AICPA & CIMA

Accounting Update on New Accounting Pronouncements and Lessons Learned

Speaker: **Stephen G Austin, CPA, MBA**
Managing Partner, Swenson Advisors LLP

September 17, 2020

Stephen G. Austin, CPA, MBA

Steve Austin manages audit, SEC, Sarbanes-Oxley, and business consulting engagements for a Southern California PCAOB accounting firm with a focus on technology, manufacturing, service, real estate, agribusiness, and non-profit organizations. He is the author of the book "Rise of the New Ethics Class." Steve speaks worldwide on governance, Sarbanes-Oxley, and GAAP and IFRS matters and writes articles often published by the AICPA. Steve is a national thought leader on Topic 842 Lease Accounting. He has authored or co-authored several articles on implementation of the new standard in the U.S. and Asia.

UPDATE ON KEY ACCOUNTING DEVELOPMENTS

- Revenue Recognition – Lessons Learned
- Lease Accounting – Implementation Challenges
- Not-for-Profit Financial Statements Presentation Changes
- Derivatives
- Goodwill / Impairments

AICPA & CIMA

Topic 606: Revenue Recognition Lessons Learned

WHY TOPIC 606 WAS ISSUED

- Removes inconsistencies and weaknesses in existing revenue models
- Provides a more robust framework for addressing revenue issues
- Improves comparability of revenue recognition practices across Entities, industries, jurisdictions, and capital markets
- Provides users of financial statements with more useful information through improved disclosure requirements
- Simplifies the preparation of financial statements by reducing the number of requirements to which organizations must refer

TOPIC 606: REVENUE RECOGNITION LESSONS LEARNED

Plan on sufficient time to implement; it's more complex than you might think:

Not only do you have to look at the current year's impact on the implementation, but the prior year's as well. Determine the types of contracts that are involved, each contract's performance obligations, how the completion of performance obligations are measured (at a point in time versus over a period of time), which contracts are complete versus incomplete at the end of the quarter or year, and calculate the remaining performance obligations at of the end of the reporting period.

TOPIC 606: REVENUE RECOGNITION LESSONS LEARNED, cont.

Industry specific guidance:

For example, lessors have to follow either Topic 840 or Topic 842 for rental income; non-profits have to follow ASC 958 for contributions.

TOPIC 606: REVENUE RECOGNITION LESSONS LEARNED, cont.

Plan the work with the end product in mind:

Consider footnote disclosures while implementing for a seamless transition. Draft the footnote on a pro forma basis so you accumulate the information in your accounting system during the year.

TOPIC 606: REVENUE RECOGNITION LESSONS LEARNED, cont.

Audit considerations and risks:

Risk of misrepresenting and miscalculating the remaining performance obligations. How do you test for performance obligation completion?

AICPA & CIMA

Financial Accounting Standards Board: Revenue Recognition Implementation Q&As

Compiled from Previously Issued Educational Materials

FASB ISSUED Q&A GUIDANCE ON TOPIC 606

January 2020 (6 years after issuance)

80+ questions (from the FASB TRG – Transition Resource Group)

- Scope
- Identify the Contract
- Identify the Performance Obligations
- Allocate Price to Performance Obligations
- Revenue Recognition
- Contract Costs
- Financial Statement Presentation

SCOPE

Q: Is servicing and sub-servicing income within the scope of Topic 606?

A: In the staff's view, servicing arrangements that are within the scope of Topic 860, e.g. repurchase agreements (which did not change as a result of Topic 606) are not within the scope of Topic 606. The staff acknowledges the different views about what those servicing cash flows represent (revenue versus realization of an intangible asset/liability) and believes there is merit to the assertion that Topic 860 provides guidance on how to reflect the servicing cash flows via subsequent measurement of the MSR asset/liability.

IDENTIFY THE CONTRACT

Q: How should an entity assess collectability for a portfolio of contracts?

A: Paragraph 606-10-25-1 provides criteria that a Customer contract must meet in Step 1 of Topic 606, including assessment of the probability of collection, before the remaining steps of Topic 606 can be applied. Specifically, paragraph 606-10-25-1(e) includes the criterion on collectability. If any of the criteria in paragraph 606-10-25-1 are not met, revenue is not recognized until specified events have occurred, as described in paragraph 606-10-25-7.

IDENTIFY THE PERFORMANCE OBLIGATION

Q: How should an entity evaluate whether a product warranty is a performance obligation in a contract with a Customer when the warranty is not separately priced?

A: Topic 606 requires a warranty that provides a service in addition to the assurance that the product complies with agreed-upon specifications to be accounted for as a separate performance obligation. However, it does not include a bright line on how to make the distinction of when a warranty provides a service if the Customer has the option to purchase a warranty, such as when it is separately priced or negotiated. Instead, Topic 606 provides three factors in paragraph 606-10-55-33 to consider in assessing whether a warranty provides a service. Because the assessment is based on an evaluation of factors rather than determinative criteria, judgement based on the facts and circumstances will be necessary.

