Addenda Summary-2017

Note: Due to the issuance of certain new accounting literature, changes in the status of ongoing projects during the past year, or evolution of practice, the following updates to the existing cases should be noted.

Case 11-2as: Fair Value Hierarchy

The objective of the hedging project is to make targeted improvements to the hedge accounting model based on the feedback received from preparers, auditors, users, and other stakeholders. The FASB issued a proposed ASU on this topic in September 2016 and is in the process of redeliberating the proposed guidance; the Board expects to issue a final standard in Q3 2017.

We encourage you to check the FASB's Web site for further details and developments. You can also check US GAAP Plus for Deloitte publications on proposals and final standards as they are issued.

The FASB's project is not expected to affect the conclusions in this case.

Case 11-2bs: Fair Value Disclosures

The objective of the hedging project is to make targeted improvements to the hedge accounting model based on the feedback received from preparers, auditors, users, and other stakeholders. The FASB issued a proposed ASU on this topic in September 2016 and is in the process of redeliberating the proposed guidance; the Board expects to issue a final standard in Q3 2017.

We encourage you to check the FASB's Web site for further details and developments. You can also check US GAAP Plus for Deloitte publications on proposals and final standards as they are issued.

The FASB's project is not expected to affect the conclusions in this case.

Case 11-9: Goodwill Impairment

The FASB issued ASU 2017-04 in January 2017, which simplifies the accounting for goodwill impairments by eliminating step 2 from the goodwill impairment test. Instead, if "the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit."

Under the current guidance in ASC 350, impairment of goodwill "is the condition that exists when the carrying amount of goodwill exceeds its implied fair value." The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. The process of measuring the implied fair value of goodwill is currently referred to as step 2 of the goodwill impairment test. To perform step 2, an entity must "assign the fair value of a reporting unit to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination."

The ASU does not change the qualitative assessment (step 0); however, it removes "the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test." Instead, all reporting units, even those with a zero or negative carrying amount will apply the same impairment test.

Public business entities and not-for-profit entities that have issued, or that are conduit bond obligors for, securities that are traded, listed, or quoted on an exchange or over the counter will apply ASU 2017-04 prospectively to goodwill impairment tests that occur in annual periods (and interim periods therein) beginning on or after December 15, 2019. A public business entity that is not an SEC filer will apply ASU 2017-04 prospectively to goodwill impairment tests that occur in annual periods (and interim periods therein) beginning on or after December 15, 2020. For all other entities, ASU 2017-04 will be effective prospectively for annual periods beginning on or after December 15, 2021, and interim periods thereafter. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates on or after January 1, 2017.

While the above conclusions presented for this case pertaining to what goodwill impairment indicators should be evaluated and whether an interim impairment test should be performed do not change under ASU 2017-04, the ASU describes the impairment test as the "quantitative impairment test" rather than the "two-step goodwill impairment test." In addition, references to step 1 and step 2 would refer to the quantitative impairment test. While there is no discussion in this case of failing step 1, in the event that the carrying amount of a reporting unit exceeds its fair value, an impairment loss would be recognized in an amount equal to the excess of the carrying amount over the fair value, limited to the total amount of goodwill allocated to the respective reporting unit.

We encourage you to check the FASB's Web site for further details and developments. You can also check Deloitte Accounting Research Tool (DART) for Deloitte publications on proposals and final standards as they are issued.

Case 12-3: Provisions and Contingencies

IASB — Research Project Status

Since 2005, the IASB had been deliberating amendments to IAS 37 to (1) improve the guidance on identifying liabilities, (2) reduce differences between IAS 37 and U.S. GAAP, (3) make the recognition requirements consistent with the requirements for other liabilities, and (4) clarify the measurement of liabilities. However, in December 2010, the project was reassessed as a lower priority and further work on the project was suspended.

The IASB initiated a new IASB-only research project that is not a continuation of the previous project. The intent of the project is to look at all of the issues with a fresh mindset. As part of this project, the IASB staff will gather evidence to help the Board decide (1) whether to take on an active project to amend aspects of IAS 37 and (2) if so, what the scope of the active project should be (i.e., what topics the IASB should address out of the range of matters discussed in recent years).

