A&A Update from 20,000 Feet

Presented by Werner - Rocca

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Revenue Recognition

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Background

- Prior to ASC 606 "Revenue from Contracts with Customers"
  - Inconsistent treatment for similar transactions among industries and companies
  - Over 200 Separate FASB Accounting Standards Codification Guidance items
  - Industry specific guidance
  - US GAAP lacked detailed disclosures on revenue generating activities
  - Subject of significant fraud cases
  - International standards had similar issues.

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New Guidance

- October 2002, FASB and IASB initiated a joint project to address revenue recognition
- ASU 2014-09 New Guidance, issued May 2014 (several amendments since)
  - Single model to address revenue from contracts with customers
    - Replaced industry and transaction based guidance
    - Principles based, more judgement, more disclosures
- IFRS 15 Revenue from contracts with customers also issued.
- Together, converged standards with only a few exceptions

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New Guidance

- Make sure you are using the codification rather than ASU 2014-09 in implementing the revenue recognition standards.
- The FASB has issued several ASU's to respond to feedback to ASU 2014-09.
- Applies to any entity that enters into a contract with a customer to transfer goods or services. Potential to affect every entity's daily accounting and the execution of agreements with customers.
- Affects public, nonpublic, not-for-profit entities
- Scope exceptions – see guidance

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New Guidance – Effective dates

- Public entities – periods beginning after December 15, 2017, including interim periods within that period
  - Earlier application permitted to periods beginning after December 15, 2016
- Nonpublic entities – periods beginning after December 15, 2018 and interim periods with annual reporting periods beginning after December 15, 2019.
  - Earlier application permitted to periods no earlier than the effective dates for public entities.

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Five Steps in Revenue Recognition

To achieve the core principle, an entity should follow these **five steps**:

1. Identify the contract with the customer
2. Identify the performance obligations
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations
5. Recognize revenue as performance obligations are satisfied (transfer of goods or services)

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Step 1 in Revenue Recognition
Identify the Contract with the Customer

- Definition of a Contract – an agreement between two or more parties that creates enforceable rights and obligations – legal determination (ASC 606-10-20).
- Is the contract within the scope of the standard?
  - If rights and obligations are enforceable.
  - The contract must meet the **five contract criteria** in the standard.

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Step 1 in Revenue Recognition
Identify the Contract with the Customer

- **Five contract criteria** – assess at contract's inception. If **ALL** criteria are met, the contract is subject to the revenue recognition standard
  1. The parties to the contract have approved it (in writing, orally, or in accordance with other customary business practices) and are committed to perform their respective obligations.
  2. A contract identifies the rights of the parties. It's clear what each party is giving and/or receiving.
  3. A contract has payment terms. How much or what is being exchanged for the goods and/or services being supplied? If the specific amount is not included in the contracts, but can easily be estimated, that works, too.
  4. The contract has commercial substance. This means that the exchange is actually worth something and the entity's cash flows will change. (This provision was mainly implemented to prevent companies from loaning customers money to buy goods or services in order to inflate earnings.)
  5. It is **probable** (75-80%) that the entity will collect substantially all of the consideration
- Understand the entire contract – look for side agreements and amendments
- Don't reassess unless there is an indication of a significant change in facts and circumstances.

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Step 1 in Revenue Recognition
Identify the Contract with the Customer

What if the contract does not meet the five contract criteria?

Recognize consideration received as a liability until:

- The contract meets the five contract criteria.
- Review details in guidance – in short, consideration received is nonrefundable and no remaining obligation to transfer goods or services may be able to recognize revenue.

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Step 1 in Revenue Recognition
Identify the Contract with the Customer

Combined contracts (ASC 606-10-25-9)

Be alert for contracts entered into at or near the same time with the same customer (or related parties (ASC 850) of the customer), They may need to be combined and accounted for as a single contract if certain criteria are met (see guidance).

Decision to combine is made at **inception** of the contract.

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Step 2 in Revenue Recognition
Identify the Performance Obligations

Performance Obligation – a promise in a contract to transfer:

- A good or service or a bundle of goods and services that are **distinct**.
- A **series of distinct goods or services** that are substantially the same and that have the same pattern of transfer to the customer.

The purpose of identifying performance obligations is to determine how to allocate the transaction price (sometimes referred to as units of account). At contract inception:

- Identify all promised goods or services or bundle of goods and services, then
- Identify the contract's performance obligations – which promises should be accounted for separately.

