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Not-for-Profit Accounting and Auditing Supplement No. 2—2016

Chapter 1

NOT-FOR-PROFIT ACCOUNTING AND AUDITING SUPPLEMENT NO. 2–2016

INTRODUCTION

This update includes the more significant accounting and auditing developments affecting the not-for-profit industry from April 2016 through June 2016. Included in this update are standard-setting and project activities of the Auditing Standards Board (ASB), Accounting and Review Services Committee (ARSC), Assurance Services Executive Committee, Professional Ethics Executive Committee, and FASB.

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.

This update may refer 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 April through June 2016.

Part I—Audit and Accounting Final and Proposed Standards

Final Standards and Interpretations

AICPA

Auditing Standards Board

Auditing Standards and Interpretations

The ASB did not issue any new auditing standards or interpretations in this period.

Attestation Standards and Interpretations

Statements on Standards for Attestation (SSAE) No. 18, *Attestation Standards: Clarification and Recodification*

Issue Date
April 2016

Effective Date
Effective for attestation reports dated on or after May 1, 2017.

Background
The ASB's primary objective in issuing SSAE No. 18 was to improve clarity and understandability of the attestation standards and reduce their complexity. The ASB issued the standards using the same format and drafting conventions as the AICPA Audit and Quality Control standards.

The intent was not to change the substance of the existing standards. However, the ASB adopted certain substantive changes. For example, SSAE No. 18 incorporates select requirements from the auditing standards that were not required under the existing standards (although in practice, some firms were using these techniques in their engagements).

SSAE No. 18 establishes requirements and provides application guidance for performing and reporting on examination, review, and agreed-upon procedures engagements (attestation engagements). The "Compliance With Standards Rule" (AICPA, *Professional Standards*, ET sec. 1.310.001) of the AICPA Code of Professional Conduct requires an AICPA member performing an attestation engagement for a nonissuer to comply with standards promulgated by the ASB.

"AT-C" denotes each section of the clarified standards. The preface to the standards was designed to help practitioners understand and properly apply the attestation standards to their engagements.

Practitioners who perform or anticipate performing attestation engagements should read the SSAE—including the preface—in its entirety, which is available at www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/SSAE_No_18.pdf.

Main Provisions and Changes

- The clarified format provides an introduction and objectives, followed by definitions (if applicable), requirements, and application and other explanatory guidance. Requirements are unconditional (mandatory), whereas application and other explanatory guidance are presumptively required. Both are required, however, in applying the application and other explanatory guidance, the practitioner may apply an alternative approach to meeting an objective in the standard if the practitioner justifies its application and how he or she meets the objective.
- AT-C sec. 100, *Concepts Common to All Attestation Engagements;* AT-C sec. 200, *Levels of Service;* and AT-C sec. 300, *Special Subject Matters,* comprise the new format of the attestation standards. Examination, review, and agreed-upon services are addressed in AT-C sections 200 and 300. Examples of special subject matters addressed in the attestation standards are compliance attestation and internal control over financial reporting (previously SSAE No. 16).
- AT-C sec. 100 applies to all attestation engagements performed under the new standard and includes certain pre-conditions for performing attestation engagements, such as independence.
- Standards for examination engagements require a risk assessment similar to that performed in an audit of financial statements.
- Engagement letters (or similar written documents) are required for all attestation engagements.
- Except for certain specific subject matter engagements, existing attest standards discuss but do not require the CPA to request a written assertion or "representation letter" from the responsible party. SSAE No. 18 requires the CPA to request a written representation in all cases, however different service levels and subject-matter requirements apply.
- New procedures apply to situations in which a responsible party or engaging party is unwilling to provide a written assertion or other written representations as required in the new standard. Depending on the specific service being rendered, examination, review, agreed-upon procedures, or an engagement involving a special subject matter, the practitioner may be able to proceed with the engagement if he or she applies other procedures, that is obtains oral representation from the responsible party. In some cases, however, such as a review engagement that provides only limited assurance, failure to obtain a written representation would preclude acceptance or conclusion of the engagement.
- The requirements and guidance currently found in AT sec. 301, Financial Forecasts and Projections, has been removed from the attestation standards and are being proposed for inclusion in a new Statement on Standards for Accounting and Review Services (SSARS). SSAE No. 18 continues to provide guidance and requirements for examinations and agreed upon procedures engagements related to prospective financial information. The ASB believed the appropriate place for the requirements for compiling prospective information more appropriately belonged in the SSARS.
- Existing standards state that CPAs should generally disclaim an opinion or withdraw from the engagement when the responsible party (or engaging party, if different from the responsible party) impose restrictions that significantly limit the scope of the engagement. SSAE No. 18 provides the additional option of a modified opinion – that is, based on the CPA's assessment of the impact of the scope limitation, the CPA should either
  - qualify the opinion,
  - disclaim an opinion, or
  - withdraw from the engagement.
- The standard addresses review engagements separate from examination engagements and make comparisons between examinations and audits (performed under the SAS's) and reviews performed under the SSAEs versus the SSARS.
- Report language in many instances has been revised so practitioners should refer to the Appendix in SSAE No. 18 for the appropriate language. Numerous illustrative reports are provide in the clarified SSAEs.

