

American Accounting Association

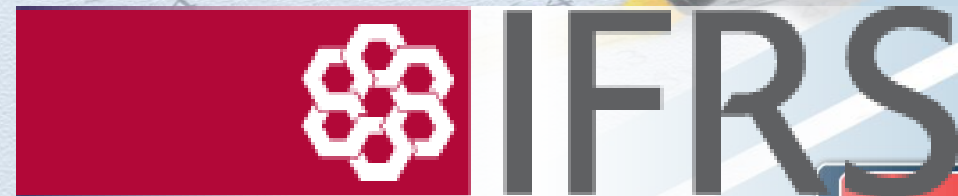
FASB/IASB Update – Part I

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Mary Tokar, IASB Member

August 9, 2015

The views expressed in this presentation are those of the presenters. Official positions of the FASB and IASB are reached only after extensive due process and deliberations.



Agenda

- Revenue
- Conceptual Framework
- Performance Reporting
- Disclosure Initiative/Framework
- Not-for-Profit Financial Statement Presentation

An overview of *Revenue from contracts with customers*

Topic 606/ IFRS 15

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not necessarily those of the IASB or IFRS Foundation

Same outcome, different paths

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IAS 18 R

May 2014

International Financial Reporting Standard*

IFRS 15 Revenue from
Contracts with Customers

IAS 11
Constructi
Contract

IF

IASB*



FINANCIAL ACCOUNTING SERIES

FASB ACCOUNTING STANDARDS UPDATE

No. 2014-09
May 2014

Revenue from Contracts with Customers
(Topic 606)

An Amendment of the FASB Accounting Standards Codification*

Financial Accounting Standards Board

Revenue Recognition

guidance

ment–Broadcasters

Cable Television

ertainment–Casinos

Films

Software

Real Estate

...



Major changes from current practice

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Scope

- Focuses on contract not types of transactions or industries
- Recognition and measurement guidance applies to transfers/sales of nonfinancial assets to non-customers
- Guidance on costs to obtain and fulfill a contract with a customer (if not addressed in other topics)
- Does **not** cover leases, insurance, financial instruments

Requirements

- Constraint on revenue
- Licenses
- Disclosures

The thought process changes even if the accounting doesn't

The five-step process for revenue recognition

Topic 606/ IFRS 15

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Revenue recognition – core principle and five steps

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Recognise revenue to depict transfer of goods or services in an amount of consideration to which expected to be entitled

1

Identify the contract(s) with a customer

2

Identify the performance obligations in the contract

3

Determine the transaction price

4

Allocate the transaction price to the performance obligations

5

Recognise revenue when (as) a performance obligation is satisfied

Existence of a contract

- Must meet specified criteria to apply the model, including
 - Collection of consideration probable [probable]

Combine contracts

- Negotiated as a package
- Linked consideration
- Goods or services form single performance obligation

Contract modifications

- Separate contract if add distinct goods/services at standalone selling price
- Prospective if remaining goods/services distinct
- Otherwise, cumulative catch-up

A framework for identifying performance obligations

Promise to transfer a distinct good or service, or series of substantially similar distinct goods or services

Good or service capable of being distinct?

and

Customer can benefit from good or service on its own or together with other readily available resources

Good or service distinct in context of contract?

Promised good or service separately identifiable from other promises

- Good or service is not an input to produce specified output

Amount of consideration to which entity expects to be **entitled** in exchange for goods or services

Variable consideration

Estimate using:

- Expected value
- Most likely amount

but
'Constrained'
(next slide)

Significant financing

Adjust consideration if timing provides customer or entity with significant benefit of financing

Non-cash consideration

Measure at fair value unless cannot be reasonably estimated

Consideration payable to customer

Reduction of the TP unless in exchange for a distinct good or service

When to recognise variable consideration

Include estimate of some/all of variable consideration in the transaction price only to extent it is *highly probable* [*probable*] a significant reversal of revenue will not occur when uncertainty is resolved

- Variable consideration is a broad term
 - includes rebates, refunds, price concessions
- Estimate of transaction price updated each period
- Expectations of revenue reversal assessed using 5 indicators

When is PO satisfied over time (i.e., revenue recognised over time)

Customer receives and consumes benefits of entity's performance as entity performs *or*

- Routine or recurring services

Entity's performance creates or enhances an asset (eg WIP) that customer controls as asset is created or enhanced *or*

- Building an asset on a customer's site

Entity's performance does not create an asset with an alternative use to entity *and* entity has an enforceable right to payment for performance completed to date

- Building a specialised asset that only the customer can use

When is PO satisfied over time (i.e., revenue over time) continued

Asset has no
alternative use
and

Contractually or practically cannot redirect
asset in completed state

Right to payment
for performance
to date

Throughout contract, right to approximate
selling price of goods/services transferred

- Includes a profit margin

How is revenue recognised over time?

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Faithfully depict performance towards complete satisfaction of performance obligation

Output methods

- Direct measurement of value to customer
- Surveys of performance
- Appraisals of results
- Milestones
- Time elapsed
- Units produced/delivered

Input methods

- Resources consumed
- Labour hours expended
- Time elapsed
- Costs incurred
- Exclude effects of any input that does not depict entity's performance (inefficiencies not covered by contract, disproportionate costs)

- Performance obligations satisfied over time
- Methods for measuring progress
- Sale with a right of return
- Warranties
- Principal versus agent considerations
- Customer options for additional goods or services
- Customers' unexercised rights
- Nonrefundable upfront fees
- Licensing
- Repurchase agreements
- Consignment arrangements
- Bill-and-hold arrangements
- Customer acceptance
- Disclosure of disaggregated revenue

Some challenging areas

Topic 606/ IFRS 15

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Application Guidance—a dual model for licences

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Determine nature of the performance obligation for distinct licences

Right to *use* IP as exists when granted

► Revenue at point in time

Right to *access* IP as exists throughout licence period

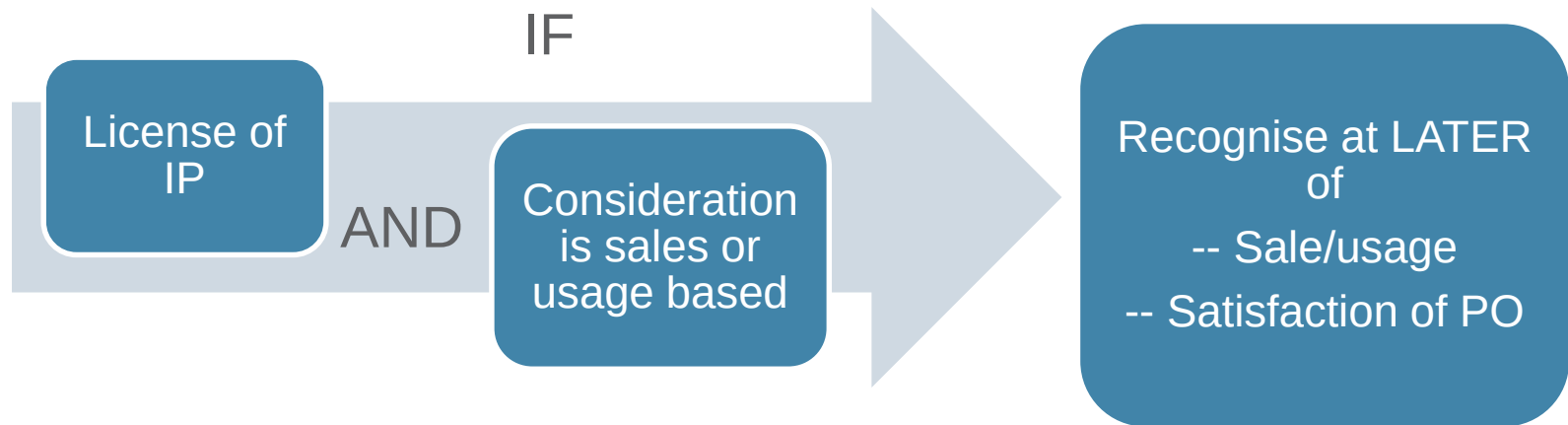
► Revenue over time

Right to access IP if

- Licensors will undertake activities that significantly affect the IP *and*
- Licence exposes licensee to effects of activities *and*
- Activities are not a good or service to licensee

... And a twist for licenses with sales- or usage-based royalties

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Exception applies:

Other consideration
for PO



Royalty also consideration
for other types of PO



Application Guidance—principal or agent?

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Determine nature of performance obligation

PO to *transfer* goods/services to customer

→ control goods/services before transfer

► Entity is principal

PO to *arrange* for provision of goods/services

→ don't control goods/services before transfer

► Entity is agent

- Indicators to help determine whether entity had control
- Indicators are similar to previous guidance but conclusions may differ because context different

Outside but inside the scope of IFRS 15/ Topic 606

Recognise revenue when:

- no remaining obligations
and
- (substantially) all consideration received

or

- contract terminated **and**
- consideration non-refundable

Reassess whether criteria for “normal” revenue model satisfied (eg collectability)

Costs of obtaining a contract

Recognised as an asset if:

- Incremental
- Expected to be recovered

*For example:
Selling commissions*

Costs of fulfilling a contract

Recognised as an asset if:

- Relate directly to a contract
- Relate to future performance
- Expected to be recovered

For example: Pre-contract or setup costs

Onerous contracts

Apply IAS 37/ Topic 450

Don't underestimate disclosures

Topic 606/ IFRS 15

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Comprehensive and cohesive disclosure requirements

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To enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers

Revenue

Disaggregation of revenue (also required for Interims)

Amounts recognised relating to performance in previous periods

Contracts

Information about contract balances & changes

Information about performance obligations

Amounts allocated to remaining performance obligations

Judgements

Timing of and methods for recognising revenue

Determining the transaction price and amounts allocated to performance obligations

Transition and effective date(s)

Topic 606/ IFRS 15

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Transition and effective date

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		PY2 (2015) (2016)	PY1 (2016) (2017)		CY (2017) (2018)	CY footnotes
Retrospective (with optional practical expedients)	Cumulative catch-up	Contracts under new standard Contracts restated				
Cumulative effect at date of application		Contracts not restated		Cumulative catch-up	Existing* and new contracts under new standard	Impact of IFRS 15/ 606 compared to prior accounting policies

