Chapter 1

Not-for-Profit Accounting and Auditing Supplement No. 1–2019

Introduction

This update includes the more significant accounting and auditing developments affecting the not-for-profit industry from December 16, 2018, through March 31, 2019. 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), 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 you to other sources of information, in which case you are strongly encouraged to review that information if relevant to your needs.
Audit and accounting final and proposed standards

Final standards, interpretations, and regulations

AICPA

Auditing Standards Board

Statement on Auditing Standards

Statement on Auditing Standards (SAS) Auditor Reporting and Amendments Addressing Disclosures in Audits of Financial Statements

Issue date
January 2019

Background

The ASB voted to issue a final version of its Statement on Auditing Standards, Omnibus Statement on Auditing Standards—2019, which aligns the AICPA guidance more closely with that of the PCAOB.

Main provisions and significant changes

The omnibus statement amends the following:

Statement on Auditing Standards (SAS) No. 122, Statements on Auditing Standards: Clarification and Recodification, as amended:

AU-C section 210, Terms of Engagement, which addresses the auditor’s responsibilities in agreeing upon the terms of the audit engagement with management and, when appropriate, those charged with governance. The amendment to AU-C section 210 is intended to enhance guidance relating to obtaining information about related parties and significant unusual transactions from predecessor auditors.

AU-C section 240, Consideration of Fraud in a Financial Statement Audit, which addresses the auditor’s responsibilities relating to fraud in an audit of financial statements. This amendment introduces and defines the term significant unusual transactions. This amendment includes requirements for basic procedures for obtaining information for evaluating significant unusual transactions, and guidance and conforming changes related to significant unusual transactions.
AU-C section 260, The Auditor’s Communication With Those Charged With Governance, which adds material from PCAOB AS 1301 that the ASB believes will enhance the quality of audits of financial statements of non-issuers.

AU-C section 265, Communicating Internal Control Deficiencies Identified in an Audit, which addresses the auditor’s responsibility to appropriately communicate to those charged with governance and management deficiencies in internal control that the auditor has identified in an audit of financial statements.

AU-C section 315, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement, which addresses the auditor’s responsibility to identify and assess the risks of material misstatement in the financial statements through understanding the entity and its environment, including the entity’s internal control.

AU-C section 330, Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained, which addresses the auditor’s responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor in accordance with AU-C section 315, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement, and to evaluate the audit evidence obtained in an audit of financial statements.

AU-C section 510, Opening Balances–Initial Audit Engagements, Including Reaudit Engagements, which addresses the auditor’s responsibilities relating to opening balances in an initial audit engagement, including a reaudit engagement. The amendment is intended to enhance guidance relating to obtaining information about related parties and significant unusual transactions from predecessor auditors.

AU-C section 550, Related Parties, which addresses the auditor’s responsibilities relating to subsequent events and subsequently discovered facts in an audit of financial statements. The amendment is intended to enhance guidance relating to obtaining information about subsequent events.

AU-C section 560, Subsequent Events and Subsequently Discovered Facts, which addresses situations where a predecessor auditor is asked to reissue a previously issued auditor’s report on financial statements that are to be presented on a comparative basis of a subsequent period.

AU-C section 580, Written Representations, which addresses the auditor’s responsibilities to obtain written representations from management and, when appropriate, those charged with governance in an audit of financial statements. This amendment is intended to enhance guidance relating to obtaining representations about related parties and related party transactions.

AU-C section 600, Special Considerations–Audits of Group Financial Statements (Including the Work of Component Auditors), which addresses special considerations that apply to group audits, in particular those that involve component auditors. The amendment is intended to enhance requirements relating to obtaining information about related parties.

AU-C section 930, Interim Financial Information, which addresses the auditor’s responsibilities when engaged to review interim financial information under specified conditions. This amendment is intended
to enhance guidance relating to obtaining information about related parties and significant unusual transactions.

**SAS No. 130, An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements (AU-C sec. 940),** which establishes requirements and provides guidance that applies only when an auditor is engaged to perform an audit of internal control over financial reporting that is integrated with an audit of financial statements.

**Effective date**
When issued, this SAS is expected to be effective no earlier than for audits of financial statements for periods ending on or after December 15, 2020.

