Insights

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Accounting

Determination of Reporting Units when Testing Goodwill for Impairment

Goodwill is recorded as a result of many business combinations. For years, goodwill was amortized over a period of not more that 40 years. Beginning in 2001, goodwill was not amortized, but rather tested for impairment. FASB Accounting Standards Codification Topic 350, Intangibles – Goodwill and Other, (from FASB Statement No. 142, Goodwill and Other Intangible Assets) requires goodwill to be tested for impairment at least annually using a two-step process. The purpose of step one is to act as a “screen” to identify potential impairment by measuring the fair value of a reporting unit and comparing this fair value to the reporting unit’s carrying amount.

McGladrey & Pullen’s National Professional Standards Group has published a paper, which is intended to assist in the determination of an entity’s reporting units. The paper discusses important terminology that is often confusing in determining an entity’s reporting units. The paper also provides in-depth guidance regarding the determination of both operating segments and reporting units. “Determination of Reporting Units when Testing Goodwill for Impairment” is available on the McGladrey & Pullen Web site at http://mcgladreypullen.com/Resource_Center/determination_reporting_units.pdf.

The paper is also available in the “What’s New” section of the Lotus Notes GS Navigator.

SEC Reporting and FASB Forum for Mid-sized and Smaller Companies

McGladrey & Pullen is partnering with The SEC Institute to sponsor the sixth annual SEC Reporting and FASB Forum for Mid-sized and Smaller Companies. Jay Hanson, McGladrey’s National Director of Accounting, will chair this conference at the Four Seasons Resort in Las Vegas on September 22 and 23. The Forum includes insights from the SEC’s Division of Corporation Finance, Office of Chief Accountant, Financial Accounting Standards Board, and Public Company Accounting Oversight Board. The Forum’s carefully chosen topics tackle the most challenging accounting and reporting issues relevant to mid-sized and smaller companies, including:

- Challenges of the current environment, such as the complexities of raising capital
- The multitude of changes coming in financial reporting
- Other issues on the horizon: XBRL reporting, SOX 404(b), and International Financial Reporting Standards
- Troublesome accounting areas, such as debt vs. equity, income taxes, and goodwill analysis
- The devastating consequences of poor ethical decisions

For more detailed information or to register, call The SEC Institute at 800.529.1550 or download the Forum brochure at www.secinstitute.com. The registration deadline is July 31, 2010.

TPAs Related to Certificates of Deposit

The American Institute of Certified Public Accountants recently issued the following Technical Practice Aids (TPAs) related to certificates of deposit:

- TIS Section 2130.38, Certificates of Deposit and Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, "Fair Value Measurements and Disclosures". This guidance states that certificates of deposit generally are not within the scope of the disclosure requirements of ASC 820. However, certificates of deposit that meet the definition of a security in ASC 320, Investments—Debt and Equity Securities, are subject to the disclosure requirements of ASC 820-10-50. ASC 320 defines a security as "a share, participation, or other interest in property or in an entity of the issuer or an obligation of the issuer that has all of the following characteristics: (a) it is either represented by an instrument issued in bearer or registered form or, if not represented by an instrument, is registered in books maintained to record transfers by or on behalf of the issuer, (b) it is of a type commonly dealt in on securities exchanges or markets or, when represented by an instrument, is commonly recognized in any area in which it is issued or dealt in as a medium for investment, and (c) it either is one of a class or series or by its terms is divisible into a class or series of shares, participations, interests, or obligations." Most certificates of deposit would not meet that definition. However, some negotiable certificates of deposit may meet the definition of a security and, therefore, may be subject to the disclosure requirements of ASC 820-10-50 if they are not classified as held to maturity.

- TIS Section 2130.39, Balance Sheet Classification of Certificates of Deposit. Per this guidance, certificates of deposit with original maturities of 90 days or less are commonly considered "cash and cash equivalents" under ASC 305, Cash and Cash Equivalents. A certificate of deposit with an original maturity greater than 90 days would not be included in cash and cash equivalents. If the certificate of deposit is not a security, as defined in ASC 320, it could be included in "Investments—other."

