Chapter 1

FASB Accounting Standards Updates — Broad Issues

Learning objective

- Identify recently issued FASB Accounting Standards Updates (ASUs) that cover broad issues, other than those related to the “big three” of revenue recognition, financial instruments, and leases.

This chapter presents ASUs that are general in nature and typically originated with the input of the full board. The ASUs covered in this chapter are those that have effective dates in 2018 or later. Therefore, several ASUs issued in prior years are included in this chapter. Effective dates for public business entities are frequently different than those for other entities.

FASB ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)*

Why was this ASU issued?

The original standard on presentation of the statement of cash flows was issued nearly 30 years ago. Over time, diversity in practice on classifying certain cash flows has caused inconsistency in the reporting of cash flows. This update was issued to address the inconsistencies and to provide a framework for determining transactions that do not have specific guidance.

Who is affected by this ASU?

The amendments in this update apply to all entities, including business entities and not-for-profit entities that are required to present a statement of cash flows under FASB ASC 230, *Statement of Cash Flows*.

What are the main provisions of this ASU?

The amendments in this update provide guidance on the following eight specific cash flow issues:

Issue 1: Debt Prepayment or Debt Extinguishment Costs. Cash payments for debt prepayment or debt extinguishment costs should be classified as cash outflows for financing activities.

Issue 2: Settlement of Zero-Coupon Debt Instruments. At the settlement of zero-coupon debt instruments (or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing), the cash flows must be split into operating and financing activities. The portion of the cash payment attributable to the accreted interest should be classified as operating activities and the portion attributable to the principal as cash outflows for financing activities.

Issue 3: Contingent Consideration Payments Made after a Business Combination. Cash payments made soon after the acquisition date of a business combination to settle a contingent consideration liability should be classified as cash outflows for investing activities.

Cash payments for contingent consideration that were not made soon after the acquisition date of a business combination should be separated and classified as cash outflows for financing activities and operating activities. Cash payments up to the amount of the contingent consideration liability recognized at the acquisition date (including measurement-period adjustments) should be classified as financing activities; any excess should be classified as operating activities. Cash payments made soon after the acquisition date of a business combination by an acquirer to settle a contingent consideration liability should be classified as cash outflows for investing activities.

Note that the Emerging Issues Task Force specifically decided not to set a time frame for the term "soon after." However, some task force members believe that a payment made within a relatively short period of time after the acquisition date (for example, three months or less), would qualify as "soon after." (paragraph BC 16).

Issue 4: Proceeds from the Settlement of Insurance Claims. Cash proceeds received from the settlement of insurance claims should be classified on the basis of the nature of the loss. For insurance proceeds that are received in a lump-sum settlement, an entity should determine the classification on the basis of the nature of each loss included in the settlement.

Issue 5: Proceeds from the Settlement of Corporate-Owned (or Bank-Owned) Life Insurance Policies. Cash proceeds received from the settlement of corporate-owned life insurance policies should be classified as cash inflows from investing activities. The cash payments for premiums on corporate-owned policies may be classified as cash outflows for investing activities, operating activities, or a combination of investing and operating activities.

Issue 6: Distributions Received from Equity Method Investees. When a reporting entity applies the equity method, it should make an accounting policy election to classify distributions received from equity method investees using either of the following approaches:

1. **Cumulative earnings approach**: Distributions received are considered returns on investment and therefore are classified as inflows from operating activities. However, if the cumulative distributions received less distributions received in prior periods that were determined to be returns of investment exceed cumulative equity in earnings recognized by the investor, the excess is considered to be a return of investment and is classified as cash inflows from investing activities.
2. **Nature of the distribution approach:** Distributions received should be classified on the basis of the nature of the activity or activities of the investee that generated the distribution as either a return on investment (classified as cash inflows from operating activities) or a return of investment (classified as cash inflows from investing activities) when such information is available to the investor.

If an entity elects to apply the nature of the distribution approach and the information to apply that approach to distributions received from an individual equity method investee is not available to the investor, the entity must apply the cumulative earnings approach, and report a change in accounting principle on a retrospective basis. The entity must disclose that a change in accounting principle has occurred due to the lack of available information and should provide the disclosures required in paragraphs 250-10-50-1(b) and 250-10-50-2, as applicable.

This amendment does not address equity method investments measured using the fair value option.

Issue 7: Beneficial Interests in Securitization Transactions. A transferor's beneficial interest received in a securitization of financial assets should be disclosed as a noncash activity. Subsequent cash receipts from payments on a beneficial interest in securitized trade receivables should be classified as cash inflows from investing activities.

Issue 8: Separately Identifiable Cash Flows and Application of the Predominance Principle. For cash receipts and payments that have aspects of more than one class of cash flows, the following three-step approach should be followed:

1. An entity should first apply specific guidance in GAAP.
2. If there is no specific guidance, an entity should determine each separately identifiable source or use within the cash receipts and cash payments on the basis of the nature of the underlying cash flows. Each separately identifiable source or use will then be classified as operating, investing, or financing by applying the guidance in ASC 230.
3. In situations in which cash receipts and payments cannot be separated by source or use, the appropriate classification should depend on the activity that is likely to be the predominant source or use of cash flows for the item.

When will this ASU be effective?

For public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2017, and for interim periods within those fiscal years.

For all other entities, the amendments in this update are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years after December 15, 2019.

Early application is permitted. This update should be applied using a retrospective transition method to each period present.

Knowledge check

1. Which approach represents an acceptable accounting policy for classifying cash distributions from equity method investees?

   a. Cumulative distribution.
   b. Nature of distribution.
   c. Proportionate distribution.
   d. Multiple option.

FASB ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*

Why was this ASU issued?

Diversity in practices existed in the classification and presentation of changes in restricted cash on the statement of cash flows. Entities classify transfers between cash and unrestricted cash as operating, investing, and financing, or as a combination of those activities on the statement of cash flows. In addition, some consider such transfers as cash inflows and cash flows, whereas others disclose those cash flows as noncash investing or financing activities. This update was issued to harmonize treatment of such transfers on the statement of cash flows.

Who is affected by this ASU?

The amendments of this update apply to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows.

What are the main provisions of this ASU?

Restricted cash and cash equivalents should be considered as part of unrestricted cash and cash equivalents. Therefore, transfers between restricted and unrestricted cash should no longer be classified in any of the three categories.

When will this ASU be effective?

For public business entities, the amendments of this update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years.

For all other entities, the amendments of this update are effective for fiscal years beginning after December 15, 2018, and for interim periods beginning after December 15, 2019.

Early application is permitted, including for interim periods. A retrospective transition method should be applied for each period presented.

Knowledge check

2. Transfers from restricted cash should be classified in the statement of cash flows as

   a. Operating activities.
   b. Investing activities.
   c. Financing activities.
   d. Included in total cash and cash equivalents.

FASB ASU No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*

Why was this ASU issued?

Subsequent to the Private Company Council project to simplify accounting for goodwill, FASB began a project to determine if some of the elements of this initiative could be carried over to not-for-profit entities and public companies. This update is a result of the first phase of this project and simplifies how an entity is required to test goodwill for impairment by eliminating step 2 from the impairment test.

Who is affected by this ASU?

The amendments of this update apply to all public business entities and other entities that have goodwill reported in their financial statements and have not elected the private company alternative for subsequent measurement of goodwill.

What are the main provisions of this ASU?

The amendments of this update eliminate step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination.

Under the amendments in this update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax-deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable.

The requirement for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment has also been eliminated. However, an entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary.

When will this ASU be effective?

A public business entity that is a U.S. SEC filer should adopt the amendments in this update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019.

A public business entity that is not an SEC filer should adopt the amendments in this update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2020.

All other entities, including not-for-profit entities, that are adopting the amendments in this update, should do so for their annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2021.

Early application is permitted for goodwill impairment tests performed on testing dates after January 1, 2017.

An entity should apply the amendments in this update on a prospective basis. An entity is required to disclose the nature of and reason for the change in accounting principle upon transition. That disclosure should be provided in the first annual period and in the interim period within the first annual period when the entity initially adopts the amendments in this update.

Knowledge check

3. Upon adoption of FASB ASU No. 2017-04, an entity can assume that an excess of the carrying amount of an entity over the fair value of the entity is an impairment of

    a. Intangible assets.
    b. Goodwill.
    c. Treasury stock.
    d. Equity method investees.

FASB ASU No. 2017-05, *Other Income—Gains and Losses from Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*

Why was this ASU issued?

This update is a clarification of the scope of FASB ASC 610-20, Other Income and to add guidance for partial sales of nonfinancial assets, FASB ASC 610-20, issued as part of FASB ASU No. 2014-09, *Revenue from Contracts with Customers) (Topic 606)*.

When issued, FASB ASU No. 2014-09 addressed not only revenue from customers, but also provided guidance for recognizing a gain or loss from the transfer of nonfinancial assets in contracts with noncustomers. Stakeholders were uncertain about what types of transactions should be within the scope of FASB ASC 610-20 because the term *in substance nonfinancial asset* was not defined. Stakeholders also noted that other aspects of the scope of FASB ASC 610-20 were confusing and complex. For example, stakeholders were unclear about why a transfer of a nonfinancial asset to another entity in exchange for a noncontrolling interest in that entity was excluded from the scope of FASB ASC 610-20 (and, instead, was within the scope of FASB ASC 845, *Nonmonetary Transactions*), while a transfer of a nonfinancial asset for any other form of noncash consideration was within the scope of FASB ASC 610-20.

In addition, stakeholders also indicated that they were uncertain about how an entity should account for partial sales of nonfinancial assets once the amendments in FASB ASU No. 2014-09 become effective.

Who is affected by this ASU?

The amendments in this update affect the following:

1. An entity that enters into a contract to transfer to a noncustomer a nonfinancial asset, a group of nonfinancial assets, or an ownership interest in a consolidated subsidiary that is not a business or not-for-profit activity.
2. An entity that historically had transactions within the scope of the real estate-specific derecognition guidance.
3. An entity that contributes nonfinancial assets that are not a business or a not-for-profit activity to a joint venture or other noncontrolled investee

The amendments in this update differ from current GAAP primarily for the real estate industry but may affect other industries such as power and utilities, alternative energy, life sciences, and shipping.

What are the main provisions of this ASU?

The amendments in this update clarify that a financial asset is within the scope of FASB ASC 610-20 if it meets the definition of an in substance nonfinancial asset. The amendments define the term *in substance nonfinancial asset*, in part, as a financial asset promised to a counterparty in a contract if substantially all of the fair value of the assets (recognized and unrecognized) that are promised to the counterparty in the contract is concentrated in nonfinancial assets. If substantially all of the fair value of the assets that are promised to the counterparty in a contract is concentrated in nonfinancial assets, then all of the financial assets promised to the counterparty are in substance nonfinancial assets within the scope of FASB ASC 610-20.

The amendments in this update also clarify that an entity should identify each distinct nonfinancial asset or in substance nonfinancial asset promised to counterparty and derecognize each asset when counterparty obtains control of it. In addition, an entity should allocate consideration to each distinct asset by applying the guidance in FASB ASC 606 on allocating the transaction price to performance obligations.

The amendments in this update simplify GAAP by eliminating several accounting differences between transactions involving assets and transactions involving businesses. For example, an entity currently may measure a retained noncontrolling interest in a nonfinancial asset at carryover basis in many transactions related to the following:

- A partial sale of real estate
- A contribution of a nonfinancial asset to form a joint venture
- A transfer of a nonfinancial asset within the scope of FASB ASC 845
- A transfer of a nonfinancial asset to an equity method investee.

An entity is also required to initially measure a retained noncontrolling interest in a nonfinancial asset at fair value consistent with a how a retained noncontrolling interest in a business is measured. If an entity transfers ownership interests in a consolidated subsidiary that is within the scope of FASB ASC 610-20 and continues to have a controlling financial interest in that subsidiary, the amendments require the entity to account for the transaction as an equity transaction. This is consistent with how changes in ownership interests in a consolidated subsidiary that is a business are recorded when a parent retains a controlling financial interest in the business.

When will this ASU be effective?

The amendments in this update are effective at the same time as the amendments in FASB ASU No. 2014-09. and an entity is required to apply the amendments in this update at the same time that it applies the amendments in FASB ASU No. 2014-09.

FASB ASU No. 2017-07, *Compensation–Retirement Benefits (Topic 715): Improving the Presentation of Net Period Pension Cost and Net Periodic Postretirement Benefit Cost*

Why was this ASU issued?

Many stakeholders observed that the presentation of defined benefit cost on a net basis combines elements that are heterogeneous. As such, these stakeholders stated that the current presentation requirement is less transparent, reduces the decision usefulness of the financial information, and requires users to incur greater costs in analyzing financial statements. Thus, the amendments of this update improve the presentation of net periodic pension cost and net periodic postretirement benefit cost as well as the reporting of net benefit cost in the financial statements.

Who is affected by this ASU?

The amendments in this update apply to all employers, including not-for-profit entities, that offer to their employees defined benefit pension plans, other postretirement benefit plans, or other types of benefits accounted for under FASB ASC 715.

