Miles CPA Review: FAR - 2019 Updates
[Updates other than Leases]

FAR-3.2: Derivatives & Hedge Accounting

FASB issued Accounting Standards Update 2017-12 which provided targeted improvements to hedge accounting. The new guidance intends to improves understandability of info about an entity's risk management activities and reduce accounting complexities.

- To assess whether a hedge is "effective", earlier standard required a quantitative assessment whereas the new standard also allows a qualitative assessment.
- Earlier standard required the documentation for effectiveness testing to be completed at the inception of the hedge. The new standard allows more time for completion of the documentation (which can now be completed even after the inception of the hedge).
- The concept of "ineffectiveness" is eliminated. Earlier standard required to measure & disclose the ineffective portion of a hedge, which is no longer required under the new standard.
- Per the earlier standard, only benchmark interest rates could be hedged. The new standard eliminates the concept of benchmark interest rates for hedges of variable-rate instruments and allows entities to hedge:
    - Contractual rates (for cash flow hedges)
    - Securities industry swap rate (for fair value hedges)

FAR-5.1: Deferred Taxes

FASB issued Accounting Standards Update 2018-02 for "stranded tax effects" resulting from the Tax Cuts and Jobs Act (TCJA) of 2017

- General Rule - Whenever there are changes in tax laws/rates, entities need to remeasure Deferred Tax Assets (DTA) and Liabilities (DTL) and present the change on I/S. However, for DTA/DTL that originates from an item in OCI, it creates a "stranded tax effect" and remains in A.OCI
- However, the update allows entities an option to reclassify the "stranded tax effects" resulting from TCJA from A.OCI to R/E
    - Entities are required to disclose the policy regarding the treatment of stranded tax effects (including whether they adopted the standard)
    - The update can be applied retrospectively or in the period of adoption

FAR-6.5: Not-for-profit Accounting

FASB issued Accounting Standards Update 2018-08 to clarify the difference between contributions (non-reciprocal) and exchange (reciprocal) transactions.

- Exchange transactions are when a resource-provider receives commensurate value in return for resources provided to the NFP. However, below cases do **not** constitute **exchange transactions** (as resource-provider is not considered to have received commensurate value in return from the NFP):
    - Benefit received by the public as a result of resource-provider providing resources to the NFP (i.e., a resource-provider is not synonymous with the general public)
    - Execution of a resource provider's mission does not constitute commensurate value received by a resource provider
- **Conditional contributions** received are unrecognized initially (i.e., accounted for as a liability) until the "barriers" to entitlement are overcome, at which point, the transaction becomes unconditional and contribution revenue is recognized (i.e., classified as either net assets with restrictions or net assets without restrictions)
    - Indicators are used to guide the assessment of whether an agreement contains a **"barrier"**. Indicators include:
        - **Measurable performance-related barrier** or other measurable barrier. E.g.,
            - Requirement that indicates that a recipient NFP's entitlement to transferred assets is contingent upon the achievement of a certain level of service, an identified number of units of output, or a specific outcome (say, number of meals served in a week by a homeless shelter)
            - Stipulation that the recipient NFP is entitled to the assets only upon the occurrence of an identified event (say, a matching requirement)
        - **Stipulation which limits discretion** by the recipient NFP on the conduct of an activity. E.g.,
            - Requirement to follow specific guidelines about qualifying allowable expenses
            - Requirement to hire specific individual(s) as part of the workforce conducting the activity
            - Specific protocol that must be adhered to
        - **Purpose stipulation** (related to the purpose of the agreement).
            - E.g., Adding a new block to the building following specific criteria
            - Note: This indicator generally excludes administrative tasks and trivial stipulations

FAR-7.1: Governmental Accounting

GASB issued Statement No. 84, Fiduciary Activities, to improve guidance regarding the identification of fiduciary activities for financial accounting and reporting purposes:

- **Replaced "Agency Funds"** (which was one of the 4 types of Fiduciary Funds) **with "Custodial Funds"** (now, one of the 4 types of Fiduciary Funds) – i.e., Custodial Funds will include most activities that were earlier reporting in Agency Funds (e.g., property taxes collected by a county on behalf of local governments)
- Custodial funds will also include any external investment pools not held in trust (earlier, these were reported as Investment Trust Fund)
- Similar to other types of Fiduciary Funds, need to present both the Statement of Fiduciary Net Position as well as the Changes in Fiduciary Net Position for Custodial Funds (earlier, the Changes in Fiduciary Net Position was not presented for Agency Funds)

GASB issued Statement No. 88, Certain Disclosures related to debt, to improve debt-related disclosures:

- Separate info in debt disclosures (i.e., in notes to F/S) now required for direct borrowings and direct debt (separately from other debt)
- Earlier, disclosures were required for principal and interest requirements to maturity, and variable interest rate terms. Now, additional disclosures required for:
  - Amount of unused lines of credit
  - Assets pledged as collateral for the debt
  - Terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses