CPE

Accounting and Auditing Supplement No. 1-2017

Chapter 1

ACCOUNTING AND AUDITING SUPPLEMENT NO. 1–2017

INTRODUCTION

This update includes the more significant accounting and auditing developments from December 15, 2016 through March 31, 2017. Included in this update are standard setting and project activities of the Auditing Standards Board (ASB), Accounting and Review Services Committee (ARSC), Professional Ethics Executive Committee (PEEC), FASB, PCAOB, and the SEC.

These developments, although believed to be complete at the date at which they were prepared for this course material, may not cover all areas within accounting and auditing relevant to all users of this material. Readers are encouraged to visit the AICPA's Financial Reporting Center for additional resources, including various "Standards Trackers" for the most recent standard-setting activity in the areas of accounting and financial reporting, audit and attest, and compilation, review, and preparation.

This update may refer you to other sources of information, in which case you are strongly encouraged to review that information if relevant to your needs.

After completing this course, you should be able to identify some of the more significant accounting and auditing developments from December 15, 2016 through March 2017.

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Audit and Accounting Final and Proposed Standards

Final Standards, Interpretations and Regulations

AICPA

Auditing Standards Board

Auditing, Attestation, and Quality Control Standards and Interpretations

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

Issue Date
February 2017

Background
The Auditing Standards Board (ASB) developed SAS No. 132 with the objective of considering the accounting provisions of FASB Accounting Standards Update (ASU) No. 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* (GASB Statement No. 56).

The ASB released an Exposure Draft, *Proposed Statement on Auditing Standards, The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, in July 2016. Responders to the exposure draft were generally supportive of the ASB's proposal to update SAS No. 126 due to the impending effective date of FASB ASU No. 2014-15. Responders also agree that the ASB's use of ISA 570 (Revised), *Going Concern*, as the base, and writing the proposed SAS in a neutral accounting framework manner, was appropriate.

It is the ASB's strategy to converge its standards with those of the IAASB. Accordingly, in developing SAS No. 132, the ASB used ISA 570 (Revised) as the base. However, SAS No. 132 does not reflect any revisions to ISA 570 (Revised) related to the convergence with the IAASB's other auditor reporting standards. Those revisions will be contemplated as part of the ASB's overall auditor's report project, which is ongoing.

The new SAS takes into consideration management's responsibilities for evaluating the likelihood that the company will continue as a going concern, which is now part of GAAP. GASB Statement No. 56 established guidance for managements of governmental entities to do a similar evaluation.

SAS No. 132 is intended to be applicable to audits of financial statements prepared under different financial accounting frameworks and, accordingly, was written in a neutral accounting framework manner. However, in discussing certain concepts, reference to certain accounting terms is necessary. To better explain and illustrate those concepts, the ASB used terminology that is more commonly used in the United States, such as terminology from the FASB standards and GASB statement

Note: SAS No. 132 supersedes SAS No. 126, which the ASB issued ASB in June 2012 (in SAS No. 126, the ASB applied the clarity drafting conventions to and superseded SAS No. 59 of the same title).

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Main Provisions

The main objectives of the SAS are to

- conclude, based on the evidence, whether substantial doubt exists regarding the entity's ability to continue as a going concern; and
- evaluate the possible financial statement effects (for example, are disclosures adequate?) regarding the entity's ability to continue as a going concern for a reasonable period (approximately one year from the financial statement issuance date).

The auditor should meet the aforementioned objectives whether or not the entity's financial reporting framework includes a requirement that management assess the entity's ability to continue as a going concern. Many financial frameworks (even those that don't contain this explicit requirement) are based on the principle that financial statements are prepared with the expectation of viability over a reasonable period (going concern basis of accounting). In these cases, management should assess the entity's viability when preparing financial statements.

Note: The SAS applies to all audits of a complete set of financial statements, including those prepared under various reporting frameworks and under a special purpose framework (for example, income tax or cash basis financial statements).

In performing its risk assessment, the auditor seeks to evaluate management's preliminary assessment or if none has been performed, management's basis for using the going concern basis of accounting. In both cases, the auditor should determine whether management has identified all the relevant events and conditions that may impact their conclusion. The auditor may need to perform additional auditing procedures when events or conditions are identified, and consider mitigating factors. The auditor should evaluate events and conditions both singly and in the aggregate.

If management's plans regarding its going concern evaluation include financial support by a third party or owner or manager ("supporting parties"), the auditor should obtain supporting evidence about the intent and abilities of such parties to provide the planned support.

Based on the evidence gathered, the auditor should conclude both on management's use of the going concern basis of accounting, and whether there is substantial doubt about the entity's ability to continue as a going concern. The auditor must determine the adequacy of management's disclosures in the financial statements when

- going concern accounting is appropriate but the auditor has substantial doubts about the entity's viability and management does not have a plan in place to address the auditor's concern.
- the auditor has substantial doubts about the entity's viability but management's plans address the auditor's concern.

Significant Changes

Per the ASB, the following are significant changes from SAS No. 126:

Auditor's Objectives and Related Conclusions

SAS No. 132 clarifies that the auditor's objectives include separate determinations and conclusions with respect to (1) the use of the going concern basis of accounting, when relevant, in the preparation of the financial statements, and (2) whether substantial doubt about an entity's ability to continue as a going concern for a reasonable period exists. These requirements align the new SAS in this regard with ISA 570 and FASB ASU No. 2014-15.

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Financial Support by Third Parties or the Entity's Owner-Manager

SAS No. 132 includes a new requirement with respect to financial support by third parties or the entities' owner-manager. In circumstances when management's plans include financial support by third parties or the entity's owner-manager and such evidence is necessary in supporting management's assertions about the entity's ability to continue as a going concern for a reasonable period, the auditor is required to obtain sufficient appropriate audit evidence about the intent and ability of such parties to provide the necessary financial support.

The application material of SAS No. 132 explains that the intent to provide the necessary financial support may be evidenced by either (*a*) obtaining from management written evidence about the third-party commitment or (*b*) confirming directly with the supporting party. When the financial support is provided by an owner-manager, the evidence regarding intent may be in the form of a support letter or a written representation. Finally, the application material provides illustrative wording of a third-party support letter.

Period Beyond Management's Assessment

SAS No. 132 requires the auditor to inquire of management regarding its knowledge of conditions or events beyond the period of management's evaluation that may affect the entity's ability to continue as a going concern. The inquiries do not require management to extend its evaluation period but may affect other disclosure requirements or consideration of whether the financial statements are fairly presented.