What are the main provisions of this ASU?

The amendments in this update require that an employer disaggregate the service cost component from the other components of net benefit cost and also provides explicit guidance on how to present the service cost component and the other components of net benefit cost in the income statement.

Specifically, an employer is required to report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed.

The amendments in this update also allow only the service cost component to be eligible for capitalization when applicable (for example, as a cost of internally manufactured inventory or a self-constructed asset).

When will this ASU be effective?

For public business entities, the amendments in this update are effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. For all other entities, the amendments in this update are effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019.

Early application is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance.

Knowledge check

4. As a result of FASB ASU No. 2017-07, the service cost component of net period pension cost (NPPC) should be presented as which component in the statement of comprehensive income?

    a. Net periodic pension cost (NPPC).
    b. Other comprehensive income.
    c. The line item that contains the related compensation cost.
    d. The service cost component is now eliminated under FASB ASU No. 2017-07.

FASB ASU No. 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Comprehensive Income*

Why was this ASU issued?

Congress passed the Tax Cuts and Jobs Act bill on December 22, 2017, which resulted in a significant lowering of the corporate tax rate from a graduated structure to a flat tax of 21 percent. Because most companies had used an expected tax rate of 34 percent in determining deferred tax assets and liabilities, the significant change in the corporate tax rate may have a significant impact on these estimates for the year ended December 31, 2018.

For items that flow through comprehensive income, the impact of deferred taxes is netted against the related gain or loss. However, GAAP dictates that the change in deferred tax assets and liabilities arising from changes in enacted rates be recognized in current earnings, not comprehensive income. Stakeholders informed FASB that this may cause misleading reporting because the original tax impact was recognized in other comprehensive income, not current earnings (commonly referred to as stranded tax effects).

Who is affected by this ASU?

Any entity that has both of the following presented in the financial statements:

a. Deferred tax assets or liabilities (typically a "C" corporation).
b. Elements of Other Comprehensive Income presented in the Statement of Comprehensive Income that had a book or tax timing difference that had been recognized in a related deferred tax asset or liability.

What are the main provisions of this ASU?

This update allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. This is not a mandatory reclassification, but an election.

An entity that elects to use this provision must disclose the following:

- A statement that an election was made to reclassify the income tax effects of the Tax Cuts and Jobs Act from accumulated other comprehensive income to retained earnings.
- A description of other income tax effects related to the application of Tax Cuts and Jobs Act that are reclassified from accumulated other comprehensive income to retained earnings, if any.

An entity that does not make an election under this ASU shall disclose in the period of adoption, a statement than an election was not made to reclassify the income tax effects of the Tax Cuts and Jobs Act from accumulated other comprehensive income to retained earnings.

Note that this is a one-time provision and does not change the accounting for future potential changes in tax rates.

When will this ASU be effective?

This amendment is effective for all entities for fiscal years beginning after December 15, 2018, and for interim periods within those fiscal years.

The amendments should be applied either in the periods of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate tax rate in the Tax Cuts and Jobs Act is recognized.

FASB ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*

Why was this ASU issued?

The board issued the ***Conceptual Framework for Financial Reporting-Chapter 8: Notes to Financial Statements*** on August 28, 2018. This Conceptual Framework Statement was the result of a project started by FASB on March 4, 2014, that was intended to develop a framework for providing more useful and informative disclosures to users of financial statements. This ASU will be used by FASB in developing disclosure requirements in future updates, as well as evaluating existing disclosure requirements. This particular ASU was the result of FASB running a "test" implementation of this concepts statement on the existing disclosure requirements for fair value.

Who is affected by this ASU?

Any entity that measures either assets or liabilities on a recurring or non-recurring basis at fair value is affected by this update. Because this update does not affect what assets or liabilities should be measured at fair value, all entities currently disclosing fair value measurements will be affected by this update, along with any entity that is required to measure assets or liabilities at fair value for the first time.

What are the main provisions of this ASU?

