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FASB/SAS Update

CPE Seminar – July 20, 2020

Today's Goals

- Review currently outstanding SAS's, including new due dates
- Review currently outstanding FASB pronouncements, including new due dates
- Note GASB pronouncement extensions
- Review other applicable extensions

SAS updates

SAS's 134-140

- Effective Date: Periods ending after December 15, 2021
- Early adoption is allowed

SAS Nos. 134-140 (cont.)

SAS	Title
No. 134	Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements
No. 135	Omnibus Statement on Auditing Standards – 2019
No. 136	Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA
No. 137	The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports
No. 138	Amendments to the Description of the Concept of Materiality
No. 139	Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes from SAS No. 134
No. 140	Amendments to AU-C Sections 725, 730, 930, 935, and 940 to Incorporate Auditor Reporting Changes from SAS Nos. 134 and 137

SAS No. 142

- “Audit Evidence”
- What does it address?
 - Use of emerging technologies and techniques (by both preparers and auditors)
 - Application of professional skepticism
 - Expanding use of external information sources to provide audit evidence
 - Broadly, the relevance and reliability of audit evidence

SAS No. 143

- “Auditing Accounting Estimates and Related Disclosures”
- Purpose is to enhance the auditing standards concerning auditing accounting estimates as well as improve the auditor’s focus on the factors driving estimation uncertainty and potential management bias.

FASB pronouncements

FASB current implementation dates

Pronouncement	Implementation Date: period beginning after
ASU 2014-09 "Revenue from Contracts with Customers"	Public Entities – Adopted Non-Public – December 15, 2019
ASU 2016-02 "Leases"	Public NFPs – December 15, 2019 Private – December 15, 2021
ASU 2016-13 "Financial Instruments – Credit Losses"	SEC filers – December 15, 2019 Others – December 15, 2022
ASU 2017-04 "Intangibles – Goodwill and Other: Simplifying the Test for Goodwill Impairment"	SEC filers – December 15, 2019 Others – December 15, 2022
ASU 2017-12 "Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities"	Public Entities – December 15, 2018 Non-Public – December 15, 2020
ASU 2017-08 "Receivables – Nonrefundable Fees and Other Costs: Premium Amortization on Purchased Callable Debt Securities"	Public – December 15, 2018 Others – December 15, 2019

FASB current implementation dates (cont.)

Pronouncement	Implementation Date: period beginning after
ASU 2017-11 “Earnings per Share; Distinguishing Liabilities from Equity; Derivatives and Hedging: (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception	Public – December 15, 2018 Others – December 15, 2019
ASU 2018-07 “Compensation—Stock Compensation: Improvements to Nonemployee Share-Based Payment Accounting”	Public – December 15, 2018 Others – December 15, 2019
ASU 2018-08 “Not-For-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made	Now

FASB current implementation dates (cont.)

Pronouncement	Implementation Date: period beginning after
ASU 2018-12 “Financial Services—Insurance: Targeted Improvements to the Accounting for Long-Duration Contracts	SEC filer – December 15, 2021 Other – December 15, 2023
ASU 2018-13 “Fair Value Measurement: Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement”	December 15, 2019
ASU 2018-14 “Compensation—Retirement Benefits—Defined Benefit Plans—General: Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans	Ending After: Public – December 15, 2020 Others – December 15, 2021
ASU 2018-15 “Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract”	Public – December 15, 2019 Others – December 15, 2020

FASB current implementation dates (cont.)

Pronouncement	Implementation Date: period beginning after
ASU 2018-16 “Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes”	Adopt concurrently with ASU 2017-12 If already adopted ASU 2017-12: Public – December 15, 2018 Others – December 15, 2019
ASU 2018-17 “Consolidation: Targeted Improvements to Related Party Guidance for Variable Interest Entities”	Non-private – December 15, 2019 Private – December 15, 2020
ASU 2018-18 “Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606”	Public – December 15, 2019 Others – December 15, 2020

FASB current implementation dates (cont.)

