Accounting & Auditing Update Seminar

December 12, 2013

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Other FASB Happenings

December 12, 2013

Matt Bishop, CPA, MBA, CCIFP

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Accounting Standards Updates (ASUs)

- How Many
  - 76 since 2009
  - 2012-01 through 2012-07
  - 2013-01 through 2013-11
- For What Purposes
  - Technical Corrections
    - Eliminating need for agenda requests for incremental items
  - Scope Clarifications
  - Deferral of Previous ASU Requirements
  - Sweeping Changes

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ASU 2012-02 *Testing Indefinite-Lived Intangible Assets for Impairment*

- Previous guidance
  - Test indefinite-lived intangible assets for impairment annually by comparing the Fair Value of the asset with its carrying amount
- Examples (brand name, trademark, distribution rights, etc.)
- New guidance
  - Optional first step of assessing qualitative factors to determine whether it is **more likely than not** (>50%) that an indefinite-lived intangible asset **is impaired**
    - Recent fair value calculation, cost increases, revenue decreases, legal issues, management changes, increased competition, etc.

ASU 2012-02 *Testing Indefinite-Lived Intangible Assets for Impairment* (cont'd)

- New guidance (cont'd)
  - Second step (if needed) – perform quantitative impairment testing (i.e., calculate fair value)
- Reduce cost and complexity
- Promote consistency with treatment of other long-lived assets
  - FASB did not want to delay issuing ASU 2011-08
- Effective for fiscal years beginning after Sept. 15, 2012
  - Early adoption is permitted

ASU 2011-11 and ASU 2013-01 *Offsetting (Netting) Assets and Liabilities*

- What?
  - In certain circumstances, it is appropriate to report amounts net
    - Derivatives and certain borrowing and lending transactions subject to an enforceable master netting arrangement
- How?
  - Required to provide both net and gross information
  - Enhance disclosure requirements about offsetting and related arrangements to enable users to understand the effect of those arrangements on its financial position
- Why?
  - IFRS Convergence / comparability between GAAP and IFRS
- When?
  - Retrospectively, for annual periods beginning on or after 1/1/2013

ASU 2013-05 *Parent's Accounting for Cumulative Translation Adjustment*

- *Parent's Accounting for Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity*
  - Resolves diversity in practice between 810-10 and 830-30 and among step acquisitions involving a foreign entity
  - Identifies when, and how much, of CTA to release from AOCI
  - Really, really, REALLY nice flow-chart
  - Effective prospectively for non-public entities for annual periods beginning after Dec. 15, 2014
  - Early adoption is permitted

ASU 2013-02 *Reporting of Amounts Reclassified Out of Accumulated OCI*

- History
  - ASU 2011-05 and ASU 2011-12
- Who?
  - Any entity that reports other comprehensive income
- What?
  - Requires entities to report the effect of significant reclassifications out of AOCI, by component, on their respective net income line items
  - Either on face of financial position statement, or in footnotes
    - One exception

ASU 2013-02 *Reporting of Amounts Reclassified Out of AOCI (cont'd)*

- Why?
  - Improve the reporting of reclassifications out of accumulated other comprehensive income
    - **Allows the reader to recognize net income that results from strategic selling** of appreciated financial instruments, among other things
    - Brings together information that is presented in various places
- When?
  - Effective prospectively, for nonpublic entities, for reporting periods beginning after Dec. 15, 2013
  - Early adoption is permitted

Questions?

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Employee Benefit Plan Update

December 12, 2013

Bernadette Fletcher, CPA, MBA

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Topics

- New Employee Plans Compliance Resolution System (EPCRS)
- Same-sex marriage issues for retirement plans
- In-plan Roth account conversions
- Suspending the 3% safe harbor contribution in mid-year
- DOL Lifetime Income Calculator
- Trends in plan design and participation
- Cost of Living (COLA) chart

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Updated EPCRS – Plan Correction Program

Employee Plans Compliance Resolution System (EPCRS): Rev Proc 2013-12

- April 1, 2013, replaces Rev Proc 2008-50
- Submission procedures
  - New Forms 8950 (Application for VCP) and Form 8951 (fee payment)
  - New mailing address
- Significant expansion of relief to 403(b) plans (and new definitions for 403(b) plans)
- Model compliance statements

