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ASUpdates for Nonpublic Business Entities: What's New for 2018?

See how the FASB Accounting Standards Updates can affect your company

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As the end of 2018 quickly approaches, construction financial managers (CFMs) should keep in mind how Financial Accounting Standards Board (FASB) Accounting Standards Updates (ASUs) might affect their companies. There are a number of ASUs issued applicable to nonpublic business entities (non-PBEs) for years ending Dec. 31, 2018, and in subsequent years. A list of ASUs applicable for non-PBEs can be found in the following exhibit. This article will focus on two standards included in the list: ASU 2015-17 and Accounting Standards Codification (ASC) 606.

Exhibit 1

Accounting Standard Updates (ASUs)

Effective dates for nonpublic business entities (Non-PBEs)

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end non-PBEs	Early adoption
Share-Based Payment Modification Accounting (ASU 2017-09) Requires modification accounting when an award's fair value, vesting provisions, or classification changes subsequent to a modification of the award.	March 31, 2018	Permitted, including in an interim period
Codification Improvements (ASU 2018-09) Contains 30 improvements in all, including income taxes for certain quasi reorganizations; clarifies accounting treatment when the fair value option debt extinguishments is elected; revises an example to align with guidance that prohibits the combination of freestanding financial instruments in the scope of ASC 480-10 with noncontrolling interest, unless the combination is required by Topic 815; clarifies that excess tax benefits should be recognized in the period when the tax deduction for compensation expense is taken on the tax return; removes the three tax allocation methods from ASC 805-740-25-13 since they are not systematic, rational, and consistent as required by Topic 740; clarifies that the intent to set off criteria is not required to offset derivative assets and liabilities when recognized at fair value and executed with the same counterparty under a master netting agreement; clarifies how to consider transfer restrictions for fair value measurement; clarifies balance sheet offsetting for broker-dealers; revises an illustration to clarify valuation for a stable value common collective trust fund.	Varies by issue (see pages 8 and 9 of the ASU) Upon issuance, July 16, 2018 Dec. 31, 2019 Dec. 31, 2020	Permitted, including in an interim period
Classification of Deferred Taxes (ASU 2015-17) Simplifies classification of deferred taxes in a classified balance sheet. Classification as noncurrent only is required.	Dec. 31, 2018	Permitted as of the beginning of an interim or annual period

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end non-PBEs	Early adoption
Derivative Novations (ASU 2016-05) Applies when there is a change in the counterparty to a derivative instrument that has been designated as a hedging instrument.	Dec. 31, 2018	Permitted, including in an interim period
Contingent Puts and Calls on Debt Instruments (ASU 2016-06) Applies to debt instruments (or hybrid financial instruments that are determined to have a debt host) with embedded put or call options. When those options are contingently exercisable, there is no requirement that an entity must assess whether the event that triggers the ability to exercise the options is related to interest rates or credit risks.	Dec. 31, 2018	Permitted, including in an interim period
Share-Based Payments (ASU 2016-09) Applies to share-based payment awards issued to employees and offers simplification in several areas including income taxes, forfeitures, minimum statutory tax withholding requirements, cash flow presentation, and practical expedients for nonpublic entities to use intrinsic value measurement for liability-classified awards and to estimate expected term for certain awards.	Dec. 31, 2018	Permitted, including in an interim period
Tax Reform – Reclassification of Stranded Tax Effects in AOCI (ASU 2018-02) If elected, an entity may reclassify stranded tax effects in accumulated other comprehensive income (AOCI) specifically affected by the tax reform law from AOCI to retained earnings, instead of recognizing those effects in earnings.	March 31, 2019	Permitted, including in an interim period

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end non-PBEs	Early adoption
Revenue Recognition (ASU 2014-09) For all entities, the transaction- and industry-specific recognition methods are eliminated and revenue is recognized by applying a defined principles-based approach. **Clarifying standards:** **ASU 2015-14 –** Deferral of effective date **ASU 2016-08 –** Principal versus agent considerations (gross versus net reporting) **ASU 2016-10 –** Identifying performance obligations and licensing **ASU 2016-11 –** Rescission of SEC staff observer comments (staff announcements at March 3, 2016, Emerging Issues Task Force meeting) **ASU 2016-12 –** Narrow-scope improvements and practical expedients **ASU 2016-20 –** Technical corrections and improvements **ASU 2017-14 –** Rescission of SEC Staff Accounting Bulletin (SAB) Topics 8 and 13 and bill-and-hold guidance; revision of SEC SAB Topic 11.A and guidance for certain vaccine manufacturers	Dec. 31, 2019	Permitted only as of annual periods beginning after Dec. 15, 2016, including interims within
Derecognition and Partial Sales of Nonfinancial Assets (ASU 2017-05) Primarily applies to the real estate industry but can affect other entities. Clarifies the scope of Subtopic 610-20 by defining an "in substance nonfinancial asset"; provides guidance on partial sales, such as when an entity retains an equity interest in the entity that owns the transferred nonfinancial assets.	Dec. 31, 2019, consistent with ASU 2014-09	Permitted only as of annual periods beginning after Dec. 15, 2016, including interims within
Service Concession Arrangements for Operators of Public Infrastructure (ASU 2017-10) In all service concession arrangements between a public sector entity and the operator of the public sector entity's infrastructure, the public sector entity (or the grantor) should be identified as the customer.	Dec. 31, 2019 (if ASU 2014-09 has not yet been adopted)	Permitted, including in an interim period

