

Welcome

ACM/BDO Year-End Update

Accounting & FASB Update

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Topics

- **FASB Update**
 - Final ASUs issued in 2016
- **FASB Update**
 - Previously issued ASUs effective for 2016
- **Questions**

Wait, What About Revenue!?!

ASU 2014-09 Revenue from Contracts with Customers

■ Effective

- Annual periods beginning after December 15, 2017 (public companies)
- Annual periods beginning after December 15, 2018 (private companies)
- Early adoption not permitted

■ Summary

- Five Step Process
 - 1) Identify the contract(s) with that customer
 - 2) Identify the performance obligations in the contract (transfer of good or service)
 - 3) Determine the transaction price
 - 4) Allocate the transaction price to the performance obligations
 - 5) Recognize revenue when a performance obligation is satisfied

■ Industry CPEs to be provided

ASU 2014-09 Revenue from Contracts with Customers

- Transition
 - Two methods for application:
 - 1) Retrospectively to each prior reporting period presented
 - 2) Retrospectively with the cumulative effect recognized at the date of application
- Other guidance
 - Additional ASUs have been released
 - ASU 2016-12 – *narrow scope improvements*
 - ASU 2016-11 – *derivatives and hedging*
 - ASU 2016-10 – *identifying performance obligations*
 - ASU 2016-08 – *gross v. net considerations*

FASB Update

Final ASUs issued in 2016

Final ASUs Issued in 2016

- 2015-17: Balance Sheet Classification of Deferred Taxes (4th Quarter 2015)**
- 2016-01: Recognition and Measurement of Financial Assets and Financial Liabilities
- 2016-02: Leases**
- 2016-03: Effective Date and Transition Guidance (PCC Initiative)**
- 2016-04: Recognition of Breakage for Certain Prepaid Stored-Value Products
- 2016-05: Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships
- 2016-06: Contingent Put and Call Options in Debt Instruments
- 2016-07: Simplifying the Transition to the Equity Method of Accounting (Simplification Initiative) **
- 2016-08: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)
- 2016-09: Improvements to Employee Share-Based Payment Accounting (Simplification Initiative) **
- 2016-10: Identifying Performance Obligations and Licensing
- 2016-11: Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting
- 2016-12: Narrow-Scope Improvements and Practical Expedients
- 2016-13: Measurement of Credit Losses on Financial Instruments
- 2016-14: Presentation of Financial Statements of Not-for-Profit Entities
- 2016-15: Classification of Certain Cash Receipts and Cash Payments
- 2016-16: Intra-Entity Transfers of Assets Other Than Inventory Accounting (Simplification Initiative)
- 2016-17: Interests Held through Related Parties That Are under Common Control **
- 2016-18: Restricted Cash

Simplification Initiative

■ What is it?

- FASB's initiative to make narrow-scope simplifications and improvements
- Issued through a number of short-term projects and issuance of new ASUs

■ Objectives

- Usefulness of information reported
- Reducing cost
- Decreasing complexity of financial reporting

ASU 2015-17 Income Taxes – Balance Sheet Classification of Deferred Taxes

- **Effective**
 - Annual periods beginning after December 15, 2016 (public companies)
 - Annual periods beginning after December 15, 2017 (private companies)
 - Early adoption permitted
- **Summary**
 - New classification of deferred taxes on the balance sheet
 - All non-current
- **Transition**
 - Prospective or retrospective application at entity's election

ASU 2015-17 Income Taxes pre-Adoption

Assets	<u>20X5</u>	Liabilities & Equity	<u>20X5</u>
<u>Current Assets</u>		<u>Current Liabilities</u>	
Cash	\$ 500	Accounts Payable	200
Accounts Receivable	1,000	Accrued Liabilities	300
Prepays	100	Total Current Liabs	500
Deferred Taxes - Current	50		
Total Current Assets	1,650	<u>Long Term Liabilities</u>	
		Notes Payable	1,500
PP&E, net	750	Deferred Taxes - Noncurrent	250
		Total LTL	1,750
<u>Long Term Assets</u>		Total Liabilities	2,250
Goodwill	250		
Intangibles	500	Shareholders' Equity	900
Total LTA	1,500		
		Total Liabilities & Equity	3,150
Total Assets	3,150		