EPCRS (cont'd)

- Defined terms for earnings calculations (includes gains/losses)
- Lost participant location (no more IRS letter forwarding program)
- Clarifications and minor changes to correct failures (overpayments, failed ADP test and exclusions of employees)
- Revised Appendices into a 2-part Appendix C (multiple schedules)
- Multiple reduced fees

Same-Sex Marriage Issues In Retirement Plans

Post DOMA (Windsor) Decision (Guidance effective 9/16/2013)

- State of "celebration" determines status
  - 14 states and D.C. permit same sex marriage (some foreign jurisdictions)
  - Excludes domestic partnerships, civil unions (non-marriage)
- Considerations for retirement plans
  - Updated documents
    - Plan language to clarify "spouse"
    - Updated Summary Plan Description
    - Updated administrative forms and client communications
    - Beneficiary forms (default beneficiary issues)

DOMA (cont'd)

- Additional spousal consents (when plan requires)
  - Loans
  - Distributions
    - Hardships
    - Survivor annuities
    - Qualified Domestic Relations Order (QDRO)
    - IRA/qualified Plan rollovers
    - Pre-retirement death benefits
    - Required minimum distributions
- Data acquisition issues (non-discriminatory)
- Guidance on retroactive issue forthcoming from IRS

In-Plan Roth Conversions

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In-Plan Roth Conversions

- Plan must allow Roth contributions
- Plan must be amended to allow in-plan conversions
  - Protected benefit (cannot be removed for current participants at a later date)
- More complexity for employer
  - Administrative costs
  - Educational costs

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In-Plan Roth Conversions (cont'd)

- Irreversible participant election (unlike Roth IRA)
- Immediate income tax consequence on conversion amount
- Future distributions not taxable, including earnings after conversion
- Participant considerations
  - Consider current/ future tax brackets
  - Consider age/time until retirement
  - Consider future circumstances
    - Withdrawal strategy

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Safe Harbor Contribution Suspension

Final Regulations on Safe-Harbor Suspension (non-elective)

- Old Rules
  - “Maybe” notice 30 days before plan year begins; then 3% ER contribution notice within 30 days of year end
  - Suspend if “substantial business hardship”
- New Rules
  - “Maybe not” notice
    - 30 days notice to participants
    - Amend the Plan to remove the safe harbor 3%
    - Make the ER 3% contribution to date of plan amendment
    - Pass ADP/ACP test for entire year
    - Allow participants to change deferral %

DOL Lifetime Income Calculator

DOL Lifetime Income Calculator

- Advance Notice of Rule Making
- Pension Benefit Statements to include
  - Projected lump sum account balance at retirement
  - Projected income annuity
    - Single Life
    - 50% Joint & Survivor Annuity

DOL Lifetime Income Calculator

- Assumptions
  - Current Contributions increase 3% per year
  - Investment returns are 7% per year
  - Inflation rate of 3%
  - Annuities based on 10 year Treasury rates
  - Mortality table (unisex)

Lifetime Income Calculator

*All fields are required

Retirement Age: 65

Current Account Balance $: 65,000

Current Annual Contribution $: 10,000

Years to Retirement: 20

Statement Date (MM/DD/YYYY): 10/31/2013

Calculate Clear View Instructions

Calculation Results

			Lifetime Income/Month with Joint & Survivor Annuity	
	Value at Retirement Age	Lifetime Income/Month for Participant With No Survivor Benefit	Participant	Spouse with 50%
Current Account Balance	$65,000	$361	$328	$164
Projected Account Balance	$468,049	$2,598	$2,359	$1,180

All of the results shown are estimates, not guarantees, of the level of the account balance or of the lifetime income streams of payments. The Department does not monitor or save data you enter online, and you cannot save calculations online. You may save your results by printing a copy or copying/pasting a copy into a text document on your computer before terminating your session.

