

**ACCOUNTING
UPDATE**

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SSARS 21

*Statements on
Standards for
Accounting
and Review
Services:
Clarification
and
Recodification*

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SSARS 21

- Issued October 23, 2014
- Supersedes all AR sections (except AR section 120)
- Effective for periods ending on or after December 15, 2015 (December 31, 2015 year ends)
- Early implementation is permitted



SSARS 21

**Accounting
Services**
(Preparation)

**Reporting
Services**
(Compilation &
Review)

FOUR SECTIONS

- Section 60 – *General Principles for Engagements Performed in Accordance with SSARS*
- Section 70 – *Preparation of Financial Statements*
- Section 80 – *Compilation Engagements*
- Section 90 – *Review Engagements*



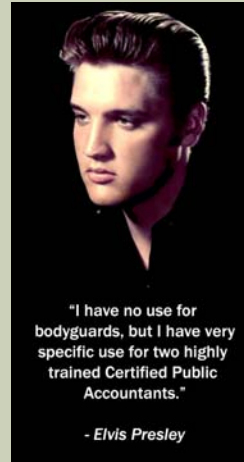
AR-C SECTION 60 – GENERAL PRINCIPLES

- Includes requirements and guidance with respect to:
 - Ethical requirements
 - Professional judgment
 - Conduct of the engagement in accordance with SSARSs
 - Engagement level quality control
 - Acceptance and continuance of client relationships and engagements



AR-C SECTION 70 – PREP OF FINANCIAL STATEMENTS

- Accountant in public practice is engaged to prepare financial statements, but is not engaged to perform an audit, review or a compilation on those financial statements.



AR-C SECTION 70 – PREP OF FINANCIAL STATEMENTS

- Does not require verification of the accuracy or completeness of information
- Report is not required
- No assurance provided
- Nonattest service – therefore, no independence determination

AR-C SECTION 70 – REQUIREMENTS

- Comply with requirements of Section 60
- Agree upon terms of engagement and document in engagement letter
- Obtain understanding of financial reporting framework and significant accounting policies

AR-C SECTION 70 – REQUIREMENTS (CON'T)

- Prepare financial statements
- “No assurance is provided” statement on financial statements
- Include financial reporting framework on face of financial statements or in a note for special purpose frameworks
- Prepare documentation in sufficient detail to provide understanding of work performed

DETERMINING APPLICABILITY OF SECTION 70

What has the client engaged us to do?



SECTION 70 - ILLUSTRATION #1

- Client engages accountant to prepare tax return and does not ask for or expect to receive financial statements.
- As part of tax return preparation work, accountant prepares financial statements and gives to client.



SECTION 70 – ILLUSTRATION #2

- Client engages accountant to perform numerous bookkeeping services.
- As part of bookkeeping work, accountant prepares financial statements and gives to client.



AR-C SECTION 80 - COMPILATIONS

- Engaged to perform compilation engagement
 - In contrast to prior standards, which applied when accountant submitted financial statements to client or third parties
- Largely unchanged from prior standards, other than applicability

AR-C SECTION 80 - COMPILATIONS

- **Primary changes:**
 - Report is now required for all compilation engagements
 - Compilation report is streamlined to differentiate from assurance reports
 - Consists of one paragraph with no headings
 - Additional paragraphs are required for certain situations
- **Retains requirement to determine independence.**

PREPARATION VS. COMPILATION

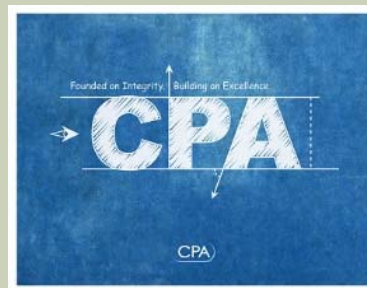
- **Main differences:**
 1. Report is issued for compilations
 2. Accountant is required to determine independence in compilations

AR-C SECTION 90 – REVIEW ENGAGEMENTS

- Primarily a clarity redraft of the pre-clarity review literature with very few changes.
- Review report now requires:
 1. Headings
 2. City and State of issuing office
 3. EOM or Other-Matter paragraphs in certain matters

FAQS FROM CPEA

- Question #5. Can the accountant be engaged to prepare monthly financial statements and also be engaged to perform a compilation engagement on the annual financial statements?
- Answer: Yes

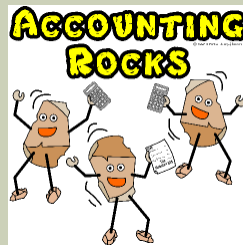


FAQS FROM CPEA

- Question #10. If the accountant, who is not the client's auditor, is engaged to prepare financial statements that will be provided to an outside auditor for the purposes of the annual audit, is the accountant required to prepare the financial statements in accordance with Section 70 of SSARS 21?
- Answer: Yes

FAQS FROM CPEA

- Question #12. Which engagements are required to have a signed engagement letter?
- Answer: All engagements performed in accordance with SSARS 21. The letter must be signed by both the accountant and management.



