INSIGHTS FROM BDO'S NATIONAL ASSURANCE PRACTICE

ACCOUNTING STANDARD UPDATES: EFFECTIVE FIRST QUARTER 2018

For calendar year-end entities a number of Accounting Standard Updates (ASUs) take effect during the first quarter of 2018. BDO has summarized these together with our guidance for further information. The ASUs summarized below reflect mandatory transition dates and and do not include ASUs with early adoption permitted during the period.

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PUBLIC BUSINESS ENTITIES

ASU 2018-03 - *TECHNICAL CORRECTIONS AND IMPROVEMENTS TO FINANCIAL INSTRUMENTS—OVERALL (SUBTOPIC 825-10): RECOGNITION AND MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES*

Main Provisions

ASU 2018-03 made technical corrections and improvements to ASU 2016-01 related primarily to equity securities without a readily determinable fair value and certain liabilities for which the fair value option has been elected.

Guidance

- BDO Flash Report: FASB Issues Technical Corrections & Improvements to its Recent Financial Instruments Guidance
- ASU 2018-03

ASU 2017-10 - *SERVICE CONCESSION ARRANGEMENTS (TOPIC 853): DETERMINING THE CUSTOMER OF THE OPERATION SERVICES (A CONSENSUS OF THE FASB EMERGING ISSUES TASK FORCE)*

Main Provisions

Amends Topic 853 to clarify that when applying Topic 606, an operating entity in a service concession arrangement should consider the grantor to be its customer for the services it provides in all cases. This includes the construction of the infrastructure, if any, as well as operating services.

The FASB ultimately concluded the operating entity is acting as the grantor's service provider to operate and maintain the infrastructure, which is controlled by the grantor, and the only parties to the executed service concession arrangement are the grantor and the operating entity.

Guidance

- BDO Flash Report: FASB Clarifies Accounting for Service Concession Arrangements
- ASU 2017-10

ASU 2017-09 - *COMPENSATION—STOCK COMPENSATION (TOPIC 718): SCOPE OF MODIFICATION ACCOUNTING*

Main Provisions (For Both Public and All Other Entities)

ASU 2017-09 clarifies that an entity must apply modification accounting to changes in the terms or conditions of a share-based payment award unless all of the following criteria are met:

1. The fair value of the modified award is the same as the fair value of the original award immediately before the modification. The standard indicates that if the modification does not affect any of the inputs to the valuation technique used to value the award, the entity is not required to estimate the value immediately before and after the modification.
2. The vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the modification.
3. The classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the modification.

Guidance

- BDO Flash Report: FASB Clarifies Accounting for Modifications of Share-Based Payments
- ASU 2017- 09

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ASU 2017-07 - *COMPENSATION—RETIREMENT BENEFITS (TOPIC 715): IMPROVING THE PRESENTATION OF NET PERIODIC PENSION COST AND NET PERIODIC POSTRETIREMENT BENEFIT COST*

Main Provisions

The amendments require that an employer disaggregate the service cost component from the other components of net benefit cost, as follows:

- Service cost must be presented in the same line item(s) as other employee compensation costs.
- All other components of net benefit cost must be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item is used to present the other components of net benefit cost, it must be appropriately described. If a separate line item is not used, an entity must disclose the line item(s) in the income statement that includes the other components of net benefit cost.

In addition, the amendments permit capitalizing only the service cost component of net benefit cost, assuming such costs meet the criteria required for capitalization by other U.S. GAAP, rather than total net benefit cost which has been permitted under prior GAAP.

Guidance

- BDO Flash Report: FASB Updates Presentation of Pension and Other Postretirement Benefit Plan Costs
- ASU 2017-07

ASU 2017-05 - *OTHER INCOME—GAINS AND LOSSES FROM THE DERECOGNITION OF NONFINANCIAL ASSETS (SUBTOPIC 610-20): CLARIFYING THE SCOPE OF ASSET DERECOGNITION GUIDANCE AND ACCOUNTING FOR PARTIAL SALES OF NONFINANCIAL ASSETS*

Main Provisions

The amendments clarify the scope of Subtopic 610-20, *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets*, and add guidance for partial sales of nonfinancial assets, including partial sales of real estate. Historically, U.S. GAAP contained several different accounting models to evaluate whether the transfer of certain assets qualified for sale treatment. Moving forward, the new standard reduces the number of potential accounting models that might apply and clarifies which model does apply in various circumstances.