**Auditing Standards Board**

**Statement on Auditing Standards**

Statement on Auditing Standards (SAS) Auditor Reporting and Amendments Addressing Disclosures in Audits of Financial Statements

**Issue date**
March 2019

**Background**
The ASB issued a revised technical questions and answers (TQAs), 8100.03, that provides nonauthoritative guidance to auditors, when auditing and reporting on an entity’s prior period financial statements, about using the auditing standards and the form of the auditor’s report that are in effect at the time the audit is performed.

**Main provisions and significant changes**
The TQA provides the examples of upcoming standards that are expected to be issued on auditor reporting and on financial statement audits of employee benefit plans subject to Employee Retirement Income Security Act of 1974 (ERISA).

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

**PEEC**
The PEEC did not issue any new or revised standards or interpretations in this period.
FASB

Accounting Standards Updates

Accounting Standards Update No. 2019-01

Leases (Topic 842): Codification Improvements

Issue date
March 2019

Background
On February 25, 2016, FASB issued Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing essential information about leasing transactions. FASB has an ongoing annual improvements project on its agenda to clarify the FASB Accounting Standards Codification® more generally and/or to correct unintended application of guidance.

FASB did not create a transition resource group (TRG) to address the leases guidance because many of the concepts used in FASB ASC 842, Leases, are like those currently used in FASB ASC 840, Leases. Although a formal TRG was not created, FASB and staff have been assisting stakeholders during this transitional period by responding to inquiries received and proactively seeking feedback on potential implementation issues that could arise as organizations implement FASB ASC 842.

Main provisions and significant changes
The amendments in this update include the following items brought to FASB’s attention through those interactions with stakeholders:

1. Determining the fair value of the underlying asset by lessors that are not manufacturers or dealers (Issue 1)
2. Presentation on the statement of cash flows — sales-type and direct financing leases (Issue 2)
3. Transition disclosures related to FASB ASC 250, Accounting Changes and Error Corrections (Issue 3)

The amendments in this update for Issue 1 affect all lessors that are not manufacturers or dealers (generally financial institutions and captive finance companies).

The amendments in this update for Issue 2 affect all lessors that are depository and lending entities within the scope of FASB ASC 942, Financial Services—Depository and Lending.

The amendments in this update for Issue 3 affect all entities that are lessees or lessors.
Effective date
The transition and effective date provisions for this update apply to Issue 1 and Issue 2. They do not apply to Issue 3 because the amendments for that issue are to the original transition requirements in FASB ASC 842.

FASB ASC 842 has different effective dates for public business entities and entities other than public business entities. The effective date of those amendments is for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years for any of the following:

1. A public business entity
2. A not-for-profit (NFP) entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market
3. An employee benefit plan that files financial statements with the SEC

For all other entities, the effective date is for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020.

Early application is permitted for all entities. An entity should apply the amendments as of the date that it first applied FASB ASC 842, using the same transition methodology in accordance with FASB ASC 842-10-65-1(c).

Accounting Standards Update No. 2019-03
Not-for-Profit Entities (Topic 958): Updating the Definition of Collections

Issue date
March 2019

Background
FASB became aware of a concern that the definition of the term collections in the Master Glossary of the FASB Accounting Standards Codification differs from the definition used in the American Alliance of Museums’ (AAM) Code of Ethics for Museums (the Code). The definition used in the Code, which served as the basis for the guidance on collections in FASB Statement No. 116, Accounting for Contributions Received and Contributions Made, was revised by the AAM after the issuance of Statement 116.

FASB is issuing this update to improve the definition of collections in the Master Glossary by realigning it with the definition in the Code. A technical correction in FASB ASC 360, Property, Plant, and Equipment, also clarifies that the accounting and disclosure guidance for collections in FASB ASC 958-360, Not-for-Profit Entities — Property, Plant, and Equipment, applies to business entities as well as NFP entities, consistent with what was indicated in Statement 116.

The amendments in this update apply to all entities that maintain collections, including business entities. However, accounting for collections is primarily an issue for certain NFP entities because collections often are held by museums, botanical gardens and similar educational, research, and public service organizations.
Main provisions and significant changes
The amendments in this update modify the definition of the term *collections* and require that a collection-holding entity disclose its policy for the use of proceeds from when collection items are removed from a collection. If such an entity has a policy that allows proceeds from deaccessioned (removed) collection items to be used for direct care, it should disclose its definition of *direct care*.