FAQS FROM CPEA

- Question #22. Are there different documentation requirements in accordance with SSARS 21 compared to the pre-SSARS 21 standards?
- Answer: No significant changes have been made to the documentation requirements.

FASB UPDATE

New
Standards

FASB

- Financial Accounting Standards Board still working toward convergence with the International Accounting Standards board (IASB)
 - Revenue Recognition
 - Lease Accounting
- New Accounting Alternatives for Private Companies



REVENUE RECOGNITION

- Principles Based Approach
 - Designed to promote consistency in reporting revenues
 - Transfer of the control of goods or services to the customer is the underlying principle
 - No “bright-line” rules
- Slow start due to
 - Questions on how to apply in certain areas
 - Will apply to all companies currently using either U.S. GAAP or IFRS (both FASB and IASB agreement needed)
 - Delayed implementation for 1 year

(ASU) 2014-09-Revenues from
Contracts with Customers



REVENUE RECOGNITION

■ Five-step Revenue Recognition Model

- Core Principle - "An entity must recognize revenue when it transfers promised goods and services to the customer and the amount recognized should be the consideration to which the entity expects to be entitled."

1. Identify the contract(s)
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 the entity satisfies a performance obligation



IDENTIFY THE CONTRACT

■ Specific criteria must be met

- Contract must have commercial substance
- Promised goods and services must be identified and approved
- Payment terms identified



IDENTIFY THE SEPARATE PERFORMANCE OBLIGATIONS

- Applicable when more than one good or service transferred
 - Additional good or service must be distinct
 - Could be sold separately or customer could benefit from the good or service on its own
 - Not distinct if bundled

Example - Sold a car with 5-yr warranty included in the purchase price and sold a separate 3-yr extended warranty. The extended 3-yr warranty would be a separate performance obligation.



DETERMINE THE TRANSACTION PRICE

- Consideration which the entity expects to receive for the transfer of the promised goods and services.
 - Variable consideration, time, money, non-cash consideration and consideration payable to the customer. Includes discounts, rebates, refunds, and royalties.
 - Use either the expected value method or the most likely amount method
 - Entity must have relevant experience with the item and know the probability of significant reversals



ALLOCATE TRANSACTION PRICE TO SEPARATE PERFORMANCE OBLIGATIONS

- Relative stand alone price of each performance obligation
- Management must identify observable evidence
- If none exists, management must use a method of estimation to determine stand-alone price
- Allocate consideration expected from the separate obligations



RECOGNIZE REVENUE WHEN ENTITY SATISFIES A PERFORMANCE OBLIGATION

- When customer obtains control of the good or service
- If satisfied over time, use a progress method to recognize revenue (input or output method)



REVENUE RECOGNITION

- New model requires management make more estimates and judgments:
 - Identifying separate performance obligations
 - Determining transaction price
 - Determining variable consideration
 - Allocation of transaction price
 - When control has been transferred
 - Management should assess and update internal controls and processes to avoid fraud
 - Forecast revenue changes to determine significant changes in financial metrics
 - Need to show two year comparative data in financials (on face or in notes)

EFFECTIVE DATES

- Due dates have been extended one year (announced April 2015) and are now:
 - Publicly held entities with annual reporting periods beginning on or after December 15, 2017 (with no early adoption) and for privately held companies with annual reporting periods beginning on or after December 15, 2018, with early adoption allowed but no sooner than December 15, 2017



LEASE ACCOUNTING

- Revised Exposure Draft from FASB and IASB
 - Lessees will record substantially all leases on the balance sheet; an asset and a lease obligation
 - Dual model for recognition of income and expense for both lessors and lessees
 - Is there a lease?
 - Classification of lease-capital or operating
 - Leases involving real estate
 - De-recognition treatment addressed