IDENTIFY THE PERFORMANCE OBLIGATION, cont.

The staff concluded that, under Topic 606:

(a) An entity would account for a warranty as a performance obligation if it has an option to purchase the warranty, such as when it is separately priced or negotiated.

(b) Warranties would also be accounted for as a performance obligation if the warranty provides the Customer with a service in addition to the assurance that the product complied with agreed-upon specifications. Therefore, the accounting for warranties under Topic 606 is different from existing GAAP. Entities might account for some warranties as performance obligations under Topic 606 that are not separate deliverables (or elements) under existing revenue guidance.

ALLOCATION OF PRICE TO PERFORMANCE OBLIGATION

Q: How should an entity determine the presentation amounts billed to Customers (gross or net) under Topic 606?

A: The guidance on transaction price in paragraph 606-10-32-2 states that the transaction price should exclude "amounts collected on behalf of third parties."

Conversely, if an entity is not collecting an amount on behalf of a third party (for example, on behalf of a government or another service provider), that amount should be included in the transaction price. Sometimes it may not be entirely clear whether the amounts are collected on behalf of third parties. In those cases, some stakeholders have expressed the view that an entity should apply the principal-agent framework in Topic 606 to determine whether it is merely a conduit for the amounts collected or whether it is the principal with respect to the obligation.

ALLOCATION OF PRICE TO PERFORMANCE OBLIGATION, cont.

An entity could use the principal-agent framework to help it to determine whether the Customer is compensating the entity for a cost it incurred to provide a good or service (that is, as a principal) or, instead, whether the entity is arranging for the Customer to pay its (the Customer's) obligation to another party (that is, acting as an agent).

Below are some considerations about how stakeholders note that the principal versus agent guidance could be applied in determining how to present some common amounts billed to Customers.

A. **Shipping and handling fees**
B. **Other out-of-pocket expenses**
C. **Taxes and other assessments**

RECOGNIZE REVENUE

Q: Over what periods should an entity recognize a nonrefundable upfront fee?

A: Consider the following example:

Entity charges a $50 one-time activation fee and agrees to provide Customers with services on a month-to-month basis at a price of $100 per month. Customer is under no obligation to continue to purchase the monthly service and Entity has not committed to any pricing levels for the service in future months. Because the activity of signing up Customer for service does not result in the transfer of a good or service, it does not represent an additional promised service. Rather, the activation fee is an advance payment for Entity's services and should, therefore, be deferred and recognized as the future service is provided. Entity's average Customer life is two years.

RECOGNIZE REVENUE, cont.

The staff notes that the period over which the activation fee will be recognized depends on whether the activation fee provides the Customer with a material right with respect to renewing Entity's services. When determining whether a nonrefundable up front fee provides a material right, Entity would consider both quantitative and qualitative factors. For example, Entity would consider whether the renewal price that Customers will pay (that is, $100 per month) compared with the price that a new Customer would pay for the same service (that is, $150, consisting of a $50 activation fee and $100 monthly service) provides Customer with a material right.

RECOGNIZE REVENUE, cont.

Entity also would consider the availability and pricing of service alternatives (for example, whether Customer could obtain substantially equivalent services from another provider without paying the activation fee). Entity's average Customer life also might be an indication of whether the activation fee provides a material right.

That is, an average Customer life that extends well beyond the one-month contractual period might be an indication that the activation fee incentivizes Entity's Customers to continue services because those Customers would not incur an activation fee that they might incur if they switched service providers.

RECOGNIZE REVENUE, cont.

If Entity concludes that the activation fee provides a material right, the fee would be recognized over the service periods during which Customer is expected to benefit from not having to pay an activation fee upon renewal of service. Determining the expected period of benefit often will require judgement.

Conversely, if Entity concludes that the activation fee does not provide the Customer with a material right, the activation fee is, in effect, an advance payment solely on the contracted services (for example, the one-month contract term). Consequently, Entity would recognize the transaction price (that is, $150 comprised of the service and activation fees) as revenue as those services are provided in accordance with paragraph 606-10-5-51.

CONTRACT COSTS

Q: What is the appropriate accounting for reimbursements from Customers for out-of-pocket expenses?

A: Topic 606 includes implementation guidance on determining whether an Entity is a principal or an agent, which in turn determines whether the Entity recognizes revenue on a gross basis or net basis. To do this, an Entity should determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (that is, the Entity is a principal) or a performance obligation to arrange for those goods or services to be provided by the other party (that is, the Entity is an agent). An Entity is a principal if it controls the specified good or service before that good or service is transferred to a Customer. There are three indicators included in the guidance to assist Entities with the control evaluation.

CONTRACT COSTS, cont.

The principal versus agent analysis is a key aspect of the revenue standard for the out-of-pocket issue because it narrows the population of contracts affected by that issue. During the April 2018 PCC meeting, several PCC members noted that “pass through expenses” should not need to be estimated and should not have any effect on profit margins. The staff highlights that in cases in which the Entity is an agent and the reimbursement is equal to the cost, the net effect on revenue would be zero (and, thus, no estimation would be required).

PRESENTATION

Q: <u>How should an entity determine the presentation of a contract that contains multiple performance obligations?</u>

A: Paragraphs 606-10-45-1 through 45-2, together with the definitions of a contract asset and contract liability, explain when an Entity has a contract asset and a contract liability. Some stakeholders have questioned whether an Entity could have a contract asset and a contract liability for a single contract when, for instance, the Entity has satisfied (or partially satisfied) one performance obligation in a contract for which consideration is not yet due but has received a prepayment in respect of another unsatisfied performance obligation in the contract.

Paragraph 606-10-45-1, together with the explanation I paragraph BC317 of Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* states that contract asset or contract liability positions are determined for each contact on a net basis.

PRESENTATION, cont.

In other words, an Entity nets each contract to either a contract asset or a contract liability and does not recognize separately a contract asset and a contract liability for a single contract.

In accordance with paragraph 606-10-45-1, if the contract position incorporates an unconditional right to consideration (that is, only the passage of time is required before payment of that consideration is due), that amount is, in effect, extracted from the net contract position and presented separately as a receivable. Therefore, an Entity might present a receivable and a contract asset or a receivable and a contract liability (as illustrated in Example 39, Contract Asset Recognized for the Entity's Performance, and Example 40, Receivable Recognized for the Entity's Performance).

POLLING QUESTION #1

The New Revenue Recognition Model Reflects the consensus of over 60 US GAAP models

TRUE

FALSE

AICPA & CIMA

Latest Development on Topic 842 and the COVID-19 Impact

FINAL DELAYS PROMPTED BY COVID-19

On June 2, 2020, the FASB issued the following delays in the effective dates for implementing TOPIC 842 LEASES:

- For private companies and private not-for-profit (NFP) Entities to fiscal years starting after **December 15, 2021.**
- **For NFP Entities that have issued or are conduit bond obligors** for securities that are traded, listed or quoted on an exchange or an over-the-counter market and which have not yet issued financial statements to fiscal years beginning after **December 15, 2019.**

JOURNAL OF ACCOUNTANCY

PANDEMIC ALTERS LEASE ACCOUNTING LANDSCAPE

April, 2020

SWENSON ADVISORS
CERTIFIED PUBLIC ACCOUNTANTS

SAN DIEGO
600 B Street
Suite 1540
San Diego, CA
92101
p. 619.237.3400
f. 619.237.3401

MURRIETA
25220 Hancock Avenue
Suite 240
Murrieta, CA
92562
p. 951.445.4700
f. 951.445.4701

HONG KONG
Suite 3105
31st Floor, Office Tower
Convention Plaza
1 Harbour Road
Wan Chai, Hong Kong
p. 852.2868.9888

JOURNAL OF ACCOUNTANCY
Leading through uncertain times
June 2020

FINANCIAL REPORTING

Pandemic alters lease accounting landscape

The coronavirus has led to a likely delay in the effective date of FASB's new lease standard along with other possible consequences.

By Stephen G. Austin, CPA; Joel C. Colbourn, CPA; Ane Ohm, CPA; and Don Mitchell

In addition to causing enormous disruption to health, safety, and the economy across the globe, the coronavirus pandemic has significantly altered the landscape for CPAs related to lease accounting.

The changes include a potential effective date delay of FASB's new lease accounting standard for certain entities, including private companies; a monumental increase in the number of lease modifications requested by lessees and granted by lessors; and the need for disclosures related to a company's lease accounting decisions in the new environment. Here's a closer look at lease accounting amid the coronavirus pandemic.

LEASE CONCESSIONS

Shelter-in-place, stay-at-home, social distancing, self-quarantine, and other directives have caused significant disruption to business operations, with many businesses and industries being effectively shut down. This has resulted in record levels of layoffs and unemployment claims, with a potential record number of bankruptcy filings expected over the next few months.

The federal government has taken several actions to provide relief from the devastating economic impact, including enacting the Coronavirus Aid, Relief, and Economic Security (CARES) Act, P.L. 116-136, which provides assistance to small businesses (under 500 employees) through U.S. Small Business Administration loans primarily to support payroll costs for affected businesses. While these loans are for a limited period (up to eight weeks), some or all of the loan may be forgiven.

Despite this government aid, it is anticipated that a significant number of lessees will be looking to negotiate short- or long-term lease concessions or other relief from lessors. On April 10, the FASB staff issued a Q&A (available at tinyurl.com/y9ueefdb) on FASB ASC Topic 842, *Leases*, and Topic 840, *Leases*, accounting for lease concessions related to the effects of the COVID-19 pandemic.

One topic addressed by the FASB staff is the existing guidance requiring an analysis of whether changed lease agreements provide enforceable rights and obligations for lease concessions. An absence of enforceable rights and obligations can result in lease modification accounting, where the right-of-use asset and lease liability are remeasured using an updated discount rate, and the lease classification as either a finance or an operating lease is reassessed.

