Revenue Recognition:
A White Paper on Fraud and Financial Reporting Risk

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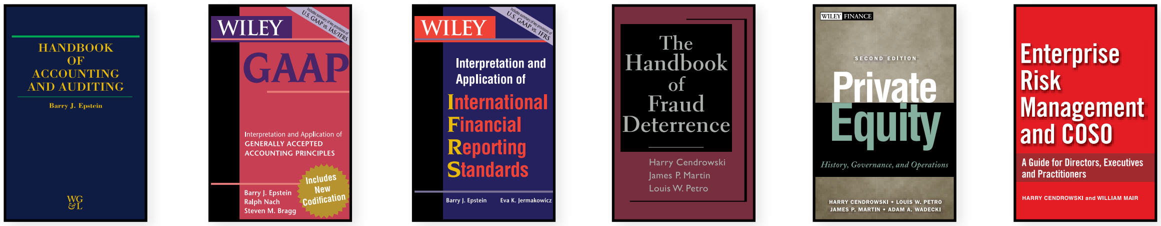

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I. BACKGROUND AND INTRODUCTION

Revenue recognition, which may appear to be a straightforward concept, in fact is rather complicated, as evidenced by the more than 250 specific pieces of guidance found within U.S. GAAP. Repeated studies have found that misapplication (whether by error or due to malfeasance) of the extant revenue recognition rules has been responsible for a preponderance of restatements and allegations of financial reporting frauds. A summary of the common types of revenue recognition fraud follows the discussion of the new approach to revenue recognition about to be unveiled by FASB, which has been working towards this with international standard-setting body IASB for a number of years.

The fact that there are multiple, sometimes conflicting elements of guidance addressing this fundamental topic is one reason why FASB and IASB jointly undertook a complete review of the matter over a decade ago. Over the years, various approaches were considered, preliminary documents were exposed, public hearings were held, and refinements were debated and fashioned. Now, with a final standard set to be published by mid-2014, it is appropriate to review current procedures under U.S. GAAP, the changes to be wrought by the anticipated pronouncement, and the risks of fraudulent financial reporting, which are unlikely to be altered by this new set of recognition requirements.

The fundamental concepts pertinent to revenue recognition under current U.S. GAAP lie within the FASB Conceptual Framework, specifically within Statements No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises*, No. 6, *Elements of Financial Statements*, and also in SEC Staff Accounting Bulletin 104, *Revenue Recognition*. Statement No. 6 defines "income" as inclusive of both *revenue* and *gains*, with the former arising from an entity's ordinary activities, and the latter being occasional events that are tangential to the mainstream activities of the entity, such as profit on disposal of non-current assets, on retranslating balances from foreign currencies, or fair value adjustments to financial and non-financial assets. Specific guidance, e.g., for long-term construction contracts and for software development, is found in scores of FASB statements, interpretations, technical bulletins, EITF consensuses, and AICPA industry accounting guides, most of which has been, since 2009, consolidated in the Accounting Standards Codification (ASC), superseding all prior stand-alone literature.

IFRS, in contrast, has a single universally-applicable standard (IAS 18), with – characteristically for IAS/IFRS – little or no specialized industry/transaction guidance. The sole exception was IAS 11, which addressed construction contractor accounting. Despite the simplicity of its existing rules, the IASB, no less than FASB, perceived the need for a comprehensive review of revenue recognition standards. They agreed, as part of the convergence efforts that have been progressing for many years, to develop and promulgate a consistent set of revenue recognition requirements.

Under current U.S. GAAP, revenue must be "earned" and *also* must be either "realized" or "realizable" before it can be recognized in the financial statements. Revenue is considered "earned" if an entity has substantially accomplished what it must do to be entitled to the contractual benefits – or, put another way, the entity has fulfilled substantially all obligations to the customer. Revenue is "realizable" when related assets received are readily convertible to cash or claims to cash.

