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THE NEWSLETTER FROM BDO'S NATIONAL ASSURANCE PRACTICE

BDO KNOWS: FASB

2013 ACCOUNTING YEAR IN REVIEW

KEEP IT SIMPLE

During 2013 the FASB focused on finding the right balance between major, long term projects and narrower specific issues. The FASB continued to work with the International Accounting Standards Board (IASB) on three convergence projects—revenue recognition, leases and financial instruments. While the Boards are finalizing a common approach to revenue recognition in the first quarter of 2014, significant work remains for the other two projects and it appears increasingly unlikely they will find common ground on financial instruments. Overall, the FASB continues to strive for clarity, looking to reduce complexity and simplify its standards. In late 2013, the FASB endorsed the first of several proposed accounting alternatives for private entities developed by the Private Company Council (PCC), sending the message that simplification may be achievable, at least for some.

Our year in review letter summarizes the year's most significant changes in guidance and what to expect in 2014. We've also included a comprehensive list of the year's final accounting standards for reference in the appendix.

▶ Read more

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FINAL FASB GUIDANCE

All final FASB guidance can be accessed on the FASB website at http://www.fasb.org/home located under the *Standards* tab, *Accounting Standards Updates*.

During 2013, the FASB issued twelve Accounting Standard Updates (ASUs), covering the following topics:

Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities

Applicable to: All Entities.

Summary: ASU 2013-01 clarifies the scope of offsetting disclosure requirements; it does not change the existing guidance for when offsetting is appropriate in the balance sheet. It states that the disclosure requirements only apply to recognized derivative instruments accounted for in accordance with Accounting Standards Codification (ASC) 815, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions. Further, the disclosures only apply to those instruments if they are (i) offset on the balance sheet under ASC 210-20-45 or 815-10-45 or (ii) subject to an enforceable master netting arrangement or similar agreement irrespective of whether they are offset under ASC 210-20-45 or 815-10-45.

Effective Date: Fiscal years beginning on or after January 1, 2013 and interim periods within those years. Retrospective application is required for all comparative periods presented.

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (OCI)

Applicable to: All entities that report items in OCI.

Summary: ASU 2013-02 provides entities with two basic options for reporting the effect of significant reclassifications — either (i) on the face of the statement where net income is presented or (ii) as a separate footnote disclosure. Public entities will report reclassifications in both annual and interim periods, while private entities are only required to report them in annual financial statements.

Examples of OCI components include cash flow hedges, unrealized gains and losses on certain marketable securities, pension adjustments and foreign currency translation adjustments.

Under option (i), the effect of significant reclassifications is presented parenthetically by component of OCI on the respective line items of net income. Entities must also parenthetically report the aggregate tax effect of reclassifications in the income tax expense (benefit) line item.

Under option (ii), the significant amounts of each component of OCI must be presented in a single footnote. Pre- and net of- tax presentations are both acceptable. For reclassifications that are recorded entirely in net income (e.g., the gain on sale of an available for sale security), the income statement line item affected by the reclassification must be identified. For any reclassification that is not recorded entirely in net income (e.g., pension cost capitalized in inventory), a cross-reference must be provided to the footnote where additional information can be found (e.g., a cross-reference to the pension footnote).

The ASU includes examples of both options. For additional information, refer to BDO's Flash Report at: http://www.bdo.com/download/2492.

Effective Date: For public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2012. For nonpublic entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2013. Early adoption is permitted.

Clarifying the Scope and Applicability of a Particular Disclosure to Nonpublic Entities

Applicable to: Nonpublic entities that have total assets of $100 million or more or that have one or more derivative instruments.

Summary: The amendments in ASU 2013-03 confirm that a nonpublic entity is exempt from the requirement to disclose the level of the fair value hierarchy within which the fair value measurements are categorized (Level 1, 2 or 3) for items that are not measured at fair value in the balance sheet, but for which fair value is disclosed in the footnotes.

Effective Date: The amendments were effective upon issuance, February 7, 2013.

Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date

Applicable to: Entities that are jointly and severally liable with other entities.

Summary: ASU 2013-04 provides guidance related to the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements for which the total amount is fixed at the reporting date. Previously, U.S. GAAP did not contain specific guidance on accounting for such obligations which resulted in diversity in practice. The guidance requires an entity to measure the obligation resulting from joint and several arrangements (for which the total amount is fixed at the reporting date) as the sum of:

(i) The amount the reporting entity agreed to pay based on the arrangement with its co-obligors, and

(ii) Any additional amount the reporting entity expects to pay on behalf of its co-obligors. When the additional amount the entity expects to pay is within a range of possibilities, the entity should record the amount within the range that is a better estimate than any other amount within the range. If no amount is better than other amounts within the range, the entity should record the minimum amount in the range.

The corresponding journal entry to be recorded is dependent on the facts and circumstances of the obligation. Accordingly, a significant amount of judgment may be necessary. The Update requires certain disclosures for each obligation, or each group of similar obligations, resulting from joint and several liability arrangements.

For additional information, refer to BDO's Flash Report at: *http://www.bdo.com/download/2494*.