- TIS Section 2130.40, Certificates of Deposit and FASB ASC 320, Investments—Debt and Equity Securities. This guidance concludes that certificates of deposit generally are not within the scope of ASC 320 because most do not meet the definition of a security. Certain negotiable certificates of deposit, however, may meet the definition of a security and, therefore, may be subject to ASC 320.

TIS Sections 2130.38 - .40 are available in full at http://www.aicpa.org/InterestAreas/AccountingAndAuditing/Resources/DownloadableDocuments/FINAL_TIS_2130.38-.40.pdf.

Guidance Issued for Fair Value Disclosures of Certain Financial Instruments

The American Institute of Certified Public Accountants recently issued TIS Section 1800.05, Applicability of Fair Value Disclosure Requirements and Measurement Principles in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, "Fair Value Measurements and Disclosures," to Certain Financial Instruments. This guidance states that the measurement principles of ASC 820 do apply to financial instruments that are not recognized at fair value in the statement of financial position, but for which fair value is required to be disclosed in the notes to financial statements in accordance with paragraphs 10 through 19 of ASC 825-10-50, Financial Instruments. However, the fair value disclosure requirements of ASC 820-10-50 do not apply to financial instruments that are not recognized at fair value in the statement of financial position. It should be noted that for financial instruments that are recognized at fair value in the statement of financial position, ASC 825-10-50-10 indicates that the disclosure requirements of ASC 820 also apply in addition to disclosures required by ASC 825-10-50.

TIS Section 1800.05 is available in full at http://www.aicpa.org/InterestAreas/AccountingAndAuditing/Resources/DownloadableDocuments/FINAL_TIS_1800.05.pdf.

Decline in Market Value of Assets Subsequent to the Balance Sheet Date

In light of overall market decline, the question has been raised as to whether the decline in market value of an asset subsequent to the balance sheet date should result in the adjustment of the financial statements. The American Institute of Certified Public Accountants recently issued TIS Section 9070.06, Decline in Market Value of Assets Subsequent to the Balance Sheet Date, to address this issue. This guidance refers to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 855-10, Subsequent Events, and concludes that an entity should not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date but before financial statements are issued or are available to be issued. ASC 855-10-55-2 provides a list of examples of nonrecognized subsequent events, including changes in the fair value of assets or liabilities (financial or nonfinancial) after the balance sheet date but before financial statements are issued or are available to be issued.

TIS Section 9070.06 is available in full at http://www.aicpa.org/InterestAreas/AccountingAndAuditing/Resources/DownloadableDocuments/FINAL%20TIS%20Section%209070.06.pdf.

Measurement of Cash Value Life Insurance Policy

The American Institute of Certified Public Accountants recently issued TIS Section 2240.06, Measurement of Cash Value Life Insurance Policy, which provides guidance regarding how a company should measure and record a cash value life insurance policy that it purchases for itself on the company's balance sheet. This guidance quotes Financial Accounting Standards Board Accounting Standards Codification 325-30, Investments in Insurance Contracts, which states that an investment in a life insurance contract should be reported as an asset. Further, the guidance states that an asset representing an investment in a life insurance contract should be measured subsequently at the amount that could be realized under the insurance contract as of the date of the statement of financial position. Additional guidance is provided for determining the amount that could be realized.

TIS Section 2240.06 is available in full at http://www.aicpa.org/InterestAreas/AccountingAndAuditing/Resources/DownloadableDocuments/FINAL_TIS_2240.06.pdf.