Trends in Plan Design And Participation

IRS 401(k) Plan Survey Results (1,200 plans)

- 43% safe harbor
- 20% top heavy
- 5% auto enrollment
- 76% hardships allowed
- 65% loans allowed
- 86% use pre-approved documents
- 23% have a determination letter
- 6% also sponsor a defined benefit plan
- 22% Roth (after-tax) contributions allowed

IRS Survey (cont'd)

- 68% provide matching contributions
- 65% provide profit sharing contributions
- 60% use current year testing for ADP test
- 2% in-kind distributions allowed
- 93% require payroll deduction for loans
- 87% require loan repayment upon termination

Plan Sponsor Council of America (PSCA) 2012 Survey

- Average 6.8% participant contribution rate
- Average 4.5% employer contribution rate
- 47.2% automatic enrollment (60% use auto-escalate)
- 50% Roth after-tax contributions
- 87.6% Eligible participants who have a plan balance

COLA Adjustments

LIMITATION	2013	2014
401(k) and 403(b) Deferrals	$ 17,500	$ 17,500
Catch-up	$ 5,500	$ 5,500
457 Deferrals	$ 17,500	$ 17,500
415 Limits		
Defined Benefit Plans	$ 205,000	$ 210,000
Defined Contribution Plans	$ 51,000	$ 52,000
Highly Compensated Employee (HCE)	$ 115,000	$ 115,000
Compensation Limit – 401(a)(17)	$ 255,000	$ 260,000
OASDI Taxable Wage Base	$ 113,700	$ 117,000
IRA	$ 5,500	$ 5,500
IRA Catch-up	$ 1,000	$ 1,000
SIMPLE IRA	$ 12,000	$ 12,000
SIMPLE IRA Catch-up	$ 2,500	$ 2,500

Questions?

Revised AICPA Code of Professional Conduct

December 12, 2013

Mark Smith, CPA

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Topics

- Ethics Codification
- Current and proposed amendments

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Ethics Codification Project Background

- Professional Ethics Executive Committee (PEEC) is responsible for issuing new ethics standards and for the enforcement of those standards
- Current AICPA Code of Professional Conduct (Code) is not structured for quick and easy navigation; PEEC has proposed to restructure and codify the Code to address this problem
- Intent of the project was to maintain the substance of the existing standards without making significant changes
- The revised Code includes all content that was adopted by PEEC as of Jan. 29, 2013

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Ethics Codification Project Background

- Codification project began in July 2008
- Revised Code exposure draft issued April 15, 2013 with comments due Aug. 15, 2013
- Revised Code expected to be adopted in January 2014 and will take effect Dec. 15, 2014 (except for the broad conceptual frameworks which will be effective Dec. 2015)

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Structure of Revised Code

- Revised Code is available online with enhanced functionality
- Divided into four sections:
  - Preface – applicable to all members
  - Part 1 – applicable to members in public practice
  - Part 2 – applicable to members in business
  - Part 3 – applicable to all other members such as retired or unemployed members

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Structure of Revised Code

- Preface:
  - 0.100 Overview of the Code of Professional Conduct
  - 0.200 Structure and Application of the AICPA Code
  - 0.300 Principles of Professional Conduct
  - 0.400 Definitions
  - 0.500 Nonauthoritative Guidance
  - 0.600 New, Revised, and Pending Interpretations
  - 0.700 Deleted Standards

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Structure of Revised Code

- Part 1: Members in Public Practice
  - 1.000 Introduction
  - 1.200 Independence
  - 1.300 General Standards
  - 1.400 Acts Discreditable
  - 1.500 Fees and Other Types of Remuneration
  - 1.600 Advertising and Other Forms of Solicitation
  - 1.700 Confidential Information
  - 1.800 Form of Organization and Name

Structure of Revised Code

- Part 2: Members in Business
  - 2.000 Introduction
  - 2.300 General Standards
  - 2.400 Acts Discreditable
- Part 3: Other Members
  - 3.000 Introduction
  - 3.400 Acts Discreditable

Structure of Revised Code

- Each part is organized by topic, subtopic, and section
- Ethics rulings have been redrafted as interpretations and codified under the applicable topic
- Nonauthoritative guidance issued by PEEC that is applicable to a topic appears in boxed text at the end of a section
- New citation numbering system implemented