If there are multiple performance obligations in the contract, the entity must determine which are separate performance obligations (units of accounts).

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Step 2 in Revenue Recognition
Identify the Performance Obligations

A good or service is **distinct if both** of the following criteria are met:

1. Capable of being distinct—The customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer.
2. Distinct within the context of the contract— The entity's promise in the contract to transfer each good or service is separately identifiable from other promises in the contract (Is the intent to transfer each good or service or a combined good or service? - significant integration, good or service needs significant modification/customization, goods or services are highly dependent on or interrelated with others in the contract)

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Step 2 in Revenue Recognition
Identify the Performance Obligations

- A good or service that is ***not distinct*** should be combined with other promised goods or services until the entity identifies a bundle of goods or services that is distinct.
- The entity must consider promises implied by an entity's customary business practices, published policies, or specific statements if those promises create a reasonable expectation of the customer that the entity will transfer a good or service to the customer.

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Step 3 in Revenue Recognition
Determine the Transaction Price

Transaction Price - the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer excluding amounts collected on behalf of third parties (ASC 606-10-20).

- Transaction price is the amount ultimately recognized as revenue
- Transaction price may not equal contract price

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Step 3 in Revenue Recognition
Determine the Transaction Price

To determine the transaction price, an entity should consider the effects of:

a. Variable consideration (incentives, discounts, rebates, penalties, refunds, etc.);
   i. Guidance includes methods for estimating.
b. Constraining estimates of variable consideration;
   i. Recognize only to the extent a significant reversal of variable consideration will not occur
   ii. Reassess transaction price at the end of each reporting period until resolved
c. Existence of a significant financing component;
d. Noncash considerations; and
e. Consideration payable to the customer (refunds).

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Step 4 in Revenue Recognition
Allocate the Transaction Price

- If more than one performance obligation –
  - Allocation is based on stand-alone selling price for each performance obligation.
  - Results in the amount of consideration for satisfying each separate performance obligation.

Stand-alone selling price - The price at which an entity would sell a promised good or service separately to a customer. The best evidence is the observable price of a good or service when the entity sells that good or service separately in similar circumstances and to similar customers.

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Step 5 in Revenue Recognition
Recognize Revenue

Recognize revenue on transfer of a promised good or service to a customer.

An asset is transferred when (or as) the customer obtains **control** of that asset.

To have control of the asset, the customer must have the ability to:

- Direct the use of the asset, and
- Obtain substantially all of the remaining benefits of the asset.

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Step 5 in Revenue Recognition
Recognize Revenue

Performance Obligations Satisfied over Time

Determine, at contract inception whether control of a good or service transfers to a customer over time or at a point in time (services arrangements, construction, complex assets).

- See guidance for criteria

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Step 5 in Revenue Recognition
Recognize Revenue

Performance Obligations Satisfied over Time – if any one of these is met, revenue is recognized over time

- Customer simultaneous receives and consumes the benefits – gym membership, utilities, cleaning services
- Entity creates or enhances an asset that the customer controls as the asset is created or enhanced - construction of a building on land owned by the customer, WIP that passes to the customer's control as completed.
- The asset created does not have an alternative use AND the entity has an enforceable right to payment for performance completed to date – percentage of completion.

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Revenue Recognition
Contract Modifications

Contract Modification – a change in the scope and/or price of a contract approved by the parties to the contract

Entity must determine:

- Has the modification created a new contract and performance obligations, or
- Has the existing contract been modified

Review codification – accounting depends on circumstances

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Revenue Recognition
Transition

- Retrospective or modified retrospective methods
- Full Retrospective application - apply the new guidance to each prior reporting period presented
  - ASC 250, Accounting Changes and Error Corrections (US GAAP)
- Modified retrospective - apply the new guidance only to contracts that are not completed at the adoption date and not adjust prior reporting periods

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Presentation and Disclosure

- Information to enable users of FS to understand the nature, timing, amounts and uncertainty of revenues and cash flows arising from contracts with customers.
- Reflect in FS separately
  - The contract asset and receivable
  - Contract liability
- Separately present or disclose revenue from contracts with customers from other sources of revenue (for example, revenue from interest, dividends, leases).

