

Revenue Recognition & Lease Accounting: Your Countdown is On

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The webinar will start at 11:00 a.m. CT



Tyler Walden
Manager,
Assurance Services



Patrick Lowrance
Senior Manager,
Assurance Services

Administration



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About the Speakers



Tyler Walden

Manager, Assurance Services

Serves clients in a variety of industries, including banking, manufacturing, private equity, vehicle dealerships, aerospace, retailers, agribusiness and energy

Certified public accountant and member of the American Institute of CPAs and Kansas Society of CPAs

About the Speakers



Patrick Lowrance

Senior Manager, Assurance Services

Serves clients in manufacturing, wholesale/distribution, financial services and construction

Leads the firm's independent review and quality control function

Certified fraud examiner and accredited in business valuation

Learning Objectives

Outline major changes for both standards between current and new FASB guidance

Identify key potential hurdles in implementation of the standards

Understand transition timing and effective dates for both standards

REVENUE RECOGNITION: The Countdown to Jan. 1, 2019

(Adoption date for non-public
companies)

Introduction

Revenue recognition

- Critical factor in financial statement use
- Too complex; needed overhaul
- Revisions designed to increase consistency, comparability, and streamline

Scope: Does the Guidance Apply?

- What other standards may apply?
- What portion of the contract is affected?
- What transactions are excluded?