Structure of Revised Code

- Specific rule numbers from the original Code will no longer be used
- Rules may appear multiple time in the revised Code, however the interpretations of the rule may differ as they are aligned with the member's practice
- The revised Code uses drafting conventions and style guidance to eliminate inconsistency and to make the standards easier to understand

Structure of Revised Code

- Incorporation of a Conceptual Framework
  - To be used when a member encounters a relationship or circumstance that creates threats to their compliance with rules where the Code contains no specific guidance
  - Under the Conceptual Framework, a member should evaluate whether the circumstance or relationship would lead to a conclusion that there is an unacceptable threat to the member's compliance with the rules
  - The Conceptual Framework only applies when no guidance in the Code exists and it cannot be used to override existing requirements
  - Specific guidance related to the application of the Conceptual Framework is included throughout the Code

Substantive Changes

- Incorporation of a Conceptual Framework for relationships or circumstances not specifically addressed by the Code
- Definition of self-review threat was revised
- Discussion of ethical conflict resolution was elevated to an authoritative section of the Code
- Definition of attest client was added to the Code and has replace the term client
- Guidance on when a member in public practice serves as a director of a bank was recast so that it covers a member that serves as director for any entity
- Definition of loan was clarified to align with FASB definition and the term financial institution was changed to lending institution and the definition was updated.

Recently Adopted Interpretation and Revisions

- Revisions to Nonattest Services Interpretation 101-3
  - Financial statement preparation and cash to accrual conversions
    - Are outside scope of attest service and are considered nonattest services
    - Consistent with GAO independence standards
    - Effective for engagements covering periods beginning on or after Dec. 15, 2014
  - Internal audit services
    - Clarifies impact of performing ongoing and separate evaluations of internal controls on independence
    - Effective for engagement covering periods beginning on or after Dec. 15, 2013
  - Effect of performing multiple nonattest services
    - Consider whether permitted nonattest services in aggregate create significant threat to independence

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Recently Adopted Interpretation and Revisions

- Client Affiliates Interpretation 101-18
  - Provides guidance on which entities are affiliates of a client and subject to independence rules
  - Affiliates of an attest client include:
    - An entity that the client can control
    - An entity in which the client has a material direct financial interest and significant influence over the entity
    - An entity that controls the client
    - An entity with a material direct financial interest in the client and significant influence over the client
    - Sister entity of the client and sister entity material to parent
    - Trustee of trust of the client
    - Sponsor of benefit plan of the client
    - Benefit plan sponsored by the client
  - Effective Jan. 1, 2014

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Recently Adopted Interpretation and Revisions

- Interpretation under Rule 203, Accounting Principles
  - Clarifies that members can prepare or report on financial statements using a financial reporting framework that is not GAAP
  - Financial statements and reports should make clear what financial reporting framework is used
- Proposed definition of those charged with governance
  - The person(s) or organization(s) with responsibility for overseeing the strategic direction of the entity and the obligations related to the accountability of the entity. This includes overseeing the financial reporting process. Those charged with governance may include management personnel.

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Recently Adopted Interpretation and Revisions

- Proposals under Rule 102 (regarding conflicts of interest)
  - Separate interpretations for members in public practice and members in business
  - The proposed interpretations clarify what would be considered a conflict of interest and include additional examples of situations that could result in a conflict of interest
  - Members would be required to disclose the conflict of interest to the client or to appropriate levels within the employing organization, as well as any other appropriate parties, and to obtain their consent to perform the professional services.

Recently Adopted Interpretation and Revisions

- Revisions to Interpretation 501-1 – Response to Requests by Clients and Former Clients for Records
  - State boards may be more restrictive than the Code and should be followed
  - Client provided records must always be returned
  - Member's working papers are property of the member
  - Member prepared records must be returned if related to completed/issued work product unless there are unpaid fees or the related work product is not complete/issued
    - Records that a member was not specifically engaged to prepare and are not otherwise available to the client (adjusting entries for example)
  - Member's work product should be provided unless there are unpaid fees, the work product is incomplete, it is necessary to comply with professional standards, or there is threatened or outstanding litigation concerning the engagement or the member's work

Questions?