Effective Date: For public entities, the guidance is effective for fiscal years, and interim periods within those years, beginning after December 31, 2013. For nonpublic entities, the guidance is effective for fiscal years ending after December 31, 2014 (and interim and annual periods thereafter). Retrospective application is required for all periods presented. Entities are permitted to use hindsight when determining the appropriate amount to be recorded in prior periods. Early adoption is permitted.

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

Applicable to: Entities with foreign subsidiaries or foreign investments.

Summary: ASU 2013-05 provides guidance for releasing cumulative translation adjustments (CTA) upon the following derecognition events:

(i) Sale of a subsidiary or group of net assets within a foreign entity and the sale represents a substantially complete liquidation of the investment in the foreign entity.

(ii) Loss of a controlling financial interest in an investment in a foreign entity (i.e., the foreign entity is deconsolidated).

(iii) Disposal of an equity method investment in a foreign entity (e.g., upon a step-acquisition when an entity has changed from applying the equity method to consolidating the foreign entity).

The accounting for a CTA upon a derecognition event is based on the level at which the foreign investment is held by the parent. Accordingly, the Update requires entities to distinguish between derecognition events of investments *within* a foreign entity and changes in investments *in* a foreign entity. The Update contains a flowchart to help entities navigate the rules applicable to both scenarios.

For additional information, refer to BDO's Flash Report at: *http://www.bdo.com/download/2495*.

Effective Date: The Update is effective prospectively for all entities with derecognition events after the effective date. For public entities, the guidance is effective for fiscal years, and interim periods within those years, beginning after December 31, 2013. For nonpublic entities, the guidance is effective for fiscal years beginning after December 31, 2014 (and interim and annual periods thereafter). Early adoption is permitted. If early adoption is elected, the guidance should be applied as of the beginning of the entity's fiscal year of adoption.

Services Received from Personnel of an Affiliate

Applicable to: Not-for-profit entities.

Summary: ASU 2013-06 requires a recipient not-for-profit entity to recognize in its standalone financial statements all personnel services received from an affiliate that directly benefit the recipient not-for-profit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. However, if the cost significantly overstates or understates the value of the services received, a not-for-profit entity can elect to measure the services at fair value.

A not-for-profit entity within the scope of Topic 954, *Health Care Entities*, that provides a performance indicator (analogous to income from continuing operations of a for-profit entity) will report the increase in net assets associated with personnel services received from an affiliate as an equity transfer, regardless of whether those services are received from a not-for-profit affiliate or a for-profit affiliate. For other not-for-profit entities that do not present a performance indicator, this Update does not prescribe presentation guidance for the increase in net assets associated with personnel services received from an affiliate other than prohibiting reporting as a contra-expense or a contra-asset. All not-for-profit entities will report the corresponding decrease in net assets or the creation or enhancement of an asset resulting from the use of personnel services received from an affiliate similar to how other such expenses and assets are reported. The amendments also specify that Subtopic 850-10, *Related Party Disclosures—Overall*, applies to personnel services received from an affiliate.

Effective Date: The amendments in this Update are effective prospectively for fiscal years beginning after June 15, 2014, and interim and annual periods thereafter. A recipient not-for-profit entity may apply the amendments using a modified retrospective approach under which all prior periods presented upon the date of adoption should be adjusted, but no adjustment should be made to the beginning balance of net assets of the earliest period presented. Early adoption is permitted.

Liquidation Basis of Accounting

Applicable to: All entities for which liquidation is imminent except investment companies regulated under the Investment Company Act of 1940.

Summary: The amendments in ASU 2013-07 require an entity to present its financial statements using the liquidation basis of accounting when liquidation is imminent unless the liquidation follows a plan that was specified in the entity's governing documents at the entity's inception. Liquidation is imminent when the likelihood is remote that the entity will return from liquidation and either (i) a plan for liquidation is approved by the person(s) with the authority to make such a plan effective or (ii) a plan for liquidation is being imposed by other forces. The amendments require financial statements prepared using the liquidation basis of accounting to present relevant information about an entity's expected resources in liquidation by measuring and presenting assets at the amount of the expected cash proceeds from liquidation.

For additional information, refer to BDO's Flash Report at: *http://www.bdo.com/download/2601*.

Effective Date: The amendments in this Update are effective for entities that determine liquidation is imminent during annual reporting periods beginning after December 15, 2013, and interim reporting periods therein. Entities should apply the requirements prospectively from the day that liquidation becomes imminent. Early adoption is permitted.

Investment Companies: Amendments to the Scope, Measurement, and Requirements

Applicable to: Entities that apply the specialized accounting guidance in Topic 946.

Summary: The amendments in ASU 2013-08 modify the guidance for determining whether an entity is an investment company, update the measurement requirements for noncontrolling interests in other investment companies and require additional disclosures for investment companies. The amendments in the Update develop a two-tiered approach for the assessment of whether an entity is an investment company which requires an entity to possess certain fundamental characteristics while allowing judgment in assessing other typical characteristics. The amendments in this Update also revise the measurement guidance in Topic 946 such that investment companies must measure noncontrolling ownership interests in other investment companies at fair value, rather than applying the equity method of accounting to such interests.