Use of Emphasis Paragraphs When Substantial Doubt Is Alleviated

Application material in SAS No. 132 provides new guidance to an auditor who decides to include an emphasis paragraph to highlight the liquidity issues related to management's disclosures when the auditor concludes that substantial doubt has been alleviated by management's plans. An example of the emphasis paragraph in those circumstances is provided as application material.

Interim Financial Information

In issuing SAS No. 132, the ASB also amended AU-C section 930, *Interim Financial Information* (AICPA, Professional Standards). Under extant AU-C section 930, the auditor is required to perform inquiries and consider the adequacy of disclosures to address the issue of substantial doubt about the entity's ability to continue as a going concern if

- conditions or events that may indicate substantial doubt about an entity's ability to continue as a going concern existed at the date of the prior period financial statements (regardless of whether the substantial doubt was alleviated by the auditor's consideration of management's plans), or
- when performing review procedures on the current period interim financial information, the auditor becomes aware of conditions or events that might indicate the entity's inability to continue as a going concern.

AU-C section 930 provides the auditor an option to include an emphasis-of-matter paragraph when management's disclosures are adequate. The ASB decided to require performing review procedures to address the situations when the applicable financial reporting framework includes requirements for management to evaluate the entity's ability to continue as a going concern for a reasonable period in preparing interim financial information.

The amendments to AU-C section 930 reflects a new requirement for the auditor to include an emphasis-of-matter paragraph in the review report when certain conditions or events exist related to substantial doubt about an entity's ability to continue as a going concern. This decision was based on the ASB's

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desire to achieve consistency in auditor reporting in both the annual audit and interim financial information.

Financial Statements Prepared in Accordance With a Special Purpose Framework In the Scope Section

SAS No. 132 clarifies that the issues of going concern basis of accounting and whether substantial doubt exists are separate issues. As a result, when the going concern basis of accounting is not relevant, the auditor need not apply the requirement to conclude, based on the evidence, on the appropriateness of management's use of the going concern basis of accounting. However, whether the going concern basis of accounting is relevant in preparing special purpose financial statements, the auditor should conclude, based on the evidence, whether substantial doubt exists and evaluate the possible financial statement effects.

Effective Date

The SAS will be effective for (*a*) audits of financial statements for periods ending on or after December 15, 2017, and (*b*) reviews of interim financial information for interim periods beginning after fiscal years ending on or after December 15, 2017.

Accounting and Review Services Committee

The Accounting and Review Services Committee did not issue any new or revised standards or interpretations during this period.

Professional Ethics Executive Committee

The Professional Ethics Executive Committee did not issue any new or revised standards or interpretations during this period.

FASB

Accounting Standards Updates

ASU No. 2017-01, *Business Combinations (Topic 805), Clarifying the Definition of a Business*

Issue Date

January 2017

Background

This ASU clarifies the definition of a business by adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation, thus this ASU is a significant development.

Many stakeholders provided feedback that the definition of a business in FASB ASC 805, *Business Combinations*, is applied too broadly, resulting in many transactions being recorded as business acquisitions that to them are more akin to asset acquisitions. In addition, stakeholders said that analyzing transactions under the current definition is difficult and costly. Concerns about the definition of a business were the primary issues raised in the Post-Implementation Review Report on FASB Statement No. 141 (revised 2007), *Business Combinations* (Statement 141(R)), now codified in FASB ASC 805. This ASU addresses those concerns.

In addition to concerns about the broad application of the definition of a business, the scope of FASB ASC 610-20, *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets* (created as part of the amendments in FASB ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606)), raised questions about the interaction of the definition of a business and the term "in substance nonfinancial asset" in FASB ASC 610-20. Before ASU 2014-09 becomes effective, entities should account for derecognition of real estate consistently, regardless of whether the real estate is an asset or a business. The amendments in FASB ASU 2014-09 remove existing industry- or transaction-specific real estate guidance so that, for purposes of determining what derecognition model to apply in sales transactions with noncustomers, an entity must determine whether a real estate transaction is a sale of a business or a sale of a nonfinancial asset (or an in-substance nonfinancial asset).

More to Come

In phase 2 of this project, the Board will provide clarifying guidance for partial sales or transfers of assets within the scope of FASB ASC 610-20 and the corresponding accounting for retained interests. In that phase of the project, FASB will clarify the reference to in substance nonfinancial assets in FASB ASC 610-20. In phase 3 of the project, the Board plans to consider whether to align certain acquisition and derecognition guidance for assets and businesses.

Main Provisions

Current implementation guidance in FASB ASC 805 describes three elements of a business—inputs, processes, and outputs. The guidance notes the following:

- An integrated set of assets and activities (collectively referred to as a "set") that is a business usually has outputs, but outputs are not required to be present.
- All the inputs and processes that a seller uses in operating a set are not required if market participants can acquire the set and continue to produce outputs, for example, by integrating the acquired set with their own inputs and processes.

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The amendments in this ASU provide a screen to determine when a set is not a business.

- The screen is met when substantially all the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets (that is, the set is not a business). The screen reduces the number of transactions that need to be further evaluated.
- If the screen is not met, this ASU
  - at minimum, to be considered a business, must include an input and a substantive process that together significantly contribute to the ability to create output, and
  - removes the evaluation of whether a market participant could replace missing elements.

The amendments provide a framework to assist entities in evaluating whether both an input and a substantive process are present. The framework includes two sets of criteria to consider that depend on whether a set has outputs. Outputs are not required for a set to be a business, but outputs generally are a key element of a business; therefore, the Board has developed more stringent criteria for sets without outputs.

Lastly, this ASU narrows the definition of the term *output* so the term is consistent with how outputs are described in FASB ASC 606.

Significant Changes

Extant FASB ASC 805 does not specify the minimum inputs and processes required for a set to meet the definition of a business and the lack of clarity led to broad interpretations of the definition of a business. Some of the more concerning issues about the application of FASB ASC 805 were as follows:

- A set may qualify as a business even if no processes are included in the transaction when revenue-generating activities continue after an acquisition. For example, in the real estate industry, a market participant often can acquire inputs (a building with leases) and combine them with its own processes to continue generating outputs (lease income).
- The presence of a process can give rise to a business, regardless of the contribution that process makes to that set's ability to create outputs.
- Analyzing transactions is inefficient and costly and the definition does not permit the use of reasonable judgment.

This ASU provides a framework for determining whether a set should be accounted for as a business. As defined, "outputs" currently refers to the ability to provide a return in the form of dividends, lower costs, or other economic benefits directly to investors or other owners, members, or participants. Many transactions can provide a return in some form (for example, the acquisition of a new machine could be expected to lower costs). Thus, the definition of outputs also contributes to broad interpretations of the definition of a business. The amendments in this ASU narrow the definition of outputs and align it with how outputs are described in FASC ASC 606.

