



Financial Reporting – Review & Preview

Ashwinpaul (Tony) C. Sondhi

President

A. C. Sondhi & Associates, LLC

www.acsondhi.com

December 20, 2011





Financial Reporting: 2011 Review

- Was 2011 a busy year; What happened on the convergence front?
- My focus in this webcast, as always, will be to discuss standards that became effective and/or were issued in 2011 with an emphasis on specific financial reporting risks and to clarify issues relevant to financial statement preparers, auditors, and investors. I will also provide a look into standards and updates expected in 2012.



Receivables - TDR ASU 2010-20 and 2011-01

ASU 2010-20 - Receivables (Topic 310): Disclosures About the Credit Quality of Financing Receivables and the Allowance for Credit Losses

Requires disclosures disaggregated by portfolio segment and class of financing receivable to facilitate users' evaluation of:

1. The nature of the credit risk in the financing portfolio,
2. The analysis and use of that risk in developing the allowance for credit losses, and
3. The changes and the reasons for those changes in allowance for credit losses.



Receivables - TDR ASU 2010-20 and 2011-01

ASU 2011-01 – Deferral of the Effective Date of Disclosures in ASU 2010-10

Reason: Concerns re new disclosure requirements followed by a change in the definition of a TDR.

Effective Date: Upon Issuance.



Receivables - TDR ASU 2011-02

ASU 2011-02 – A Creditor’s Determination of Whether a Restructuring is Troubled Debt Restructuring (TDR)

A restructuring is deemed a TDR when a creditor separately concludes that both of the following conditions (These issues in Topic 310 were clarified by this ASU) are met:

1. The restructuring constitutes a concession, and
2. The debtor is experiencing financial difficulties.

Effective Date: The first interim or annual period beginning on or after June 15, 2011 applied retrospectively to the beginning of the annual period of adoption.



Transfers and Servicing ASU 2011- 03

ASU 2011-03 – Transfers and Servicing (Topic 860)

Reconsideration of Effective Control for Repurchase Agreements

- Topic 860 prescribes when an entity may or may not recognize a sale upon transfer of financial assets subject to repurchase agreements partly based on whether the has maintained effective control over the transferred financial assets. In effect, the transferor must have the ability to repurchase the same or substantially the same assets
- The Board decided that the criterion related to an exchange of collateral should not be a determining factor in assessing effective control.
- The Board also eliminated the collateral maintenance implementation guidance related to that criterion.



Receivables - TDR ASU 2011- 03

ASU 2011-03 – Transfers and Servicing (Topic 860)

Reconsideration of Effective Control for Repurchase Agreements

- The Board concluded that the assessment of effective control should depend on the transferor's contractual rights and obligations with respect to transferred financial assets instead of the practical ability to perform per those rights and obligations.

- The Board decided that the remaining criteria were sufficient to determine effective control.



FV Measurements (Topic 820) ASU 2011- 04

ASU 2011-04 – FV Measurements (Topic 820)

Amendments to Achieve Common FV Measurement and Disclosure Requirements in U. S. GAAP and IFRSs

1. Clarified application of highest and best use & valuation premises by limiting their application to nonfinancial assets; not applicable to financial assets and financial liabilities.
2. Measure FV from the perspective of a market participant of own equity instruments in the reporting entity's SE.
3. Added disclosures of quantitative information re inputs to Level 3 measurements.



FV Measurements (Topic 820) ASU 2011- 04

ASU 2011-04 – FV Measurements (Topic 820)

Amendments to Achieve Common FV Measurement and Disclosure Requirements in U. S. GAAP and IFRSs

4. Clarified FV measurement of instruments in a portfolio when managed from a net exposure perspective.
5. Clarified use of premiums and discounts in FV measurements – blockage factor versus control premium.
6. Added disclosures of re Level 3 measurements.

Effective Date: Public entities - interim and annual periods beginning after 12-15-11; nonpublic entities – annual periods beginning after 12-15-11 (early adoption permitted for nonpublic entities).