For additional information, refer to BDO's Flash Report at: *http://www.bdo.com/download/2668*.

Effective Date: The amendments in this Update are effective for an entity's interim and annual reporting periods in fiscal years that begin after December 15, 2013. Earlier application is prohibited.

Disclosure Requirements for Nonpublic Employee Benefit Plans

Applicable to: Nonpublic employee benefit plans.

Summary: ASU 2013-09 indefinitely defers certain required disclosures of quantitative information about the significant unobservable inputs used in Level 3 fair value measurements for investments held by a nonpublic employee benefit plan in its plan sponsor's own nonpublic entity equity securities. This includes equity securities of its plan sponsor's nonpublic affiliated entities. The amendments in this Update do not defer the effective date for those certain quantitative disclosures for other nonpublic entity equity securities held in the nonpublic employee benefit plan or any qualitative disclosures.

Effective Date: The deferral in this amendment was effective upon issuance, July 8, 2013.

Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes

Applicable to: Entities that apply hedge accounting.

Summary: The amendments in ASU 2013-10 permit the use of the Fed Funds Effective Swap Rate (also referred to as the Overnight Index Swap Rate, or OIS) as a benchmark interest rate for hedge accounting purposes. Previous U.S. GAAP permitted only the interest rates on direct U.S. Treasury obligations and, for practical reasons, the LIBOR swap rate to be used as benchmark interest rates.

For additional information, refer to BDO's Flash Report at: *http://www.bdo.com/download/2739*.

Effective Date: The amendments in this Update are effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013.

Unrecognized Tax Benefits

Applicable to: Entities with unrecognized tax benefits related to a net operating loss (NOL) carryforward, similar tax loss or a tax credit carryforward.

Summary: The amendments in ASU 2013-11 require an entity with an unrecognized tax benefit that is not available under the tax law or not intended to be used at the reporting date to present the unrecognized tax benefit as a separate liability, rather than netted against a deferred tax asset. Otherwise, the unrecognized tax benefit should be presented as a reduction to the related deferred tax asset. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date.

For additional information, refer to BDO's Flash Report at: *http://www.bdo.com/download/2740*.

Effective Date: The amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. For nonpublic entities, the amendments are effective for fiscal years and interim periods within those years, beginning after December 15, 2014. Early adoption is permitted. The amendments should be applied prospectively, although retroactive application is permitted.

Definition of a Public Business Entity

Applicable to: All nonpublic entities.

Summary: ASU 2013-12 defines a public business entity, thereby clarifying which nonpublic entities potentially qualify for alternative financial accounting and reporting guidance developed by the PCC. The amendment specifies that:

(i) An entity that is required by the SEC to file or furnish financial statements with the SEC, or does file or furnish financial statements with the SEC, is considered a public business entity.

(ii) A consolidated subsidiary of a public company is not considered a public business entity for purposes of its standalone financial statements other than those included in an SEC filing by its parent or by other registrants or those that are issuers and are required to file or furnish financial statements with the SEC.

(iii) A business entity that has securities that are not subject to contractual restrictions on transfer and that is by law, contract, or regulation required to prepare U.S. GAAP financial statements (including footnotes) and make them publicly available on a periodic basis is considered a public business entity.

Effective Date: There is no actual effective date for the amendment in this Update. However, the term *public business entity* will be used in Accounting Standards Updates No. 2014-01*, Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill*, and No. 2014-02, *Derivatives and Hedging (Topic 815): Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps—Simplified Hedge Accounting Approach*, which are the first Updates that will use the term public business entity.

Private Company Council Developments

Applicable to: All nonpublic entities.

Summary: In May 2012, the Financial Accounting Foundation (FAF) established the PCC to improve the standards-setting process in U.S. GAAP and to develop alternatives that would allow private companies to simplify their accounting but still meet the needs of the users of their financial statements. In November 2013, the FASB voted to endorse for final issuance two alternatives to U.S. GAAP for private companies developed by the PCC.

The first alternative addresses the accounting for goodwill, under which entities will have the option of amortizing goodwill over 10 years or a shorter period if it is more appropriate. Entities making the election would test goodwill for impairment only when a triggering event occurs, instead of annually. In that situation, entities would elect to perform the test either at an entity-wide basis or the reporting unit level. The amount of impairment, if any, would be determined by comparing the fair value of the entity (or reporting unit) to its carrying amount. That is, a hypothetical purchase-price allocation in Step 2 of the existing goodwill impairment test would not be performed.

The second alternative simplifies hedge accounting in certain circumstances. Specifically, entities would be entitled to assume no ineffectiveness in a qualifying receive-variable, pay-fixed interest rate swap that is designated in a hedging relationship if certain criteria are met. That is, detailed hedge effectiveness testing would not be required. In addition, the hedge documentation may be prepared any time prior to issuing the financial statements, instead of contemporaneously at hedge inception. For example, if the simplified hedge accounting approach is applied to a qualifying interest rate swap entered into on January 1, 2013, the hedge could be adequately documented at any point prior to the annual financial statements being issued in 2014. Lastly, entities may record the swap on the balance sheet at its settlement value, which excludes nonperformance risk, rather than fair value.