ASU 2015-17 Income Taxes post-Adoption

Assets	<u>20X5</u>	Liabilities & Equity	<u>20X5</u>
<u>Current Assets</u>		<u>Current Liabilities</u>	
Cash	\$ 500	Accounts Payable	200
Accounts Receivable	1,000	Accrued Liabilities	300
Prepays	100	Total Current Liabs	500
Total Current Assets	1,600		
		<u>Long Term Liabilities</u>	
PP&E, net	750	Notes Payable	1,500
		Deferred Taxes - Noncurrent	200
<u>Long Term Assets</u>		Total LTL	1,700
Goodwill	250		
Intangibles	500	Total Liabilities	2,200
Total LTA	1,500		
		Shareholders' Equity	900
Total Assets	3,100	Total Liabilities & Equity	3,100

ASU 2016-02, Leases (Overview)

■ Lessees

- Right of use model – recognize ROU asset and lease liability at inception for all leases
- Classify all leases as finance or operating
 - Finance lease – lessee effectively obtains control of underlying asset
 - Operating lease – lessee does not effectively obtain control of underlying asset
- Similar balance sheet impact; different income statement and cash flow results

■ Lessors

- Classify all leases as sales-type, direct finance, or operating (similar to existing U.S. GAAP) based on same criteria as lessees
- Subsequent accounting is consistent with existing U.S. GAAP

ASU 2016-02, Leases (Overview)

■ Effective Date

- Annual periods beginning after December 15, 2018 (public companies)
- Annual periods beginning after December 15, 2019 (private companies)
- Early adoption permitted

■ Applies to all leases and subleases, except:

- Leases of intangible assets (Topic 350)
- Leases for exploration or use of certain natural resources (Topics 930 & 932)
- Leases of biological assets (Topic 905)
- Leases of inventory (Topic 330)
- Leases of assets under construction (Topic 360)
- **Scope exception for short-term leases (term less than 12 months).
Accounting policy must be made and disclosed**

ASU 2016-02, Leases (Lessee Accounting)

■ Step 1: Identify the Lease

- A contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration

■ Step 2: Identify the Classification of the Lease (5 criteria)

- If one or more of the above are met, classify as finance lease.
 1. Transfer of ownership of underlying asset to lessee by end of lease term
 2. Option to purchase underlying asset that lessee is reasonably certain to exercise
 3. Lease term = major part of remaining economic life of underlying asset
 4. Sum of PV lease payments and PV any residual value guaranteed by lessee \geq substantially all of the FV of underlying asset
 5. Underlying asset is of such a specialized nature that it is expected to have no alternative use to lessor at end of lease term

ASU 2016-02, Leases (Lessee Accounting)

■ Step 3: Identify the Lease Term

- Estimated as the non-cancellable period of the lease
- Include periods under option to extend IF lessee is *reasonably certain* to exercise option.
Includes assessment of economic incentives

