A&A Update Fall 2018

- The objective of this course is to provide and update on the accounting and reporting standards promulgated by the FASB for the 2017 and 2018 calendars Years. We will address some topics more in depth than others with emphasis hopefully on topics more relevant to your practices.

A&A Update Fall 2018

- This A&A Update has been developed by Clarence Coleman CPA.
- Dr Coleman is an Emeritus professor of Accounting from Winthrop University and has devoted over 25 years to preparing new entrant for the profession.

A&A Update Fall 2018

- The information in this presentation has be taken primarily form FASB pronouncements, Accounting Standards codifications, and some explanatory presentations by leading Accounting Practitioners

FASB & IASB

- **The FASB was created in 1973.**
- The **FASB** derives its authority to set accounting standards from the U.S. Securities and Exchange Commission (SEC). ... **The mission of the FASB is to establish and improve financial accounting and reporting standards to provide decision-useful information to investors and other users of financial reports**

FASB & IASB

- **THE IASC was created in 1973**
- **In 2002 The IASB was established.**
- The International Accounting Standards Board (**IASB**) is an independent, private-sector body that develops and approves International Financial Reporting Standards (IFRSs). The **IASB** operates under the oversight of the IFRS Foundation.

FASB & IASB

- Principles based Accounting?
- Rules based Accounting?
- Adoption of IFRS for US companies;
- Harmonization ~ 2002
- Convergence
- https://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156304264

FASB & IASB

Purpose of Convergence:

- Fair Presentation
- Comparability of financial reporting
- Some cost saving due to convergence

QUALITIES OF USEFUL INFORMATION

According to the FASB, useful information should possess two fundamental qualities, **relevance** and **faithful representation**.

- **Faithful Representation** means that information accurately depicts what really happened (validity). To provide a faithful representation, information must be **complete** (nothing important has been omitted), **neutral** (is not biased toward one position or another), and **free from error**. Accuracy

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FASB 2017

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- ASU 02 NFP Consolidations
- ASU 03 Accounting Changes , Equity Method
- ASU 04 Intangibles and Goodwill
- ASU 05 Derecognition of Financial Assets; Gains & Losses
- ASU 06 Benefit Plans – Master Trust
- ASU 08 Receivables- Non Refundable Fees

FASB 2017

- ASU 09 Compensation - Stock Plans
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FASB 2018

- **ASU 02 Income Statement Comprehensive Income**
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- **ASU 06 Financial Services --- Depository and Lending**
- **ASU 08 Not for profit Entities – Contributions**
- **ASU 09,10, 11 Leases**
- **ASU 13 Fair Value --- Disclosure**
- **ASU 15 Cloud Computing Arrangements**

Business Combinations Topic 805

- The Board is issuing the amendments in this Update to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many ofaccounting including acquisitions, disposals, goodwill, and consolidation.

Business Combinations Topic 805

- Under the current implementation guidance in Topic 805, there are three elements of a business—inputs, processes, and outputs. While an integrated set of assets and activities (collectively referred to as a "set") that is a business usually has outputs, outputs are not required to be present. In addition, all the inputs and processes that a seller uses in operating a set are not required if market participants can acquire the set and continue to produce outputs, ple, by integrating the acquired set with their own inputs and processes.

Business Combinations Topic 805

- **805-10-55-5A** If substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable identifiable assets, or group of similar identifiable assets, the set is not considered a business
- Gross assets acquired should exclude cash and cash equivalents, deferred tax assets and good will resulting from the effects of deferred tax liabilities.

NFP Consolidation

- Clarifying When a Not-for-Profit Entity That Is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity

NFP Consolidation

- The FASB issued guidance that a NFP general partner of a for profit limited partnership is presumed to control the entity unless that presumption is overcome.
- The presumption was eliminated in ASU 215-02.
- See page 18 of pronouncement for flow chart guidance as to consolidation.

ASU 2017 -04 Intangibles - Goodwill

- To simplify the subsequent measurement of goodwill, the Board eliminated Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination.

ASU 2017 -04 Intangibles - Goodwill

- Under the amendments in this Update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value;

ASU 2017 -04 Intangibles - Goodwill

- the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable.

- See Page 29 of ASU 2017-04 for flow chart guidance

ASU 2017-06 Plan Accounting

- Plan Accounting:
- Defined Benefit Pension Plans (Topic 960)
- Defined Contribution Pension Plans (Topic 962) Health and Welfare Benefit Plans (Topic 965)

- Employee Benefit Plan Master Trust Reporting

ASU 2017-06 Plan Accounting

- This Update relates primarily to the reporting by an employee benefit plan (a plan) for its interest in a master trust. A master trust is a trust for which a regulated financial institution (bank, trust company, or similar financial institution that is regulated, supervised, and subject to periodic examination by a state or federal agency) serves as a trustee or custodian and in one plan sponsored by a single employer or by a group employers under common control are held.

