QUARTERLY ACCOUNTING UPDATE WEBCAST – SPRING 2019

April 11, 2019
Today’s presenters

Rick Day
Partner, National Director of Accounting, RSM US LLP
rick.day@rsmus.com

Brian Marshall
Partner, RSM US LLP
brian.marshall@rsmus.com

Faye Miller
Partner, RSM US LLP
faye.miller@rsmus.com

Rich Stuart
Partner, RSM US LLP
richard.stuart@rsmus.com
## Topic

<table>
<thead>
<tr>
<th>Topic</th>
<th>Minutes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recently issued accounting guidance</td>
<td>10</td>
</tr>
<tr>
<td>Certain Standards effective for public business entities (PBE) in Q1 2019</td>
<td>10</td>
</tr>
<tr>
<td>Ongoing FASB projects</td>
<td>10</td>
</tr>
<tr>
<td>Revenue recognition</td>
<td>5</td>
</tr>
<tr>
<td>Leases</td>
<td>10</td>
</tr>
<tr>
<td>Financial instruments</td>
<td>15</td>
</tr>
</tbody>
</table>
RECENTLY ISSUED ACCOUNTING GUIDANCE
Final standards recently issued

<table>
<thead>
<tr>
<th>ASU 2019-03—Not-for-profit (NFP) entities (Topic 958): Updating the definition of <em>collections</em></th>
</tr>
</thead>
<tbody>
<tr>
<td>ASU 2019-02—Entertainment—Films—Other assets—Film costs (Subtopic 926-20) and entertainment—Broadcasters—Intangibles—Goodwill and other (Subtopic 920-350): Improvements to accounting for costs of films and license agreements for program materials (a consensus of the Emerging Issues Task Force)</td>
</tr>
<tr>
<td>ASU 2019-01—Leases (Topic 842): Codification improvements</td>
</tr>
</tbody>
</table>
ASU 2019-03—Not-for-profit entities (Topic 958): Updating the definition of collections

• Modify the definition of the term *collections*
  – Currently an entity need not recognize contributions of works of art, historical treasures, and similar assets if the donated items are added to collections and meet three conditions
  – One condition states that an entity must be subject to an organizational policy that requires that the proceeds from sales of collection items be used to acquire other items for collections
  – The amendments modify that condition to include proceeds to be used to support the direct care of existing collections

• Require that a collection-holding entity disclose its policy for the use of proceeds from when collection items are deaccessioned (that is, removed from a collection)

• If a collection-holding entity has a policy that allows proceeds from deaccessioned collection items to be used for direct care, it should disclose its definition of *direct care*
Effective date for calendar year-ends

- Permitted: 2020
- Required: 2021
ASU 2019-02—Entertainment—Films—Other assets—Film costs (Subtopic 926-20) and Entertainment—Broadcasters—Intangibles—Goodwill and other (Subtopic 920-350): Improvements to accounting for costs of films and license agreements for program materials

- GAAP provided different requirements for capitalization of film costs depending on the type of content (films versus an episodic television series) being produced

- Aligns the accounting for production costs of episodic television series with the accounting for production costs of films
  - Removes the content distinction for capitalization
  - For a film that is in a film group, requires an entity reassess estimates of the remaining use of the film, for the amortization of film costs, as of each reporting date, and account for any changes prospectively
• Requires that an entity test a film or license agreement for program material for impairment at a film group level when the film or license agreement is predominantly monetized with other films and/or license agreements
  – A film group is the lowest level at which identifiable cash flows are largely independent of the cash flows of other films and/or license agreements
• The amendments:
  – Add examples of events or changes in circumstances that indicate that an entity should assess a film group for impairment
  – Add examples of events or changes in circumstances that indicate that an entity should assess an individual film for impairment after its release
  – Require an entity to reassess the predominant monetization strategy when a significant change in the monetization strategy occurs
  – Align the impairment model in ASC 920-350 with the fair value model in ASC 926-20
  – Require an entity to write off unamortized film costs when a film is substantively abandoned
• The ASU addresses presentation, requires that an entity provide new disclosures about content that is either produced or licensed, and addresses cash flow classification for license agreements
ASU 2019-02—Entertainment—Films—Other assets—Film costs (Subtopic 926-20) and Entertainment—Broadcasters—Intangibles—Goodwill and other (Subtopic 920-350): Improvements to accounting for costs of films and license agreements for program materials (cont.)
CERTAIN STANDARDS EFFECTIVE FOR PBE’S IN Q1 2019
ASU 2017-12—Derivatives and hedging (Topic 815): Targeted improvements to accounting for hedging activities

