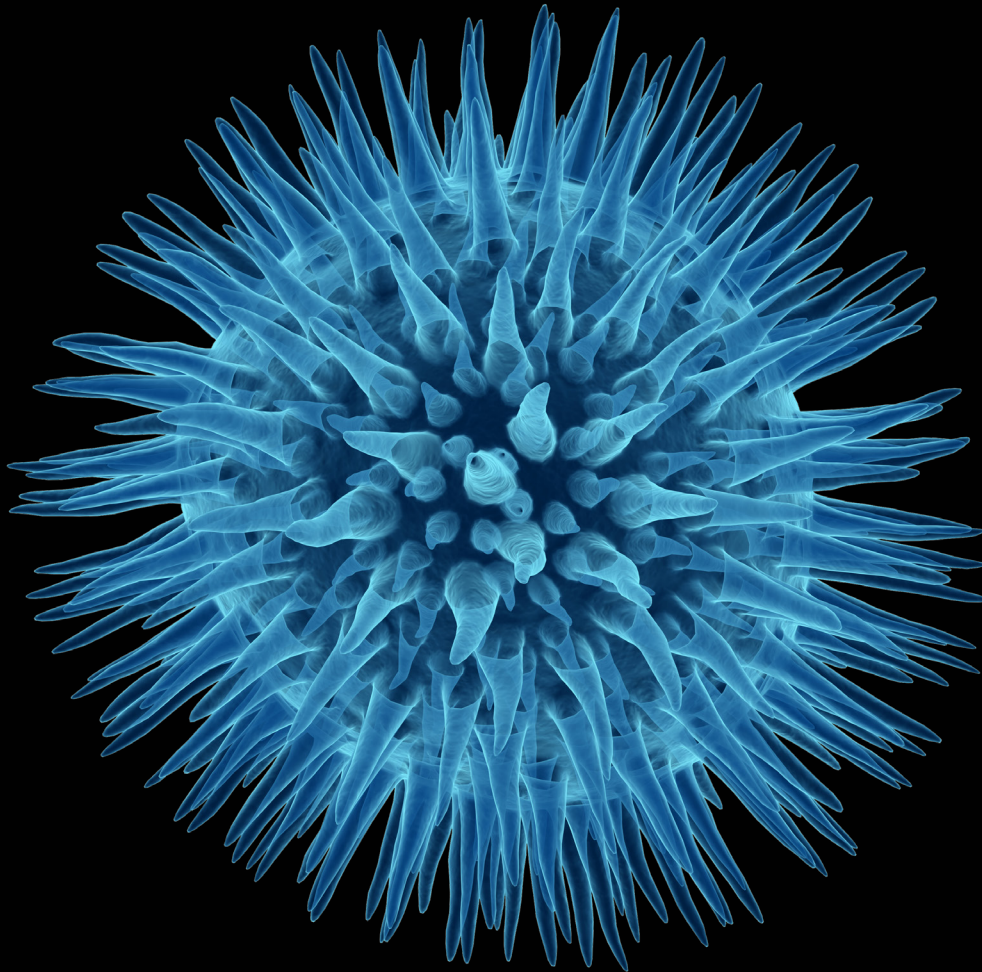


**Deloitte.**



**Life Sciences**

Accounting and Financial Reporting Update —  
Interpretive Guidance on Statement of Cash Flows

March 2018

# Statement of Cash Flows

## Introduction

While the accounting principles underlying the statement of cash flows have been in place for many years, challenges in interpretation and preparation have consistently made the statement of cash flows one of the leading causes of restatements and comments from the SEC staff for life sciences entities. In the Industry Issues section below, we highlight issues commonly encountered by life sciences entities that are associated with the classification of cash flows as operating, investing, or financing. For more information as well as insights into topics not addressed below, see Deloitte's [A Roadmap to the Preparation of the Statement of Cash Flows](#).

## Industry Issues

### Foreign Currency Cash Flows

The global nature of life sciences entities often gives rise to transactions that are denominated in a foreign currency and to businesses that operate in foreign functional currency environments. For example, the product supply chain structures for many life sciences entities typically involve the movement of materials and products across international borders throughout the manufacturing life cycle, giving rise to many transactions that are exposed to changes in the exchange rate.

An entity should report the cash flow effect of transactions denominated in a foreign currency by using the exchange rates in effect on the date of such cash flows. Instead of using the actual exchange rate on the date of a foreign currency transaction, an entity may use an average exchange rate for translation if the exchange rates are relatively consistent throughout the reporting period.

An entity with operations whose functional currency is the foreign currency may use the following approach when preparing its consolidated statement of cash flows:

- Prepare a separate statement of cash flows for each foreign operation by using the operation's functional currency.
- Translate the stand-alone cash flow statement prepared in the functional currency of each foreign operation into the reporting currency of the reporting entity.
- Consolidate the individual translated statements of cash flows.

The effects of exchange rate changes, or translation gains and losses, are not the same as the effects of transaction gains and losses and should not be presented or calculated in the same manner.

Effects of exchange rate changes may directly affect cash receipts and payments but do not directly result in cash flows themselves.