Pronouncement	Implementation Date: period beginning after
ASU 2019-02 “Entertainment—Films—Other Assets—Film Costs (Subtopic 926-20) and Entertainment—Broadcasters—Intangibles—Goodwill and Other (Subtopic 920-350): Improvements to Accounting for Costs of Films and License Agreements for Program Materials”	Public – December 15, 2019 Others – December 15, 2020
ASU 2019-03 “Not-for-Profit Entities: Updating the Definition of Collections”	All – December 15, 2019
ASU 2019-11 “Codification Improvements to Topic 326, Financial Instruments—Credit Losses”	Adopted 2016-13 – December 15, 2019 Others – see 2016-13 effective dates

FASB current implementation dates (cont.)

Pronouncement	Implementation Date: period beginning after
ASU 2019-12 “Income Taxes: Simplifying the Accounting for Income Taxes”	Public – December 15, 2020 Others – December 15, 2021
ASU 2020-01 “Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)—Clarifying the Interactions between Topic 321, Topic 323, and Topic 815	Public – December 15, 2020 Others – December 15, 2021

ASU 2020-03

- “Codification Improvements to Financial Instruments”
- Separated into 7 Issues
 - Issues 1, 2, 4, and 5 effective Now for public business entities and fiscal years beginning after December 15, 2019 for all other entities
 - Issue 3 is effective for fiscal years beginning after December 15, 2019
 - Issues 6 and 7 same as effective date for ASU 2016-13. If you already adopted ASU 2016-13:
 - Effective for fiscal years beginning after December 15, 2019 and
 - The amendment should be applied on a modified-retrospective basis through a cumulative-effect adjustment to opening retained earnings as of the date that ASU 2016-13 was adopted.

7 Issues

- Issue 1: Fair Value Option Disclosures
 - Clarify that all entities are required to provide the fair value option disclosures
- Issue 2: Applicability of Portfolio Exception in Topic 820 to NonFinancial Items
 - Amendment of paragraphs to ensure consistency with ASU 2018-09
- Issue 3: Disclosures for Depository and Lending Institutions
 - Clarify that disclosure requirements in Topic 320 apply to Topic 942 for these institutions
- Issue 4: Cross Referencing to Line-of-Credit or Revolving-Debt Arrangements Guidance in Subtopic 470-50
 - Improve understandability of the guidance

7 Issues (cont.)

- Issue 5: Cross-Reference to Net Asset Value Practical Expedient in Subtopic 820-10
 - Improve understandability of the guidance
- Issue 6: Interaction of Topic 842 and Topic 326
 - Contractual term of a net investment in a lease determined in accordance with Topic 842 should be the same one used to measure expected credit losses in Topic 326
- Issue 7: Interaction of Topic 326 and Subtopic 860-20
 - When an entity regains control of financial assets sold, an allowance for credit losses should be recorded in accordance with Topic 326

ASU 2020-04

- “Reference Rate Reform: Facilitation of the Effects of Reference Rate Reform on Financial Reporting”
- Effective March 12, 2020 through December 31, 2022 (so now)
 - Provides option expeditents and exceptions for contracts, hedging relationships, and other transactions that referenced LIBOR or another reference rate expected to be discontinued.

ASU 2018-08

- Purpose:
 - Clarify and improve guidance about whether a transfer of assets is a contribution or an exchange transaction.
- Contribution:
 - An unconditional transfer of cash or other assets, as well as unconditional promises to give, to an entity or a reduction, settlement, or cancellation of its liabilities in a voluntary nonreciprocal transfer

Contribution vs. Exchange Transaction

- The resource provider is not the same as the general public
 - A benefit received by the public is not equivalent to direct commensurate value for the resource provider
- The resource provider acting on its mission or positivity from acting as a donor is not direct commensurate value

Contribution vs. Exchange Transaction (cont.)

- If intent is expressed by both parties to exchange resources for goods or services that are of direct commensurate value, indicative of exchange transaction
- If recipient is requesting assets without intent of exchanging goods or services, transaction is indicative of a contribution

Contribution vs. Exchange Transaction (cont.)