Accounting and Review Services Standards and Interpretations

The ARSC did not issue any standards or interpretations in this period.

KNOWLEDGE CHECK

1. Which statement best describes a significant substantive change to the attestation standards under SSAE No. 18?

   a. Examination engagements are no longer addressed in the attestation standards.
   b. Attestation engagements require written agreement of the terms of the engagement.
   c. All attestation engagements require the responsible party to provide a detailed, written assertion.
   d. All agreed-upon procedures engagements require a robust and comprehensive risk assessment.

FASB

Accounting Standards Updates

FASB Accounting Standards Update (ASU) No. 2016-10, Revenue from Contracts with Customers (Topic 606): *Identifying Performance Obligations and Licensing*

Issue Date

April 2016

Background

This ASU resulted from feedback FASB obtained from the FASB and International Accounting Standards Board (IASB) Joint Transition Resource Group for Revenue Recognition (TRG), whose charge is to identify implementation issues related to the new standard and enhance understandability. The following issues are addressed in this ASU:

- Identifying performance obligations in light of materiality within the context of a contract and determining whether certain goods or services as well as shipping and handling activities are distinct within that context
- Licensing in terms of the rights granted and appropriate timing of revenue recognition, when to recognize sales- and usage-based royalties, and contractual provisions that require transfer of additional licenses

Who Is Affected?

This ASU broadly affects entities that will be required to apply revised FASB Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers*, in accordance with FASB ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), when the entity provides a good or service in concert with another party.

Main Provisions

To clarify FASB ASC 606 and reduce the cost and complexity of identifying performance obligations, the ASU states the following:

1. An entity is not required to assess whether promised goods or services are performance obligations if they are immaterial in the context of the contract with the customer.
2. An entity is permitted, as an accounting policy election, to account for shipping and handling activities that occur after the customer has obtained control of a good as an activity to fulfill the promise to transfer the good rather than as an additional promised service.

To identify performance obligations in a contract, an entity evaluates whether promised goods and services are distinct. FASB ASC 606 includes two criteria for assessing whether promises to transfer goods or services are distinct. One of those criteria is that the promises are separately identifiable. The ASU improves the guidance on assessing that criterion by

1. better articulating the principle for determining whether promises to transfer goods or services to a customer are separately identifiable by emphasizing that an entity determines whether the nature of its promise in the contract is to transfer each of the goods or services or whether the promise is to transfer a combined item (or items) to which the promised goods or services are inputs; and
2. revising the related factors and examples to align with the improved articulation of the separately identifiable principle.

FASB ASC 606 includes implementation guidance on determining whether an entity's promise to grant a license provides a customer with either a right to use the entity's intellectual property (which is satisfied at a point in time) or a right to access the entity's intellectual property (which is satisfied over time). This ASU clarifies the following:

1. An entity's promise to grant a customer a license to intellectual property that has significant standalone functionality does not include supporting or maintaining that intellectual property during the license period. An entity's promise to provide a customer with a right to use the entity's intellectual property is satisfied at the point in time the customer is able to use and benefit from the license, because the entity's promise in granting the license is solely to make the underlying intellectual property available for the customer's use and benefit.
2. An entity's promise to grant a customer a license to symbolic intellectual property (that is, intellectual property that does not have significant standalone functionality) includes supporting or maintaining that intellectual property during the license period and is considered to be satisfied over time. Symbolic intellectual property includes brands, team or trade names, logos, and franchise rights.
3. An entity considers the nature of its promise in granting a license, regardless of whether the license is distinct, in order to apply the other guidance in FASB ASC 606 to a single performance obligation that includes a license and other goods or services (in particular, the guidance on determining whether a performance obligation is satisfied over time or at a point in time and the guidance on how best to measure progress toward the complete satisfaction of a performance obligation satisfied over time).