Both ASUs will be effective for fiscal years beginning after December 15, 2014 and interim and annual periods thereafter. The FASB has indicated private entities will be able (but not required) to early adopt the new standards for December 31, 2013 financial statements.

BDO COMMENT:

BDO plans to issue a newsletter addressing the key considerations about the definition of a public business entity and the two new ASUs related to goodwill and hedging after the FASB issues them in final form later this January.

ON THE HORIZON – PROPOSED FASB GUIDANCE

The following is a summary of significant ongoing FASB projects. All proposed FASB guidance can be accessed on the FASB website at *http://www.fasb.org/home* located under the *Exposure Documents* tab. In addition, BDO comment letters on proposals can be accessed at *http://www.bdo.com/publications/assurance*.

Revenue

Applicable to: All entities.

Summary: The FASB and the IASB wrapped up redeliberations and are finalizing the joint revenue recognition standard that they plan to issue in the first quarter of 2014. The standard is expected to take effect for public companies for annual periods beginning after December 15, 2016. Calendar year-end public companies will be required to apply the standard in the quarter ended March 31, 2017. Nonpublic companies will have an additional year to adopt.

As a refresher, the 2011 revenue recognition exposure draft preserved the core elements of the original model. It is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration the vendor receives. To accomplish this objective, the proposed standard will require the application of five steps: (i) identify the contract with the customer, (ii) identify the separate performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the separate performance obligations in the contract, (v) recognize revenue when (or as) the company satisfies a performance obligation. Companies will generally be required to make more estimates and use more judgment than under current guidance. To evaluate the effects of these changes, management will need to identify areas in which key judgments and estimates will be required.

Throughout 2012 and 2013, numerous aspects were refined by the Boards based on extensive public feedback and outreach efforts. A few of the more critical decisions related to: distinct performance obligations, onerous performance obligations, the constraint on variable consideration, collectibility, types of licenses, and disclosures.

In October 2013, the Boards established two thresholds based on collectability—one for deciding when a contract would be in the scope of the revenue standard and a second for determining how much variable consideration to include in the transaction price. They also reinstated an exception to estimate variable consideration for sales- and usage-based royalties on licensed intellectual property. Lastly, the Boards clarified the criteria that entities would use to determine whether to recognize revenue from licenses of intellectual property at a point in time or over time.

For more information, refer to our 2012 year in review letter (*http://www.bdo.com/download/2411*) and the Q3 2013 Ac'sense Update (*http://www.bdo.com/acsense/events/technicalupdateq32013.aspx*).

BDO COMMENT:

Once the final standard is issued in 2014, BDO plans to host a dedicated Ac'sense webinar to discuss the new revenue recognition guidance. An in-depth publication is also planned.

Leases

Applicable to: All entities.

Summary: During 2013, the Boards reproposed the joint leasing standard and discussed the feedback they received in more than 600 comment letters. They also made plans to redeliberate the following topics: lease definition and scope, lessee accounting model, lessor accounting model, lease classification, lease measurement provisions and disclosure requirements. While constituents generally support putting leases on the balance sheets of lessees, many expressed concerns about the cost and complexity of the proposal. With redeliberations expected to extend through much of 2014, it's possible the May 2013 exposure draft (ED) will change significantly.

The ED proposes a dual approach to the recognition, measurement, and presentation of expenses and cash flows arising from a lease, for both lessees and lessors, which is dependent upon whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset. The ED defines two types of leases: Type A would consist of most leases of assets other than property (e.g., equipment, aircraft, cars, trucks) and Type B would consist of most leases of property (e.g., land and/or a building or part of a building).

Lessees will recognize all leases on the balance sheet (other than short term leases) by recording a right to use asset and a lease payment liability. The P&L impact of leasing transactions will be recognized under a dual model. Type A leases (non-property) will be accounted for using an accelerated approach unless the lease term is an insignificant portion of the economic life of the underlying asset, or the present value of the fixed lease payments is insignificant relative to the fair value of the underlying asset. Type B leases (land or a building—or part of a building—or both) will be accounted for using the straight-line approach unless the lease term is for the major part of the economic life of the underlying asset, or the present value of fixed lease payments accounts for substantially all of the fair value of the underlying asset.

Lessors will apply one of two accounting models based on the type of lease. At the commencement date, for all Type A leases, a lessor would recognize an asset for the right to receive lease payments (plus any initial direct costs), with a corresponding credit to lease income, and would derecognize a portion of the underlying leased asset, with the corresponding charge to lease expense. The retained portion of the rights in the leased property would be reclassified as a residual asset. For all Type B leases, a lessor would continue to measure the underlying asset subject to a lease, both at lease inception and over the lease term, in accordance with other applicable GAAP. This approach would be similar to existing lessor accounting for operating leases.

For additional information, refer to BDO's Flash report at *http://www.bdo.com/download/2636*.