■ Step 4: Identify Lease Payments

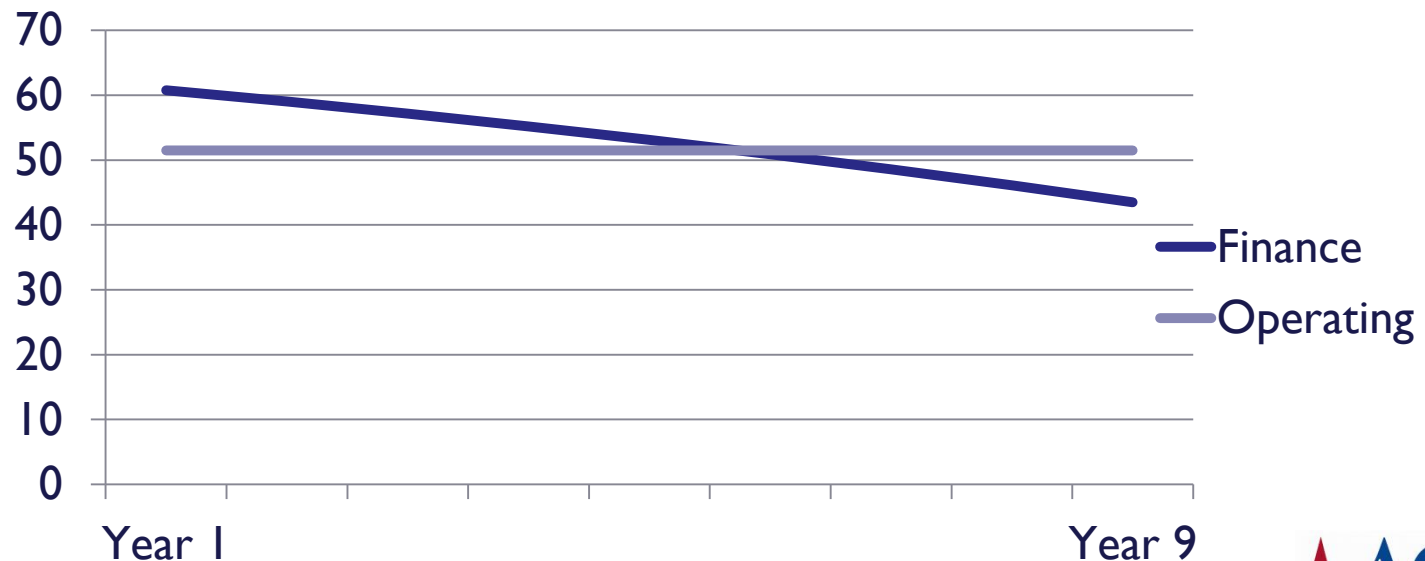
- Fixed lease payments (*less incentives to be paid by lessor*)
- Variable payments tied to an index (i.e. **CPI**). *Measurement based on the rate at commencement*
- Variable payments which are in-substance fixed payments
- Residual value guarantees (probable amount)
- Exercise price of purchase option IF lessee is *reasonably certain to exercise option*
- Termination penalties IF lease term reflects lessee exercising option
- *%Rent or Triple Net Leases???*

ASU 2016-02, Leases (Lessee Accounting)

- Initial Measurement of ROU and Lease Liability (BS)
 - Present value (PV) of lease payments.
 - Discount Rate - use the rate implicit in the lease if determinable, otherwise use incremental borrowing rate. **Nonpublic entities may elect to use risk-free rate**
 - Calculation the same for Operating and Finance Leases
- Subsequent Measurement (IS)
 - Operating Leases – Display interest on lease liability and amortization of ROU asset as “lease expense.” **Lease expense will be similar to current GAAP (i.e. straight-line)**
 - Finance Leases – Display interest on lease liability as “interest expense” and amortization of ROU asset as “amortization expense”

ASU 2016-02, Leases (Operating vs Finance)

- Total lease expense recognized over life of lease – Finance vs. Operating
- (in \$000s, approximate)



ASU 2016-03, Additional PCC Guidance

- Effective Immediately and removes effective dates of:
 - ASU 2014-02, Accounting for Goodwill,
 - Provides option to amortize Goodwill
 - ASU 2014-03, Accounting for Certain Receive- Variable, Pay Fixed Interest Rate Swaps – Simplified Hedge Accounting Approach,
 - Simplifies hedge accounting for private companies
 - ASU 2014-07, Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements,
 - Provides option to exclude from consolidation a lessor entity under common control (e.g. building and related debt)
 - ASU 2014-18, Accounting for Identifiable Intangible Assets in a Business Combination,
 - Provides option to not separately recognize and measure certain non-competition agreements and customer-related intangible assets
- Private Companies Only!

ASU 2016-07, Simplifying the Transition to the Equity Method of Accounting

■ Effective Date

- Annual periods after December 15, 2016 (public companies)
- Annual periods after December 15, 2016 (private companies)
- Early adoption permitted

■ Summary

- Eliminates requirement to retroactively adopt equity method upon initial qualification of an investment
- Instead, investor would apply equity method prospectively, with unrealized holding gains/losses through net income (if previously AFS)

■ Transition

- Prospective

ASU 2016-09, Employee Share-Based Payment Accounting

■ Effective Date

- Annual periods after December 15, 2016 (public companies)
- Annual periods after December 15, 2017 (private companies)
- Early adoption permitted