Five-step Model/Practical Expedient

Identify the contract

Identify performance obligations

Determine transaction price

Allocate transaction price

Recognize revenue



Polling question #1

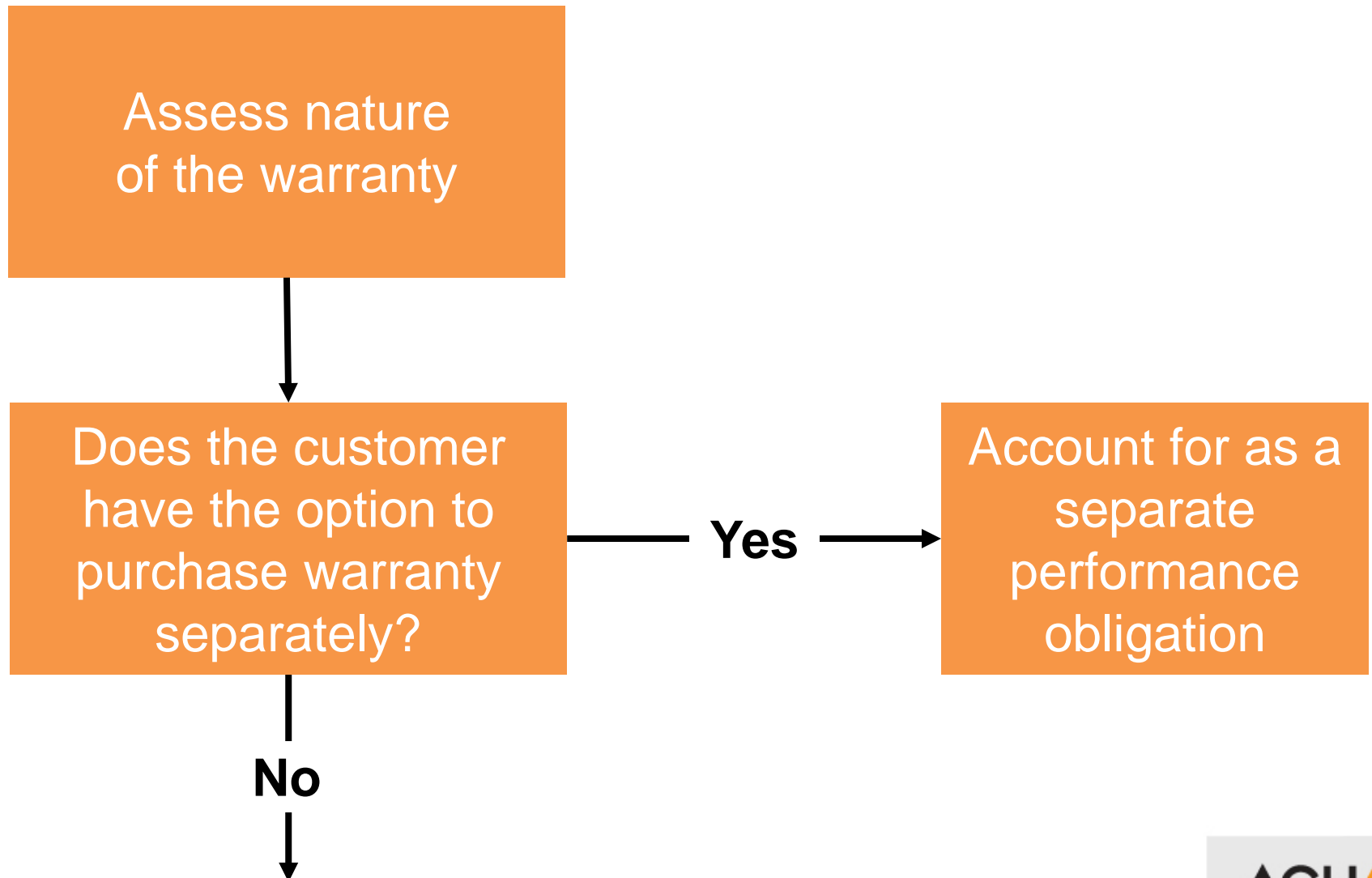