- If one party has full discretion over asset amount transferred, indicative of a contribution
- If parties agree (i.e. negotiate) on the amount of assets transferred for goods and services, indicative of an exchange transaction

Both Contribution and Exchange

- You can have transactions that are both a contribution and an exchange transaction
 - Membership dues
 - Grants, awards, and sponsorships
 - Naming opportunities
 - And others
- Separate contribution portion and exchange portion

Conditional vs. Unconditional

- To be conditional, contribution:
 - Must require the entity to overcome a barrier in order to be entitled to the resources AND
 - Contributor retains either a right of return of the resources or right of release from obligation to transfer the asset

Indicators of a Barrier

- Measurable performance-related barrier or other measurable barrier
- Limited discretion by the recipient on the conduct of an activity
- Stipulations that are related to the purpose of the agreement

Example 1 – contribution vs. exchange

- NFP A pays for medical care for general public. NFP A receives resources from the state (with amount determined by the state) to pay for these medical services and their admin costs, and the state determines the split between how much is for medical services and how much is for admin services. Note that payment from the state is not tied to an individual person/recipient in any way.

Example 1 solution

- Who receives the benefit?
 - General public (medical)
 - Could argue the state (admin – conducting the program)
- Were goods or services of direct commensurate value exchanged?
 - NFP A performs admin services, but are these of direct commensurate value?
- Who has discretion to determine amount of transferred assets?
 - The state

Example 2

- Patient R is a patient at Hospital B. The total amount due for services rendered is \$10,000. Patient R has Medicare, and it covers \$8,000 of the services, which is paid directly by the government to Hospital B. Hospital B bills Patient R for \$2,000.

Example 2 solution

- Medicare is a form of insurance. Hospital B has a contract with a customer (Patient R) and determines that the \$10,000 should be accounted for as an exchange transaction in accordance with the guidance in the appropriate Topic. The Medicare payment of \$8,000 and Patient R's payment of \$2,000 serve as a payment source for services rendered in the amount of \$10,000 owed to Hospital B. The payment to Hospital B relates to an existing exchange transaction between Hospital B and an identified customer (Patient R).

Difference between 1 and 2

- In example 1, no specific individual or service is tied to the payment from the state. Benefit is the general public. Also, state has full control over how much funding is transferred.
- In example 2, there is a specific individual and that individual has a contract with the hospital. Both the insurance payment and individual payment are payment for that contract, an exchange transaction.

Barrier example

- Foundation A gives NFP D a grant in the amount of \$400,000 to provide specific career training to disabled veterans. The grant requires NFP D to provide training to at least 8,000 disabled veterans during the next fiscal year (2,000 during each quarter), with specific minimum targets that must be met each quarter. Foundation A specifies a right of release from the obligation in the agreement that it will only give NFP D \$100,000 each quarter if NFP D demonstrates that those services have been provided to at least 2,000 disabled veterans during the quarter.

Barrier example solution

- Agreement contains right of release from obligation – NFP D must provide training to at least 8,000 disabled veterans during the year (2,000 each quarter). This is a performance-related barrier.
- Note that the likelihood of serving 2,000 veterans a quarter is not considered when assessing if contribution contains a barrier.