Current generally accepted accounting principles (GAAP) state that an entity need not recognize contributions of works of art, historical treasures, and similar assets if the donated items are added to collections and meet three conditions. However, the entity must be subject to an organizational policy that requires that proceeds from sales of collection items be used to acquire other items for collections.

The amendments in this update modify that condition so that the proceeds to be used to support the direct care of existing collections in addition to the current requirement that proceeds from sales of collection items be used to acquire other items for collections.

Current GAAP also states that an NFP that holds works of art, historical treasures, and similar items that meet the definition of a collection has three alternative policies for reporting that collection. They are capitalization, capitalization of all collection items on a prospective basis, or no capitalization.

The amendments in this update eliminate the diversity in practice that exists today between the application of the Master Glossary’s definition compared with the definition that many entities use for accreditation purposes.

Effective date
The amendments in this update are effective for annual financial statements issued for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020.

Early application of the amendments is permitted.

The amendments in this update should be applied on a prospective basis.

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Proposed standards, interpretations, and regulations

**AICPA**

**Auditing Standards Board**
The ASB did not propose any new or revised standards or interpretations in the period.

**Accounting and Review Services Committee**
The ARSC did not propose any new or revised standards or interpretations in the period.
PEEC

Issue date
January 11, 2019

Comment deadline
March 11, 2019

Background
The AICPA PEEC issued a revised proposed interpretation, State and Local Government Entities (ET sec. 1.224.020) under the Independence Rule that would identify affiliates of state and local governments audit clients of which an auditor must be independent.

An initial exposure draft dated July 7, 2017, elicited many comments and requests for clarity. The PEEC clarified that proposal and refined the terms used in the interpretation. The PEEC also made three substantive changes and requested comments primarily on these changes, which are summarized as follows:

1. No longer require application of the conceptual framework for independence in all instances involving “upstream” affiliates of a financial statement attest client (“client”); instead, provide several examples of situations (involving upstream entities and other entities referred to as nonaffiliates) where the member may consult the conceptual framework
2. Require the member to expend “best efforts” to obtain information needed to identify investments held by the client
3. Narrow the requirement that a member presume that the client has more than minimal influence over an entity that is a possible affiliate only when the entity is a fund or blended component unit

If adopted, the interpretation would be effective one year post-adoption, with early implementation permitted.

FASB

Proposed ASU
Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958) Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities

Issue date
December 20, 2018

Comment deadline
February 18, 2019
Background

In 2014, FASB issued ASU No. 2014-02, Intangibles−Goodwill and Other (Topic 350): Accounting for Goodwill, and ASU No. 2014-18, Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination (a consensus of the Private Company Council), which simplify the subsequent accounting for goodwill and the accounting for certain identifiable intangible assets in a business combination. Those amendments were in response to concerns expressed by private companies and their stakeholders (including users) about the cost and complexity of the goodwill impairment test and the accounting for certain identifiable intangible assets, among other concerns.

When FASB issued both updates, it acknowledged that the issues the updates addressed were not limited to private companies; they also pertained to NFP entities and public business entities. Therefore, FASB added to its agenda projects addressing the subsequent accounting for goodwill and the accounting for certain identifiable intangible assets for those other entity types.

FASB received feedback from NFP stakeholders who questioned the relevance of an impairment-only approach to goodwill as well as input that the benefits of the current accounting for goodwill and identifiable intangible assets acquired in an acquisition by an NFP entity do not justify the related costs. By providing accounting alternatives, the amendments in this proposed update would reduce the cost and complexity associated with the subsequent accounting for goodwill and the measurement of certain identifiable intangible assets acquired without significantly diminishing decision-useful information for users of NFP financial statements.

The objective of the proposed amendments is to extend the scope of the accounting alternatives provided in FASB ASU No. 2014-02 and FASB ASU No. 2014-18 to NFP entities, not to amend the guidance in the alternatives. FASB recently added another project to its agenda to examine the subsequent accounting for goodwill and the accounting for identifiable intangible assets, the scope of which will be determined after receiving feedback through an Invitation to Comment. FASB could decide that any amendments developed as part of that project also should apply to entities within the scope of this proposed update. Therefore, it is possible that entities electing these alternatives could be subject to future changes to the subsequent accounting for goodwill.