Implementation Guidance

There are many topics that are covered in the standard that have specific implementation guidance.

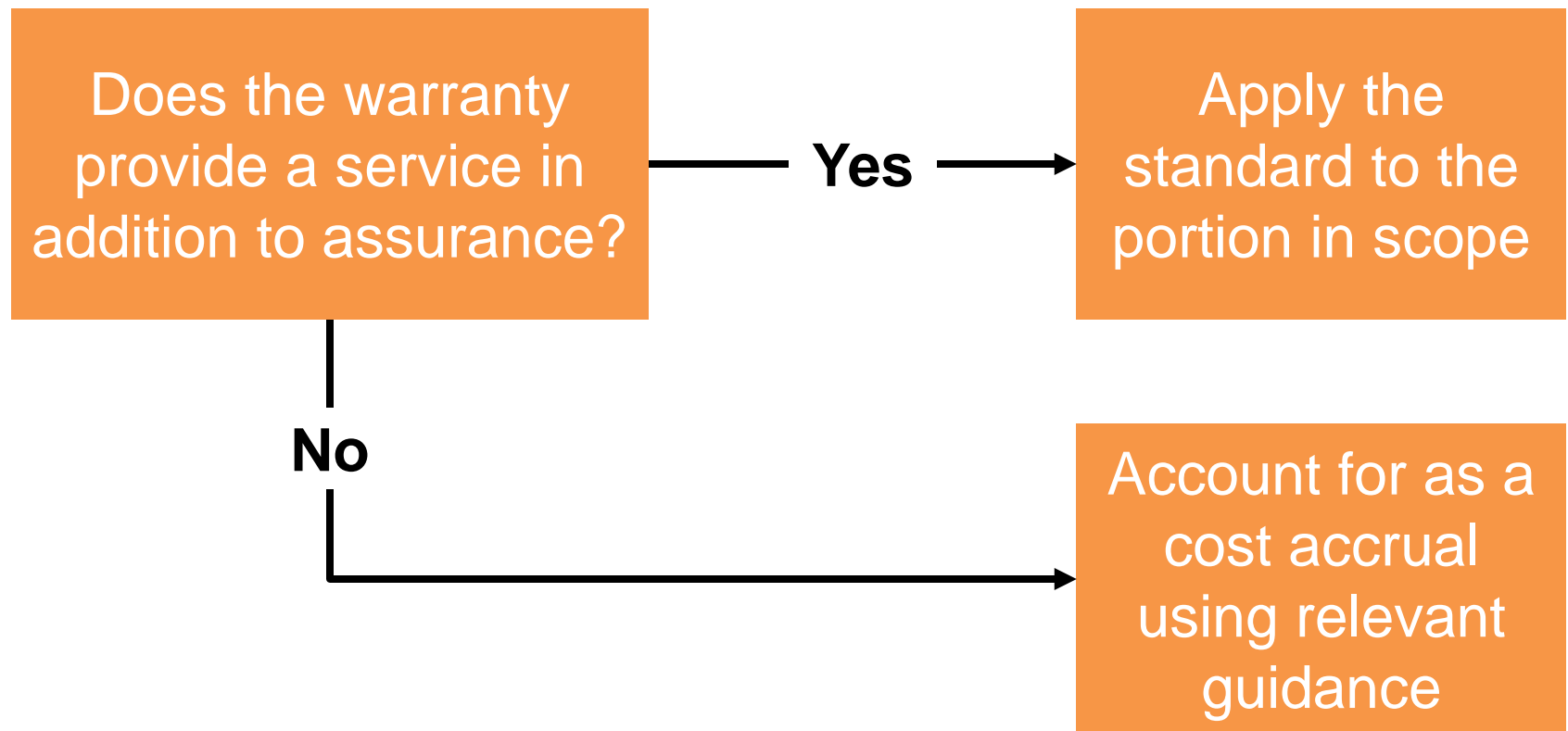
- Warranty obligations
- Licenses
- Contract costs