Because unrealized transaction gains and losses arising from the remeasurement of foreign-currency-denominated monetary assets and liabilities on the balance sheet date are included in the determination of net income, such amounts should be presented as a reconciling item between net income and net cash from operating activities (either on the face of the statement under the indirect method or in a separate schedule under the direct method). Subsequently, any cash flows arising from the settlement of the foreign-currency-denominated asset and liability should be presented in the statement of cash flows as an operating, investing, or financing activity on the basis of the nature of such cash flows.

Translation gains and losses, however, are recognized in other comprehensive income (OCI) and are not included in the cash flows from operating, investing, or financing activities.

The effects of exchange rate changes on cash should be shown as a separate line item in the statement of cash flows as part of the reconciliation of beginning and ending cash balances.

In a manner consistent with the implementation guidance in ASC 830-230-55-15, the effect of exchange rate changes on cash and cash equivalents is the sum of the following two components:

1. For each foreign operation, the difference between the exchange rates used in translating functional currency cash flows and the exchange rate at year-end multiplied by the net cash flow activity for the period measured in the functional currency.
2. The fluctuation in the exchange rates from the beginning of the year to the end of the year multiplied by the beginning cash balance denominated in currencies other than the reporting currency.

## **Activities Associated With Acquisitions**

The life sciences industry continues to experience significant M&A activities, and these transactions affect a company's statement of cash flows in a number of ways.

### ***Presentation of Acquisition-Related Costs***

When consummating a business combination, an acquirer frequently incurs acquisition-related costs such as advisory, legal, accounting, valuation, and professional and consulting fees. Except for certain debt and equity issuance costs, ASC 805 requires that an entity expense all such acquisition-related costs as incurred. The costs of issuing debt or equity securities as part of a business combination are recognized in accordance with other applicable accounting literature.

In the deliberations before the issuance of Statement 141(R) (codified in ASC 805), the FASB determined that acquisition-related costs are not considered part of the fair value exchange between the buyer and seller of the business; rather, they are separate transactions in which the buyer pays for services that it receives. Further, the definition of "operating activities" in the ASC master glossary states that "[c]ash flows from operating activities are generally the cash effects of transactions and other events that enter into the determination of net income." Because acquisition-related costs accounted for under ASC 805 are expensed and affect net income, these costs should be reflected as operating cash outflows in the statement of cash flows.

## ***Debt in a Business Combination***

The classification in the statement of cash flows of cash for debt in a business combination should be consistent with the acquirer's treatment of the debt in acquisition accounting (i.e., whether the debt was treated as a liability assumed in acquisition accounting). To determine how to account for debt in a business combination, the acquirer should review the provisions of the related debt and purchase agreements, the method and timing of the extinguishment, and the substance of the transaction. Such a determination would also include an evaluation of whether the acquirer legally assumed the acquiree's debt obligation as part of the business combination. For example, if the acquirer legally assumes the acquiree's debt as part of the business combination, the acquirer will generally present the extinguishment as a financing activity (in a manner consistent with how it would present the repayment of a debt obligation outside of a business combination). This is true even if the acquirer immediately repays the debt after it is assumed from the seller. Conversely, if the acquirer does not legally assume the acquiree's debt as part of the business combination, and the debt is settled in connection with the acquisition instead, the acquirer will generally present the extinguishment as an investing activity (in a manner consistent with how it would present cash consideration paid in a business combination).

### **Example 1**

Company P has entered into a credit agreement with Bank A for unsecured senior notes (the "Notes"). The provisions of the credit agreement require that the Notes be repaid upon a change-of-control event. On March 31, 20X4, Company B acquires P for \$500 million of cash consideration and accounts for the acquisition as a business combination. Before B's consummation of the business combination, P notifies A that a change-of-control event will occur in connection with B's acquisition of P and that the Notes will be repaid simultaneously with the business combination. Further, B determines that it did not legally assume the Notes and that it did not account for the Notes as a liability assumed in acquisition accounting. Because B did not legally assume the Notes as part of the acquisition and did not account for the Notes as liabilities assumed in acquisition accounting, B should present the \$500 million of cash consideration as an investing outflow in its statement of cash flows.

## ***Contingent Consideration Classified as a Liability***

It is common in business combinations entered into by life sciences companies for a portion of the consideration to be contingent on future events. ASC 805 requires the acquirer to recognize the acquisition-date fair value of the contingent consideration arrangement as part of the consideration transferred in exchange for the acquiree. The contingent consideration arrangement is classified either as a liability or as equity in accordance with applicable U.S. GAAP. In transactions involving life sciences companies, contingent consideration is frequently classified as a liability.

As discussed in the [New Accounting Standards](#) section below, the FASB issued [ASU 2016-15](#) in August 2016. The ASU amends the guidance in ASC 230-10-45-13, ASC 230-10-45-15, and ASC 230-10-45-17 and requires that entities determine the classification of payments to settle a contingent consideration liability (after the acquisition date in a business combination transaction) on the basis of when such payments are made. Under the ASU, classification of the payments depends, in effect, on whether they are made soon after the acquisition in a business combination transaction. That is, cash payments not made soon after the acquisition — up to the amount of the contingent consideration liability, including any measurement-period adjustments and less any amounts paid soon after the acquisition date to settle the contingent consideration liability — will be classified in financing activities; any excess cash payments will be classified in operating activities. Cash payments made soon after the acquisition date in a business combination transaction will be classified in investing activities. While the guidance does not define the term "soon after," we generally believe that payments made within three months or less of the acquisition date would meet this definition. This view is also consistent with paragraph BC16 of ASU 2016-15, which states that "some [Emerging Issues] Task Force members believe that a payment for

contingent consideration that was made soon after a business combination is an extension of the cash paid for the business acquisition (an investing activity), if that payment for contingent consideration was made within a relatively short period of time after the acquisition date (for example, three months or less).”