LEASE ACCOUNTING

- Is it a lease?
 - An agreement conveying right to use property, plant, or equipment (land and/or depreciable assets), usually for a stated period of time
 - Arrangement involves use of property, plant or equipment
 - PPE is explicitly or implicitly identified
 - Arrangement conveys "right to use"



LEASE ACCOUNTING

- What is NOT a lease under this topic?
 - Inventory and minerals, precious metals or other natural resources
 - Rights to explore for or to exploit natural resources such as oil, gas, minerals, timber, precious metals, or other natural resources
 - Intangibles - workforce and licensing agreements, patents and copyrights



LEASE ACCOUNTING

- FASB and IASB have not agreed
- FASB prefers dual-recognition approach for lessees whereby capital leases would use an interest-and-amortization method, and operating leases would be expensed on a straight-line basis
- IASB prefers lessees to account for all leases as a purchase of a right-of-use asset on a financed basis
- Release date still uncertain
- GASB issued preliminary views document toward an exposure draft which is based on principle that all leases are financings of the right to use an underlying asset

LEASE ACCOUNTING-CLASSIFICATIONS

- Lessee
 - Capital
 - Operating
- Lessor
 - Sales-type leases
 - Direct financing leases
 - Leveraged leases
 - Operating leases

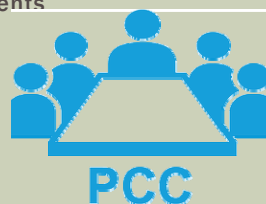


OTHER FASB ISSUES

- Going Concern-management responsibilities
 - Going concern determination has primarily been performed by auditors
 - August 2014, FASB issued standard (ASU) No. 2014-15 describing management's responsibility. Effective for years ending after December 15, 2016. Early adoption is permitted
 - Management should
 - Make an evaluation in every reporting period (ability to continue for 1 yr)
 - If identify doubt, state whether their plans will alleviate the substantial doubt
 - If plans will alleviate substantial doubt, they must be disclosed
 - If plans will NOT alleviate, management must include a statement in the note disclosures indicating the doubt

ALTERNATIVES FOR PRIVATE COMPANIES

- Private Company Council (PCC) Goal to make GAAP simpler while continuing to provide financial statement users the information they need
 - Exemption from having to prepare annual impairment tests
 - Ability to elect not to recognize certain intangible assets acquired in a business combination separately from goodwill
 - Simplified hedge accounting approach for certain interest rate swaps
 - An exemption for the requirement to consolidate variable-interest entities in common-control leasing arrangements



IMPAIRMENT TESTS

- Exemption from having to prepare annual impairment tests for Goodwill subsequent to a business combination
- Private company that elects the alternative should amortize goodwill over 10 years, or
- Less than 10 years if the entity can demonstrate another useful life is more appropriate

(ASU) 2014-02, Intangibles-Goodwill And Other (Topic 350) Accounting for Goodwill (a consensus of the Private Company Council)



ELECTION NOT TO RECOGNIZE CERTAIN INTANGIBLES

- Ability to elect not to recognize certain intangible assets acquired in a business combination separately from goodwill
 - If it is difficult to separate some of the intangibles in a business combination all can be amortized together and do not have to be separately identified

(ASU) 2014-18, Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination (a consensus Of the Private Industry Council)

SIMPLIFIED HEDGE ACCOUNTING

- Simplified hedge accounting approach
 - Certain interest rate swaps
 - Private companies other than financial institutions
 - Convert variable-rate debt to fixed-rate debt

(ASU) 2014-03, Derivatives And Hedging (Topic 815): Accounting for Certain Receivable-Variable, Pay-Fixed Interest Rate Swaps-Simplified Hedge Accounting Approach (a consensus of the PCC)
Effective for annual periods beginning after 12/15/14



VARIABLE INTEREST ENTITIES

- Variable Interest Entities (VIEs)
 - Exemption from requirement to consolidate VIEs in common control leasing arrangements

(ASU) 2014-07 *Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements (a consensus of the PPC)*.
Effective date-annual periods beginning after 12/15/14.
Early implementation permitted

SIMPLIFICATION INITIATIVE

- **Don't lose sight of the Goal!**
 - Provide financial information that helps the users of the financial statements make sound financial decisions
 - Rid GAAP of standards that cause preparers difficulty but provide little relevant information for financial statement users



SIMPLIFICATION INITIATIVE

- **Extraordinary Items**

- concept of extraordinary items has been removed-no longer have to determine if an item is both “unusual” and “infrequent”

(ASU) 2015-01 *Income Statement-Extraordinary and Unusual Items*

Effective-years beginning after 12/15/15. Early adoption permitted.