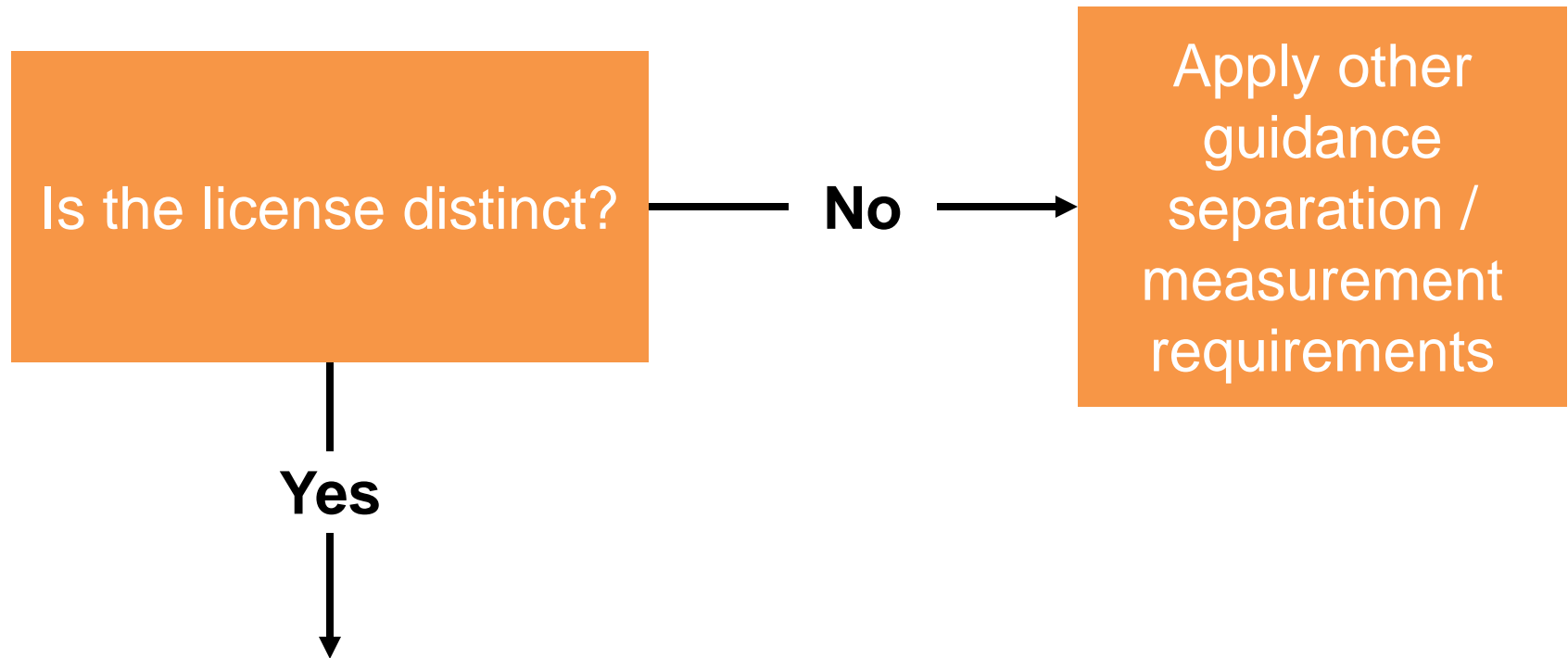
Warranty Obligations



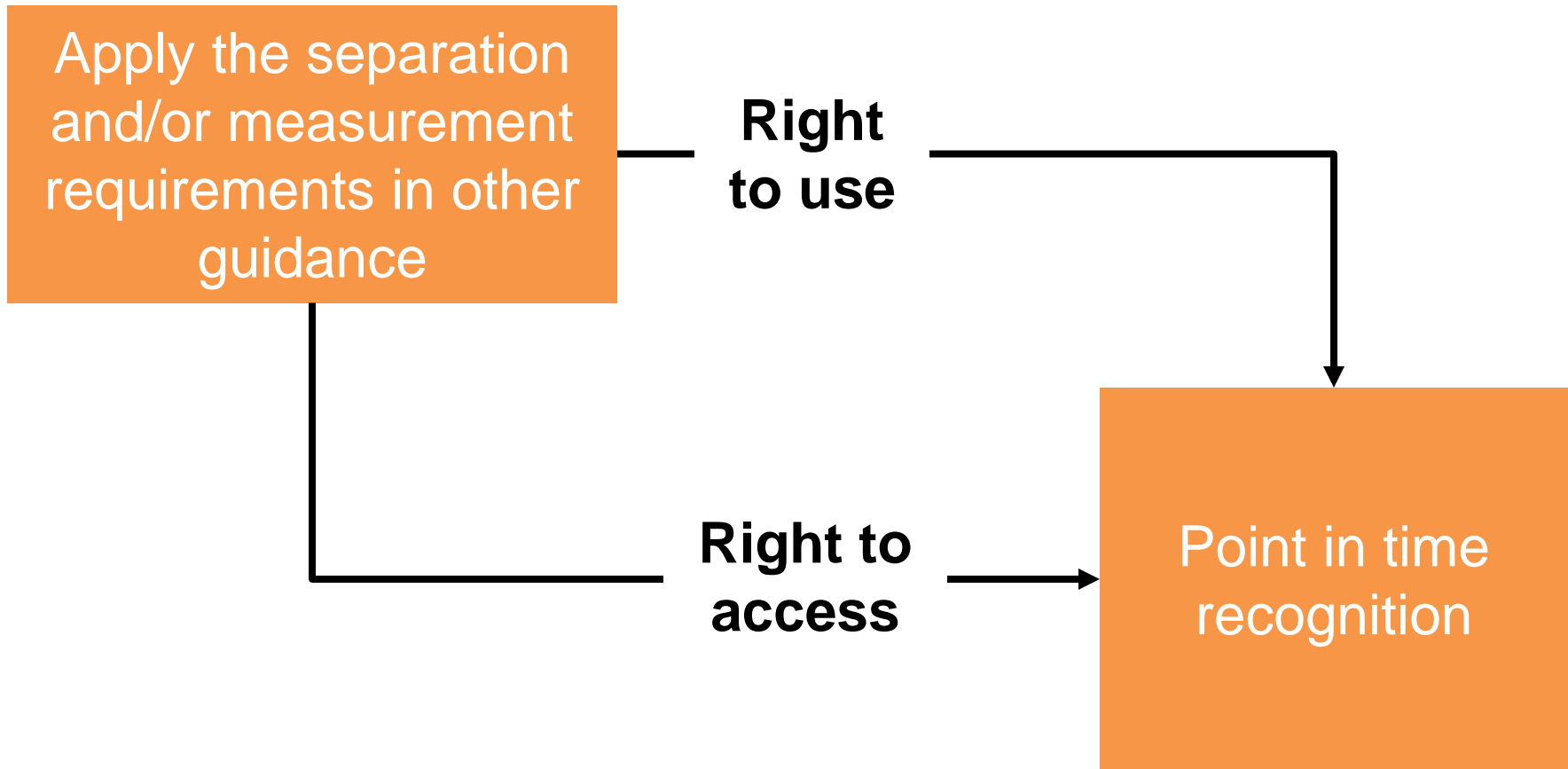
Warranty Obligations



Licenses



Licenses



Contract Costs

- Were costs incurred seeking a contract?
- Would they have been incurred even without seeking the contract, or ...
- Are they incurred **ONLY** if the contract is executed?

Presentation & Disclosure

The standard includes extensive disclosure requirements related to:

- Timing
- Risk
- Judgments
- Cash flows





Polling question #2

Transition & Effective Date

Applicable for
public entities
starting in 2018

Applicable for
private entities
starting in 2019

Standard will
apply
retrospectively

Private
companies will
need to start
tracking in 2018

LEASE ACCOUNTING: The Countdown to Jan. 1, 2020

(Adoption date for non-public
companies)