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end non-PBEs	Early adoption
Recognition and Measurement (ASU 2016-01) Applies to the classification and measurement of financial instruments. Removes the available-for-sale (AFS) category for equities. Equities (excluding equity method and consolidated investments) will be carried at fair value; however, the changes will run through the income statement rather than other comprehensive income. **Clarifying standards:** **ASU 2018-03 –** Clarifications for equity securities without a readily determinable fair value and fair value option liabilities **ASU 2018-04 –** (SEC SAB 117) Rescission of SEC guidance on AFS equities	Dec. 31, 2019	Not permitted, except for two provisions For ASU 2018-03, permitted, including in an interim period, if ASU 2016-01 has been adopted
Statement of Cash Flows: Certain Clarifications (ASU 2016-15) Provides guidance on how eight specific cash flows should be classified in the statement of cash flows, including debt prepayment or extinguishment costs, settlement of zero-coupon bonds, contingent consideration payments, insurance settlement proceeds, company-owned life insurance policy settlements and premiums, equity method investee distributions, beneficial interests in securitization transactions, and predominance principle for receipts and payments.	Dec. 31, 2019	Permitted, including in an interim period
Income Taxes for Intra-entity Asset Transfers (ASU 2016-16) Applies to asset transfers between legal entities, including related parties (such as subsidiaries); transferor recognizes the current and deferred tax effects when the transfers occur.	Dec. 31, 2019	Permitted as of the beginning of an annual period for which financial statements have not been issued or made available for issuance
Statement of Cash Flows: Restricted Cash (ASU 2016-18) Requires that restricted cash and cash equivalents be presented in total cash and cash equivalents in the statement of cash flows; requires that the nature of restrictions on restricted cash and cash equivalents be disclosed.	Dec. 31, 2019	Permitted, including in an interim period

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end non-PBEs	Early adoption
Definition of a Business (ASU 2017-01) Applies to the analysis of whether an asset or business is acquired (which determines whether goodwill is recognized); applies to asset derecognition and business deconsolidation transactions.	Dec. 31, 2019	Permitted for certain transactions
Employee Benefit Plan Master Trust Reporting (ASU 2017-06) Applies to disclosures of plans that have an interest in a master trust, which is a trust that a regulated financial institution serves as a trustee or custodian and in which assets of more than one plan sponsored by an employer or employers under common control are held.	Dec. 31, 2019	Permitted
Presentation of Net Periodic Pension and Postretirement Benefit Costs (ASU 2017-07) Rather than reporting pension expense as a net amount, the service cost component will be presented consistent with similar compensation for the same employees, and the other components will be separately presented in the income statement.	Dec. 31, 2019	Permitted as of the beginning of an annual period, in the first interim period if interim financial statements are issued
Leases (ASU 2016-02) Revises recognition and measurement for lease contracts by lessors and lessees; operating leases are recorded on the balance sheet for lessees. Replaces Topic 840 with Topic 842. **Clarifying standards:** **ASU 2018-01 –** Provides a practical expedient in transition to not evaluate existing or expired land easements under Topic 842 that were not previously accounted for as leases under Topic 840. **ASU 2018-10 –** Provides 16 improvements and clarifications to the guidance in Topic 842.	Dec. 31, 2020	Permitted
Premium Amortization on Purchased Callable Debt (ASU 2017-08) Shortens the amortization period for premiums on purchased callable debt securities to the earliest call date, instead of to the maturity date.	Dec. 31, 2020	Permitted, including in an interim period

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end non-PBEs	Early adoption
Financial Instruments With Down-Round Features (Part I) and Scope Exception for Certain Mandatorily Redeemable Financial Instruments (Part II) (ASU 2017-11) Part I – Simplifies the accounting for certain financial instruments with down-round features by eliminating the requirement to consider the down-round feature in the liability or equity classification determination. For entities that present earnings per share (EPS), the amendement requires the effect of the down-round feature in a warrant or other freestanding equity-classified instrument to be presented as a dividend and an adjustment to EPS when it is triggered. Regardless of whether the entity presents EPS, the amendment requires the effect of the down-round feature in a convertible instrument such as debt or preferred stock to follow existing guidance for contingent beneficial conversion features and be presented as a discount to the convertible instrument with an offsetting credit to paid-in capital when it is triggered. Part II – Changes the indefinite deferral available to private companies with mandatorily redeemable financial instruments and certain noncontrolling interests to a scope exception, which does not have an accounting effect.	Dec. 31, 2020	Permitted, including in an interim period
Hedging Activities (ASU 2017-12) Expands the nonfinancial and financial risk components that can qualify for hedge accounting and simplifies financial reporting for hedging activities.	Dec. 31, 2020	Permitted, including in an interim period
Nonemployee Stock Compensation Simplifications (ASU 2018-07) Aligns the accounting guidance for nonemployee stock payments with the guidance for employee stock compensation in ASC Topic 718.	Dec. 31, 2020	Permitted, including in an interim period, but no earlier than the adoption of Topic 606