The amendments in this proposed update would apply to all NFP entities as defined in the Master Glossary of the FASB Accounting Standards Codification, including those that are conduit bond obligors.

Main provisions and significant changes

The amendments in this proposed update would extend the private company alternatives from FASB ASC 350 (FASB ASU No. 2014-02) and FASB ASC 805 (FASB ASU No. 2014-18) to NFP entities. Under the amendments in this proposed update to the accounting alternative in FASB ASC 350, an NFP entity would amortize goodwill on a straight-line basis over 10 years or less than 10 years if the NFP entity demonstrates that a shorter useful life is more appropriate.

An NFP entity that elects this accounting alternative would be required to make an accounting policy decision to test goodwill for impairment at either the entity level or the reporting unit level. An NFP entity
would be required to test goodwill for impairment when a triggering event occurs that indicates that the fair value of the entity (or a reporting unit) may be below its carrying amount.

Under the proposed amendments to the accounting alternative in FASB ASC 805, *Business Combinations*, for transactions occurring after adoption of the alternative, an NFP entity would subsume into goodwill and amortize customer-related intangible assets that are not capable of being sold or licensed independently from the other assets of a business and all noncompetition agreements acquired.

An NFP entity that elects the accounting alternative in FASB ASC 805 must adopt the alternative in FASB ASC 350 to amortize goodwill. However, an NFP entity that elects the accounting alternative in FASB ASC 350 is not required to adopt the accounting alternative in FASB ASC 805.

**Effective date**
The effective date will be determined after FASB considers stakeholders’ feedback on the amendments in this proposed update.

The transition methods for the guidance on each accounting alternative would be the same for NFP entities as the previous transition methods for private companies.

**Proposed ASU**

**Targeted Transition Relief for FASB ASC 326, Financial Instruments—Credit Losses**

**Issue date**
February 6, 2019

**Comment deadline**
March 8, 2019

**Background**
In June 2016, FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, that introduced the expected credit losses methodology for the measurement of credit losses on financial assets measured at amortized cost basis, replacing the previous incurred loss methodology. The amendments in FASB ASU No. 2016-13 added FASB ASC 326 and made several consequential amendments to the ASC. FASB ASU No. 2016-13 also modified the accounting for available-for-sale debt securities, which must be individually assessed for credit losses when fair value is less than the amortized cost basis, in accordance with FASB ASC 326-30, *Financial Instruments—Credit Losses — Available-for-Sale Debt Securities*.

Since the issuance of ASU No. 2016-13, FASB has assisted stakeholders in the implementation of the amendments formally through the activities of the Credit Losses Transition Resource Group and informally through other implementation assistance activities. Through this assistance, FASB has identified certain areas that require clarification and improvement.
FASB received several agenda request letters requesting that it consider amending the transition guidance for FASB ASU No. 2016-13. The entities that submitted the agenda request letters noted that certain financial statement preparers have begun (or are planning) to elect the fair value option on newly originated or purchased financial assets, although those entities have historically measured similar financial assets at amortized cost basis. Without the proposed targeted transition relief provided by the amendments in this proposed update, those entities noted that they would be required to maintain dual measurement methodologies that may result in noncomparable financial statement information for users.

The amendments in this proposed update would address those stakeholders' concerns by providing an option to irrevocably elect the fair value option for certain financial assets previously measured at amortized cost basis. For some entities, the targeted transition relief would increase comparability of financial statement information by providing an option to align measurement methodologies for similar financial assets. Furthermore, the targeted transition relief also may reduce the costs for some entities to comply with the amendments in FASB ASU No. 2016-13 while still providing financial statement users with decision-useful information.

The amendments in this proposed update amend the transition guidance of FASB ASC 326 and would apply to all reporting entities within the scope of that topic.

Main provisions

The amendments in this proposed update would provide entities that have instruments within the scope of FASB ASC 326-20, Financial Instruments—Credit Losses — Measured at Amortized Cost, except for held-to-maturity debt securities, with an option to irrevocably elect the fair value option in FASB ASC 825-10, Financial Instruments — Overall, applied on an instrument-by-instrument basis for eligible instruments, upon adoption of FASB ASC 326.