Specifically, the research project gathered information about difficulties experienced in interpreting IAS 37 guidance, in particular in the areas of (1) identifying liabilities, (2) the recognition thresholds in IAS 37, and (3) the lack of clarity on certain aspects of the measurement requirements as is evidenced by the diversity in practice.

While the IASB has reviewed the staff findings from the research done, the next steps are on hold, awaiting developments in the Board's Conceptual Framework project since the proposed changes to the Conceptual Framework may have significant implications on any potential review of IAS 37. The IASB is finalizing its update to the Conceptual Framework project, which will provide a more complete, clear, and updated set of concepts to use when the Board develops or revises IFRS standards. The IASB expects to publish the revised Conceptual Framework around the end of 2017, after which it will evaluate whether there will be a need to revisit IAS 37.

FASB — Research Project Status

The FASB similarly considered the need for a project on contingency accounting (i.e., where there is a need to expand the scope and disclosure requirements for contingencies). In July 2012, after completing its assessment, the Board formally decided to remove the project from its technical agenda. As of July 2017, the FASB has no future plans to revisit the accounting for contingencies.

Case 14-4: Quality Waste Removal

The objective of the hedging project is to make targeted improvements to the hedge accounting model based on the feedback received from preparers, auditors, users, and other stakeholders. The FASB issued a proposed ASU in September 2016. Comments on the proposed ASU were due in November 2016, and subsequent roundtables to solicit feedback were held in December 2016. The FASB finished redeliberating the proposed guidance thereafter. Currently, the Board expects to issue a final standard in Q3 2017.

We encourage you to check the FASB's Web site for further details and developments. You can also check US GAAP Plus for Deloitte publications on proposals and final standards as they are issued.

The FASB's project is expected to affect the discussion in this case.

Case 14-05: Quality Waste Removal

In January 2017, the FASB issued ASU 2017-04, which simplifies the accounting for goodwill impairments by eliminating step 2 from the goodwill impairment test. The simplified process is as follows. If the "carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit."

Under the current guidance in ASC 350, impairment of goodwill "is the condition that exists when the carrying amount of goodwill exceeds its implied fair value." The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. The process of measuring the implied fair value of goodwill is currently referred to as step 2 of the goodwill impairment test. To perform step 2, an entity must "assign the fair value of a reporting unit to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination."

The ASU does not change the qualitative assessment (step 0); however, it removes "the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test." Instead, all reporting units, even those with a zero or negative carrying amount, will apply the same impairment test.

Public business entities as well as not-for-profit entities that have issued, or that are conduit bond obligors for, securities that are traded, listed, or quoted on an exchange or over the counter will apply ASU 2017-04 prospectively to goodwill impairment tests that occur in annual periods (and interim periods therein) beginning on or after December 15, 2019. A public business entity that is not an SEC filer will apply ASU 2017-04 prospectively to goodwill impairment tests that occur in annual periods (and interim periods therein) beginning on or after December 15, 2020. For all other entities, ASU 2017-04 will be effective prospectively for annual periods beginning on or after December 15, 2021, and interim periods thereafter. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates on or after January 1, 2017.

While the above conclusions remain unchanged, the ASU describes the impairment test as the quantitative impairment test rather than the two-step impairment test. In addition, the references to step 1 and step 2 would refer to the quantitative impairment test. While there is not a discussion of failing step 1, in the event that the carrying amount of a reporting unit exceeds its fair value, an impairment loss would be recognized in an amount equal to the excess of the carrying amount over the fair value, limited to the total amount of goodwill allocated to the respective reporting unit.

We encourage you to check the FASB's Web site for further details and developments. In addition, be sure to visit US GAAP Plus, Deloitte's free Web site that features accounting news, information, and publications with a U.S. GAAP focus. It contains articles on FASB activities and updates to the *FASB Accounting Standards Codification*™ as well as developments of other U.S. and international standard setters and regulators, such as the PCAOB, AICPA, SEC, IASB, and IFRS Interpretations Committee.

