AICPA® PCPS
Private Companies Practice Section

April 2016

Technical Issues Alert

Information on technical issues affecting small businesses and the CPAs who serve them.

TIC Addresses Issues with FASB Staff

Regular telephone updates with FASB staff members are part of TIC's wide-ranging outreach efforts with standard setters. They offer TIC members the opportunity to provide feedback on proposals in development and to learn about new projects. These issues were discussed in TIC's most recent call with FASB staff:

- Proposed Accounting Standards Update on *Business Combinations (Topic 805): Clarifying the Definition of a Business*. TIC strongly supported this document, which it believed offers much improved guidance for the evaluation of the definition of a business. TIC did recommend early implementation of the final standard (including adoption of the standard for applicable transactions in financial statements not yet issued) and asked for a delayed effective date for mandatory adoption by nonpublic entities. TIC also requested further clarification on transition disclosures.

- Proposed FASB Accounting Standards Update, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*. Today, authoritative guidance on the recognition, measurement and disclosure of government assistance agreements is lacking in U.S. GAAP. To improve transparency with respect to these agreements without undertaking a comprehensive project, the FASB is proposing a disclosure-only standard as a stop-gap measure.

  While TIC thought many of the proposed disclosures would be useful, the committee members believed that those related to the quantitative benefits of government assistance received but not recognized directly in the financial statements would add too much complexity and potentially excessive cost. In its comment letter, TIC asserted that when government assistance agreements are silent about the value of benefits granted, quantitative disclosures can be replaced by qualitative disclosures that will serve users well without placing undue burdens on businesses. TIC also asked for clarifications in the final standard on the definition of a government, the meaning of the phrase "government assistance received but not recognized directly in the financial statements" and foreign government assistance in the form of pass-through grants to U.S. business entities. TIC recommended a longer transition period for private entities.

- Disclosure Framework—Disclosure Review: Income Taxes. For this project in development, FASB staff members and TIC discussed the potential for TIC to offer contacts at private companies that the FASB could include in its outreach efforts, as TIC has done in the past.

- PCC Project on Applying VIE Guidance to Entities Under Common Control. This project would address concerns with the application of variable interest entity (VIE) guidance to entities under common control that are not already addressed in FASB Accounting Standards Update No. 2014-07, *Consolidation (Topic 810): Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements*. The PCC has asked the FASB staff to work with private company stakeholders to develop examples to clarify applying VIE guidance in these cases. The FASB staff members noted that TIC has provided numerous private company contacts who have been included in the FASB's outreach efforts on this ongoing project. Currently, guidance specific to private companies does not exist, and TIC and the staff members discussed possible options. At the April 12 PCC meeting, the PCC discussed changes in the direction of this project, which will be covered in the next *TIC Alert*. ■

Future Meetings

TIC meetings offer local practitioners the chance to provide their unique perspectives in the standard-setting process. All CPAs are invited to attend. Contact Linda Volkert, CPA, TIC Staff Liaison, at the AICPA at (212) 596-6040 to learn about attending or receiving information on upcoming meetings.

The next TIC meetings will be held:

- May 5 and 6, Nashville, TN
- July 19 and 20, Salt Lake City, UT (preceding the AICPA National Advanced Accounting and Auditing Technical Symposium)
- September 28 and 29, Norwalk, CT (TIC's annual liaison meetings with the FASB, GASB and PCC)

The PCPS Technical Issues Committee (TIC) provides standard setters with the unique perspective of local CPA firms on accounting, auditing and reporting issues. We hope these highlights of issues that affect local firms will help you, your firm or your group to participate in the standard-setting process.

Accounting Update

- The FASB issued its final ASU on leases, which will affect all organizations that lease assets. Practitioners can find further perspectives on the ASU in a FASB in Focus article and an article on understanding the costs and benefits. The ASU on leases will take effect for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, for public business organizations, not-for-profit entities that have issued, or are conduit bond obligors for, securities that are traded, listed, or quoted on an exchange or an over the-counter market and employee benefit plans that file financial statements with the SEC. For all other organizations, the ASU on leases will take effect for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. Early application will be permitted for all organizations.

- The FASB issued Accounting Standards Update 2016-03, *Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), Consolidation (Topic 810), Derivatives and Hedging (Topic 815): Effective Date and Transition Guidance (a consensus of the Private Company Council)*. This ASU represents the successful culmination of TIC's efforts, which began with a discussion with the FASB staff at the July 2014 TIC meeting, to encourage the PCC and the FASB to reexamine the effective dates and preferability rules for existing ASUs that provided PCC alternatives, namely:

  - *Accounting for Goodwill* (ASU 2014-02)
  - *Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps—Simplified Hedge Accounting Approach* (ASU 2014-03)
  - *Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements* (ASU 2014-07)
  - *Accounting for Identifiable Intangible Assets in a Business Combination* (ASU 2014-18)

  With the finalization of this ASU, the effective dates on the above ASUs have been eliminated. Private companies can forgo an initial preferability assessment that would have been required under Topic 250, *Accounting Changes and Error Corrections*, on first election of the above accounting alternatives. The preferability assessment will be required on any subsequent election of those accounting alternatives.

