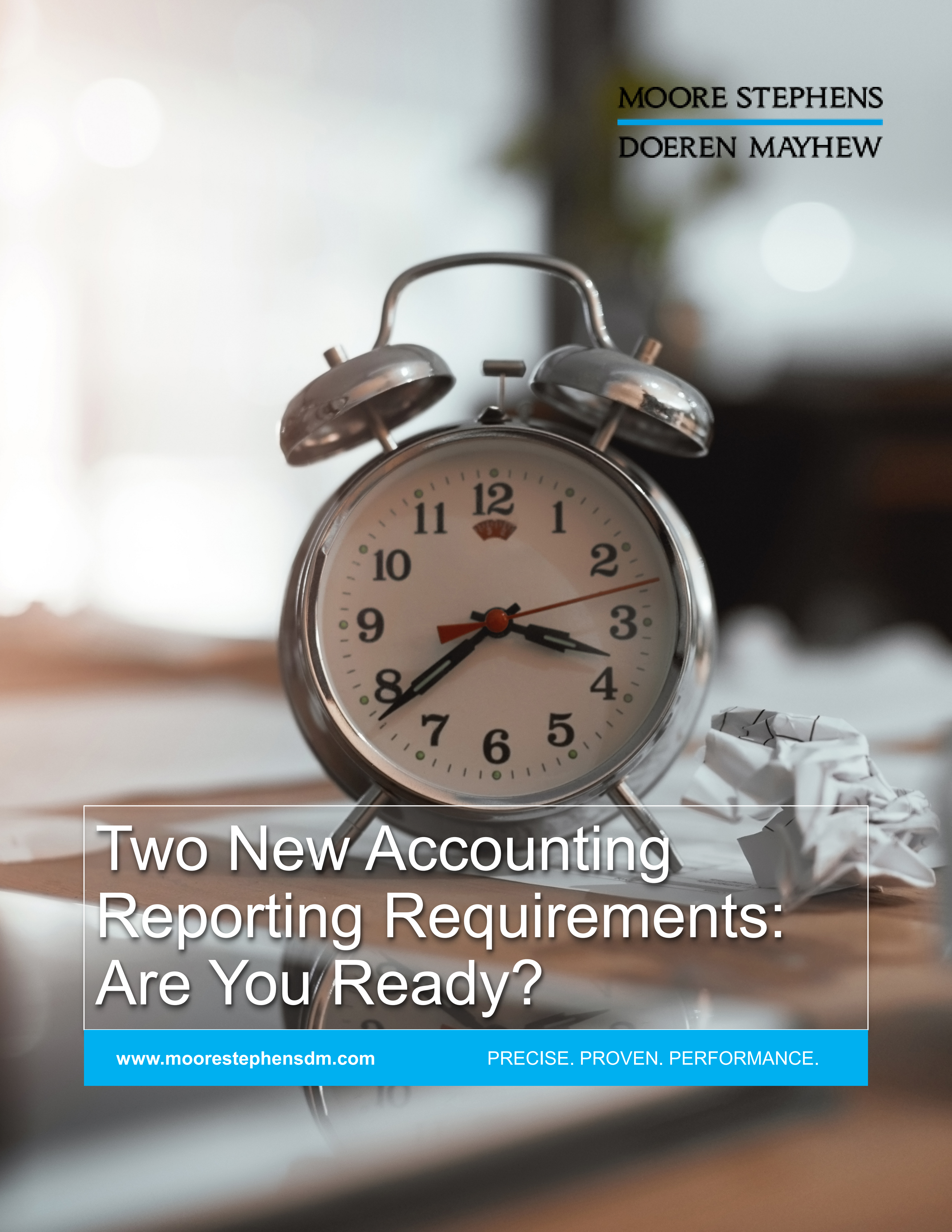

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Two New Accounting Reporting Requirements: Are You Ready?