*contracts for which entity has not transferred all goods or services identified under previous standards

- Effective date: annual reporting periods beginning 2017 (2018)
- Early application permitted (*for US GAAP, only from 2017*)

Some key effects

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Sector	Accounting
Construction/ Aerospace & Defence	• Revenue may be recognised over time (eg percentage of completion) but 'PO over time' criteria must be met • More discipline in cost-to-cost measures of performance • Costs capitalised if result in resources to be used in fulfilling contract, not to normalise margin
Telcos	• Revenue recognised for 'free' handset, as well as for airtime contract
Products	• Revenue recognition deferred for some sales incentives and incidental obligations • Revenue deferred for some implicit product warranties

Some key effects continued

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Sector	Accounting
Software	• Elimination of VSOE, so revenue can be recognised when license transferred • Revenue recognition for software development only if 'PO over time' criteria met
Media/ pharma	• Revenue may be recognised on transfer of licence, but will need to consider if licence is right to use or right to access • Sales-based royalties recognised as sales occur
Asset management	• Contingent fees based on index recognised only if highly probable will not be reversed

Revenue transition resource group and IASB/FASB responses

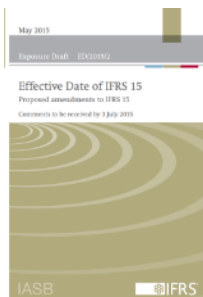
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Where we are

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May 2014



May 2015

Publication of
Clarifications ED

July 2015

January 2017

January 2018

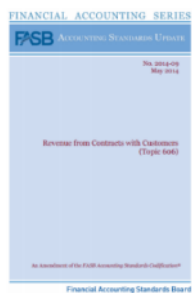
Original
effective date

Revised
effective date

Joint

TRG

discussions



April 2015

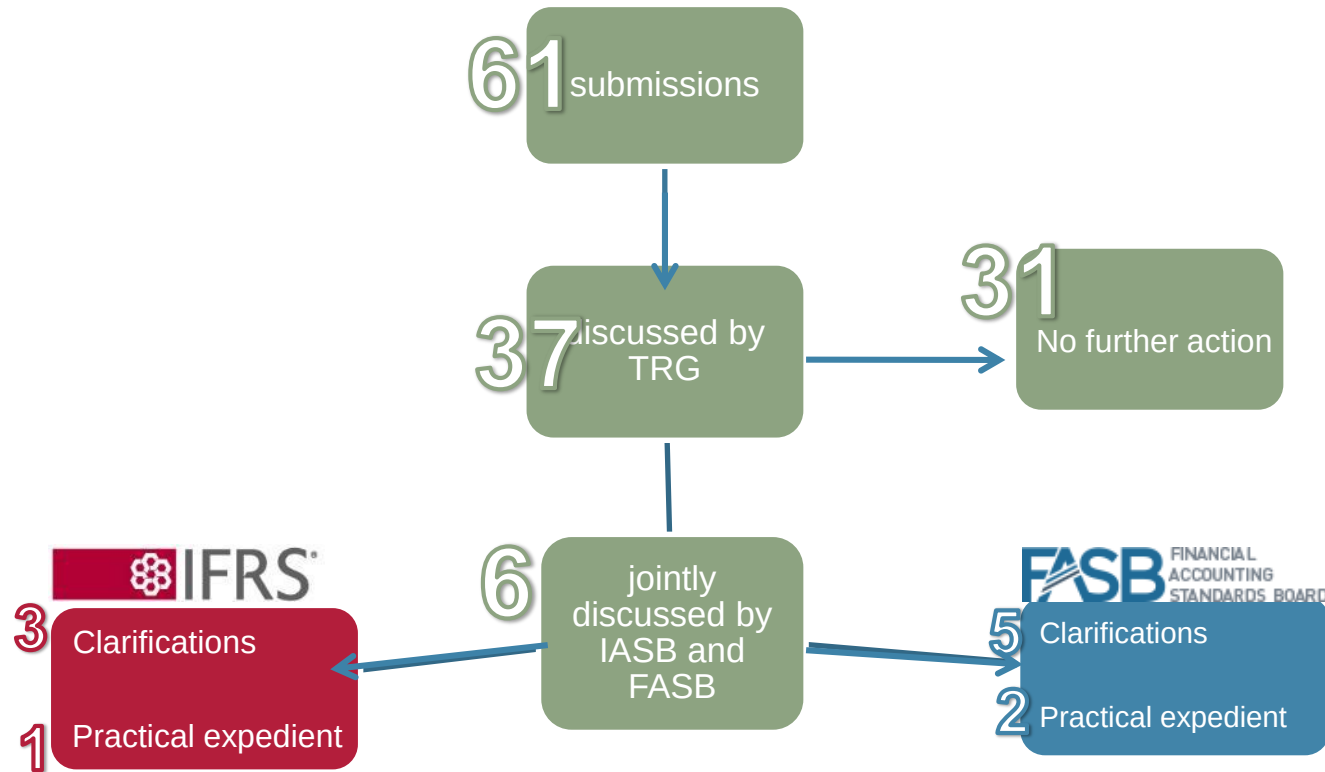


Expected
publication of 2nd
& 3rd Clarifications
ED



TRG - overview of submissions

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<http://go.ifrs.org/RTRG>

<http://www.fasb.org/cs/ContentServer?c=Page&pageName=FASB%2FPages%2FLandingPage&cid=1176164065747>

TRG submissions log

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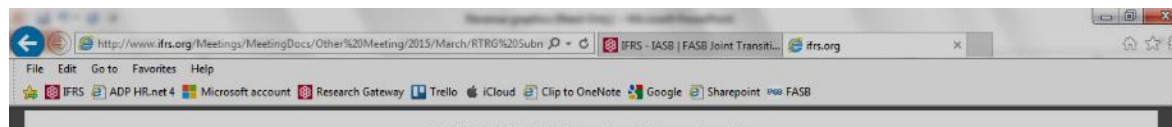
IFRS - IASB | FASB Joint Transition Resource Group for Revenue Recognition
Submissions Log compiled by Staff
As of 20 March 2015

Submission number	Topic	Summary of issue	TRG meeting date	TRG paper reference	Current Status
13	Variable Consideration	(1) The submitter observes that the variable consideration constraint may result in a significant delay in timing of revenue recognition for asset manager performance-based fees when compared to current application of Method 2 alternative in SEC guidance ASC 605-20-599. (2) Are carried interests (a type of performance fees) included within the scope of the new standard? (3) If termination provisions exist in a contract, can revenue be recognized on an interim basis for the amount guaranteed in the termination clause?	31-Oct-14	No. 10	Implementation question #3, which may be applicable to other industries beyond asset managers, was discussed at the October 31, 2014 TRG meeting. Because the discussion indicated that stakeholders can understand and apply the applicable guidance in the new revenue standard, the Boards do not plan any further action at this time.
28	Identifying promised goods or services	How should an entity identify the promised goods or services in a contract with a customer?	26-Jan-15	No. 12	Board members instructed the staff to perform additional research and outreach about the implementation questions. The research was discussed by the Boards at a Joint Board Meeting on February 18, 2015. Refer to the links below for related staff papers and tentative decisions reached. FASB Memo 1: Revenue Recognition - Identifying Performance Obligations IASB Agenda Paper 7C: Revenue from Contracts with Customers - Identifying Performance Obligations FASB Tentative Board Decisions IASB Update
29	Shipping service	Is the shipment of goods (or arranging the shipment) a separate performance obligation?	26-Jan-15	No. 22	Board members instructed the staff to perform additional research and outreach about the implementation questions. The research was discussed by the Boards at a Joint Board Meeting on February 18, 2015. Refer to the links below for related staff papers and tentative decisions reached. FASB Memo 1: Revenue Recognition - Identifying Performance Obligations IASB Agenda Paper 7C: Revenue from Contracts with Customers - Identifying Performance Obligations FASB Tentative Board Decisions IASB Update
15	Collectibility	For a group of combined contracts, what amount of revenue should be recognized when there is an amount of the total transaction price that the entity does not consider to be probable for collection?	26-Jan-15	No. 13	Because the discussion indicated that stakeholders can understand and apply the applicable guidance in the new revenue standard, the Boards do not plan any further action at this time.
16	Collectibility	What is the basis for concluding that a decline in the customer's financial condition is significant enough to warrant a reassessment of the collectibility criteria for a contract to exist?	26-Jan-15	No. 13	Because the discussion indicated that stakeholders can understand and apply the applicable guidance in the new revenue standard, the Boards do not plan any further action at this time.

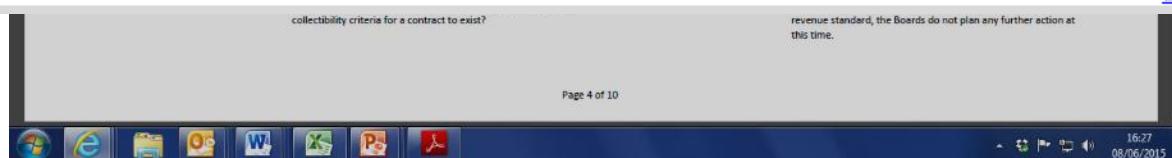
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TRG submissions log

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Comparison of IASB & FASB decisions

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Topic	IASB single ED	FASB Proposed ASUs
Performance obligations		
• 'Distinct' performance obligations	Add IE	Amend Standard & add IE
• Immaterial goods or services	-	Amend Standard
• Shipping and handling activities	-	Amend Standard
Licensing		
• Distinguishing licences	Amend Standard & IE	Amend Standard & IE
• Royalties constraint	Amend Standard & IE	
• Contractual restrictions in licences	-	Amend Standard & IE
• When to assess the nature of licence	-	Amend Standard

Comparison of IASB & FASB decisions

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Topic	IASB single ED	FASB Proposed ASUs
Principal versus agent considerations	Amend Standard & add IE	
Presentation of sales taxes	-	Amend Standard
Collectability	-	Amend Standard & IE
Non-cash consideration	-	Amend Standard & IE
Practical expedients on transition		
• Modified contracts	Amend Standard	
• Completed contracts	Amend Standard	-

