



PROGRAM MATERIALS

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What Is GAAP? (Definition, 10 Principles, Compliance)

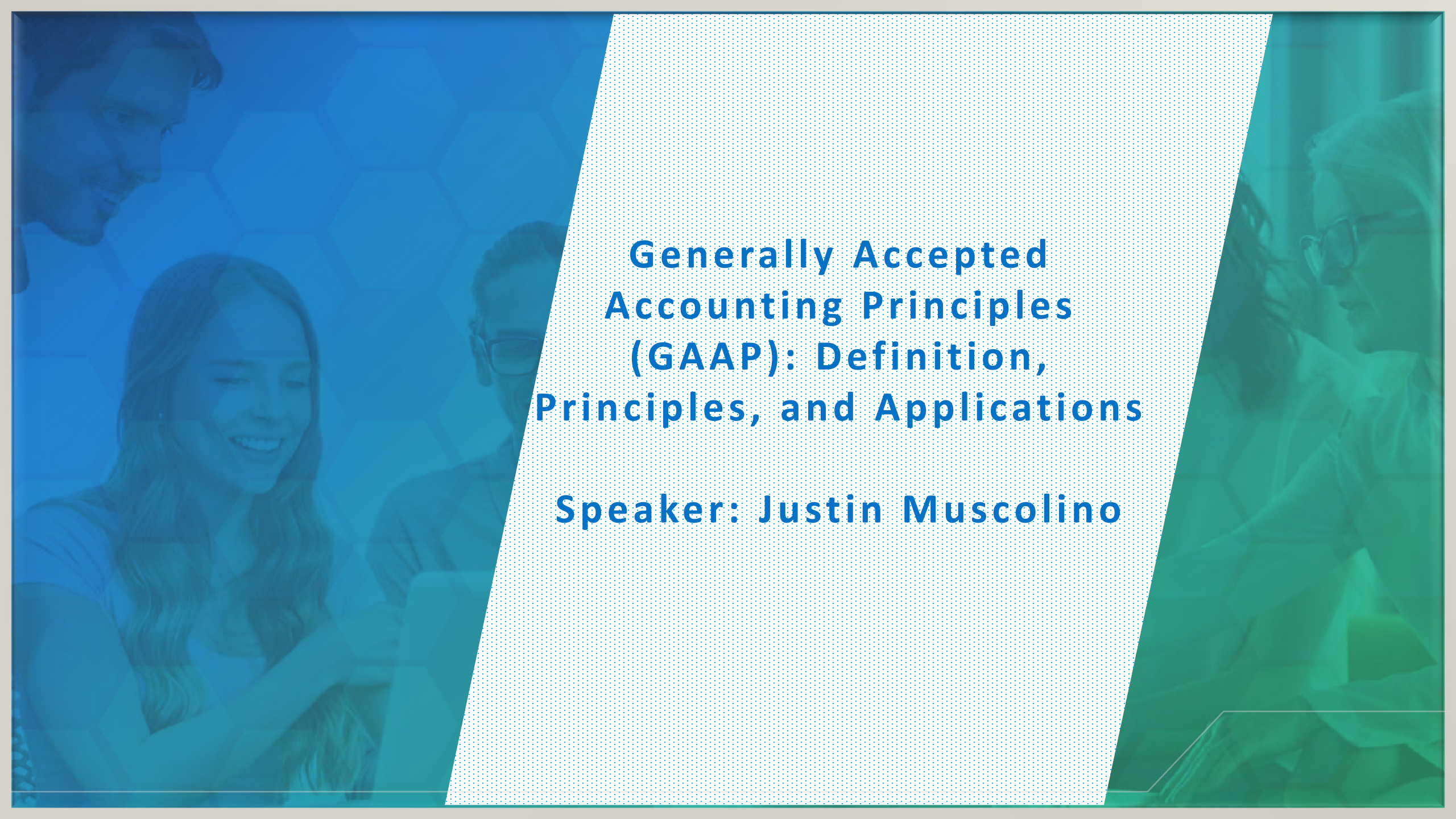
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Generally Accepted Accounting Principles (GAAP): Definition, Principles, and Applications

Speaker: Justin Muscolino



Justin Muscolino

Justin brings over 20 years of wide-ranging experience in compliance training and regulations. He previously led the compliance training function for JPMorgan Chase Macquarie Group, UBS, Bank of China, and GRC Solutions. Justin also runs his own compliance training company focusing on US & International regulations providing real-life training.

Justin also worked for FINRA, a US regulator, where he created Examiner University to train examiners on how to perform their function. He also serves as an advisor for the Global Compliance Institute (GCI) and instructs at the Barret School of Business and various compliance training providers.