## Stock Compensation

The complexity of stock compensation arrangements often leads to additional presentation issues related to a life sciences entity's statement of cash flows. Two of the more common issues encountered by life sciences entities are addressed below.

### ***Settlement of Equity-Classified Share-Based Payment Awards***

When settling an equity-classified share-based payment award, an entity presents the settlement in its statement of cash flows on the basis of whether the amount paid to settle the award is greater than or less than the fair-value-based measure of the award on the settlement date:

- *Amount paid to settle the award does not exceed the fair-value-based measure of the award on the settlement date* — In accordance with ASC 718-20-35-7, if the cash paid to repurchase the equity-classified award does not exceed the fair-value-based measure of the award on the repurchase date, the cash paid to repurchase the award is charged to equity. That is, repurchase of the equity-classified award is viewed as reacquisition of the entity's equity instruments. Accordingly, the cash paid to reacquire the entity's equity instruments is presented as a cash outflow for financing activities under ASC 230-10-45-15(a), which indicates that payments of dividends or other distributions to owners, including outlays to reacquire the entity's equity instruments, are cash outflows for financing activities.
- *Amount paid to settle the award exceeds the fair-value-based measure of the award on the settlement date* — If the cash paid to repurchase the equity-classified award exceeds the fair-value-based measure of the award on the repurchase date, the cash paid in excess of the fair-value-based measure of the award is viewed as compensation for additional employee services and is recognized as additional compensation cost. Accordingly, if the equity-classified award is repurchased for an amount in excess of the fair-value-based measure, the portion of the cash paid to reacquire the entity's equity instruments that equals the fair-value-based measure of the award is presented as a cash outflow for financing activities under ASC 230-10-45-15(a). The portion of the cash paid in excess of the fair-value-based measure, for additional employee services, is presented as a cash outflow for operating activities under ASC 230-10-45-17(b), which notes that cash payments to employees for services are cash outflows for operating activities.

#### **Example 2**

Company A is making a tender offer to repurchase \$20 million of common stock in the aggregate (the stock was originally distributed as share-based compensation awards) from its current employees. On the basis of an independent third-party valuation, Company A concludes that the purchase price paid to the employees for the common stock exceeds the fair value of the common stock by a total of \$4.5 million. In accordance with ASC 718-20-35-7, the amount paid to employees up to the fair value of common stock acquired should be recognized in equity as a treasury stock transaction and should therefore be presented as a cash outflow for financing activities. The \$4.5 million that was paid in excess of the fair value of the common stock constitutes compensation expense and is therefore presented as a cash outflow for operating activities.

## ***Settlement of Liability-Classified Share-Based Payment Awards***

In accordance with ASC 718-30, the grant-date fair-value-based measure and any subsequent changes in the fair-value-based measure of a liability-classified award through the date of settlement are recognized as compensation cost. Accordingly, the cash paid to settle the liability-classified award is effectively payment for employee services and is presented as a cash outflow for operating activities under ASC 230-10-45-17(b).

Note that an entity may enter into an agreement to repurchase (or offer to repurchase) an equity-classified award for cash. Depending on the facts and circumstances, the agreement to repurchase (or offer to repurchase) may be accounted for as either (1) a settlement of the equity-classified award or (2) a modification of the equity-classified award that changes the award's classification from equity to liability, followed by a settlement of the now liability-classified award.

If the agreement to repurchase (or offer to repurchase) is considered a settlement of an equity-classified award, the cash paid to reacquire the entity's equity instruments is presented in a manner consistent with the equity awards described above. If the agreement to repurchase (or offer to repurchase) is considered a modification of the equity-classified award that changes the award's classification from equity to liability, the cash paid to settle the liability-classified award should be presented in the statement of cash flows in a manner similar to the conclusion above. That is, under ASC 230-10-45-17(b), the cash paid to settle the liability-classified award is effectively payment for employee services and is presented as a cash outflow for operating activities.

## **Government Grants**

Government grants are a form of government assistance that may be granted to PBEs or private companies to encourage those entities to fulfill certain objectives (e.g., providing a financial grant to an entity to fund cancer research). Generally, a recipient of a government grant is not expected to repay the grant provided that the recipient complies with the grant's conditions.

Not all government assistance is provided to a recipient in the form of a cash payment. For example, a government grant could be in the form of tax credits. In these situations, an entity must determine whether the tax credits are refundable.

Refundable tax credits (e.g., qualifying R&D credits in certain countries and state jurisdictions and alternative fuel tax credits for U.S. federal income tax) do not depend on an entity's ongoing tax status or tax position, allowing an entity to receive a refund despite being in a taxable loss position. Consequently, the refundable tax credits are similar to government grants and are generally accounted for similarly. The discussions below address such tax credits as well as other government grants. For more information on the accounting for refundable tax credits, see Section 2.04 of Deloitte's [A Roadmap to Accounting for Income Taxes](#).