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end non-PBEs	Early adoption
Fair Value Measurement Disclosure (ASU 2018-13) Removes, modifies, or adds certain fair value measurement disclosures related to financial instrument transfers and Level 3 instruments, among others.	Dec. 31, 2020	Permitted
Defined Benefit Plan Disclosure for Sponsors (ASU 2018-14) Removes and clarifies certain disclosures for sponsors of defined benefit plans. Adds disclosure for weighted-average interest credit rates for certain plans and the reasons for significant gains and losses in the benefit obligation.	Dec. 31, 2021	Permitted
Implementation Costs for Cloud Computing Arrangements (CCAs) (ASU 2018-15) Aligns accounting for implementation costs of CCAs with or without a license (that is, regardless of whether the CCA is a service contract) by capitalizing implementation costs during the application development stage and amortizing the costs over the term of the arrangement.	Dec. 31, 2021	Permitted, including in an interim period
Goodwill Impairment Testing (ASU 2017-04) Removes step two – the requirement to perform a hypothetical purchase price allocation when the carrying value of a reporting unit exceeds its fair value – of the goodwill impairment test.	Tests performed on or after Jan. 1, 2022	Permitted for interim or annual goodwill impairment tests performed on testing dates on or after Jan. 1, 2017

For entities that report deferred taxes, one significant change relates to the classification of deferred taxes. Under ASU 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes," deferred taxes on the classified balance sheet will be classified as noncurrent. As a result, if a company had a large amount of current deferred tax assets that were included in the working capital calculation, the amount will now be classified as noncurrent on the Dec. 31, 2018, financial statements, net of any deferred tax labilities by jurisdiction. Consideration should be given to any prequalifications that included current deferred tax assets in the working capital calculation, as this might have an impact on an entity's bidding capacity.

The second ASU to consider relates to ASC 606, "Revenue From Contracts With Customers." The standard will be applicable for all non-PBEs for years ending Dec. 31, 2019. Companies should begin considering the impact of this standard prior to implementation, as the Dec. 31, 2018, schedule of contracts in progress will be used under the modified retrospective adoption method to calculate the cumulative effect of the accounting change. In other words, the job schedule an entity issues on Dec. 31, 2018, will become the basis for assessing the impact of implementation. Under the modified retrospective adoption method, the cumulative effect of the change will be recorded to retained earnings as opposed to the income statement, resulting in activity that may never be reported on the income statement.

Questions to consider in the implementation process include:

- What changes will be necessary to conform to ASC 606 related to accounting for variable consideration found within contracts (such as change orders, including unpriced or unapproved change orders; claims; back charges; extras; and contract provisions for penalty and incentive payments, including award fees and performance incentives)?
- When will variable consideration be included in the transaction price?
- Which method will be used for estimating variable consideration (expected value method or most likely amount)?
- What historical, current, and forecasted information is available to assist and support estimations?
- When will two or more contracts be determined to be accounted for as a single contract, and when will they be determined to be accounted for as multiple contracts?
- How will you determine the number of performance obligations included in the contract?
- What criteria will be used to determine whether a good or service is distinct within the contract?
- How will contract modifications be evaluated to determine if they represent a "new" contract for accounting purposes?
- What consideration will be given to a series of distinct goods or services that substantially are the same and have the same pattern of transfer to the customer to determine if they represent a single performance obligation?
- How will the term of service contacts be determined?

- What processes are in place for identifying and recognizing as an asset the incremental cost of obtaining a contract that would not have been incurred if the contract had not been obtained, such as sales commissions, when recovery is expected?
- Will the practical expedient be adopted (disclosure required if adopted) to allow for expensing of incremental cost of obtaining a contract if the amortization period is one year or less instead of amortizing those costs over the performance of the contract?
- When should mobilization cost be capitalized instead of expensed as incurred?
- When should uninstalled materials be capitalized as a contract asset as opposed to being expensed to the job?
- How will wasted materials and inefficient labor be accounted for to ensure these costs are excluded when measuring progress?
- When will warranties represent a separate performance obligation in the contract?

Additionally, several new disclosure requirements apply to both qualitative and quantitative information not previously disclosed under ASC 605 (revenue recognition). As a result, companies should consider their current accounting systems to ensure required data is captured.

Resources available to assist in implementation of ASC 606 include CFMA's Revenue Recognition Implementation Guide, the FASB/International Accounting Standards Board Joint Transition Resource Group's memos, and the American Institute of CPAs (AICPA)'s "New Revenue Recognition Accounting Standard – Learning and Implementation Plan" and "Construction Contractors: Audit and Accounting Guide."

It is never too early to start implementation plans and begin considering the impact of adoption.

Learn more

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