A great deal of additional guidance was produced by the SEC, which although not constituting official rules, is widely deemed to be authoritative. SAB 104, issued in December 2003, did not create new GAAP to be followed, but rather it summarized certain SEC staff views on applying existing revenue recognition guidance, which must be complied with by SEC registrants. This is largely consonant with what was set forth in the FASB concepts statements and other literature, but furthermore addressed a variety of specific fact situations. In accordance with SAB 104, revenue generally is earned and realized or realizable when all of the following criteria are met:

i) *Persuasive evidence that an arrangement exists*. The requirement that persuasive evidence of an arrangement exists is intended to ensure that an understanding between the parties about the specific nature and terms of a transaction has been finalized. Determining the proper accounting treatment for a transaction depends on evidence of the final understanding between the parties, because a change in terms could lead to a different conclusion regarding the revenue recognition model to apply.

ii) *Delivery has occurred or services have been rendered*. Unless delivery has occurred or services have been rendered, the seller has not substantially completed its obligations under the terms of the arrangement, and revenue should not be recognized. Delivery is generally deemed to have occurred when the customer takes title and assumes the risks and rewards of ownership.

iii) *The seller's price to the buyer is fixed or determinable*. Whether the price is fixed or determinable depends on many factors, including payment terms, discounts, and rebates, which can vary from arrangement to arrangement. In determining whether the price is fixed or determinable, entities are to evaluate all elements of an arrangement to ensure that amounts recognized as revenue are not subject to refund or adjustment.

iv) *Collectibility is reasonably assured*. If the collection of fees in an arrangement is not reasonably assured, the CON5 general principle of being realized or realizable is not met, and revenue recognition is precluded until collection is reasonably assured.

Revenue from service transactions is subject to the same recognition requirements as apply to product sales. Regarding the *delivery* requirement, if the service has been performed, it has been "delivered." Non-refundable up-front fees are normally recognized over contract terms, not immediately. Inconsequential or perfunctory services can often be ignored. In some cases, all revenue is deferred until final service is performed, if that final series of acts is the critical event. In other situations, "proportionate performance" is used.

It is absolutely critical that the time of recognition of revenue be properly determined. For instance, in case of sale of goods, should revenue be recognized on receipt of the customer order, on completion of production, on the date of shipment, or on delivery of goods to the customer?

The decision as to when and how revenue should be recognized has a significant impact on the determination of net income for the year (i.e., the "bottom line"), and thus it is a critical element in the preparation of the financial statements. Since revenue is often the crucial number to users of financial statements in assessing a company's performance and prospects, the FASB and the IASB are about to clarify the principles for recognizing revenue from contracts with customers.

The anticipated standard, which will apply to all contracts with customers *except* for leases, financial instruments and insurance contracts, will have a major impact on financial reporting, since it fundamentally changes revenue recognition practices.

II. FASB AND IASB JOINT PROJECT: REVENUE RECOGNITION

Concerns over proper revenue recognition practices have long existed. Studies have shown that financial reporting irregularities that have come to light, requiring large restatements of previously issued reports over the past decade-plus, have disproportionately sprung from improper revenue recognition. Standard setters, including the FASB, have therefore concluded that more prescriptive guidance is needed. As previously mentioned, this project has been ongoing for almost ten years, with major developmental efforts occurring over the past four years.

According to the FASB, the present revenue recognition requirements focus on the occurrence of critical events rather than changes in assets and liabilities. This approach may result in the creation of debits and credits that do not meet the definition of assets and liabilities under GAAP, and which in principle should not be recognized. In addition, a practical weakness of current GAAP is that it gives insufficient guidance on multiple-element revenue arrangements, or contracts that provide more than one good or service to the customer. It is unclear under current standards when contracts should be divided into components and how much revenue should be attributed to each component.

The IASB initially began work independently on the issues of revenue recognition and the concepts of liabilities and equity. Later it decided to collaborate with the FASB as part of the two Boards' joint convergence program. According to IASB and FASB, the main objectives of this revenue recognition project are to:

a. Remove inconsistencies and weaknesses in existing revenue recognition standards by providing clear principles for revenue recognition in a robust framework;

b. Provide a single revenue recognition model which will improve comparability over a range of industries, companies and geographical boundaries; and

c. Simplify the preparation of financial statements by reducing the number of requirements to which preparers must refer.

IASB and FASB undertook this project to provide clear principles on when revenue should be recognized as well as how much revenue should be recognized. The key principles on which the proposed model is based – revenue is recognized upon transfer to the customer, measured at transaction price – are consistent with much of current practice. FASB and IASB believe the proposed standard will improve financial reporting by:

a. Providing a more robust framework for addressing issues as they arise;

b. Increasing comparability across industries and capital markets;

c. Providing enhanced disclosures; and

d. Clarifying accounting for contract costs.

