





Accounting Update

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December 4, 2012


Agenda

- FASB Initiatives
- SEC Update
- General GAAP Update
- Convergence Efforts
- Other Ongoing FASB Projects of Note
- Oldies But Goodies


FASB Initiatives

- Focus is on complexity and relevance, particularly for nonpublic entities
- Dedicated FASB staff and targeted outreach
- Improving FASB/GASB coordination
- Private Company Council (PCC) and decision-making framework
 - Inaugural Public Meeting – December 6, 2012
 - AICPA supports PCC but has released exposure draft of its proposed Financial Reporting Framework for Small and Medium-sized Entities not required to file US GAAP financial statements.
 - Can the PCC and AICPA get along?
- Disclosure framework




FASB Initiatives

- FASB Disclosure Framework
 - Added disclosure framework to agenda in July 2009
 - Aimed at more effective disclosures in response to financial statement user concerns
 - Discussion paper released July 12, 2012
 - FASB Comments due November 30, 2012
 - European Financial Reporting Advisory Group Comments due December 31, 2012
 - Invitation to comment addresses 5 topics:
 1. Establishing requirements that address relevant information and only relevant information
 2. Flexible disclosure requirements applied to information that is relevant to the organization's specific circumstances
 3. A judgment framework that helps organizations determine what is relevant
 4. Techniques that help organize and format information
 5. Disclosure requirements for interim financial statements.




SEC Update

- IFRS Work Plan
- Dodd – Frank
- Conflict Minerals Rule
- JOBS Act
- Hot Topics/Comment Letters
 - Fair value measurements
 - Revenue recognition
 - Segments
 - Impairment
 - Income Taxes
 - Contingencies
 - MD&A



General GAAP Update

- Fair Value Disclosures (ASU 2011-04) – More Transparency
 - IASB putting into place an equivalent of FAS 157 (Topic 820); made revisions to attempt to get identical language
 - Primarily will affect U.S. GAAP disclosure rather than measurement
 - Most significant change to U.S. GAAP: qualitative sensitivity disclosure for measurement uncertainty for level three FV measurements
 - Requires (1) identification of key inputs for which material changes in fair value would result if another feasible value for the input were used, (2) quantitative information indicating the numerical input used, and (3) discussion of the nature of the change in fair value if another feasible input amount was used
 - Nonpublic entities are exempt from part (3)
 - Effective date: Effective for fiscal years ending after December 15, 2012




General GAAP Update

Fair Value Disclosures (ASU 2011-04) (cont.)

- Disclosure Requirements
 - Tabular format required
 - Level 2 and Level 3 fair value measurements
 - Valuation techniques and inputs used to develop the fair value
 - Any changes in the valuation technique
 - Quantitative information about significant unobservable inputs (Level 3)
 - Level within the fair value hierarchy each asset and liability falls
 - Roll forward of Level 3 fair value measurements
 - Total realized and unrealized gains and losses recognized in earnings and OCI
 - Purchases, sales, issues and settlements
 - Transfers into and out of Level 3


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General GAAP Update

- Patient service revenue and bad debts (ASU 2011 – 07) - Geography
 - Bad debt expense reported as contra-revenue rather than operating expense
 - Adds (prospectively) quantitative and qualitative disclosures
 - Presentation changes are retrospectively applied by nonpublics for fiscal years ending after December 15, 2012
 - Early adoption permitted

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General GAAP Update

- Goodwill impairment Testing (ASU 2011 – 08) - Practicality
 - Allows an optional assessment of qualitative factors in determining need for quantitative assessment
 - Fair value of reporting unit needed for the quantitative test would not have to be calculated unless it's more likely than not (>50%) that its fair value is less than its carrying amount
 - Applicable for fiscal years beginning after December 15, 2011 (with some limited early adoption)

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SCHMIDT & DWORR




General GAAP Update

- Goodwill impairment Testing (ASU 2011 – 08) (cont.)
 - Examples of relevant events and circumstances:
 - a) Deterioration in general economic conditions
 - b) Limitations on accessing capital
 - c) Fluctuations in foreign exchange rates
 - d) Deterioration in the environment in which the entity operates
 - e) Cost factors such as increases in raw materials, labor or other costs that have a negative impact on earnings and cash flows
 - f) Negative or declining cash flows
 - g) Changes in key personnel, strategy or customers
 - h) Events affecting a reporting unit
 - i) If applicable, a sustained decrease in share price.