Not-for-Profit FASB Update

December 12, 2013

Amanda McGinity, CPA

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Overview

- Recently Issued Standards Specific to NFPs
  - Cash Flow Presentation of Sale of Donated Financial Assets
  - Personnel Services from Affiliate
- Current FASB Projects Specifically Impacting NFPs
  - Definition of a Nonpublic Entity
  - NFP Financial Reporting Initiative
  - Other Financial Communications (MD&A)

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Cash Flow Presentation of Sale of Donated Financial Assets (ASU 2012-05)

- Classify cash receipts from sale of donated financial assets as cash inflows from operating activities when:
  - Converted nearly immediately into cash
  - Donor restrictions do not require contribution to be used for long-term purposes
- When Effective?
  - Fiscal years beginning after June 15, 2013
  - Retrospective application permitted

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Personnel Services from Affiliate (2013-06)

- Applies when NFP receives services from personnel of an affiliate and for which the affiliate does not charge the recipient NFP
- Requires recognition measured at cost
- Exception: If recognition at cost will significantly overstate or understate the value, the NFP may elect to use cost or FMV
- Health Care Entities should report as an equity transfer

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Personnel Services from Affiliate (2013-06)

- When Effective?
  - Fiscal years beginning after June 15, 2014
  - Modified retrospective approach permitted (no adjustment should be made to beginning net assets)

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Definition of a Nonpublic Entity

- Current definition groups NFPs with publicly-traded debt (including conduit debt) as public entities
- FASB Exposure Draft issued in August 2013
  - Excludes all NFPs from definition of a public entity
  - Needs of users would be determined on a standard-by-standard basis
  - Does not address existing standards at this time

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NFP Financial Reporting Initiative

- How can we best define and convey financial performance?
- How can net asset classifications be improved?
- Can we make the statement of cash flows meaningful?
- When should statement of functional expenses be required?
- Is information about liquidity adequate?

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NFP Financial Reporting Initiative

How can we best define and convey financial performance?

- Intermediate Operating Measure
  - Mission dimension
  - Availability dimension
- NAC supporting gross presentation of all legally available mission-related revenues before reductions for board-designated amounts
- Considering alternatives for statement of activities
  - One vs. two statement approach
  - Single vs. multiple column approach

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NFP Financial Reporting Initiative

How can net asset classifications be improved?

- Better labeling
  - *Unrestricted* → *Without donor restrictions* or *other*
  - *Temporarily Restricted* → *With donor restrictions*
  - *Permanently Restricted* → *With donor restrictions*
- Focus on how and when net assets can be used
- Require additional disclosures for net assets without donor-imposed restrictions

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NFP Financial Reporting Initiative

Can we make the statement of cash flows meaningful?

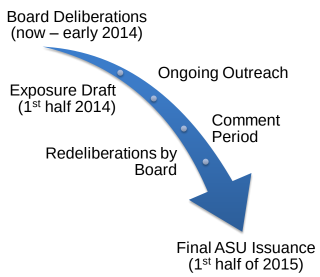
- Direct method for presenting cash flows
  - With no indirect method reconciliation
- Reclassifying certain items
  - Interest and dividends → investing
  - Interest payments on debt → financing
  - Purchases/sales of fixed assets → capital or operating

NFP Financial Reporting Initiative

When should statement of functional expenses be required?

Is information about liquidity adequate?

NFP Financial Reporting Initiative



Other Financial Communications

Should all NFPs present a management's discussion and analysis?

- Board plans to issue a Discussion Paper
  - To solicit input from NFP sector
  - Will coincide with issuance of Exposure Draft for NFP Financial Reporting Initiative

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Questions?