The revenue recognition project explored various approaches; ultimately FASB and IASB abandoned the *earnings process* approach and have instead embraced an *asset-and-liability* approach. Under the asset-and-liability approach, revenue is recognized by direct reference to changes in assets and liabilities that arise from an entity's contract with a customer, rather than by direct reference to critical events or activities as in the earnings process approach.

The idea is that where an entity has a legally enforceable, non-cancelable contract, it should start to recognize the assets and liabilities inherent in that contract. While this approach does not change the final profit or loss on the completed contract, it opens up the issue of the timing of recognition, moving from the end of the transaction, where recognition has traditionally taken place, to the moment when an executory contract comes into existence, and then re-measuring as the transaction evolves towards completion.

Under the proposed model, a reporting entity would recognize revenue on the basis of changes in assets and liabilities arising from contracts with customers — without consideration of additional criteria, such as earning and realization, which were income statement–oriented threshold conditions. A contract is an asset to the entity if the remaining rights exceed the remaining performance obligations; it is a liability if the remaining obligations exceed the remaining rights. To apply this new model, the entity needs to be able to identify the separate liabilities or "performance obligations" that arise from a contract when the customer is committed to paying for the deliverables.

The proposed standard is a single revenue recognition model that could be applied consistently across various industries, geographical regions, and transactions. The core principle underlying this proposed model is that an entity should recognize revenues in contracts to depict the transfer of goods or services to customers in an amount that reflects the consideration expected to be received in exchange for those goods or services. The key concepts underlying the proposed standard include the following:

a. *A contract-based revenue recognition principle will be employed*. The underlying principle is that revenue recognition should be based on accounting for a contract with a customer. A contract with a customer is viewed as a series of enforceable rights and performance obligations - obtained rights to payment from the customer and assumed obligations to provide goods and services to the customer under that contract.

b. *Revenue will be recognized when and as performance obligations in the contract are satisfied*. Revenue arises from increases in an entity's net position (a combination of rights and obligations) in the contract with a customer as a result of the entity satisfying its performance obligation under the contract.

c. *An entity satisfies a performance obligation when goods or services are transferred to a customer*. Revenue is recognized for each performance obligation when an entity has transferred promised goods or services to the customer. It is assumed that the entity has transferred that good or service when the customer obtains control of it.

d. *Revenue recognized is the amount of the payment received from the customer in exchange for transferring an asset to the customer*. Consequently, the transfer of goods or services is considered to be the transfer of an asset.

e. *The amount of revenue will be measured based on an allocation of the customer's consideration*. An entity transferring goods or services at different times needs to allocate total consideration received to each performance obligation. At inception, the transaction price is allocated between the performance obligations on the basis of the relative stand-alone selling prices of the associated goods or services.

f. *Re-measurement of performance obligations should take place when they are deemed "onerous."* The carrying amount of an onerous performance obligation is increased based on the entity's expected costs of satisfying that performance obligation, and a corresponding contract loss is recognized.

There are five steps in applying the core principle of the proposed standard:

1. Identify the contract(s) with the customer;

2. Identify the separate performance obligations within the contract;

3. Determine the transaction price;

4. Allocate the transaction price to the separate performance obligations; and

5. Recognize revenue when a performance obligation is satisfied.

Based on FASB and IASB deliberations through fall 2013, the following guidance will apply under the anticipated revenue recognition standard, organized by which of the five steps in the process are to be affected:

Step One: identify the contract(s) with the customer.

An entity should combine contracts with the same customer and account for them together if they are entered into at or near the same time, and *one or more* of the following criteria are met:

i) The contracts are negotiated as a package with a single commercial objective.

ii) There is price interdependence between the contracts - i.e., the consideration in one contract depends on the other contract; *or*

iii) The goods or services in the contracts are interrelated in terms of design, technology or function.

One criterion that appeared in an earlier proposal, that "the contracts are performed either concurrently or consecutively," was not carried forward during the re-deliberation. FASB decided that applying this criterion could result in certain contracts being combined perpetually even when the contracts are independent of each other.

Step Two: identify the separate performance obligations within the contract.