Case 14-06: Making Connections

In May 2014, the FASB and IASB issued their final standard on revenue recognition, *Revenue From Contracts With Customers*. The new standard, issued as ASU 2014-09 by the FASB and IFRS 15 by the IASB, outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance.

The core principle of the guidance is the recognition of revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which an entity expects to be entitled in exchange for those goods or services. Application of this principle would require an entity to (1) identify the contract(s) with a customer, (2) identify the separate performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the separate performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. Students are encouraged to read Deloitte's May 28, 2014, *Heads Up* for additional details on this ASU. Also see Deloitte's *Revenue From Contracts With Customers: A Roadmap to Applying the Guidance in ASU 2014-09*.

On August 12, 2015, the FASB issued ASU 2015-14, *Revenue From Contracts With Customers (Topic 606): Deferral of the Effective Date*, which defers the effective date of the Board's revenue standard, ASU 2014-09, by one year for all entities and permits early adoption on a limited basis. Specifically:

- For public business entities, the standard is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017. Early adoption is permitted as of the original effective date in ASU 2014-09 (i.e., annual reporting periods beginning after December 15, 2016, including interim reporting periods within those annual periods).

- For nonpublic entities, the standard is effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. Nonpublic entities can also elect to early adopt the standard as of the following:

    - Annual reporting periods beginning after December 15, 2016, including interim periods.
    - Annual reporting periods beginning after December 15, 2016, and interim periods within annual reporting periods beginning one year after the annual reporting period of initial application of the new standard.

On July 22, 2015, the IASB approved a one-year deferral of the effective date of its revenue standard, IFRS 15, to annual reporting periods beginning on or after January 1, 2018, for both public and nonpublic entities. Earlier application of IFRS 15 continues to be permitted.

On March 17, 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)*, which amends the principal-versus-agent implementation guidance and illustrations in the Board's new revenue standard. The FASB issued the ASU in response to concerns identified by stakeholders, including those related to (1) determining the appropriate unit of account under the revenue standard's principal-versus-agent guidance and (2) applying the indicators of whether an entity is a principal or an agent in accordance with the revenue standard's control principle. Students are encouraged to read Deloitte's March 22, 2016, *Heads Up* for additional details on the ASU.

On April 14, 2016, the FASB issued ASU 2016-10, *Revenue From Contracts With Customers (Topic 606): Identifying Performance Obligations and Licensing*, which amends certain aspects of ASU 2014-09, specifically the standard's guidance on identifying performance obligations and the implementation guidance on licensing. The amendments in the ASU reflect feedback received by the FASB-IASB joint revenue recognition transition resource group (TRG), which was formed to address potential issues associated with the implementation of ASU 2014-09. Students are encouraged to read Deloitte's April 15, 2016, *Heads Up* for additional details on this ASU.

On May 9, 2016, the FASB issued ASU 2016-12, *Revenue From Contracts With Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which has been deleted*, which amends certain aspects of ASU 2014-09. The amendments address certain implementation issues identified by the TRG and clarify, rather than change, the new revenue standard's core revenue recognition principles on (1) collectibility, (2) presentation of sales tax and other similar taxes collected from customers, (3) noncash consideration, (4) contract modifications and completed contracts at transition, (5) transition technical correction. Students are encouraged to read Deloitte's May 11, 2016, *Heads Up* for additional details on this ASU.

Case 14-09: OTTI

ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*

Summary

On January 5, 2016, the FASB issued ASU 2016-01, which amends the guidance in U.S. GAAP on the classification and measurement of financial instruments. Although the ASU retains many current requirements, it significantly revises an entity's accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value.

Effective Date and Early Adoption

For public business entities (PBEs), ASU 2016-01 is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2017. For all other entities, including not-for-profit entities and employee benefit plans within the scope of ASC 960, ASC 962, and ASC 965 on plan accounting, the effective date is in line with the recommendation of the private-company decision-making framework — that is, the guidance is effective for fiscal years beginning one year after the effective date for PBEs (i.e., December 15, 2018) and interim reporting periods within fiscal years beginning two years after the PBE effective date (i.e., December 15, 2019).

