ACCOUNTING

Changes to revenue recognition for federal government contractors

In May 2014, the Financial Accounting Standards Board issued new revenue recognition guidance that will, upon its effective date, replace most pre-existing revenue recognition guidance, including industry-specific guidance, in current U.S. generally accepted accounting principles (GAAP). All federal government contractors whose financial statements are prepared in accordance with U.S. GAAP will be affected by the new guidance. To assist in understanding how a federal government contractor could be significantly affected by the new guidance, we have prepared a white paper, Changes to revenue recognition for federal government contractors, in which we discuss the following topics, among others:

- Evaluating the contract existence criteria
- Accounting for contract modifications
- Identifying promised goods or services in a contract and determining the units of account (i.e., performance obligations)
- Estimating variable consideration, including award fees, incentives and penalties
- Allocating the transaction price to the performance obligations, and determining whether the transaction price allocated to a performance obligation should be recognized as revenue over time or at a point in time
- Accounting for contract costs, including learning, start-up and mobilization costs
- Addressing the new presentation and disclosure requirements

While the effective dates for the new guidance are staggered, they are now upon us. With limited exceptions, the new guidance was effective as of January 1, 2018 for public entities with calendar year ends. For all nonpublic entities with calendar year ends, the new guidance is effective in the year ending December 31, 2019. Time is of the essence for these entities given that implementation of the new guidance could represent a significant undertaking in many cases. Our white paper can be a valuable tool in the implementation process to help understand the application of ASC 606 to your federal government contracts.

Also, for a comprehensive discussion and numerous examples of applying the new guidance, refer to our publication, A guide to revenue recognition.
Proposed changes to disclosure requirements for income taxes

The Financial Accounting Standards Board recently issued a proposed Accounting Standards Update (ASU), *Income Taxes (Topic 740): Disclosure Framework – Changes to the Disclosure Requirements for Income Taxes*. If finalized, among other requirements, this proposed ASU would modify the current disclosure requirements for income taxes as follows:

- The following additional proposed disclosures would be required for all entities:
  - Income (or loss) from continuing operations before income tax expense (or benefit) and before intra-entity eliminations disaggregated between domestic and foreign
  - Income tax expense (or benefit) from continuing operations and income taxes paid, each disaggregated between federal, state and foreign

- The following additional proposed disclosures would be required for public business entities (PBEs):
  - The line items in the balance sheet in which the unrecognized tax benefits are presented and the related amounts of such unrecognized tax benefits
  - The amount and explanation of the valuation allowance recognized and/or released during the reporting period
  - The total amount of unrecognized tax benefits that offsets the deferred tax assets for carryforwards

- The proposed ASU would modify the existing rate reconciliation requirement for PBEs to be consistent with SEC Regulation S-X Rule 4-08(h), which requires separate disclosure for any reconciling item that amounts to more than five percent of the amount computed by multiplying the income before tax by the applicable statutory federal income tax rate. The proposed ASU also would require an explanation of the year-to-year change in an amount or percentage of a reconciling item.

- The proposed ASU would reduce diversity in practice regarding the disclosure of carryforwards by explicitly requiring:
  - A PBE to disclose the amounts of federal, state and foreign carryforwards (tax effected before any valuation allowance) by time period of expiration for each of the first five years after the reporting date, a total for any remaining years and a total for carryforwards that do not expire. A PBE also would be required to disclose the valuation allowance associated with the total tax-effected amounts of federal, state and foreign carryforwards.
  - An entity other than a PBE to disclose the total amounts of federal, state and foreign credit carryforwards and the total amounts of other federal, state and foreign carryforwards (not tax effected), separately for those carryforwards that do not expire and those that do expire, along with their expiration dates (or a range of expiration dates).

- The proposed ASU would clarify that the disclosure of income taxes paid during the period under ASC 230, *Statement of Cash Flows*, is required for interim periods.

The proposed ASU is available for comment until May 31, 2019.
PUBLIC SECTOR

Audit & Accounting Guide for not-for-profit entities updated
The American Institute of Certified Public Accountants (AICPA) Audit & Accounting Guide, *Not-for-Profit Entities*, has been updated as of March 1, 2019. The guide is directed primarily to those aspects of the preparation and audit of financial statements that are unique to not-for-profit entities or are considered particularly significant to them. As such, this guide is an important resource for those who are responsible for the preparation or oversight of such financial statements, as well as their auditors.

The guide is available for purchase from the AICPA Store in paperback or eBook format or as an online subscription.

EMPLOYEE BENEFIT PLANS

Audit & Accounting Guide for employee benefit plans updated

The guide is directed primarily to those aspects of the preparation and audit of financial statements that are unique to employee benefit plans or are considered particularly significant to them. As such, this guide is an important resource for plan fiduciaries and those who are responsible for the preparation or oversight of a benefit plan’s financial statements, as well as their auditors. The guide also is useful to organizations that provide services for a benefit plan, particularly when those services impact financial reporting.

The guide is available for purchase from the AICPA Store in paperback or eBook formats or as an online subscription.