TPAs Related to Accounting for Uncertainty in Income Taxes

The American Institute of Certified Public Accountants recently issued the following Technical Practice Aids (TPAs) related to the accounting for uncertainty in income taxes:

- TIS Section 5250.14, Application of Financial Accounting Standards Board (FASB) Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (codified in FASB Accounting Standards Codification [ASC] 740-10) to Taxes Other Than Income Taxes. This guidance concludes that FASB Interpretation No. 48 only applies to federal and state income taxes. Entities should follow ASC 450, Contingencies, to account for uncertainties related to payroll, sales, and other taxes.

- TIS Section 5250.15, Application of Certain FASB Interpretation No. 48 (codified in FASB ASC

740-10) Disclosure Requirements to Nonpublic Entities That Do Not Have Uncertain Tax Positions. Accounting Standards Update (ASU) No. 2009-06, Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities, eliminated the disclosure requirements in ASC 740-10-50-15(a) - (b) for nonpublic entities, including pass-through and not-for-profit entities. However, ASU No. 2009-06 retained the disclosure requirements in ASC 740-10-50-15(e), which requires a description of tax years that remain subject to examination. TIS Section 5250.15 concludes that the disclosure requirements in ASC 740-10-50-15(c) - (e) remain in effect (if applicable), regardless of whether the entity has any uncertain tax positions.

TIS Sections 5250.14 - .15 are available in full at http://www.aicpa.org/InterestAreas/AccountingAndAuditing/Resources/DownloadableDocuments/FINAL_TIS_5250.14-.15.pdf.

Proposed Standard for Recognizing Revenue from Contracts with Customers

The Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) recently published a draft standard to improve and align the financial reporting of revenue from contracts with customers and related costs. If adopted, the proposal would create a single revenue recognition standard for U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS) that would be applied across various industries and capital markets. The proposed standard would replace International Accounting Standard (IAS) 18, Revenue; IAS 11, Construction Contracts; and related interpretations. In U.S. GAAP, it would supersede most of the guidance on revenue recognition in Topic 605 of the FASB Accounting Standards Codification. The proposed standard would improve both U.S. GAAP and IFRS by:

- Removing inconsistencies in existing requirements;
- Providing a more robust framework for addressing revenue recognition issues;
- Improving comparability across companies, industries and capital markets;
- Requiring enhanced disclosure; and
- Clarifying the accounting for contract costs.

This guidance would be applicable to revenue resulting from an entity's contracts with customers and would replace a significant amount of general and industry-specific revenue recognition guidance that was previously issued in individual standards. A contract would be considered to include a series of assets and liabilities, with the asset being the amount expected to be received from a customer and the liability being the vendor's performance obligations inherent in the contract. The core principle of the draft standard is that an entity should recognize revenue from contracts with customers when it transfers goods or services to the customer in the amount of consideration the entity receives, or expects to receive, from the customer. The approach required to apply this guidance would be as follows:

- Identify the contract with the customer;
- Identify performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to performance obligations; and
- Recognize revenue when performance obligations are satisfied.

Some industries and transactions may not experience any change in the timing or amount of revenue recognized. A retailer or restaurant that delivers everything to a customer at the point of sale with no return privileges will not be affected. However, a construction contractor that currently reports revenue as the contract progresses may see a dramatic shift in revenue timing.

Most contract-based revenue transactions would be in the scope of this proposed new standard. Exceptions include contracts relating to financial instruments, insurance, or leases, as well as certain nonmonetary exchanges. A contract may include multiple performance obligations, including those within the scope of this guidance and those within the scope of other guidance. In these cases, entities would be required to account for the performance obligations within the scope of other guidance in accordance with that guidance if it specifies how to separate or measure that performance obligation. Otherwise, all of the performance obligations would be accounted for in accordance with the new proposed revenue recognition standard. Contracts for the sale of intangible assets and property, plant and equipment that are not an output of an entity's ordinary activities (and hence not classified as revenue) should nonetheless follow the recognition and measurement principles of this proposed new standard.