An entity that elects the fair value option would subsequently apply the guidance in FASB ASC 820-10, and 825-10.

Effective date

For entities that have not yet adopted the amendments in FASB ASU No. 2016-13 as of the issuance date of a final update of these proposed amendments, the effective date and transition methodology would align with that in FASB ASU No. 2016-13.

For entities that have adopted the amendments in FASB ASU No. 2016-13 as of the issuance date of a final update of these proposed amendments, FASB will determine the effective date and transition requirements for the amendments in this proposed update after it considers stakeholders’ feedback.
Proposed ASU

Business Combinations (Topic 805) Revenue from Contracts with Customers — Recognizing an Assumed Liability (a consensus of the FASB Emerging Issues Task Force)

Issue date
February 14, 2019

Comment deadline
April 30, 2019

Background
In May 2014, FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), (FASB ASU No. 2014-09 or FASB ASC 606, including subsequent updates), which provides a single comprehensive accounting model on revenue recognition for contracts with customers. After the issuance of FASB ASC 606, stakeholders raised questions about how to apply FASB ASC 805 to a contract with a customer acquired in a business combination after the acquirer has adopted FASB ASC 606.

Stakeholders have indicated that there are differing views on whether the new concept of a performance obligation defined in FASB ASC 606 should be used to determine whether a contract liability is recognized in a business combination from a revenue contract. Before the adoption date of FASB ASC 606, a liability for deferred revenue was generally recognized in an acquirer’s financial statements if it represented a legal obligation. FASB is issuing this proposed update to address the diversity in views about the circumstances in which an entity should recognize a contract liability from a contract with a customer within the scope of FASB ASC 606 (hereinafter referred to as a revenue contract) that is acquired in a business combination. This proposed update addresses how to determine whether a contract liability is recognized by the acquirer in a business combination from a revenue contract.

In addition, stakeholders have requested that FASB provide additional guidance on measuring contract liabilities from revenue contracts with customers acquired in a business combination. This proposed update does not address the measurement of those liabilities or other topics related to the accounting for revenue contracts acquired in a business combination.

The amendments in this proposed update would apply to all entities that enter into a business combination within the scope of FASB ASC 805-10 after the adoption of FASB ASC 606.

Main provisions
The amendments in this proposed update would require that an entity (acquirer) recognize a liability assumed in a business combination from a contract with a customer if that liability represents an unsatisfied performance obligation under FASB ASC 606 for which the acquiree has received consideration (or the amount is due) from the customer.
Effective date
The effective date and the ability to early adopt will be determined after the Task Force considers stakeholder feedback on this proposed update.

The amendments in this proposed update would be applied prospectively to business combinations occurring on or after the effective date of the proposed amendments.

Proposed ASU

Compensation – Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Codification Improvements – Share-based Consideration Payable to a Customer

Issue date
March 4, 2019

Comment deadline
April 18, 2019

Background
In June 2018, FASB issued ASU No. 2018-07, Compensation – Stock Compensation (718): Improvements to Nonemployee Share-Based Payment Accounting, as part of its simplification initiative. Amendments in that update expanded the scope of FASB ASC 718, Compensation – Stock Compensation, to include share-based payments transactions for acquiring goods and services from nonemployee and, in doing so, superseded guidance in FASB ASC 505-50, Equity – Equity-Based Payments to Non-Employees.

FASB ASU No. 2018-07 included amendments to require that share-based payments awarded to a customer in conjunction with selling goods or services should be accounted for under FASB ASC 606. Although FASB ASC 606 provides guidance on presentation, it does not provide guidance on measuring share-based payments to a customer, and this lack of guidance could lead to diversity of practice.

One of FASB’s ongoing projects aims to improve the ASC and correct any unintended application.

The update would apply to all entities within the scope of FASB ASC 606 that issue share-based payments to customers.