Topic	Proposed clarifications
Identifying POs	• Amend Illustrative Examples (IE) to clarify the application of paragraph 27(b) - 'distinct within the context of the contract'
Principal vs agent considerations	• Amend Standard (AG) to clarify the application of the 'control' and the role of the accompanying indicators
Licensing	• Amend Standard (AG) to clarify: – when an entity's activities significantly affect the intellectual property (i.e., licence is <i>right to access</i>) – when and how royalties constraint is applied
Practical expedients on transition	• Amend Standard to permit: – use of hindsight in restating modified contracts – not to apply IFRS 15 to completed contracts at the beginning of the earliest period presented

Three Exposure Drafts

- | | | |
|---|--|---|
| <ul style="list-style-type: none">• Performance obligations<ul style="list-style-type: none">– Distinct in the context of the contract– <i>Immaterial promises</i>– <i>Shipping and handling</i>• Licensing<ul style="list-style-type: none">– Nature of license: over time vs. point in time– Scope of constraint on sales-based and usage-based royalties | <ul style="list-style-type: none">• Narrow scope improvements<ul style="list-style-type: none">– <i>Noncash consideration</i>– <i>Collectibility</i>• Practical expedients<ul style="list-style-type: none">– Contract modifications at transition– <i>Sales tax presentation (net)</i> | <ul style="list-style-type: none">• Principal versus Agent<ul style="list-style-type: none">– Control principle– Nature of specified good or service– Control of a service– Indicators of control– Examples |
|---|--|---|

The IASB's Conceptual Framework for Financial Reporting ED

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A revised conceptual framework

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A priority project

- Single package not phased approach
- Ambitious time frame

Target problem areas

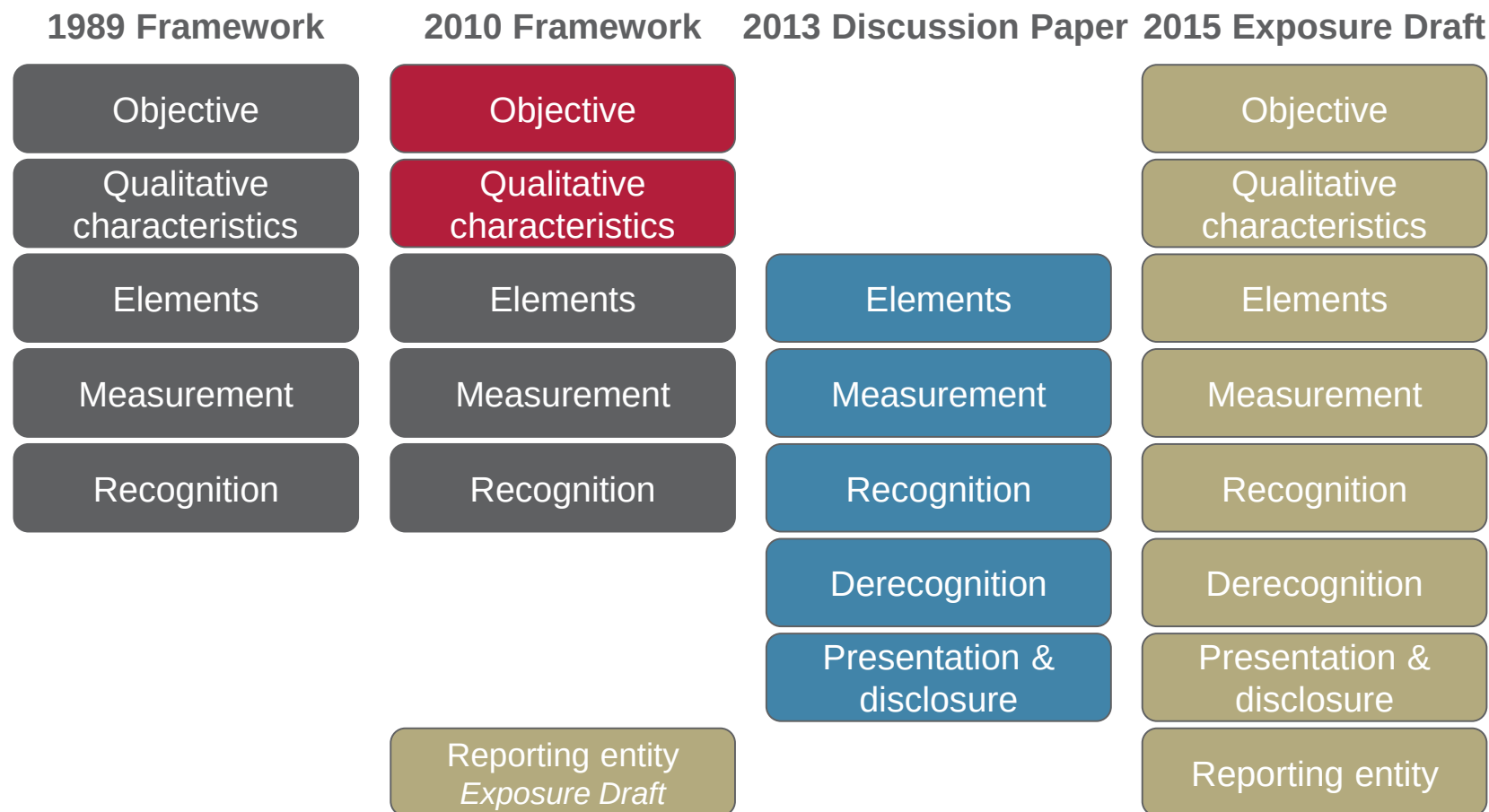
- Update
- Fill in gaps
- Clarify

Parallel but not joint with FASB

- Same objective (2010 revision)
- Same purpose and focus
- Some areas overlap
- FASB input via ASAF and staff coordination

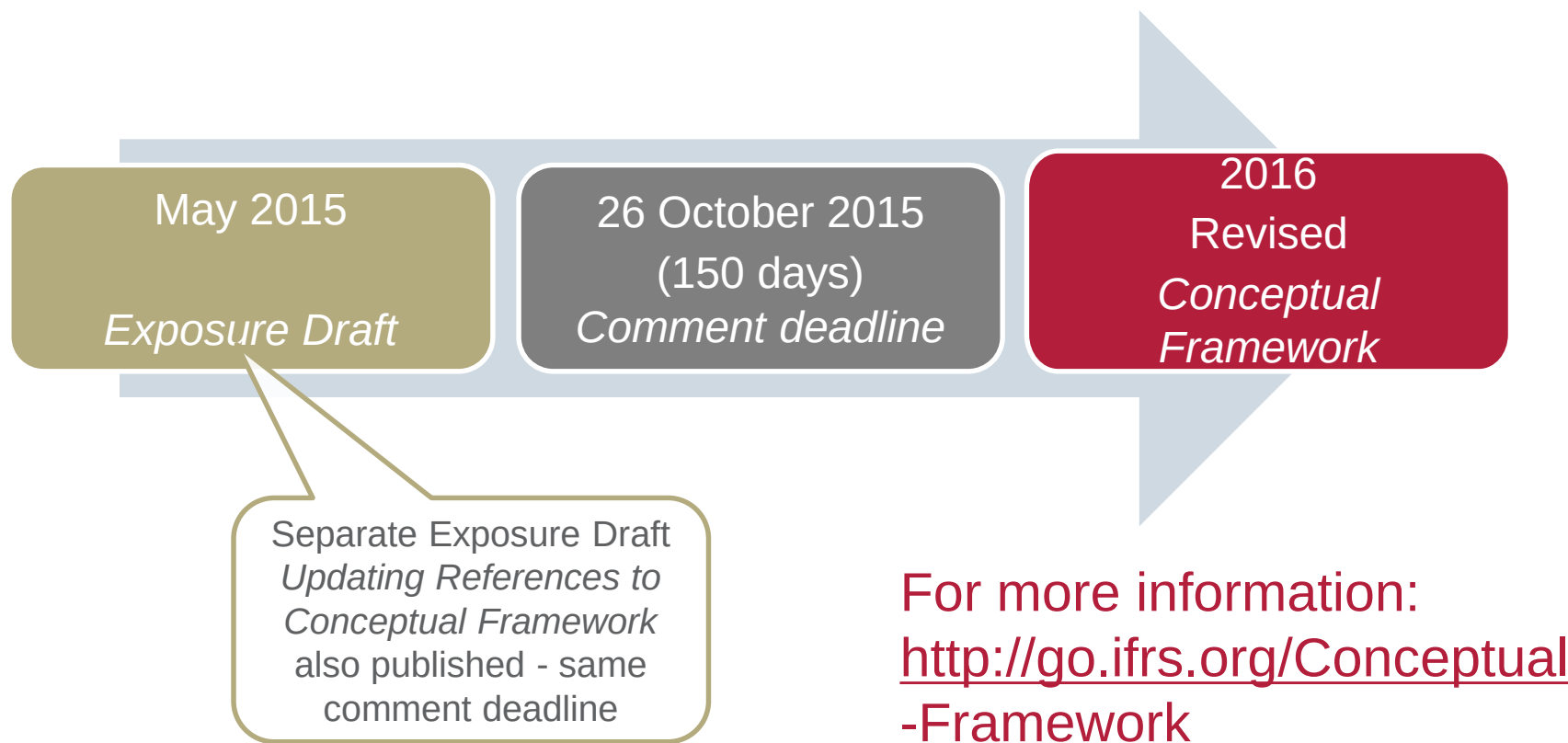
History of the Conceptual Framework

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Conceptual Framework: Timeline

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Conceptual Framework: Overview

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Update

- Element definitions
- Recognition

Fill in gaps

- Measurement
- P&L and OCI
- Derecognition
- Disclosure
- Reporting entity

Clarify

- Stewardship
- Prudence
- Measurement uncertainty

Liability/equity classification in separate project

Conceptual Framework: Update

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Element definitions

- Focus on rights and obligations, not on future flows which may be uncertain
- Additional guidance, including re: uncertain liabilities

Recognition

- Recognition criteria based on qualitative characteristics
- Criteria may not be met if:
 - it is uncertain whether an asset or liability exists
 - there is only a low probability of future inflows or outflows
 - high level of measurement uncertainty

