



AAFCPAs
great minds | great hearts

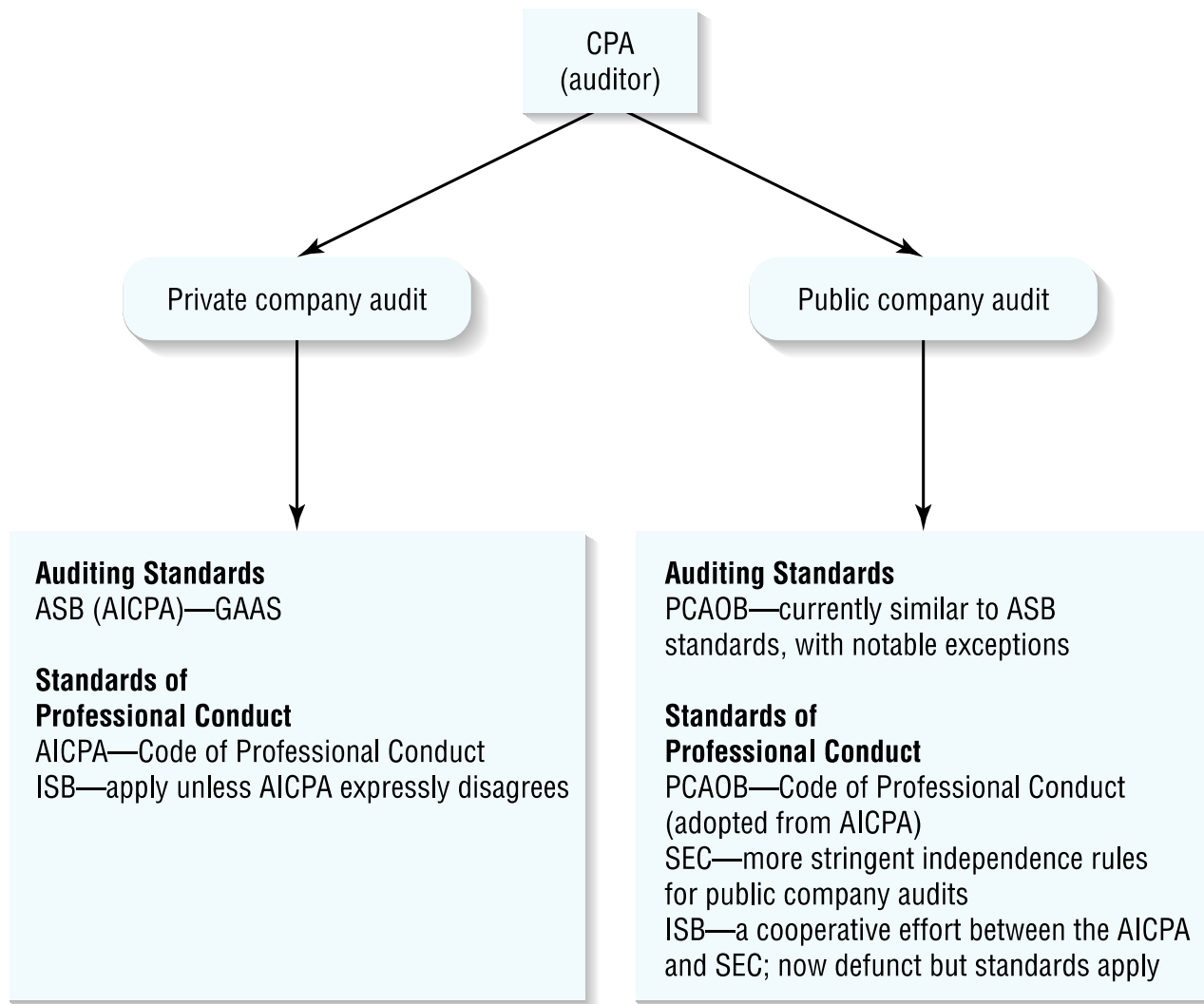
FEI-Boston's 2016 Accounting & Auditing Update