## ***Expenditures Incurred Before Receipt of a Grant***

When an entity pays for capital expenditures or operating expenses before the reimbursement of government grant monies, it should present the receipt of the government grant in the statement of cash flows in a manner consistent with the presentation of the related cash outflow (as determined under ASC 230-10-45). For example, a government grant that is intended to reimburse an entity for qualifying operating expenses would be presented in the statement of cash flows as an operating activity if the grant was received after the operating expenses were incurred.



### ***Expenditures Incurred After Receipt of a Grant***

Receiving a grant before incurring the related expenditures is similar to receiving a refundable loan advance or a contribution of refundable advance by an NFP that by donor stipulation is restricted for capital investment. ASC 230-10-45-14(c) requires that the following be classified as cash inflows from financing activities:

Receipts from contributions and investment income that by donor stipulation are restricted for the purposes of acquiring, constructing, or improving property, plant, equipment, or other long-lived assets or establishing or increasing a permanent endowment or term endowment.

Therefore, when an entity receives the government grant before incurring the related capital expenditures or operating expenses, it should present the receipt of the government grant as a financing cash inflow in the statement of cash flows. In addition, when the entity incurs the expenditures in accordance with the conditions of the government grant, it should disclose the existence of a noncash financing activity resulting from the fulfillment of the grant requirements.

## **New Accounting Standards**

### **Classification Issues**

In August 2016, the FASB issued [ASU 2016-15](#), which amends ASC 230 to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows. The ASU was the result of consensus reached by the EITF to reduce the diversity in practice that has developed. Key provisions of the amendments are summarized below.

<b>Cash Flow Issues</b>	<b>Amendments</b>
Debt prepayment or debt extinguishment costs	Cash payments for debt prepayment or extinguishment costs (including third-party costs, premiums paid, and other fees paid to lenders that are directly related to the debt prepayment or debt extinguishment, excluding accrued interest) must "be classified as cash outflows for financing activities."
Settlement of zero-coupon bonds	The cash outflows for the settlement of a zero-coupon bond must be bifurcated into operating and financing activities. The portion of the cash payment related to accreted interest should be classified in operating activities, while the portion of the cash payment related to the original proceeds (i.e., the principal) should be classified in financing activities.

(Table continued)

Cash Flow Issues	Amendments
Contingent consideration payments made after a business combination	<p>Contingent consideration payments that were not made soon after a business combination (on the basis of the consummation date) must be separated and classified in operating and financing activities. Cash payments up to the amount of the contingent consideration liability recognized as of the acquisition date, including any measurement-period adjustments, should be classified in financing activities, while any excess cash payments should be classified in operating activities.</p> <p>For example, assume that Entity A acquired Entity B on December 31, 2016, for cash consideration of \$100 million plus an earn-out provision with a maximum payout of \$50 million payable on January 31, 2019. Entity A classified the contingent consideration as a liability and determined that the acquisition-date fair value was \$20 million, for total consideration of \$120 million. On the basis of the performance of B's legacy operations, A determined that the fair value of the contingent consideration was \$30 million on December 31, 2017, and \$35 million on December 31, 2018.</p> <p>Entity A should present information in its statement of cash flows as follows:</p> <ul style="list-style-type: none"> <li>• <i>December 31, 2016</i> — Entity A should disclose a \$100 million investing outflow related to the acquisition and a noncash investing activity of \$20 million related to the contingent consideration portion of the acquisition.</li> <li>• <i>December 31, 2017</i> — Entity A should disclose a \$10 million reconciling item between net income and cash flows from operating activities related to the adjustment of the contingent consideration obligation.</li> <li>• <i>December 31, 2018</i> — Entity A should disclose a \$5 million reconciling item between net income and cash flows from operating activities related to the adjustment of the contingent consideration obligation.</li> <li>• <i>January 31, 2019</i> — Of the \$35 million A paid to the former owners of B, \$20 million represents the portion recognized in purchase accounting and therefore should be classified as a financing activity. The remaining \$15 million (i.e., the change in the liability after the acquisition date) should be reflected as a cash outflow from operating activities.</li> </ul>
Proceeds from the settlement of insurance claims	Cash proceeds from the settlement of insurance claims should be classified on the basis of the nature of the loss. For insurance proceeds received in a lump-sum settlement, an entity should determine the classification on the basis of the nature of each loss included in the settlement.
Proceeds from the settlement of corporate-owned life insurance (COLI) policies and bank-owned life insurance (BOLI) policies	Cash proceeds from the settlement of COLI and BOLI policies must be classified in investing activities. However, an entity is permitted, but not required, to align the classification of premium payments on COLI and BOLI policies with the classification of COLI and BOLI proceeds (i.e., payments for premiums may be classified as investing, operating, or a combination thereof).