The amendments provide more consistency in applying the guidance, reduce the costs of application, and make the definition of a business more operable.

Effective Date

Public business entities. Apply the amendments in this ASU to annual periods beginning after December 15, 2017, including interim periods within those periods.

All other entities. Apply the amendments to annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019.

The amendments in this ASU should be applied prospectively on or after the effective date. No disclosures are required at transition.

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Early application of the amendments in this ASU is allowed as follows:

1. For transactions for which the acquisition date occurs before the issuance date or effective date of the amendments, only when the transaction has not been reported in financial statements that have been issued or made available for issuance
2. For transactions in which a subsidiary is deconsolidated or a group of assets is derecognized that occur before the issuance date or effective date of the amendments, only when the transaction has not been reported in financial statements that have been issued or made available for issuance

ASU No. 2017-02, *Not-for-Profit Entities—Consolidation (Subtopic 958-810), Clarifying When a Not-for-Profit Entity That Is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity*

Issue Date

January 2017

Background

This ASU amends the consolidation guidance in FASB ACS 958-810, *Not-for-Profit Entities—Consolidation*, to clarify when a not-for-profit entity (NFP) that is a general partner or a limited partner should consolidate a for-profit limited partnership or similar legal entity once the amendments in FASB ASU No. 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*, become effective.

Current generally accepted accounting principles (GAAP) require an NFP that is a general partner of a for-profit limited partnership or similar legal entity to apply the consolidation guidance in FASN ASC 810-20, *Consolidation—Control of Partnerships and Similar Entities*, unless that partnership interest is reported at fair value in accordance with certain other guidance. The amendments in FASB ASU 2015-02 superseded the guidance in FASB ASC 810-20 and added new guidance for limited partnerships and similar legal entities to the general consolidation guidance in FASB ASC 810-10, *Consolidation—Overall.* Therefore, once the amendments in FASB ASU 2015-02 are effective, GAAP will require an NFP that is a general partner of a for-profit limited partnership or similar legal entity to apply the general consolidation guidance in FASB ASC 810-10.

Since the issuance of FASB ASU 2015-02, stakeholders noted that the guidance that was added to the general consolidation guidance in FASB ASC 810-10 presumes that an entity would first navigate through the variable interest entity (VIE) consolidation guidance before applying the general consolidation guidance. However, NFPs generally are not included within the scope of the VIE consolidation guidance. Therefore, when an NFP navigates directly to the general consolidation guidance in FASB ASC 810-10, the guidance does not address when a general partner should consolidate a for-profit limited partnership, but rather when a limited partner should consolidate the partnership.

The amendments in this ASU maintain how NFP general partners currently apply the consolidation guidance in FASB ASC 810-20 by including that guidance within FASB ASC 958-810. The amendments also add to FASB ASC 958-810 the general guidance in FASB ASC 810-10 on when NFP limited partners should consolidate a limited partnership.

The amendments in this ASU apply to an NFP that is a general partner or a limited partner of a for-profit limited partnership or a similar legal entity.

A similar legal entity is an entity such as a limited liability company that has governing provisions that are the functional equivalent of a limited partnership. In those entities, a managing member is the functional equivalent of a general partner, and a nonmanaging member is the functional equivalent of a limited partner.

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Any reference to a limited partnership includes limited partnerships and similar legal entities.

Main Provisions

General Partners (GPs)

The ASU retains the consolidation guidance that was in FASB ASC 810-20 for NFPs by including it within FASB ASC 958-810. Therefore, NFPs that are GPs continue to be presumed to control a for-profit limited partnership, regardless of the extent of their ownership interest, unless that presumption is overcome. The presumption is overcome if the limited partners (LPs) have either substantive kick-out rights (rights underlying the LP's or partners' ability to dissolve the partnership or otherwise remove the GP without cause), or substantive participating rights. Substantive kick-out rights mean they must be exercisable by a simple majority vote of the LPs' voting interests or a lower threshold. When evaluating that threshold, the LPs' voting interests should exclude the GPs' voting interests, parties under common control with the GPs, and other parties acting on behalf of the GPs.

Limited Partners (LPs)

This ASU also adds guidance to FASB ASC 958-810 on when an NFP LP should consolidate a for-profit limited partnership. The amendments in FASB ASU 2015-02 added new guidance to the general consolidation guidance in FASB ASC 810-10 on when LPs should consolidate limited partnerships that are not VIEs or that are not within the scope of the VIE consolidation guidance.

Accounting Standards Update 2016-01

In January 2016, the Board issued ASU No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendments in FASB ASU 2016-01 created a new Topic (FASB ASC 321, *Investments—Equity Securities*) that includes guidance for equity securities and other ownership interests in an entity, such as investments in venture capital funds and partnerships, which were previously within the scope of FASB ASC 958-325, *Not-for-Profit Entities—Investments—Other*. When creating FASC ASC 321 and FASB ASC 958-321, *Not-for-Profit Entities—Investments—Equity Securities*, the Board amended FASB ASC 958-810 to clarify the Board's intent not to affect current applications of the fair value elections in FASB ASC 958-810 for NFPs. This ASU further clarifies Subtopic 958-810 to align with the Board's intent with regards to those fair value elections.

Significant Changes

Current GAAP requires an NFP that is a GP of a for-profit limited partnership to apply the consolidation guidance in FASB ASC 810-20 unless that partnership interest is reported at fair value in conformity with certain other guidance. However, once the amendments in FASB ASU 2015-02 are effective, the guidance in FASB ASC 810-20 no longer will exist, creating uncertainty about when an NFP that is a GP should consolidate a for-profit limited partnership. The amendments in this ASU retain the consolidation guidance that existed in FASB ASC 810-20 by including it within FASB ASC 958-810. The intent was to clarify the consolidation guidance for NFPs and minimize diversity in practice.

Effective Date

This ASU is effective for NFPs for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017.

Early adoption is permitted, including adoption in an interim period. If an NFP early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period.

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NFPs that have not yet adopted the amendments in FASB ASU 2015-02. Adopt the amendments in this ASU at the same time they adopt the amendments in FASB ASU 2015-02 and apply the same transition method elected for the application of FASB ASU 2015-02.

NFPs that already have adopted the amendments in FASB ASU 2015-02. Apply the amendments in this ASU retrospectively to all relevant prior periods beginning with the fiscal year in which the amendments in FASB ASU 2015-02 initially were applied.