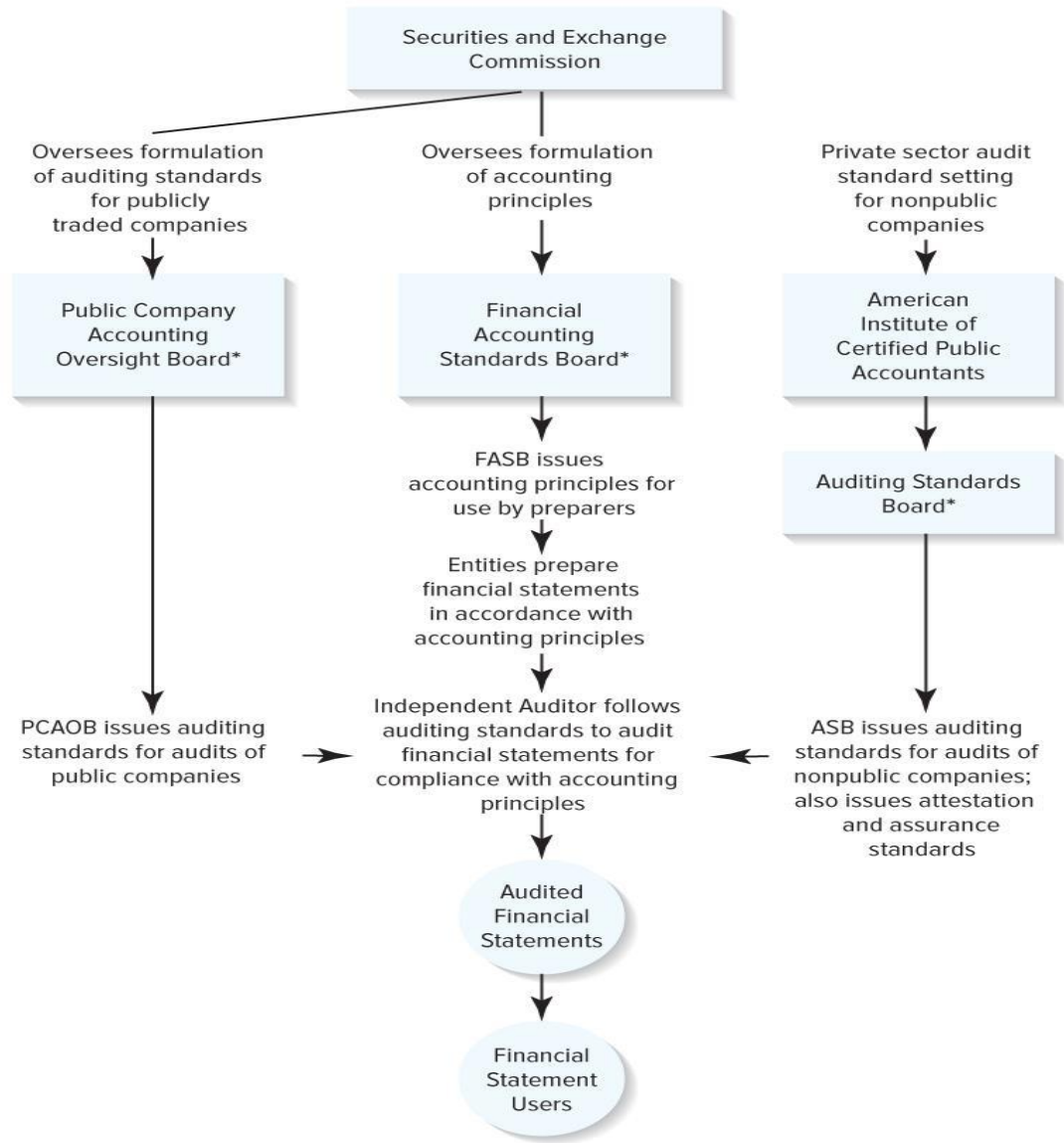
December 16, 2016

Jeffrey Mead

Selected topics

- Private Company Council
 - Related issued accounting and reporting standards
- Selected standards and their effective dates
- SSARS 21 standard





*The Governmental Accounting Standards Board (GASB) issues accounting standards, and the Government Accountability Office (GAO) issues auditing standards for governmental entities. Standards issued by the GAO are based on ASB standards; they are modified only as necessary for purposes of governmental audits.