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Presentation and Disclosure

- Disclose quantitative and qualitative information about:
  - Contracts with customers;
  - Significant judgements and changes in judgements made in applying ASC 606
- Assets recognized from costs to obtain or fulfill a contract with a customer
- Disaggregation of revenue into categories that show how economic factors affect the nature, amount, timing, and uncertainty of revenue and cash flows (Nonpublic entities may elect to not apply the quantitative disaggregation or revenue disclosure guidance). Ex: product lines, region, type of contract, etc.

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Presentation and Disclosure

- Reconciliation of contract balances
  - Opening and closing balances
  - Revenue recognized during the period from changes in contract balances *
  - Qualitative and quantitative information about the significant changes in contract balances *
- Descriptive information about an entity's performance obligations *
- Information about the transaction price allocated to remaining performance obligations
  - When the aggregate amount of transaction price allocated to remaining performance obligations will be recognized as revenues *
- Revenue recognized from performance obligations satisfied (or partially satisfied) in previous periods
- Impairment losses disclosed separately from other impairment losses

* Nonpublic entities may omit this disclosure

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Presentation and Disclosure

- Significant judgments
  - Method used to recognize revenue for performance obligations satisfied over time and why the method is appropriate
  - Significant judgments related to transfer of control for performance obligations satisfied at a point in time *
  - Information about the methods, inputs, and assumptions used to determine and allocate transaction price *
- Costs to obtain or fulfill a contract *
  - Judgments made to determine costs to obtain or fulfill a contract, and method of amortization
  - Closing balances of assets and amount of amortization/impairment
- Practical expedients: Use of either of the following:
  - The practical expedient regarding the existence of a significant financing components
  - The practical expedient for expensing certain costs of obtaining a contract

* Nonpublic entities may omit this disclosure

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Lease Accounting

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Lease Accounting Overview

Why Change:

- Provide users of financial statements a complete and understandable picture of an entity's leasing activities.
- Lease accounting was criticized for failing to provide a faithful representation of leasing transactions.
  - Assets and liabilities arising from operating leases were not recognized on the balance sheet
  - Bright lines used on capital lease criteria

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Lease Accounting
Overview

- February 2016 FASB issued ASU 2016-020 Leases (Topic 842)
- New standard
  - Increase transparency and consistency
  - **Lessee - All leases** create an asset and a liability for the lessee in accordance with FASB Concepts Statement No. 6, Elements of Financial Statements
  - Lessor - accounting remains largely consistent with existing U.S. GAAP, except new disclosure requirements
  - Effective dates –
    - Public – years beginning after December 15, 2018
    - Other entities – years beginning after December 15, 2019
    - Early adoption permitted

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Lease Accounting
Identifying a Lease

- ASC 842-10-15-3 - A contract is or contains a lease if it conveys the right to **control** the use of **identified** property, plant or equipment for a period of time in exchange for consideration.
- Control - The customer has both of the following (same as ASC 606 Revenue Recognition):
  - The right to obtain substantially all of the economic benefits from use of the identified asset
  - The right to direct the use of the identified asset

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Lease Accounting
Identifying a lease

- The right to use an identified asset may be **embedded** in a contract that appears to be a supply arrangement, service contract, etc.
  - Pre-ASC 842, there was not a focus to identify leases in a contract.
  - Multiple arrangement with the same party (or related parties) may need to be considered if entered at the same time.
  - A contract may contain lease (and multiple leases) and nonlease components

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Lease Accounting
Finance Lease

If **any** of the following criteria is met, the **lessee** accounts for the lease as a finance lease:

1. The lease transfers ownership of the underlying asset to the lessee by the end of the lease term;
2. The lease grants the lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise;
3. The lease term* is for the major part of the remaining economic life of the underlying asset;
4. The present value of the sum of the lease payments* and any residual value guaranteed by the lessee equals or exceeds substantially all of the fair value of the underlying asset; or
5. The underlying asset is of such a specialized nature that it is expected to have no alternative use* to the lessor at the end of the lease term.

* See guidance for definition

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Lease Accounting
Finance Lease

Changes from previous guidance

- Elimination of bright lines (criteria 3 and 4 above)
  - Transactions only immaterially different were accounted for very differently
  - Replaced with more judgmental criteria
  - However, FASB concluded:
    - 75% or more would is a major part of the remaining economic life and
    - 90% or greater is substantially all of the fair value of the underlying asset
    - This guidance is not mandated
- Alternative use criteria not part of capital lease criteria in past guidance

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Lease Accounting
Short Term Lease Exception

A lease may remain off the balance sheet if:

- At commencement date * the maximum lease term, including all options to extend the lease, is less than 12 months; and
- The lease does not include an option to purchase the underlying asset that the lessee is likely to exercise.