The FASB staff concedes that existing guidance did not contemplate the speed and volume of modifications resulting from a major global public health crisis. The FASB staff also acknowledged that absent further interpretative guidance, appropriately analyzing lease modification requirements on the large volume of leases impacted could be costly and complex for both lessees and lessors.

A further complication in determining whether lease concessions are consistent with contract terms rather than a contract modification are the programs implemented or encouraged by governments that permit or require changes to either party's contractual obligations during the period impacted by the COVID-19 pandemic.

The underlying premise of remeasuring a lease is that the economics of the lease are affected for the remainder of the lease term. The FASB staff understands the view that recognizing lease concessions ▸

Member of INTEGRA INTERNATIONAL "Your Global Advantage"

Swenson Advisors, LLP
www.SwensonAdvisors.com

KEY ACCOUNTING POLICY DECISIONS

PRE-IMPLEMENTATION

(Existing real estate, equipment, and embedded leases)

Apply the Practical Expedients

- Does arrangement contain a lease?
- No lease classification assessment as to finance vs. operating.
- No recognition of initial direct costs.
- No application of hindsight events.
- Non-recognition of leases 12 months or less.

POST-IMPLEMENTATION

Review all new, amended, and renewed leases for:

- Contracts that contain a lease (5 criteria).
- Lease classification as finance vs. operating (5 criteria).
- Assessment of initial direct costs.
- Associated non-lease costs.
- New internal controls/footnote disclosures/continuous updating of lease database for changes.

POLLING QUESTION #2

Most companies have restated their prior year's financial statements for Topic 842

TRUE **FALSE**

IMPLEMENTATION RISKS

PRE-IMPLEMENTATION DATE

RISKS

- Lease Data Collection/Completeness
- Embedded Lease Identification
- 840 Application
- Renewal Assessments/Lease Term
- Lease Payment Accuracy
- Lease/Non-lease Determinations
- Incorrect Data Elements Entered Into Lease Software
- Data Completeness

POST-IMPLEMENTATION DATE

RISKS

- Discount Rate Determination
- Lease Classification (Operating vs. Finance)
- Initial Direct Costs
- Lease vs. Non-lease
- Opening Entry Accounting
- Financial Statement Data and Disclosures
- Economic Life of Identified Assets
- FMV of Identified Assets
- Lease Modifications

INTERNAL CONTROLS FOR LEASE ACCOUNTING

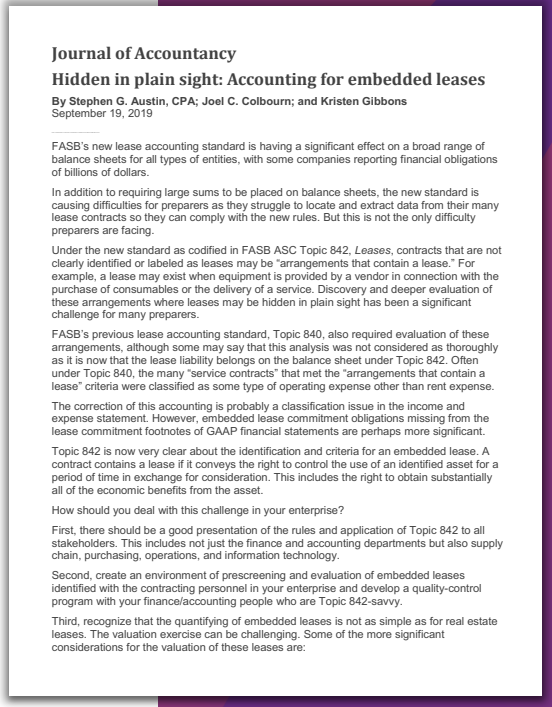
PRE-IMPLEMENTATION DATE AND POST IMPLEMENTATION

- 842 training and ongoing CE
- Development of internal 842 team
- Development and training of all stakeholders and new processes
- Application of practical expedients
- Lease renewals process and “reasonably certain” testing
- Lease classification process and testing
- Lease identification process and testing
- Initial direct cost identification and testing
- Identification of lease liability remeasurement process
- Identification of lease modifications
- Identification of separate contracts
- Remeasurement of ROU asset and Lease Liability when renewal terms are exercised
- Discount rate process and testing
- Review of accounting entries from lease accounting software
- Testing of input and output from lease accounting software
- Topside/clearing account process and reconciliation
- Analytical testing of ROU asset and Lease Liability balances monthly
- Systems to capture footnote disclosures including short term leases
- Front-end lease contracting process to address key 842 issues e.g. Operating vs. Finance
- Maintain Lease updates and enhancements

JOURNAL OF ACCOUNTANCY

HIDDEN IN PLAIN SIGHT: Accounting for Embedded Leases

September 19, 2019



Journal of Accountancy

Hidden in plain sight: Accounting for embedded leases

By Stephen G. Austin, CPA; Joel C. Colbourn; and Kristen Gibbons
September 19, 2019

FASB's new lease accounting standard is having a significant effect on a broad range of balance sheets for all types of entities, with some companies reporting financial obligations of billions of dollars.