FASB ASC 606 includes implementation guidance on when to recognize revenue for a sales-based or usage-based royalty promised in exchange for a license of intellectual property. The amendments in this ASU clarify the scope and applicability of this guidance as follows:

1. An entity should not split a sales-based or usage-based royalty into a portion subject to the recognition guidance on sales-based and usage-based royalties and a portion that is not subject to that guidance.

2. The guidance on sales-based and usage-based royalties applies to a sales-based or usage-based royalty whenever the predominant item to which the royalty relates is a license of intellectual property.

Finally, companies should distinguish contractual provisions that require an entity to transfer control of additional goods or services to a customer from contractual provisions that define the attributes of a single promised license.

Effective Date

The effective date for the preceding amendments is aligned with the effective date for ASU No. 2014-09.

Public Business Entities

Effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods within those annual periods.

All Other Entities

Effective for financial statements issued for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019.

ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): *Narrow Scope Improvements and Practical Expedients*

Issue Date

May 2016

Background

This ASU resulted from feedback FASB obtained from the FASB-IASB TRG, whose charge is to identify implementation issues related to the new standard and enhance understandability.

Who Is Affected?

This ASU affects entities that will be required to apply revised FASB ASC 606, *Revenue from Contracts with Customers*, in accordance with FASB ASU No. 2014-09 when the entity provides a good or service in concert with another party. However, the nature of the changes addressed relates to narrow aspects of FASB ASC 606.

Main Provisions

The board adopted changes to FASB ASC 606 to address certain issues the TRG identified in the guidance on assessing collectability, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition. The board's intent in doing so was to reduce (*i*) the potential for diversity in practice at initial application, and (*ii*) the cost and complexity of applying FASB ASC 606 both at transition and on an ongoing basis. In summary, the changes

- clarify the objective of the collectability criterion of the standard (step 1), and add a new criterion to clarify when revenue would be recognized for a contract that fails to meet the criteria in step 1;

- in determining the transaction price of a contract (step 3), permit a company to exclude from the transaction price amounts that are collected from customers for all sales and similar taxes;
- also in step 3, specify that the measurement date for noncash consideration is at contract inception;
- allow a practical expedient to permit a company to reflect the aggregate effect of all modifications occurring pre-adoption of FASB ASC 606 when identifying performance obligations and transaction price, and allocating the transaction price to satisfied and unsatisfied performance obligations; and
- clarify what is meant by the term "completed contract."

As a technical correction, a company that retrospectively applies FASB ASC 606 to each prior reporting period is not required to disclose the effect of the accounting change for the period of adoption (but still must disclose the effect of the changes on any prior periods retrospectively adjusted).

Effective Date

The effective date for the preceding amendments is aligned with the effective date for ASU No. 2014-09.

Public Business Entities

Effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods within those annual periods.

All Other Entities

Effective for financial statements issued for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019.

ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): *Measurement of Credit Losses on Financial Instruments*

Issue Date

June 2016

Who Is Affected?

This ASU affects companies holding loans and other financial instruments, including

- loans,
- debt securities,
- trade receivables,
- net investments in leases,
- off-balance-sheet credit exposures,
- reinsurance receivables, and
- any other financial assets not excluded from the scope that have the contractual right to receive cash.

Note: Banks and other financial institution will be particularly affected by the revised standard. The impact to companies will vary depending on the credit quality of the assets held by the entity and their duration, and how the company currently applies GAAP to these assets.

Background

In 2008, in response to the global financial crisis, FASB and IASB established a Financial Crisis Advisory Group (FCAG) to advise the boards on improvements to financial reporting. The FCAG identified the delayed recognition of credit losses that results in the potential overstatements of assets as a weakness in current GAAP. As a result, the FCAG recommended exploring more forward-looking alternatives to the incurred loss methodology.

The amendments in this ASU replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of past-, present-, and future-oriented information to estimate credit losses.

This ASU seeks to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The accounting for assets under this ASU will make the allowance for credit losses more comparable between originated assets and purchased financial assets and will reduce complexity with the accounting for interest income.