* See guidance for definition

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Lease Accounting
Lessee Accounting for Finance Leases

- Recognize right of use asset and lease liability on the balance sheet.
- Right to use asset includes:
  - The initial lease liability (present value of lease payments*); plus
  - Lease payments made to the lessor at or before the lease commencement date; plus
  - Lessee's initial direct costs*; less
  - Lease incentives received by the lessee

* See definition in ASC

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Lease Accounting
Lessee Accounting for Finance Leases

- Lease liability - measured at the present value of the lease payments* discounted using the discount rate* for the lease.
- Recognize interest so the lease liability reflects the present value of remaining lease payments.
- Amortization and payments of interest on the lease liability are included in the income statement separately.

*See definition in ASC

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Lease Accounting
Lessee Accounting for Operating Leases

- Recognize right of use asset and lease liability on the balance sheet.
- The asset includes the present value of the lease payments plus initial direct costs.
- Lease liability similar to that for a financing lease.
  - Lease liability is initially measured by the present value of the lease payments discounted using the discount rate for the lease.
  - Recognize interest such that the lease liability reflects the present value of remaining lease payments.
- Income statement - Recognize a single lease cost* on a straight line basis
  - Interest expense determined using the effective interest method
  - Amortization of the right-of-use asset is calculated as the difference between the straight-line expense and the interest expense on the lease liability for a given period

* Sum of the lease payments for the lease term plus initial direct costs recognized ratably on a straight line basis

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Lease Accounting
Lessor Accounting

- The FASB did not make fundamental changes to lessor accounting.
- Leveraged lease classification was eliminated
- Increased disclosures
- Sales Type lease –
  - Must meet the criteria specified for a financing lease in lessee accounting. The lease must transfer control to recognize profit or loss.
  - Collectability must be probable – otherwise lease payments are deposit liabilities and asset is not removed until collection is probable

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Lease Accounting
Lessor Accounting

- Direct financing lease – does not meet the criteria specified for a financing lease in lessee accounting but meets **both** of the following:
  - The present value of the sum of lease payments and **guaranteed residual value (by lessee or third party)** equals or exceeds substantially all of the fair value of the underlying asset.
  - It is probable the lessor will collect the lease payments plus any amounts necessary to satisfy the residual value guarantee
- If not a sales type or direct financing lease its an operating lease (most leases)

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Leases
Presentation and Disclosure

To understand the "…amount, timing, and uncertainty of cash flows arising from leases."

A lessee will need to disclose quantitative and qualitative information about its leases, the related significant judgments made in measuring leases and the amounts recognized in the financial statements.

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Leases
Lessee's Presentation in the Statement of Financial Position

ASC 842-20-45-1

A lessee shall either present in the statement of financial position or disclose in the notes all of the following:

a. Finance lease right-of-use assets and operating lease right-of-use assets separately from each other and from other assets

b. Finance lease liabilities and operating lease liabilities separately from each other and from other liabilities.

Right-of-use assets and lease liabilities should be classified as current and noncurrent in classified statements of financial position.

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Leases
Lessee's Presentation in the Statement of Comprehensive Income

ASC 842-20-45-4

In the statement of comprehensive income, a lessee shall present both of the following:

a. Finance lease cost, segregated between the amortization of the right-of-use assets and interest on the lease liabilities.

b. For operating leases, lease expense shall be disclosed and included in the lessee's income from continuing operations.

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Leases
Lessee's Disclosures

ASC 842-20-50-3 A lessee shall include the following information in the disclosures:

1. A general description of the leases.
2. The terms and conditions on which variable lease payments are determined.
3. The terms and conditions of purchase options and options to extend or terminate the lease.
4. The existence and terms and conditions of residual value guarantees provided by the lessee.
5. Significant judgements – whether a contract contains a lease, standalone prices for leases and nonlease components, the discount rate.