As defined, a performance obligation is a promise in a contract with a customer to transfer a good or service to the customer. Performance obligations include promises that are implied by an entity's business practices, published policies, or specific statements if those promises create a valid expectation that the entity will fulfill.

When an entity promises to provide a bundle of goods or services, the entity should account for it as a single performance obligation if the goods or services are highly interrelated, and the contract includes significant integration of those goods or services into an item for which the customer has contracted. An example is when an entity provides materials and services in constructing a building.

Otherwise, an entity should account for a promised good or service as a separate performance obligation if both of conditions below are met:

i) The good or service is distinct, *and*

ii) The pattern of transfer of the good or service is different from that of other promised goods or services in the contract.

A good or service is distinct if either:

i) The entity regularly sells the good or service separately, *or*

ii) The customer can use the good or service either on its own or together with resources that are readily available to the customer.

Readily available resources include goods or services that are sold separately by the entity or another entity, or resources that the customer has obtained from previous transactions or events.

Step Three: determine the transaction price.

As defined, the transaction price is the amount of consideration an entity receives, or expects to receive, in exchange for transferring goods or services to a customer, excluding amounts collected on behalf of third parties, such as taxes. This definition reflects uncertainty and implicit financing.

When determining the transaction price, the objective is to estimate the total amount of consideration to which the entity will be entitled under the contract. The estimate of the total consideration can be based on a probability-weighted amount or the most likely amount, depending on which method is most predictive of the amount to which the entity is entitled.

An entity should recognize the revenue allocated to a satisfied performance obligation if the entity is reasonably assured that it will be entitled to that amount.

The issue of collectibility is closely related to the measurement of the transaction price. It is the Boards' view that a customer's credit risk should be accounted for separately and should not impact the measurement of the transaction price. Therefore, an entity should recognize revenue based on the stated contract price allocated to a satisfied performance obligation.

The entity should also recognize an allowance for the expected impairment loss from contracts with customer, to be shown as a contra revenue line item in the income statement.

An entity should adjust the contract amount to reflect the time value of money if the contract includes a financing component that is significant to that contract. To determine if a contract has a significant financing component, an entity should consider various factors, including:

i) The amount of cash to be paid at the time of transfer of the goods or service;
ii) The timing difference between the transfer of goods or services and customer payment; *and*
iii) The interest rate within the contract, whether explicit or implicit.

If the period between customer payment and the transfer of goods or services to the customer is less than a year, an entity does not need to assess if a contract has a significant financing component.

Step Four: allocate the transaction price to the separate performance obligations.

An entity should allocate to each separate performance obligation the consideration it expects to receive in exchange for satisfying that performance obligation on a relative standalone selling price basis. If the standalone selling price of a good or service is highly variable, the entity should estimate a standalone selling price using a residual technique, i.e., taking the total transaction price and deducting the standalone selling prices of other goods or services in the contract.

Conversely, an entity should allocate a portion of the transaction price entirely to one performance obligation if both of the following conditions are met:

i) The contingent payment terms of the contract relate specifically to the entity's efforts to satisfy that performance obligation or a specific outcome from satisfying that separate performance obligation; *and*

ii) The amount allocated to that particular performance obligation is reasonable relative to all of the performance obligations and payment terms, including other potential contingent payments in the contract.

Step Five: recognize revenue when a performance obligation is satisfied.

An entity should recognize revenue when it satisfies a performance obligation by transferring the promised good or service to the customer. This is when the customer obtains control of the promised good or service, which is defined as being when it has the ability to direct the use of, and receive the benefits from, the good or the service.

FASB and IASB have separate guidance for the sale of goods versus the sale of services. This is based on the premise that the continuous transfer of control is different between goods and services. For goods, the performance obligation is satisfied at a point in time. The indicators that the customer has obtained control of a good include:

i) The customer has an unconditional obligation to pay;

ii) The customer has legal title;

iii) The customer has physical possession; *and*

iv) The customer has the risks and rewards of ownership of the good.

For services, an entity is considered to have satisfied a performance obligation over time if *at least one* of the following two criteria is met:

i) The entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; *or*

ii) The entity's performance does *not* create an asset with alternative use to the entity and *at least one* of the following is met:

a) The customer receives a benefit as the entity performs each task;

b) Another entity would not need to re-perform the task(s) performed to date if that other entity were to fulfill the remaining obligation to the customer without the benefit of any inventory controlled by the entity; *or*

c) The entity has a right to payment for its performance to date.