Financial Instruments

Applicable to: All entities.

Summary: In 2013, the FASB and IASB redeliberated issues related to classification and measurement, as well as impairment. However, the Boards have not reached convergence in the financial instruments project. Late in 2013, the FASB abandoned the proposed "solely payments of principal and interest (SPPI)" test related to a debt instrument's cash flows. The FASB concluded it would be too complex and has decided to leverage existing guidance in US GAAP to assess cash flows for purposes of classifying an instrument. The FASB also affirmed its current expected credit loss (CECL) model, which requires entities to recognize the full amount of cash flows they do not expect to collect over the instrument's life. In contrast, the IASB has continued with the SPPI cash flow test and an impairment model with two categories: (i) for instruments with a significant increase in credit risk since initial recognition, lifetime credit losses would be recognized (similar to the FASB approach) and (ii) for all other instruments, credit losses resulting from default events within the next 12 months would be recorded.

▶BDO COMMENT:

The Boards are poised to finalize divergent financial instruments standards sometime in 2014.

To recap, this project will provide comprehensive guidance for the classification, measurement, impairment, and hedge accounting related to financial instruments. It will result in changes to the current accounting for many instruments including investments in debt and equity securities, nonmarketable equity securities, loans, loan commitments, debt liabilities and derivatives. The proposal will have the greatest effect on banks and other financial institutions, but all enterprises that engage in financial instrument transactions will be affected.

For current status of joint FASB/IASB projects, refer to the *FASB's Current Technical Plan and Project Updates* and *IASB's Work Plan for IFRSs*.

For additional information, refer to BDO's Flash report at http://www.bdo.com/download/2493.

Insurance Contracts

Applicable to: All entities.

Summary: The FASB and IASB issued separate exposure drafts in June that would fundamentally change the scope of contracts subject to the guidance on accounting and reporting for insurance contracts. That is, the proposals are not scoped in terms of insurance entities, but in terms of insurance contracts. This would include third party product warranties, financial guarantees, minimum revenue guarantees, standby letters of credit, merger and acquisition guarantees, etc. The FASB's approach would establish a dual recognition model, which is summarized at http://www.fasb.org/cs/ContentServer?c=Document_C&pagename=FASB%2FDocument_C%2FDocumentPage&cid=1176163028428. The comment period ended in October and the Boards plan to redeliberate their proposals in 2014.

Reporting Discontinued Operations

Applicable to: All entities.

Summary: The proposed amendments would reduce the frequency with which disposals would qualify for discontinued operations presentation. However, they would significantly expand the existing disclosures about discontinued operations, as well as disposals of material components that do not meet the new criteria.

Under the proposal, a discontinued operation would be either (i) a component of an entity or a group of components of an entity that represents a separate major line of business or major geographical area of operations that either has been disposed of or is part of a single coordinated plan to be classified as held for sale, or (ii) a business that, on acquisition, meets the held for sale criteria. A component of an entity comprises operations and cash flows that can be clearly distinguished from the rest of the entity. It may be a reportable or operating segment, a reporting unit, a subsidiary, or an asset group.

A final ASU is anticipated in the first quarter of 2014.

Consolidation: Principal versus Agent

Applicable to: All entities with variable interest arrangements.

Summary: The FASB released the principal versus agent exposure draft in November 2011. The proposed amendments would have established a framework for determining whether a decision maker is using its power as a principal or an agent, with a separate qualitative analysis that ultimately affects whether the entity is a variable interest entity (VIE) and, if so, whether it should be consolidated. In addition, the proposal was intended to resolve an existing inconsistency in the way that kick-out and similar rights are evaluated for VIEs and all other entities. The ASU would also be used to evaluate whether a general partner controls a limited partnership (or similar entity), consistent with the analysis for evaluating VIEs.

Many respondents found the exposure draft to be operationally challenging, largely because it was not clear how the notion of a "principal" compared with a "primary beneficiary." In 2013, the Board discussed ways to better integrate these notions, using the same basic tenets of "power" and "economics." Additional deliberations are planned for 2014.

Going Concern

Applicable to: All entities.

Summary: Going concern and liquidation basis of accounting were previously being addressed as a single FASB project—Disclosures about Risks and Uncertainties. They were split into separate projects in May 2012. While the Liquidation Basis project was finalized in ASU 2013-07, the Going Concern project is still in progress. It is intended to provide guidance about how an entity should assess its ability to continue as a going concern, as well as the timing, nature, and extent of any related disclosure requirements. At each reporting period, an entity will be required to assess the potential inability to continue as a going concern. Disclosures will be required when it is either (i) more likely

than not that the entity will be unable to meet its obligations within 12 months after the financial statement date without taking actions outside the ordinary course of business or (ii) known or probable that the entity will be unable to meet its obligations within 24 months after the financial statement date without taking actions outside the ordinary course of business. In addition, an SEC Filer would be required to disclose the presence of "substantial doubt" about its ability to continue as a going concern in certain circumstances.

For additional information, refer to BDO's Flash Report at: http://www.bdo.com/download/2714.

