856, USA.

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