(Table continued)

Cash Flow Issues	Amendments
Distributions received from equity method investees	<p>An entity is required to make an accounting policy election to classify distributions received from equity method investees under either of the following methods:</p> <ul style="list-style-type: none"> <li>• <i>Cumulative-earnings approach</i> — Under this approach, distributions are presumed to be returns on investment and classified as operating cash inflows. However, if the cumulative distributions received, less distributions received in prior periods that were determined to be returns of investment, exceed the entity's cumulative equity in earnings, such excess is a return of capital and should be classified as cash inflows from investing activities.</li> <li>• <i>Nature of the distribution approach</i> — Under this approach, each distribution is evaluated on the basis of the source of the payment and classified as either operating cash inflows or investing cash inflows.</li> </ul> <p>If an entity whose chosen policy is the nature of the distribution approach cannot apply the approach because it does not have enough information to determine the appropriate classification (i.e., the source of the distribution), the entity must apply the cumulative-earnings approach and report a change in accounting principle on a retrospective basis. The entity is required to disclose that a change in accounting principle has occurred as a result of the lack of available information as well as the information required under ASC 250-10-50-2, as applicable.</p> <p>The amendments do not address equity method investments measured under the fair value option.</p>
Beneficial interests in securitization transactions	<p>A transferor's beneficial interests received as proceeds from the securitization of an entity's financial assets must be disclosed as a noncash activity. Subsequent cash receipts of beneficial interests from the securitization of an entity's trade receivables must be classified as cash inflows from investing activities.</p>

In addition to the specific transaction guidance discussed above, ASU 2016-15 provides a three-step approach for classifying cash receipts and payments that have aspects of more than one class of cash flows:

1. An entity should first apply specific guidance in U.S. GAAP, if applicable.
2. If there is no specific guidance related to the cash receipt or payment, an entity should bifurcate the cash payment or receipt into "each separately identifiable source or use [of cash] on the basis of the nature of the underlying cash flows." Each separately identifiable source or use of cash will be classified as operating, investing, or financing activities in accordance with the guidance in ASC 230.
3. If the cash payment or receipt cannot be bifurcated, the entire payment or receipt should be classified as operating, investing, or financing activities on the basis of the activity that is likely to be the predominant source or use of cash.



### Connecting the Dots

Since the new guidance is intended to reduce diversity in practice, it could result in significant changes for some entities, particularly with respect to the issues discussed below.

#### Settlement of Zero-Coupon Bonds

The lack of guidance on the classification of payments to settle zero-coupon bonds in the statement of cash flows has led to diversity in the classification of the cash payment made by a bond issuer at the settlement of a zero-coupon bond. Some entities bifurcate the settlement payment between the principal (the amount initially received by the entity) and accreted interest.

In those situations, the portion of the repayment related to principal is classified in financing activities, and the portion related to accreted interest is classified in operating activities. However, other entities do not bifurcate the settlement payment between principal and accreted interest and present the entire repayment in financing activities.

Under the new guidance, entities are required to bifurcate the repayment of zero-coupon bonds into principal and accreted interest, with the principal portion classified in financing activities and the accreted interest portion classified in operating activities. As a result, entities that currently classify the entire repayment of zero-coupon bonds in financing activities will need to identify the portion of such payments that are related to accreted interest and apply the provisions of ASU 2016-15 accordingly.

Further, the consensus that the EITF reached with respect to zero-coupon bonds also applies to other debt instruments with coupon rates that are insignificant in relation to the effective interest rate of the borrowing. An entity will need to use judgment when assessing the significance of the coupon rate since ASU 2016-15 does not provide guidance on how to make such a determination.

### **Distributions Received From Equity Method Investees**

While ASC 230 distinguishes between returns of investment (which should be classified as inflows from investing activities) and returns on investment (which should be classified as inflows from operating activities), it does not prescribe a method for differentiating between the two. With respect to distributions from equity method investees, entities make this determination by applying a cumulative-earnings approach or a nature of the distribution approach. ASU 2016-15 formalizes each of these methods and allows an entity to choose either one as an accounting policy election.

However, ASU 2016-15 requires entities that choose the nature of the distribution approach to report a change in accounting principle if the information required under this approach is unavailable with respect to a particular investee. Therefore, while the ASU will not eliminate diversity in practice, entities that are currently applying the nature of the distribution approach should be mindful of the additional information and disclosure requirements under the ASU in electing a method as their accounting policy.

### **Beneficial Interests in Securitization Transactions**

There is no specific guidance in ASC 230 on how to classify cash receipts associated with beneficial interests in securitization transactions. As a result, entities have classified the subsequent cash receipts from payments on beneficial interests obtained by the transferor in a securitization of the transferor's trade receivables as either operating activities or investing activities in the statement of cash flows. Although there is diversity in practice, we believe that entities have predominantly presented cash receipts from payments on a transferor's beneficial interests in securitized trade receivables as a cash inflow from operating activities. Accordingly, the requirement to present such cash receipts as a cash inflow from investing activities could change practice significantly.

### **Separately Identifiable Cash Flows and Application of the Predominance Principle**

ASC 230 acknowledges that certain cash inflows and outflows may have characteristics of more than one cash flow class (e.g., financing, investing, or operating) and states that the "appropriate classification shall depend on the activity that is likely to be the predominant source of

cash flows for the item.” Although ASC 230 gives examples illustrating the application of the predominance principle,<sup>1</sup> entities often have difficulty applying the guidance.