Emerging Issues Task Force (EITF)

In December 2013, the Board ratified the consensuses reached at the November 14, 2013 EITF meeting on the following Issues. Final Accounting Standards Updates are anticipated shortly:

- Issue 12-G: Measuring the Financial Assets and Financial Liabilities of a Consolidated Financing Entity: A reporting entity that elects to measure the financial assets and financial liabilities of a consolidated collateralized financing entity (CFE) at fair value will recognize changes in the fair value of its owned beneficial interest in net income. A CFE is defined as a VIE that holds financial assets, issues beneficial interests in those financial assets, and has no more than nominal equity. A reporting entity should measure both the financial assets and the financial liabilities of the CFE using the more observable of the fair value of the assets and liabilities. The amendments are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. For entities other than public business entities, the amendments are effective for the annual period beginning after December 15, 2015, and interim and annual periods thereafter. Early adoption is permitted.

- Issue 12-H: Accounting for Service Concession Arrangements: Service concession arrangements are contracts under which a public sector entity such as a governmental body grants a private entity the right to operate and/or maintain the grantor's infrastructure assets, for example, airports, roads, bridges, tunnels, prisons, and hospitals. Public-to-private service concession arrangements meeting certain criteria will not be considered leases or property, plant and equipment. As such, other US GAAP would apply. The amendments are effective for all entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted.

- Issue 13-B: Accounting for Investments in Affordable Housing Projects: A reporting entity that invests in qualified affordable housing projects may elect to account for the investments using a proportional amortization method if certain conditions are met. The entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance amortization in the income statement as a component of income taxes. The amendments are effective for all entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted.

- Issue 13-E: Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure: A creditor will be considered to have physical possession of residential real estate property that is collateral for a residential mortgage loan and therefore should reclassify the loan to other real estate owned when it obtains legal title to the collateral or it completes a deed in lieu of foreclosure or similar legal agreement. The amendments are effective for all entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted.

The Task Force reached a consensus-for-exposure on the following issue and an exposure draft is expected in the first quarter of 2014:

- Issue 13-F: Classification of Certain Government Insured Residential Mortgage Loans upon Foreclosure: A reporting entity would classify foreclosed real estate as a receivable on the balance sheet (separate from loans) at the full amount of the guarantee for certain government-guaranteed mortgage loans.

Consolidation: Applying Variable Interest Entity Guidance to Common Control Leasing Arrangements (a proposal of the PCC)

Applicable to: All nonpublic entities.

Summary: The proposed amendments would permit a private company to elect not to apply VIE guidance for assessing whether it should consolidate a lessor entity when (i) the lessor entity and the private company are under common control, (ii) the private company has a leasing arrangement with the lessor entity, and (iii) substantially all of the activity between the two entities is related to the leasing activity of the lessor entity.

A fourth criterion related to whether the lessor's liabilities are collateralized by lessee's assets is also being considered. If incorporated into the final amendments, it would further restrict this accounting alternative. Additional deliberations are planned for 2014.

Business Combinations: Accounting for Identifiable Intangible Assets in a Business Combination (a proposal of the PCC)

Applicable to: All nonpublic entities.

Summary: The proposed amendments would provide guidance about an accounting alternative for the recognition, measurement, and disclosure of identifiable intangible assets acquired in a business combination. Private entities would have the option to recognize only those identifiable intangible assets arising from noncancelable contractual terms or those arising from other legal rights. The proposed amendments are intended to result in private entities recognizing fewer intangible assets in a business combination than under current U.S. GAAP because not all identifiable intangible assets would be recognized separately, as currently required under Topic 805.

Additional deliberations are planned for 2014.

Other Current FASB Projects

A complete list of the FASB's technical agenda and the timeline for each project can be accessed on the FASB's *website*.

AICPA FINANCIAL REPORTING EXECUTIVE COMMITTEE

The Financial Reporting Executive Committee (FinREC), formerly known as the Accounting Standards Executive Committee (AcSEC), is a senior committee of the AICPA for financial reporting. It is authorized to make public statements on behalf of the AICPA on financial reporting matters. During 2013, FinREC released the following updated or new practice aids:

Valuation of Privately Held Company Equity Securities Issued as Compensation (updated) – This guide was developed jointly by AICPA staff and the Equity Securities Task Force to provide guidance and illustrations regarding the accounting for, valuation of, and disclosures related to, privately held company equity securities issued as compensation. The valuation guidance in this guide is focused on measuring fair value of privately held company equity securities issued as compensation for financial reporting purposes.

Testing Goodwill for Impairment (new) – This guide, which was developed by the AICPA Impairment Task Force, provides accounting and valuation guidance and illustrations regarding goodwill impairment testing, including the qualitative option introduced by ASU 2011-08. The guide discusses practice issues related to the goodwill impairment test, including the various valuation techniques that are used to estimate the fair value of a reporting unit. The guide does not amend existing guidance, but instead provides details about the principles in existing standards and provides practical examples that may help illustrate the concepts discussed.