If an entity promises to transfer both goods and services, the entity should first determine whether the goods and services are separate performance obligations. If they are separate, the entity should account for them as such. Otherwise, the entity should account for the bundle of goods and services as a *service*.

The forthcoming standard will also address certain corollary matters, the more important of which are noted as follows:

Contract acquisition costs should be capitalized to the extent that they are recoverable. Contract acquisition costs are costs that the entity would not have incurred if the contract had not been obtained. The capitalized contract acquisition costs are to be presented separately on the statement of financial position and subsequently amortized on a systematic basis consistent with the pattern of transfer of the goods or services to which the asset relates.

Concerning testing for onerous contracts, an entity will be required to recognize a liability and an expense if the remaining performance obligations in a contract are deemed to be onerous. The remaining performance obligations in a contract are onerous if the costs that relate directly to satisfying those remaining obligations exceed the amount of the transaction price allocated to those performance obligations. This situation must be reassessed at each financial reporting date.

The new standard will add to the already-extensive set of required disclosures to be made in the financial statements. In order to assist the users of financial statements to understand the amount, timing and uncertainty of revenue and cash flows, the enhanced disclosures under the revised standard include information about contracts with customers and information about various judgments and changes in those judgments effected during the reporting period. Regarding the former category, this will include, as may prove useful, a disaggregation of revenue; maturity analysis of specific remaining performance obligations; and reconciliation from opening to closing total contract balances. Concerning the latter group, this will include information about judgments and changes in judgment about the timing of revenue recognition and determining and allocating the transaction price.

III. REVENUE RECOGNITION AND THE RISK OF FINANCIAL REPORTING FRAUD

Financial statement fraud is the misrepresentation of financial information that is communicated to parties relying on that information for decision-making purposes, including lenders, prospective and current employees, vendors and customers, and, in the instance of publicly-held companies, the investing public. Revenue recognition fraud schemes have been responsible for more investigations, restatements, SEC actions, and litigation against outside accountants than any other single cause – more than 40% of all financial reporting frauds, according to several studies. The new requirements to be announced in 2014 are intended to simplify revenue recognition by imposing a universal standard that will supersede diverse, complex industry-oriented rules. It is the very fact that this will be a fundamental change that increases the risk of error and fraud, at least during the first several years as transition occurs.

The fact that revenue recognition practices constitute a significant risk area is attested to by the many SEC actions and private securities litigations that have arisen from improper accounting for revenues, and also by the auditing standard (SAS No. 99) that was adopted in 2002. Indeed, for auditors, revenue recognition is one of only two matters that must always, under this fraud risk standard, be considered a high-risk area, requiring expanded audit attention. It is assumed that this heightened concern will continue even after the new revenue recognition accounting standard has been adopted.

The following discussion will address the major classes of fraud, as well as innocent errors involving revenue recognition.

Revenue Timing Schemes: Intentionally recording revenue in the wrong accounting period is an earnings management technique whereby a company manipulates the timing of its revenue for possibly a number of reasons. These can include meeting analyst estimates and achieving target bonus levels for top management, as well as boosting stock values for holders of shares and of options on shares. Although the revenue is real, by recognizing it in the wrong, i.e., earlier, period it can be used to imply a healthier growth trend, portending future continued success, which in fact can often be maintained only by continued, ever-growing fraudulent acceleration of revenue. By "borrowing forward" from future revenue, this scheme creates what is ultimately an unsustainable aura of growth. When it no longer is possible to continue this practice, the fraud is exposed, usually with disastrous consequences for the stock price and for management.

Holding open the books for a few extra days at year-end, until enough sales have actually occurred to meet whatever target was being aimed for, has a long history. Indeed, some managers of calendar year-end companies would jocularly refer to, say, January 15^{th} as being "December 45^{th}," acknowledging this practice, at least among themselves. There can be no justification for this action, however. It is financial reporting fraud, pure and simple.