Guidance

- BDO Flash Report: FASB Clarifies the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets
- ASU 2017-05

ASU 2017-01 - *BUSINESS COMBINATIONS (TOPIC 805): CLARIFYING THE DEFINITION OF A BUSINESS*

Main Provisions

Under the ASU, the revised definition of a business consists of the following key concepts:

- A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs, or other economic benefits directly to investors or other owners, members, or participants.
- To be capable of being conducted and managed for the purposes described above, an integrated set of activities and assets requires two essential elements—inputs and processes applied to those inputs. A business need not include all the inputs or processes that the seller used in operating that business. However, to be considered a business, the set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output.

Importantly, the ASU also introduces a "screen" to assist entities in determining when a set should not be considered a business. If substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, the set is not considered a business. The ASU includes practical guidance on what to include in gross assets and what constitutes a single identifiable asset or a group of similar identifiable assets in the context of applying the screen.

Guidance

- BDO Flash Report: FASB Clarifies the Definition of a Business
- ASU 2017-01

Read more ▶

ASU 2016-20 - *TECHNICAL CORRECTIONS AND IMPROVEMENTS TO TOPIC 606, REVENUE FROM CONTRACTS WITH CUSTOMERS*

Main Provisions

The amendments in ASU 2016-20 clarify the following items:

- Loan guarantee fees
- Contract costs – impairment testing
- Contract costs – interaction of impairment testing with guidance in other topics
- Provisions for losses on construction-type and production-type contracts
- Scope of Topic 606
- Disclosure of remaining performance obligations
- Disclosure of prior-period performance obligations
- Contract modifications example
- Contract asset versus receivable
- Refund liability
- Advertising costs
- Fixed-odds wagering contracts in the casino industry
- Cost capitalization for advisors to private funds and public funds

Guidance

- BDO Flash Report: FASB Issues Technical Corrections and Improvements to New Revenue Standard
- ASU 2016-20

ASU 2016-18 - *STATEMENT OF CASH FLOWS (TOPIC 230): RESTRICTED CASH (A CONSENSUS OF THE FASB EMERGING ISSUES TASK FORCE)*

Main Provisions

ASU 2016-18 updates Topic 230 to address diversity in practice due to a lack of guidance on how to classify and present changes in restricted cash or restricted cash equivalents in the statement of cash flows. The ASU does not define restricted cash and there is no intent to change practice for what an entity reports as restricted cash.

Guidance

- BDO Flash Report: FASB Clarifies Restricted Cash Presentation
- ASU 2016-18

ASU 2016-16 - *INCOME TAXES (TOPIC 740): INTRA-ENTITY TRANSFERS OF ASSETS OTHER THAN INVENTORY*

Main Provisions

ASU 2016-16 eliminates the existing exception in GAAP that prohibits the recognition of income tax consequences for most intra-entity asset transfers. The exception has been retained for intra-entity asset transfers of inventory only. As a result, entities will now be required to recognize the current and deferred income tax consequences of intra-entity asset transfers (other than those of inventory) when the transfer occurs.

Guidance

- BDO Flash Report: FASB Eliminates Income Tax Deferral for All Intra-Entity Asset Transfers Except Inventory
- BDO Knows: ASC 740 - Intra-Entity Transfers of Assets Other Than Inventory
- ASU 2016-16

ASU 2016-15 - *STATEMENT OF CASH FLOWS (TOPIC 230): CLASSIFICATION OF CERTAIN CASH RECEIPTS AND CASH PAYMENTS (A CONSENSUS OF THE EMERGING ISSUES TASK FORCE)*

Main Provisions

ASU 2016-15 clarifies whether the following items should be categorized as operating, investing or financing in the statement of cash flows as the absence of such guidance resulted in diversity in practice guidance. The ASU resolves the following:

(i.) debt prepayments and extinguishment costs

(ii.) settlement of zero-coupon debt

(iii.) settlement of contingent consideration,

(iv.) insurance proceeds

(v.) settlement of corporate-owned life insurance (COLI) and bank-owned life insurance (BOLI) policies

(vi.) distributions from equity method investees

(vii.) beneficial interests in securitization transactions

(viii.) receipts and payments with aspects of more than one class of cash flows.