Comprehensive Income (Topic 220) ASU 2011- 05

ASU 2011-05 – Comprehensive Income (Topic 220)

Presentation of Comprehensive Income

Objectives:

1. Increase the prominence of items in OCI, and
2. Facilitate convergence by eliminating the option to present OCI as part of the statement of stockholders' equity.

Note: This update does not eliminate the difference in (1) items reported in OCI, and (2) reclassification adjustments between IFRS and U.S. GAAP.



Comprehensive Income (Topic 220) ASU 2011- 05

ASU 2011-05 – Comprehensive Income (Topic 220)

Presentation of Comprehensive Income

- All nonowner movements in stockholders' equity must be presented either in a single continuous statement of comprehensive income, or in 2 separate but consecutive statements.
- Entities opting for the 2 statement approach must first show NI and its components followed by total OCI, its components, and Total Comprehensive Income.
- All reclassification adjustments must be shown on the face of financial statements.



Comprehensive Income (Topic 220) ASU 2011- 05

ASU 2011-05 – Comprehensive Income (Topic 220)

Presentation of Comprehensive Income

Effective Date:

- Public companies - Fiscal years and Interim periods within those years beginning on or after December 15, 2011, and
- Non-public entities - Fiscal years and Interim periods within those years beginning on or after December 15, 2012.

- Early adoption permitted.



Other Expenses (Topic 720) ASU 2011- 06

ASU 2011-06 – Other Expenses (Topic 720)

Fees Paid to the Federal Government by Health Insurers

Issue: Recording and classification by Health Insurers of fees mandated by the Patient Protection & Affordable Care Act as amended by the Healthcare and Education Reconciliation Acts (the Acts)

- The Acts impose a fee (not tax-deductible) on health insurers for calendar years beginning on or after January 1, 2014 payable by September 30 of the applicable calendar year.
- The fee is based on the ratio of the amount of net premiums written by an insurer during the preceding calendar year to the amount of health insurance for any U.S. health risk that is written during the preceding calendar year.



Other Expenses (Topic 720) ASU 2011- 06

ASU 2011-06 – Other Expenses (Topic 720)

Fees Paid to the Federal Government by Health Insurers

Issue: HI must record the estimated liability in full once the HI provides the qualifying health insurance in the applicable calendar year in which it is payable. The entity also records the corresponding deferred cost amortizing it ratably unless another systematic method better reflects the fee.

- The deferred cost does not meet the definition of an *acquisition cost* as amended by ASU 2010-26, Financial Service – Insurance (Topic 944) *Accounting for Costs associated with Acquiring or Renewing Insurance Contracts*.
- Effective Date - Calendar year beginning after December 31, 2013



Health Care Entities (Topic 954) ASU 2011- 07

Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain HCE

Issue: Some HCE recognized patient service revenue as the services were provided regardless of collectibility resulting in a gross up of revenue and the provision for bad debts.

- The degree of judgment required to assess and establish the provision for bad debts generated reports that were not comparable.
- Disclosures were inadequate.



Health Care Entities (Topic 954) ASU 2011- 07

Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain HCE

EITF Consensus:

- HCE within the scope of Topic 954 should present the provision for bad debts as a deduction from reported patient service (net of contractual allowances and discounts).
- Enhanced disclosures: Revenue recognition policy and the assessment of the provision for bad debts as well as additional qualitative and quantitative disclosure of changes in the allowance for doubtful accounts.

Note: There are no comparable requirements in IFRS. However, the proposed revenue recognition standard should standardize requirements.



Health Care Entities (Topic 954) ASU 2011- 07

Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain HCE

Effective Date:

- Public entities: Fiscal years and interim periods within those years beginning after December 15, 2011.
- Nonpublic entities: Annual periods ending after December 15, 2012.
- Presentation of Bad debts is retrospective.
- Disclosures in the period of adoption and subsequent periods.