One variation on this scheme involves a so-called "bill and hold" arrangement, whereby customers are encouraged to place larger-than-needed orders, usually near the end of a reporting period. The sales are recorded, but the goods are held by the reporting entity for release to the customer in later periods. The customer is not obligated to make immediate payment for the goods, so in effect this becomes similar to a consignment arrangement, which under GAAP is not recognizable as a sale. Sometimes the goods are actually delivered, but with side agreements permitting abnormal levels of returns for unsold goods. In other cases, delivery is made, not to the ostensible customer, but instead to a warehouse or other facility controlled by the seller, which typically is done to deceive auditors examining shipping documents to find support for purported revenue transactions.

Yet another variation occurs when revenue is recorded while significant uncertainties still remain. Under current GAAP, this requirement should preclude revenue recognition until the uncertainties have been resolved, although this deception may not always be apparent, particularly to auditors who only sample test transactions and may not fully appreciate the conditions stipulated in each sales transaction. However, cash collections from such sales will, upon closer inspection, seemingly lag behind the normal pattern, because the customer will only pay when all agreed-to conditions have been met. Although somewhat subtle, this should thus be detectable during a properly planned and conducted audit, if material in amount.

When the sales involve multi-element arrangements, which commonly occur in such businesses as software development and also in some construction contracts, revenue may not to be recognized until customer acceptance has occurred, which often requires that later elements that are needed in order to give value to the earlier-delivered elements also be delivered. In practice, detecting premature recognition may be somewhat difficult under these circumstances, unless detailed attention is directed to the individual contracts and any related correspondence. This will only become a more common issue under the forthcoming revenue recognition standard, since that standard essentially imposes a percentage-of-completeness model on transactions that hitherto had not been subject to such accounting.

For a seller of goods, premature revenue recognition also requires that cost of goods sold be manipulated, so that a normal or expected relationship between sales and costs can be maintained during the pendency of the fraud. In many instances where premature or fictitious revenue schemes have been employed, this aspect has been overlooked. In these cases the fraud becomes more obvious, particularly when auditors examine disaggregated information, such as quarterly or monthly accounting data, where end-of-period anomalies will tend to be more visible. In the case of service transactions, the same general principle holds but may be more difficult to detect, as margins may vary to a somewhat greater extent from one transaction to the next, compared with multiple transactions in uniform goods.

Recording revenue when services are still due is fraud, but may be difficult to detect, and this will persist as a problem under the likely new standard. Unless services have been rendered completely, GAAP prohibits, and will continue to prohibit, booking the entire revenue amount. However, it is all too common for companies to (1) ignore percentage-of-completion contracts by taking the cash payments into income, (2) fail to record offsetting accruals for services paid for in advance, and (3) record refundable deposits as income.

A further variation was one of the schemes employed by WorldCom, which began to accrue, as income, contractual early cancellation penalties it was entitled to impose – but which it had never actually imposed on its departing customers, out of concern that maintaining their goodwill would later pay dividends. This change in policy, at a time when earnings were needed to continue the illusion of rapid growth, should have, but did not, create a "red flag" in the eyes of the auditors.

Fictitious recognition of revenue: An even more fundamental form of revenue fraud involves booking entirely fictitious revenue. The objective is similar - namely, to exaggerate current period revenues and profits, or to distort growth or profitability patterns, thereby impacting stock valuation, executive bonuses, and so forth. In this scheme, however, bogus (not just pre-mature) receivables must also be recorded, and of course these can never be collected. Concealing fictitious revenue will later necessitate that these fabricated receivables be somehow eliminated. Stale accounts receivable will inevitably draw audit attention and demands for bad debt recognition, reducing future earnings, even if the auditors do not detect the actual fraud.

Achieving a successful fictitious revenue fraud will often involve "refreshing" the old receivables by transferring the balances to other, equally fictitious customers. In this way the age of the bogus customer obligations can be maintained within a historically normal range for such receivables. Transferring bad receivables balances to substitute customers will require non-cash entries, usually made in the general journal, where they should draw auditors' attention. An alternative is to engage in "lapping" the receivables, or crediting collections on real receivables against the bogus ones. This leads to a never-ending pattern of applying later collections to cover prior misapplications of collections to the fraudulent receivables. Here, too, the need to continue this practice over an extended period increases the likelihood of eventual discovery, again with probable disastrous consequences.

