A Brief Overview of

Recently Issued and Upcoming Accounting Pronouncements
&
Final Reporting Developments

(Fiscal Year 2016)

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Objectives

Provide

you with a update on accounting and reporting changes impacting you for 2016 / 2017.

Give

a brief overview of new and upcoming accounting and reporting pronouncements that have been issued that will be effective in years subsequent to 2016 / 2017.

Talk

a bit about potential accounting and reporting changes that in discussion phases / comment phase.

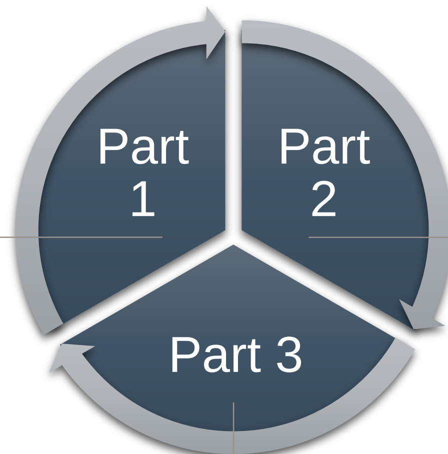
2016 Calendar year-end updates – nonpublic entities

ASU 2015-12	Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965), (Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, (Part III) Measurement Date Practical Expedient
ASU 2015-05	Intangibles — Goodwill and Other — Internal-Use Software (Subtopic 350-40), Customer's Accounting for Fees Paid in a Cloud Computing Arrangement
ASU 2015-03	Interest — Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs
ASU 2015-01	Income Statement — Extraordinary and Unusual Items (Subtopic 225-20), Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items
ASU 2014-18	Business Combinations (Topic 805), Accounting for Identifiable Intangible Assets in a Business Combination
ASU 2014-15	Presentation of Financial Statements — Going Concern (Subtopic 205-40), Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern
ASU 2014-12	Compensation — Stock Compensation (Topic 718), Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period

Plan Accounting: Defined Benefit Pension Plans

The amendments are in 3 parts:

Amendments designate contract value as the only required measure for fully benefit-responsive investment contracts



Amendments eliminate the requirement that plans disclose:

- (a) individual investments that represent 5 percent or more of net assets available for benefits; and
- (b) the net appreciation or depreciation for investments by general type requirements for both participant-directed investments and nonparticipant-directed investments.

Amendments provide a practical expedient to permit plans to measure investments and investment-related accounts (e.g., 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 with month-end.

Plan Accounting: Defined Benefit Pension Plans

New mortality tables also a current topic

For 2017 year end – new guidance also provides:

- A practical expedient to allow employers whose fiscal year ends do not fall at the end of a month to measure defined benefit plan assets and obligations at the month end closest to the fiscal year-end.
- After adoption, watch for significant changes in the plan (curtailments, settlements, amendments) – would require a year-end measurement date.

Cloud Computing Arrangements

Provides guidance to customers about whether a cloud computing arrangement includes a software license.

<u>If a cloud computing arrangement includes a software license</u>

the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses.

<u>If a cloud computing arrangement does not include a software license</u>

the customer should account for the arrangement as a service contract.

The amendments do not change the accounting for a customer's accounting for service contracts. As a result of the amendments, all software licenses within the scope of Subtopic 350-40 will be accounted for consistent with other licenses of intangible assets.

Debt Issuance Costs

Requires that debt issuance costs be presented in the balance sheet as a deduction from the carrying amount of the liability, rather than a deferred charge (other asset)

Extraordinary Items

IMPACT – Simplifies financial reporting by eliminating the concept of Extraordinary items (below the line reporting of certain events)

New guidance retains reporting and disclosure requirements for an event that is *unusual in nature* or *infrequent of occurrence*.

Separately disclosed in income from continuing operations or in the footnotes

Unusual in nature

an underlying event or transaction possessing a high degree of abnormality and of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity, taken into account the environment in which the entity operates.

Infrequent of Occurrence

an underlying event or transaction of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates.

