Question # 1: What is an accounting change?

Answer #1: An accounting change represents: A change in (a) accounting principle, (b) an accounting estimate, or (c) the reporting enterprise (which is a special type of change in accounting principle). This definition can be found under APB 20 paragraph 6.

Question # 2: What is a change in an accounting principle?

Answer # 2: A change in accounting principle results from adoption of a generally accepted accounting principle different from the one used previously for reporting purposes. The term accounting principle includes “not only accounting principles and practices but also the methods of applying them.” (APB 20 paragraph 7 as amended by FAS 111 paragraph 9.a. (1)) Examples include a change in depreciation methods for previously recorded assets (i.e. change from double declining to straight-line), changes in methods of inventory valuation (LIFO to FIFO), and other similar changes which affect the method of accounting for specific items and/or transactions.

Question # 3: How should we report a change in an accounting principle?

Answer #3: Financial statements for prior periods included for comparative purposes, should be presented as previously reported. For the first year of implementation, there is a waiver from HUD, so comparative statements do not need to be presented. The cumulative effect of changing to a new accounting principle, which is the difference between actual retained earnings at the beginning of the period and retained earnings that would have been reported at the beginning of the period had the accounting principle been applied retroactively, should be reported in the income statement between the captions “extraordinary items” and “net income”. The effect upon the income statement for adoption of the new accounting principle, in the period of the change, should be disclosed in the footnotes (APB 20 paragraph 20 as amended by FAS 128).

As the conversion currently being implemented by the Public Housing Authorities is from a non-GAAP basis of accounting to a GAAP basis of accounting, as interpreted upon review of APB 20 paragraph 13, the GAAP conversion constitutes a correction of an error. As such, adjustments restating beginning balances, as applied by the Housing Authorities pursuant to the GAAP conversion, necessitate they be made to beginning fund balance/retained earnings rather than accounted for within current operations.
Question # 4: What is a change in accounting estimate?

**Answer # 4:** Changes in estimates used in accounting are necessary consequences of periodic presentations of financial statements. Preparing financial statements requires estimating the effects of future events. Future events and their effects cannot be perceived with certainty; estimating, therefore, requires the exercise of judgment. Thus, accounting estimates change as new events occur, as more experience is acquired, or as additional information is obtained (APB 20 paragraph 10).

Question #5: How should we report a change in accounting estimate?

**Answer #5:** The effect of a change in accounting estimate should be accounted for in the period the change is being made if that is the only period being affected. If the change affects the period in which the change is being made and any future periods, then the effect should be accounted for in the period of change and in the future periods being affected. **A change in estimate should not be accounted for by restating amounts reported in prior period financial statements.** The effect upon the income statement for a change in estimate that affects several future periods should be disclosed. For ordinary changes in accounting estimates made each period, only changes, which are material, to the financial statements should be disclosed (APB 20 paragraphs 31 and 33).

Question # 6: What is a change in the Reporting Entity?

**Answer # 6:** A change in the reporting entity is “Accounting changes that result in financial statements that are in effect the statements of a different reporting entity” (APB 20 paragraph 34). This type of accounting change is limited mainly to (a) presenting consolidated or combined statements in place of statements of individual enterprises, (b) changing specific subsidiaries comprising the group of enterprises for which consolidated financial statements are presented, and (c) changing enterprises included in combined financial statements (APB 20 paragraph 12).

Question # 7: How do we report a change in the Entity?

**Answer # 7:** There should be restatement of the financial statements of all prior periods presented in order to show financial information for the new reporting entity for all periods (APB 20 paragraph 34). The financial statements of the period of a change in the reporting entity should describe the nature of the change and the reason for it. In addition, the effect of the change on income before extraordinary items and net income should be disclosed for all periods presented. Financial statements of subsequent periods need not repeat the disclosures (APB 20 paragraph 35).
Question # 8: If an error is made on previously issued financial statements, is it considered to be an accounting change?

Answer # 8: The correction of an error in previously issued financial statements is not deemed to be an accounting change (APB 20 paragraph 6).

Question # 9: What adjustments are related to prior periods?

Answer # 9: Adjustments related to prior periods, and thus excluded in the determination of net income for the current period, are limited to those material adjustments which (a) can be specifically identified with and directly related to the business activities of particular prior periods, and (b) are not attributable to economic events occurring subsequent to the date of the financial statements for the prior period, and (c) depend primarily on determinations by persons other than management and (d) were not susceptible of reasonable estimation prior to such determination. Such adjustments are rare in modern financial accounting. They relate to events or transactions which occurred in a prior period, the accounting effects of which could not be determined with reasonable assurance at that time, usually because of some major uncertainty then existing (APB 9 paragraph 23 as superceded by FAS 16).

Question #10: What items do not qualify as prior period adjustments?

Answer #10: Treatment as prior period adjustments should not be applied to the normal, recurring corrections and adjustments which are the natural result of the use of estimates inherent in the accounting process. For example, changes in the estimated remaining lives of fixed assets affect the computed amounts of depreciation, but these changes should be considered prospective in nature and not prior period adjustments. Similarly, relatively immaterial adjustments or provisions for liabilities made in prior periods should be considered recurring items to be reflected in operations of the current period. Therefore, the effects of such matters are considered to be element in the determination of net income for the period in which the uncertainty is eliminated (APB 9 paragraph 24 as superceded by FAS 16).