ASU 2017 -06 Plan Accounting

- Many stakeholders find the master trust disclosure requirements in generally accepted accounting principles (GAAP) to be limited and incomplete partticularly relating to disclosures of the plan's interest in the master trust.
- The amendments in this Update clarify presentation requirements for a plan's interest in a master trust disclosures of the plan's interest in the master trust.

ASU 2017-06 Plan Accounting

- For each master trust in which a plan holds an interest, the amendments in this Update require a plan's interest in that master trust and any change in that interest to be presented in separate line items in the statement of net assets available for benefits and in the statement of changes in net assets available for benefits, respectively.

ASU -2017-06 Plan Accounting

- The amendments in this Update require all plans to disclose (1) their master trust's other asset and liability balances and (2) the dollar amount of the plan's interest in each of those balances.
- The amendments in this Update remove the requirement to disclose the percentage interest in the master trust for plans with divided interests and require that all plans disclose the dollar amount of their interest in each of those general types of investments

ASU 2017-06 Plan Accounting

- **When Will the Amendments Be Effective?**
  - The amendments in this Update are effective for fiscal years beginning after December 15, 2018. Early adoption is permitted.
  - An entity should apply the amendments in this Update retrospectively to each period for which financial statements are presented

ASU 2017-06 Plan Accounting

- Example

	Master Trust Balances	Plan's Interest in Master Trust Balances
Mutual funds	$ 13,560,000	$ 6,816,800
Common stocks	2,245,000	1,638,200
U.S. government securities	575,000	-
Corporate bonds	327,500	-
Total investments at fair value	16,707,500	8,455,000
Plus:		
Due from broker for securities sold	225,000	100,000
Accrued interest and dividends	125,000	50,000
Less:		
Due to broker for securities purchased	(95,000)	(50,000)
Accrued expenses	(30,000)	(15,000)
Total	$ 16,932,500	$ 8,540,000

ASU 2017-07 Compensation Retirement Benefits

- The Board is issuing this Update primarily to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost
- Under generally accepted accounting principles (GAAP), defined benefit pension cost and postretirement benefit cost (net benefit cost) comprise several components that reflect different aspects of an employer's financial arrangements as well as the cost of benefits provided to employees. Those components are aggregated for reporting in the financial statements.

ASU 2017-07 Compensation Retirement Benefits

- The amendments in this Update require that an employer report the service cost component in the same line item or items as other compensation costs a from services rendered by the pertinent employees during the period.
- The amendments in this Update require that an employer disaggregate the service cost component from the other components of net benefit cost. The amendments also provide explicit guidance on how to present the service cost component of net benefits cost in the income statement

ASU 2017-07 Compensation Retirement Benefits

Components of Net Periodic Benefit Cost and Other Amounts Recognized in Other Comprehensive Income				
	Pension Benefits		Other Benefits	
Net Periodic Benefit Cost	**20X3**	**20X2**	**20X3**	**20X2**
Service cost	$ 76	$ 72	$ 36	$ 32
Interest cost	90	88	55	55
Expected return on plan assets	(85)	(76)	(17)	(8)
Amortization of prior service cost	20	16	(5)	(5)
Amortization of net (gain) loss	-	-	-	-
Net periodic benefit cost	$ 101	$ 100	$ 69	$ 74
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income				
Net loss (gain)	$ 76	($ 112)	$ 37	($ 16)
Prior service cost (credit)	70	-	(75)	-
Amortization of prior service cost	(20)	(16)	5	5
Total recognized in other comprehensive income	126	(128)	(33)	(11)
Total recognized in net periodic benefit cost and other comprehensive income	$ 227	($ 28)	$ 36	$ 63
Components of Net Periodic Benefit Cost and Other Amounts Recognized in Other Comprehensive Income				

ASU 2017-07 Compensation Retirement Benefits

- The amendments in this Update are effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those annual periods. For other entities, the amendments in this Update are effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019.

ASU 2017-08 Receivables- Non-refundable Fees

- Under current generally accepted accounting principles (GAAP), entities generally amortize the premium as an adjustment of yield over the contractual life of the instrument.
- This Update to amend the amortization period for certain purchased callable debt securities held at a premium. The Board is shortening the amortization period for the premium to the earliest call date

ASU 2017-08 Receivables- Non-refundable Fees

- Current GAAP excludes certain callable debt securities from consideration of early repayment of principal even if the holder is certain that the call will be exercised
- As a result, upon the exercise of a call on a callable debt security held at a premium, the unamortized premium is recorded as a loss in earnings.

