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US GAAP Update
May 4, 2010

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Contents

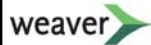
Agenda

- VIE consolidation model
- Fair value disclosures
- Transfers of financial assets
- Revenue recognition for multiple-element arrangements and software
- Mergers and acquisitions for not-for-profit organizations
- Pending updates
 - Leases
 - Revenue recognition
 - Financial statement presentation

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**Variable Interest Entities
Consolidation Model**

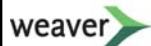
FAS 167
(Topic 810)



VIE Consolidation

Objectives of the update:

- Apply changes as a result of the elimination of the QSPE concept (ASU 2009-16/FAS 166)
- Address concerns regarding transparency of an entity's involvement with the VIE and ability to structure transactions to avoid consolidation

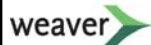


VIE Consolidation

Effective Date: FY beginning after 11/15/09

Primary Changes:

- Scope exception for QSPEs eliminated
- Primary beneficiary determination based on qualitative assessment
 - PB – quantitative analysis is out
 - VIE – may still need to quantify
- Controlling financial interest vs. risks and rewards
- New criteria – “power to direct” and “obligation to absorb” and “right to receive benefits”



VIE Consolidation

- No grandfathering
- More frequent VIE reconsiderations
- PB assessments are continuous
- New presentation requirements, minor disclosure changes
- Deferral for certain investment management companies
 - Must have investment company attributes
 - QSPEs are not eligible for the deferral
 - Deferred – not abandoned; does not modify disclosure requirements for those entities that, except for the deferral, would be VIEs
- Kick-out rights – substantive only if held by a single party (affects both PB and VIE determination)



VIE Consolidation

- Practice Issues
 - Determining PB when VIE has multiple activities
 - Power to control can change over time resulting in consolidation; deconsolidation; then consolidation again
 - If VIE has assets and liabilities that are not available to PB the presentation in the consolidated balance sheet must present the information ("walled-off" presentation)

Alternative 1:	Mortgage loans (including \$300 of VIE	\$2,500
Alternative 2:	Mortgage loans	\$2,200
	Mortgage loans of VIE	300



Fair Value Measurements

Fair Value Measurements
ASU 2010-06
(Topic 820)



Fair Value Measurements

Objectives of the update:

- Improve consistency and transparency
- Address perceived flaws in previous standard
- Refine disclosures implemented under former FAS 157



Fair Value Measurements

Effective Date: Periods beginning after 12/15/09*

Primary Changes:

- New additional disclosures
 - Transfers in and out of Level 1 and Level 2
 - Policy for determining when transfers between levels 1, 2 and 3 are recognized
 - Gross presentation of activity within the Level 3 roll-forward (*effective beginning after 12/15/10)



Fair Value Measurements

- Clarification of existing disclosures
 - FV measurement disclosures for each class of assets and liabilities (instead of major category)
 - Class is not defined but is described as a “subset of assets and liabilities within a line item in the balance sheet”
 - Descriptions of valuation inputs and techniques used



Fair Value Measurements

Interesting Note:

- Sensitivity analysis of Level 3 measurements that was in the Exposure Draft has been “deferred” (not rejected)
- Many respondents were opposed to the sensitivity analysis
- Deferral means it will likely be a topic of future discussion



Fair Value Measurements

- Practice Issue
 - Could require significant changes in processes and systems to capture the information to disaggregate for disclosure



Transfers of Financial Assets

Transfers and Servicing:
Accounting for Transfers of
Financial Assets
ASU 2009-16
(Topic 860)



Transfers of Financial Assets

- Objectives of the update:
- Reduce divergence in practice, improve comparability, relevance and transparency
 - Address perceived flaws in previous standard (including that certain transfers should not qualify as sales)
 - Simplify the accounting for transfers



Transfers of Financial Assets

Effective Date: FY beginning after 11/15/09

Primary Changes:

- Elimination of QSPE scope exception (subject to Topic 810)
 - The most significant amendment
 - The reason for the elimination of the exception for VIE consideration



