ACCOUNTING

ASC 842: An overview and a guide to lessee accounting

We have published the following focused on Topic 842, Leases, of the Financial Accounting Standards Board’s (FASB) Accounting Standards Codification (ASC):

- **Leases: Overview of ASC 842.** Our overview provides a high-level summary of certain guidance in ASC 842 applicable to lessees and (or) lessors, including guidance related to the definition of a lease, identifying the units of account present in a contract that includes or is a lease, classifying a lease, identifying the appropriate discount rates to use in the classification and accounting for a lease, recognizing initial direct costs related to a lease and the overall accounting for a lease. Our overview also discusses the effective date of ASC 842 and the transition methods available under ASC 842.

- **A guide to lessee accounting under ASC 842.** Our lessee guide includes in-depth discussion and numerous detailed examples on all facets of a lessee’s accounting for its leases, from determining whether a contract is in the scope of ASC 842 to initially and subsequently accounting for leases to presenting and disclosing leases in the financial statements. Our lessee guide also includes comprehensive discussion of the transition guidance in ASC 842, as well as examples illustrating application of that guidance. The appendices to our lessee guide include an easy-to-use table that summarizes the reassessment and remeasurement events applicable to lessees and a lessee disclosure checklist.

New edition of our guide on accounting for debt and equity

We have published the fourth edition of our publication, **A guide to accounting for debt and equity instruments in financing transactions.** In this edition, we added or updated the following:

- Discussion of the accounting for bridge notes settled in a variable number of shares upon the occurrence of a qualified financing, with the number of shares determined based on the price at which shares are issued in the financing event.

- A flowchart illustrating the four-step decision sequence involved in determining whether put and call options are clearly and closely related to the debt host contract.

- Spotlights on future standard setting that highlight the Financial Accounting Standards Board’s (FASB) project on “Distinguishing Liabilities from Equity (Including Convertible Debt)” and its related recently issued proposed ASU, **Debt—Debt with Conversion and Other Options (Subtopic 470-20)**.
and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity.

Use this guide to help navigate the often complex accounting guidance pertinent to debt and equity instruments issued in financing transactions.

**Updated white paper on changes to revenue recognition for NFPs**

We have issued an updated version of our white paper, *Changes to revenue recognition for not-for-profit organizations*, to further assist not-for-profit organizations (NFPs) in applying the new revenue recognition model in Topic 606, “Revenue from Contracts with Customers,” of the Financial Accounting Standards Board’s (FASB) Accounting Standards Codification. The white paper has been updated for recent developments, including the issuance of FASB Accounting Standards Update 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*.

For more information regarding ASC 606, also visit our [Revenue Recognition Resource Center](#).

**Proposed delayed effective dates for long-duration insurance contracts**

The Financial Accounting Standards Board (FASB) recently issued a proposed Accounting Standards Update (ASU), *Financial Services – Insurance (Topic 944): Effective Date*. If finalized, the proposed ASU would provide additional time to apply the FASB’s [accounting guidance for long-duration insurance contracts](#) in ASU 2018-12, *Financial Services – Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*.

As originally issued, ASU 2018-12 is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022.

The amendments in the proposed ASU would defer the effective date of ASU 2018-12 for all entities as follows:

- For SEC filers, excluding entities eligible to be smaller reporting companies (SRC) as defined by the SEC, ASU 2018-12 would be effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. (The determination of whether an entity is an SRC would be based on an entity’s most recent determination in accordance with SEC regulations as of the issuance of the final ASU related to the effective date.)
- For all other entities, ASU 2018-12 would be effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024.
- Early application would continue to be permitted.

The proposed ASU is available for comment until September 20, 2019.

**AUDITING**

**Proposal: Auditing accounting estimates**

The Auditing Standards Board (ASB) recently issued a proposed Statement on Auditing Standards (SAS), *Auditing Accounting Estimates and Related Disclosures*. The proposed standard is intended to enable auditors to appropriately address the increasingly complex scenarios that arise from new accounting standards that include estimates and related disclosures and to enhance the auditor’s focus on factors driving estimation uncertainty and potential management bias. In revising its standards, the ASB used as
a base International Standard on Auditing 540 (Revised), Auditing Accounting Estimates and Related Disclosures.

Fundamental aspects of the proposed SAS include the following, among others:

- Guidance on how its requirements can be scaled for all types of accounting estimates, from those that are relatively “simple” to those that are complex
- A required separate assessment of inherent risk and control risk for purposes of assessing the risks of material misstatement at the assertion level for accounting estimates
- Risk assessment requirements that are more specific to estimates and that address the increasingly complex business environment and complexity in financial reporting frameworks
- An emphasis on the need for further audit procedures (including, when appropriate, tests of controls) to be responsive to the reasons for the assessed risks of material misstatement at the assertion level, taking into account the effect of one or more inherent risk factors and the auditor’s assessment of control risk
- A requirement to evaluate, based on the audit procedures performed and the audit evidence obtained, whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework or are misstated

If finalized, the proposed SAS would be effective for audits of financial statements for periods ending on or after December 15, 2022. The proposed SAS is available for comment until November 22, 2019.

PUBLIC SECTOR

GASB issues implementation guide on lease accounting

The Governmental Accounting Standards Board (GASB) recently issued Implementation Guide No. 2019-3, Leases, to provide guidance that clarifies, explains or elaborates on the requirements of GASB Statement No. 87, Leases. The implementation guide and Statement No. 87 are effective for reporting periods beginning after December 15, 2019.

FINANCIAL SERVICES

AICPA Accounting and Valuation Guide released

The American Institute of Certified Public Accountants (AICPA) recently released its new Accounting and Valuation Guide, Valuation of Portfolio Company Investments of Venture Capital and Private Equity Funds and Other Investment Companies. This guide provides nonauthoritative guidance and illustrations regarding the accounting for and valuation of portfolio company investments held by investment companies within the scope of FASB ASC 946, Financial Services—Investment Companies (including private equity funds, venture capital funds, hedge funds and business development companies). The guide will assist preparers of financial statements, independent auditors and valuation specialists in addressing many accounting and valuation issues (such as unit of account, transaction costs, calibration, the impact of control and marketability, backtesting) that have emerged over time in estimating the fair value of these investments.