The Exposure Draft, Revenue from Contracts with Customers, is available for comment until October 22, 2010 at www.fasb.org or www.iasb.org. Also, for a synopsis of the revenue recognition project and other joint FASB/IASB projects, see our summary, More Accounting Changes Coming, at http://mcgladreypullen.com/Resource_Center/more_accounting_changes_coming.pdf.

Public Sector

Recent TPAs Provide Guidance on Matters of Interest to Not-for-Profit Organizations

The American Institute of Certified Public Accountants recently issued the following Technical Practice Aids (TPAs) related to certain matters of interest to not-for-profit organizations:

- TIS Section 6140.23 Changing Net Asset Classifications Reported in a Prior Year. In some circumstances, not-for-profit organizations correct net asset classifications previously reported in prior years' financial statements. This guidance concludes that individual net asset classes, rather than net assets in the aggregate (total net assets), are relevant in determining whether a not-for-profit organization's correction of net asset classifications previously reported in prior years' financial statements is an error in previously issued financial statements.

- TIS Section 6140.24 Contributions of Certain Nonfinancial Assets, Such as Fundraising Material, Informational Material, or Advertising, Including Media Time or Space for Public Service Announcements or Other Purposes. In some circumstances, entities other than a not-for-profit organization, use for the nor-for-profit organization's benefit (or provide at no charge to the organization) certain nonfinancial assets that encourage the public to contribute to the not-for-profit organization or help the organization communicate its message or mission. Examples of such activities include, among others, a radio or television station giving a not-for-profit organization commercial air time at no charge, or a magazine, newspaper, or internet site giving a not-for-profit organization advertising space at no charge. In circumstances in which fundraising material, informational material, or advertising, including media time or space for public service announcements or other purposes, is used for the not-for-profit's benefit (or provided to the not-for-profit organization at no charge) and encourages the public to contribute to a not-for-profit organization or help the organization communicate its message or mission, not-for-profit organizations should consider whether they have received a contribution. The Financial Accounting Standards Board Accounting Standards Codification (ASC) glossary defines a contribution, in part, as "an unconditional transfer of cash or other assets to an entity or a settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner."

Accordingly, in circumstances in which fundraising material, informational material, or advertising, including media time or space for public service announcements or other purposes, is used for the not-for-profit organization's benefit (or provided to the organization at no charge) and encourages the public to contribute to a not-for-profit organization or help the organization communicate its message or mission, the not-for-profit organization may have received an unconditional transfer of other assets in a voluntary nonreciprocal transfer from another entity acting other than as an owner. If a not-for-profit organization has received a contribution, it should be measured at fair value, pursuant to ASC 958-605-30-2, Not-for-Profit Entities – Revenue Recognition, and the related expense, at the time the expense is recognized, should be reported by function, based on the nature of the contributed item.

- TIS Section 6140.25, Multiyear Unconditional Promises to Give—Measurement Objective and the Effect of Changes in Interest Rates. This pronouncement states that the measurement objective for multiyear unconditional promises to give (both the revenue and contribution receivable) is fair value at initial recognition, consistent with ASC 958-605-30-2. The measurement objective for contributions receivable at subsequent measurement depends on whether the not-for-profit organization has elected the fair value option, pursuant to ASC 825-10, Financial Instruments. If the organization has elected the fair value option, pursuant to ASC 825-10, the measurement objective for contributions receivable at subsequent measurement is fair value. If the organization has not elected the fair value option, the measurement objective for contributions receivable at subsequent measurement is as described in ASC 958-310-35-4, Not-for-Profit Entities –Receivables.

TIS Sections 6140.23 - .25 are available in full at http://www.aicpa.org/InterestAreas/AccountingAndAuditing/Resources/DownloadableDocuments/FINAL%20TIS%20Section%206140.23.25.pdf.