Discussion of Significant Changes

Assets Measured at Amortized Cost: Companies will present these assets in the balance sheet at the net amount the company expects to collect for the asset (amortized cost less an allowance for credit losses).

The income statement will reflect

- credit losses on newly recognized financial assets and
- increases and decreases in expected credit losses that occurred during the period

Companies will base the amount of expected credit loss on relevant information about past events, including the following:

- Historical experience
- Current conditions
- Reasonable and supportable forecasts

The board does not specify a method for measuring expected credit losses and therefore allows companies to apply methods that reasonably reflect its expectations of the credit loss estimate.

Note: The board expects that companies will be able to use their current systems and methods to record the allowance for credit losses. However, companies should reconsider the inputs they use to determine and record the allowance for credit losses in light of the new ASU and make any necessary changes in policies, procedures, and controls to reflect an estimate of all expected credit losses and the use of reasonable and supportable forecasts.

The amendments in this ASU retain many of the disclosure amendments in FASB ASU No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, updated to reflect the change from an incurred loss methodology to an expected credit loss methodology.

In addition, the disclosures of credit quality indicators in relation to the amortized cost of financing receivables, a current disclosure requirement, are further disaggregated by year of origination (or vintage). The board believes the vintage information benefits financial statement users, and allows them to better assess changes in underwriting standards and credit quality trends in asset portfolios over time and the effect of those changes on credit losses.

Note: The requirement to disaggregate the preceding information by year of origination will be optional for entities that are not public business entities.

Available-for-Sale Debt Securities: Because these securities could be sold at fair value, the ASU limits the amount of credit losses to the difference between fair value and amortized cost if cash collection would result in a sale that is less than fair value.

Credit losses on available-for-sale debt securities should be measured in a manner similar to current GAAP. However, the amendments in this ASU require that credit losses be presented as an allowance rather than as a write-down. Therefore, a company will be able to record reversals of credit losses (in situations in which the estimate of credit losses declines) in current period net income, which should align the income statement recognition of credit losses with the reporting period in which those changes occur. Current GAAP prohibits reflecting those improvements in current period earnings.

The amendments in this ASU indicate that a company should not use the length of time a security has been in an unrealized loss position to avoid recording a credit loss. In addition, in determining whether a credit loss exists, this ASU removes the requirements to consider the historical and implied volatility of the fair value of a security and recoveries or declines in fair value after the balance sheet date.

The accounting for purchased credit-impaired available-for-sale debt securities have similar complex accounting requirements under current GAAP as the accounting for other purchased credit impaired financial assets. Consistent with the accounting for amortized cost assets, the revised accounting under the ASU will increase the comparability of the allowance for credit losses across originated and purchased available-for-sale debt securities, as well as resolve complexity with the accounting for interest income.

Effective Date and the Transition Requirements

Public Business Entities that are SEC Filers

Effective for annual and interim periods beginning after December 15, 2019.

Public Business Entities that are not SEC Filers

Effective for annual and interim periods beginning after December 15, 2020.

All Other Entities

Effective for annual periods beginning after December 15, 2020, and interim periods in fiscal years beginning after December 15, 2021.

Early Application

Permitted, including adoption in an interim period, for periods in fiscal years beginning after December 15, 2018.

Knowledge Check

2. In the second quarter of 2016, FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): *Identifying Performance Obligations and Licensing*. Which statement best summarizes the changes adopted in this ASU?

    a. The ASU clarifies the requirements for identifying performance obligations and addresses issues related to licensing intellectual property and royalty arrangements.
    b. The ASU provides additional scope exceptions and practical expedients for recognizing revenue and identifying performance obligations.
    c. The ASU delays the effective date for all nonpublic companies until 2021.
    d. The ASU broadly clarifies the requirements for recognizing revenue when a company receives royalties or licenses proprietary software to customers.

Proposed Standards and Interpretations

AICPA

Auditing Standards Board

Proposed Attestation Standards

The ASB did not issue any proposed auditing or attestation standards or interpretations in this period.

Accounting and Review Services Committee

The ARSC did not issue any proposed standards or interpretations in this period.

Professional Ethics Executive Committee

Issue Date

May 16, 2016

Comment Due Date

July 18, 2016

Background and Provisions

The AICPA's Professional Ethics Executive Committee proposed a new independence interpretation on hosting services, part of an initiative to examine IT and "cloud" computing services that members provide their attest clients and (in some cases) affiliates subject to independence rules. "Hosting" services are situations in which the client engages a member to have custody or control over data or records that the client uses in its daily operations. Because maintaining custody and control over company assets, including its original records and data, are considered management responsibilities, the interpretation concludes that the member would be precluded from offering this type of service to an attest client because the threat to the member's independence would be too great to mitigate with safeguards.

