



Accounting & Auditing Update

TCOSCPA Fall 2016 CPE Seminar Series

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Accounting & Auditing Update

- FASB
 - What FASB has been up to lately
 - What was first effective for 2015¹
 - What will be first effective for 2016¹
 - Selected future effective date ASUs¹
- AICPA
 - New Statements on Auditing Standards
 - Selected new auditing interpretations
 - Newly issued SSARS
 - Recap Updated Code of Professional Conduct
- PCAOB
 - Selected Releases

¹ Based on a calendar year non-public company



FASB UPDATE

FASB Update – Strategic Focuses

Ending of IFRS/US GAAP Convergence Projects

Private Company Council

Simplification Initiative

FASB Update - Standard Count

16 ASUs effective for 2015

12 ASUs effective for 2016

27 ASUs effective beyond 2016

19 standard setting projects in process

FASB ASUs – Effective 2015

2013-4 Joint and Several Liability Arrangements

Amount agreed upon + additional amounts expected to pay

2013-6 Services Received from Personnel of an Affiliate (Not-for-Profit)

In general directly beneficial services are recognized at cost

FASB ASUs – Effective 2015 (continued)

2014-2 Accounting for Goodwill (PCC)²

Election to amortize goodwill vs. test annually for impairment

2014-3 Accounting for Interest Rate Swaps (PCC)²

Simplified hedge accounting approach

2014-7 Applying VIE Guidance to Common Control Leasing Arrangements (PCC)²

Can elect not to consolidate owner's building leased to entity

²Effective dates removed with ASU 2016-03

FASB ASUs – Effective 2015 (continued)

2014-8 Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity

Disposal of components that represent a strategic shift and has a major effect on operations and financial results.

- ✓ Simplifies guidance (continuation conditions removed)
- ✓ More restrictive on components that qualify
- ✓ Equity method investments are no longer scoped out

FASB ASUs – Effective 2015 (continued)

2014-10 Development Stage Entities

No longer separately distinguished “development stage entities” removing all the specific presentation and disclosure requirements.

2014-17 Pushdown Accounting

Removes previous SEC staff guidance (often applied to nonpublic companies)

Election may be made if change in control takes place

Specified Topic ASUs – Effective 2015

2013-5 Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity

2013-11 Presentation of an Unrecognized Tax Benefit When a NOL Carryforward exists

2014-1 Accounting for Investments in Qualified Affordance Housing Projects

2014-4 Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure

2014-5 Service Concession Arrangements

2014-11 Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures

2015-13 Application of the Normal Purchases and Normal Sales Scope Exception to Certain Electricity Contracts within Nodal Energy Markets

FASB ASUs – Effective 2016

2014-12 Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period

Performance target should be treated as a performance condition

- ✓ Not included in fair value calculation
- ✓ Cost recognition begins when target achievement becomes probable

FASB ASUs – Effective 2016 (continued)

2014-18 Accounting for Identifiable Intangible Assets in a Business Combination (PCC)

Elect not to separately recognize the following:

- ✓ Customer-related intangibles assets that cannot be sold or licensed independently
- ✓ Noncompetition agreements

Must also adopt 2014-2 election (amortization of goodwill)

2015-1 Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items

Extraordinary items no longer presented in the income statement

May be applied prospectively or retrospectively

FASB ASUs – Effective 2016 (continued)

2015-3 Simplifying the Presentation of Debt Issuance Costs

Debt issuance cost presented as a contra liability vs. an asset

2015-5 Customer's Accounting for Fees Paid in a Cloud Computing Arrangement

Hosting arrangements are treated as a service contract instead of internal-use software unless:

- ✓ Contractual right to take possession of the software (w/o significant penalty), and
- ✓ Feasible to use the software without the host



Specified Topic ASUs – Effective 2016

2014-14 Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure

2014-16 Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity

2015-6 Effects of Historical Earning per Units of MLP Dropdown Transactions

2015-12 Plan Accounting: Defined Benefit Pension Plans, Defined Contribution Pension Plans, Health and Welfare Benefit Plans

Selected FASB ASUs – Beyond 2016

2014-9 Revenue from Contracts with Customers (2018)

Removes previous industry/transaction specific revenue guidance

Replaces with a comprehensive standard based on a five step process for determining appropriate revenue recognition

Applies to all contracts with a customer except:

- ✓ Leases
- ✓ Insurance contracts
- ✓ Financial instruments
- ✓ Guarantees
- ✓ Certain nonmonetary exchanges

Selected FASB ASUs – Beyond 2016

2014-15 Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern (2017)

Management is now also explicitly responsible for evaluating whether or not there is substantial doubt about an entity's ability to continue as a going concern.