Conceptual Framework: Fill in gaps

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Measurement

- Two broad categories of measurement bases:
 - historical cost or current value
- Discussion of factors to consider when selecting a measurement basis

P&L & OCI

- Rebuttable presumptions that:
 - income and expense are included in P&L
 - items included in OCI are recycled to P&L
- Profit or loss is primary measure of performance – so include items in OCI only if (a) enhances relevance of P&L as performance measure and (b) part of current value remeasurement

Derecognition

- Aim to **represent faithfully** both:
 - The assets and liabilities retained; and
 - Changes in assets and liabilities

Conceptual Framework: Clarify

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Stewardship

- Give more prominence to the need to provide information to assess management's stewardship of the entity's resources

Prudence

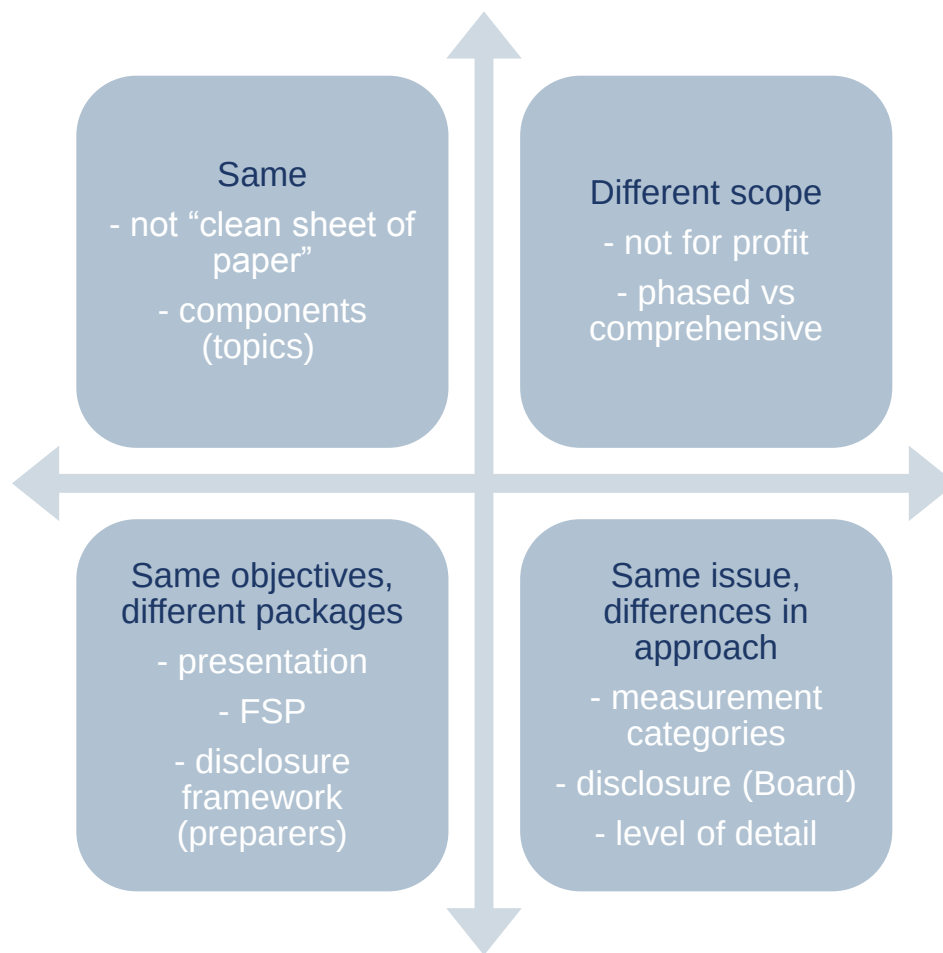
- Reintroduce an explicit reference to the notion of prudence (exercise of caution when making decisions under conditions of uncertainty)
- No overstatement or understatement of assets, liabilities, income or expenses (ie neutral)

'Reliability'/ Measurement uncertainty

- If an estimate is too uncertain, it might not provide relevant information
- Trade-off against other factors that affect relevance
- Retain faithful representation (rather than reliability) as a label for that qualitative characteristic

FASB and IASB: parallel CF projects

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Conceptual Framework



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Objective for FASB CF Project

- Never the intention to start with a clean sheet of paper and develop a *new* conceptual framework
 - Try to address deficiencies
 - Try to clarify and improve understanding
 - Make amendments that experience in application have suggested are necessary

What Issues should be given Priority?

- Possible basis for prioritization:
 - Framework deficiencies
 - Issues that have been impediments to resolving standard-setting issues (MOU projects)
 - Issues that seem precedential to resolving other framework issues
- FASB Decision: Measurement and Presentation

CF Decisions to Date— Measurement



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Measurement

- What does the word *measurement* mean in a financial reporting context?
- Does *measurement* apply to revenues, expenses, gains, losses, or to cash flows?
- For assets and liabilities:
 - Is systematic allocation *measurement*?
 - Is accrual of interest *measurement*?
 - Is adjusting to a market price *measurement*?
 - Is adjusting to a (discounted or undiscounted) amount of estimated cash flows *measurement*?

Value, Cost, and Price

- What is a value?
 - Value to whom?
 - Is there an inherent worth that is (a) unchanging except for consumption or deterioration and (b) independent of market changes?
- What is a price? How is it different from value?
- What is a cost? How is it different from a price or a value?

Other Terms

- Which *attributes* of items in financial statements are subject to *measurement*?
- What does the word *measurement* mean in a financial reporting context?
 - *Carrying amounts* of assets and liabilities?
 - *Changes in carrying amounts*?

General Categories of Methods

The following general categories of methods should be discussed:

- Prices in transactions in which the entity participated
- Current prices observed or estimated by the entity
- Discounted or undiscounted estimates of future cash flows other than estimates of market prices
- Other adjustments to carrying amount: accruals, systematic allocations, and allowances for impairment.

CF Decisions to Date— Presentation



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Overview of Past and Current Presentation Efforts

- Joint Financial Statement Presentation
- Address deficiencies in Concept Statement 5 related to presentation
 - How should individual items be included in line items?
 - How should line items be grouped?
- Research Project on Performance Reporting added in July 2014

Concepts

- Concept 1: Information should be combined into reasonably homogeneous groups.
- Concept 2: The association between revenue, expenses, gains, and losses that result from changes in assets, liabilities, and equity instruments and the assets, liabilities, and equity instruments that changed should be made apparent in the financial statements (or notes).

Grouping Items

Factors for grouping:

- Whether the items are a result of a transaction, an event, a condition, a circumstance, or some combination
- Frequency of occurrence
- Characteristics of the recognized items

Grouping Items

Factors for grouping (*continued*):

- Activity from which recognized item resulted
- Measurement method
- Timing and uncertainty of prospects for future cash flows

Complementary Nature of Financial Statements

- Financial statements individually and collectively contribute to meeting the objective of financial reporting
- Financial statements complement each other

Financial Performance Reporting



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A Research Project on Presentation



FASB directed staff to perform research on a financial statement presentation project in January 2014

Re-scoped from the previous financial statement presentation project, which went inactive in 2011

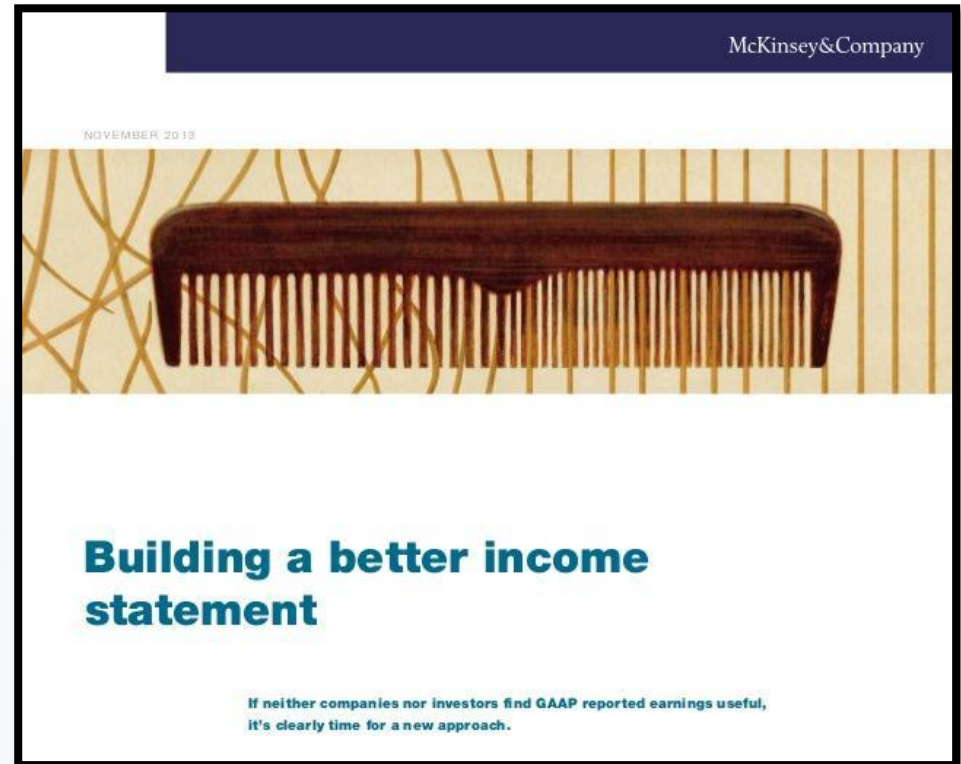
Objective of research is to identify & evaluate alternatives for improving financial statement presentation, primarily focusing on reporting financial performance

Following the research phase, goal is to activate a project on FASB's agenda

Reasons for Undertaking this Project

Ranked as a high priority in 2013 FASAC agenda survey

Stakeholders continue to raise concern – McKinsey



Scope of the Research Project

Primary objective

The primary objective is to evaluate ways the FASB might improve the relevance of information presented in the performance statement.

Two focus areas for the performance statement:

- (1) a framework for determining an operating performance metric
- (2) distinguishing between recurring & nonrecurring or infrequently occurring items

Scope of the Research Project (cont.)