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Developments in Private Company Financial Reporting and Accounting

December 12, 2013

Brett Breedlove, CPA

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Introduction and Overview

- Private Company Council (PCC)
- Private Company Decision Making Framework
- PCC current and ongoing projects
  - Accounting for identifiable intangible assets in a business combination
  - Accounting for goodwill
  - Accounting for certain receive-variable, pay-fixed interest rate swaps
  - Applying variable interest entity guidance to common control leasing arrangements

Private Company Council (PCC)

- Established May 23, 2012 by the Financial Accounting Foundation's (FAF) Board of Trustees
- Goal to determine alternatives to existing nongovernmental U.S. GAAP to address the needs of users of private company financial statements
- Primary advisory body to FASB on active FASB agenda issues

Private Company Decision-Making Framework

- Objective to develop a guide for the PCC and FASB to use in determining whether and in what circumstances to provide alternative recognition, measurement, disclosure, display, effective date, or transition guidance for private companies reporting under U.S. GAAP

Private Company Council (PCC)

PCC Modification Process

1. Apply PCC Decision-Making Framework
2. PCC develop, deliberate, and vote on proposed exceptions/modifications (two-thirds needed)
3. FASB vote to endorse proposal
4. Expose for public comment
5. PCC consider public comments and vote on final changes
6. Provide final to FASB to vote on final endorsement and issue final Accounting Standards Update (ASU)

Private Company Council Current Projects

Accounting for Identifiable Intangible Assets in a Business Combination

- Under Current GAAP (ASC Topic 805)
  - Recognize all identifiable intangible assets at the acquisition date fair value separate from goodwill if either:
    - Separable
      - Can be sold, transferred, licensed, or exchanged
    - Contractual-legal
      - Arises from contractual or other legal rights

Accounting for Identifiable Intangible Assets in a Business Combination

- Current PCC Proposed Accounting Standards Update
  - Private companies may elect to recognize only those intangible assets that arise from non-cancelable contracts or from other legal rights
  - All others would be combined into goodwill
  - Disclose qualitatively the nature of identifiable intangible assets not recognized.

Accounting for Identifiable Intangible Assets in a Business Combination

- Proposed Effective Dates, Current Status, and Exclusions
  - Effective prospectively for all business combinations entered into after the effective date (yet to be determined); early application is expected to be permitted
  - Discussions ongoing and subject to final vote by PCC before submitting to FASB for final endorsement
  - Effective for all private companies excluding not-for-profit entities

Accounting for Goodwill

- Under Current GAAP (ASC Topic 350)
  - Goodwill is tested for impairment at least annually at the reporting unit level
  - Two step (five step) approach to testing impairment
    1. Determine the reporting units
    2. Allocate assets and liabilities each reporting unit
    3. Perform qualitative assessment to determine if "more likely than not" impaired
    4. Calculate the fair value of the reporting unit to determine if carrying value exceeds fair value of the reporting unit
    5. Compare implied fair value of reporting unit goodwill to carrying value

Accounting for Goodwill

- Current PCC Proposed Accounting Standards Update
  - A private company electing the proposed alternative would amortize goodwill over the useful life not to exceed ten years
  - Would test goodwill for impairment only upon "a triggering event" using a simplified approach
    - At entity or reporting unit level
    - Impairment would represent the excess of carrying amount, at the entity level or reporting unit level, over its respective fair value
  - No additional disclosure requirements
  - Removed from disclosures the requirement to present the tabular rollforward of goodwill

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Accounting for Goodwill

- Proposed Effective Dates, Current Status, and Exclusions
  - FASB endorsement to issue an accounting standards update made Nov. 25, 2013
  - Effective for fiscal years beginning after December 15, 2014
  - Effective prospectively with early adoption permitted
  - Effective for all private companies excluding not-for-profit entities

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Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps

- Under Current GAAP (ASC Topic 815)
  - Requires a company to record all derivative instruments on the balance sheet as an asset or liability at fair value
  - Determine whether interest rate swaps qualify for hedge accounting and assess whether they are effective or ineffective
    - Must have a hedging policy
    - Time value of money considerations
    - Retrospective and prospective considerations

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Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps

- Current PCC Proposed Accounting Standards Update
  - Two proposed methods:
    - Combined instruments approach
      - Would allow a company to account for a swap and variable rate borrowing as one instrument
    - Simplified hedge accounting approach
      - "Practical Expedient" to qualify for cash flow hedge accounting and assume no ineffectiveness
  - Company must meet certain criteria to qualify for each

Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps

- Current PCC Proposed Accounting Standards Update
  - Combined Instruments Approach
    - Effectively moves the swap off balance sheet
    - Would no longer qualify as a derivative under Topic 815 and related disclosures would not apply
    - Would no longer qualify as a financial instrument requiring fair value disclosure
    - Would require enhanced disclosures

Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps

- Current PCC Proposed Accounting Standards Update
  - Simplified Hedge Accounting Approach
    - Record swap at settlement value on balance sheet
    - Assume no hedge ineffectiveness
    - Allow hedge documentation under paragraph 815-20-25-3 to be completed "within a few weeks" of the hedge designation
    - No changes to disclosure requirements

Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps

- Proposed Effective Dates, Current Status, and Exclusions
  - Simplified hedge accounting approach
    - FASB endorsement to issue an accounting standards update made Nov. 25, 2013
    - Effective for fiscal years beginning after Dec. 15, 2014
  - Combined instruments approach
    - Discussions ongoing and subject to final vote by PCC before submitting to FASB for final endorsement
  - Effective prospectively with early adoption permitted
  - Excludes not-for-profit entities, employee benefit plans and financial institutions

Applying Variable Interest Entity Guidance to Common Control Leasing Arrangements

- Under Current GAAP (ASC Topic 810)
  - Requires a company to consolidate another company in which it has a controlling financial interest
    - Voting interest model (majority ownership)
    - Variable Interest Entity (VIE) model
      - Deemed to have control when it has both (a) the power to direct the activities that affect the economic performance of the company and (b) the obligation to absorb losses or receive benefits
      - Control can be explicit or implicit

Applying Variable Interest Entity Guidance to Common Control Leasing Arrangements

- Current PCC Proposed Accounting Standards Update
  - Would provide a private company an option not to apply VIE guidance for assessing whether it should consolidate a lessor when:
    - Company and lessor are under common control
    - Company has a leasing arrangement with the lessor
    - Substantially all of the activity between the two companies is related to the leasing activity
  - Would require enhanced disclosures about the lessor

Applying Variable Interest Entity Guidance to Common Control Leasing Arrangements

- Proposed Effective Dates, Current Status, and Exclusions
  - PCC voted to finalize the proposed ASU and submitted to FASB for final endorsement
  - Effective retrospectively
  - Effective for fiscal years beginning after Dec. 15, 2014
  - Early application permitted
  - Excludes not-for-profit entities and employee benefit plans

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Summary of Key Points

- The PCC proposals are proposed alternatives within current U.S. GAAP
- The proposed accounting alternatives are optional and private companies can elect which alternatives, if any, to adopt
- The underlying purpose of the PCC and the current proposals are to reduce the overall cost and complexities associated with current accounting and increase the relevance of reporting to users and other stakeholders of private companies

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Questions?

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Update on FASB Leasing Project

December 12, 2013

Michael North, CPA

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Background

- Existing accounting models require lessees and lessors to classify their leases as capital or operating leases and account for those differently
- Some financial statement users have long been concerned about off-balance sheet liabilities related to operating leases
- International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) initiated a joint project to develop a new approach
- This process began in March of 2009!!

Background

- A short four years later…
- The FASB and IASB issued an updated Proposed Accounting Standards Update on May 17, 2013
- Comments letters were due Sept. 13, 2013 and 640 were received

Proposed Accounting Standards Update – Leasing

Core principle of proposed requirement is that an entity recognizes assets and liabilities associated with leases

Proposed Accounting Standards Update – Leasing

- Proposed standards still require a classification of the lease into one of two types of leases (Type A or Type B)
- Type A Leases
  - Include most leases other than leases of land and/or a building or part of building
  - The lessee is expected to consume more than an insignificant portion of the economic benefits of the underlying asset

Proposed Accounting Standards Update – Leasing

- Type B Leases
  - Typically include leases of land or a building or part of a building
  - These leases are assumed not to consume more than an insignificant portion of the economic benefits of the underlying asset

Accounting for Type A Leases

- **Lessee**
  - Recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments
  - Recognize interest separately from the amortization of the right-of-use asset
- **Key differences**
  - Type A leases would record an asset and lease liability
  - Type A leases would generally result in a more accelerated expense recognition for lessees