In addition to requiring large sums to be placed on balance sheets, the new standard is causing difficulties for preparers as they struggle to locate and extract data from their many lease contracts so they can comply with the new rules. But this is not the only difficulty preparers are facing.

Under the new standard as codified in FASB ASC Topic 842, *Leases*, contracts that are not clearly identified or labeled as leases may be "arrangements that contain a lease." For example, a lease may exist when equipment is provided by a vendor in connection with the purchase of consumables or the delivery of a service. Discovery and deeper evaluation of these arrangements where leases may be hidden in plain sight has been a significant challenge for many preparers.

FASB's previous lease accounting standard, Topic 840, also required evaluation of these arrangements, although some may say that this analysis was not considered as thoroughly as it is now that the lease liability belongs on the balance sheet under Topic 842. Often under Topic 840, the many "service contracts" that met the "arrangements that contain a lease" criteria were classified as some type of operating expense other than rent expense.

The correction of this accounting is probably a classification issue in the income and expense statement. However, embedded lease commitment obligations missing from the lease commitment footnotes of GAAP financial statements are perhaps more significant.

Topic 842 is now very clear about the identification and criteria for an embedded lease. A contract contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This includes the right to obtain substantially all of the economic benefits from the asset.

How should you deal with this challenge in your enterprise?

First, there should be a good presentation of the rules and application of Topic 842 to all stakeholders. This includes not just the finance and accounting departments but also supply chain, purchasing, operations, and information technology.

Second, create an environment of prescreening and evaluation of embedded leases identified with the contracting personnel in your enterprise and develop a quality-control program with your finance/accounting people who are Topic 842-savvy.

Third, recognize that the quantifying of embedded leases is not as simple as for real estate leases. The valuation exercise can be challenging. Some of the more significant considerations for the valuation of these leases are:


ABC ENTERPRISES
EMBEDDED LEASES
Supply Chain
Review of real estate and equipment rent expense G/L accounts
AP
Identified recurring payments
FACILITIES
Possible embedded leases in waste management contracts
PROCUREMENT
Copier leases
MARKETING
Billboard rentals
IT
Identified server embedded in IT contract
All hands stakeholder brainstorming meetings

POLLING QUESTION #3

Embedded leases are a new concept and did not exist under Topic 840

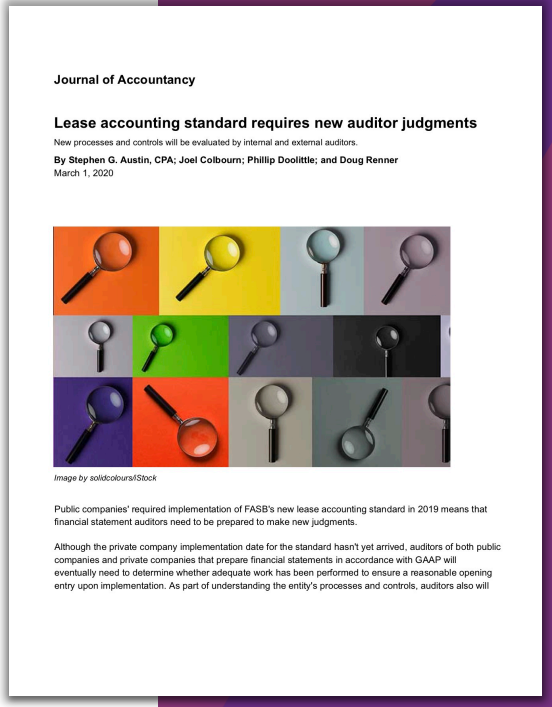
TRUE

FALSE

JOURNAL OF ACCOUNTANCY

LEASE ACCOUNTING STANDARD REQUIRES NEW AUDITOR JUDGMENTS

March 1, 2020



Journal of Accountancy

Lease accounting standard requires new auditor judgments

New processes and controls will be evaluated by internal and external auditors.

By Stephen G. Austin, CPA; Joel Colbourn; Phillip Doolittle; and Doug Renner
March 1, 2020

Image by solidcolours/iStock

Public companies' required implementation of FASB's new lease accounting standard in 2019 means that financial statement auditors need to be prepared to make new judgments.

Although the private company implementation date for the standard hasn't yet arrived, auditors of both public companies and private companies that prepare financial statements in accordance with GAAP will eventually need to determine whether adequate work has been performed to ensure a reasonable opening entry upon implementation. As part of understanding the entity's processes and controls, auditors also will

SURPRISES WITH THE NEW LEASE STANDARD

Equity Rarely Affected

No use for our Cumulative Effect or Change in Accounting Principle

No Deferred Rent or Prepaid Lease Expense: It all flows through the ROU Asset

Real Estate Leases

- Operating leases with big impact
- Example: 1O year lease, $10,000 monthly payment = $1 MM ROU asset and lease liability
- Need for real estate expertise

Embedded Leases

- Service contracts with assets that qualify as a lease
- Time to review = HIGH
- Number of resulting leases = LOW
- Valuations are challenging

SURPRISES WITH THE NEW LEASE STANDARD, cont.