• ASU brings some relief to the rigors of hedge accounting and expands risks eligible for hedging

• Financial statement ramifications of adoption include:
  - Cumulative effect adjustment for ineffectiveness on cash flow hedges
  - Earnings effect of hedging instrument is required to be reported in same income statement line item as earnings effect of hedged item
  - Modified disclosure requirements

• Certain one-time beneficial transition elections permitted include:
  - Switch from quantitative assessment to qualitative
  - Indicate quantitative method to be used in the event shortcut method fails
  - Redesignate hedged risk as contractually specified component
  - Reclassify debt security from HTM to AFS if eligible to be hedged under last-of-layer method

• PBEs, financial institutions and certain NFPs must make elections in quarter of adoption, others before next financial statements are available to be issued
ASU 2017-11—(Part I) accounting for certain financial instruments with down round features

• This ASU could significantly impact the accounting for instruments such as warrants and convertible debt that have down round features, as these features will no longer cause liability treatment for warrants or derivative treatment for conversion options
  - Down round is a feature that reduces the strike price of an outstanding instrument if shares are sold for a lower price, or equity-linked instrument issued with a lower strike price

• Refer to appendix C of “A guide to accounting for debt and equity instruments in financing transactions” for important implementation considerations
ASU 2017-08 – Receivables—Nonrefundable fees and other costs (Subtopic 310-20): Premium amortization on purchased callable debt securities

• Entities generally amortize the premium on purchased callable debt securities as an adjustment of yield over the contractual life of the instrument

• ASU shortens the amortization period for certain callable debt securities held at a premium
  - Requires the premium to be amortized to the earliest call date
  - Discounts continue to be amortized to maturity
  - After the earliest call date, if the call option is not exercised, the company resets the effective yield using the payment terms of the debt security

© 2019 RSM US LLP. All Rights Reserved.
### ASU 2018-07—Compensation-stock compensation (Topic 718): Improvements to nonemployee share-based payment accounting

<table>
<thead>
<tr>
<th>Legacy GAAP</th>
<th>Amended</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Overall measurement objective:</strong></td>
<td></td>
</tr>
<tr>
<td>Measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever can be more reliably measured</td>
<td>Measured at grant-date fair value of the equity instruments that an entity is obligated to issue</td>
</tr>
<tr>
<td><strong>Measurement date:</strong></td>
<td></td>
</tr>
<tr>
<td>The measurement date for equity-classified awards is the earlier of the date at which a commitment for performance by the counterparty is reached and the date at which the counterparty’s performance is complete</td>
<td>Equity-classified awards are measured at the grant date. Grant date is defined as the date the grantor and grantee reach a mutual understanding of the key terms and conditions of a share-based payment award</td>
</tr>
<tr>
<td>Legacy GAAP</td>
<td>Amended</td>
</tr>
<tr>
<td>-------------</td>
<td>---------</td>
</tr>
<tr>
<td><strong>Awards with performance conditions:</strong></td>
<td></td>
</tr>
<tr>
<td>Awards with performance conditions are measured at the lowest aggregate fair value</td>
<td>An entity considers the probability of satisfying performance conditions. Compensation cost is recorded only if it is probable the performance condition will be satisfied</td>
</tr>
<tr>
<td><strong>Classification reassessment of certain equity-classified awards:</strong></td>
<td></td>
</tr>
<tr>
<td>Subject to other GAAP (for example, ASC 815, Derivatives and Hedging) once the good has been delivered or the service has been rendered and any other conditions necessary to earn the right to benefit from the instruments have been satisfied</td>
<td>Continue to be subject to ASC 718 unless modified after the good has been delivered, the service has been rendered, any other conditions necessary to earn the right to benefit from the instruments have been satisfied and the nonemployee is no longer providing goods or service</td>
</tr>
</tbody>
</table>
ONGOING FASB PROJECTS
Share-based consideration payable to a customer