Lease Accounting

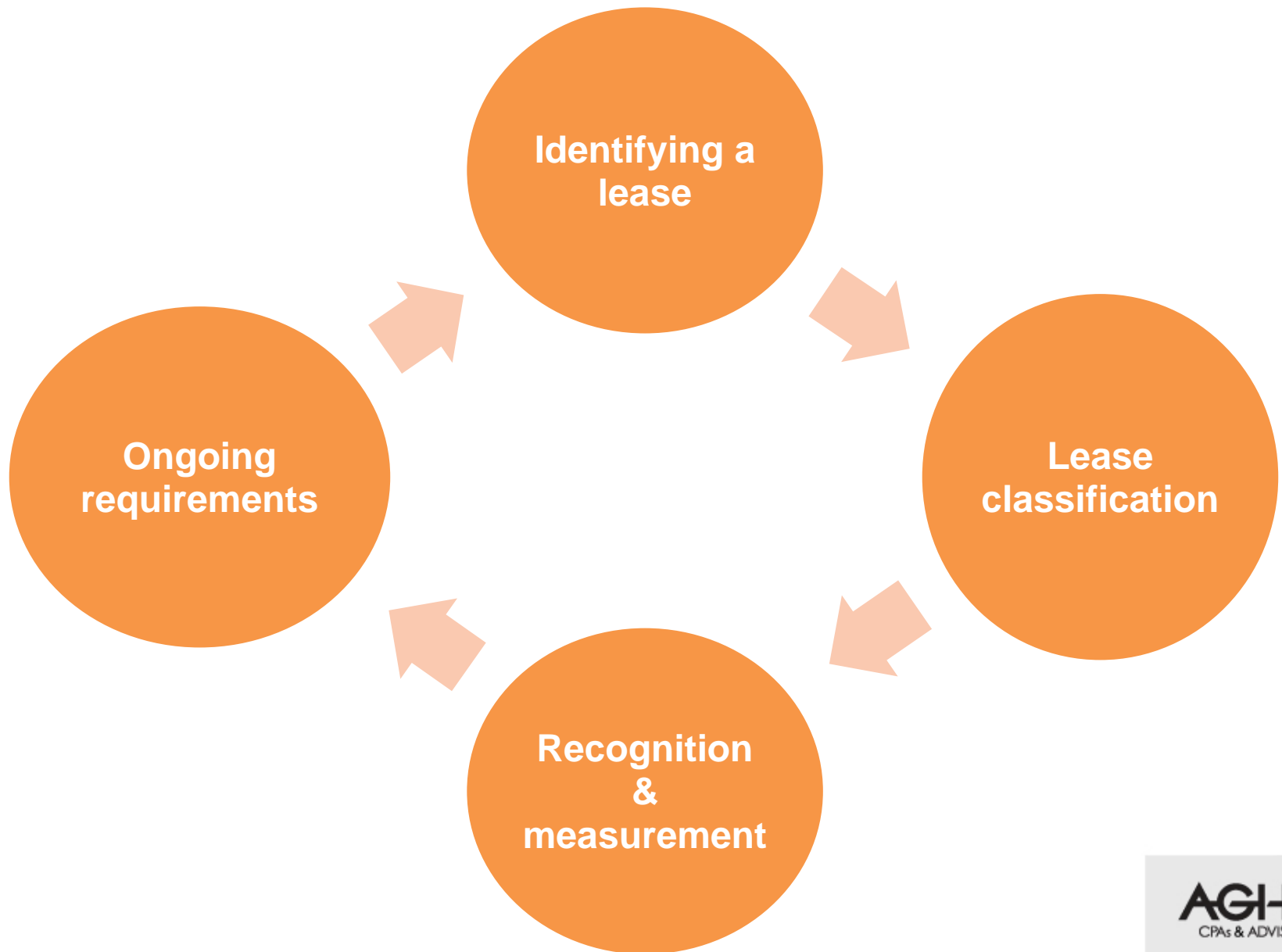
Simplify lessee reporting

Provide a complete picture of lease obligations

Lessee exemption for short-term leases (12 months or less)

Polling question #3

Identification and Recognition Process



When is a Lease Present?



Identified Asset

- Explicitly or implicitly specified
- Substitution restrictions

Right to Control

- Decision making authority over the asset
- Obtain economic benefits from the asset

Classification

If a lease meets any of the following 5 conditions, it is a finance lease:

Transfer of ownership

Option to purchase is reasonably certain

Lease term is a “major part” of the economic life

Present value of lease payments is “substantially all” of the fair value

Specialized nature

Recognition & Measurement

Add

Fixed Payments

Variable Payments

- Include payments depending on index/rate
- Include in-substance fixed payments
- Exclude payments that change due to factors after commencement

Purchase / Termination Options

- Include payments for purchase, renewal or termination options consistent with lease term

Residual Value Guarantees

- Include the full amount of residual value guarantee

Subtract

Lessor-provided incentives

- Payments made to, or on behalf of, the lessee
- Losses incurred by the lessor as a result of assuming a lessee's pre-existing lease from a 3rd party

Consider

Initial Direct Costs

- Include incremental costs in the asset
- Only those costs incurred signing the lease

Discount Rate

- Lessees: rate the lessor charges otherwise lessee's incremental borrowing rate
- Lessors: rate it charges the lessee including any deferred initial direct costs