KNOWLEDGE CHECK

1. A key element of management's plan to continue as a going concern involves financial support from the entity's majority shareholder. Which statement best describes the application of SAS No. 132 to this scenario?

    a. The auditor may rely on the representations of management but should obtain as much detail as possible regarding the terms and conditions of the support.
    b. Third-party support would not qualify as a mitigating factor to the entity's ability to continue as a going concern.
    c. Management must enter into a contractual agreement with the shareholder and provide a copy of the agreement to the auditors.
    d. The auditor is required to gather sufficient evidence to support the intent and ability of the shareholder to provide the financial support.

ASU No. 2017-03, Accounting Changes and Error Corrections (Topic 250) and Investments—Equity Method and Joint Ventures (Topic 323), Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings

Issue Date

January 2017

Main Provisions

This ASU was issued by FASB to update the FASB Accounting Standards Codification® for changes made by the SEC and became effective upon issuance.

ASU No. 2017-04, Intangibles—Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment

Issue Date

January 2017

Background

In 2014, the Board amended the FASB Accounting Standards Codification to allow private companies an alternative accounting treatment for subsequently measuring goodwill due to concerns expressed by private companies and their stakeholders about the cost and complexity of the goodwill impairment test. The FASB added a project to its agenda to determine whether similar amendments should be considered for other entities, including public business entities and not-for-profit entities and later separated the project into two phases.

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Phase 1 of the project resulted in this ASU and simplifies how an entity should test goodwill for impairment by eliminating step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. The Board will evaluate the effectiveness of the guidance in this ASU and monitor the International Accounting Standards Board's (IASB's) projects on goodwill and impairment before considering whether additional changes to the subsequent accounting for goodwill, including whether permitting or requiring amortization of goodwill or additional changes to the impairment testing methodology, may be warranted. As a result, the Board moved phase 2, the project on subsequent accounting for goodwill for public business entities and not-for-profit entities, to the research agenda.

Applicability of this Update

- Public business entities and other entities that have goodwill reported in their financial statements and have not elected the private company alternative for the subsequent measurement of goodwill must apply this ASU.
- Private companies that have adopted the private company alternative for goodwill but not the private company alternative to subsume certain intangible assets into goodwill are permitted, but not required, to adopt this ASU without having to justify preferability of the accounting change if it is adopted on or before the effective date.
- Private companies that have adopted the private company alternative to subsume certain intangible assets into goodwill, and, thus, also adopted the goodwill alternative, are not permitted to adopt this guidance upon issuance without following the guidance in FASB ASC 250, *Accounting Changes and Error Corrections*, including justifying why it is preferable to change their accounting policies.

Main Provisions

To simplify the subsequent measurement of goodwill, the Board eliminated step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under this ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount.

An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax-deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable.

The Board also eliminated the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform step 2 of the goodwill impairment test (so the same impairment assessment applies to all reporting units). An entity should disclose the goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets.

An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary.

Significant Changes

An entity no longer will determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all its assets and liabilities *as if that reporting unit had been*

acquired in a business combination. By eliminating step 2 from the goodwill impairment test, the cost and complexity of evaluating goodwill for impairment should decrease.

Effective Date

An entity should apply the amendments in this ASU on a prospective basis and disclose the nature of and reason for the change in accounting principle upon transition (disclose in the first annual period and in the interim period within the first annual period when the entity initially adopts this ASU).

Public Business Entities—U.S. SEC Filer. Adopt this ASU for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019.

Public Business Entity—Non-U.S. SEC Filer. Adopt the amendments in this ASU for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2020.

All Other Entities (including not-for-profit entities). When adopting this ASU, do so for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2021. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017.

ASU No. 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

Issue Date

February 2017

Background

This ASU clarifies the scope of FASB ASC 610-20, *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets*, and adds guidance for partial sales of nonfinancial assets. FASB ASC 610-20, which was codified in May 2014 as a part of ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), provides guidance for recognizing gains and losses from the transfer of nonfinancial assets in contracts with noncustomers. The scope of FASB ASC 610-20 included derecognition of an in-substance nonfinancial asset. At the time the amendments in FASB ASU 2014-09 were issued, the Board heard from stakeholders that they were uncertain about what types of transactions should be within the scope of FASB ASC 610-20 because the term in substance nonfinancial asset was not defined. In addition, stakeholders

- noted that other aspects of the scope of FASB ASC 610-20 were confusing and complex, and
- were uncertain about how an entity should account for partial sales of nonfinancial assets once the amendments in FASB ASU 2014-09 become effective.

The amendments in this ASU impact companies that sell or transfer nonfinancial assets.

Main Provisions

This ASU clarifies that a financial asset is within the scope of FASB ASC 610-20 if it meets the definition of an in substance nonfinancial asset. The amendments define the term in substance nonfinancial asset, in part, as a financial asset promised to a counterparty in a contract if substantially all the fair value of the assets (recognized and unrecognized) that are promised to the counterparty in the contract is concentrated in nonfinancial assets. If that is the case, then all the financial assets promised to the counterparty are in substance nonfinancial assets within the scope of FASB ASC 610-20.

This ASU also clarifies that nonfinancial assets within the scope of FASB ASC 610-20 may include nonfinancial assets transferred within a legal entity to a counterparty.

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This ASU also defines an in-substance nonfinancial asset as a financial asset that is held in an individual consolidated subsidiary within a contract if substantially all the fair value of the assets (recognized and unrecognized) that are promised to the counterparty in that subsidiary is concentrated in nonfinancial assets.

This ASU excludes all businesses and not-for-profit activities from the scope of FASB ASC 610-20, that is, account for the derecognition of all businesses and not-for-profit activities (with limited exceptions) in accordance with FASB ASC 810-10, *Consolidation—Overall.*

Distinct Nonfinancial Assets

Two clarifications:

- An entity should identify each distinct nonfinancial asset or in substance nonfinancial asset promised to a counterparty and derecognize each asset when a counterparty obtains control of it.
- An entity should allocate consideration to each distinct asset by applying the guidance in FASB ASC 606 on allocating the transaction price to performance obligations.

Partial Sales

This ASU requires an entity to derecognize a distinct nonfinancial asset or distinct in substance nonfinancial asset in a partial sale transaction when it (1) does not have (or ceases to have) a controlling financial interest in the legal entity that holds the asset in accordance with FASB ASC 810 and (2) transfers control of the asset in accordance with FASB ASC 606.

Once an entity transfers control of a distinct nonfinancial asset or distinct in substance nonfinancial asset, it should measure any noncontrolling interest it receives (or retains) at fair value.