The following disclosure requirements will ***no longer be required*** upon adoption of this ASU:

- The amount and reasons for transfers between level 1 and 2 of the fair value hierarchy
- The policy for timing of transfers between levels
- The valuation processes for level 3 fair value measurements
- For nonpublic entities, the changes in unrealized gains and losses for the period included in earnings for recurring level 3 fair value measurements held at the end of the reporting period

The following disclosure requirements were ***modified*** upon adoption of this ASU:

- In lieu of a rollforward for level 3 fair value measurements, a nonpublic entity will be required to disclose the following:
  - Transfers in and out of level 3 of the fair value hierarchy
  - Purchases and issues of level 3 assets and liabilities

- For investments in an investee that calculates net asset value, an entity is required to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse. This is required only if the investee has communicated the timing to the entity or publicly announced the timing.
- Any disclosure related to measurement uncertainty is to communicate information about the uncertainty in measurement ***as of the reporting date*** (as opposed to the date of issuance of the financial statements).

The following disclosures requirements were ***added***; *however, they are not required for nonpublic entities*:

- The changes in unrealized gains and losses for the period included in other comprehensive income for recurring level 3 fair value measurements held at the end of the reporting period
- The range and weighted average of significant unobservable inputs used to develop level 3 fair value measurements (For certain unobservable inputs, an entity may disclose other quantitative information in lieu of the weighted average if the entity determines that other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop the level 3 fair value measurements.)

In addition to the preceding modifications, the code was updated to include the phrase "at a minimum" for all required disclosures related to fair value.

When will this ASU be effective?

This ASU is effective for all entities for fiscal and interim periods beginning after December 15, 2019. The amendments should be applied retrospectively with the exception of the disclosure requirements that were added*.* Those requirements should be applied on the prospective basis.

Knowledge check

5. Which disclosure related to fair value were added as result of FASB ASU No. 2018-13?

    a. Change in unrealized gains and losses included in other comprehensive income for recurring level 3 fair value adjustments.
    b. Change in realized gains and losses included in other comprehensive income for recurring level 3 fair value adjustments.
    c. Change in unrealized gains and losses including in net income for recurring level 3 fair value adjustments.
    d. Change in unrealized gains and losses included in other comprehensive income for non-recurring level 3 fair value adjustments.

FASB ASU No. 2018-17, *Consolidation Topic 810: Targeted Improvements to Related Party Guidance for Variable Interest Entities—Decision-Making Fees*

Why was this ASU issued?

The process to determine when the payment of decision-making fees was streamlined to reduce the number of entities that are required to consolidate Variable Interest Entities (VIEs) when decision-making fees are paid.

Who is affected by this ASU?

The issue related to decision-making fees affects all private companies not making the election to not recognize VIE's and public companies who must determine if the payment of decision-making fees creates the need to consolidate a VIE.

What are the main provisions of this ASU?

Decision-making fees

Indirect interests held through related parties in common control arrangements should be considered on a ***proportional basis*** for determining whether fees paid to decision makers and service providers are variable interests. Currently, such relationships must be evaluated in its ***entirety*** instead of on a ***proportional basis.*** This change will reduce the number of entities that are required to consolidate VIEs due to the payment and receipt of decision-making fees.

When will this ASU be effective?

For entities other than private companies, this update is effective for fiscal years beginning after December 15, 2019, and interim periods within those years.

For private companies, this update is effective for fiscal years beginning after December 15, 2020, and interim periods for fiscal years beginning after December 15, 2021.

Early adoption is permitted.

Transition

All entities are required to apply the amendments in this Update retrospectively with a cumulative effect adjustment to retained earnings at the beginning of the earliest period presented.

FASB ASU No 2019-03, *Not-for-Profit Entities Topic 958: Updating the Definition of Collections*

Why was this ASU issued?

The definition in the Master Glossary of the Accounting Standards Codification did not align with the definition used in the American Alliance of Museums' *Code of Ethics for Museums.* This standard aligns those definitions

Who is affected by this ASU?

Even though this standard aligns the codification definition with the definition in the museums' code, this standard will apply to all entities, including business entities, that maintain collections. This standard will have the greatest impact on not-for-profit entities, because these are the types of entities that typically have collections as an asset.

What are the main provisions of this ASU?

A collection-holding entity must 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.

Current GAAP defines collections as

Works of art, historical treasures, or similar assets that meet all of the following criteria:

- They are held for public exhibition, education, or research in furtherance of public services rather than financial gain.
- They are protected, kept unencumbered, cared for, and preserved.
- They are subject to an organization policy that requires the proceeds from sales of collection items be used to acquire other items for collection

This update will modify the last condition to allow the proceeds to support the direct care of existing collections in addition to the above policy. Note that the effect of this definition change will allow more assets that are donated to be considered a collection. GAAP does not require the recognition of revenue or capitalization of a collection.

What is the effective date of this ASU?