Improvement areas	Performance reporting
Priority focus areas	
Operating performance metric	✓
Non-recurring or infrequent items	✓
Areas where related improvements may also be considered	
Transparency of remeasurements	✓
Additional disaggregation in the performance statement	✓
Related changes to segment reporting	✓
Linkages across the primary statements	✓

Operating Performance Metric

Key premise: Operating performance metric is the net result of a defined set of *operating activities*

Research into ways to define operating activities

- Current practice in presenting operating income
- Previous standard setting attempts
- International practices
- Academic research
- Conceptual framework

Public Board meeting held in February

Disaggregation of Line Items – Next Steps

Ideas considered:

- Infrequency/nonrecurring notion
- Remeasurements notion
- Function/nature



The next public meeting will focus on function/nature

The Board will revisit defining operating activities after it considers disaggregation

Infrequency/Nonrecurring Notion

First develop the concept of *frequency*, then develop the definition of an *infrequent* item based on that concept

Suggested concept: The frequency of a transaction or event is relative to the occurrence of similar transactions or events over time. Some transactions or events are recognized routinely, some occasionally, and some rarely.

Does not consider the frequency of amount

Meaning of a Remeasurement

A remeasurement is an income statement item that is:

- a change in (or realization of) a current price of value
- a change in an estimate of a current price or value, or
- a change in an estimate or measurement method that is fully recognized in income for the period

For example:

- Asset impairments
- Change in an estimate of a warranty obligation

Areas unlikely to be addressed

The following areas are unlikely to be pursued in this project:

- Direct Cash Flow Statement
- COGS
- Earnings Per Share
- Other Comprehensive Income

IASB Disclosure initiative: materiality, disclosure and presentation guidance

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IASB Disclosure Initiative

Complete
d projects

Ongoing
activities

Implementation
projects

Research projects

Amendments
to IAS 1

Digital
reporting

Proposed
amendments
to
IAS 7 'debt
reconciliation'

Distinction
between a
change in
accounting
policy and
estimate

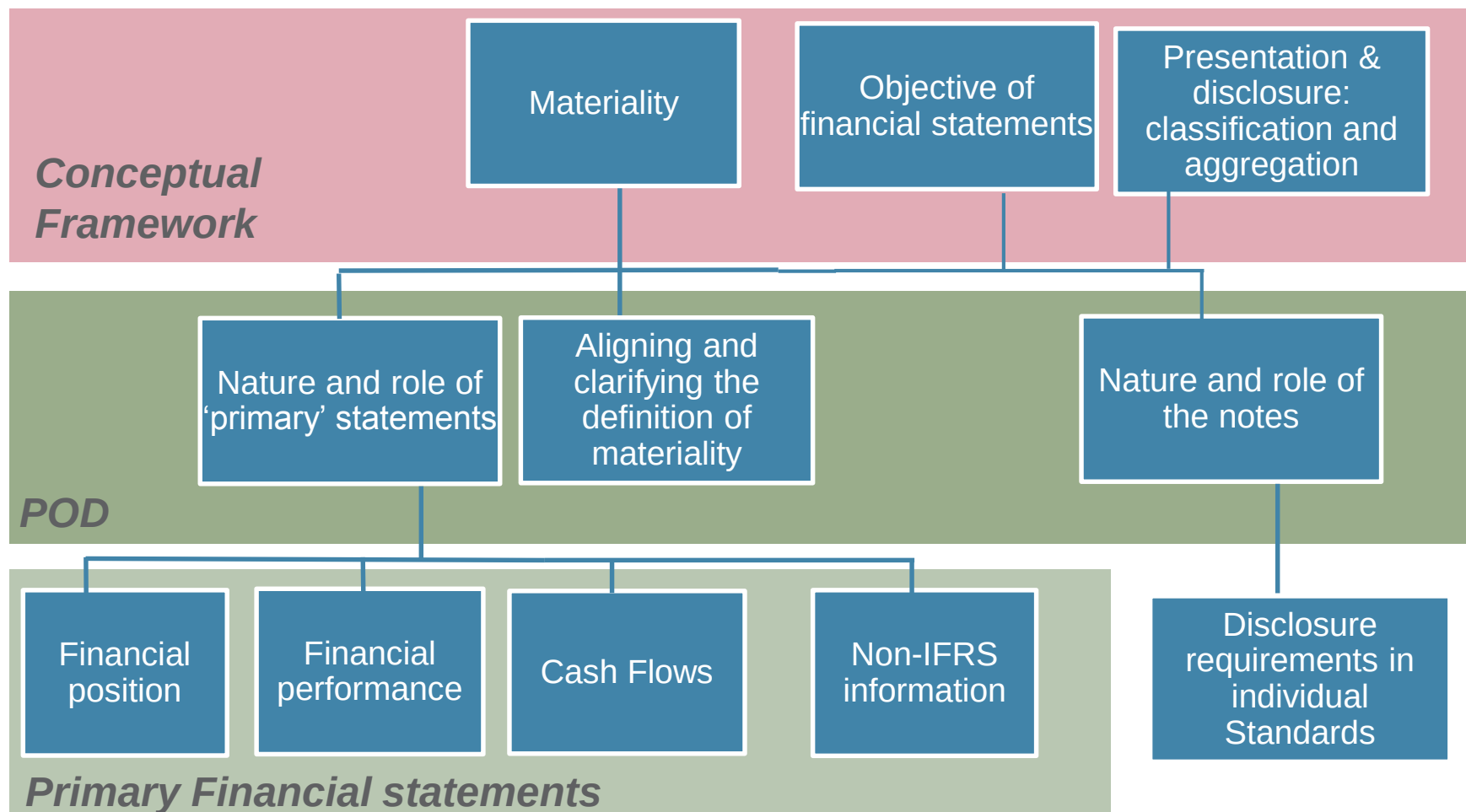
Materiality

Principles
of
Disclosure

Standards
level review
of
disclosures
/ Drafting
guide

POD – relationship with other projects

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IASB Disclosure initiative research projects

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Principles of Disclosure (POD) project

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Why

- Requests for the IASB to develop presentation and disclosure principles that apply across IFRS
- A better ‘disclosure framework’ in IFRS will result in improved disclosures because it will help:
 - the IASB set better disclosure requirements in IFRS; and
 - entities make better judgements about what and how to disclose information

Output

- Discussion Paper
 - Overall principles and specific issues
 - Ultimate goal is to produce a disclosure standard (IFRS) dealing with the basic structure and content of financial statements
 - Redevelop parts of IAS 1 *Presentation of financial statements*
- Education guidance – communication/formatting

Components of financial statements

Primary financial statements

Notes to the financial statements

Improvements to principles of disclosure

Materiality and aggregation of information

Cross-referencing of information

Communication principles including format and connected information

Application of the principles to specific issues

Accounting policies

Non-IFRS information/
Performance Measures

How to draft disclosure requirements

Standards-level review of disclosures

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Why

- The way some IFRS disclosure requirements are written has been identified as contributing to the disclosure problem

Research

- Review across all IFRS disclosure requirements – identify themes
- Analysis of selected Standards

Output

- Drafting and content guide for new Standards
- Informs POD/informed by POD
- Potential amendments to Standards

IASB Disclosure initiative implementation projects

The views expressed in this presentation are those of the presenter,
not necessarily those of the IASB or IFRS Foundation

IASB Disclosure initiative – implementation projects

IAS 7 ‘debt reconciliation’

- Problem: insufficient information re: changes in debt
- Objective: help understand liquidity
- Require disclosures re: restrictions affecting use of cash
- Status: IASB redeliberating 2014 ED

Change in accounting policy vs estimate

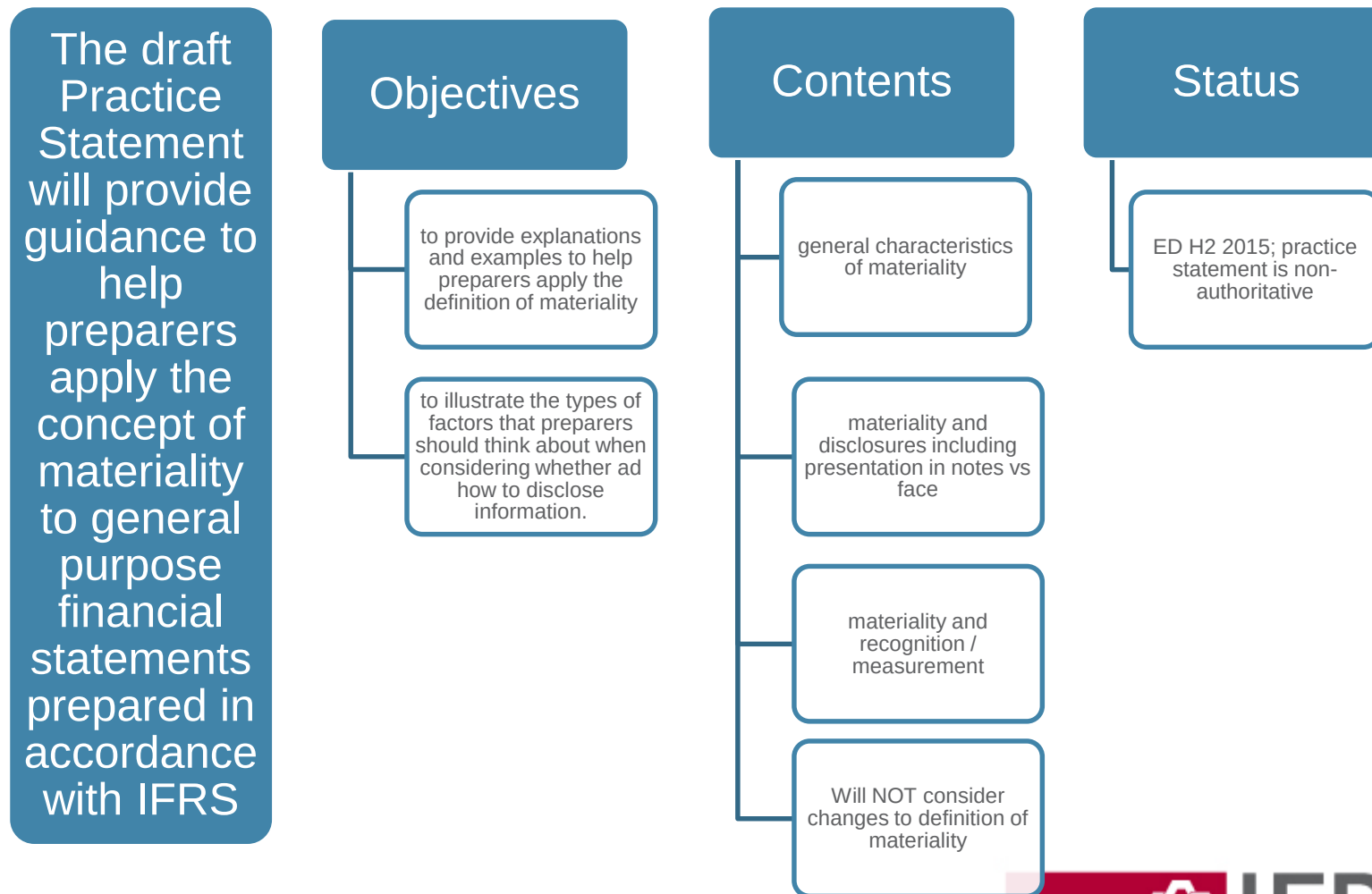
Problem: clarify boundary between change in estimate and change in policy
Consider: information needs of investors for each kind of change
Next step: ED planned for Q1 2016