- Once effective, ASU 2018-07 will require that share-based payments awarded to a customer in conjunction with selling goods or services should be accounted for under ASC 606, "Revenue from Contracts with Customers"

- While ASC 606 provides guidance on presentation (as a reduction of the transaction price and, therefore, of revenue), it does not provide guidance on measuring share-based payments to a customer

- The proposed ASU would require the application of ASC 718 to measure and classify share-based payments to a customer
Share-based consideration payable to a customer (cont.)

• The amount that would be recorded as a reduction in revenue would be based on the grant-date fair value of the share-based payment award.

• The classification and subsequent measurement of the award would be subject to ASC 718 unless the subsequently modified and the grantee is no longer a customer.
Share-based consideration payable to a customer (cont.)

Comments due

Apr 18

Proposed ASU
There currently is diversity in practice regarding when an entity should recognize a contract liability from a customer revenue contract that is acquired in a business combination (legal obligation versus performance obligation).

Prior to the adoption of ASC 606, deferred revenue was generally recognized by an acquirer if the acquired contract represented a legal obligation.

The proposed ASU would require that an acquirer recognize a liability assumed in a business combination from a contract with a customer if that liability represents an unsatisfied performance obligation under ASC 606 for which the acquiree has received consideration (or the amount is due) from the customer.

The FASB also concurrently issued an invitation to comment relating to the measurement of this liability, measurement and other topics related to revenue contracts with customers under topic 805.
Invitation to comment—Measurement and other topics related to revenue contracts with customers under topic 805

• Seeks stakeholder feedback on the measurement of contract liabilities from revenue contracts with customers acquired in a business combination

• The invitation to comment asks stakeholders to provide feedback on two major issues related to acquired contracts with customers in business combinations:
  − Payment terms and their effect on the subsequent revenue recognized
  − Costs to fulfill a performance obligation in measuring the fair value of a contract liability for a revenue contract under ASC 805
Proposed ASU on revenue from contracts with customers—Recognizing an assumed liability and the invitation to comment

Comments due Apr 30
REVENUE RECOGNITION
ASC topic 606 effective dates

• PBES, certain NFPs and employee benefit plans
  - Annual reporting periods beginning after Dec. 15, 2017, including interim periods within that period
• All other entities
  - Annual reporting periods beginning after Dec. 15, 2018, and interim periods within annual periods beginning after Dec. 15, 2019
A guide to revenue recognition

- Our comprehensive guide includes in-depth discussion and numerous examples on:
  - All the important aspects of ASC 606, including its scope, five-step revenue recognition model, and presentation, disclosure, effective date and transition requirements
  - Commonly asked questions that arise in practice
  - Significant differences between the new guidance and legacy GAAP to help in understanding how revenue recognition is changing
Changes to revenue recognition in the consumer products industry

• To assist in understanding how a consumer products entity could be affected by the new revenue recognition guidance, we have prepared a white paper discussing the following topics:
  - Shipping and handling activities
  - Warranties
  - Customer options for additional goods or services (including customer loyalty programs)
  - Price concessions
LEASES
The lease accounting resource center provides information about the new guidance in ASU 2016-02, *Leases (Topic 842)*. The resource center includes:

- Access to high-level and detailed information about adoption and implementation of the standard, including the following RSM resources:
  - Leases: Bring on the balance sheet
  - Leases: New accounting requirements for lessees
  - Leases: Overview of the new guidance
  - SAB 74 disclosures for new standard on lease accounting
  - Lessee transition white paper
- A contact form for those who need help implementing the new standard
- Additional resources on lease accounting
### ASU 2019-01—Leases (Topic 842): Codification Improvements

<table>
<thead>
<tr>
<th>Current</th>
<th>Amended</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Determining the fair value of the underlying asset by lessors that are not manufacturers or dealers</strong></td>
<td>The amendments reinstate the exception in ASC 842 for lessors that are not manufacturers or dealers. Those lessors will use their cost, reflecting any volume or trade discounts that may apply, as the fair value of the underlying asset. However, if significant time lapses between the acquisition of the underlying asset and lease commencement, those lessors will be required to apply the definition of fair value (exit price) in ASC 820</td>
</tr>
<tr>
<td>ASC 840 provides an explicit exception for lessors who are not manufacturers or dealers (generally financial institutions and captive finance companies) for determining fair value of the leased property (underlying asset). For those entities, fair value is ordinarily the underlying asset’s cost, reflecting any volume or trade discounts that may apply, instead of fair value as defined in ASC 820, fair value measurement. ASC 842 did not carry forward this exception</td>
<td></td>
</tr>
</tbody>
</table>

© 2019 RSM US LLP. All Rights Reserved.
<table>
<thead>
<tr>
<th>Current</th>
<th>Amended</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Presentation on the statement of cash flows—Sales-type and direct financing leases</strong></td>
<td></td>
</tr>
<tr>
<td>Under ASC 840, lessors within the scope of ASC 942, Financial Services—Depository and lending, have been presenting “principal payments received under leases” within investing activities on the basis of an illustrative example in ASC 942. ASC 842 introduced guidance that requires all lessors to present all cash receipts from leases within operating activities. The example in ASC 942 was not eliminated when ASC 842 was issued, resulting in conflicting guidance</td>
<td>Lessors that are depository and lending institutions within the scope of ASC 942 will present all “principal payments received under leases” within investing activities</td>
</tr>
<tr>
<td>ASC 842</td>
<td>Amended</td>
</tr>
<tr>
<td>---------</td>
<td>---------</td>
</tr>
<tr>
<td><strong>Transition disclosures related to ASC 250, accounting changes and error corrections</strong></td>
<td></td>
</tr>
<tr>
<td>ASC 842 requires an entity to provide transition disclosures under ASC 250 upon adoption of ASC 842, except for ASC 250-10-50-1(b)(2). That would have required an entity to disclose the effect of the change on the following items: 1. Income from continuing operations 2. Net income 3. Any other affected line item 4. Any affected per-share amounts. However, ASC 842 did not explicitly exempt entities from applying ASC 250-10-50-3, which requires the identical disclosures for interim periods after adoption.</td>
<td>The amendments clarify the Board’s original intent by explicitly providing an exception to the ASC 250-10-50-3 interim disclosure requirements in the ASC 842 transition disclosure requirements.</td>
</tr>
</tbody>
</table>
Effective date for calendar year-ends

- Permitted: 2020
- Required: 2021
FINANCIAL INSTRUMENTS
A guide to hedge accounting upon the adoption of ASU 2017-12

• This guide provides a high-level overview of hedge accounting under ASC 815, as amended by ASU 2017-12, Derivatives and hedging (Topic 815): Targeted improvements to accounting for hedging activities. The guide includes the following:
  − Overview of hedge accounting and the requirements to apply it
  − Commodities hedging
  − Hedges related to interest rate risk
  − Foreign currency hedges
  − Fair value hedge accounting
  − Cash flow hedge accounting
• The guide also includes a high-level overview of the changes brought about by ASU 2017-12 and its transition provisions
Targeted transition relief for Topic 326, Financial instruments—Credit losses

• ASU 2016-13 introduced the current expected credit loss (CECL) model for the measurement of credit losses on financial assets measured at amortized cost basis

• Some entities would prefer to elect the fair value option in ASC 825-10 for some or all of their loan portfolios, which with limited exceptions, is only available for newly originated or purchased financial assets
Targeted transition relief for Topic 326, Financial instruments—Credit losses (cont.)