■ Summary

- Income tax effects recognized through income tax expense (no longer through APIC)
- Excess tax benefits included in operating cash flow (no longer in financing cash flow)
- Entity-level accounting policy election to estimate forfeitures or recognize forfeitures when they occur

ASU 2016-09, Improvements to Employee Share-Based Payment Accounting

■ Summary continued

- Key changes affecting only private entities:
 - Practical expedient to estimate expected term in all awards with performance and/or service conditions
 - One-time option to elect intrinsic value measurement for all liability-classified award (must be elected in the period of adoption)

■ Transition

- Transition methods vary based on specific amendment

ASU 2016-17, Interests held through Related Parties that are under Common Control

■ Effective Date

- Annual periods after December 15, 2016 (public companies)
- Annual periods after December 15, 2016 (private companies)

■ Summary

- Continuation of ASU 2015-02, *Amendments to Consolidation Analysis*
- Consolidation of legal entities under a VIE analysis
- Determination of the primary beneficiary
 - 1) Power to direct activities of a VIE
 - 2) Obligation to absorb losses or right to receive benefits
- How to treat indirect interests held through related parties under common control

ASU 2016-17, Interests held through Related Parties that are under Common Control

- Summary continued
 - New GAAP: consider proportionate impact of indirect interests
- Improvements
 - A single decision maker first focuses on the economics to which it is exposed, then evaluates which party is most closely associated with the VIE
- Transition
 - Early adoption ok
 - If have not already adopted 2015-02, must adopt both simultaneously
 - If have already adopted 2015-02, must adopt 2016-17 retrospectively

FASB Update

Previously issued ASUs effective for 2016

Previously issued ASUs effective for 2016

- 2014-10: Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service
- 2014-13: Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity
- 2014-16: Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity
- 2015-01: Extraordinary and Unusual Items (Simplification Initiative)**
- 2015-02: Amendments to the Consolidation Analysis
- 2015-03: Simplifying the Presentation of Debt Issuance Costs (Simplification Initiative)**
- 2015-05: Customer's Accounting for Fees Paid in a Cloud Computing Arrangement (Simplification Initiative)**
- 2015-06: Effects on Historical Earnings per Unit of Master Limited Partnership Dropdown Transactions
- 2015-07: Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share**
- 2015-09: Disclosures about Short-Duration Contracts
- 2015-10: Technical Corrections and Improvements
- 2015-12: Plan Accounting (Simplification Initiative)**
- 2015-15: Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements (Simplification Initiative)**
- 2015-16: Simplifying the Accounting for Measurement-Period Adjustments (Simplification Initiative)

ASU 2015-01: Simplifying Income Statement Presentation of Extraordinary Items

■ Effective Date

- Annual periods after December 15, 2015 (public companies)
- Annual periods after December 15, 2015 (private companies)

■ Summary

- Eliminates the GAAP concept of extraordinary items
- Previous: Separately classify, present and disclose anything of unusual and infrequent
- Keep: Disclosure guidance for events that are unusual or infrequent

■ Transition

- May elect prospective or retrospective approach

ASU 2015-03: Simplifying the Presentation of Debt Issuance Costs

■ Effective Date

- Annual periods after December 15, 2015 (public companies)
- Annual periods after December 15, 2015 (private companies)

■ Summary

- Debt issuance costs to be reported in the B/S as a direct deduction from the face amount of the related liability (rather than as an asset)
- Does not address debt issuance costs incurred before an associated liability is recognized (no change to current practice)
- Requires the amortization of debt issuance costs to be reported as interest expense, which we believe is largely consistent with current practice.

■ Transition

- Retrospective

ASU 2015-15: Debt Issuance Costs Related to Line-of-Credit Arrangements

■ Effective Date

- Same as ASU 2015-03

■ Summary

- SEC staff announcement: won't object when debt issuance costs related to a revolving debt arrangement (i.e. line of credit) are presented as an asset regardless of whether there is an outstanding balance on the revolving debt arrangement
- ASU codifies the SEC staff announcement