Materiality

- Problems applying materiality in practice contributes to disclosure problem
- Multi faceted response: materiality practice statement (ED Q4 2015); explore in POD DP [H1 2016], align IAS 1, CF
- Issues: user perspective, ‘could’ vs ‘would’ vs ‘reasonably expect’ to influence primary user’s decision; omissions and understandability

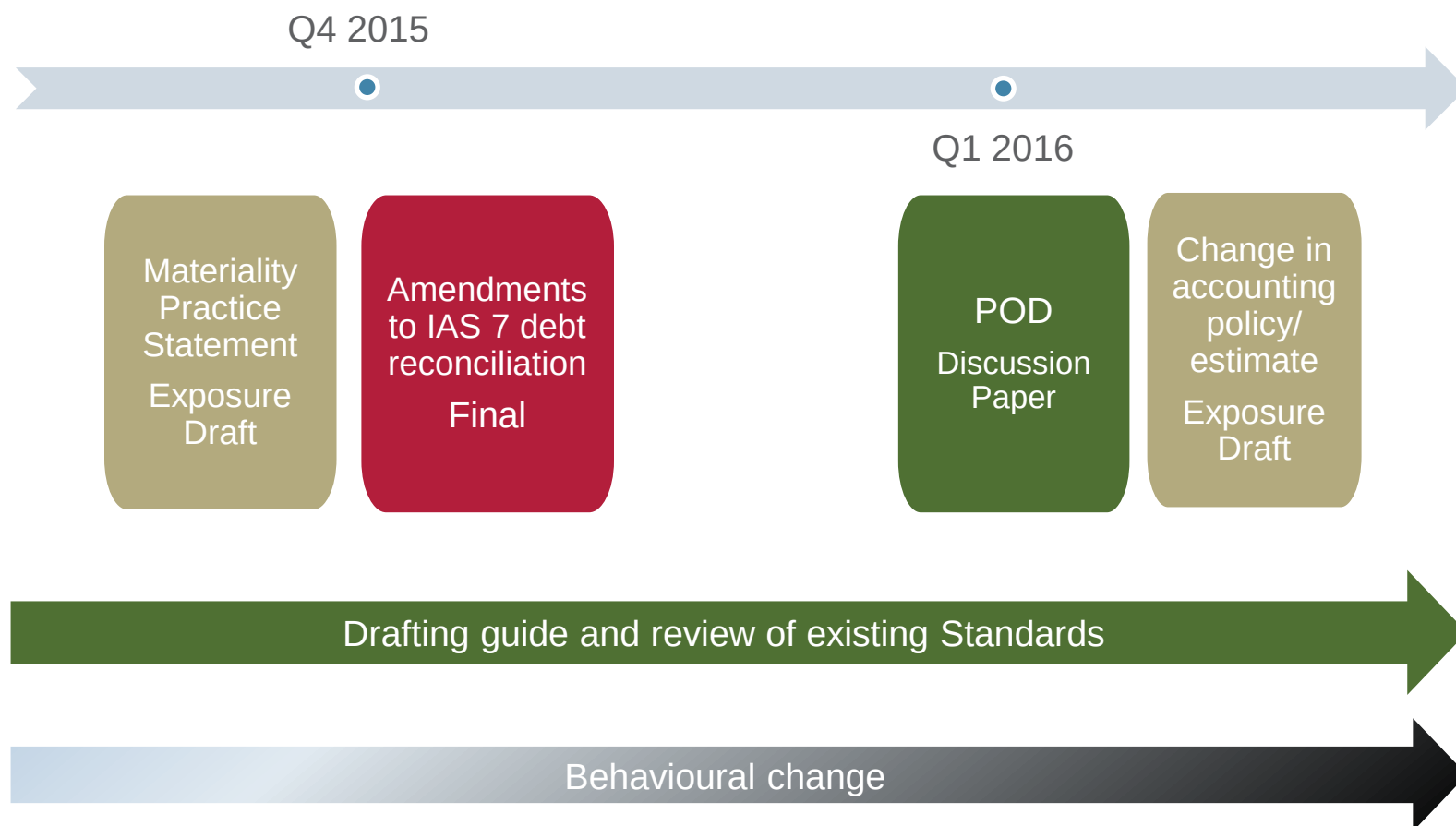
Draft practice statement on materiality

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Timeline – looking ahead

80



Disclosure Framework



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Disclosure Framework: Two Components

Improving the effectiveness of notes requires both:

Consistent considerations by the Board in each standard-setting activity



Phase I:
Board's Decision Process

Appropriate exercise of discretion by reporting entities when assessing disclosure requirements



Phase II:
Entity's Decision Process

Board's Decision Process

Issues Addressed in ED

Comment period ended July 14, 2014

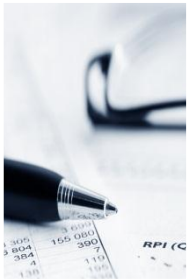


Purpose of notes



General limitations

- Relevance
- Costs
- Some information oriented toward the future



Information that could be appropriate for inclusion in notes



Considerations for interim reporting

Entity's Decision Process

Field Study Provided Insights on

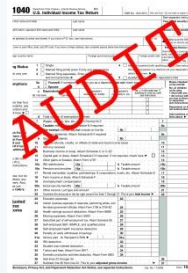


Effectiveness of notes after applying two discretion criteria

- Materiality
- Entity-specific Relevance



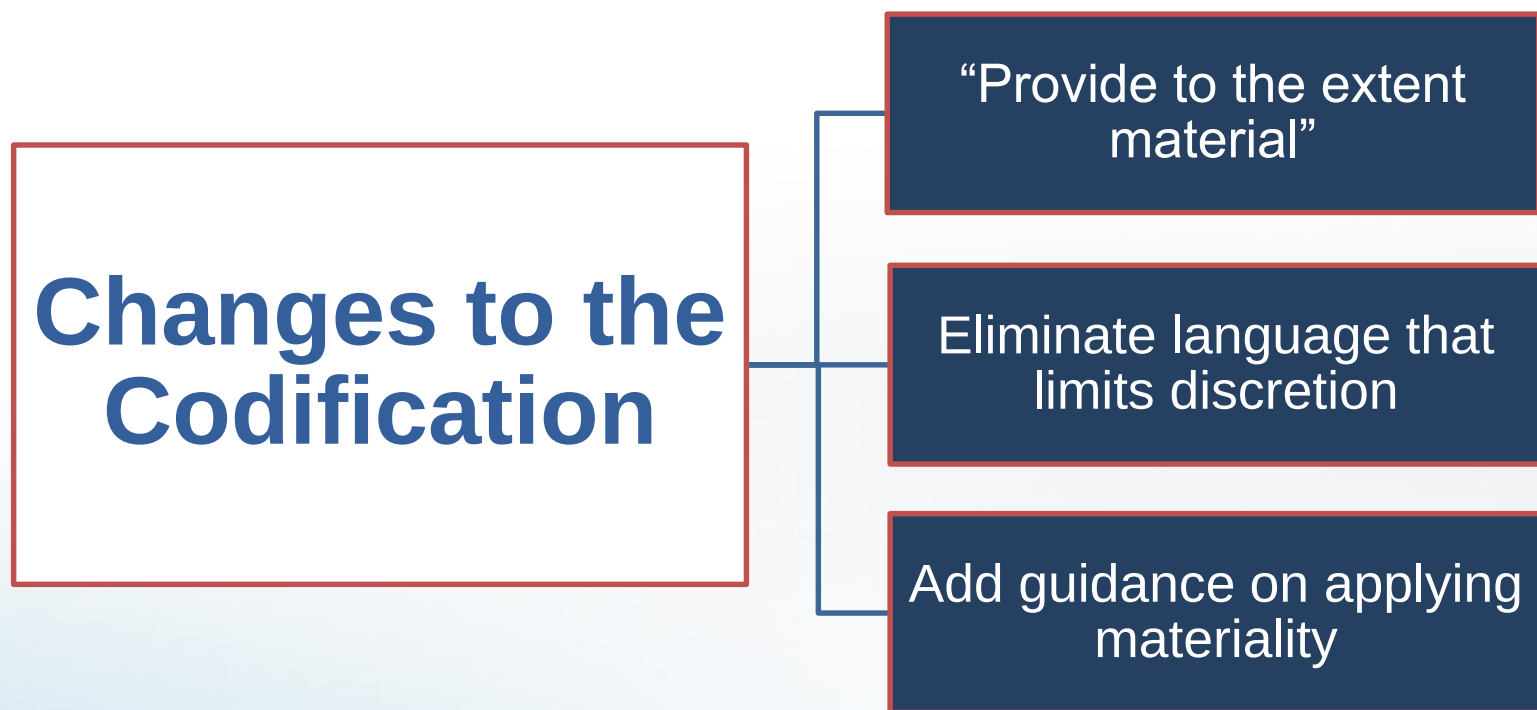
Effectiveness of different criteria in removing disclosure that are not decision useful



