

# ABA BANKING JOURNAL

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## New accounting framework useful tool for lenders

A new accounting option for small and mid-sized enterprises (SMEs) could be a competitive tool for banks. Or, when looked at another way, it's an option bank lenders should be aware of so as not to be at a disadvantage in prospecting for business in the SME space.

Rolled out last year by the American Institute of Certified Public Accountants (AICPA), the Financial Reporting Framework for Small- and Medium-Sized Entities is a "special purpose framework," one of several non-GAAP accounting frameworks. GAAP accounting (generally accepted accounting principles) is required for all public and large private companies, but many other private companies can use what used to be called "other comprehensive bases of accounting," or OCBOA. Some of these include cash basis, modified cash basis, tax basis, and regulatory basis—most of which have been around for decades. According to an AICPA spokesperson, a survey found that many SME companies needed something more than cash basis or tax basis financial statements, but didn't need to go all the way to GAAP. The new SME framework is more robust than other non-GAAP

options, without adding unnecessary complexity, the spokesperson stated. Another thing that sets apart the new framework from other non-GAAP options is that it is fully documented. A 200-page document spells it out (see link at the end of the story).

Quoting from that document, the new framework "draws upon a blend of traditional accounting principles and accrual income tax methods of accounting. It utilizes historical cost as its primary measurement basis. In addition, it provides management with a suitable degree of optionality when choosing accounting policies to better meet the needs of the end users."

Bank lenders, of course, are one of those end users, and the spokesperson pointed out that bankers can request certain information to be included in the financial statements of clients or prospects using the new framework. Bankers also can point out to clients the availability of the new option and assist them in using it as a way to save costs or to improve financial



reporting. The AICPA has no enforcement authority over the use of special purpose frameworks by companies. The decision rests with management.

The new SME framework would *not* be applicable to banks themselves, however. The AICPA document spells out 11 "characteristics of typical entities" that may use the new framework, one of which specifically references financial institutions, which require the use of specialized accounting guidance.

To download the AICPA's SME document, go to:  
[bit.ly/FRF-SMEs-Users](http://bit.ly/FRF-SMEs-Users)

— Bill Streeter, editor and publisher