■ Transition

- Same as ASU 2015-03

Debt Issuance Costs pre-Adoption

Assets	<u>20X5</u>	Liabilities & Equity	<u>20X5</u>
<u>Current Assets</u>		<u>Current Liabilities</u>	
Cash	\$ 500	Accounts Payable	200
Accounts Receivable	1,000	Accrued Liabilities	300
Prepays	100	Line of Credit	250
Debt Issuance Costs, net	250	Total Current Liabs	750
Total Current Assets	1,850		
		<u>Long Term Liabilities</u>	
PP&E, net	750	Notes Payable	1,500
		Total LTL	1,500
<u>Long Term Assets</u>		Total Liabilities	2,250
Goodwill	250		
Intangibles	500	Shareholders' Equity	1,100
Total LTA	1,500		
		Total Liabilities & Equity	3,350
Total Assets	3,350		

Debt Issuance Costs post-Adoption

Assets	<u>20X5</u>	Liabilities & Equity	<u>20X5</u>
<u>Current Assets</u>		<u>Current Liabilities</u>	
Cash	\$ 500	Accounts Payable	200
Accounts Receivable	1,000	Accrued Liabilities	300
Prepays	100	Line of Credit	250
Debt Issuance Costs on LOC, net	50	Total Current Liabs	750
Total Current Assets	1,650		
		<u>Long Term Liabilities</u>	
PP&E, net	750	Notes Payable, net	1,300
		Total LTL	1,300
<u>Long Term Assets</u>		Total Liabilities	2,050
Goodwill	250		
Intangibles	500	Shareholders' Equity	1,100
Total LTA	1,500		
		Total Liabilities & Equity	3,150
Total Assets	3,150		

ASU 2015-05:

Customers Accounting for Fees Paid in a Cloud Computing Arrangement

■ Effective

- Annual periods after December 15, 2015 (public companies)
- Annual periods after December 15, 2015 (private companies)

■ Summary

- New explicit guidance on customer's accounting for fees paid
- Two criteria for accessing a license in a hosting arrangement
 - “Access”: Contractual right to take possession (“access”) without significant penalty
 - “Control”: Feasible to run the software on its own hardware (“use”)
- Without significant penalty
 - No significant costs incurred
 - No significant decrease in utility or value

ASU 2015-05: Customers Accounting for Fees Paid in a Cloud Computing Arrangement

- Summary (cont.)
 - Hosting arrangement meet criteria = capitalize
 - Do not meet criteria, then considered a service contract = expense
- Transition
 - Prospectively to all new or subsequently modified arrangements after the effective date; or
 - Retrospectively

ASU 2015-07: Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share

■ Effective Date

- Annual periods after December 15, 2015 (public companies)
- Annual periods after December 15, 2016 (private companies)

■ Summary

- Removes the requirement to categorize within the fair value hierarchy investments for which fair value is measured using the net asset value as a practical expedient.

■ Transition

- Retrospective

ASU 2015-07: Disclosure Example Prior To Adoption

Fair Value Measurements as of 12/31/2014

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds - growth	\$ 4,200,000	\$ -	\$ -	\$4,200,000
Partnership	-	-	10,000	10,000
PSAs – growth	-	1,500,000	-	1,500,000
Total investments, at fair value	<u>\$ 4,200,000</u>	<u>\$1,500,000</u>	<u>\$10,000</u>	<u>\$5,710,000</u>

ASU 2015-07: Disclosure Example

Post Adoption

Fair Value Measurements as of 12/31/2014

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 4,200,000	\$ -	\$ -	\$4,200,000
Partnership	-	-	10,000	10,000
Total investments at fair value	4,200,000	-	10,000	4,210,000
PSAs measured at NAV*	-	-	-	1,500,000
Total fair value of investments	<u>\$ \$4,200,000</u>	-	<u>\$10,000</u>	<u>\$5,710,000</u>

**Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented to the Statements of Nets Assets Available for Benefits.*

ASU 2015-12: Employee Benefit Plan Reporting

- Effective Date
 - Annual periods after December 15, 2015 (public companies)
 - Annual periods after December 15, 2015 (private companies)
- Summary
 - Part I – Fully Benefit Responsive Contracts. Requires fully benefit-responsive investment contracts to be measured, presented, and disclosed only at contract value.
 - Part II – Plan Investment Disclosures. Eliminates the current GAAP requirements for plans to disclose individual investments that represent 5 percent or more of net assets available for benefits, and the net appreciation or depreciation for investments by general type for both participant-directed investments and nonparticipant-directed investments.
 - Part III – Measurement Date Practical Expedient Part III provides a practical expedient to permit plans to measure investments and investment-related accounts (for example, a liability for a pending trade with a broker) as of a month-end date that is closest to the plan's fiscal year-end, when the fiscal period does not coincide
- Transition
 - Retrospective