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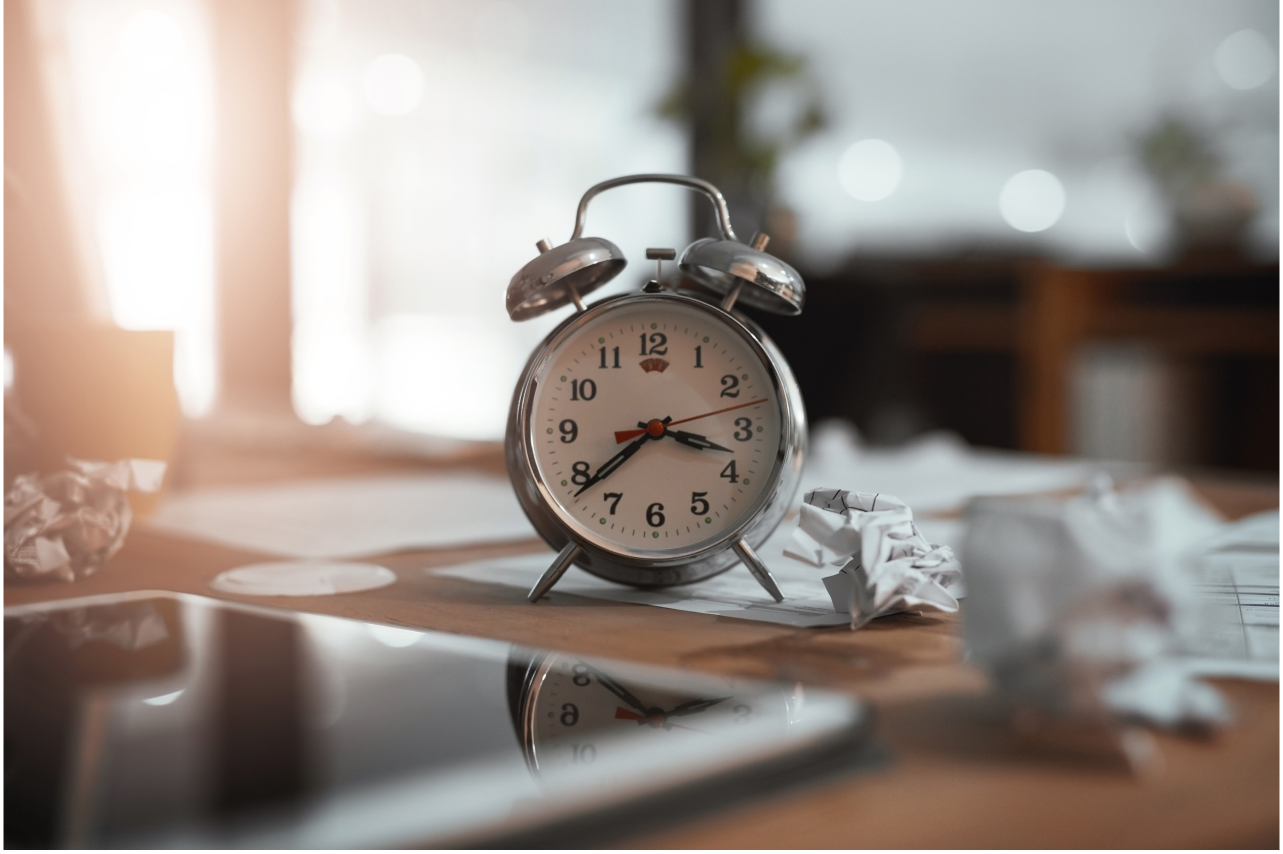

INTRODUCTION

Two updates to U.S. Generally Accepted Accounting Principles (GAAP) released by the Financial Accounting Standards Board (FASB) will go into effect in the next few years. These updates — combined with the Tax Cuts and Jobs Act — have created a precarious atmosphere for CFOs and controllers.

ASU No. 2016-02, Leases, is expected to add more than $1.2 trillion in off-balance-sheet leases to public companies' balance sheets. For all leases with terms of more than 12 months, the revised standard requires right-to-use assets to be added to the assets section of the balance sheet and the present value of the related lease obligations to be included as liabilities. These changes could make lessees appear significantly more leveraged and cause unprepared entities to violate their loan covenants.

ASU No. 2014-09, Revenue from Contracts with Customers, is expected to have a big impact on construction contractors, software companies, media companies, telecommunications providers, manufacturers, distributors and asset managers. This standard primarily affects the timing of revenue recognition.

Moore Stephens Doeren Mayhew is ready and able to help you navigate this sea change in financial reporting. **Contact us** or call 248.244.3060. Thank you.