Private Company Council

- Commonly referred to as the “PCC”
- THE voice for a private reporting entities
- Serves as an “adjunct” or “advisory” to the FASB
- Attempt at the “big GAAP vs. “little GAAP” discussion that’s been going on for the past 30 years

Private Company Council

- Established May 2012
 - Address needs of **private company** financial statement preparers
 - Exceptions or modifications to existing standards.

Necessary for private company reporting purposes??

Private Company Council

- Emphasis on “traditional” accounting concepts
 - Historical cost vs. fair value
 - Matching revenues and expenses
 - Improved variable interest entity guidance
 - Practical and less complicated goodwill accounting
 - Other simplifications

Private Company Council

- Since no separate “little GAAP” and “big GAAP”
- FASB solution is to integrate “accounting alternatives” within the existing US GAAP (referred to as the **Accounting Standards Codification**)
 - Commonly referred to as ASC
- Available **ONLY** to private companies, as defined

Private Company Council

The term;

“accounting alternative” is an *accounting policy election within GAAP*

- Once made, you are locked in.
- Cannot switch back and forth

Private Company Council

- PCC moved quickly to address 3 significant issues:
 - Simplified accounting for goodwill
 - Simplified accounting for “vanilla” interest rate swaps
 - Simplified accounting for VIE’s

Private Company Council

- New accounting alternatives issued in January/February 2014
- Effective for 2015 calendar year ends, **BUT** were applicable to **2013 calendar year-end** reporting (if elected and eligible)
- Post 2015, or for 2016, you would need to show ***preferability*** to adopt the accounting alternatives

Private Company Council

Let's quickly review these major accounting alternatives and.....

What to do if you never elected the accounting alternative during its effective date, but now you want to??

ASU 2014-02

Intangibles-Goodwill and Other (Topic 350)

Accounting for Goodwill

a consensus of the Private Company
Council

ASU 2014-02

- ***Goodwill amortized on a straight-line basis over 10 years, or less than 10 years in the entity demonstrates that another useful life is more appropriate***
- Impairment testing is now **reactive**; not proactive
- If an entity determines that there are no triggering events, then ***further impairment testing is unnecessary***

ASU 2014-07

***Consolidation (Topic 810) Applying
Variable Interest Entities Guidance to
Common Control Leasing Arrangements***

A consensus of the Private Company
Council

ASU 2014-07

The VIE model (Variable Interest Entity)

- Can be forced to consolidate because entity is deemed to have a **controlling** financial interest

***EVEN IF COMPANY DOES NOT HAVE
VOTING CONTROL!***

ASU 2014-07

The VIE model:

- Determination is based on relevant facts and circumstances
 - Remember, the VIE reporting model looks at:
“substance over form”

ASU 2014-07 - Consolidation

- Private company **may elect an “accounting alternative”** not to apply VIE guidance to a lessor entity if 4 specific criteria are met
- **RESULT?**
 - No consolidation under VIE standards
 - No GAAP departure (if used in the past)
 - Ease of use, particularly the bank or other creditors

ASU 2014-18

Business Combinations (Topic 805) ***Accounting for identifiable Intangible*** ***Assets in a Business Combination***

A consensus of the Private Company
Council

ASU 2014-18 – Business Combinations

- If adopted;
 - No longer recognize separately from goodwill;
 - Non-compete agreements'
 - Customer-related intangibles unless capable of being sold independently from other assets of the business
 - Potential savings with acquisition – relating specifically to accounting and valuation efforts

ASU 2014-03

Derivatives and Hedging (Topic 815) Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps-Simplified Hedge Accounting Approach a consensus of the Private Company Council

- Simplified accounting for “plain vanilla” interest rate swaps

What happens if I am late to the game in adopting an accounting alternative?