As a result, when cash flows have aspects of more than one cash flow class, ASU 2016-15 requires that entities first determine the classification of those cash receipts and payments by applying the specific guidance in ASC 230 and other applicable ASC topics. In addition, the ASU notes that “[i]n the absence of specific guidance, a reporting entity shall determine each separately identifiable source or each separately identifiable use within the cash receipts and cash payments on the basis of the nature of the underlying cash flows.” The ASU further states that “[i]n situations in which cash receipts and payments have aspects of more than one class of cash flows and cannot be separated by source or use . . . , the appropriate classification shall depend on the activity that is likely to be the predominant source or use of cash flows for the item.” However, because the ASU does not define the term “separately identifiable” in this context, we believe that challenges may be presented related to identifying separately identifiable cash receipts and payments as well as applying the term “predominant.”

For more information about ASU 2016-15, see Deloitte’s August 30, 2016, [Heads Up](#).

## Restricted Cash

In November 2016, the FASB issued [ASU 2016-18](#), which amends ASC 230 to provide guidance on the classification and presentation of restricted cash in the statement of cash flows. The ASU was the result of a consensus reached by the EITF and is intended to reduce diversity in practice that has developed related to the cash flow classification of restricted cash. Key requirements of the ASU are as follows:

- An entity should include in its cash and cash-equivalent balances in the statement of cash flows those amounts that are deemed to be restricted cash and restricted cash equivalents. The ASU does not define the terms “restricted cash” and “restricted cash equivalents” but states that an entity should continue to provide appropriate disclosures about its accounting policies pertaining to restricted cash in accordance with other GAAP. The ASU also states that any change in accounting policy will need to be assessed under ASC 250.
- A reconciliation between the statement of financial position and the statement of cash flows must be disclosed when the statement of financial position includes more than one line item for cash, cash equivalents, restricted cash, and restricted cash equivalents.
- Changes in restricted cash and restricted cash equivalents that result from transfers between cash, cash equivalents, restricted cash, and restricted cash equivalents should not be presented as cash flow activities in the statement of cash flows.
- An entity with a material balance of amounts generally described as restricted cash and restricted cash equivalents must disclose information about the nature of the restrictions.

For more information about ASU 2016-18, see Deloitte’s November 17, 2016, [Heads Up](#).

## Effective Date and Transition

The effective date and transition guidance for both ASU 2016-15 and ASU 2016-18 are consistent. For PBEs, the ASUs are effective for fiscal years beginning after December 15, 2017, including interim periods therein. For all other entities, the ASUs are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted for all entities. Entities must apply the ASUs retrospectively to all periods presented.

<sup>1</sup> See ASC 230-10-45-22 and 45-23.

# Appendix A — Glossary of Standards and Other Literature

The standards and other literature below were cited or linked to in this publication.

## AICPA Literature

Accounting and Valuation Guide *Assets Acquired to Be Used in Research and Development Activities*

AICPA Issues Paper, *Identification and Discussion of Certain Financial Accounting and Reporting Issues Concerning LIFO Inventories*

*AICPA Technical Questions and Answers*, Q&A paragraph 2260.03, "Other Assets; Legal Expenses Incurred to Defend Patent Infringement Suit"

## FASB Accounting Standards Updates (ASUs)

ASU 2018-03, *Technical Corrections and Improvements to Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*

ASU 2018-02, *Income Statement — Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects From Accumulated Other Comprehensive Income*

ASU 2018-01, *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*

ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*

ASU 2017-11, *Earnings per Share (Topic 260); Distinguishing Liabilities From Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments With Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests With a Scope Exception*

ASU 2017-09, *Compensation — Stock Compensation (Topic 718): Scope of Modification Accounting*

ASU 2017-07, *Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*

ASU 2017-05, *Other Income — Gains and Losses From the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*

ASU 2017-04, *Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*

ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*

ASU 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue From Contracts With Customers*

ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* — a consensus of the FASB Emerging Issues Task Force

ASU 2016-17, *Consolidation (Topic 810): Interests Held Through Related Parties That Are Under Common Control*

ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*

ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* — a consensus of the Emerging Issues Task Force

ASU 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*

ASU 2016-12, *Revenue From Contracts With Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*

ASU 2016-11, *Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting*

ASU 2016-10, *Revenue From Contracts With Customers (Topic 606): Identifying Performance Obligations and Licensing*

ASU 2016-09, *Compensation — Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*

ASU 2016-08, *Revenue From Contracts With Customers (Topic 606): Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)*

ASU 2016-02, *Leases (Topic 842)*

ASU 2016-01, *Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*

ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*

ASU 2015-14, *Revenue From Contracts With Customers (Topic 606): Deferral of the Effective Date*

ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*

ASU 2015-01, *Income Statement — Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items*

ASU 2014-16, *Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity* — a consensus of the FASB Emerging Issues Task Force

ASU 2014-15, *Presentation of Financial Statements — Going Concern (Subtopic 205-40): Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern*

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## **FASB Accounting Standards Codification (ASC) Topics**