The proposed interpretation provides examples of situations that would or would not create unacceptable threats to independence. For example, a member and its client may exchange data via an electronic portal in connection with a client engagement; this activity would not be considered hosting under the proposed interpretation. Likewise, a member may retain copies of the client's records to support his or her engagement work product. Examples of situations that would run afoul of the proposed rule are

- acting as the client's business disaster recovery provider,
- housing the "production" version of the client's information system on the member's servers, and
- keeping the client's original lease documents in the member's office for safekeeping (that is, not for the purpose of performing client service).

If approved, the interpretation will become effective six months after publication in the *Journal of Accountancy*.

FASB

Exposure Drafts

Proposed ASUs

Proposed ASU, Statement of Cash Flows (Topic 230): *Classification of Certain Cash Receipts and Cash Payments*

Issue Date

April 28, 2016

Who is Affected?

This proposal would affect all entities, including not-for-profit entities that are required to present a statement of cash flows under FASB ASC 230, *Statement of Cash Flows*, and have restricted cash or restricted cash equivalents.

Note: Not-for-profit companies currently apply limited guidance under GAAP and will be particularly affected by these new requirements given the prevalence of restricted cash in their balance sheets.

Comment Due Date

June 27, 2016

Background and Main Provisions

The proposed rules would require companies to explain changes in total cash, cash equivalents, and restricted cash (and cash equivalents) during the period in their statements of cash flows. Companies would also include restricted cash and equivalents in reconciling beginning and end amounts in the statement of cash flows; if amounts cannot be reconciled, certain disclosures would be required. Companies are also required to disclose the nature and amounts of restricted cash.

The proposal clarifies that transfers between categories of cash should not be described in the cash flow statement because they are not operating, financing, or investing activities.

Current guidance for restricted cash does not exist outside the not-for-profit where only limited guidance exists.

Effective Date

The effective date will be determined once feedback on the proposal is considered. Otherwise, the ASU calls for companies to apply the ASU retrospectively to all prior periods presented.

Proposed ASU, Intangibles – Goodwill and Other (Topic 350): *Simplifying the Accounting for Goodwill Impairment*

Issue Date

May 12, 2016

Who is Affected?

The proposed ASU applies to all companies that report goodwill in their financial statements except private companies that have elected the private company alternative treatment for measuring goodwill.

Comment Due Date

July 11, 2016

Background and Main Provisions

After its recent revision to the ASC to simplify goodwill accounting for private companies due to concerns about cost and complexity, FASB added a project to its agenda to consider whether similar changes might be appropriate for other companies, including public and not-for profit entities. The first phase of the project considered whether to omit step 2 of the impairment test. FASB will consider possible further changes in phase 2 of the project.

The proposed amendment would remove step 2 in the process of measuring goodwill impairment, that is, companies would no longer calculate the implied fair value of goodwill by assigning fair value of a reporting unit to all of its assets and liabilities as if that unit had been acquired in a business combination. Instead, companies would perform the annual or interim goodwill impairment test simply by comparing fair value of a reporting unit with its carrying value and recognize an impairment charge if the carrying amount is greater than fair value. Under the proposal, the amount of the charge should not exceed the carrying amount of goodwill allocated to that reporting unit. Companies may still perform a qualitative assessment to determine whether a quantitative impairment test is needed.

Another proposed change would remove the requirements for a reporting unit with a zero or negative carrying amount to perform a qualitative assessment and perform step 2 of the impairment test if it fails the qualitative assessment. Companies would also disclose any reporting units with zero or negative carrying amounts and the amount of goodwill apportioned to those units.

Effective Date

The effective date will be determined once feedback on the proposal is considered.

Proposed ASU, *Other Income—Gains and Losses from Derecognition of Nonfinancial Assets (Subtopic 610-20)*

Issue Date

June 6, 2016

Who is Affected?

The proposed ASU would affect

- companies that enter into a contract to transfer a nonfinancial asset, or ownership interest in a consolidated subsidiary that does not meet the definition of a business or a nonprofit entity, and
- companies that have transactions that are within the scope of the real-estate specific derecognition guidance.