ASU 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

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ASU 2016-03

- Accounting alternatives (guidance in 2014-2, 2014-3, 2014-7 and 2014-18 now effective immediately by removing their previous effective dates. Transition guidance when adopting an accounting alternative is indefinite.
- Now private reporting entities can forgo preferability assessment the first time they elect an accounting standard with the scope of ASU 2016-3

ASU 2014-15 – Going Concern

- Moves the concept from auditing standards (hence auditor's driving the issue) to GAAP (hence management's responsibility)
 - Management must assert contemplation of “going concern”
- Period of time to be considered moves from;
 - **One year from the company's year end to one year from the date of the auditor's report**

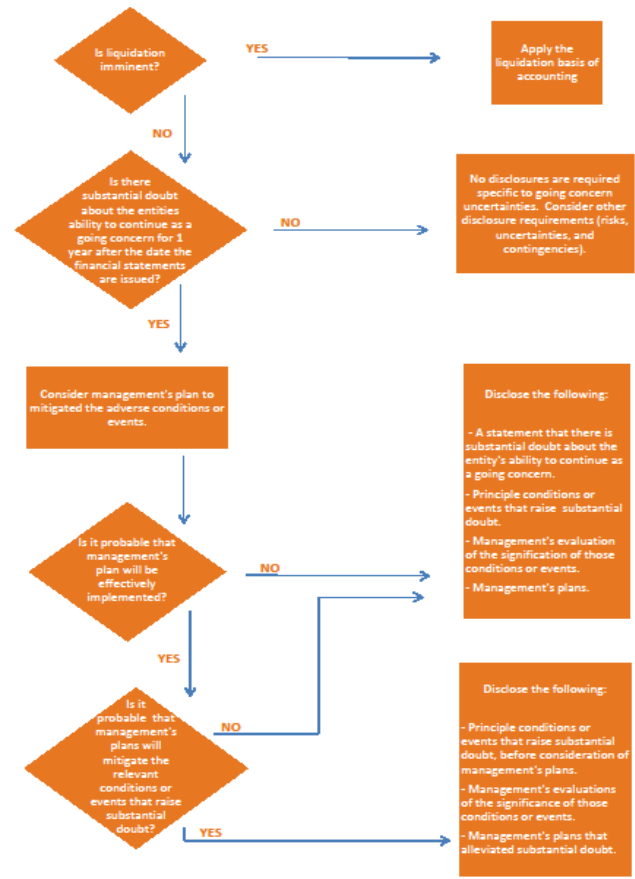
ASU 2014-15 – Going Concern

- Management evaluation
- Relevant conditions and events indicate that it is “probable” the entity will be unable to meet its obligations as they become due within one year after the date the financial statements are issued (available to be issued).
- Probable = likely to occur

ASU 2014-15 – Going Concern

- Management should make a reasonable effort to identify conditions and events not readily known, but those they are able to identify without undue cost and effort

ASU 2014-15 – Going Concern - Guidance



ASU 2014-15 – Going Concern

- **Effective date:** Annual period ending after December 15, 2016, which means,

Now!!

ASU 2015-17 – Income taxes (Topic 740): Balance Sheet Classification of Deferred Taxes

- Tax assets and liabilities are shown as non-current
- Effective for years beginning after December 15, 2017 (private) and one year earlier for public business entities
- Early application is permitted; prospective or retrospective presentation allowed

SSARS No. 21

- Allows for “plain paper” financial reporting
 - “that no assurance is provided”
- Compilation report streamlined to just one paragraph with no headings
- Requires “emphasis-of-matter,” or “other-matter” paragraph in review report under particular instances

SSARS No. 21

Introduces a new service your CPA firm can provide, called a “preparation engagement”

- No report
- Independence is NOT required to be determined
- A “no assurance” statement on each page
- *Can be useful for early-stage, pre-revenue startups, with tax-only needs*