ASU 2017-08 Receivables- Non-refundable Fees

- The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity.
- this Update will provide more decision-useful information because it better aligns the amortization period of premiums and discounts to expectations incorporated in market pricing on the underlying securities.

ASU 2017-08 Receivables- Non-refundable Fees

- For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other entities, the amendments are effective for fiscal years beginning after December 15, iscal years beginning after December 15, 2020.

ASU 2017-09 Compensation Stock Plans

- Topic 718-20-35-3
- A **modification** of the terms or conditions of an equity award shall be treated as an exchange of the original award for a new award. In substance, the entity repurchases the original instrument by issuing a new instrument of equal or greater value, incurring additional compensation cost for any incremental value

ASU 2017-09 Compensation Stock Plans

- An entity should account for the effect of modification unless all the following are met:
- 1.The fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the original award immediately before the original award is modified
- 2. The vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified.

ASU 2017-09 Compensation Stock Plans

- An entity should account for the effect of modification unless all the following are met:
- 3. The classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified

ASU 2017-09 Compensation Stock Plans

- An entity that modifies an award under Topic 718 is generally required to calculate and recognize the incremental fair value of the modified award as compensation cost on the date of modification (for a vested award) or over the remaining service period (for an unvested award).

ASU 2017-09 Compensation Stock Plans

- Examples of changes to an award that generally do not require modification accounting include the following:
- a. Changes that are administrative in nature, such as a change to the company name, company address, or plan name
- b. Changes in an award's net settlement provisions related to tax withholdings that do not affect the classification of the award.

ASU 2017-09 Compensation Stock Plans

- Examples of changes to an award that generally require modification Accounting (718-20-35-3 through 35-9) include the following:
- Repricing of share options that results in a change in value of those share options
- Changes in a service condition
- Changes in a performance condition or a market condition
- Changes in an award that result in a reclassification of the award (equity to liability or vice versa
- Adding an involuntary termination provision in anticipation of a sale of a business unit that accelerates vesting of the award.

ASU 2017-11 EPS, Liability vs Equity , Derivative

- Current accounting guidance requires changes in fair value of an instrument with a down round feature to be recognized in earnings for both increases and decreases in share price, even though an increase in share price will not cause a down round feature to be triggered and a decrease will cause an adjustment to the strike price only if and when an entity engages in a subsequent equity offering.
- Update addresses the complexity of accounting for certain financial instruments with down round features

ASU 2017-11 EPS, Liability vs Equity , Derivative

- A **Down Round** is a feature in a **financial instrument** that reduces the strike price of an issued financial instrument **if** the issuer sells shares of **its stock** for an amount less than the currently stated strike price of the issued financial instrument or issues an equity-linked financial instrument with a strike price below the currently stated strike price of the issued financial instrument.

ASU 2017-11 EPS, Liability vs Equity , Derivative

- A freestanding equity-linked financial instrument (or embedded conversion option) no longer would be accounted for as a **derivative liability at fair value** as a result of the existence of a down round feature. For freestanding equity classified financial instruments, this amendments require entities that present earnings per share (EPS) in accordance with Topic 260 to recognize the effect of the down round feature when it is triggered.

ASU 2017-11 EPS, Liability vs Equity , Derivative

- An entity that presents **earnings per share** (EPS) in accordance with this Topic (260-10-25-1) shall recognize the value of the effect of a **down round feature** in an equity-classified freestanding **financial instrument** (that is, instruments that are not convertible instruments) when the down round feature is triggered. That effect shall be treated as a dividend and as a reduction of income available to common stockholders in **basic earnings per share**, in accordance with the guidance in paragraph 260-10-45-12B.

ASU 2018-02 Income Statement Comprehensive Income

- On December 22, 2017, the U.S. federal government enacted a tax bill, H.R.1, An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018 (Tax Cuts and Jobs Act). Stakeholders in the banking and insurance industries submitted unsolicited comment letters to the FASB about a narrow-scope financial reporting issue that arose as a consequence of the Tax Cuts and Jobs Act.