Guidance

- BDO Flash Report: FASB Issues Guidance on Eight Cash Flow Classification Issues
- ASU 2016-15

Read more ▶

ASU 2016-12 - *REVENUE FROM CONTRACTS WITH CUSTOMERS (TOPIC 606): NARROW-SCOPE IMPROVEMENTS AND PRACTICAL EXPEDIENTS*

Main Provisions

The amendments clarify the following key areas:

- Assessing collectability
- Presenting sales taxes and other similar taxes collected from customers
- Noncash consideration
- Contract modifications at transition
- Completed contracts at transition
- Disclosing the accounting change in the period of adoption

Guidance

- BDO Flash Report: FASB Issues Narrow Scope Improvements and Practical Expedients for New Revenue Standard
- ASU 2016-12

ASU 2016-10 - *REVENUE FROM CONTRACTS WITH CUSTOMERS (TOPIC 606): IDENTIFYING PERFORMANCE OBLIGATIONS AND LICENSING*

Main Provisions

The amendments provide more detailed guidance, including additional implementation guidance and examples in the following key areas: 1) identifying performance obligations and 2) licenses of intellectual property.

Guidance

- BDO Flash Report: FASB Clarifies Identifying Performance Obligations and Licenses Guidance in the New Revenue Standard
- ASU 2016-10

ASU 2016-08 - *REVENUE FROM CONTRACTS WITH CUSTOMERS (TOPIC 606): PRINCIPAL VERSUS AGENT CONSIDERATIONS (REPORTING REVENUE GROSS VERSUS NET)*

Main Provisions

The amendments clarify the principal versus agent implementation guidance in the following areas:

- Unit of account at which the principal/agent determination is made
- Applying the control principle to certain types of transactions
- The control principle and principal/agent indicators
- Examples

Guidance

- BDO Flash Report: FASB Clarifies Principal versus Agent Considerations Under Topic 606
- ASU 2016-08

ASU 2016-04 - *LIABILITIES—EXTINGUISHMENTS OF LIABILITIES (SUBTOPIC 405-20): RECOGNITION OF BREAKAGE FOR CERTAIN PREPAID STORED-VALUE PRODUCTS (A CONSENSUS OF THE EMERGING ISSUES TASK FORCE)*

Main Provisions

Amends Subtopic 405-20, *Liabilities—Extinguishments of Liabilities*, to exempt prepaid stored-value products from the guidance on extinguishing financial liabilities. Rather, they will be subject to breakage accounting consistent with the new revenue standard in Topic 606. However, the exemption only applies to breakage liabilities that are not subject to unclaimed property laws or that are attached to segregated bank accounts, for instance consumer debit cards. Further, the ASU does not apply to customer loyalty programs or other transactions that are within the scope of other GAAP, including Topic 606.

Guidance

- BDO Flash Report: FASB Issues ASU on Recognizing Breakage for Prepaid Stored-Value Products
- ASU 2016-04

Read more ▶

ASU 2016-01 - *FINANCIAL INSTRUMENTS—OVERALL (SUBTOPIC 825-10): RECOGNITION AND MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES*

Main Provisions

The amendments require an entity to:

(i.) measure equity investments at fair value through net income, with certain exceptions;

(ii.) present in OCI the changes in instrument-specific credit risk for financial liabilities measured using the fair value option;

(iii.) present financial assets and financial liabilities by measurement category and form of financial asset;

(iv.) calculate the fair value of financial instruments for disclosure purposes based on an exit price and;

(v.) assess a valuation allowance on deferred tax assets related to unrealized losses of AFS debt securities in combination with other deferred tax assets.

The Update provides an election to subsequently measure certain nonmarketable equity investments at cost less any impairment and adjusted for certain observable price changes. The Update also requires a qualitative impairment assessment of such equity investments and amends certain fair value disclosure requirements.