Extends the assessment period to one year from financial statement issuance date

2015-2 Amendments to the Consolidation Analysis (2017)

Removes the presumption that a GP will consolidate an LP

Selected FASB ASUs – Beyond 2016

2015-7 Disclosure for Investments in Certain Entities that Calculate NAV per Share (2017)

These investments are no longer classified in the Fair Value Hierarchy disclosure

2015-11 Simplifying the Measurement of Inventory (2018)

Changes inventory valuation to the lower of cost or net realizable value

2015-16 Simplifying the Accounting for Measurement-Period Adjustments (2017)

Simplifies adjusting provisional amounts in a business combination

Selected FASB ASUs – Beyond 2016

2015-17 Balance Sheet Classification of Deferred Taxes (2018)

All deferred income taxes are classified as long-term

2016-1 Recognition and Measurement of Financial Assets and Financial Liabilities (2019)

Comprehensive changes to the accounting and disclosure of financial instruments

Accounting for equity investments substantially changed

Selected FASB ASUs – Beyond 2016

2016-2 Leases (2020)

Lessee recognizes all leases on the balance sheet

Classification determines expense

- ✓ Operating lease - straight line lease expense
- ✓ Financing lease – amortization and interest expense

Applies only to property, plant and equipment

Doesn't apply to oil and gas leases

Modified retrospective approach with practical expedient elections should ease transition

Selected FASB ASUs – Beyond 2016

2016-9 Improvements to Employee Share-Based Payment Accounting (2018)

Simplifies certain aspects of calculating and accounting for stock compensation

2016-13 Measurement of Credit Losses on Financial Instruments (2021)

Changes accounting bad debt expense

- ✓ From probable to expected

Available-for-sale debt securities

- ✓ Credit loss recorded as an allowance rather than a writedown

Selected FASB ASUs – Beyond 2016

2016-14 Presentation of Financial Statements of Not-for-Profit Entities (2019)

Overhauls the presentation of financial statement for nonprofits

- ✓ Two classes of net assets
- ✓ No longer required to present a reconciliation of operating cash flows if direct method is used
- ✓ Investment return presented net external and internal expenses
- ✓ Placed-in-service approach for reporting expirations of restrictions

Not in this standard but on the horizon: changes to the statement of activities.

Selected FASB ASUs – Beyond 2016

2016-15 Classification of Certain Cash Receipts and Cash Payments (2019)

Clarifies eight specific cash flow presentation issues where there is diversity in practice including:

- ✓ Contingent business combination consideration
- ✓ Proceeds from insurance claim settlements
- ✓ Distributions received from equity method investees



AICPA UPDATE

New Audit Standards

SAS No. 130: An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements

SAS No 131: Amendment to SAS No.122

Clarifies that an audit under PCAOB standards but not under PCAOB jurisdiction must also conform to GAAS

PCAOB Audit Opinion amended to reference GAAS

Effective for financial statement audits ending 6/15/16



Selected Recent Auditing Interpretations

Section 9180: Required Supplementary Information in Historical Prior Periods and Auditor Independence of the Entity

Auditor is only required to be independent in prior periods if the auditor's opinion covers RSI.

Section 9570: The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern


Conforms to the new accounting standard by referring to the appropriate financial statement framework

Section 9700: Reporting on Audits Conducted in Accordance With GAAS and International Standards on Auditing

May refer to both standards in the same audit report

SSARS No. 21 Recap

- Preparation of Financial Statements
 - New level of service
 - Guidance doesn't apply when performing an attest service
- Compilations
 - Now driven by engagement and not submission of financials
 - New report: one paragraph, office location
 - Engagement letters must be signed by both CPA and the client
- Reviews
 - No significant changes, primarily redrafted for clarity
 - New report: minor wording changes, subtitles, office location
 - Engagement letters must be signed by both CPA and the client



SSARS No. 22 Update

Compilation of Pro Forma Financial Information

Clarifies and supersedes previous standard on Pro Forma Compilations (SSARS No. 14)

Applies to reports issued on or after May 1, 2017



SSARS No. 23 Update

Omnibus Statement on Standards for Accounting and Review Services—2016

Expands SSARS applications beyond financial statements

- ✓ Preparation – prospective financial information
- ✓ Compilation – prospective, pro forma and other historical financial information

Applies to reports issued on or after May 1, 2017



AICPA Code of Professional Conduct

- New Code of Professional Conduct
 - Significantly about clarification and reorganization
 - Most provisions were effective 12/15/14
 - New conceptual frameworks added – effective 12/15/15
 - Conceptual Framework for Members in Public Practice
 - Conceptual Framework for Members in Business
- Conceptual Framework for Members in Public Practice
 - Very similar but technically different than the previously issued Conceptual Framework for Independence
 - “Threats and safeguards” approach
 - Identify threats
 - Evaluate the significance of a threat
 - Identify and apply safeguards



PCAOB Update

Selected PCAOB Releases

2015-008: Improving the Transparency of Audits: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form and Related Amendments to Auditing Standards

Accounting Firms will be required to file the following for each issuer audit:

- ✓ Name of the engagement partner
- ✓ Name, location and extent of participation of each accounting firm (5% aggregation)

Engagement partner requirement effective reports issued 1/31/2017

2015-002: Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Standards and Rules

Reorganizes its auditing standards using a topical structure and a single numbering system