ASU 2018-02 Income Statement Comprehensive Income

- Topic 740, Income Taxes, that requires deferred tax liabilities and assets to be adjusted for the affect of change in tax laws or rates **with the effect included in income from continuing operations in the reporting period that includes the enactment date**. That guidance is applicable even in situations in which the related income tax effects of items in accumulated other comprehensive income were originally charged or credited directly to other comprehensive income or to related components of shareholders' equity, as required by GAAP

ASU 2018-02 Income Statement Comprehensive Income

- Stakeholders asserted that because the adjustment of deferred taxes due to the reduction of the historical corporate income tax rate to the newly enacted corporate income tax rate is required to be included in income from continuing operations, the tax effects of items within accumulated other comprehensive income (**referred to as stranded tax effects for purposes of this Update**) do not reflect the appropriate tax rate

ASU 2018-02 Income Statement Comprehensive Income

- The amendments in this Update allow a reclassification from accumulated other comprehensive income to retained earnings **for stranded tax effects resulting from the Tax Cuts and Jobs Act**. Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act

ASU 2018-02 Income Statement Comprehensive Income

- When Will the Amendments Be Effective?
  - The amendments in this Update are effective for **all entities** for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years.

ASU 2018-05 Income Tax Topics

- Amendments Pursuant to SEC Staff Accounting Bulletin (SAB) No. 118
- Provides guidance to public entities regarding accounting, reporting and disclosures as a result of the Tax Cut and Jobs Act.

ASU 2018-05 Income Tax Topics

- Tax Cut and Jobs Act
  - Rates from 15% to 35% to flat 21% for corporate taxpayers
  - NOL indefinite carry forward, limited to 80% of income. Two year carry back eliminated
  - Taxes on earning of foreign subsidiaries normally deferred until repatriated, then a foreign tax credit was allowed. The un-repatriated earnings (post 1986) of a 10% foreign subsidiary will be included in the US company Taxable income.
  - Earnings are deemed repatriated

ASU 2018-05 Income Tax Topics Topic 740

- Amendments Pursuant to SEC Staff Accounting Bulletin (SAB) No. 118
- Provides guidance to public entities regarding accounting, reporting and disclosures as a result of the Tax Cut and Jobs Act.

ASU 2018-05 Income Tax Topics

- **SAB** -The guidance in ASC Topic 740 does not however, address certain circumstances that may arise for registrants in accounting for the income tax effects of the Act. The staff understands from outreach that registrants will potentially encounter a situation in which the accounting for certain income tax effects of the Act will be incomplete by the time financial statements are issued for the reporting period that includes the enactment date of December 22, 2017.
- Questions have arisen regarding different approaches to the application of the accounting and disclosure guidance in ASC Topic 740 to such a situation

ASU 2018-05 Income Tax Topics

- The staff Accounting essentially provides guidance on some item of uncertainty and incomplete transaction related to the tax act at the end of the registrant reporting year.
- Good examples in the Update provides guidance regarding earning repatriation and interpretive responses on disclosures

ASU 2018-08 Not-For-Profit Entities Topic 958

- Distinguishing between contributions and exchange transactions determines which guidance is applied.
- For contributions, an entity should follow the guidance in Subtopic 958-605,
- For exchange transactions, an entity should follow other guidance (for example, Topic 606, Revenue from Contracts with Customers).

ASU 2018-08 Not-For-Profit Entities Topic 958

- This Update require that an entity determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets
- The presence of both a barrier and a right of return or a right of release indicates that a recipient is not entitled to the transferred assets or a future transfer of assets until it has overcome the barrier(s) in the agreement

ASU 2018-08 Not-For-Profit Entities Topic 958

- **Contribution:**
- An unconditional transfer of cash or other assets, as well as **unconditional promises to give,** to an entity or a reduction, settlement, or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner
- A Conditional promise is subject to a **donor-imposed condition**

ASU 2018-08 Not-For-Profit Entities Topic 958

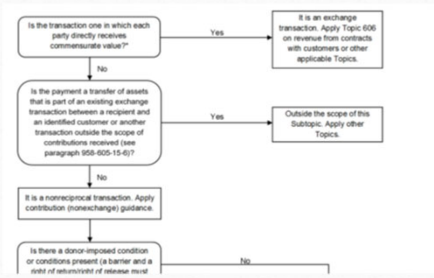
- **958-605-25-5A** A donor-imposed condition **must have both**:
- a. One or more barriers that must be overcome before a recipient is entitled to the assets transferred or promised
- b. A right of return to the contributor for assets transferred (or for a reduction, settlement, or cancellation of liabilities) or a right of release of the promisor from its obligation to transfer assets (or reduce, settle, or cancel liabilities).