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General GAAP Update

- Multi-employer plan disclosures (ASU 2011 – 09)
 - Why
 - Greater transparency in financial reporting around employer’s participation in a multiemployer pension plan
 - Increased awareness about commitments and risks
 - Increased awareness about potential future cash flow implications
 - Does not change accounting for pension benefits and obligations
 - Applicable for nonpublics for fiscal years ending after December 15, 2012 and applied retrospectively

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General GAAP Update

- Multi-employer plan disclosures (ASU 2011 – 09) (cont.)
 - New Disclosures
 - Plan names, plan numbers, plan EINs
 - Amount of employer contributions, individually, and in the aggregate
 - Level of participation and whether employer’s contributions represent more than 5% of total plan contributions
 - Expiration date of collective bargaining agreements and any minimum funding arrangements
 - Whether or not a surcharge was paid to the plan
 - If any plans are subject to a funding improvement plan
 - “Zone status” or if “zone status” is unavailable, whether the plan is
 - Less than 65% funded
 - Between 65% and 80% funded
 - At least 80% funded

When feasible, above information should be in tabular format


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General GAAP Update

- Multi-employer plan disclosures (ASU 2011 – 09) (cont.)
 - No changes to existing disclosures:
 - Amount of contribution for the period
 - General description of the plan
 - Effect of any changes that affect comparability of contributions
 - Additional disclosure if it is probable or reasonably possible that an employer would withdraw from the plan


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General GAAP Update

- Comprehensive Income (ASUs 2011-5 and 2011-12)
 - Impacts presentation of comprehensive income
 - Single continuous Statement of Comprehensive Income
 - Two statement approach: Statement of Income and Statement of Comprehensive Income
 - Effective for Dec. 31, 2011 year-ends for public companies
 - Effective for Dec. 31, 2012 year-ends for non-public companies
 - Early adoption was permitted
 - Awaiting new ASU requiring footnote disclosures for reclassifications from AOCI to net income


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General GAAP Update

- Comprehensive Income (ASUs 2011-5 and 2011-12) (cont.)
 - Components:
 - Foreign currency translation adjustments
 - Unrealized gains/losses on AFS securities
 - Actuarial gains/losses on defined benefit plans
 - Change in the fair value of a financial instrument in a cash flow hedge (interest rate swaps)

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Convergence Efforts

- Lease Accounting
 - Applies to all significant leases
 - The FASB and IASB previously agreed that leases should be recorded on the balance sheet,
 - Proposed right-of-use (ROU) model for lessees
 - Other lease contracts would be treated as payment for access to and use of assets
 - Dual-expense recognition approach:
 - ROU - Lease accounted for as a nonfinancial asset and measured at cost, less accumulated amortization
 - Other lease contracts - Straight-line total lease expense


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Convergence Efforts

- Lease Accounting (cont.)
 - How to determine when the different recognition patterns should be applied?
 - The Boards supported 2 options:
 - Determination based on whether the ROU asset represents the acquisition of a more than insignificant portion of the underlying asset;
 - Determination based on the nature of the underlying asset.
 - Second exposure draft expected in first quarter of 2013 with final standard now expected to be issued in late 2013
 - Even though likely retrospective adoption is 2015/16, what should organizations be doing now to prepare


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Convergence Efforts

- Revenue Recognition
 - The proposed update specifies the principles that an entity would apply to report useful information about the amount, timing and uncertainty of revenue and cash flows arising from its contracts to provide goods or services to customers.
 - Core principle would require an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the amount of consideration to which the entity expects to be entitled in exchange for those goods or services.
 - It would modify the current presentation of any bad debts
 - Significant increase in disclosure requirements
 - Based upon the current draft, comparative presentation would be required
 - Final revenue standard expected in March/April 2013 but would not be effective earlier than for annual reporting periods beginning on or after January 1, 2015.

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Convergence Efforts

- Financial Instruments
 - Addressing recognition and measurement, hedge accounting, and impairment
 - Most financial instruments on balance sheet at FV, with option to carry short-term A/R and A/P, and some debt at amortized cost (with parenthetical disclosures of FV)
 - Proposed liquidity risk disclosures
 - Applies to all private, public and not-for-profit organizations
 - Provide information about the risk encountered by the reporting organization when meeting its financial obligations
 - Nature of disclosure would depend if organization is a "financial institution"
 - Definition of a "financial institution"
 - Modified debt instruments
 - Hedge accounting still being addressed
 - SEC views
 - FASB and IASB currently struggling with impairment model


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Convergence Efforts

- Financial Instruments (cont.)
 - Required disclosures:
 - Carrying amounts of classes of financial assets and liabilities in a table, segregated by their expected maturities, including off-balance sheet commitments and obligations.
 - Time deposit liabilities
 - Expected cash flow obligations, segregated by expected maturities
 - Available liquid funds
 - Additional quantitative or narrative disclosure of liquidity risk
 - Additional disclosures of interest rate risk for "financial institutions"

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Other Ongoing FASB Projects of Note

- Impairment of Indefinite-lived Intangible Assets (ASU 2012-02)
- Risks and Uncertainties (going concern and liquidation basis of accounting)
- Loss Contingencies (litigation) – project dropped by FASB
- Consolidations – Principal vs. Agent model

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Oldies But Goodies


- Consolidation/VIE's
- Equity Instruments
- Derivatives
- Share-Based Compensation
- FIN 48/Uncertain Tax Positions
- Pension Accounting

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Questions?



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