Private Company Option for Intangibles in a Business Combination

The amendments in ASU 2014-18 allow a private company that elects this accounting alternative to:

recognize or otherwise consider the fair value of intangible assets as a result of any in-scope transactions should no longer recognize separately from goodwill: (1) customer-related intangible assets unless they are capable of being sold or licensed independently from the other assets of the business, and (2) noncompetition agreements.

An entity that elects the accounting alternative in ASU 2014-18 must adopt the private company alternative to amortize goodwill as described in ASU No. 2014-02, Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill. However, an entity that elects the accounting alternative in Update 2014-02 is not required to adopt the amendments in this ASU.

Going Concern

Define management’s responsibility to evaluate whether there is substantial doubt about an organization’s ability to continue as a going concern and to provide related footnote disclosures.

Under GAAP, financial statements are prepared under the presumption that the reporting organization will continue to operate as a going concern, except in limited circumstances. The going concern basis of accounting is critical to financial reporting because it establishes the fundamental basis for measuring and classifying assets and liabilities.

This ASU provides guidance to an organization’s management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes.

Substantial Doubt defined

- <u>probable that the entity will be unable to meet its obligations as they become due within one year</u> (one year from financial statement issuance date or are available to be issued)

Stock Compensation

Requires performance targets that impact vesting of stock awards be treated as a performance condition.

Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered.

The performance target should not be reflected in estimating the grant-date fair value of the award.

Significant Upcoming Changes

Not-For Profit Entity Reporting

- Effective for fiscal years beginning after December 15, 2017 (calendar 2018)
- Will provide more relevant information about not-for-profit entity resources (and changes in those resources) to donors, grantors, creditors, and other users
- Key changes:
  - Net asset classification from 3 (unrestricted, temp restricted, perm restricted) to 2 (with donor imposed restrictions / without donor imposed restrictions).
  - Enhanced disclosures regarding the liquidity and availability of resources.
  - Requirement to provide the amount of expenses by their natural classification.
  - Investment return reporting
  - Presentation changes of operating cash flows
- Full retrospective or retrospective with cumulative effect transition approach
- What to do today

Significant Upcoming Changes

Revenue Recognition

- Effective for non-public fiscal years beginning after December 15, 2018 (calendar 2019)
- Core premise is an entity should recognize the amount of revenue it expects to be entitled for the transfer of promised goods or services to customers.

Step 1

- Identify the contract(s) with a customer.

Step 2

- Identify the performance obligations in the contract.

Step 3

- Determine the transaction price.

Step 4

- Allocate the transaction price to the performance obligations in the contract.

Step 5

- Recognize revenue when (or as) the entity satisfies a performance obligation.

Significant Upcoming Changes

Will result in more judgements and estimates for revenue recognition (less rules based approach)

Full retrospective or retrospective with cumulative effect transition approach

What to do today:

- Understand nuisances of your contracts and sales terms, discounts offered, and reserves for returns and replacements, etc.
  - Consider discussing with your accountant or professional service provider.

Significant Upcoming Changes

Financial Instruments – Recognition and Measurement

- Effective for non-public fiscal years beginning after December 15, 2018 (calendar 2019)
- The amendments require among other things

Requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income.	Requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes.
Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables).	Eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost.

Significant Upcoming Changes

Lease Accounting	Effective for non-public fiscal years beginning after December 15, 2019 (calendar 2020)
	Requires almost all leases to be recorded on the balance sheet (with a liability for the obligation ; and a right to use asset on your balance sheet) ; income statement differences (effective interest method vs straight line expense)
	Modified retrospective transition approach
	What to do today – get organized with all your leases.

Other future Items to be aware of:

- Revenue Updates, Technical corrections, and improvements
- Insurers' accounting for long-duration contracts *(would significantly change how insurance liabilities and deferred acquisition costs are accounted for)*
- AICPA proposals on framework for evaluating cyber security.
- Cash flow changes and new guidance (restricted cash ; classifications of certain cash receipts and disbursements)
- Financial Instruments – Credit Losses
- Inventory – Lower of Cost of NRV
- Deferred Taxes – All to non-current assets and liabilities

Thank you for Your Time

Summary Handouts and Contact information available on the way out

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