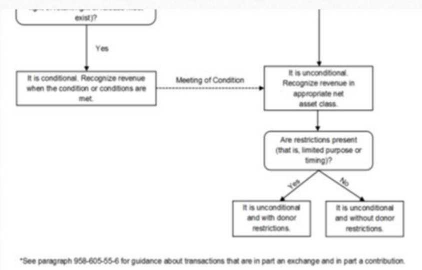
ASU 2018-08 Not-For-Profit Entities Topic 958

- These are not contributions:
- A. Exchange transactions are reciprocal transfers in which each party receives and sacrifices approximately commensurate value.
- B. Investments by owners and distributions to owners, which are nonreciprocal transfers between an entity and its owners.
- C. Other nonreciprocal transfers, such as impositions of taxes or legal judgments, fines, and thefts, which are not voluntary transfers.

ASU 2018-08 Not-For-Profit Entities Topic 958

- In cases of ambiguous donor stipulations, a contribution containing stipulations that are not clearly unconditional shall be presumed to be a **conditional contribution. 958-605-25-5E.**
- **958-605-25-5D. Good examples of barrier stipulations**





ASU 2018-08 Not-For-Profit Entities Topic 958

- **Contributions** received shall be **recognized as revenues or gains** in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. The classification of contributions received as revenues or gains depends on whether the transactions are part of the NFP's ongoing major or **central activities (revenues)**, or are peripheral or incidental to the NFP (gains).

ASU 2018-13 Fair Value Disclosure –Topic 820

- U.S. Generally Accepted Accounting Principles (**GAAP**) **define fair value** as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
- FAS 115 >>>>FAS157>>>>>>Topic 820

ASU 2018-13 Fair Value Disclosure –Topic 820

- 1. Level 1 Market Approach – Prices generated by market transactions
  - Inputs = observable quoted market prices in active market
- 2. Level 2 Income approach valuation methodology to determine present value based on future cash flows/earnings and market conditions.
  - Inputs quoted market prices of similar asset/liabilities. Markets not active. Other inputs might include interest rate.
- 3. Level 3 Cost Approach – Current replacement cost
  - Unobservable inputs for assets and liabilities

ASU 2018-13 Fair Value Disclosure –Topic 820

- **820-10-55-101** For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, this Topic requires a reconciliation from the opening balances to the closing balances for each class of assets and liabilities, except for derivative assets and liabilities, which may be presented net.

ASU 2018-13 Fair Value Disclosure –Topic 820

- The following disclosure requirements were removed from Topic 820:
- 1. The amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy
- 2. The policy for timing of transfers between levels
- 3. The valuation processes for Level 3 fair value measurements
- 4. For nonpublic entities, the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period

ASU 2018-13 Fair Value Disclosure –Topic 820

- The following disclosures requirements were added for public companies:
- 1 The changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period
- 2 The range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements.

ASU 2018-15 Intangibles Goodwill- Internal Use Software Subtopic 350-40

- If a cloud computing arrangement includes a license to internal-use software, this generally means that an intangible asset is recognized for the software license and, to the extent that the payments attributable to the software license are made over time, a liability also is recognized.

ASU 2018-15 Intangibles Goodwill- Internal Use Software Subtopic 350-40

- If a cloud computing arrangement does not include a software license, the entity should account for the arrangement as a service contract. This generally means that the fees associated with the hosting element (service) of the arrangement are expensed as incurred

ASU 2018-15 Intangibles Goodwill- Internal Use Software Subtopic 350-40

- Costs to develop or obtain internal-use software that cannot be capitalized under Subtopic 350-40, such as training costs and certain data conversion costs, also cannot be capitalized for a hosting arrangement that is a service contract.
- .

ASU 2018-15 Intangibles Goodwill- Internal Use Software Subtopic 350-40

- Costs for implementation activities in the application development stage are capitalized depending on the nature of the costs, while costs incurred during the preliminary project and postimplementation stages are expensed as the activities are performed

ASU 2018-15 Intangibles Goodwill- Internal Use Software Subtopic 350-40

- The amendments in this Update also require the entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement.
- Terms of the hosting arrangement are affected by options to extend/terminate by vendor or customer are discussed in Update

ASU 2018-15 Intangibles Goodwill- Internal Use Software Subtopic 350-40

- The amendments in this Update also require the entity to present the expense related to the capitalized implementation costs in the same line item in the statement of income as the fees associated with the hosting element (service) of the arrangement
- and classify payments for capitalized implementation costs in the statement of cash flows in the same manner as payments made for fees associated with the hosting element.

ASU 2018-15 Intangibles Goodwill- Internal Use Software Subtopic 350-40

- The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for annual reporting periods beginning after December 15, 2020.

AA Update Fall 2018