If an entity transfers ownership interests in a consolidated subsidiary and continues to have a controlling financial interest in that subsidiary, it does not derecognize the assets and liabilities of the subsidiary and accounts for the transaction as an equity transaction (no gain or loss is recognized).

The amendments also clarify that partial sales transactions within the scope of FASB ASC 610-20 include contributions of nonfinancial assets to a joint venture or other noncontrolled investee. In addition, the amendments require an entity to recognize a full gain or loss on transfers of nonfinancial assets within the scope of FASB ASC 610-20 to equity method investees.

Significant Changes

Current GAAP impacts the real estate industry and possibly other industries such as power and utilities, alternative energy, life sciences, and shipping. Under this ASU, all entities are required to account for the derecognition of a business or not-for-profit activity (except those related to conveyances of oil and gas mineral rights or contracts with customers) in accordance with FASB ASC 810. That change simplifies GAAP because an entity does not have to consider whether a business or not-for-profit activity also is in substance real estate (or an in substance nonfinancial asset).

Current GAAP requires an entity to derecognize an equity method investment in accordance with FASB ASC 860 unless the investment is considered in substance real estate. This ASU eliminates that scope exception and eliminates several accounting differences between transactions involving assets and transactions involving businesses.

This ASU requires an entity to initially measure a retained noncontrolling interest in a nonfinancial asset at fair value and, if an entity transfers ownership interests in a consolidated subsidiary that is within the

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scope of FASB ASC 610-20 and continues to have a controlling financial interest in that subsidiary, the entity must account for the transaction as an equity transaction.

This ASU clarifies the scope of FASB ASC 610-20 and reduces the potential for further diversity in practice.

Effective Date

The amendments in this ASU are effective at the same time as the amendments in FASB ASU 2014-09.

For public entities. Effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Public entities may apply the guidance earlier but only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period.

All other entities. Effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. All other entities may apply the guidance earlier as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. All other entities also may apply the guidance earlier as of annual reporting periods beginning after December 15, 2016, and interim reporting periods within annual reporting periods beginning one year after the annual reporting period in which the entity first applies the guidance. An entity is required to apply the amendments in this ASU while it applies the amendments in FASB ASU 2014-09.

ASU No. 2017-06, Plan Accounting: Defined Benefit Pension Plans (Topic 960) Defined Contribution Pension Plans (Topic 962) Health and Welfare Benefit Plans (Topic 965) Employee Benefit Plan Master Trust Reporting

Issue Date

February 2017

Background

This ASU improves information usefulness for employee benefit plan financial statements and provides greater clarity to preparers and auditors. It relates primarily to the reporting by an employee benefit plan (a plan) for its interest in a master trust.

A master trust is a trust for which a regulated financial institution (bank, trust company, or similar financial institution that is regulated, supervised, and subject to periodic examination by a state or federal agency) serves as a trustee or custodian and in which assets of more than one plan sponsored by a single employer or by a group of employers under common control are held.

Current disclosure guidance about an employee benefit plan's interest in a master trust resides in FASB ASC 960, *Plan Accounting—Defined Benefit Pension Plans*, and FASB ASC 962, *Plan Accounting—Defined Contribution Pension Plans*, and includes requirements for a plan to disclose the following items:

- The fair value of investments held by the master trust by general type of investment
- The net change in the fair value of investments of the master trust
- The total investment income of the master trust by type
- A description of the basis used to allocate net assets, net investment income or loss, and gains or losses to participating plans; and the plan's percentage interest in the master trust

Many stakeholders find the master trust disclosure requirements in GAAP to be limited and incomplete, particularly relating to disclosures of the plan's interest in the master trust. Most preparers rely on the

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AICPA Audit and Accounting Guide, *Employee Benefit Plans*, to develop master trust disclosures in plan financial statements. Many employee benefit plans hold investments in master trusts and some stakeholders identified master trust disclosures as an area requiring clarification and simplification. This ASU clarifies presentation requirements for a plan's interest in a master trust and requires more detailed disclosures of the plan's interest in the master trust. The amendments also eliminate a redundancy relating to 401(h) account disclosures.

The amendments in this ASU apply to reporting entities within the scope of FASB ASC 960, FASB ASC 962, or FASB ASC 965, *Plan Accounting—Health and Welfare Benefit Plans*.

Main Provisions and Significant Changes

Under FASB ASC 960, investments in master trusts are presented in a single line item in the statement of net assets available for benefits. Similar guidance is not provided in FASB ASCs 962 or 965, which has resulted in diversity in practice. For each master trust in which a plan holds an interest, this ASU requires a plan's interest in that master trust and any change in that interest to be presented in separate line items in the statement of net assets available for benefits and in the statement of changes in net assets available for benefits, respectively.

FASB ASCs 960 and 962 require plans to disclose their percentage interest in the master trust and a list of the investments held by the trust, presented by general type, within the plan's financial statements. Stakeholders said that the disclosure can be misleading when the plan has a divided interest in the individual investments of the master trust (that is, when the plan has a specific, rather than a proportionate, interest in the master trust). This ASU removes the requirement to disclose the percentage interest in the master trust for plans with divided interests and requires instead that plans disclose the dollar amount of their interest in each of those general types of investments.

Current GAAP does not require disclosure by plans of the master trust's other assets and liabilities. This ASU requires all plans to disclose (1) their master trust's other asset and liability balances and (2) the dollar amount of the plan's interest in each of those balances.

Investment disclosures relating to 401(h) account assets are generally provided in both the defined benefit pension plan financial statements and the health and welfare benefit plan financial statements. This ASU removes that redundancy and does not require that the investment disclosures relating to the 401(h) account assets be provided in the health and welfare benefit plan's financial statements. Instead, the health and welfare benefit plan should disclose the name of the defined benefit pension plan in which those investment disclosures are provided.

Effective Date

The amendments in this ASU are effective for fiscal years beginning after December 15, 2018. Early adoption is permitted.

An entity should apply the amendments in this ASU retrospectively to each period for which financial statements are presented.

ASU No. 2017-07, Compensation—Retirement Benefits (Topic 715), Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

Issue Date

March 2017

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Background

This ASU improves the presentation of net periodic pension cost and net periodic postretirement benefit cost and also amends the Overview and Background Sections of the FASB Accounting Standards Codification (as discussed in part II of the amendments section) as part of the Board's initiative to unify and improve these sections across Topics and Subtopics.