  The ASU also addresses transition guidance for the PCC alternatives. The final amendments extend the transition guidance in Updates 2014-02, 2014-03, 2014-07, and 2014-18 indefinitely. However, there is no intention to change how transition is applied for Updates 2014-07 and 2014-18. The amendments in ASU 2016-03 are effective immediately.

- TIC supported the proposed amendments in a FASB ED, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. In its comment letter, TIC recommended that the proposed exemption for certain disclosures provided to private companies should also be extended to employee benefit plans and not-for-profit organizations. TIC also suggested a longer transition period for private companies and advocated allowing early adoption of the final standard.

- EITF Issue No. 15-F, S*tatement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments*, was issued, in part, to address diversity in practice issues. In its comment letter on the ED, TIC expressed appreciation for the board's efforts to resolve a number of cash flow statement classification issues that have plagued practitioners and preparers for a number of years. TIC supported most of the board's proposed amendments to Topic 230 (*Statement of Cash Flows*) and requested that the board add another common issue to its agenda relating to related-party borrowing transactions.

- Other recently issued ASUs include:

  - Update 2016-08—*Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*
  - Update 2016-07—*Investments—Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting*
  - Update 2016-06 —*Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments (a consensus of the Emerging Issues Task Force)*
  - Update 2016-05—*Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships (a consensus of the Emerging Issues Task Force)*
  - Update 2016-04—*Liabilities—Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products (a consensus of the Emerging Issues Task Force)* ■

FASB Proposals on Defined Benefit Plan Disclosures and Pension/Postretirement Cost Presentation

Two FASB proposals are intended to improve financial reporting by employers related to defined benefit pension and other postretirement benefit plans. The proposed ASU, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Changes to the Disclosure Requirements for Defined Benefit Plans*, is part of the FASB's broader disclosure framework project aimed at improving the effectiveness of disclosures in the notes to financial statements by focusing on the information that is most relevant to financial statement users. As part of that project, the FASB decided to re-examine existing disclosure requirements in certain areas within the context of the proposed disclosure framework. Defined benefit plans was one of four areas—including income taxes, inventory, and fair value—to be re-examined.

Another proposed ASU, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, seeks to improve guidance related to the presentation of defined benefit costs in the income statement. The FASB said that since it can be costly for investors and other users to analyze and understand related costs, the proposed ASU would require entities to present the service cost component separately from the other components of net benefit cost and offer guidance on how to present the service cost component and other components of net benefit cost in the income statement. The proposed ASU would allow only the service cost component of net benefit cost to be eligible for capitalization.

Further information on both EDs can be found in a FASB in Focus overview. Comments are due by April 25. ■

TIC Comments on Peer Review ED

TIC approved of the clarifications and changes to the standards proposed in the Peer Review Board ED on Standards for Performing and Reporting on Peer Reviews, *Improving Transparency and Effectiveness of Peer Review*. In particular, TIC cited the board's efforts in developing eight new interpretations that elucidate areas that have led to some confusion in the past. TIC did ask for clarification of the board's intent and additional guidance in several areas, including nonconforming engagements, design matters, the team captain's responsibility to provide recommendations for remediation and publicizing peer review information. TIC expressed appreciation for the board's work and encouraged continued efforts to improve the consistency of application of the standards among peer reviewers and oversight bodies. ■

ARSC Update

- Accounting and Review Services Interpretation No. 1 to AR-C section 90, *Review of Financial Statements* (AICPA, *Professional Standards*), establishes that although AR-C section 90 requires that the written review report include a statement that the accountant's responsibility is to conduct the review engagement in accordance with the AICPA's Statements on Standards for Accounting and Review Services, a practitioner may also indicate that the review was conducted in accordance with another set of review standards, for example, International Standard on Review Engagements 2400 (Revised), *Engagements to Review Historical Financial Statements*, provided that the review was conducted in accordance with both sets of standards in their entirety. The interpretation also provides an illustrative report. ■

GASB Update

- A GASB ED on *Leases* sets forth a proposed single approach for state and local governments to report leases based on the principle that leases are financings of the right to use an underlying asset. Limited exceptions would include short-term leases (12 months or less) and financed purchases. A final statement would cover lease contracts for nonfinancial assets—including vehicles, heavy equipment, and buildings—but exclude grants, donated assets, and leases of intangible assets (such as patents and software licenses). A lessee government would be required to recognize a lease liability and an intangible asset representing its right to use the leased asset. A lessor government would be required to recognize a lease receivable and a deferred

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inflow of resources. More information is available in a GASB in Focus article and in a video and other information available on the GASB Outlook site.

- TIC fully supported the proposals in a GASB ED on *Pension Issues: An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The ED addresses practice issues related to the statements cited, including "(1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in Actuarial Standards of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements." The GASB has now finalized this proposal as GASB Statement No. 82.

- GASB has issued GASB Statement No. 80, *Blending Requirements for Certain Component Units—an Amendment of GASB Statement No. 14*. In its comment letter, TIC generally supported the guidance in the statement, which requires that certain not-for-profit component units for which the primary government is the sole corporate member be presented as blended component units. ■

Let Us Hear From You
If you have questions, local firm advocacy issues or suggestions for TIC, contact:

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