ASU 2011-09
Compensation – Retirement Benefits
Multiemployer Plans (Subtopic 715-80)

Disclosures about an Employers Participation in a Multiemployer Plan

- More information about plan health and the entity's participation in the plan; additional qualitative information about the plan and risks may be provided if the required information is not available.
- Additional funding status relative to the Pension Protection Act of 2006; whether the plan is <65%, between 65-80%, or >80% funded.
- Retrospective application required.
- Effective for fiscal years ending after 12/15/11 (12/15/12) for public (non-public) companies with early adoption permitted.



Multiemployer Pension Plans: Disclosure Requirements

Comments:

- Several ED quantitative disclosure proposals, e.g., estimated withdrawal liability, were eliminated.
- Accounting differences between amended IAS 19 and revised U.S. standard.
- Implications for convergence?



ASU 2011-10 Property, Plant & Equipment

Derecognition of In Substance Real Estate – a Scope Clarification

Issue:

- Topic 810-10 *Consolidation – Overall*, Except for a sale of in substance real estate, a parent company must deconsolidate a subsidiary if it no longer has a controlling interest in that subsidiary.
- In practice, there are different views as to whether a parent must meet Subtopic 360-20, Property, Plant, and Equipment – Real Estate Sales criteria before it can deconsolidate an in substance real estate subsidiary.

Scope:

- Entities that no longer have a controlling financial interest per 810-10 in a subsidiary that is in substance real estate as a result of a default on the nonrecourse debt of that subsidiary.



ASU 2011-10 Property, Plant & Equipment

Derecognition of In Substance Real Estate – a Scope Clarification

Note: This update does not address whether Subtopic 360-20 applies to other cases where the parent no longer has a controlling financial interest per Subtopic 810-10 in a subsidiary that is in substance real estate.

Clarification:

- Such entities must apply Subtopic 360-20 to determine whether in substance real estate subsidiaries must be derecognized. In general, these requirements will not be satisfied before legal transfer of the real estate to the lender and the extinguishment of the related nonrecourse debt.



ASU 2011-10 Property, Plant & Equipment

Derecognition of In Substance Real Estate – a Scope Clarification

Clarification (Continued):

- Real estate, debt, and the results of operations of such subsidiaries must continue to be included in the consolidated financial statements until *legal* title is transferred to *legally* satisfy the debt.
- Prospective adoption to deconsolidation events occurring after the effective date. Prior periods may not be adjusted.

Effective Dates:

- Public entities – Fiscal years and interim periods within those years beginning on or after June 15, 2012.
- Nonpublic entities – Fiscal years ending after December 15, 2013 and interim and annual periods thereafter.
- Early adoption permitted.



ASU 2011-10 Property, Plant & Equipment

Derecognition of In Substance Real Estate – a Scope Clarification

Comments:

- There is little agreement as to the meaning of in substance real estate,
- The Working Group organized by the EITF was unable to reach agreement on several aspects of the issues,
- The update does not address accounting by lenders,
- The Board states that this update emphasizes the substance of the arrangement by requiring consolidation until legal transfer and extinguishment of debt, and
- The update does not eliminate differences between U. S. GAAP and IFRS.



ASU 2011-11 Balance Sheet (Topic 210)

Disclosures about Offsetting Assets and Liabilities

Issue:

- There are significant differences between offsetting requirements and practice under U.S. GAAP versus IFRS.
- These difference result in significant variations in disclosure and the reported size of the financial statements of similar entities with potentially adverse implications for comparability and bank capital requirements.



ASU 2011-11 Balance Sheet (Topic 210)

Disclosures about Offsetting Assets and Liabilities

Requirements (Amend requirements in Section 210-20-50):

- Gross **and** net information about instruments and transactions eligible for offset in the balance sheet in accordance with Section 210-20-45 or Section 815-10-45 and the instruments and transactions subject to master netting or similar agreements.

Effective Date:

- Annual periods beginning after January 1, 2013 and interim periods within those annual periods.
- Retrospective disclosures required.