The Team at Moore Stephens Doeren Mayhew

New Lease Accounting Standard

ACCOUNTING STANDARDS UPDATE WILL REQUIRE COMPANIES TO RECOGNIZE ON THEIR BALANCE SHEETS THE ASSETS AND LIABILITIES ASSOCIATED WITH RENTALS.

A new accounting rule for reporting leases goes into effect in 2019 for public companies. Although private companies have been granted a one-year reprieve - to 2020 - no business should wait until the last minute to start the implementation process. Some recently revised guidance is intended to ease implementation. Here's an overview of what's changing.

Old rules, new rules
Under the existing rules, companies must record lease obligations on their balance sheets only if the arrangements are considered financing transactions. Few arrangements get recorded, because accounting rules give companies leeway to arrange the agreements in a way that they can be treated as simple rentals for financial reporting purposes. If an obligation isn't recorded on a balance sheet, it makes a business look like it is less leveraged than it really is.

In 2016, the Financial Accounting Standards Board (FASB) issued a new standard that calls for major changes to current accounting practices for leases. In a nutshell, Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842), will require companies to recognize on their balance sheets the assets and liabilities associated with rentals.

Most existing arrangements that currently are reported as leases will continue to be reported as leases under the new standard. In addition, the new definition is expected to encompass many more types of arrangements that aren't reported as leases under current practice.

Revised guidance
Recently, the FASB revised two provisions to make the lease guidance easier to apply:

1. Modified retrospective approach. Upon adoption of the new lease accounting standard, companies may elect to present results using the current lease guidance for prior periods. This will allow management to focus on accounting for current and future transactions under the new rules — rather than looking backward at old leases.

2. Maintenance charges. On March 28, the FASB agreed to give lessors and property managers the option not to separately account for the fees for “common area maintenance” charges, such as security, elevator repairs and snow removal.

In addition, the FASB has provided a practical expedient to utilities, oil-and-gas companies and energy providers that hold rights-of-way to accommodate gas pipelines or electric wires. Under the revised guidance,companies that hold such land easements won’t have to sort through years of old contracts to determine whether they meet the definition of a lease. This practical expedient applies only to existing land easements.

Need help?

The lease standard is expected to add more than $1.25 trillion of operating lease obligations to public company balance sheets starting in 2018. How will it affect your business? Contact us to help answer this question and evaluate which of your contracts must be reported as lease obligations under the new rules. Simply click the button below.

Get Answers Today

Contract Revenue Guidance

ACCOUNTING STANDARDS UPDATE REQUIRES COMPANIES FOLLOWING GAAP TO USE A PRINCIPLES-BASED APPROACH FOR RECOGNIZING REVENUES FROM LONG-TERM CONTRACTS.

The sweeping new revenue recognition standard goes into effect soon. But many companies are behind on implementing it. Whether your company is public or private, you can't afford to delay the implementation process any longer.

5 steps

Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers, requires companies following U.S. Generally Accepted Accounting Principles (GAAP) to use a principles-based approach for recognizing revenues from long-term contracts. Under the new guidance, companies must follow five steps when deciding how and when to recognize revenues:

1. Identify a contract with a customer.
2. Separate the contract's commitments.
3. Determine the transaction price.
4. Allocate a price to each promise.
5. Recognize revenue when or as the company transfers the promised good or service to the customer, depending on the type of contract.

In some cases, the new guidance will result in earlier revenue recognition than in current practice. This is because the new standard will require companies to estimate the effects of sales incentives, discounts and warranties.

Changes coming

The new standard goes into effect for public companies next year. Private companies have a one-year reprieve.

The breadth of change that will be experienced from the new standard depends on the industry. Companies that currently follow specific industry-based guidance, such as software, real estate, asset management and wireless carrier companies, will feel the biggest changes. Nearly all companies will be affected by the expanded disclosure requirements.

Reasons for procrastination

Why are so many companies dragging their feet? Reasons may include:

• Lack of funding or staff,
• Challenges interpreting the standard's technical requirements, and
• Difficulty collecting data.

Many companies remain uncertain how to prepare their accounting systems and recordkeeping to accommodate the changes, even though the FASB has issued several amendments to help clarify the guidance. In addition, the AICPA's FinREC has published industry-specific interpretive guidance to address specific implementation issues related to the revenue recognition standard.

Got contracts?
We've already helped other companies start the implementation process — and we're ready to help get you up to speed, too. Contact us for questions on how the new revenue recognition standard will impact your financial statements and accounting systems. Simply click the button below.