FASB: No Materiality Explicitly Included

IFRS 16 has individual lease materiality of $5,000

Some organizations follow their Property, Plant and Equipment materiality standards

Calculations

- Incremental Borrowing Rate
- Economic Life
- Fair Value

Related Parties

- Contract provisions rule, especially for lease term
- It's about the economic incentive, not relationships

It's all leases!

Not just real estate:

Photocopiers • Vehicles
Equipment

COMMON MISTAKES TO AVOID

Lease Term Renewals

- Not just “I think we’ll renew”
- High bar – economic incentives matter
- Related party – relationship doesn’t matter for term

Use of Spreadsheets

- Error prone
- Quantitative footnote disclosure is complicated
- Lease revisions – difficult to “freeze” spreadsheet reporting
- CPA firms might charge more to audit a spreadsheet

UNEXPECTED BUSINESS IMPACTS

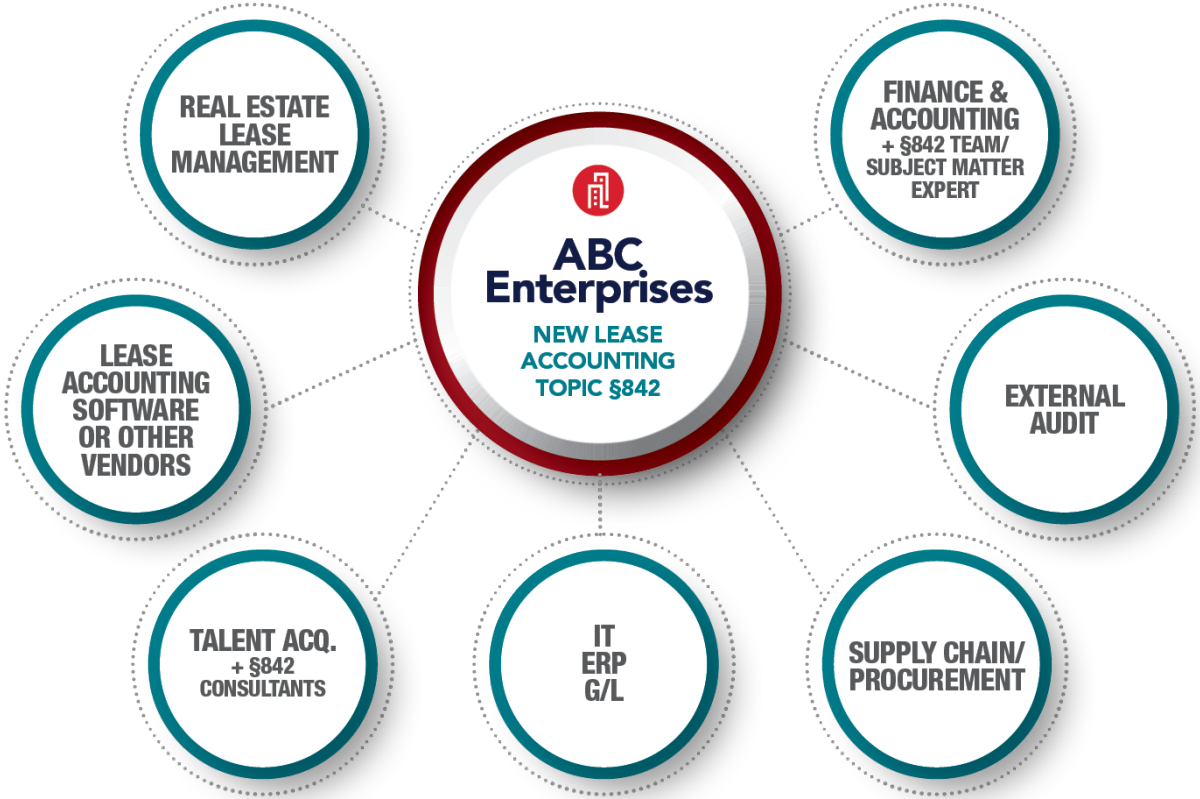
MATURITY ANALYSIS INCLUDES MORE LEASES

- Not just real estate and office space
- Smaller leases add up

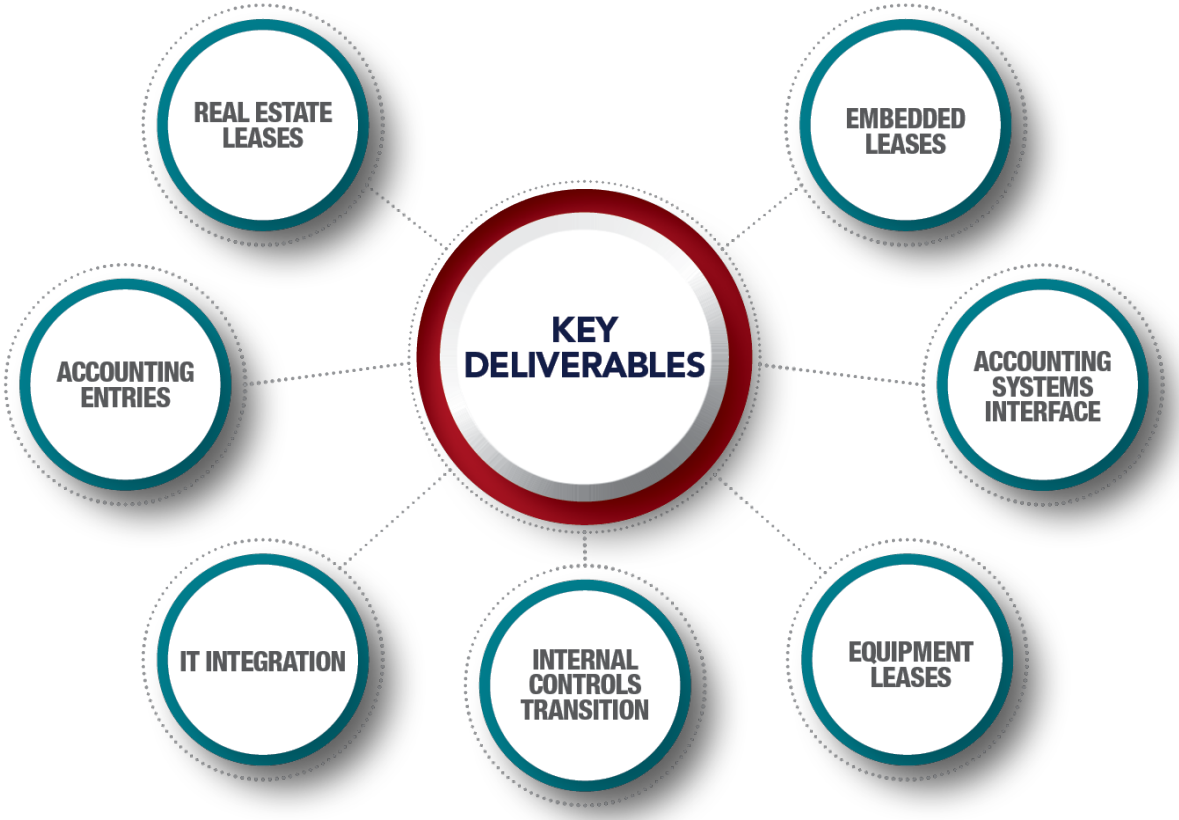
DEBT COVENANTS

- Dependent on individual terms
- Work with bank early
- Could impact availability or cost of capital

ABC ENTERPRISES LEASE ACCOUNTING STAKEHOLDERS



KEY DELIVERABLES



AICPA & CIMA

Update on FASB New, Not For Profit Entities Financial Statement Disclosure

(ASU) 2016 - 14
2016 - 15
2018 - 08

BALANCE SHEET AND STATEMENT OF ACTIVITY FINANCIAL STATEMENT DISCLOSURES

Net assets (Balance Sheet)	2020	2019
Net assets without donor restrictions	$ **XXXX**	$ XXXX
Net assets with donor restrictions	XXXX	XXXX

Expenses (Statement of Activity)		
Program Service	$ XXXX	$ XXXX
Support Service:		
Management and General	XXXX	XXXX