Presentation - Lessees

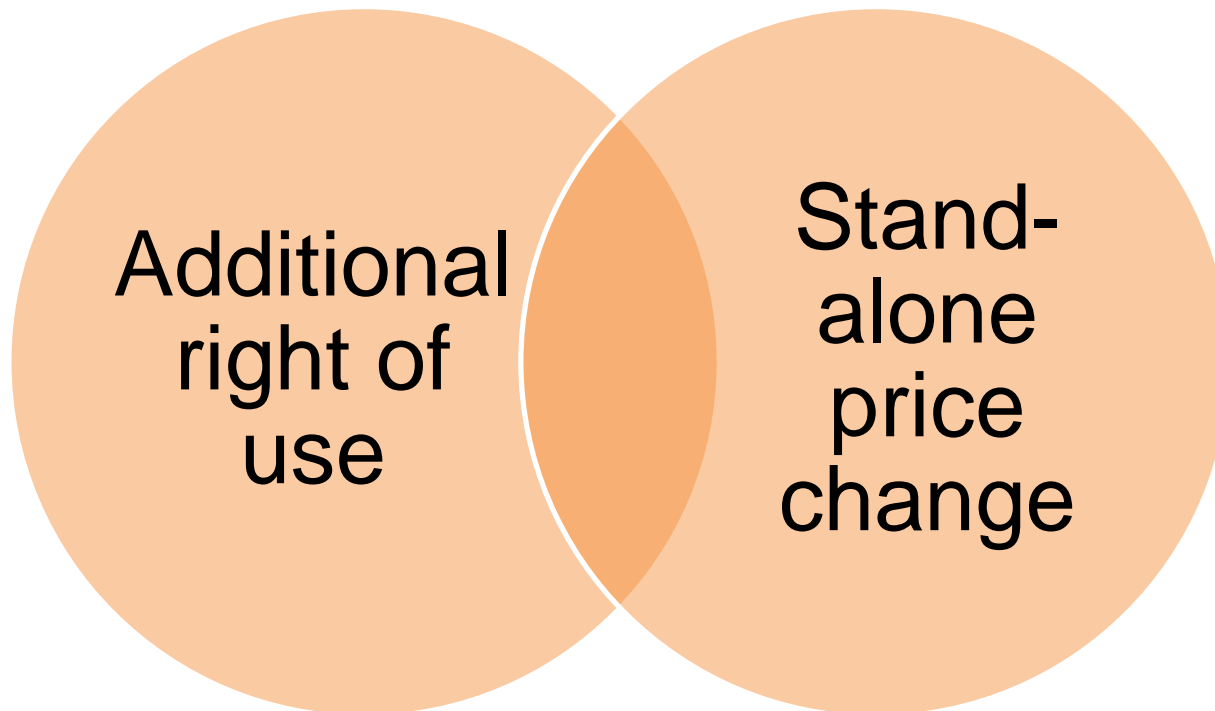
Type of Lease	Balance Sheet Effect	Income Statement Effect	Cash Flow Statement Effect
Finance	<ul style="list-style-type: none">• Right-of-use asset• Lease liability	Front loaded <ul style="list-style-type: none">• Amortization expense• Interest expense	Interest = Operating Variable = Operating Principal = Financing
Operating	<ul style="list-style-type: none">• Right-of-use asset• Lease liability	Lease expense	Operating

Presentation - Lessor

Type of Lease	Balance Sheet Effect	Income Statement Effect	Cash Flow Statement Effect
Sales / Direct Financing	<ul style="list-style-type: none">Lease receivableUnguaranteed residualDeferred profit	Front loaded <ul style="list-style-type: none">Interest income on receivable & residualProfit (immediate or deferred)	Operating
Operating	<ul style="list-style-type: none">Underlying asset remains	Lease income	Operating

Modifications

When does a modification become a new lease?



Reassess classification upon change in terms or modification

Modifications: Items to Consider

Liability

- Remeasured using discount rate

Change in scope

- Corresponding adjustment to the asset
- Proportional adjustment to the asset and recognize resulting gain/loss

Overall

- Multiple possible outcomes
- Operating lease

Asset Impairment

Lessee

- Apply long-lived assets guidance (ASC 360)
- Appropriately write down the right-of-use asset
- Following the impairment, amortize the right of use asset on a straight-line basis

Lessor

- Sales-type and direct financing leases, apply guidance for receivables (ASC 310)
- Operating leases, apply long-lived asset guidance (ASC360)

Effective Date & Transition

Adoption Date

- Effective January 1, 2019 for calendar-year public companies
- January 1, 2020 for non-public

Transition Method

- Modified retrospective
- May apply hindsight to existing leases
- Change in classification

Relief Package

- At adoption do not reassess
 - If arrangement is a lease
 - Lease classification
 - Whether initial direct costs qualify for capitalization

Polling question #4

Thank you!



Tyler Walden

Manager, Assurance Services
Tyler.Walden@aghlc.com
316.291.4031



Patrick Lowrance

Senior Manager, Assurance Services
Patrick.Lowrance@aghlc.com
316.291.4004

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mike.ditch@aghlc.com