Guidance

- BDO Flash Report: FASB Issues Targeted Amendments to the Recognition and Measurement Guidance for Financial Instruments
- ASU 2016-01

ASU 2014-09 - *REVENUE FROM CONTRACTS WITH CUSTOMERS (TOPIC 606)*

Main Provisions

The revenue standard's core principle 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 to which the vendor is entitled.

To accomplish this objective, the standard requires five basic steps:

(i.) identify the contract with the customer

(ii.) identify the performance obligations in the contract

(iii.) determine the transaction price

(iv.) allocate the transaction price to the performance obligations in the contract

(v.) recognize revenue when (or as) the entity satisfies a performance obligation.

Entities will generally be required to make more estimates and use more judgment than under prior guidance, which will be highlighted for users through increased disclosure requirements.

Guidance

- BDO Revenue Recognition Resource Center
- BDO Flash Report: FASB Issues ASU on Revenue Recognition
- ASU 2014-09

Read more ▶

SEC UPDATES

- ASU 2018-05 - *Income Taxes (Topic 740), Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (SEC Update)*
- ASU 2018-04 - *Investments — Debt Securities (Topic 320) and Regulated Operations (Topic 980), Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 117 and SEC Release No. 33-9273 (SEC Update)*
- ASU 2017-14 - *Income Statement — Reporting Comprehensive Income (Topic 220), Revenue Recognition (Topic 605), and Revenue from Contracts with Customers (Topic 606) (SEC Update)*
- ASU 2017-13 - *Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842), Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017 EITF Meeting and Rescission of Prior SEC Staff Announcements and Observer Comments (SEC Update)*
- ASU 2016-11 - *Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815), Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting (SEC Update)*

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ALL OTHER ENTITIES

For fiscal years beginning after December 15, 2017

ASU 2017-09 - *COMPENSATION—STOCK COMPENSATION (TOPIC 718): SCOPE OF MODIFICATION ACCOUNTING*

Main Provisions (For Both Public and All Other Entities)

ASU 2017-09 clarifies that an entity must apply modification accounting to changes in the terms or conditions of a share-based payment award unless all of the following criteria are met:

1. The fair value of the modified award is the same as the fair value of the original award immediately before the modification. The standard indicates that if the modification does not affect any of the inputs to the valuation technique used to value the award, the entity is not required to estimate the value immediately before and after the modification.
2. The vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the modification.
3. The classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the modification.

Guidance

- BDO Flash Report: FASB Clarifies Accounting for Modifications of Share-Based Payments
- ASU 2017- 09

ASU 2016-17 -*CONSOLIDATION (TOPIC 810): INTERESTS HELD THROUGH RELATED PARTIES THAT ARE UNDER COMMON CONTROL*

Main Provisions

The amendments revise how a single decision maker of a variable interest entity (VIE) should treat indirect variable interests held through related parties that are under common control when determining whether it is the primary beneficiary of that VIE. The ASU amends the VIE guidance to require consideration of such indirect interests on a proportionate basis, instead of being the equivalent of direct interests in their entirety. This makes consolidation less likely.

Guidance

- BDO Flash Report: FASB Updates Evaluation of Interests through Related Parties Under Common Control in a VIE Analysis
- ASU 2016-17

Read more

ASU 2016-14 - *NOT-FOR-PROFIT ENTITIES (TOPIC 958): PRESENTATION OF FINANCIAL STATEMENTS OF NOT-FOR-PROFIT ENTITIES*

Main Provisions

The amendments improve the presentation of financial statements of not-for-profit entities such as charities, foundations, universities, and nonprofit health care providers, etc. This is the first major change to the nonprofit financial statement model in over 20 years, which is intended to provide more useful information to donors, grantors and other users. The ASU impacts all not-for-profit entities in the scope of Topic 958, as well as health care entities subject to the nonprofit guidance in Topic 954. The ASU addresses the following key qualitative and quantitative matters:

- Net asset classes
- Investment return
- Expenses
- Liquidity and availability of resources
- Presentation of operating cash flows

In addition, the ASU includes illustrative financial statements of not-for-profit entities, which reflect changes made by the new standard.

