Integra International Audit & Accounting Alert

Issue 1 |January 2019

At-A-Glance

As this issue of the Alert is released, two major financial reporting milestones have been reached, one for public companies and another for private companies. As of January 1, 2019, the new lease accounting standard goes into effect for public companies with calendar year ends, while the new revenue accounting standard is now effective for private companies. Our first article highlights recent reports on the implementation status of these generational changes.

A milestone for nonfinancial reporting was also announced recently by the Sustainability Accounting Standards Board. Industry-specific sustainability standards have been finalized for 77 different industries. Helpful tools for use in implementing these standards have been developed by the SASB, as discussed in our second article.

Finally, our Worldwide Update covers news from organizations across the globe.

The New Year Brings Momentous New Standards for Both Public and Private Companies

Public companies tackle leases while private companies update revenue recognition

A year ago, the January 2018 issue of the Alert summarized the significant financial reporting changes contained in the new lease and revenue accounting standards. At that time, the revenue accounting standard was just going into effect for public companies while the new lease accounting standard was still a year off. Private companies were given more time before implementing either new standard.

As of January 1, 2019, both standards are now in play for public companies with calendar year ends, while private companies are also responsible for applying the revenue accounting changes, but still have another year to put the lease accounting changes into effect. Various reports and surveys provide insights as to the progress and approaches employed leading up to and after implementation.

For example, a November 2018 report titled *Impact of Revenue Recognition Standards on Public Companies* from business and regulatory compliance analytics company, Intelligize, revealed that most companies chose the easier of two approaches in one aspect of their initial reporting. For the transition, companies could apply either full or modified retrospective reporting. The full approach required restating the prior two years of revenue to reflect the new standard, which would have taken a lot more work. However, the report indicated that the modified approach used by the vast majority could be riskier, since investors, without the benefit of comparable accounting for all the years, may misinterpret the reduction in current year revenue caused by the change in the standard.

PwC surveyed over 450 executives in October 2018 to gauge their progress on the new standards. Only 28% of private companies had completed implementation of the revenue standard and 17% had not even stated. Though in effect since last January for public companies, the standard was not yet completely adopted by 23%, but half of those have non-calendar year-ends.

The AICPA's Audit and Accounting Guide for Revenue Recognition, which is a work in progress, as of September 1, 2018, includes guidance for 130 specific issues originating from 16 industry groups, in addition to general accounting and audit considerations. The Joint Transition Resource Group for Revenue Recognition (TRG) formed by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) dealt with over a hundred issues summarized in a log organized by the five revenue recognition criteria, with links to detailed analysis and conclusions.

While the AICPA and TRG work on issues has wound down in the last couple years, matters of significance still arise. The Intelligize report noted that in comment letters from the U.S. Securities and Exchange Commission to filers, the most prevalent concern related to the measurement of performance obligations. In that regard, the FASB in November, 2018 published a staff paper titled *Update on Implementation Activities for Franchise Industry*, which offers advice on identifying performance obligations. Since judgment is often needed in applying the new standard, guidance is helpful. In this case, the timing of franchise fee recognition is not as straightforward as had been the case under the prior standard.

Turning to the new lease standard, the PwC survey reported that with less than two months to go before the effective date for calendar year end public companies, only 4% of public companies had completed implementation. Most were well under way, with only 3% not having started, and 13% still assessing the impact. Only 2% of private companies were finished with implementation, while 28% had not started and 35% were still assessing the impact. That status is not surprising, since private companies have another year to finish the process. The implementation considerations noted as most difficult involved completeness, embedded leases, data abstraction and human resources.

Encoursa, the continuing education provider, in September, 2018, surveyed 122 accountants involved in implementation of the new lease standard. About half were from public firms and half private. For this group, the most challenging elements were understanding the new standards, not enough time, human resources and the number of leases. As to tools employed, almost three quarters of public companies were using or planned to use lease accounting software, as compared to only a third of private companies. Excel spreadsheets were the preference of almost half of private companies, possibly because of smaller lease portfolios or a lack of awareness of the complexity involved at their earlier stage in the process.

For those who may just now have become aware of the magnitude of the implementation task involved, knowledgeable consultants are available for assistance. As mentioned in an earlier Alert, one of them, Integra International member, Swenson Advisors, has developed a turnkey system, including software supplemented by accounting and leasing professionals, that can take the arduous project from start to finish in an efficient manner. Swenson's thought leadership (including articles in the Journal of Accountancy and China Briefing) has provided opportunities to work with Fortune 100 companies and large hospital systems managing thousands of leases. Playing a key role in this whole process alongside Swenson are Integra member Kabat, Schertzer, De La Torre, Taraboulos & Company (KSDT) (Miami office) and real estate firm Cresa. Information on this solution, known as AccountLease, can be found at http://www.accountlease.com/.

In breaking news, on December 10, 2018, the FASB issued Accounting Standards Update, ASU 2018-20, **Leases: Narrow Scope Improvements for Lessors**. In an effort to reduce the cost of applying the new lease standard, this ASU simplifies for lessors the treatment of 1) sales taxes and other similar taxes collected from lessees, 2) certain lessor costs paid directly by lessees, and 3) recognition of variable payments for contracts with lease and nonlease components. As previously mentioned in the September 2018 Audit & Accounting Alert, several other FASB amendments during 2018 have also been helpful with the implementation process. ASU 2018-11, **Leases - Targeted Improvements,** has had the biggest impact, offering several practical expedients, one of which most companies are using to avoid retroactive restatement. Other expedients address lease classification (finance vs operating), whether a contract "contains a lease," and initial indirect costs, among others.

In further developments, on December 19, 2018. The FASB proposed another Accounting Standards Update, **Leases: Codification Improvements for Lessors,** that "aligns the guidance for fair value of the underlying asset by lessors that are not manufacturers or dealers in Topic 842, with that of existing guidance" and "would also require lessors within the scope of Topic 942, Financial Services—Depository and Lending, to present all "principal payments received under leases" within investing activities."

Further details can be found at PwC Revenue Recognition and Lease Accounting Survey and Encoursa Lease Accounting Survey.

(https://www.pwc.com/us/en/services/audit-assurance/accounting-advisory/2018-accounting-change-survey.html) and (https://leasequery.com/encoursa-and-leasequery-announce-october-2018-lease-accounting-survey-results/?utm_source=pr&utm_medium=web&utm_campaign=encoursa_survey)