KNAV
PARTNERS BEYOND BOUNDARIES

GLOBAL ACCOUNTING UPDATE

Q4 2018

US GAAP (US Generally Accepted Accounting Principles)

Narrow scope amendments to the new leases standard

Impact: All companies

New leases standard has been amended to allow lessors to make an accounting policy election not to evaluate whether sales taxes and similar taxes imposed by a governmental authority on a specific lease revenue-producing transaction are the primary obligation of the lessor as owner of the underlying leased asset. Lessor costs paid directly by a lessee to third parties on the lessor's behalf are to be excluded from variable payments and costs that are paid by the lessor and reimbursed by the lessee would need to be included in the measurement of variable lease revenue and the associated expense.

It has also been clarified that while allocating variable payments to lease and non-lease components, lessors should apply leases standard guidance to the lease component and other applicable guidance, such as the new revenue standard, for the non-lease component.

Disclosure requirements for business impact of Brexit and LIBOR

Impact: Public companies; however, all entities should consider providing such disclosures

Companies should assess the potential impact of Brexit and anticipated phaseout of LIBOR and make appropriate disclosures in their financial reporting if the effects are expected to be material. The SEC staff has said that in its reviews of public filings it will monitor disclosures about the potential effects of Brexit in areas such as taxes, assets, financing and business operations. The disclosures on Brexit and LIBOR are expected to evolve over time as more information becomes available.

Consolidation made slightly easier for private companies

Impact: Private companies

Guidance on consolidation requirements has been amended to reduce the cost and complexity of financial reporting associated with consolidation of variable interest entities (VIEs). Post the amendment, private companies can make an accounting policy election to not apply VIE guidance to their common control arrangements if they meet certain criteria (including common control leasing arrangements). However, additional disclosures are required if this option is elected and other consolidation guidance, specifically the voting interest entity guidance would need to be complied as is.

The guidance with respect to determination of whether a decision-making fee is a variable interest has also been updated and organizations would be required to consider indirect interests held through related parties under common control on a proportional basis instead of equivalent of a direct interest in its entirety.

Collaborative arrangements under the purview of revenue recognition

Impact: Pharma companies and all entities that have collaborative agreements particularly with significant R&D collaboration agreements.

With FASB's recent update, transactions between collaborative arrangement participants are to be accounted as per revenue guidance if counterparty qualifies as a customer per ASC 606. Consequently, ASC 808 has also been amended by adding a unit-of-account to align it with the guidance in ASC 606

However, transactions in a collaborative arrangement involving no sales to third parties and where counterparty is not a customer remains precluded from revenue recognition requirements.

Contract liability arising from revenue contracts to be recognized in business combinations

Impact: Business combinations for all acquiring companies

For a contract liability arising from a revenue contracts, performance obligation guidance under ASC 606 shall be used to determine whether it should be recognized by the acquirer in a business combination or not. Further guidance on measurement of such liability remains to be decided and is under process.

Change in effective date and other amendments to Financial Instruments - Credit Losses (ASC 326)

Impact: Private companies

FASB has changed the effective date of ASC 326-Financial Instruments - Credit Losses to fiscal years beginning after December 15, 2021, including interim periods within those fiscal years for entities other than public business entities.

Also, the board has clarified that operating lease receivables are not within the scope of ASC 326 and would need to be accounted for in accordance with provisions of ASC 842.

Benchmark interest rate choices increased

Impact: Hedge accounting for all companies

Based on recommendations of the Fed and Alternative Reference Rates Committee (ARRC), FASB has included overnight index swap (OIS) rate based on the secured overnight financing rate (SOFR) in the list of eligible benchmark interest rates for hedge accounting purposes under Topic 815.

Currently eligible benchmark interest rates include the interest rates on direct Treasury obligations of the U.S. government (UST), the London Interbank Offered Rate (LIBOR) swap rate, and the Overnight Index Swap (OIS) Rate based on the Fed Funds Effective Rate Effective Rate, and the SIFMA Municipal Swap Rate

Forthcoming changes

Accounting for costs of films and related license agreements

The FASB proposed aligning the guidance in ASC 926-20 on accounting for production costs of episodic television series with the accounting for production costs of films by eliminating the requirement that an entity limit the capitalization of costs for an episodic television series to contracted revenues until the entity has persuasive evidence that a secondary market exists.