Questions & Comments



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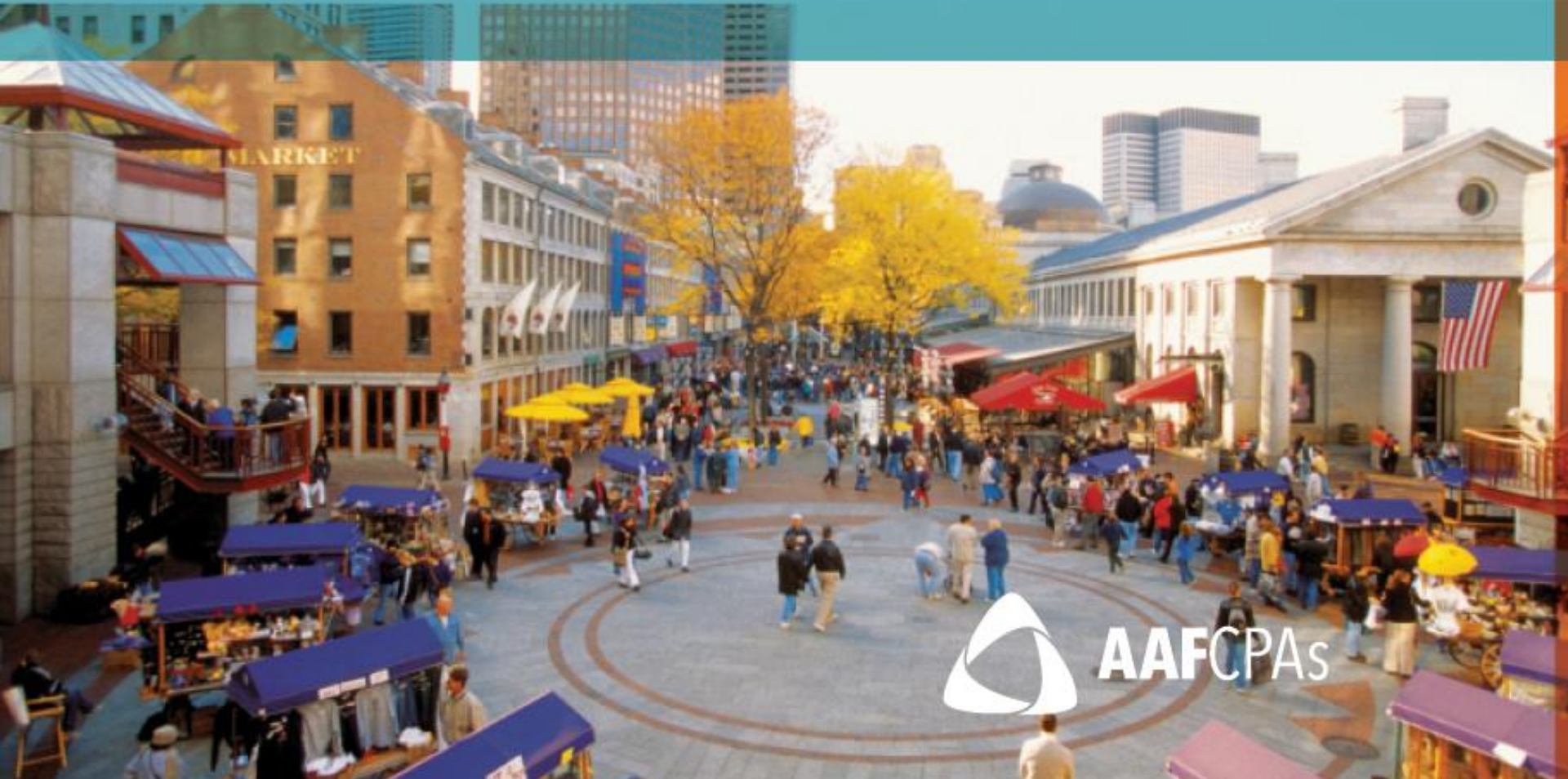
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Thank You!

For more information, visit: www.aafcpa.com



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