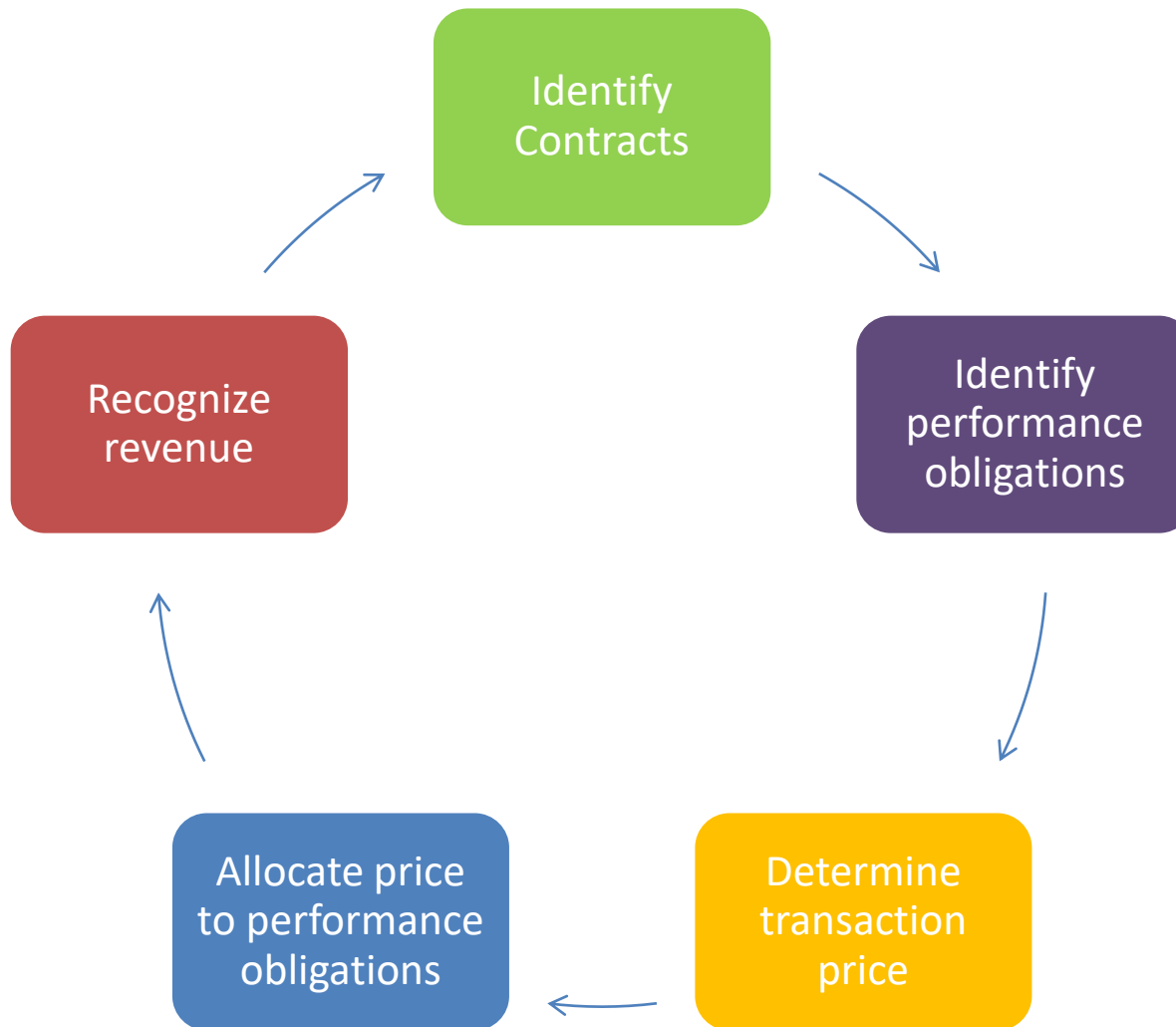
ASU 2014-09

- Revenue definition:
 - Transfer of promised goods and services to a customer in an amount that reflects the consideration to which the entity expects to be entitled
- Excludes:
 - Lease contracts
 - Insurance contracts
 - Financial instruments
 - Guarantees
 - Nonmonetary exchanges in the same line of business to facilitate sales to customers
 - Contributions
 - Collaborative arrangements

ASU 2014-09 (cont.)

- Purpose:
 - Revenue should be recognized by an entity that reflects the consideration to which the entity expects to be entitled in exchange for goods or services provided/transferred.
- Five steps to be applied

Five Steps



Step 1 – Identify Contract

- Contract
 - Agreement between two or more parties that creates enforceable rights and obligations.
 - Will include:
 - Approval and commitment of the parties
 - Identification of the rights of the parties
 - Identification of payment terms
 - Contract has commercial substance
 - Probable entity will collect the consideration to which it is entitled in exchange for the goods or services provided

Step 2 – Identify Performance Obligations

- Performance obligation
 - Promise in a contract with a customer to transfer a good or service to the customer
- If contract contains more than one good or service:
 - Entity should account for each promised good or service only if it is
 - Distinct OR
 - A series of distinct goods or services that are substantially the same and have the same pattern of transfer
 - If not distinct, should be combined with other promised goods or services

Step 2 (cont.)

- Distinct
 - Capable of being distinct
 - The customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer.
 - Distinct within the context of the contract
 - The promise to transfer the good or service is separately identifiable from other promises in the contract.