Agenda

- Overview of GAAP framework and standard-setting bodies
- GAAP's role in financial disclosures and regulatory compliance
- Litigation, enforcement, and investigative implications of GAAP violations
- Evidentiary use of financial statements in legal proceedings
- Key takeaways for legal and advisory practices



What Is GAAP

- GAAP represents standardized accounting principles for financial reporting
- Ensures consistency, comparability, and transparency across financial statements
- Forms foundation for regulatory filings and disclosures
- Provides benchmarks for evaluating financial accuracy and integrity
- Central to assessing compliance and misrepresentation claims



Purpose of GAAP

- Promote reliable financial reporting for investors and stakeholders
- Reduce information asymmetry in capital markets
- Support regulatory oversight and enforcement activities
- Establish norms for acceptable accounting judgment and estimates
- Provide objective standards for legal scrutiny



GAAP Standard-Setting Bodies

- Financial Accounting Standards Board establishes GAAP standards
- Securities and Exchange Commission enforces GAAP for public companies
- Public Company Accounting Oversight Board oversees auditors
- Interaction between accounting standards and regulatory authority
- Legal implications of standard-setting governance

A background image showing a blurred financial chart with various data points and a line graph, overlaid with a green and blue trapezoidal shape.

GAAP and Financial Disclosures

- GAAP governs preparation of financial statements and footnotes
- Disclosures inform material risks and financial performance
- Omissions may create regulatory and litigation exposure
- Attorneys must assess disclosure adequacy and accuracy
- Disclosure failures often underpin enforcement actions



Materiality Under GAAP

- Materiality assesses information significance to reasonable investors
- Central concept in disclosure and misrepresentation cases
- Qualitative and quantitative factors influence materiality determinations
- Materiality judgments frequently challenged in litigation
- GAAP materiality intersects with securities law standards

The background of the slide features a blurred financial chart with various data points and a line graph, suggesting a corporate or financial context.

GAAP and Regulatory Compliance

- GAAP compliance required for SEC filings and reporting
- Noncompliance may trigger investigations and enforcement actions
- Accounting violations often signal broader governance failures
- Regulatory agencies rely on GAAP benchmarks
- Legal counsel must anticipate regulatory accounting scrutiny



GAAP in Enforcement Actions

- SEC enforcement frequently alleges GAAP misstatements
- DOJ actions may involve fraudulent financial reporting
- GAAP violations support scienter and intent arguments
- Accounting evidence strengthens enforcement narratives
- Legal defense requires understanding accounting standards



GAAP in Civil Litigation

- Financial statements central to securities fraud claims
- GAAP deviations support negligence or recklessness allegations
- Expert testimony often relies on GAAP interpretation
- Disputes frequently focus on accounting judgments
- Attorneys must evaluate accounting defensibility



GAAP and Internal Controls

- GAAP relies on effective internal financial controls
- Weak controls increase risk of misstatements
- Control failures often cited in enforcement cases
- Sarbanes-Oxley strengthens GAAP compliance expectations
- Legal exposure tied to control deficiencies



Investigations and GAAP

- Internal investigations assess GAAP compliance issues
- Accounting irregularities often trigger broader probes
- Documentation and audit trails become critical evidence
- Legal teams coordinate with forensic accountants
- Early GAAP analysis shapes investigative strategy



GAAP as Legal Evidence

- Financial statements admitted as documentary evidence
- GAAP provides framework for evaluating accuracy
- Courts rely on expert GAAP testimony
- Accounting consistency affects evidentiary credibility
- Misstatements undermine defense arguments



Role of Expert Witnesses

- Accounting experts interpret GAAP for courts
- Experts assess departures from accepted principles
- Competing interpretations often drive case outcomes
- Attorneys must vet expert GAAP credibility
- Effective examination requires GAAP fluency



Common GAAP Risk Areas

- Revenue recognition frequently challenged in enforcement cases
- Reserves and estimates subject to management judgment
- Asset valuation and impairment disputes common
- Off-balance-sheet arrangements create disclosure risks
- Complex transactions increase GAAP litigation exposure

A blurred background image showing a financial chart with a line graph and bar charts in shades of blue and green.

GAAP and Corporate Governance

- Boards oversee financial reporting integrity
- GAAP compliance reflects governance effectiveness
- Failures may implicate fiduciary duties
- Legal advisors support oversight responsibilities
- Strong governance mitigates GAAP-related risks



Advisory Implications for Attorneys

- Counsel must assess accounting risk in transactions
- GAAP impacts M&A due diligence findings
- Disclosure advice requires accounting awareness
- Regulatory counseling often involves GAAP interpretation
- Proactive guidance reduces enforcement exposure



Cross-Border Considerations

- GAAP differs from international accounting standards
- Multinational disputes involve accounting reconciliation issues
- Regulatory expectations vary across jurisdictions
- Attorneys must manage accounting framework conflicts
- Cross-border cases increase complexity and risk



Practical Case Examples

- Revenue misstatement leading to SEC enforcement action
- Improper reserves triggering shareholder litigation
- Disclosure failures resulting in regulatory penalties
- Accounting judgments challenged during corporate investigations
- Lessons learned for legal practitioners



Key Takeaways

- GAAP is foundational to financial legal analysis
- Accounting standards influence litigation and enforcement outcomes
- Financial statements serve as critical legal evidence
- Attorneys benefit from GAAP literacy
- Proactive GAAP awareness reduces legal risk

THANK YOU

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