ASU 2015-12 (Part I): Financials Prior to Adoption

Statements of Net Assets Available for Benefits

December 31, 20X2 and 20X1 (in thousands)

	<u>20X2</u>	<u>20X1</u>
Assets:		
Investments at fair value	\$ 740,450	612,020
Notes receivable from participants	<u>9,810</u>	<u>7,230</u>
Net assets reflecting investments at fair value	750,260	619,250
Adjustment from fair value to contract value for fully benefit-responsive investment contracts	<u>(2,861)</u>	<u>(5,210)</u>
Net assets available for benefits	\$ <u>747,399</u>	<u>614,040</u>

ASU 2015-12 (Part I): Financials Post Adoption

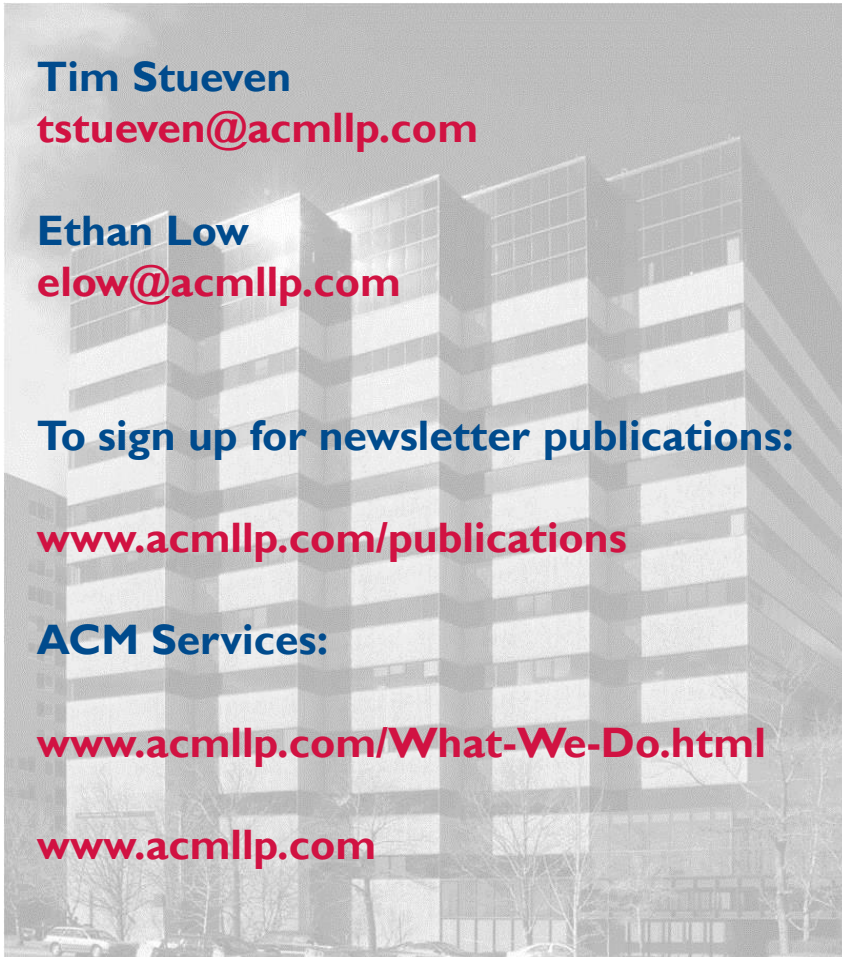
Statements of Net Assets Available for Benefits

December 31, 20X2 and 20X1 (in thousands)

	<u>20X2</u>	<u>20X1</u>
Assets:		
Investment at fair value	\$ 721,098	589,208
Fully benefit-responsive investment contracts at contract value	16,491	17,602
Notes receivable from participants	<u>9,810</u>	<u>7,230</u>
Net assets available for benefits	\$ <u>747,399</u>	<u>614,040</u>

QUESTIONS
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ANSWERS



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