Guidance

- BDO Flash Report: FASB Issues ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities
- ASU 2016-14

ASU 2016-09 - *COMPENSATION—STOCK COMPENSATION (TOPIC 718): IMPROVEMENTS TO EMPLOYEE SHARE-BASED PAYMENT ACCOUNTING*

Main Provisions

The amendments simplify several aspects of the stock compensation guidance in Topic 718 and other related guidance. The following six amendments apply to all entities:

- Accounting for income taxes upon vesting or exercise of share-based payments and related EPS effects
- Classification of excess tax benefits on the statement of cash flows
- Accounting for forfeitures
- Liability classification exception for statutory tax withholding requirements
- Cash flow presentation of employee taxes paid when an employer withholds shares for tax-withholding purposes
- Elimination of the indefinite deferral in Topic 718.

The following two amendments apply only to nonpublic entities:

- Expected term of awards
- Intrinsic value election for liability-classified awards.

Guidance

- BDO Flash Report: FASB Simplifies Aspects of Accounting for Stock Compensation
- FASB Newsletter: Improvements to Employee Share-Based Payment Accounting
- ASU 2016-09

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ASU 2016-06 - *DERIVATIVES AND HEDGING (TOPIC 815): CONTINGENT PUT AND CALL OPTIONS IN DEBT INSTRUMENTS (A CONSENSUS OF THE EMERGING ISSUES TASK FORCE)*

Main Provisions

Under the ASU, entities that are issuers of or investors in debt instruments (or hybrid financial instruments that are determined to have a debt host) should not analyze whether the event that triggers the ability to exercise the call (put) option is indexed only to interest rates or credit risk. Rather, an entity is solely required to assess the embedded call (put) options under a specific four-step decision sequence. For example, when evaluating debt instruments puttable upon a change in control, the event triggering the change in control is not relevant to the assessment. Only the resulting settlement of debt is subject to the four-step decision sequence.

Guidance

- BDO Flash Report: FASB Issues ASU on Contingent Put and Call Options in Debt Instruments
- ASU 2016-06

ASU 2016-05 - *DERIVATIVES AND HEDGING (TOPIC 815): EFFECT OF DERIVATIVE CONTRACT NOVATIONS ON EXISTING HEDGE ACCOUNTING RELATIONSHIPS (A CONSENSUS OF THE EMERGING ISSUES TASK FORCE)*

Main Provisions

The term novation, as it relates to derivative instruments, refers to replacing one of the parties to a derivative instrument with a new party, which may occur for a variety of business or regulatory reasons. The derivative instrument that is the subject of a novation may be the hedging instrument in a designated hedging relationship.

The amendments require an entity to discontinue the designated hedging relationship in certain circumstances, including termination of the derivative hedging instrument or if the entity wishes to change any of the critical terms of the hedging relationship. The ASU amends Topic 815, *Derivatives and Hedging,* to clarify that novation of a derivative designated as the hedging instrument would not, in and of itself, be considered a termination of the derivative instrument or a change in critical terms requiring discontinuation of the designated hedging relationship.

Guidance

- BDO Flash Report: FASB Issues ASU on the Effect of Derivative Contract Novations on Existing Hedges
- ASU 2016-05

ASU 2015-17 - *INCOME TAXES (TOPIC 740): BALANCE SHEET CLASSIFICATION OF DEFERRED TAXES*

Main Provisions

To simplify the presentation of deferred income taxes, the FASB issued ASU 2015-17 to require that all deferred tax liabilities and assets of the same tax jurisdiction or a tax filing group, as well as any related valuation allowance, be offset and presented as a single noncurrent amount in a classified balance sheet. The Board concluded a single noncurrent classification reduces complexity for preparers without decreasing the usefulness of information reported to investors. However, an entity should not offset deferred tax liabilities and assets attributable to different tax-paying components of the entity or to different tax jurisdictions, consistent with the guidance under existing U.S. GAAP. Therefore, for many reporting entities, deferred income taxes will be presented in noncurrent assets and noncurrent liabilities.

Guidance

- BDO Flash Report: FASB Issues ASU to Simplify the Balance Sheet
- ASU 2015-17

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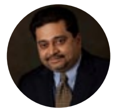

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