Transfers of Financial Assets

- Clarifies the unit of account eligible for sale accounting, thus limiting transfers of “portions” that can be subject to sale accounting
 - An entire financial asset
 - A group of entire financial assets
 - A participating interest in an entire financial asset



Transfers of Financial Assets

- Participating interest
 - A proportionate (pro rata) ownership interest in an entire financial asset
 - Each participating interest holder receives cash flows in proportion to their share of ownership
 - Each participating interest holder has the same priority and no participating interest holder is subordinate to another
- If the transfer does not qualify as a sale, both parties to the transaction must account for the transfer as a secured borrowing



Transfers of Financial Assets

- Removes the fair value practicability exception entirely
- Extensive disclosures
- Practice Issues
 - Applies to all entities, not just financial institutions
 - Most factoring arrangements will not qualify for sale accounting



Revenue Recognition

Revenue Recognition:
Multiple Element Arrangements
ASU 2009-13
(Subtopic 605-25)



Multiple Element Arrangements

- Objectives of the update:
- Improve consistency
 - Better reflect the economics of revenue transactions
 - Previous guidance resulted in deferral of revenue that was inconsistent with the economics of the transactions



Multiple Element Arrangements

- Effective Date: FY beginning after 6/15/10
- Early adoption permitted, but must be adopted as of the beginning of the fiscal year
 - There is much flexibility in adoption
 - Prospectively – for all arrangements entered into after the date adopted
 - Retrospectively – for all arrangements for all periods presented



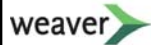
Multiple Element Arrangements

- Primary Changes:
- Use of management’s “best estimate of selling price” when VSOE and TPE not available
 - But, must use VSOE or TPE, if available
 - Residual method of allocating arrangement consideration no longer permitted
 - Significantly expands disclosure requirements
 - The same transition method must be adopted for this and for “Software revenue recognition” – the next topic



Multiple Element Arrangements

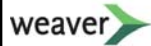
- Interesting Note:
- For some companies, the revisions will require significant time and effort to apply
 - Coordination with many departments and new or modified processes may be necessary in order to estimate standalone selling prices
 - Practice Issues
 - Estimating selling price for elements never before valued
 - Establishing an inventory of elements to be valued
 - Because of the above two issues, early adoption can be challenging



Revenue Recognition

Revenue Recognition: Software Revenue Recognition

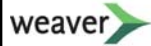
ASU 2009-14
(Subtopic 985-605)



Software

Objectives of the update:

- To “keep up” with technological advances...
- To allow the accounting to appropriately reflect the economics of transactions involving both software and hardware elements
- To provide users with greater transparency into judgments and other inputs into revenue recognition



Software

Effective Date: FY beginning after 6/15/10

- Early adoption permitted, but must be adopted as of the beginning of the fiscal year
- Same flexibility in adoption as the prior topic
- Prospectively – all arrangements entered into after the date of adoption
- Retrospectively – for all arrangements for all periods presented
- But, must be adopted at the same time and transition method as the prior topic



Software

Primary Changes:

- Modified scope—no longer in scope:
 - Non-software components of tangible products
 - Software elements of tangible product when combined in essential combination
 - Undelivered software components essential to tangible product functionality



Software

Primary Changes – Continued:

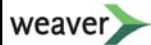
- Tangible products that rely on software will be subject to multiple element arrangement guidance
- All hardware and some software are removed from the scope of the restrictive software revenue guidance



Software

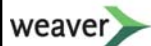
Practice Issues

- It is likely that revenue will be recognized earlier
- Should improve reporting to more closely reflect the underlying economics of the transaction



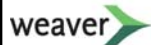
Not-for-Profit Entities:
Mergers and Acquisitions

FAS 164
(Subtopic 958-805)



Objectives of the update:

- Better consistency between for-profit and not-for-profit accounting
- Provide authoritative guidance for not-for-profit entities where previously lacking/silent



Effective Date: FY beginning after 12/15/09

- Applies to all combinations of NFPs

Primary Changes:

- New definitions—"merger" vs. "acquisition"
 - The combination will be one or the other based on the definitions
- Goodwill recognized in limited circumstances and no longer amortized
- Non-controlling interest accounting follows FAS 160