Improperly deferring earned revenue: If a company's earned revenue significantly exceeds estimates for a reporting period, the company may improperly defer recording some of the earned revenue until a future unfavorable reporting period. This is a variation on the common "cookie jar reserves" fraud, whereby unwarranted expenses are accrued currently, depressing current period profits, only to be reversed in later, less profitable periods. Although deferring revenue is less commonly observed than is accelerated recognition, and may be improperly defended using the often-misunderstood accounting concept of conservatism, it is nonetheless still financial reporting fraud. Detection is somewhat more difficult, but can often be identified using the same approaches as are useful in uncovering premature revenue recognition frauds – namely, by examining disaggregated data and closely studying key financial ratios. There is little reason to expect that the incidences of such frauds will be altered when the new revenue recognition standards becomes effective, given the underlying motivations to smooth earnings and meet announced targets.

In summation, the history of financial reporting frauds has been filled with a wide range of creative devices to either accelerate revenue recognition or to outright fabricate revenues. Nothing in the new revenue recognition standard suggests, at first blush, that the motives or means for such frauds will be ameliorated. In addition, the process of becoming acclimatized to, and adept at applying, the new rules will inevitably result in a greater-than-historical frequency of simple errors. Thus, preparers, auditors and users of financial statements should be prepared to devote time and attention to this markedly new mode of accounting.

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Dr. Barry Epstein is widely recognized as an accounting expert on U.S. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS). He is a practicing accountant and frequent expert witness who works extensively with attorneys and U.S. regulatory agencies on the following types of cases:

- White collar defense
- Financial reporting fraud and securities litigation
- Auditor liability and accountant malpractice
- Generally Accepted Accounting Principles (GAAP)
- Generally Accepted Auditing Standards (GAAS)
- International Financial Reporting Standards (IFRS)
- International accounting convergence (GAAP and IFRS)
- Sarbanes-Oxley corporate governance matters

He has served as a consulting or testifying expert for plaintiff and defense attorneys in more than 140 cases.

Publications

Dr. Epstein is the author of *The Handbook of Accounting and Auditing* (RIA, Thomson Reuters), a distinction he has held for more than 20 years.

He served as the lead author of 26 annual editions of *Wiley GAAP* (1985 through 2010), 14 annual editions of *Wiley IFRS* (1997 through 2010), and several other works on U.S. GAAP and international accounting standards, all published by John Wiley & Sons.

Dr. Epstein has also written or contributed to scores of articles on professional malpractice and other finance, accounting, and auditing topics that have been published in legal and accounting journals.

As an author, Dr. Epstein distinguishes himself with the depth and clarity of Rule 26 or equivalent reports that clearly describe relevant accounting, auditing, and financial reporting standards for attorneys, judges, and jury members.

Education

Dr. Epstein is an accomplished educator who has taught at the university level. Over the course of his career, he has held teaching positions at Northwestern University, DePaul University, Columbia College Chicago, University of Pittsburgh, and West Liberty State College.

He holds a Ph.D. in Information Systems, Statistical Decision Theory, and Finance from the University of Pittsburgh; an M.B.A in Accounting, Economics, and Behavioral Sciences from the University of Chicago; and a B.S.C. in Accounting and Finance with high honors from DePaul University.

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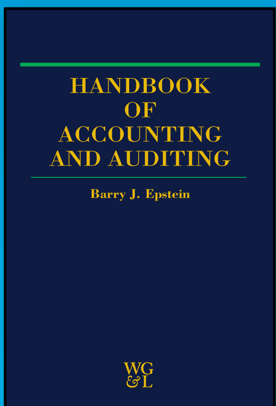
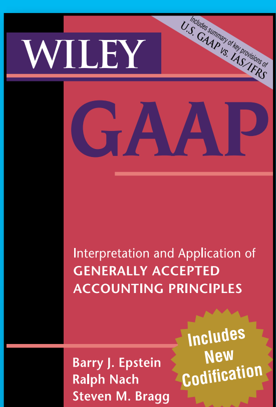
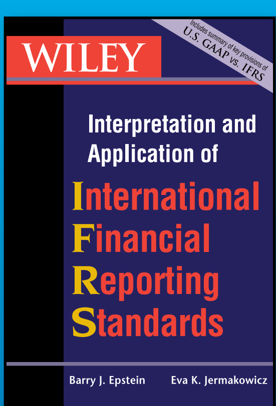


The Handbook of Accounting and Auditing



Wiley GAAP 1985 to 2010



Wiley IFRS 1997 to 2010