Early adoption is permitted for all entities whose financial statements have not yet been issued or have not been made available for issuance with respect to the following changes made to ASC 825:

- For financial liabilities measured under the fair value option, fair value changes resulting from a change in instrument-specific credit risk would be presented separately in other comprehensive income.

- The fair value disclosure requirements for financial instruments not recognized at fair value would be eliminated for non-PBEs.

Early adoption of other provisions is not permitted for PBEs. Non-PBEs are permitted to early adopt the new standard when it becomes effective for PBEs (i.e., fiscal years beginning after December 15, 2017, including interim periods therein).

Effect on O.T.T. Incorporated

Once effective, ASU 2016-01 will revise much of the ASC 320 guidance referenced in the solutions within this case study. However, no items within the case are affected by the ability of PBEs to early adopt the items described above.

ASU 2016-13, *Measurement of Credit Losses on Financial Instruments* (Current Expected Credit Loss Model)

Summary

ASU 2016-13 amends the FASB's guidance on the impairment of financial instruments by adding an impairment model (known as the current expected credit loss (CECL) model) that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes as an allowance its estimate of expected credit losses, which the FASB believes will result in more timely recognition of such losses. The ASU is also intended to reduce the complexity of U.S. GAAP by decreasing the number of credit impairment models that entities use to account for debt instruments.

Once effective (see the discussion below), the new guidance will significantly change the accounting for credit impairment. Banks and certain asset portfolios (e.g., loans, leases, debt securities) will need to modify their current processes for establishing an allowance for loan and lease losses and other-than-temporary impairments to ensure that they comply with the ASU's new requirements.

Effective Date and Early Adoption

For PBEs that meet the U.S. GAAP definition of an SEC filer, the ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years.

For PBEs that do not meet the U.S. GAAP definition of an SEC filer, the ASU is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years.

For all other entities, the ASU is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years beginning after December 15, 2021.

In addition, entities are permitted to early adopt the new guidance for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.

Effect on O.T.T. Incorporated

Once effective, ASU 2016-13 will revise much of the ASC 320 guidance referenced in the solutions within this case study.

Case 15-9: Settled Or Not Settled

In June 2017, the IASB issued IFRIC 23, which provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. The interpretation clarifies how uncertainty in income taxes would be accounted for under IAS 12, in an effort to reduce diversity in practice. However, the guidance is different from U.S. GAAP guidance for accounting for uncertainty in income taxes.

More specifically, IFRIC 23 allows an entity to evaluate uncertain tax treatments separately or together with one or more other uncertain tax treatments. It also requires an entity to determine tax amounts in a manner consistent with those reported on the tax return if it is probable that the taxation authority will accept the position, or if it is not probable, reflect the uncertainty at either the "most likely amount" or the "expected value."

IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019. Early application is permitted.

Case 16-8: Frozen

Accounting Standard Update No. 2015-04, *Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets*

ASU 2015-04 provides an employer, as practical expedient, an alternative date to measure its defined benefit retirement obligations and related plan assets as of the month-end closest to the employer's fiscal year-end (e.g., the entity has a 52- or 53-week fiscal year). Further, if a significant plan event occurs (e.g., plan amendment, settlement, or curtailment) between the alternative measurement date and the employer's fiscal year-end, the effect of the significant event should be accounted within the employer's fiscal year. However, an employer would not recognize the effect of other events outside an entity's control (e.g., changes in market prices or interest rates) as a result of a significant plan event.

ASU 2015-04 also provides a practical expedient, permitting an entity to elect to measure the effects of a significant event as of the calendar month-end closest to the date of the significant event.

ASU 2015-04 is effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the ASU is effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Early application is permitted, and the ASU should be applied prospectively.

Note that IFRSs do not have a practical expedient that permits an entity to measure defined benefit plan assets and obligations as of the month-end that is closest to the entity’s fiscal year-end (or the month-end that is closest to the date of a significant event that occurred in an interim period), whereas the amendments in ASU 2015-04 provide that practical expedient for purposes of U.S. GAAP reporting.