Fundraising and Development	XXXX	XXXX
Total Expenses	$ **XXXX**	$ **XXXX**

FINANCIAL STATEMENT FOOTNOTE DISCLOSURES

Net assets without donor restrictions:

Net assets that are not subject to donor-imposed stipulations, including those resources currently available for use in the Organization's operations and those designated by the board for specific future uses.

Net assets with donor restrictions:

Net assets subject to donor-imposed stipulations which have not yet been met, including those that have been restricted in perpetuity, such that they are maintained permanently by the Organization. Generally, the donors of these assets permit the organization to use all or part of the income earned on related investments for general or specific purposes.

TOPIC 958: UPDATE ON FASB NEW, NOT-FOR-PROFIT ENTITIES FINANCIAL STATEMENT FOOTNOTE DISCLOSURES

In June 2018, the FASB issued Accounting Standards Update ("ASU") 2018-08, *Not for Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* ("ASU 2018-08").

This new guidance is in response to diversity among not-for-profit Entities with characterizing grants and similar contracts with government agencies and others as reciprocal transactions (exchanges) or nonreciprocal transactions (contributions) and with distinguishing between conditional and unconditional contributions.

TOPIC 958: UPDATE ON FASB NEW, NOT-FOR-PROFIT ENTITIES FINANCIAL STATEMENT FOOTNOTE DISCLOSURES, cont.

The amendments in this ASU provide a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction by clarifying how a not-for-profit organization determines whether a resource provider is participating in an exchange transaction.