Revised Exposure Draft Issued for Reporting of Service Concession Arrangements

A service concession arrangement (SCA) is an arrangement between a government (the transferor) and an operator in which (a) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a facility), and (b) the operator collects fees from third parties. An example of an SCA is a long-term arrangement associated with toll roads. To establish accounting and financial reporting requirements for these types of partnership arrangements between governments and private entities and between multiple governmental entities, the Governmental Accounting Standards Board (GASB) in June 2009 issued an Exposure Draft (ED) of a proposed Statement, Accounting and Financial Reporting for Service Concession Arrangements. Recently, the GASB issued a revised ED of the same title.

The scope of the original ED included arrangements in which the transferor did not retain control of the facility subject to an SCA, and used the control criteria to determine what the accounting should be, distinguishing between arrangements in which control was retained or transferred. After considering the written comments received from constituents regarding the original proposal, the scope of the revised Exposure Draft has been modified in that the control criteria (determination of services, clientele, and prices and entitlement to a significant residual interest in the facility) are now included as a scope criterion. As a result, arrangements in which control is transferred to the operator would not be subject to the requirements of the revised proposed Statement.

The original ED also proposed that transferors would report a liability upon commencement of an SCA for consideration received (such as up-front payments, installment payments received from an operator, or an operator-provided facility). After considering respondent feedback and further discussions of the definitions in Concepts Statement No. 4, Elements of Financial Statements, the GASB concluded that the consideration from an operator would be more appropriately reported by the transferor as a deferred inflow of resources, reduced by any liabilities incurred by the transferor in the arrangement.

The originally proposed effective date for the Statement (periods beginning after June 15, 2011) has been revised. If finalized, the proposed Statement would be effective for financial statements for periods beginning after December 15, 2011. In the first period that the Statement is applied, changes made to comply with the Statement would be treated as an adjustment of prior periods, and financial statements presented for the periods affected would be restated. If restatement is not practical, the cumulative effect of applying the Statement, if any, would be reported as a restatement of beginning net assets for the earliest period restated.

The revised ED, Accounting and Financial Reporting for Service Concession Arrangements, is available for comment until August 17, 2010 at http://www.gasb.org/cs/BlobServer?blobcol=urldata&blobtable=MungoBlobs&blobkey=id&blobwhere=1175820828180&blobheader=application%2Fpdf.

GASB Issues Preliminary Views on Pension Accounting

The Governmental Accounting Standards Board (GASB) recently issued Preliminary Views on Major Issues Related to Pension Accounting and Financial Reporting by Employers. This document presents the GASB's current views on what it believes are the most fundamental issues related to recognition and measurement of pension obligations by state and local government employers. The approach presented in the Preliminary Views document would move governmental pension accounting and reporting away from the funding orientation that now exists, and instead introduce recognition and measurement standards that would be based on the GASB's conceptual framework, including information that would help financial statement users better assess the degree to which interperiod equity has been achieved.

The Preliminary Views document is available for comment until September 17, 2010 at http://www.gasb.org/cs/BlobServer?blobcol=urldata&blobtable=MungoBlobs&blobkey=id&blobwhere=1175820827257&blobheader=application%2Fpdf.

Employee Benefit Plans

Defined Benefit Plan Measurement of a Life Insurance Policy

The American Institute of Certified Public Accountants recently issued TIS Section 6930.02, Defined Benefit Plan Measurement of a Life Insurance Policy, which provides guidance regarding how a defined benefit plan should measure a cash value life insurance policy. The guidance refers to Financial Accounting Standards Board Accounting Standards Codification (ASC) 715-30-35-60, Defined Benefit Plans – Pension, which indicates that for defined benefit plans, insurance contracts with insurance entities (other than those that are, in substance, annuities) should be accounted for as investments and measured at fair value. ASC 715-30-35-60 also states that for some contracts, the best available evidence of fair value may be contract value; if a contract has a determinable cash surrender value or conversion value, that is presumed to be its fair value. TIS Section 6930.02 is available in full at http://www.aicpa.org/InterestAreas/AccountingAndAuditing/Resources/DownloadableDocuments/FINAL%20TIS%20Section%206930.02.pdf

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