Under GAAP, defined benefit pension cost and postretirement benefit cost (net benefit cost) comprise several components that reflect different aspects of an employer's financial arrangements and the cost of benefits provided to employees. Those components are aggregated for reporting in the financial statements. FASB ASC 715, *Compensation—Retirement Benefits*, does not prescribe where to present the amount of net benefit cost in an employer's income statement and does not require entities to disclose by line item the amount of net benefit cost that is included in the income statement or capitalized in assets. Many stakeholders thought that the presentation of defined benefit cost on a net basis combines elements that are heterogeneous and that the current presentation requirement is less transparent, reduces the decision usefulness of the financial information, and requires users to incur greater costs in analyzing financial statements. Thus, the Board agreed to add a standard-setting project to provide additional guidance on the presentation of net benefit cost in the income statement and on the components eligible for capitalization in assets.

This ASU applies to all employers, including not-for-profit entities that offer to their employees defined benefit pension plans, other postretirement benefit plans, or other types of benefits accounted for under FASB ASC 715.

Main Provisions

This ASU requires that an employer report the service cost component of net benefit cost in the same line item (or items) as other compensation costs from services rendered by the pertinent employees during the period. The other components of net benefit cost should 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 (or items) are used to present the other components of net benefit cost, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. This ASU allows only the service cost component to be eligible for capitalization when applicable (for example, as a cost of internally manufactured inventory or a self-constructed asset).

Significant Changes

This ASU requires that an employer disaggregate the service cost component from the other components of net benefit cost. The amendments also provide explicit guidance on how to present the service cost component and the other components of net benefit cost in the income statement and allow only the service cost component of net benefit cost to be eligible for capitalization.

Effective Date

Public business entities. Effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those annual periods.

Other entities. Effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019.

Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. That is, early adoption should be

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within the first interim period if an employer issues interim financial statements. Disclosures of the nature of and reason for the change in accounting principle are required in the first interim and annual periods of adoption.

This ASU should be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets.

The amendments allow a practical expedient that permits an employer to use the amounts disclosed in its pension and other postretirement benefit plan note for the prior comparative periods as the estimation basis for applying the retrospective presentation requirements. Disclosure that the practical expedient was used is required.

ASU No. 2017-08, Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities

Issue Date

March 2017

Background

This ASU amends the amortization period for certain purchased callable debt securities held at a premium by shortening the amortization period for the premium to the earliest call date. Under current GAAP, entities generally amortize the premium as an adjustment of yield over the contractual life of the instrument. Stakeholders were concerned that

- current GAAP excludes certain callable debt securities from consideration of early repayment of principal even if the holder is certain that the call will be exercised. As a result, upon the exercise of a call on a callable debt security held at a premium, the unamortized premium is recorded as a loss in earnings.
- there is diversity in practice (1) in the amortization period for premiums of callable debt securities and (2) in how the potential for exercise of a call is factored into current impairment assessments.

The amendment to the amortization period in this ASU will provide more decision-useful information because it better aligns the amortization period of premiums and discounts to expectations incorporated in market pricing on the underlying securities.

This ASU affects all entities that hold investments in callable debt securities that have an amortized cost basis more than the amount that is repayable by the issuer at the earliest call date (that is, at a premium).

Main Provisions

This ASU shortens the amortization period for certain callable debt securities held at a premium by requiring the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity.

Significant Changes

Under current GAAP, premiums and discounts on callable debt securities generally are amortized to the maturity date and

- an entity must have many similar loans to consider estimates of future principal prepayments when applying the interest method;
- an entity that holds an individual callable debt security at a premium may not amortize that premium to the earliest call date; and

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- if that callable debt security is subsequently called, the entity records a loss equal to the unamortized premium.

This ASU more closely aligns the amortization period of premiums and discounts to expectations incorporated in market pricing on the underlying securities.

Effective Date

Public business entities. Effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.

All other entities. Effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020.

Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period.

An entity should apply the amendments in this ASU on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Additionally, in the period of adoption, an entity should provide disclosures about a change in accounting principle.

SEC

The SEC did not release any new or revised regulations in this period.

PCAOB

Staff Guidance

Form AP, Auditor Reporting of Certain Audit Participants and Related Voluntary Audit Report Disclosure Under AS 3101, Reports on Audited Financial Statements

Issue Date

February 2017

Background

The PCAOB released guidance that registered accounting firms (firms) may use in filing Form AP, *Auditor Reporting of Certain Audit Participants,* which provides information about engagement partners and other firms that participate in the audits of issuers. For each audit that a firm performs that is subject to the new reporting requirements, the firm must file Form AP within 35 days of the date their audit report is first included in a document filed with the SEC. The guidance does not constitute Board rules nor did the Board approve the guidance. It supplements PCAOB Release No. 2015-008, *Improving the Transparency of Audits: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Firm and Related Amendment to Auditing Standards (Dec 15, 2015)* and the instructions to Form AP, which are available on the Board's web site.

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Highlights

The guidance is structured as follows:

- An overview of the requirements
- Engagement partner disclosure in Form AP (effective now)
- Other accounting firm disclosure in Form AP (effective for audit reports issued on or after June 30, 2017)
- Voluntary disclosure in the Audit Report under Sec. 3101
- Illustrative example
- Mechanics of reporting through the PCAOB system
- Phased effectiveness and transition guidance
- Contact information

The guidance also addresses general requirements for amending Form AP, including situations in which amendment would not be appropriate, and how to comply when a report is dual-dated. It clarifies that disclosure of another accounting firm's participation in an audit in Form AP is required even if the firm is affiliated with the firm issuing the report, such as, is in the same global network. The guidance discusses exclusions from disclosure and computation of total audit hours, for example, exclude audit hours attributable to the engagement quality reviewer and engagement specialists who are not audit firm employees from total audit hours reported in Form AP.

In terms of other firms' participation in the audit, guidance addresses those firms contributing greater than 5 percent of the firm's total audit hours, and those contributing less than that amount, and how a firm should complete the Form AP when the firm divides responsibility for the audit with another firm and makes reference to that other firm in its report.

KNOWLEDGE CHECK

2. Which was the subject of an ASU FASB released in the first quarter of 2017?

   a. Consolidation guidance for not-for-profit entities.
   b. Valuation methods for investments held-to-maturity.
   c. Lower-of-cost-or market approach to valuing inventory.
   d. Deferral of the revenue recognition standard for nonpublic companies.

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Proposed Standards, Interpretations and Regulations

AICPA

Proposed Auditing, Attestation or Quality Control Standards

The Auditing Standards Board did not issue any proposed standards or interpretations in this period.

Accounting and Review Services Committee

The Accounting and Review Services Committee did not issue any proposed standards or interpretations in this period.