Assets Acquired to be Used in Research and Development Activities (updated) – This guide was developed by the AICPA IPR&D Task Force and AICPA staff to provide guidance and illustrations regarding the initial and subsequent accounting for, valuation of, and disclosures related to acquired in-process research and development (IPR&D) assets. The valuation guidance in this guide is focused on measuring fair value of IPR&D assets for financial reporting purposes.

Refer to the AICPA website at: *http://www.cpa2biz.com*.

BDO FINANCIAL REPORTING LETTERS & FLASH REPORTS

The full library of BDO's publications on financial reporting developments and comment letters can be accessed at http://www.bdo.com/publications/assurance/. It includes the following:

- NEW! Troubled Debt Restructuring, Debt Modification and Extinguishment (December 2013)
- NEW! Complex Financial Instruments - 4th Edition (December 2013)
- 2013 BDO Flash Reports - Flash reports are intended to highlight certain financial reporting developments in a timely and brief "flash" format. (Various)
- Manufacturing the Future (Summer 2013)
- 2013 BDO Manufacturing RiskFactor Report (May 2013)
- BDO Knows Government Contracting (Spring 2013)
- BDO Knows Healthcare (Spring 2013)
- Report on 2013 AICPA SEC and PCAOB Conference (January 2014)
- SEC Year in Review – Significant 2013 Developments (January 2014)
- BDO Knows: The Jumpstart Our Business Startups Act (April 2012)
- BDO Knows: Goodwill Impairment (September 2011)
- BDO Knows: Contingent Consideration (June 2011)

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To ensure compliance with Treasury Department regulations, we wish to inform you that any tax advice that may be contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties under the Internal Revenue Code or applicable state or local tax law provisions or (ii) promoting, marketing or recommending to another party any tax-related matters addressed herein.

Material discussed in this publication is meant to provide general information and should not be acted on without professional advice tailored to your individual needs

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EFFECTIVE DATES OF U.S. ACCOUNTING PRONOUNCEMENTS

This appendix was prepared with a calendar year-end company in mind. Therefore standards with an effective date in 2012 have been included since many companies applied them for the first time in 2013, e.g., the first interim or annual period beginning on or after December 15, 2012. Standards that do not require adoption before 2014 are highlighted in gray.

PRONOUNCEMENT	EFFECTIVE DATE
ASC 205, Presentation of Financial Statements	
ASU 2013-07, *Liquidation Basis of Accounting*	Effective for entities that determine liquidation is imminent during annual reporting periods beginning after December 15, 2013. Early adoption is permitted.
ASC 210, Balance Sheet	
ASU 2013-01, *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*	The amendments are effective for fiscal years beginning on or after 1/1/2013 and interim periods within those years. Retrospective application is required.
ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities*	An entity is required to apply the amendments for annual reporting periods beginning on or after 1/1/2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented.
ASC 220, Comprehensive Income	
ASU 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*	For public entities, the amendments are effective prospectively for reporting periods beginning after 12/15/2012. For nonpublic entities, the amendments are effective prospectively for reporting periods beginning after 12/15/2013. Early adoption is permitted.
ASC 230, Statement of Cash Flows	
ASU 2012-05, *Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows (a consensus of the FASB Emerging Issues Task Force)*	Effective prospectively for fiscal years, and interim periods within those years, beginning after 6/15/2013. Retrospective application to all prior periods presented upon the date of adoption is permitted. Early adoption from the beginning of the fiscal year of adoption is permitted. For fiscal years beginning before 10/22/2012, early adoption is permitted only if an NFP's financial statements for those fiscal years and interim periods within those years have not yet been made available for issuance.
ASC 350, Intangibles—Goodwill and Other	
ASU 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment*	Effective for annual and interim impairment tests performed for fiscal years beginning after 12/15/2012. Early adoption is permitted, including for annual and interim impairment tests performed as of a date before 7/27/2012, if an entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance.
ASC 360, Property, Plant, and Equipment	
ASU 2011-10, *Derecognition of in Substance Real Estate—a Scope Clarification (a consensus of the FASB Emerging Issues Task Force)*	The amendments in this Update should be applied on a prospective basis to deconsolidation events occurring after the effective date. Prior periods should not be adjusted even if the reporting entity has continuing involvement with previously derecognized in substance real estate entities. For public entities, the amendments in this Update are effective for fiscal years, and interim periods within those years, beginning on or after 6/15/2012. For nonpublic entities, the amendments are effective for fiscal years ending after 12/15/2013, and interim and annual periods thereafter. Early adoption is permitted.
ASC 405, Liabilities	
ASU 2013-04, *Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date (a consensus of the FASB Emerging Issues Task Force)*	Retrospective application is required for all periods presented. Entities are permitted to use hindsight when determining the appropriate amount to be recorded in prior periods. For public entities, the guidance is effective for fiscal years, and interim periods within those years, beginning after 12/31/2013. For nonpublic entities, the guidance is effective for fiscal years ending after 12/31/2014 and interim and annual periods thereafter. Early adoption is permitted.
ASC 720, Other Expenses	