Main provisions
The amendments in this proposed update would require entities to measure and classify share-based payments to a customer by applying the guidance in FASB ASC 718. The grant date is the date at which a grantor (supplier) and a grantee (customer) reach a mutual understanding of the key terms and conditions of a share-based payment award. The classification and subsequent measurement of the award would be subject to FASB ASC 718 unless the share-based payment award is subsequently modified, and the grantee is no longer a customer.
Effective dates
For entities that have not yet adopted the amendments in FASB ASU No. 2018-07, the proposed update would align the transition and effective date requirements with those in FASB ASU No. 2018-07. As a result, when entities adopt the amendments in FASB ASU No. 2018-07, they should also adopt the amendments in this proposed update.

For entities that have adopted the amendments in FASB ASU No. 2018-07, the same transition provisions as those in FASB ASU No. 2018-07 would be applied retrospectively to all relevant periods beginning with the original adoption date of the amendments in FASB ASU No. 2018-07 through a cumulative effect adjustment to the opening balance of retained earnings.

Proposed ASU


Issue date
March 25, 2019

Comment deadline
May 31, 2019

Background
FASB is issuing the amendments in this proposed update as part of the disclosure framework project. The disclosure framework project’s objective and primary focus are to improve the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of information required by GAAP that is most important to users of each entity’s financial statements.

FASB issued Concepts Statement No. 8, Conceptual Framework for Financial Reporting — Chapter 8: Notes to Financial Statements, on August 28, 2018. Chapter 8 of Concepts Statement 8 identifies a broad range of possible information for FASB to consider when deciding on the disclosure requirements for a topic. From that broad set, FASB generally will identify a narrower set of disclosures about that topic to be required based on, among other considerations, an evaluation of whether the expected benefits of entities providing the information will justify the expected costs. The amendments in this proposed update are the result of FASB’s consideration of the concepts in Chapter 8 as they relate to income tax disclosures.

Additionally, on December 22, 2017, the U.S. federal government enacted a tax bill, P.L.115-97, An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018 (Tax Cuts and Jobs Act), which made substantial changes to the taxation of U.S. business entities. In addition to its consideration of Chapter 8 of Concepts Statement 8, FASB considered the effect of changes in the tax law and how those changes affect the existing income tax disclosures. The amendments in this proposed update also reflect those considerations.
The amendments in this proposed update would apply to all entities that are subject to income taxes. Certain of the disclosures that would be required by the amendments in this proposed update would not be required for entities other than public business entities.

**Main provisions**

The amendments in this proposed update would replace the term *public entity*, currently in FASB ASC 740, *Income Taxes*, with the term *public business entity* as defined in the Master Glossary of the FASB Accounting Standards Codification.

The amendments in this proposed update would modify the current disclosure requirements for income taxes. The following additional proposed disclosures would be required by FASB ASC 740 for all entities:

1. Income (or loss) from continuing operations before income tax expense (or benefit) and before intra-entity eliminations disaggregated between domestic and foreign
2. Income tax expense (or benefit) from continuing operations disaggregated among federal, state, and foreign
3. Income taxes paid disaggregated among federal, state, and foreign

The following proposed disclosures would be required for public business entities by FASB ASC 740:

1. The line items in the statement of financial position in which the unrecognized tax benefits are presented and the related amounts of such unrecognized tax benefits
2. The amount and explanation of the valuation allowance recognized and/or released during the reporting period
3. The total amount of unrecognized tax benefits that offsets the deferred tax assets for carryforwards

Chapter 8 of Concepts Statement 8 indicates that disclosure of future-oriented information should be limited to that which is used as an input to measurements in the financial statements or in the notes to financial statements. As a result, the amendments in this proposed update would eliminate the requirement for all entities to (a) disclose the nature and estimate of the range of the reasonably possible change in the unrecognized tax benefits balance in the next 12 months or (b) make a statement that an estimate of the range cannot be made.

The amendments in this proposed update would modify the existing rate reconciliation requirement for public business entities to be consistent with SEC Regulation S-X 210.4-0B(h), Rules of General Application — General Notes to Financial Statements: Income Tax Expense. That regulation requires separate disclosure for any reconciling item that amounts to more than 5% of the amount computed by multiplying the income before tax by the applicable statutory federal income tax rate. The proposed amendments would further modify the requirement to explain the change in an amount or a percentage of a reconciling item from year to year.

**Effective date**

The amendments in this proposed update would be applied prospectively. The effective date and whether early adoption of the proposed amendments should be permitted will be determined after FASB considers stakeholder feedback on the proposed amendments.