ASC 205, *Presentation of Financial Statements*

ASC 210, *Balance Sheet*

ASC 220, *Income Statement — Reporting Comprehensive Income*

ASC 230, *Statement of Cash Flows*

ASC 235, *Notes to Financial Statements*

ASC 250, *Accounting Changes and Error Corrections*

ASC 260, *Earnings per Share*

ASC 280, *Segment Reporting*

ASC 320, *Investments — Debt and Equity Securities*

ASC 321, *Investments — Equity Securities*

ASC 323, *Investments — Equity Method and Joint Ventures*

ASC 325, *Investments — Other*

ASC 326, *Financial Instruments — Credit Losses*

ASC 330, *Inventory*

ASC 350, *Intangibles — Goodwill and Other*

ASC 360, *Property, Plant, and Equipment*

ASC 410, *Asset Retirement and Environmental Obligations*



ASC 420, *Exit or Disposal Cost Obligations*

ASC 450, *Contingencies*

ASC 470, *Debt*

ASC 480, *Distinguishing Liabilities From Equity*

ASC 505, *Equity*

ASC 605, *Revenue Recognition*

ASC 606, *Revenue From Contracts With Customers*

ASC 610, *Other Income*

ASC 715, *Compensation — Retirement Benefits*

ASC 718, *Compensation — Stock Compensation*

ASC 720, *Other Expenses*

ASC 730, *Research and Development*

ASC 740, *Income Taxes*

ASC 805, *Business Combinations*

ASC 808, *Collaborative Arrangements*

ASC 810, *Consolidation*

ASC 815, *Derivatives and Hedging*

ASC 820, *Fair Value Measurement*

ASC 825, *Financial Instruments*

ASC 830, *Foreign Currency Matters*

ASC 840, *Leases*

ASC 842, *Leases*

ASC 845, *Nonmonetary Transactions*

ASC 915, *Development Stage Entities*

ASC 958, *Not-for-Profit Entities*

ASC 985, *Software*

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Proposed ASU 2018-200, *Leases (Topic 842): Targeted Improvements*

Proposed ASU 2017-310, *Technical Corrections and Improvements to Recently Issued Standards: I. Accounting Standards Update No. 2016-01, Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities and II. Accounting Standards Update No. 2016-02, Leases (Topic 842)*

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FASB Proposed Accounting Standards Update 2017-240, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities*

Proposed ASU 2017-220, *Compensation — Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*

Proposed ASU 2017-210, *Inventory (Topic 330): Disclosure Framework — Changes to the Disclosure Requirements for Inventory*

Proposed ASU 2017-200, *Debt (Topic 470): Simplifying the Classification of Debt in a Classified Balance Sheet (Current Versus Noncurrent)*

Proposed ASU 2016-270, *Income Taxes (Topic 740) Disclosure Framework: Changes to the Disclosure Requirements for Income Taxes*

Proposed ASU 2015-340, *Government Assistance (Topic 832): Disclosures by Business Entities About Government Assistance*

Proposed ASU 2015-310, *Notes to Financial Statements (Topic 235): Assessing Whether Disclosures Are Material*

## Other FASB Proposal

Proposed Concepts Statement 2014-200, *Conceptual Framework for Financial Reporting: Chapter 8: Notes to Financial Statements*

## FASB Statements (Pre-Codification Literature)

Statement No. 167, *Amendments to FASB Interpretation No. 46(R)*

Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51*

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No. 6, *Elements of Financial Statements*

## **EITF Issues (Pre-Codification Literature)**

Issue 09-4, "Seller Accounting for Contingent Consideration"

Issue 08-1, "Revenue Arrangements With Multiple Deliverables"

Issue 04-5, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights"

Issue 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)"

Issue 01-8, "Determining Whether an Arrangement Contains a Lease"

Issue 00-21, "Revenue Arrangements With Multiple Deliverables"

## **PCAOB Auditing Standard**

Release No. 2017-001, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion and Related Amendments to PCAOB Standards*

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Non-GAAP Financial Measures

## **SEC Interpretive Release**

33-10403, *Updates to Commission Guidance Regarding Accounting for Sales of Vaccines and Bioterror Countermeasures to the Federal Government for Placement Into the Pediatric Vaccine Stockpile or the Strategic National Stockpile*

## **SEC Regulation G**

"Conditions for Use of Non-GAAP Financial Measures"

## **SEC Regulation S-K**

Item 10(e), "General; Use of Non-GAAP Financial Measures in Commission Filings"

Item 103, "Business; Legal Proceedings."

## **SEC Regulation S-X**

Rule 3-05, "Financial Statements of Businesses Acquired or to Be Acquired"

Rule 3-09, "Separate Financial Statements of Subsidiaries Not Consolidated and 50 Percent or Less Owned Persons"

Rule 3-14, "Special Instructions for Real Estate Operations to Be Acquired"

Rule 4-08(g), "General Notes to Financial Statements; Summarized Financial Information of Subsidiaries Not Consolidated and 50 Percent or Less Owned Persons"

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## **SEC Staff Accounting Bulletins (SABs)**

SAB Topic 1.M, "Financial Statements; Materiality"

SAB Topic 5.Y, "Miscellaneous Accounting; Accounting and Disclosures Relating to Loss Contingencies"

SAB Topic 11.A, "Miscellaneous Disclosure; Operating-Differential Subsidiaries"

SAB Topic 13, "Revenue Recognition"

SAB Topic 13.A.4, "Revenue Recognition; Selected Revenue Recognition Issues; Fixed or Determinable Sales Price"

SAB Topic 13.B, "Revenue Recognition; Disclosures"

SAB 116, "Staff Accounting Bulletin No. 116"

SAB 118, codified as SEC Staff Accounting Bulletin Topic 5.EE, "Miscellaneous Accounting; Income Tax Accounting Implications of the Tax Cuts and Jobs Act"

## **Internal Revenue Code (IRC)**

IRC Section 78, "Gross Up for Deemed Paid Foreign Tax Credit"

IRC Section 163(j), "Interest; Limitation on Business Interest"

IRC Section 199, "Income Attributable to Domestic Production Activities"

IRC Section 383, "Special Limitations on Certain Excess Credits, Etc."