Private Company Standard Setting (PCSS)

The Financial Accounting Foundation (FAF):

- Accepted many of the recommendations of the Blue-Ribbon Panel on Standard Setting for Private Companies,
- Did not endorse the recommendation for a separate PCSS body, and
- Proposed the formation of an EITF-like advisory group, the Private Company Standards Improvement Council.

Note: The comment period on the FAF proposal ends on January 14 and the FAF will hold three roundtables in 2012.



Private Company Standard Setting (PCSS)

FASB:

- Is expected to issue a discussion paper on a separate decision-making approach to PCSS,
- Added three new projects on nonpublic entities, and
- Agreed to consider an exemption from certain “Level 3” FV measurement disclosures.



Private Company Standard Setting (PCSS)

Question and Comment:

- When will public companies begin to draw similarities between private companies and small or mid-size public companies to ask for similar exemptions?
- The FAF and the FASB are increasingly talking about complexity and cost-benefit issues, see the basis for conclusions on goodwill impairment.



Convergence?

SEC:

- The SEC issued an update on the progress on the IFRS Work Plan – Comparison of the IFRS and GAAP Frameworks and an Analysis of IFRS in practice.
- Needs more time to complete its final report on its IFRS Work Plan.
- Although it appears that the areas of concern in IFRS remain the same, the SEC did highlight disclosure policy and sufficiency.



Convergence?

FASB:

- Emphasis on providing investors with information useful in making resource allocation decisions.
- The FAF supports the SEC “Condonement” approach in the May 2011 staff paper while offering some modifications.
- The FASB and the IASB will continue to work on priority joint projects.
- The U.S. is expected to continue to use U.S. GAAP in where no IFRS exist.
- May continue to develop standards on issues not on the IASB agenda and provide implementation guidance.



Convergence?

IASB:

- Emphasis: eliminate uncertainty and clearly specify future direction.
- Proposal: Allow some U.S. companies to adopt IFRS. Issue: Will this actually provide evidence on the most significant claim made by proponents of convergence – lower cost of capital? What if large companies are allowed to adopt IFRS? Are U.S. auditors and preparers ready?
- The principles-based approach leads to varied interpretations and it is difficult to see the benefit given the apparent lack of commitment to providing implementation guidance.



Proposed ASU

- Revised Revenue Recognition ED.
- Expected revised Leases ED.
- Consolidation: VIES – Principal versus Agent Issues.
- Investment Companies: Proposed amendments to scope, measurement, and disclosure requirements.
- Real Estate: Whether to permit or require investment properties to be at fair value.



Tony Sondhi's Winter - Spring 2012 Seminar Schedule

Topic	Dates	Location
<i>Advanced Topics in Revenue Recognition</i>	<i>Winter – Spring 2012</i>	<i>San Jose, CA</i>
Software Revenue Recognition	Winter - Spring 2012	San Jose, CA & Boston, MA
NEW! - Revenue Recognition – FASB/IASB Exposure Drafts	Winter - Spring 2012	San Jose, CA, Boston, MA,
Advanced Topics in Software Revenue Recognition	Winter – Spring 2012	San Jose, CA Boston, MA

Please visit www.acsondhi.com or call 727-797-1515 for agenda and registration information.



Tony Sondhi's Winter – Spring 2012 **NEW!** Seminar Schedule

Topic	Dates	Location
NEW! - <i>Advanced Topics in Cloud Computing (SaaS)</i>	<i>Winter – Spring 2012</i>	<i>San Jose, CA & Boston, MA</i>
Cloud Computing (SaaS)	Winter -Spring 2012	San Jose, CA & Boston, MA
NEW! - Leases – FASB/IASB Exposure Drafts	Winter -Spring 2012	San Jose, CA, & Chicago, IL
NEW! – Revenue Recognition: Biotech & Healthcare Entities	Winter -Spring 2012	San Diego, CA

Please visit www.acsondhi.com or call 727-797-1515 for agenda and registration information.