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Leases
Lessee's Disclosures

ASC 842-20-50-3 A lessee shall include the following information in the disclosures (continued):

6. Variable lease cost
7. The restrictions or covenants imposed by leases (for example, those relating to dividends or incurring additional financial obligations).
8. A lessee should also disclose a maturity analysis of its finance lease and operating lease liabilities

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Leases
Lessor's Disclosures

- Information about the nature of its leases, including:
  - A general description of those leases
  - The terms and conditions on which variable lease payments are determined, and termination, renewal and purchase options
- Information about significant assumptions and judgments including:
  - The determination of whether a contract contains a lease
  - The allocation of the consideration in a contract between lease and nonlease components
  - The determination of the amount the lessor expects to derive from the underlying asset following the end of the lease term.
- Information about how the lessor manages its risk associated with the residual value of its leased assets (carrying amount of residual assets covered by residual value guarantees, buyback agreements or variable lease payments for use in excess of specified limits).

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Certain FASB Accounting Standards Updates

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FASB ASU No.	Title	Effective Date	Main Provision
2015-11	Inventory: Simplifying the Measurement of Inventory	Fiscal years beginning after 12/15/2016.	(Scope -All entities using FIFO or average cost) Inventory should be measured at the lower of cost or net realizable value (used to be market value). NRV is estimated selling costs less reasonable predictive costs of completion, disposal and transportation
2015-17	Income Taxes: Balance Sheet Classification of Deferred Taxes	Public – FY beginning after 12/15/16 Other – FY beginning after 12/15/17	All deferred tax assets and liabilities will be noncurrent in a classified balance sheet and continue to be offset as already required.
2016-07	Investments – Equity Method and Joint Ventures: Simplifying the Transition to the Equity Method of Accounting	FY beginning after 12/15/16	Removes the requirement to retroactively apply the equity method of accounting when the investment qualifies for use of the equity method as a result of an increase in ownership or influence
2016-18	Statement of Cash Flows: Restricted Cash	Public – FY beginning after 12/15/17 Other – FY beginning after 12/15/18	Restricted cash and cash equivalents should be considered as part of unrestricted cash and cash equivalents – transfers should not be classified in any of the three SOCF categories.

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FASB ASU No.	Title	Effective Date	Main Provision
2016-15	Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments	Public – FY beginning after 12/15/17 Other – FY beginning after 12/15/18	Eight specific cash flow items addressed for classification: 1. Debt payment or debt extinguishment-financing activity 2. Settlement of zero-coupon debt instruments- accreted interest as operating; principle as financing 3. Contingent consideration after a business combination – soon after acquisition are investing; not soon after as operating and financing (up to liability) 4. Proceeds from insurance claim – based on the nature of loss 5. Proceeds from corporate owned life insurance policies – investing 6. Distributions received from equity method investees – 2 approaches, cumulative approach and nature of distribution, entity needs to elect 7. Beneficial Interests in Securitization Transactions – subsequent cash receipts from payments on a beneficial interest in securitized trade receivables are investing 8. Separately identifiable cash flows and application of predominance principle – apply GAAP first, then by source of underlying cash flow, then activity likely to be the predominate source or use.

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FASB ASU No.	Title	Effective Date	Main Provision
2017-04	Intangibles – Goodwill and Other: Simplifying the Test for Goodwill Impairment	Public, US Filer FY beginning after 12/15/19 Public, not US filer FY beginning after 12/15/2020 Other – FY beginning after 12/15/2021	Scope: Affects public entities and those that have not adopted the private company alternative for subsequent measurement of goodwill Principle change – eliminate step 2 from goodwill impairment test. If carrying value of the reporting unit exceeds its fair value an impairment charge is recognized but the loss cannot exceed the total goodwill of the reporting unit.
2017-01	Clarifying the Definition of a Business	Public – FY beginning after 12/15/17 Other – FY beginning after 12/15/18	Affects reporting entities that must determine whether they have acquired or sold a business. In ASC 805 there are three elements of a business – inputs, processes, outputs. This update provides an additional step in the evaluation process to determine when a set (inputs & processes) is not a business. When substantially all of the fair value of the set of gross assets acquired/disposed of is concentrated in a single identifiable asset or group of similar identifiable assets the set is not a business. If this is not met, to be a business the set must include an input and substantive process that together significantly contribute to the ability to create an output.