Constraints of reporting system on entity's ability to exercise discretion

- Audit
- Regulatory
- Legal

Entity's Decision Process



Entity's Decision Process (cont'd)

Guidance on Applying Materiality

- Applied individually and in the aggregate

- Legal concept

- Quantitative and qualitative

- Omission not an accounting error

Next Steps

- Expose proposals relating to entity's decision process (Q3)
- Re-examine existing disclosure requirements using Proposed Concepts exposed in Board's decision process
 - Findings will become basis for other proposed Codification modifications
- Interim Reporting
- Coordinate with SEC on disclosure reform

Defined Benefit
Plans

Fair Value
Measurement

Income Taxes

Inventory

Fair Value Measurement

Objectives based on proposed framework

Disclosures provide information about:

- Ways an entity arrives at fair value
- The effects on financial statements
- Uncertainty in measurement
- Measurement change period to period

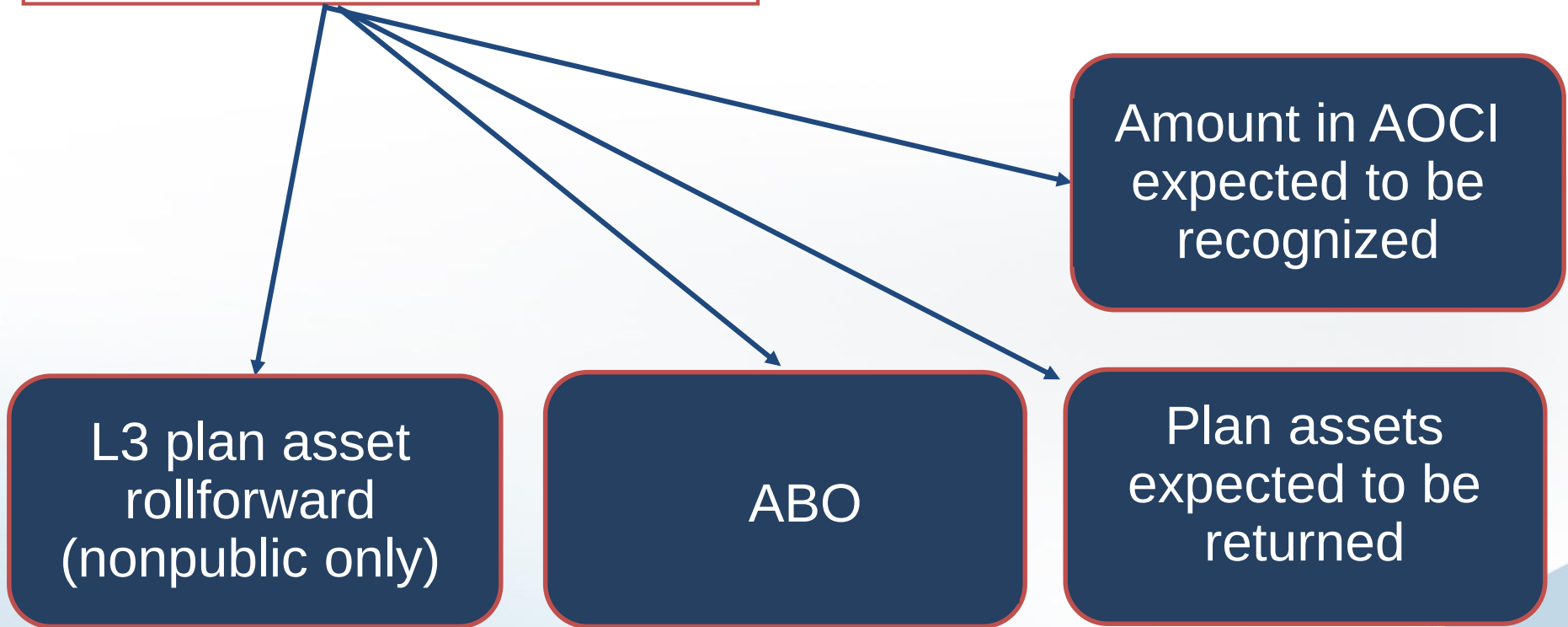
Defined Benefit Plans – Disclosure review

Possible Additions



Defined Benefit Plans – Disclosure review (cont'd)

Possible Removals



Not-for-Profit Financial Statements



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NFP Financial Statement Project

- Model last overhauled approximately 20 years ago
 - FAS 117 (now codified within Topic 958 of the ASC)
- FASB NFP Advisory Committee (NAC)
 - Formed in 2010
 - Primary advisory group to FASB on NFP matters
 - 18 members & 2 participating observers
- Project Objectives
 - “Refresh” the current model, to better tell the “financial story”
 - Improve net asset classification, liquidity information, financial performance reporting, & cash flow statement

Financial Statements of NFPs – Topics



Net Assets

**Current
GAAP**

Unrestricted

**Temp.
Restricted**

**Perm.
Restricted**

**Proposed
GAAP**

**Without Donor
Restrictions**

With Donor Restrictions

+

Disclosures

**Amount, purpose,
& type of board
designations ***

**Nature & amount
of donor restrictions**

*** New disclosure requirement**

“Underwater” Endowments

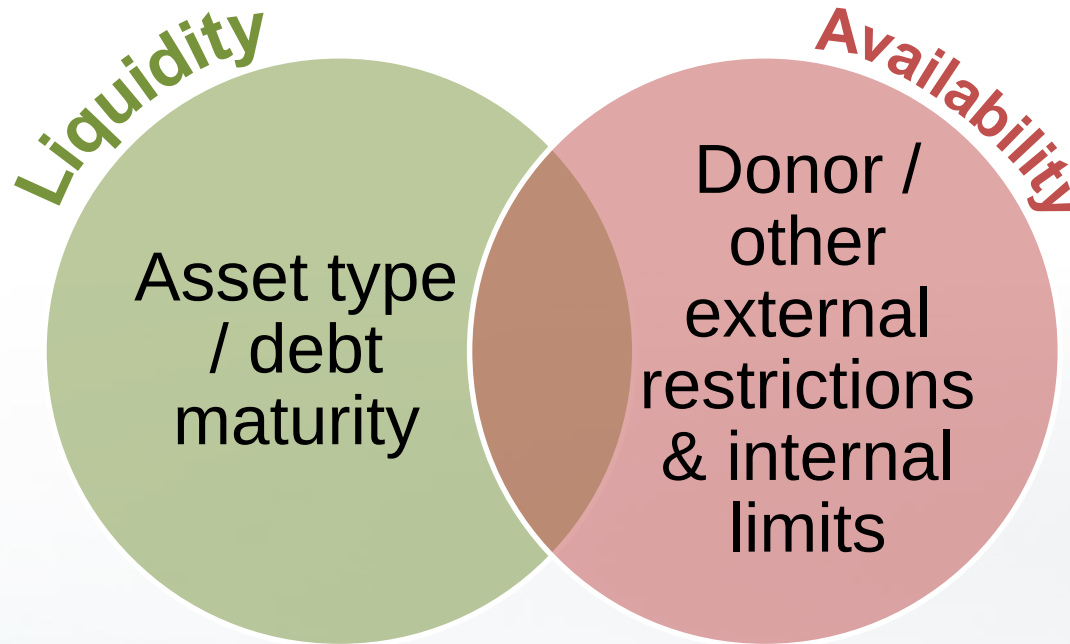
Revised net asset classification

- To be reflected in net assets with donor restrictions rather than in net assets without donor restrictions

Enhanced disclosures

- In addition to aggregate amounts by which funds are underwater (current GAAP), also disclose aggregate of original gift amounts (or level required by donor or law) for such funds, fair value, & any governing board policy or decision to reduce or not spend from such funds.

Liquidity and Financial Availability



FASB discussed:

- Classified balance sheet
- Separate presentation of assets whose use is limited
- Additional note disclosure

Information relating to Liquidity

- The Board decided that an org. should define the time horizon it uses to manage its liquidity (for example, 30, 60, or 90 days) & disclose the following information:
 1. **Quantitative information** about:
 - a) The total amount of financial assets
 - b) Amounts that are not available to meet cash needs within the time horizon because of (1) external limits & (2) internal actions of a governing board
 - c) The total amount of financial liabilities that are due within that time horizon.
 2. **Qualitative information** about how the org. manages its liquidity.
For example, an org. might disclose:
 - a) Its strategy for addressing organization-wide risks that may affect liquidity, including its use of lines of credit
 - b) Its policy for establishing liquidity reserves
 - c) Its basis for determining the time horizon used for managing liquidity.

Financial Performance: Operating Measures

Defined **required** intermediate operating measures for all NFPs—based on two dimensions:

Tension Points:
Internal Actions
Capital-like Transactions

Mission (Business & Charitable Activity):
based on whether resources are from or directed at carrying out an NFP's purpose for existence (vs. investing & financing)

Availability:
based on whether resources are available for current period activities & reflecting limits imposed by:
-external donors
-internal actions of an NFP's governing board

Presentation of Transfers

If transfers are used to reflect internal actions, NFP would present:

1. Operating measure before transfers (reflects all current, legally available amounts generated/used during operations this period)
2. All internal transfers (decisions to designate otherwise available amounts as unavailable, or vice versa) in a discrete section, but before the operating measure after transfers.
 - At a minimum, present aggregated line items of transfers from & transfers to operating activities
 - Provide details in a note unless all transfers are presented as discrete line items on the face

Operating Excess (Deficit) before Transfers

+Transfers to Operating Activities

-Transfers from Operating Activities

Operating Excess (Deficit) after Transfers

Statement of Activities – Transfers

**Without Donor
Restrictions—
Operating
(Charitable & Business)**

XXX ←	Operating excess (deficit) <u>before</u> transfers
XXX ←	Transfers to operating activities
(XXX) ←	Transfers from operating activities
XXX ←	Operating excess (deficit) <u>after</u> transfers

Present below
operating or in a
2nd statement

**Without Donor
Restrictions—
Nonoperating
(Investing & Financing)**

XXX ←	Transfers from operating activities
(XXX) ←	Transfers to operating activities
XXX ←	Δ in w/o donor restrictions

Present below
or to the right of
operating; or in
a 2nd statement

**With Donor Restrictions
(below or to the right of
operating, or in a
second statement*)**

XXX ←	Δ in w/ donor restrictions
XXX ←	Δ in net assets

Statement of Activities – Quasi-Endowment

**Without Donor
Restrictions—
Operating
(Charitable & Business)**

XXX
XXX
(XXX)
XXX

Operating excess (deficit) before transfers

← Transfer of investment return on quasi-endowment

← Transfer of bequests to quasi-endowment

**Without Donor
Restrictions—
Nonoperating
(Investing & Financing)**

XXX
(XXX)
XXX
XXX

← Investment return, net

← Transfer of investment return on quasi-endowment*

← Transfer of bequests to quasi-endowment*

With Donor Restrictions

XXX
XXX

* Minimum requirement would be to show all (a) transfers to & (b) transfers from operating activities, with further details in the notes.

