

CASE STUDY



Survey Results Prompt Changes to Use of Generally Accepted Accounting Principles for Private, For-Profit Companies



CHALLENGE

The American Institute of Certified Public Accountants (AICPA) task force was charged with reviewing the value and usefulness of the Generally Accepted Accounting Principles (GAAP) for private companies. They needed unbiased research representing their full constituent base to help guide their recommendations.

OUTCOME

The MSR Group provided statistically sound research that met the task force's needs. Based on the survey's results and the experience of each task force member, fundamental changes were recommended in the way GAAP is set for private companies. These changes are designed to improve the usefulness of private company financial reporting.

METHODOLOGY

Telephone/Web Mixed Mode.

SITUATION

In early 2004, The American Institute of Certified Public Accountants (AICPA) Board appointed a task force to conduct comprehensive research to review the value and usefulness of the Generally Accepted Accounting Principles (GAAP) for private companies. The task force was convened in response to concerns expressed over the relevance, benefits and related cost of certain financial reporting requirements for privately held, for-profit entities.¹

The task force desired unbiased research with all constituents to determine whether those questioning the relevance of certain GAAP financial reporting requirements were representative of the views of its key constituents. To that end, the group engaged The MSR Group in July 2004 to conduct a research study that would:

- Use statistically sound research procedures;
- Ensure a lack of bias; and
- Include a grassroots, broad outreach effort.²

SURVEY METHODOLOGY

Major objectives of the study included evaluating:

- Utilization of GAAP financial statements by privately held, for-profit companies and by lenders, investors and sureties;
- The general relevance and usefulness of GAAP financial statements to stakeholders of privately held, for-profit companies;

- The relevance/decision usefulness of 12 specific GAAP requirements and the level of challenge to comply among businesses and practitioners or understand or use among external stakeholders; and
- The value and benefit of GAAP financial statements compared to the cost of preparing them.

The survey was conducted using a stratified random sample, CATI/Web Mixed Mode methodology. Prospective participants were called, screened to meet eligibility requirements and given the option of either completing the survey by telephone or completing the survey online. Approximately 95 percent of the surveys were completed by telephone.

The sub-questions concerning the 12 specific GAAP requirements and the immediate follow-on questions concerning usefulness and value of GAAP financial statements were rotated within each primary question from respondent-to-respondent to ensure any potential question position bias was eliminated.

RESULTS

Overall, the survey concluded that while GAAP financial statements are acknowledged to provide value, respondents believe that smaller, privately-held, for-profit companies should not be held to the same standards and requirements as larger and/or publicly-held companies. Specifically, the study found:

- While respondents report varying levels of utilization of GAAP in the preparation of financial statements, many times they are prepared with exceptions to certain GAAP requirements;
- Respondents rate the overall value of GAAP moderately high to high;
- Respondents rated the benefits of preparing or using GAAP financial statements when related to the cost of preparing them as medium to moderately high;
- Many of the 12 GAAP-specific requirements related to private company financial statements were determined to be low either in relevance or decision usefulness when private company constituents were asked to rate them; and
- A majority of each of the constituencies who had an opinion believe it would be useful if the underlying accounting in GAAP reporting were different, in certain instances, for public versus private companies.

OUTCOME

Based on the survey results and the experiences and perspectives of each Task Force member, the task force called for fundamental changes in the way GAAP is set for private companies. It unanimously recommended that a process be established to evaluate potential changes in order to improve the usefulness of private company financial reporting.

¹"AICPA Task Force Recommends Changes to GAAP for Private Companies," March 3, 2005 Accounting.SmartPros.Com

²AICPA Private Company Financial Reporting Task Force Report, Issued February 28, 2005