Accounting for Type A Leases

- **Lessor**
  - Derecognize the underlying asset and recognize a lease payment receivable
  - Recognize the unwinding of the discount on both the lease receivable and the residual asset as interest income over the lease term
  - Recognize any profit relating to the lease at the commencement date
- **Key differences**
  - Would provide a result similar to current finance lease accounting for lessors

Accounting for Type B Leases

- **Lessee**
  - Recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments
  - Recognize a single lease cost, combining the unwinding of the discount on the lease liability with the amortization of the right-of-use asset, on a straight-line basis
- **Key differences**
  - Type B leases would record an asset and lease liability
  - Type B leases would result in straight-line expense recognition for lessees, similar to todays operating lease accounting

Accounting for Type B Leases

- **Lessor**
  - Continue to recognize the underlying asset
  - Recognize lease income over the lease term on a straight-line basis
- **Key differences**
  - No significant changes for lessors
  - Interesting that on type B leases, the underlying asset will be recorded on both the lessors and lessees financial statements

Conclusion

- Leases with less than 12 month terms can apply simplified requirements, similar to current operating lease accounting (consider renewal options)
- Timing
  - Some FASB board members have discussed having final standards in 2014, but implementation could be several years away

Questions?

Revenue Recognition

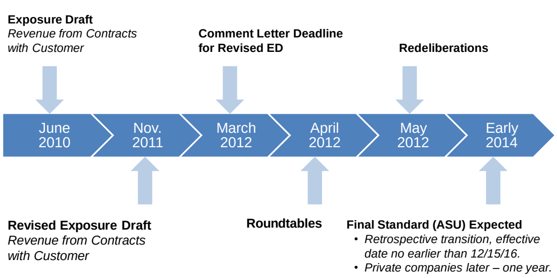
December 12, 2013

Justin Hayes, CPA, CGMA

New Standard for Revenue Coming

- Core Principle
  - "An entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services."

Revenue Recognition – Project Status



5 Easy Steps

1. Identify the contract(s) with the customer
2. Identify the separate performance obligations
3. Determine the transaction price
4. Allocate the transaction price to the separate performance obligations
5. Recognize revenue when a performance obligation is satisfied

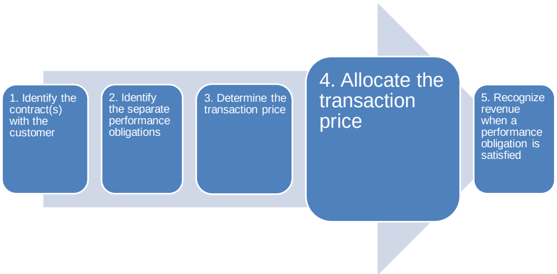
Step 2 – Identify Separate Performance Obligations

- A promise in a contract to transfer a good or service to a customer
- Distinct if:
  - Entity regularly sells separately
  - Customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer
- Not distinct if (both of these criteria are met):
  - Goods in the bundle are highly interrelated and requires significant service of integration
  - The bundled goods are significantly modified or customized to fulfill the contact

Step 3 – Determine the Transaction Price

1. Identify the contract(s) with the customer
2. Identify the separate performance obligations
3. Determine the transaction price
4. Allocate the transaction price
5. Recognize revenue when a performance obligation is satisfied

Step 4 – Allocate the Transaction Price



Step 5 – Recognize Revenue When a Performance Obligation Is Satisfied

- Performance obligation (PO) satisfied over time if one of the following two criteria are met:
  - The entities performance creates or enhances an asset that the customer controls as the asset is created or enhanced
  - The entities performance does not create an asset with an alternative use to the entity (cannot be directed to another customer)

Updates in 2013

- Constraint on Estimates of Variable Consideration
  - Intellectual property
- Collectability Considerations
- Determining when to apply the revenue model
- Licenses
  - “Access to” vs. “Right to Use”

Key Takeaways

- New standard coming
  - Dec. 15, 2016 at the earliest
  - One year deferral for private companies
  - Retrospective application
- Five easy steps to analyze contracts for revenue recognition
- Things can still change

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Questions?

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Insight on Financial Statement Users

Panel Discussion

Tim Almack, CPA
Keith Gambrel, CPA
Mike Lee, CPA

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