Comment Due Date

August 5, 2016

Background

This ASU results from FASB's 2013 three-phase project on business entities. The first phase proposed guidance in November 2015 to define a business. The second phase resulted in this ASU, which addresses the scope of asset recognition guidance and clarifies references to "in substance nonfinancial assets" and partial sales of nonfinancial assets. The third phase will consider whether to align the accounting for acquisition and derecognition of assets and businesses.

This ASU seeks to provide clarification in response to the following stakeholder feedback:

- Lack of uniform view on what constitutes an "in substance nonfinancial asset" (term is undefined)
- Lack of guidance to address partial sales of nonfinancial assets (common in the real estate industry)
- FASB ASU No. 2014-09 (nonfinancial asset guidance) does not address partial sales transactions

- Certain scope exception in FASB ASU No. 2014-09 that have created complexity and confusion as to which model applies
- Lack of clear guidance on contributions of nonfinancial assets to form joint ventures and the accounting differences between transfers of assets and business to equity method investees

The amendments in this proposed ASU would clarify the scope of the nonfinancial asset guidance in FASB ASC 610-20. Under the clarified scope, entities would apply the guidance to derecognition of all nonfinancial assets and in-substance nonfinancial assets unless other specific guidance applies.

Main Provisions

Nonfinancial Asset Guidance

The proposed amendments would clarify that an in-substance nonfinancial asset is an asset of the company (reporting entity) included in either of the following:

1. A contract in which substantially all of the fair value of the assets promised to a counterparty is concentrated in nonfinancial assets

2. A consolidated subsidiary in which substantially all of the fair value of the assets in the subsidiary is concentrated in nonfinancial assets

Furthermore, the proposed amendments would clarify that an in-substance nonfinancial asset is neither of the following:

1. A group of assets or subsidiary that is a business or nonprofit activity

2. An investment of a reporting entity (for example, an equity method investment) regardless of whether the assets underlying the investment would be considered in-substance nonfinancial assets.

A conclusion that a contract or subsidiary includes in-substance nonfinancial assets means that each asset promised in the contract or in the subsidiary is within the scope of the nonfinancial asset guidance in FASB ASC 610-20. However, that conclusion does not determine the unit of account, which is each distinct nonfinancial asset. (See the following for further details.)

- The derecognition of all businesses (including real estate businesses) and nonprofit activities would be accounted for in accordance with the derecognition and deconsolidation guidance in FASB ASC 810-10, *Consolidation – Overall*.
- The proposed ASU would eliminate the exception in the financial asset guidance for transfers of investments (including equity method investments) in real estate entities.

Distinct Nonfinancial Assets

Under the proposed ASU

- a distinct nonfinancial asset would be the unit of account for applying the nonfinancial asset derecognition guidance;
- at contract inception, a company would identify the nonfinancial assets and in-substance nonfinancial assets in the contract and apply the guidance from FASB ASC 606 on identifying performance obligations to identify the distinct nonfinancial assets; and
- companies would be required to allocate consideration to each distinct nonfinancial asset by applying the guidance from FASB ASC 606 on allocating the transaction price to performance obligations.

Partial Sales

The proposed ASU would provide guidance on the accounting for what often are referred to as partial sales of nonfinancial assets within FASB ASC 610-20. The main provisions would include the following:

1. A reporting entity would account for a decrease in ownership interest of a subsidiary while it retains a controlling financial interest as an equity transaction and would not recognize a gain or loss.

2. A reporting entity would derecognize a distinct nonfinancial asset in a partial sale transaction when it no longer has a controlling financial interest in the former subsidiary and has transferred control of the nonfinancial asset in accordance with FASB ASC 606.

3. If an entity meets the criteria in item 2 to derecognize a distinct nonfinancial asset, the entity would measure any retained noncontrolling ownership interest in the former subsidiary at fair value.

The proposed amendments would also

- eliminate FASB ASC 845-10-30 on exchanges of nonfinancial assets to another entity in exchange for a noncontrolling ownership interest in that entity (The board viewed those transactions as similar to partial sales of nonfinancial assets and decided that they should be accounted for under the same accounting model in FASB ASC 610-20.);
- require that the guidance on partial sales of nonfinancial assets be applied to contributions of an asset to a joint venture and other investees; and
- provide conforming amendments to the equity method guidance that would require an entity to recognize a full gain or loss in a transfer of a nonfinancial asset to an investee.