IRC Section 787, "Termination of Private Foundation Status"

IRC Section 965, "Treatment of Deferred Foreign Income Upon Transition to Participation Exemption System of Taxation"

IRC Section 4191, "Medical Devices"

## **International Standards**

IFRS 16, *Leases*

IFRS 15, *Revenue From Contracts With Customers*

IFRS 11, *Joint Arrangements*

IFRS 3, *Business Combinations*

IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*

## Appendix B — Abbreviations

Abbreviation	Description	Abbreviation	Description
<b>AFS</b>	available for sale	<b>E&amp;P</b>	earnings and profits
<b>AICPA</b>	American Institute of Certified Public Accountants	<b>EPS</b>	earnings per share
<b>AMT</b>	alternative minimum tax	<b>EU</b>	European Union
<b>AOCI</b>	accumulated other comprehensive income	<b>FAQ</b>	frequently asked question
<b>API</b>	active pharmaceutical ingredient	<b>FASB</b>	Financial Accounting Standards Board
<b>APIC</b>	additional paid-in capital	<b>FDA</b>	Food and Drug Administration
<b>ASC</b>	FASB Accounting Standards Codification	<b>FDII</b>	foreign derived intangible income
<b>ASU</b>	FASB Accounting Standards Update	<b>FIFO</b>	first in, first out
<b>BCF</b>	beneficial conversion feature	<b>FIN</b>	FASB Interpretation Number (superseded)
<b>BEAT</b>	base erosion anti-abuse tax	<b>FOB</b>	free on board
<b>BEMTA</b>	base erosion minimum tax amount	<b>GAAP</b>	generally accepted accounting principles
<b>BPD</b>	branded prescription drug	<b>GILTI</b>	global intangible low-taxed income
<b>BOLI</b>	bank-owned life insurance	<b>GPO</b>	group purchasing organization
<b>CAM</b>	critical audit matter	<b>IAS</b>	International Accounting Standard
<b>C&amp;DI</b>	SEC Compliance and Disclosure Interpretation	<b>IASB</b>	International Accounting Standards Board
<b>CECL</b>	current expected credit loss	<b>IFRS</b>	International Financial Reporting Standard
<b>CFC</b>	controlled foreign corporation	<b>IIR</b>	investigator-initiated research
<b>CODM</b>	chief operating decision maker	<b>IP</b>	intellectual property
<b>COLI</b>	corporate-owned life insurance	<b>IPO</b>	initial public offering
<b>CRO</b>	contract research organization	<b>IPR&amp;D</b>	in-process research and development
<b>CTA</b>	cumulative translation adjustment	<b>IRC</b>	Internal Revenue Code
<b>DCPs</b>	disclosure controls and procedures	<b>IRS</b>	Internal Revenue Service
<b>DTA</b>	deferred tax asset	<b>IT</b>	information technology
<b>DTL</b>	deferred tax liability	<b>LIFO</b>	last in, first out
<b>EBITDA</b>	earnings before interest, taxes, depreciation, and amortization	<b>LLC</b>	limited liability company
<b>EITF</b>	FASB Emerging Issues Task Force		

<b>Abbreviation</b>	<b>Description</b>
<b>LP</b>	limited partnership
<b>M&amp;A</b>	merger and acquisition
<b>MD&amp;A</b>	Management's Discussion and Analysis
<b>MDET</b>	medical device excise tax
<b>MSL</b>	medical science liaison
<b>NFP</b>	not-for-profit entity
<b>NOL</b>	net operating loss
<b>OCI</b>	other comprehensive income
<b>OEM</b>	original equipment manufacturer
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>PBE</b>	public business entity
<b>PCAOB</b>	Public Company Accounting Oversight Board
<b>PCC</b>	Private Company Council
<b>PCD asset</b>	purchased financial asset with credit deterioration
<b>PRV</b>	priority review voucher

<b>Abbreviation</b>	<b>Description</b>
<b>PTRS</b>	probability of technical and regulatory success
<b>Q&amp;A</b>	question and answer
<b>R&amp;D</b>	research and development
<b>R&amp;E</b>	research and experimentation
<b>REMS</b>	risk evaluation and mitigation strategy
<b>ROU</b>	right-of-use
<b>SAB</b>	SEC Staff Accounting Bulletin
<b>SEC</b>	Securities and Exchange Commission
<b>SFC</b>	specified foreign corporation
<b>SIFMA</b>	Securities Industry and Financial Markets Association
<b>T.D.</b>	Treasury Decision
<b>TRG</b>	transition resource group
<b>UTB</b>	unrecognized tax benefit
<b>VIE</b>	variable interest entity
<b>WAC</b>	wholesaler acquisition cost



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