▶EFFECTIVE DATES OF U.S. ACCOUNTING PRONOUNCEMENTS *(continued)*

PRONOUNCEMENT	EFFECTIVE DATE
ASU 2011-06, *Fees Paid to the Federal Government by Health Insurers (a consensus of the FASB Emerging Issues Task Force)*	Effective for calendar years beginning after 12/31/2013, when the fee initially becomes effective.
ASC 740,Income Taxes	
ASU 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force)*	The amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. For nonpublic entities, the amendments are effective for fiscal years and interim periods within those years, beginning after December 15, 2014. Early adoption is permitted.
ASC 805, Business Combinations	
ASU 2012-06, *Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution (a consensus of the FASB Emerging Issues Task Force)*	For public and nonpublic entities, the amendments in this Update are effective for fiscal years, and interim periods within those years, beginning on or after 12/15/2012. Early adoption is permitted. The amendments should be applied prospectively to any new indemnification assets acquired after the date of adoption and to indemnification assets existing as of the date of adoption arising from a government-assisted acquisition of a financial institution.
ASC 815, Derivatives and Hedging	
ASU 2013-10, *Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes (a consensus of the FASB Emerging Issues Task Force)*	The amendments in this Update are effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013.
ASC 820, Fair Value Measurement	
ASU 2013-09, *Deferral of the Effective Date of Certain Disclosures for Nonpublic Employee Benefit Plans in Update No. 2011-04*	The deferral in this amendment is effective upon issuance for financial statements that have not been issued.
ASC 825, Financial Instruments	
ASU 2013-03, *Clarifying the Scope and Applicability of a Particular Disclosure to Nonpublic Entities*	The Update was effective upon issuance in February 2013. Consequently, it amends ASU 2011-04 immediately, which is effective for nonpublic entities for periods beginning after 12/15/2011 (i.e., 2012 calendar year-ends).
ASC 830, Foreign Currency Matters	
ASU 2013-05, *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 (a consensus of the FASB Emerging Issues Task Force)*	The amendments in this Update are effective prospectively for all entities with derecognition events after the effective date. For public entities, the guidance is effective for fiscal years, and interim periods within those years, beginning after 12/31/2013. For nonpublic entities, the guidance is effective for fiscal years beginning after 12/31/2014 and interim and annual periods thereafter. Early adoption is permitted. If early adoption is elected, the guidance should be applied as of the beginning of the entity's fiscal year of adoption.
ASC 926, Entertainment—Films	
ASU 2012-07, *Accounting for Fair Value Information That Arises after the Measurement Date and Its Inclusion in the Impairment Analysis of Unamortized Film Costs (a consensus of the FASB Emerging Issues Task Force)*	For SEC filers, the amendments are effective for impairment assessments performed on or after 12/15/2012. For all other entities, the amendments are effective for impairment assessments performed on or after 12/15/2013. The amendments resulting from this Issue should be applied prospectively. In addition, earlier application is permitted, including for impairment assessments performed as of a date before 10/24/2012, if, for SEC filers, the entity's financial statements for the most recent annual or interim period have not yet been issued or, for all other entities, have not yet been made available for issuance.

▶EFFECTIVE DATES OF U.S. ACCOUNTING PRONOUNCEMENTS *(continued)*

PRONOUNCEMENT	EFFECTIVE DATE
ASC 946, Financial Services – Investment Companies	
ASU 2013-08, *Financial Services – Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements*	Effective for an entity's interim and annual reporting periods in fiscal years that begin after 12/15/2013. Earlier application is prohibited.
ASC 954, Health Care Entities	
ASU 2012-01, *Continuing Care Retirement Communities – Refundable Advance Fees*	Effective for public entities for fiscal years beginning after 12/15/2012. For nonpublic entities, the Issue will be effective for fiscal years ending after 12/15/2013. Early adoption is permitted. Entities must apply the requirements retrospectively by recording a cumulative-effect adjustment to opening retained earnings (or unrestricted assets) as of the beginning of the earliest period presented.
ASC 958, Not-for-Profit Entities	
ASU 2013-06, *Services Received from Personnel of an Affiliate*	Effective prospectively for fiscal years beginning after June 15, 2014, and interim and annual periods thereafter. A recipient not-for-profit entity may apply the amendments using a modified retrospective approach under which all prior periods presented upon the date of adoption should be adjusted, but no adjustment should be made to the beginning balance of net assets of the earliest period presented. Early adoption is permitted.
Other	
ASU 2012-04, *Technical Corrections and Improvements*	The amendments in this Update that do not have transition guidance are effective upon issuance for both public entities and nonpublic entities. For public entities, the amendments that are subject to the transition guidance will be effective for fiscal periods beginning after 12/15/2012. For nonpublic entities, the amendments that are subject to the transition guidance will be effective for fiscal periods beginning after 12/15/2013.
ASU 2013-12, *Definition of a Public Business Entity—An Addition to the Master Glossary*	There is no actual effective date for the amendment in this Update. However, the term public business entity will be used in Accounting Standards Updates No. 2014-01, Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill, and No. 2014-02, Derivatives and Hedging (Topic 815): Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps—Simplified Hedge Accounting Approach.