Effective Date

The amendments in this ASU would be the effective at the same time as the amendments in ASU No. 2014-09.

Proposed ASU, Consolidation (Topic 810): *Interests Held through Related Parties That are under Common Control*

Issue Date

June 23, 2016

Who is Affected?

The proposed ASU affects companies that are required to evaluate whether they should consolidate a variable interest entity (VIE) within the VIE Subsections of FASB ASC 810-10.

Comment Due Date

July 25, 2016

Background

The ASU would amend the consolidation guidance on determining whether a company (reporting entity) is the primary beneficiary of a VIE when that company

- is the single decision maker of the VIE and
- has an indirect interest in the entity held through related parties that are under common control with the reporting entity.

A primary beneficiary of a VIE is required to consolidate the VIE.

The amendments in this proposed ASU would improve GAAP because in situations involving common control, a single decision maker would focus on the economics to which it is exposed when determining whether it is the primary beneficiary of a VIE. This decision is important because if company is a primary beneficiary, it prompts further evaluation of which party is most closely associated with the VIE.

Main Provisions

The proposed ASU would not change the characteristics of a primary beneficiary in current GAAP, which are

1) power to direct the activities of a VIE that have most significantly affect the VIE's economic performance and

2) obligation to absorb the VIE's (potentially significant) losses or rights to receive the VIE's (potentially significant) benefits.

If a reporting entity is the single decision maker of a VIE, the amendments in this proposed ASU would require that

- the reporting entity, in determining whether it satisfies the second characteristic of a primary beneficiary, include all of its direct variable interests in a VIE; and
- on a proportionate basis, also include its indirect variable interests in a VIE held through related parties (including related parties that are under common control with the reporting entity).

Under the proposed ASU, a single decision maker would no longer be required to consider indirect interests held through related parties that are under common control with the single decision maker to be the equivalent of direct interests in their entirety. Rather, the company would include such interests on a proportionate basis consistent with indirect interests held through other related parties.

Post-assessment

- A reporting entity concludes it does not have the characteristics of a primary beneficiary; the proposed amendments would continue to require that reporting entity to evaluate whether it and one or more of its related parties under common control, as a group, have the characteristics of a primary beneficiary.
- If the single decision maker and its related parties that are under common control, as a group, have the characteristics of a primary beneficiary, then the party within the related party group that is most closely associated with the VIE is the primary beneficiary.

Effective Date

Companies that already have adopted the amendments in ASU No. 2015-02 would be able to apply the amendments in this proposed ASU using either (1) a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption or (2) a retrospective approach. Companies that have not yet adopted the amendments in ASU No. 2015-02 would apply the same transition method elected for the application of ASU No. 2015-02.

The board will determine the effective date and whether the proposed amendments may be applied before the effective date after it considers stakeholders' feedback on the proposed amendments.

Note: FASB also proposed two additional updates, which affect narrow aspects of the Codification:

- Technical Corrections and Improvements to ASU No. 2014-09 – *issued 5/18/16, comments due 7/2/16*
- Technical Corrections and Improvements – *issued 4/21/16, comments due 7/5/16*

NOT-FOR-PROFIT ACCOUNTING AND AUDITING SUPPLEMENT NO. 2–2016

Solutions

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Solutions

Chapter 1

Solutions to Knowledge Check Questions

1.

   a. Incorrect. Examination engagements continue to be addressed in SSAE No. 18. Compilation standards were moved to the SSARS.
   b. Correct. All attest engagements require an engagement letter or other documentation that evidences certain elements of the engagement.
   c. Incorrect. Some engagements do require the written assertion, but in others there may be additional procedures the CPA could apply.
   d. Incorrect. AUP engagements do not and have not required a robust risk assessment under the attestation standards, under SSAE No. 18, or under the previous standards.

2.

   a. Correct. The ASU addresses identifying performance obligations in light of materiality within the context of a contract and determining whether certain goods or services as well as shipping and handling activities are distinct within that context
   b. Incorrect. FASB ASU No. 2016-12 provides the scope exceptions and practical expedients.
   c. Incorrect. FASB has not issued any updates in 2016 that would delay the effective date of the new revenue recognition standards.
   d. Incorrect. FASB ASU No. 2016-10 includes implementation guidance on when to recognize revenue for a sales-based or usage-based royalty promised in exchange for a license of intellectual property.