Get Answers Today

About Moore Stephens Doeren Mayhew

Moore Stephens Doeren Mayhew assists privately controlled businesses — and the families who own them — in building and preserving wealth by providing privileged access to specialists, knowledge, and the highest quality personal service. Our firm combines a breadth of international audit, assurance, tax and consulting services with local market knowledge and international strength. Offices are located in Troy, MI; Houston and Dallas, TX; Miami, FL; Charlotte, NC; Zurich, Switzerland; and, London, United Kingdom.

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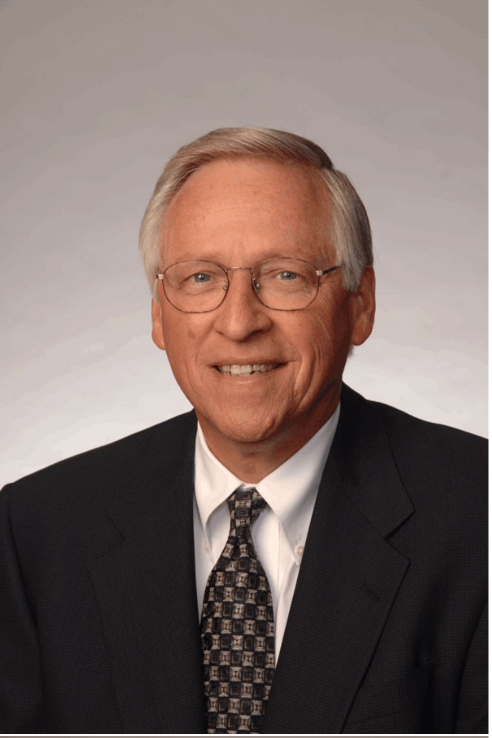
Moore Stephens International Limited

MOORE STEPHENS

305 West Big Beaver Road
Troy, Michigan 48084-0231 U.S.A.

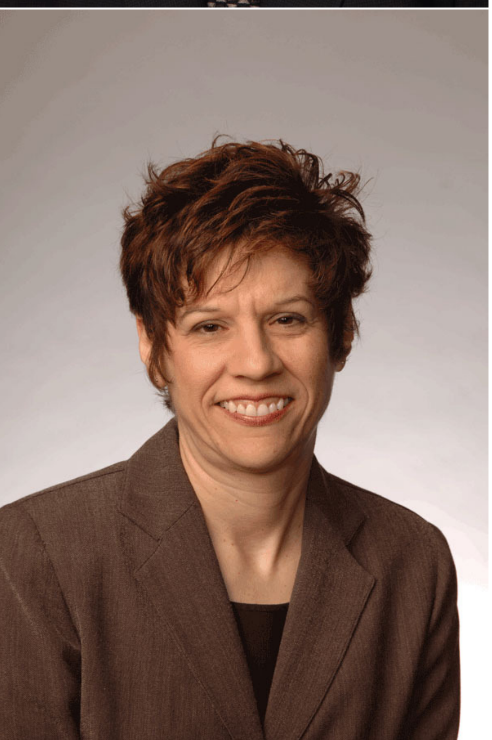
+1 (248) 244-3060
www.moorestephensdm.com

Meet a Few Team Members of Moore Stephens Doeren Mayhew



James L. Noteman, CPA
noteman@moorestephensdm.com

With more than 30 years of experience in public accounting, Jim Noteman is relied on by a wide range of clients for his audit and advisory expertise. Since joining Moore Stephens Doeren Mayhew in 1999, Jim's focus has been on assisting clients in the manufacturing, distribution and retail industry sectors, as well as multi-national corporations.



Anne Taros, CPA
taros@moorestephensdm.com

Anne Taros assists a variety of clients with business and tax-related issues domestically and abroad. She works with small and mid-sized clients in the manufacturing, service, retail and wholesale industries, offering business advisory services, general ledger management, and tax planning and compliance.

Doug Martin, CPA
martin@moorestephensdm.com

Doug Martin has significant experience assisting expatriate and inpatriate individuals to help minimize overall global tax exposure. He helps clients with foreign assignment planning services, including completion of US income tax returns, review of tax equalization and assignment policies, and payroll compliance. He also consults with clients on structuring of international business operations and assists with U.S. tax compliance required to report foreign operations and related-party transactions.