Step 3 – Determine Price

- Transaction price
 - Amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties
 - Consider effects of:
 - Variable consideration
 - Constraining estimates of variable consideration
 - The existence of a significant financing component
 - Noncash considerations
 - Consideration payable to the customer

Step 4 – Allocate Price

- For a contract with more than one performance obligation, entity should allocate the transaction price to each performance obligation in an amount that depicts the consideration to which the entity expects to be entitled in exchange for satisfying each performance obligation
- i.e. determine a standalone selling price for each distinct good or service

Step 5 – Recognize Revenue

- When to recognize?
 - Entity should recognize revenue when/as it satisfies a performance obligation by transferring a good or service to a customer. Good or service is transferred when/as customer obtains control of that good or service.
 - This can be over a designated period of time (i.e. a year) or at a point in time

Over time vs. point in time

- Over time when
 - The customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs OR
 - The entity's performance creates or enhances an asset (for example, work in process) that the customer controls as the asset is created or enhanced OR
 - The entity's performance does not create an asset with an alternative use to the entity, and the entity has an enforceable right to payment for performance completed to date.
- Point in time when one of the following (but not limited to these)
 - The entity has a present right to payment for the asset
 - The customer has legal title to the asset.
 - The entity has transferred physical possession of the asset.
 - The customer has the significant risks and rewards of ownership of the asset.
 - The customer has accepted the asset.

Disclosures

- Entity should disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers

Disclosures (cont.)

- Requirements: qualitative and quantitative information about
 - Contracts with customers—including revenue and impairments recognized, disaggregation of revenue, and information about contract balances and performance obligations (including the transaction price allocated to the remaining performance obligations)
 - Significant judgments and changes in judgments—determining the timing of satisfaction of performance obligations (over time or at a point in time), and determining the transaction price and amounts allocated to performance obligations
 - Assets recognized from the costs to obtain or fulfill a contract.

Example Disclosures

Grant Revenue

NFP A records all grant revenue when all grant conditions have been met. The grant conditions are considered to be met when expenses are incurred for **XXX** [purpose of grant]. While the grant funding does require certain services to be performed, the grantor is not the beneficiary of these services and NFP A is not the service provider; therefore, the funding is reflected as a contribution.

NFP A records unconditional promises to give as receivables and revenues and distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions.

Example Disclosure (cont.)

Refundable Advance

XXX grant revenue that has been received prior to incurring qualifying expenses is reported as a refundable advance in the statement of financial position. During 2019 and 2018, advance payments of \$XXX and \$XXX, respectively, were recognized as a refundable advance, and \$XXX and \$XXX in 2019 and 2018, respectively, were recognized as revenue.

Example Disclosure (cont.)

Revenue from Contracts with Customers

Program service revenue from the client C, and other miscellaneous program services is considered to be revenue from contracts with customers. The contracts are fee for service contracts under which NFP B provides [name services included in contract here]. Services are provided over the life of the contract, which is typically one calendar year in duration. Revenue is recognized when the performance obligation of the contract is satisfied, that is, the service identified in the contract is rendered to the contracting entity.

At December 31, 2019 and 2018, receivables related to the contracts were \$XXX and \$YYY, respectively. At December 31, 2019 and 2018, payables related to the contracts were \$0.

The initial application of the standard (year ended December 31, 2019) was applied to contracts that were not completed at the date of the initial application. There have been no changes in the significant judgements related to the amount and timing of revenue from contracts with customers, and there are no impairment losses recognized related to these contracts.

Example Disclosures (cont.)

- **Prior Year**

Contributions and Gifts

Contributions, gifts, and unconditional promises to give cash and other assets to NFP B are reported at fair value on the date received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is physically received. The gifts are reported as either without donor restrictions or with donor restrictions, if they are received with donor-imposed stipulations that limit the use of the donated assets. It is the policy of NFP B to present donor restricted contributions whose restrictions are met in the same reporting period as without donor-imposed restricted contributions.

At December 31, 2018 and 2017, there were conditional promises to give of \$XXX and \$YYY, respectively. The promises related to two, multi-year grant awards and were conditioned on NFP B successfully completing grant activities and required reporting.