Not-for-Profit M&A

- Merger – a combination in which the governing boards of two or more NFPs cede control to create a new NFP organization
 - Must have a newly formed governing body
 - Shared control is not ceded control
 - Often is a new legal entity but need not be
 - Carryover basis for all assets and liabilities
 - Carry forward the classifications and designations of the merged entities



Not-for-Profit M&A

- Merger – continued:
 - But, since it is a new organization it will have no activities before the merger date (Statement of Activities and Cash Flows from the merger date forward)
 - The merger itself is not an activity recognized in the new entity's financial statements
 - No goodwill



Not-for-Profit M&A

- Acquisition – a combination in which a NFP acquires/obtains control of one or more businesses or nonprofit activities
 - Similar to acquisition method for business entities
 - Can result in goodwill and other identifiable intangibles
 - But, if the operations of the acquired are expected to be predominately supported by contributions and return on investment, no goodwill is recorded and the Statement of Activities is “charged”



Not-for-Profit M&A

- Acquisition – continued:
 - If the measurement result is a “credit” (similar to a bargain purchase) the Statement of Activities is credited in all situations
 - Identifiable intangibles specifically excludes “donor relationships” but can include “donor lists”
- This guidance does not apply to
 - Formation of a JV
 - Acquisition of assets or groups of assets that do not constitute either a business or nonprofit activity
 - A combination of NFPs under common control



Not-for-Profit M&A

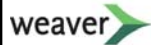
Practice Issues

- The less “business-like” an NPO, the less likely a combination will result in goodwill (example: soup kitchen is less business-like than a hospital)
- For most transactions, rather than recording goodwill, a gain or loss will be recorded in the statement of activities



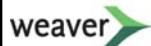
Pending Updates

- The FASB and IASB are currently engaged in joint projects covering all aspects of convergence
- Aggressive timetable will result in fast-paced changes over the next 18 months
- Three areas to watch for in coming months:
 - Lease accounting
 - Revenue recognition
 - Financial statement presentation



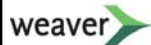
Pending Updates—Leases

- Debate as to whether it is a Capital lease or an Operating lease appears to be over
- All leases to be recorded on the balance sheet
 - PV of expected payments
 - Intangible asset for rights to use leased item
 - Liability for obligation to pay rentals



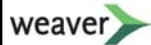
Pending Updates—Leases

- Lessors gross up balance sheet for receivable and performance obligation
 - Will retain the leased asset on the balance sheet and record the PV of the expected payments as a receivable
 - The performance obligation will be recorded as a liability
 - This is still being discussed and could result in netting the obligation against the asset or the receivable



Pending Updates—Leases

- Prepare your lessee clients for the impact on financial ratios, debt covenants, and the overall business model



Pending Updates— Revenue Recognition

- Single model expected to replace all industry-specific guidance
- Model is focused on customer contract—transfer of control over goods/services
 - Revenue will be recognized upon satisfaction of performance obligations
- Some scope exceptions (leases, insurance, financial instruments, and certain guarantee contracts)



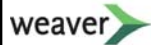
Pending Updates— Revenue Recognition

- Consideration will be allocated to various performance obligations
 - For example – consideration from a sale of a product with a warranty would be allocated between the delivered product and the warranty



Pending Updates—Financial Statement Presentation

- Will affect both public and private companies
- Single statement of comprehensive income
- Required use of direct method on cash flows
 - With the indirect method disclosed in the Notes
- More disaggregation by function, nature
- More use of roll-forward information on significant assets/liabilities



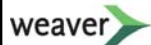
Pending Updates—Financial Statement Presentation

- Net income and comprehensive income to share equal prominence
- Assets, liabilities, income and expenses will be classified as business (broken out between operating and investing) or financing



Pending Updates—Financial Statement Presentation

- The income statement is to be segmented by operating, investing and financing activities in addition to income tax and other comprehensive income
 - Operating section – similar to the traditional income statement
 - Investing section – dividend income and realized gains on available-for-sale securities
 - Financing section – interest income and interest expense



Questions?

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