The ASU also clarifies how to evaluate whether contributions are conditional and better distinguish a donor-imposed condition from a donor-imposed restriction.

TOPIC 230: UPDATE ON FASB'S NEW FINANCIAL STATEMENT FOOTNOTE DISCLOSURES

In November 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* ("ASU 2016-15").

ASU No. 2016-15 provides guidance on classifying eight categories of cash flows payments and receipts, such as debt prepayment and extinguishment, proceeds from settlements of insurance claims, distributions received from equity method investors, and other specific types of transactions.

FOOTNOTE X – LIQUIDITY AND FUNDS AVAILABLE

The following table reflects the financial assets, reduced by amounts not available for general expenditure within one year. Financial assets include assets that are considered unavailable when illiquid or not convertible to cash within one year and receivables not available for general expenditure.

		2020
Financial Assets		
Cash and cash equivalents	**$**	XXXX
Accounts receivable		XXXX
Related party receivable		-
Financial assets, at year-end		XXXX
Less those unavailable for general expenditure within one year		**(XXXX)**
Financial assets available to meet cash needs For general expenditures within one year	**$**	**XXXX**

POLLING QUESTION #4

The purpose of the new NP standards is to help users understand donor restrictions

TRUE

FALSE

AICPA & CIMA

Update on Topic 815 Derivatives

AICPA & CIMA

The FASB Issued Accounting Standards Update 2020-06

Issued August 2020

Accounting for Convertible Instruments on Contracts in an Entity's own Equity

WHY WAS THIS ISSUED?

1. Complexity of GAAP for certain financial instruments with clarification of liabilities and equity
2. Reduce the number of restatements
3. Derivative guidance amended to reduce “form over substance” accounting conclusions

KEY CHANGES IN ACCOUNTING STANDARDS UPDATE 2020 - 06

- Reduce the number of accounting models for convertible debt and convertible preferred stock
- Fewer embedded conversion features being recognized separately from the host contract
- Convertible instruments that continue to be subject to:
  1. Those with embedded conversion features that are not clearly and closely related to the host contract, that meet the definition of a derivative, and that do not qualify for a scope exception from derivative accounting and
  2. Convertible debt instruments issued with substantial premiums for which the premiums are recorded as paid-in capital

POLLING QUESTION #5

The FASB believes that US GAAP for Derivatives needs some reformation to reduce restatements

TRUE

FALSE

AICPA® & CIMA®

New Developments in Accounting for Goodwill/Impairments

FASB'S INVITATION TO COMMENT ON SUBSEQUENT ACCOUNTING FOR GOODWILL

- Issued in July 2019 with comments due by October 2019
- Whether PBEs should be required or allowed to amortize goodwill, and how might this be done
- Whether goodwill impairment testing requirements should be revised
- Whether goodwill tests should be required only for triggered events
- Whether other intangible assets should be combined into goodwill
- Whether goodwill related disclosures could be improved, including testing analyses that did not result in an impairment loss
- FASB has not yet taken any action based on the comments received

SUMMARY

There are record amounts of goodwill outstanding, and the potential for future impairment concerns could increase substantially.

- Will there be a return to goodwill amortization for Entities other than private companies and not-for-profit Entities?
- Will there be any relief to Entities burdened by the cost and complexity of performing annual goodwill impairment assessments?
- Will there be any changes to the goodwill impairment methodology requirements?
- Will there be any changes to goodwill impairment disclosures to provide information of better value to users?

IDENTIFIABLE INTANGIBLE ASSETS AND SUBSEQUENT ACCOUNTING FOR GOODWILL TENTATIVE BOARD DECISIONS TO DATE AS OF JULY 21, 2020

The Board discussed the feedback received from its July 2019 Invitation to Comment, Identifiable Intangible Assets and Subsequent Accounting for Goodwill, supplements outreach performed by the staff, and the November 2019 public roundtables.

The Board discussed the general direction of the project. Based on that discussion, the staff plans to:

1. Explore adding amortization to the goodwill impairment model, including the amortization method and period
2. Explore other changes to the goodwill impairment model
3. Consider the accounting for identifiable intangible assets
4. Address presentation, disclosure, and transition

POLLING QUESTION #6

The FASB Goodwill Impairment model will consider disclosure of amortization methods and amortization periods

TRUE **FALSE**

AICPA® & CIMA®

What to Expect in 2021

FASB TECHNICAL AGENDA SUMMER 2020

Selected Projects	Estimated Completion
1. Conceptual framework/Elements	November 2020
2. Conceptual framework/Measurements	Initial Deliberations
3. Conceptual Framework/Presentation Project	ED/Redeliberations
4. Identifiable Intangible Assets and Subsequent Accounting for Goodwill	Initial Deliberations
5. Accounting by a joint venture for non-monetary assets	Initial Deliberations
6. Various codification improvements	Various
7. Leases – Targeted Improvements ED	ED
8. Others (20)	Various

AICPA® & CIMA®

Thank you