- **Current Year**

Contributions and Gifts

Contributions, gifts, and unconditional promises to give cash and other assets to NFP B are reported at fair value on the date received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is physically received **and have become unconditional**. The gifts are reported as either without donor restrictions or with donor restrictions, if they are received with donor-imposed stipulations that limit the use of the donated assets. It is the policy of NFP B to present donor restricted contributions whose restrictions are met in the same reporting period as without donor-imposed restricted contributions.

At December 31, 2019 and 2018, there were conditional promises to give of \$XXX and \$YYY, respectively. The promises related to two, multi-year grant awards and were conditioned on XXXXX successfully completing **[insert barriers here]**.

Example Disclosures (cont.)

- **Prior Year**

Program Revenues and Expenses

NFP B receives a substantial amount of its funding from XXX [funder name], which has various operating restrictions, eligibility requirements, matching requirements and other rules and regulations. It also receives various donor grants and contributions earmarked to support YYY [program name] Program. Operating revenues are recognized in the period the related program services are rendered and earned. Expenses, which benefit more than one program, such as occupancy and general and administrative, are allocated on appropriate factors, such as the proportion of total staff hours for each program.

- **Current Year**

Program Funding

NFP B receives a substantial amount of its funding from XXX [funder name], which has various operating restrictions, eligibility requirements, matching requirements and other rules and regulations. It also receives various donor grants and contributions earmarked to support the YYY [program name] Program. Operating revenues, which are comprised of ZZZ, are recognized in the period the related program services are rendered and earned.

Functional Expenses

Expenses, which benefit more than one program, such as occupancy and general and administrative, are allocated on appropriate factors, such as the proportion of total staff hours for each program.

ASU 2018-13

- ASU modified the disclosure requirements related to Fair Value Measurement
- Disclosure requirements removed:
 - Amount of and reasons for transfers between Level 1 and 2
 - Policy for timing of transfers between levels
 - Valuation processes for Level 3 fair value measurements
 - Nonpublic entities, changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period

ASU 2018-13 (cont.)

- Disclosure requirements modified:
 - In lieu of a rollforward for Level 3, nonpublic entity is required to disclose transfers into and out of Level 3 and purchases and issues of Level 3 assets and liabilities
 - For investments in certain entities that calculated net asset value (NAV), entity is required to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly
 - Measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date

ASU 2018-13 (cont.)

- Disclosure requirements added (but not required for nonpublic entities):
 - Changes in unrealized gains and losses included in other comprehensive income for recurring Level 3 investments held at the end of the reporting period
 - Range and weighted average of significant unobservable inputs used to develop Level 3 measurements

GASBs

GASB extensions

GASB Statement	New Date – Periods beginning after:
GASB 83 <i>Certain Asset Retirement Obligations</i>	June 15, 2019
GASB 84 <i>Fiduciary Activities</i>	December 15, 2019
GASB 87 <i>Leases</i>	June 15, 2021
GASB 88 <i>Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placement</i>	June 15, 2019
GASB 89 <i>Accounting for Interest Cost Incurred Before the End of a Construction Period</i>	December 15, 2020
GASB 90 <i>Majority Equity Interests</i>	December 15, 2019
GASB 91 <i>Conduit Debt Obligations</i>	December 15, 2021
GASB 92 <i>Omnibus 2020</i>	June 15, 2021
GASB 93 <i>Replacement of Interbank Offered Rates</i> (paragraphs 13 and 14)	June 15, 2021

Other extension

Other extensions

- GAGAS (Yellow Book) CPE requirements
 - Waiver of 20-hour annual requirement in 2020, but must complete remainder of credits in 2021
 - Can carry over up to 40 hours of CPE earned in 2020, in excess of the 80-hour requirement, to the 2022-23 reporting period
 - But these hours cannot replace the 24-hour requirement or the 20-hour per year requirement
- PA State Board of Accountancy CPE requirements
 - Credit requirements remain the same
 - Suspended restriction on online/distance learning/individual study credits
 - Had been capped at 50%

Sources

- www.fasb.org
- Accounting Standards Update webpage:
<https://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1218220137102>
- www.aicpa.org
- www.gasb.org
- ASU 2018-08

Questions? Contact Me!



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