- The proposed ASU would provide an irrevocable option to elect on an instrument-by-instrument basis to measure certain existing assets at fair value through earnings upon the adoption of ASU 2016-13
- Loans and other receivables within the scope of both ASC 326-20 and the fair value option guidance in ASC 825-10 would be eligible for the election. As proposed, debt securities would not
FASB Jan. 28 roundtable discussion

• FASB hosted public roundtable to discuss a proposal submitted by a group of banks related to the allowance for current expected credit losses under Topic 326
  – Under proposal, the provision for credit losses would be recognized in three parts: (1) for non-impaired financial assets, loss expectations within the first year would be recorded to provision for losses in the income statement with (2) loss expectations beyond the first year recorded to accumulated other comprehensive income and (3) for impaired financial assets, lifetime expected credit losses would be recognized entirely in earnings

• Update - FASB discussion on April 3
• Under ASU 2016-13, and specifically ASC 326-20, entities are required to estimate and recognize an allowance for credit losses that are expected to occur over the contractual term of financial assets within its scope.

• Stakeholders have asked the FASB staff whether it would be acceptable to use the weighted average remaining maturity (WARM) method to estimate expected credit losses.
  - The WARM method uses an average annual charge-off rate applied to the contractual term, that is further adjusted for estimated prepayments to determine the unadjusted historical charge-off rate for the remaining balance.

• In the Q&A, the FASB staff agrees that the WARM method is one of many methods that could be used to estimate an allowance for credit losses for less complex financial asset pools.

• The Q&A addresses particular issues related to the WARM method and provides examples of how it could be used.
QUESTIONS AND CLOSING REMARKS

Save the date!
Next quarterly accounting update

July 18
Financial Reporting Resource Center

Timely, insightful knowledge regarding today's reporting issues and requirements

Understanding the constant changes and updates to financial reporting requirements is challenging. We closely follow the activities of the various regulatory and standard-setting bodies so we can share information and knowledge about the latest developments and how they will affect your reporting and compliance needs. Organized by topic, the Financial Reporting Resource Center provides you with a singular place for the insight and answers you can count on. That's the power of being understood®.

Accounting – Technical guidance and developments regarding business combinations, financial instruments, goodwill, leases and revenue recognition
Gain timely insights on your industry and business issues.
Information fueled by our experience and customized to your needs.

Check the box to subscribe to the publications that interest you.
Leaving the box unchecked will remove you from the subscription list for the publication.

Email Address*

Assurance, tax and consulting resources

- Financial Reporting Insights
  Assurance
  A bi-weekly resource for recent financial reporting developments and practice issues.

- Tax Alerts
  Tax
  Regular notification of recent tax developments and legislative updates.

- Tax Digest
  Tax
  A monthly digest of key state, federal and international tax developments to keep you abreast of current and pending tax concerns.

- Technology Bulletin
  Consulting
  Quarterly information to help you make critical technology decisions for the stability and growth of your organization.

- Microsoft Dynamics Community News
  Technology Consulting
  Technology announcements and special promotions from McGladrey about the Microsoft Dynamics Business Solution Suite.

- Risk Bulletin
  Consulting
  Key insights to help your organization manage risk.

Industry focus

visit - rsmus.com/subscribe
Contact information

Rick Day
✉️ rick.day@rsmus.com
📞 563.888.4017

Faye Miller
✉️ faye.miller@rsmus.com
📞 410.246.9194

Brian Marshall
✉️ brian.marshall@rsmus.com
📞 203.905.5014

Rich Stuart
✉️ richard.stuart@rsmus.com
📞 203.905.5027