Professional Ethics Executive Committee

Proposed Revised and New Interpretation Applicable to Members in Business

Issue Date

January 9, 2017

Comment Deadline/Effective Date

Comments on the proposal were due by April 17, 2017. If adopted, the interpretation would take effect upon publication in the Journal of Accountancy.

Background

The AICPA Professional Ethics Executive Committee or "PEEC" released an Exposure Draft, seeking comments from interested parties on revisions and a new provision under the AICPA Code of Professional Conduct's "Integrity and Objectivity Rule" for members in business. The revisions would amend an existing interpretation in the code, *Knowing Misrepresentations in the Preparation of Financial Statements or Records* and introduce a new interpretation, *Pressure to Breach the Rules*, both resulting from the PEEC's consideration of the rules of the International Ethics Standards Board for Accountants or IESBA.

Main Provisions

Knowing Misrepresentations

Knowing Misrepresentations in the Preparation of Financial Statements or Records currently bars members from knowingly misrepresenting financial statements and records in a material manner. The PEEC proposes expanding the interpretation to address additional situations such as presentation of financial information that is not subject to a reporting framework (for example, budgets or forecasts) and nonfinancial information (for example, operating or risk reports); the member's responsibility when relying on others' work; and actions required to avoid association with misleading information.

Pressure to Breach the Rules

The new interpretation, *Pressure to Breach the Rules*, would provide guidance to members being pressured, whether by a colleague, supervisor, outside party or other influences (such as meeting an earnings target), to partake in actions that breach the ethics rules, for example, presenting misleading information to analysts or other constituents or performing work without the requisite due care or competence. The

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proposed rule provides factors to consider identifying the situation and safeguards, such as discussions with the appropriate parties, (moving up the chain of command as needed), or disclosure to an ethics hotline and other actions to remedy the pressure. The interpretation also prohibits a member from exerting such pressure on another person.

Proposed Interpretations Responding to Non-Compliance with Laws and Regulations

Comment Deadline/Effective Date

Comments on the proposal are due May 12, 2017.

Background

The PEEC proposed a new ethics interpretation requiring members to take certain actions when they encounter their client or employer's noncompliance with laws or regulations. The proposed rules are tailored to members in public practice and members in business (parts 1 and 2 of the AICPA code, respectively) and mirror the scope of a standard the IESBA adopted in 2016. However, the proposal also departs from the IESBA standard in significant ways (as noted by the PEEC) to account for AICPA, state accountancy and other rules and regulations that prohibit disclosure of confidential information in many cases without client or employer permission.

Main Provisions

"NOCLAR" (noncompliance with laws or regulations) is an act of omission or commission, whether intentional or not, that is contrary to a prevailing law or regulation and that: (*a*) directly impacts the determination of material amounts and disclosures in the client or company's financial statements, or (*b*) compliance with the law or regulation is fundamental to the client or company's operations, its ability to continue its business, or to avoid material penalties. Examples include, among other things, laws or regulations dealing with fraud, corruption, money laundering, terrorist financing, environmental protection, securities markets, and trading. The proposed standard would apply when a member is delivering a professional service to a client or carrying out professional activities for a company and becomes aware of or suspects NOCLAR has occurred or is going to occur.

Once a member learns of a matter within the scope of the standard, he or she would or may be required to consider and take certain actions (if warranted), including: (*a*) discussions with the client or employer's management, including when possible and appropriate, those charged with governance; (*b*) disclosure to the auditor, or other auditors within the member's firm or network, when relevant and permissible; (*c*) consideration of the client or employer's actions in response to the NOCLAR; and (*d*) based on the client or employer's response (or lack of response), withdrawal from the client or employer organization, when appropriate.

Members in public practice would be required, and members in business encouraged, to document the matter.

The major difference between the IESBA standard and the AICPA proposed standards is that due to U.S. confidentiality restrictions, the AICPA standards do not require the member to consider disclosing NOCLAR to a regulatory or similar body, or an outside auditor, unless law or regulation requires such disclosure.

FASB

Proposed ASU

Debt (Topic 470), Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent)

Issue Date

January 2017

Comment Deadline

May 2017

Background

The Board is issued this proposed ASU as part of its Simplification Initiative. The areas for simplification in this proposed ASU involve several aspects of the accounting for nonemployee share-based payment transactions resulting from expanding the scope of FASB ASC 718, *Compensation—Stock Compensation*, to include share-based payment transactions for acquiring goods and services from nonemployees. Some of the areas for simplification apply only to nonpublic entities.

This proposed ASU would affect all entities that enter into share-based payment transactions for acquiring goods and services from non-employees.

Main Provisions

The amendments in this proposed ASU would expand the scope of FASB ASC 718 to include share-based payment transactions for acquiring goods and services from nonemployees. An entity would apply the requirements of FASB ASC 718 to nonemployee awards except for specific guidance on inputs to an option pricing model and the attribution of cost.

The proposed amendments would stipulate that share-based payments to nonemployees within the scope of FASB ASC 718 would need to be for goods or services purchased by the grantor for use or consumption in its own operations and not effectively issued to raise capital.

Expanding the scope of FASB ASC 718 through the amendments in this proposed ASU would improve the following areas of nonemployee share-based payment accounting:

- Measure nonemployee share-based payment transactions by estimating the fair value of the equity instruments that an entity is obligated to issue when the good has been delivered or the service has been rendered and any other conditions necessary to earn the right to benefit from the instruments have been satisfied.
- Measure equity-classified nonemployee share-based payment awards at the grant date. The proposal amends the definition of grant date to the date at which a grantor and a grantee reach a mutual understanding of the key terms and conditions of a share-based payment award.
- An entity would consider the probability of satisfying performance conditions when nonemployee share-based payment awards contain such conditions (same accounting as for employee share-based payment transactions).
- Generally, classify equity-classified nonemployee share-based payment awards which would continue to be subject to the requirements of FASB ASC 718 unless modified after the good has been delivered, the service has been rendered, any other conditions necessary to earn the right to benefit from the instruments have been satisfied, and the nonemployee is no longer providing goods or services.

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Nonpublic entities could

- substitute calculated values for expected volatilities as inputs to the valuation of share options and similar instruments issued to nonemployees if it is not practicable for the nonpublic entity to estimate the expected volatility of its share price.
- make a one-time election to switch from measuring liability-classified nonemployee share-based payment awards at fair value to intrinsic value.

Transition and Effective Date

An entity would apply this proposed ASU through a cumulative-effect adjustment to retained earnings as of the beginning of the annual period of adoption. However, a nonpublic entity that substitutes calculated value for expected volatility when measuring share-based payment awards would apply the proposed amendments prospectively to all awards that are measured at fair value after the effective date.

