

Roadmap Ahead for Private Company Accounting Possible Future Models

Private companies contribute half of the United States' economic output. There are more than 22 million private businesses in the U.S., compared to approximately 17,000 public companies.

Assuming that International Financial Reporting Standards (“IFRS”) becomes generally accepted accounting principles (“GAAP”) for public companies, an opportunity arises to determine what set of GAAP best suits the needs of private company financial reporting constituents. The importance of private companies to the U.S. economy demands a well-researched and rigorous assessment of the various GAAP options for private companies. Establishing a proper GAAP model for private companies that addresses the needs of their constituents and cost-benefit considerations is key to the continued health of the private company sector.

The PCFRC is monitoring the progress of the Securities and Exchange Commission’s efforts on adopting IFRS for public companies. In doing so, the PCFRC is also discussing the roadmap ahead for private company accounting. Below are some possible models for private company accounting, assuming that public companies will be required to comply with IFRS. These initial models are only starting points to facilitate a discussion of the topic.

Model 1 – IFRS with Private Entities Option

IFRS exists as GAAP in the U.S. for all companies (public and private). Similar to their international counterparts, U.S. private companies have the option of following IFRS for Private Entities. If private companies elect not to follow that option, then they may elect to follow IFRS or an other comprehensive basis of accounting (e.g., cash-basis, tax-basis.)

Model 2 – U.S. Adapted Version of IFRS for Private Entities

The IFRS for Private Entities standard is tailored to suit the needs of private company financial reporting constituents in the U.S.

Model 3 – IFRS with Differential Reporting

IFRS is modified, to suit the needs of private company financial reporting constituents, by deleting some requirements or embedding different treatments in the standards.

Model 4 – Separate U.S. Private Company GAAP - Revised

Current U.S. GAAP is reviewed, modified, and developed into a comprehensive and self-contained set of accounting standards for private companies. This GAAP would be for private companies with and without significant external financial statement users, and would be sensitive to the needs of owner managed enterprises.

Model 5 – Separate U.S. GAAP - Maintained and Updated in Future

Current U.S. GAAP would be maintained, as is, for use by private companies. The literature would be updated periodically for needed changes and improvements, keeping an eye on standard setting activities at the IASB and circumstances developing in the private company arena. This model does not contemplate the initial review and significant modification of current U.S. GAAP, as contemplated in model 4.