This amendment is effective for annual financial statements issued for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early application is permitted. The amendments in ASU 2019-03 should be applied on a prospective basis.

Knowledge check

6. Which of the following is **not** a criterion for a work or art or historical treasure to be classified as a collection?

    a. The asset is held for public education.
    b. The asset is preserved.
    c. The asset is held by an entity designated as an historical preservation entity.
    d. The asset is unencumbered.

FASB ASU No. 2019-06: *Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Non-for-Profit Entities*

Why was this ASU issued?

When the Board issued ASU 2014-18 that provided relief to private companies in accounting for goodwill, the Board acknowledged that the relief could be appropriate for not-for-profit entities as well as public companies. Therefore, the FASB added a project to its agenda to explore the possibility of extending the relief to not-for-profit entities. The Board has concluded that the cost of using an impairment-only model for not-for-profit entities does not exceed the benefit and issued this standard in response.

Who is affected by this ASU?

Any entity that meets the definition of a not-for-profit entity defined as follows:

An entity that possesses the following characteristics, in varying degrees, that distinguish it from a business entity:

- Contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return
- Operating purposes other than to provide goods or services at a profit
- Absence of ownership interest like those of a business

What are the main provisions of this standard?

The amendments in this update extend the private company alternatives from Topic 350 (ASU 2014-02) and Topic 805 (ASU 2014-18) to not-for-profit entities.

A not-for-profit entity that elects the alternative in Topic 350 will amortize goodwill on a straight-line basis over 10 years, or less than 10 years if the entity can establish that a shorter life is more appropriate.

The entity is also required to make an accounting policy election to test for goodwill impairment at either the entity level or the reporting unit level when a triggering event occurs that indicates the fair value of the entity (or a reporting unit) may be below its carrying amount.

For acquisition transactions occurring after adoption of the alternative in Topic 805, a not-for-profit entity should subsume into goodwill and amortize customer-related intangible assets that are not capable of being sold or licensed independently, including all noncompetition agreements acquired.

What is the effective date of this ASU?

This standard is effective upon issuance, May 2019.

FASB ASU No 2019-12, *Income Taxes Topic 740: Simplifying the Accounting for Income Taxes*

Why was this ASU issued?

The FASB issued this standard as part of the Simplification Initiative designed to reduce the overall complexity of United States GAAP.

Who is affected by this ASU?

Any entity that is required to account for income tax expense within the scope of ASC 740.

What are the main provisions of this ASU?

The following exceptions were eliminated from Topic 740

- The exception to the incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or gain from other items such as discontinued operations or other comprehensive income. Apply on a prospective basis.
- The exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment. Apply on a modified retrospective basis through a cumulative effect adjustment to retained earnings as of the beginning of the fiscal year of adoption.
- The exception to the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary. Apply on a modified retrospective basis through a cumulative effect adjustment to retained earnings as of the beginning of the fiscal year of adoption.
- The exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year. Apply on a prospective basis.

The following provisions were added:

- An entity is required to recognize a franchise or similar tax that is partially based on income as an income-based tax and account for any incremental amount incurred as a non-income-based tax. Apply on either a retrospective basis for all periods presented or a modified retrospective basis as of the beginning of the fiscal year of adoption.
- An entity is required to evaluate when a step up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction. Apply on a prospective basis.

- Specifies that an entity is not required to allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax in its separate financial statements. However, an entity may elect to do so for a legal entity that is both not subject to tax and disregarded by the taxing authority. This election is on an entity-by-entity basis. Apply on a retrospective basis for all periods presented.
- An entity is required to reflect the effect of an enacted change in tax laws or rates in the annual effected tax rate computation in the interim period that includes the enactment date. Apply on a prospective basis.
- Minor codification changes in:
  - Employee stock ownership plans
  - Investments in qualified affordable housing projects under the equity method

What is the effective date of this ASU?

For public business entities:

- For fiscal years beginning after December 15, 2020
- For interim periods within fiscal years beginning after December 15, 2020

For all other entities:

- For fiscal years beginning after December 15, 2021
- For interim periods within fiscal years beginning after December 15, 2022

Early adoption is permitted, including within an interim period. All amendments must be adopted within the same period.

Summary

The volume of standards issued by the FASB not involving Revenue Recognition, Leases, and Financial Instruments has been on the steady decline. The Board's focus on the simplification initiative has led to the issuance of several standards that ease financial reporting burdens. Not-for-profit entities should pay special attention to standards that address the specific financial reporting issues related to that segment.