Statement of Activities – Donor Endowment

**Without Donor
Restrictions—
Operating
(Charitable & Business)**

XXX
XXX
XXX

Endowment appropriation and
release from restrictions

**Operating excess (deficit) before
transfers**

**Without Donor
Restrictions—
Nonoperating
(Investing & Financing)**

XXX

With Donor Restrictions

XXX
XXX
(xxx)
XXX
XXX

Contributions

Investment return, net

Endowment appropriation & release
from restrictions

Statement of Activities – Depreciation and Interest

**Without Donor
Restrictions—
Operating
(Charitable & Business)**

XXX
XXX
XXX

← Depreciation (part of expenses)

**Operating excess (deficit) before
transfers**

**Without Donor
Restrictions—
Nonoperating**

XXX
XXX

← Interest expense

With Donor Restrictions

XXX
XXX

Operating Measures – Other Changes

Remove req. that if an operating measure is presented, then the change in unrestricted net assets must be shown

(ASC 958-225-45-10)

NFP business-oriented health care entities no longer required to present the performance indicator

Financial Performance: Statement Approach

1 Statement

- ☐ Ability to present total revenue & contributions
- ☐ Effect of transfers easier to identify
- ☐ Too much information in one statement
- ☐ Labeling of totals difficult

2 Statement

- ☐ Greater emphasis on the operating measure
- ☐ Facilitates multi-year comparison
- ☐ Some may ignore the second statement
- ☐ Incorrectly equate the operating measure to net income

**Retain
Flexibility**

One Statement Approach

Statement of Activities

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support:			
Fees for services	\$ 495		\$ 495
Bequests	600		600
Other contributions	425	1,500	1,925
Restricted support released	1,375	(1,375)	-
Total revenue and support	2,895		
Expenses:			
Total expenses	1,950		1,950
Operating excess before transfers	945		
Transfers to/(from) operating activities:			
Aggregate of transfers to operating activities	150	a	150
Aggregate of transfers from operating activities	(500)	b	(500)
	(350)		
Operating excess after transfers	\$ 595		
Interest expense	(75)		(75)
Investment return, net	170	445	615
Transfers (to)/from operating activities:			
Aggregate of transfers to operating activities	(150)	a	(150)
Aggregate of transfers from operating activities	500	b	500
	350		
Total change in net assets	1,040	570	1,610
Net assets at the beginning of the period	1,500	2,100	3,600
Net assets at the end of the period	\$ 2,540	\$ 2,670	\$ 5,210

(a)(b) Amounts and purposes of aggregated transfers that are presented on the face would be disclosed in the notes to the financial statements.

■ Operating ■ Nonoperating w/o donor restrictions; ■ With donor restrictions

Two Statement Approach

Statement of Operations

OPERATING ACTIVITIES

Revenue and Support:

Fees for services

Bequests

Other contributions

Restricted support released

Total revenue and support

Expenses:

Total expenses

Operating excess before transfers

Transfers (to)/from operating activities:

Aggregate of transfers to operating activities

Aggregate of transfers from operating activities

Operating excess after transfers

\$	495	
	600	
	425	
	1,375	
	2,895	
	1,950	
	945	
	150	a
	(500)	b
	(350)	
\$	595	

Two Statement Approach (cont'd)

Statement of Changes in Net Assets

	Without Donor Restrictions		With Donor Restrictions	Total
Operating excess after transfers	\$ 595 c			\$ 595
NONOPERATING ACTIVITIES				
Contributions			1,500	1,500
Restricted support released			(1,375)	(1,375)
Interest expense	(75)			(75)
Investment return, net	170		445	615
Transfers (to)/from operating activities:				
Aggregate of transfers to operating activities	(150) a			(150)
Aggregate of transfers from operating activities	500 b			500
	<u>350</u>			
Changes in Net Assets	1,040		570	1,610
Net assets at the beginning of the period	1,500		2,100	3,600
Net assets at the end of the period	\$ 2,540		\$ 2,670	\$ 5,210

■ Operating ■ Nonoperating w/o donor restrictions; ■ With donor restrictions

Reporting of Expenses

Expense by nature **and** function → one place in the F/S
(statement of activities, separate statement, or schedule in notes)

FUNCTION

Not-functionalized

N
A
T
U
R
E

	Program Activities		Supporting Activities		Total Operating Expenses	Non-Operating	Total Expenses
	Program A	Program B	M&G	Fundraising			
Salaries & Benefits							
Grants to Others							
Equipment Rental & Maintenance							
Occupancy Cost							
Depreciation							
Information Technology							
Professional Service Fees							
Supplies							
Travel							
Printing & Publication							
Interest							
Other							
Total							

* Either nature or function (or both) on face of Statement of Activities

Cost Allocations

- ☐ Required to include a description of the method used to allocate costs among program & support functions
- ☐ Board will refine the definition of & guidance for *management and general activities*

Cash Flow Statement

Why underutilized/ unutilized?

#1

- The Indirect Method

#2

- Disconnect with Statement of Activities (& any operating measure therein)

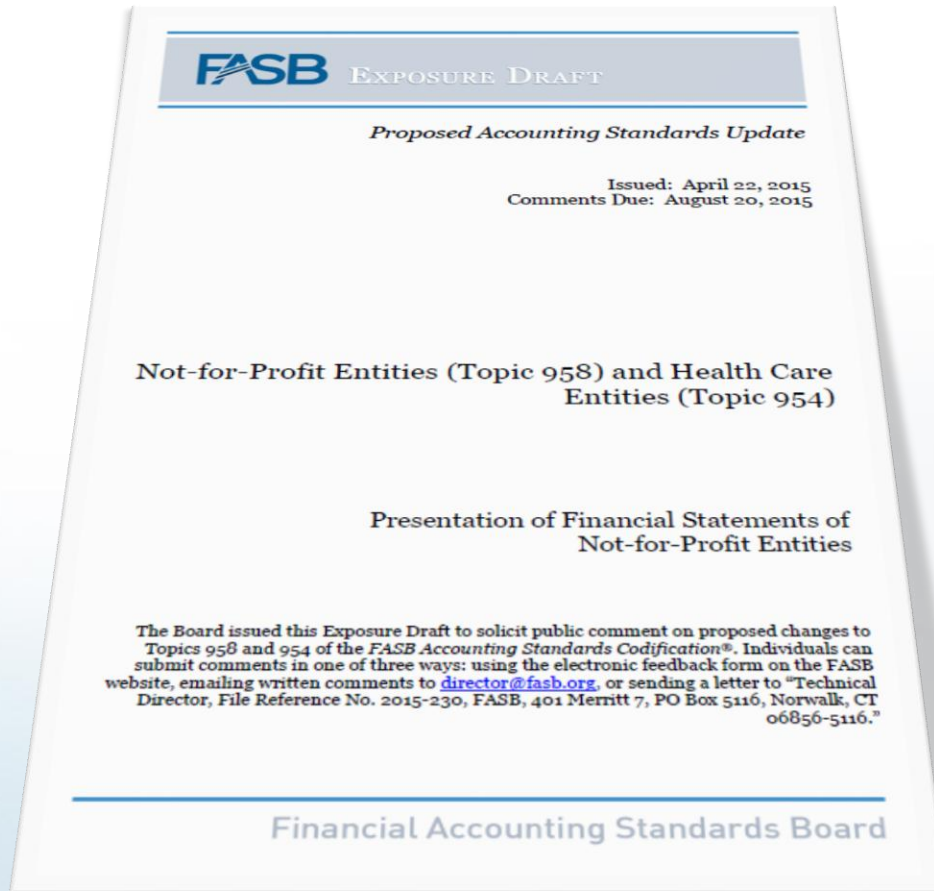
Cash Flow Statement

- Require **Direct Method** for operating cash flows
 - No longer require Indirect Method
 - *Should indirect method still be required for certain NFPs?*
- **Re-categorize** certain items to better align operating cash flows with the operating measures
 - Purchases of & proceeds on sale of long-lived assets (e.g., PP&E; capitalized and noncapitalized collections)
 - Cash gifts restricted for long-lived assets
 - Cash from interest & dividends
 - Interest paid on long-term debt

Cash Flow Statement

	Cash Flows from Operating Activities	
	Cash received from service recipients	
	Cash received from donors	
	Cash paid to employees	
	Cash paid to vendors	
	Purchase of property and equipment	
	Proceeds on sale of property and equipment	
	Contributions restricted for property and equipment	
	Net cash from operating activities	
		
	Cash Flows from Investing Activities	
	Cash received from interest and dividends	
	Purchase of investment assets	
	Proceeds from sale of investments	
	Net cash from investing activities	
	Cash Flows from Financing Activities	
	Payments of principal on long-term debt	
	Interest paid on long-term debt	
	Contributions restricted for endowment	
	Net cash from financing activities	
Net increase in cash		
Cash at the beginning of year		
Cash at end of year		

Financial Statements of Not-for-Profit Entities



- Exposure Draft Issued:
April 22, 2015
- Comments Due Back:
August 20, 2015
- Direct Hyperlinks:
 - [Exposure Draft](#)
 - [FASB in Focus](#)
 - [Online Feedback Form](#)

Questions?



Copies of these slides will be available tomorrow
on the FASB homepage at www.fasb.org