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FASB ASU No.	Title	Effective Date	Main Provision
2016-14	Not for Profit Entities	Fiscal years beginning on or after 12/15/17	• Change two classes of net assets – with donor restrictions and without donor restrictions. Formerly three classes • SOCF – direct or indirect method but no longer required to present indirect method (reconciliation) • Assets to be used to acquire or construct long lived assets – in the absence of donor restrictions used placed in service approach for reporting expiration of restrictions • Enhanced disclosure for liquidity, endowments and underwater endowments.

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Certain New SAS's

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SAS No. 132 *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*

- Issued by the ASB in February 2017
- AU Section 570
- Primary objective – consider the accounting provisions of FASB's standards issued in 2014 and GASB standard for state & local Governments
- Effective – periods ending on or after December 15, 2017 and reviews of interim periods beginning after fiscal years ending on or after December 15, 2017
- SAS No. 132 clarifies that the auditor must make a separate determination and conclusion with respect to:
  - Management's use of the going concern basis of accounting in the financial statements.
  - Whether based on audit evidence there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time.

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Key Provisions of FASB ASC 205-40 Presentation of Financial Statements— Going Concern

a. Substantial doubt about an entity's ability to continue as a going concern exists when conditions and events, considered in the aggregate, indicate that it is **probable that the entity will be unable to meet its obligations as they become due** within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable).

b. The entity's management should evaluate at every reporting period whether there is substantial doubt about an entity's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

c. The mitigating effect of management's plans should be considered in determining whether the substantial doubt is alleviated only to the extent that it is probable that the plans will be effectively implemented and will mitigate the relevant conditions or events that raised the substantial doubt.

d. Substantial doubt **is alleviated** as a result of considering management's plans – disclosures should include the conditions or events that raised substantial doubt; management's evaluation of the significance of those conditions or events; and management's plans.

e. Substantial doubt is **NOT alleviated** as a result of considering management's plans – disclose that there is substantial doubt about the entity's ability to continue as a going concern and those disclosures in d. above.

f. Effective for annual periods ending after December 15, 2016

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SAS No. 132 *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*

Special Purpose Framework

Under SAS 132, even if there are no specific requirements under a special purpose framework for management to evaluate whether the entity may continue as a going concern, the auditor must conclude whether there is substantial doubt about the entities ability to continue as a going concern and evaluate the financial statement effects.

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SAS No. 132 *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*

Auditors Consideration of conditions or events

- During Risk assessment, consider whether there are conditions or events that raise substantial doubt
  - Inquire whether management has made a preliminary evaluation of such conditions and events
    - Yes – discuss conditions and events and plans to address them
    - No – discuss basis for going concern basis and whether conditions and events exist
- Remain alert throughout audit for conditions and events
- Inquire of management regarding knowledge of such conditions and events for the period beyond management's evaluation

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SAS No. 132 *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*

If conditions and events are identified – additional audit procedures:

- Request management to make an evaluation if it has not yet
- Evaluate management's plans with regard to whether it's probable that:
  - Management's plans can be effectively implemented
  - Would the plans mitigate the conditions and events that gave substantial doubt about the entities ability to continue as a going concern for a reasonable period of time
- Consider additional facts and information available since management made its evaluation

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SAS No. 132 *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*

If management's plans include support from a third-party or an owner-manager, the auditor should obtain supporting evidence about:

- The intent to provide the support including written evidence of such intent
- The ability to provide the necessary financial support

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SAS No. 132 *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*

- Auditor's report:
  - If substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time remains - separate paragraph with heading "Substantial Doubt About the Entity's Ability to Continue as a Going Concern".
  - Use of the going concern basis is not appropriate – adverse opinion
  - Inadequate disclosure – qualified or adverse report as appropriate
- Communication with those charged with governance
  - Whether conditions and events raise substantial doubt
  - Auditor's consideration of management's plans
  - Is use of going concern basis appropriate
  - Are disclosures adequate
  - Implications for auditor's report

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SAS No. 133 *Auditor Involvement with Exempt Offering Documents*

- ASB issued SAS No. 133 in July 2017
- AU Section 945
- Effective date - Exempt offering documents the auditor is involved with that are initially distributed, circulated or submitted on or after June 15, 2018.
- Exempt offerings –
  - Securities are exempt from registration under the Securities Act of 1933
  - Franchise offering regulated by the FTC or applicable state franchise laws
  - Auditor's involvement is not required

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SAS No. 133 *Auditor Involvement with Exempt Offering Documents*