The proposed amendments would be applied only to outstanding awards.

The effective date will be determined after the Board considers stakeholder feedback on the amendments in this proposed ASU (Note: the effective date of the proposed amendments could be linked to the effective date of FASB ASC 606, *Revenue from Contracts with Customers*).

Compensation—Stock Compensation (Topic 718), Improvements to Nonemployee Share Based Payment Accounting Service Concession Arrangements (Topic 853)

Issue Date

March 2017

Comment Deadline

June 5, 2017

Background

The Board issued this proposed ASU as part of its Simplification Initiative. FASB ASC 470, *Debt*, includes guidance on various narrow-scope, fact-specific debt transactions and this proposed ASU would replace the current, fact-specific guidance with an overarching, cohesive principle. The proposed amendments should reduce the cost and complexity for preparers and auditors when determining whether debt should be classified as current or noncurrent in the balance sheet.

This proposed ASU relates to separate classifications of current debt and noncurrent debt within a classified balance sheet, thus an entity that does not present a classified balance sheet would be unaffected by the proposed amendments. The proposed amendments would apply to all entities that enter into a debt arrangement, that is, an arrangement that provides a lender with a contractual right to receive consideration and a borrower with a contractual obligation to pay consideration on demand or on fixed or determinable dates. The proposed amendments also would apply to convertible debt instruments and liability-classified mandatorily redeemable financial instruments.

Main Provisions

An entity should classify an instrument as noncurrent if either of the following criteria is met as of the balance sheet date:

1. The liability is contractually due to be settled more than one year (or operating cycle, if longer) after the balance sheet date.
2. The entity has a contractual right to defer settlement of the liability for at least one year (or operating cycle, if longer) after the balance sheet date.

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The proposal would continue to require an entity to classify a debt arrangement as a noncurrent liability when there has been a debt covenant violation, if the entity receives a waiver of that violation that meets certain conditions before the financial statements are issued (or are available to be issued). That classification is an exception to the principle above, but is similar to current GAAP. The exception would apply to all waivers except for those that result in a troubled debt restructuring or those that are accounted for as a debt extinguishment.

- The proposal retains and clarifies the probability assessment related to subsequent covenant violations.
- The proposed amendments also would require an entity to separately present in the balance sheet liabilities that are classified as noncurrent as a result of this exception.
- This proposed ASU could shift classification of certain debt arrangements between noncurrent liabilities and current liabilities.

One of the most significant changes to the classification guidance would be, for example, short-term debt that is refinanced on a long-term basis after the balance sheet date. The proposed ASU would prohibit an entity from considering a subsequent refinancing when determining the classification of debt as of the balance sheet date. Similarly, a subsequent refinancing of short-term debt with the issuance of equity securities would no longer affect the classification of debt as of the balance sheet date under the proposed amendments (classify as current liabilities). A change in classification would also result from debt that contains subjective acceleration clauses or material adverse change clauses. This proposed ASU would remove that probability assessment; instead, the subjective acceleration clause would impact classification of debt only when it is triggered.

Transition and Effective Date

In the first set of interim and annual financial statements following the effective date, an entity would apply the proposed ASU on a prospective basis to debt that exists at that date and after that date. Early adoption of the proposed amendments would be permitted. The Board will determine the effective date after it considers stakeholder feedback on the proposed amendments.

KNOWLEDGE CHECK

3. In performing this year's audit, Jeff Mains, CPA, observes possible theft of his client's assets by one of the client's employees. AICPA's Professional Ethics Executive Committee (PEEC) recently released a proposed ethics standard, *Responding to Noncompliance with Laws and Regulations.* If adopted, which of the following actions would the new standard require Jeff to do?

    a. Report the employee's actions to the police.
    b. Discuss the matter with the client's management.
    c. File a complaint with the state accountancy board.
    d. Resign the audit immediately.

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SEC

The SEC did not issue any proposed regulations or guidance in this period.

PCAOB

The PCAOB did not issue any proposed standards, interpretations or guidance in this period.

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ACCOUNTING AND AUDITING SUPPLEMENT NO. 1-2017

Solutions

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SOLUTIONS

CHAPTER 1

Solutions to Knowledge Check Questions

1.

a. Incorrect. In circumstances when management's plans include financial support by third parties or the entity's owner-manager and such evidence is necessary in supporting management's assertions about the entity's ability to continue as a going concern for a reasonable period, the auditor is required to obtain sufficient appropriate audit evidence about the intent and ability of such parties to provide the necessary financial support.
b. Incorrect. The entity may include in its plans an element of third party support, but the auditor is required to obtain sufficient appropriate audit evidence about the intent and ability of such parties to provide the necessary financial support. The application material of SAS No. 132 explains that the intent to provide the necessary financial support may be evidenced by either (*a*) obtaining from management written evidence about the third-party commitment or (*b*) confirming directly with the supporting party.
c. Incorrect. The SAS does not require management to meet these requirements. In circumstances when management's plans include financial support by third parties or the entity's owner-manager and such evidence is necessary in supporting management's assertions about the entity's ability to continue as a going concern for a reasonable period, the auditor is required to obtain sufficient appropriate audit evidence about the intent and ability of such parties to provide the necessary financial support.
d. Correct. That scenario triggers a new requirement in the SAS, which requires the auditor to obtain sufficient, appropriate audit evidence about the intent and ability of such parties to provide the necessary financial support. When the financial support is provided by an owner-manager, the evidence regarding intent may be in the form of a support letter or a written representation.

2.

a. Correct. ASU 2017-02 amends the consolidation guidance to clarify when a not-for-profit entity that is a general partner or limited partner should consolidate a for-profit limited partnership or similar entity.
b. Incorrect. This subject was not addressed in a new release by FASB this quarter.
c. Incorrect. An ASU on this subject matter was not released by FASB in this quarter.
d. Incorrect. FASB did not release an ASU indicating any deferral of the revenue recognition standard in this quarter.

3.

a. Incorrect. The new standard, as proposed, would not require Jeff to report the employee to the police due to U.S. confidentiality restrictions, unless existing law or regulations require such a disclosure.
b. Correct. Under the proposed standard, Jeff is required to have a discussion with management regarding the matter.
c. Incorrect. Even if the employee is a CPA, reporting the matter to the state accountancy board is not an action that is contemplated by the proposed standards.
d. Incorrect. If the client's management does not take appropriate action, Jeff may conclude that he needs to resign; however, this would not be something he would be required do immediately under the proposed standard.

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