Once these started-
They have just kept coming!



SIMPLIFICATION INITIATIVE

February 18, 2015:

(ASU) 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*

- *Intended to “simplify and improve” consolidation guidance*

Affects VIE situations where consolidation does not provide the most useful information.

Effective for private companies and not-for-profit organizations, with annual periods beginning after 12/15/16. For public companies, effective for annual periods beginning after 12/15/15. Early adoption is permitted. Any adjustments will be reflected in a modified retrospective approach with a cumulative effect adjustment to equity

SIMPLIFICATION INITIATIVE

April 7, 2015

(ASU) 2015-03, *Simplifying the Presentation of Debt Issuance Costs*

- Amendments require that debt issuance cost be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability
- No longer shown as an asset since they provide no future economic benefit

Public and Nonpublic entities effective for fiscal years beginning after 12/15/15.

SIMPLIFICATION INITIATIVE

April 16, 2015

(ASU) 2015-04, *Compensation-Retirement Benefits (Topic 715): Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets*

For entities with a fiscal year end that does not coincide with a month-end, this amendment allows the entity to measure the defined benefit plan assets and obligations using the month-end that is closest to the entity's fiscal year end and apply that from year to year.

Effective for public entities for fiscal years beginning after 12/15/15 and for all other entities, effective for fiscal years beginning after 12/15/16. Earlier application is permitted.

SIMPLIFICATION INITIATIVE

April 16, 2015

(ASU) 2015-05, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*

If, cloud computing arrangement does not include software license-account for as a service contract.

If, cloud computing arrangement does include software license-

- For internal-use software, account for under ASC 350-40
- For other than internal-use, use applicable standards (i.e., if used in research-use ASC 730, *Research and Development*)

For public and nonpublic entities, effective for annual periods beginning after 12/15/15. Early adoption is permitted.

SIMPLIFICATION INITIATIVE

May 4, 2015

(ASU) 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*.

Removes requirement to categorize within the FV hierarchy all investments with FV measured under the NAV

Investments measured under NAV must be provided to permit reconciliation of FV to the amounts in the financial statements

Currently diversity in categorizing these NAV investments; this will eliminate the diversity

For public entities effective for annual periods beginning after 12/15/15 and for nonpublic after 12/15/16. Early application permitted.

OTHER RECENT FASB STATEMENTS

Several last year were issued as a consensus of the FASB Emerging Issues Task Force

- ASU 2014-01-*Investments-Equity Method and Joint Ventures*
- ASU 2014-04-*Receivables-Troubled Debt Restructurings by Creditors (Suptopic 310-40): Reclassification of residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure*
- ASU 2014-05-*Service Concession Arrangements (Topic 853)*
- 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*

OTHER RECENT FASB STATEMENTS

Continuation of updates issued as a consensus of the EITF

- ASU 2014-13 *Consolidation (Topic 810): Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity*
- ASU 2014-14 *Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure*
- ASU 2014-16 *Derivatives and Hedging (Topic 815): 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*
- ASU 2014-17 *Business Combinations (Topic): Pushdown Accounting*

OTHER RECENT FASB STATEMENTS

- There has already been one issued this year that is from consensus of the EITF-
- *ASU 2015-06 Earnings per Share (Topic 260): Effects on Historical Earnings per Unit of Master Limited Partnership Dropdown Transactions*

On the horizon-

the FASB is issuing for public comment a proposal to enhance the usefulness of the financial statements of NFPs.

It would change the current net asset classification scheme and the required information about an organization's liquidity, financial performance and cash flows.

OTHER RECENT FASB STATEMENTS

- *ASU 2014-06 Technical Corrections and Improvements Related to Glossary Terms*
- *ASU 2014-08 Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*
- *ASU 2014-10 Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including an Amendment to VIE Guidance in Topic 810*
- *ASU 2014-11 Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures*

FUTURE CHALLENGES

- Continued convergence issues
- More alternatives for private companies
- New simplification projects

- Health care issues
- Pension reporting
- Grant changes and the “super circular”



SOURCES

- AICPA
- Center for Plain English Accounting
- FASB Codification

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