- Applicability of SAS No. 133 - Auditor is involved, if…
  - Audit or review report is included or incorporated by reference in the offering document
  - The auditor performs one or more of the following:
    - Assisting in preparation of the offering document
    - Reading drafts of the offering document at the entity's request
    - Comfort letters or similar letters on information in the offering document
    - Participating in due diligence discussions with placement agents, broker-dealers or others
    - Issuing a practitioner's attestation report on information related to the offering
    - Written agreement to use the report in the document
    - Updating the report for inclusion in the document

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SAS No. 133 *Auditor Involvement with Exempt Offering Documents*

- Auditor responsibility if involved –
  - Perform procedures to:
    - Ensure information in the offering document is not materially inconsistent with the audited financial statements (see Section 720 *Other Information in Documents Containing Audited Financial Statements*)
    - Identify events occurring between the date of the auditor's report and the date of distribution, circulation or submission of the exempt offering document that had they been known to the auditor would have resulted in a modification of the audit report.
  - Ensure the auditor's role is not described in the exempt offering document in a way that indicates greater responsibility than intended.

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Proposed SAS - Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA

- If released, it would change:
  - Form and content of the auditor's report on an ERISA plan financial statement.
  - Some performance requirements to provide a basis for the new report language.
  - Replace AU-C section 700 for audits of ERISA financial statements
- When issued, this SAS is expected to be effective no earlier than for audits of financial statements for periods ending on or after December 15, 2020.

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Proposed SAS - Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA

- New engagement acceptance requirements
- Additional procedures to support a limited scope opinion
- Additional management representations

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Proposed SAS - Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA

- New performance requirements:
  - Must be performed irrespective of the risk of material misstatement
  - Ensuring compliance with regulations and plan documents (distributions, allocations, benefits, vesting, forfeitures)
  - Compensation testing
  - Plan contributions
  - Prohibited transactions
  - IRC Compliance testing

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Proposed SAS - Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA

Limited Scope Engagements

- New form of opinion – better explain auditor's responsibilities
- Required audit procedures
  - Evaluate whether the form and content of the FS disclosures relating to the information certified are in accordance with the applicable financial reporting framework
  - Evaluate management's assessment of whether the entity issuing the certification is a qualified institution under DOL rules and regulations

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Proposed SAS - Auditor Reporting and Proposed Amendments—Addressing Disclosures in the Audit of Financial Statements

- Modifications to the Opinion in the Independent Auditor's Report
  - Opinion presented first,
  - Include an affirmative statement about the auditors independence,
  - Changes to AU-C 570, going concern language – see above
  - The description of management's responsibilities expanded and would include identity of those responsible for oversight of the financial reporting process
  - Increased description of the auditors responsibilities on an audit

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Proposed Statements on Auditing Standards, Auditor Reporting and Proposed Amendments—Addressing Disclosures in the Audit of Financial Statements

- Communicating Key Audit Matters in the Independent Auditor's Report –
  - Converge with IAASB.
  - Include most significant of the matters communicated to those charged with governance in the auditors report.
  - Not required for nonissuers unless done as part of the terms of the engagement.
- Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report
  - Clarifies the relationship between emphasis of a matter paragraph and the communication of KAM in the report
  - Going concern – paragraph in audit report "Substantial doubt about the Entity's Ability to Continue as a Going Concern" rather than an emphasis of a matter paragraph

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Proposed Statements on Auditing Standards, Auditor Reporting and Proposed Amendments—Addressing Disclosures in the Audit of Financial Statements

- Amendment to AU-C section 260, communications with those charged with governance
  - Require auditors to communicate significant risks identified as part of the required communications of the planned scope and timing of the audit.
  - Auditor must communicate circumstances that affect the form and content of the auditor's report

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Proposed Statements on Auditing Standards - The Auditor's Responsibility relating to Other Information in Annual Reports

- Supersedes AU-C section 720 – *Other information in Documents Containing Audited Financial Statements*
  - The auditor must still read the other information in the annual report for material inconsistencies with the financial statements and the auditor's knowledge obtained in the audit
  - The auditor must determine through discussions with management and management's written acknowledgement, the documents that make up the annual report.
  - The auditor is required to include a separate section in the audit report with an appropriate heading when the auditor has obtained some or all of the other information to express no opinion on it and responsibility in reading that information.

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