Changes to financial instruments standard

The FASB proposed clarifying the new guidance on credit losses, hedging and recognizing and measuring financial instruments and making changes to address implementation issues.

Disclosure requirements

The board is considering incorporating certain disclosure requirements. Some FASAC members also indicated their preference to have the financial statement disclosure requirements in one place to promote consistency and uniformity. Thus, changes to disclosure requirements are on the horizon.

IFRS (International Financial Reporting Standards)

Proposed amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets

Impact: Manufacturing, construction and service sector

IASB has proposed amending IAS 37 to specify which costs a company should include when assessing whether a contract will be loss-making. If the costs the company expects to incur to fulfil the contract are higher than the economic benefits it expects to receive from it then the contract is said to be loss-making and classified as onerous. Costs of fulfilling a contract include both incremental costs, such as the costs of materials, and an allocation of other costs directly related to the contract, such as the depreciation charge for equipment the company uses to fulfil contracts.

Deferral of effective date and narrow scope amendments proposed for IFRS 17, the insurance contracts standard

Impact: Insurance companies

IASB has proposed deferral of effective date of IFRS 17 by one year, to 2022. Based on its program of stakeholder engagement to fully understand the practical challenges of implementing IFRS 17 and to identify possible refinements to ease the burden of transition, IASB is proposing to make narrow scope amendments to IFRS 17 and is currently being discussed.

Providing goods and services is a factor for qualifying as a business

Impact: Business combinations for all acquiring companies

With the new definition of business , ability to provide goods and services to customers has been made as the main purpose of business as against the emphasis on ability to provide returns as per the earlier definition.

New definition

"An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities."

Information that influences primary users deemed as "material" for financial reporting

Impact: All companies

Definition of materiality has been amended to provide more clarity and to ensure that the definition of material is consistent across all IFRS.

FASB is also in the process to amend the definition of materiality with comments on exposure draft due by Jan 23, 2019.

Forthcoming changes

International Auditing and Assurance Standards Board (IAASB) is working towards enhancing the key concepts under "Agreed-Upon Procedures Engagements" to keep them relevant in current business environment.

Recent Pronouncements

Reassessment of benefit obligation for employers with UK pension plans

Impact: All employers with UK pension plans

With the recent UK high court ruling, employers with UK pension plans may need to remeasure their pension benefit obligations to ensure they are not violating gender-pay equality laws. The change in formula will likely result in higher pension payments resulting from GMP equalization.

If equalized GMP benefits were already being followed then it would only needed to be confirmed that one of the methodologies the court has deemed appropriate is being followed.

Ind AS (Indian Accounting Standards)

Changes to disclosures and presentation of financial statements of a Company

Impact: All companies reporting under the Indian Companies Act, 2013

The following amendments to Schedule III of the Companies Act, 2013 would be applicable for annual financial statement and for quarter ending on or after 31 March 2019:

- Addition of a new division, Division "III" to provide guidelines for preparation of financial statements of a Non-Banking Financial Company (NBFC) that is required to comply with Ind AS.
- Division II (applicable to non-NBFC Corporates required to comply with Ind AS) has been amended to include new presentation and disclosure requirements in respect of trade payables (e.g., micro, small and medium enterprises), trade receivables and loans receivable.
- Division I (applicable to Corporates required to comply with Indian GAAP) got minor changes to fixed assets and securities premium reserve presentation

Additional disqualification criteria for appointment of directors and other changes to the Companies Act, 2013

Impact: All companies incorporated under the Indian Companies Act, 2013

An additional criterion for disqualifications that would prevent a person from being appointed as a director has been added to Sec 164 of the Companies Act, 2013. If a person holds office as a director, including any alternate directorship, in more than 20 companies, that person would be ineligible to be appointed as a director. Such limit in case of public companies is set at 10.

Other changes include changes in incorporation of company and matters incidental thereto, registration of charges, removal of names companies from the register of companies and penal provisions.

For help on technical accounting and other queries, please contact:

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