

Accounting for Success



by
Jeffrey A. Elwell, CPA
Director - Accounting & Auditing
Belfint Lyons & Shuman, P.A.

“Tax reform is not the only change to worry about in 2018.”

What Do You Mean There Are Other Changes to Worry About Besides Tax Reform?

Tax reform is not the only change to worry about in 2018. It's also time to determine if the Revenue from Contracts with Customers (ASU 2014-09) and Leases (ASU 2016-02) standard updates apply to your financial accounting effective for periods beginning after December 15, 2018 for nonpublic entities.

Both accounting standard updates are applicable to entities that maintain their financial reporting basis under generally accepted accounting principles (GAAP). If your basis of accounting is a special purpose framework, the new standards do not apply.

Revenue from Contracts with Customers (ASU 2014-09)

Current GAAP includes over 200 specialized or industry-specific pieces of revenue recognition guidance.

The standard will eliminate this transaction and industry-specific revenue recognition guidance and replace it with a principle-based approach for determining revenue recognition. The standard affects all entities that have contracts with customers, except for certain exclusions.

The core principle under the standard is that an entity should recognize revenue depicting the transfer of goods or services to customers in an amount that reflects the consideration in which the entity expects to be entitled in the exchange for those goods or services.

Revenue is recognized when a company satisfies a performance obligation by transferring a promised good or service to a customer. The application of this standard is expected to have varying levels of impact across organizations and industries. However, all entities preparing GAAP financials will at the very least be exposed to increased levels of disclosure. If your industry is one of the sixteen industries for which the AICPA has created a task

force to develop a new Accounting Guide on Revenue Recognition, your revenue recognition may be affected.

Leases (ASU 2016-02)

Under current GAAP, capital leases are reported on the balance sheet, but operating leases are expensed as incurred with no effect on the balance sheet. Under the new standard, lessees will be required to recognize lease assets and lease liabilities for all leases, with certain exceptions, on their balance sheets. Leases will be classified as either financing or operating and the income statement treatment is different between the two. Lessors will account for the leases using an approach that is substantially equivalent to current GAAP.

What to Do

The following are some suggestions to consider:

- Determine if and how these standards affect your entity.
- Assess if your software, systems, contracts and personnel are designed to handle the changes.
- Evaluate your contracts with customers. Determine if your contracts require updating.
- Evaluate the lease impact on your lending intuitions' financial covenants. Have a discussion with your lender to amend or waive your covenants if significantly affected.
- Unless certain financial statement users require GAAP, consider reporting under a special purpose framework like the Financial Reporting Framework for Small and Medium-Sized Entities. Have a dialog with your financial institution or bonding agent to see if an alternate reporting basis is an acceptable alternative.
- Contact your CPA to discuss in more detail.