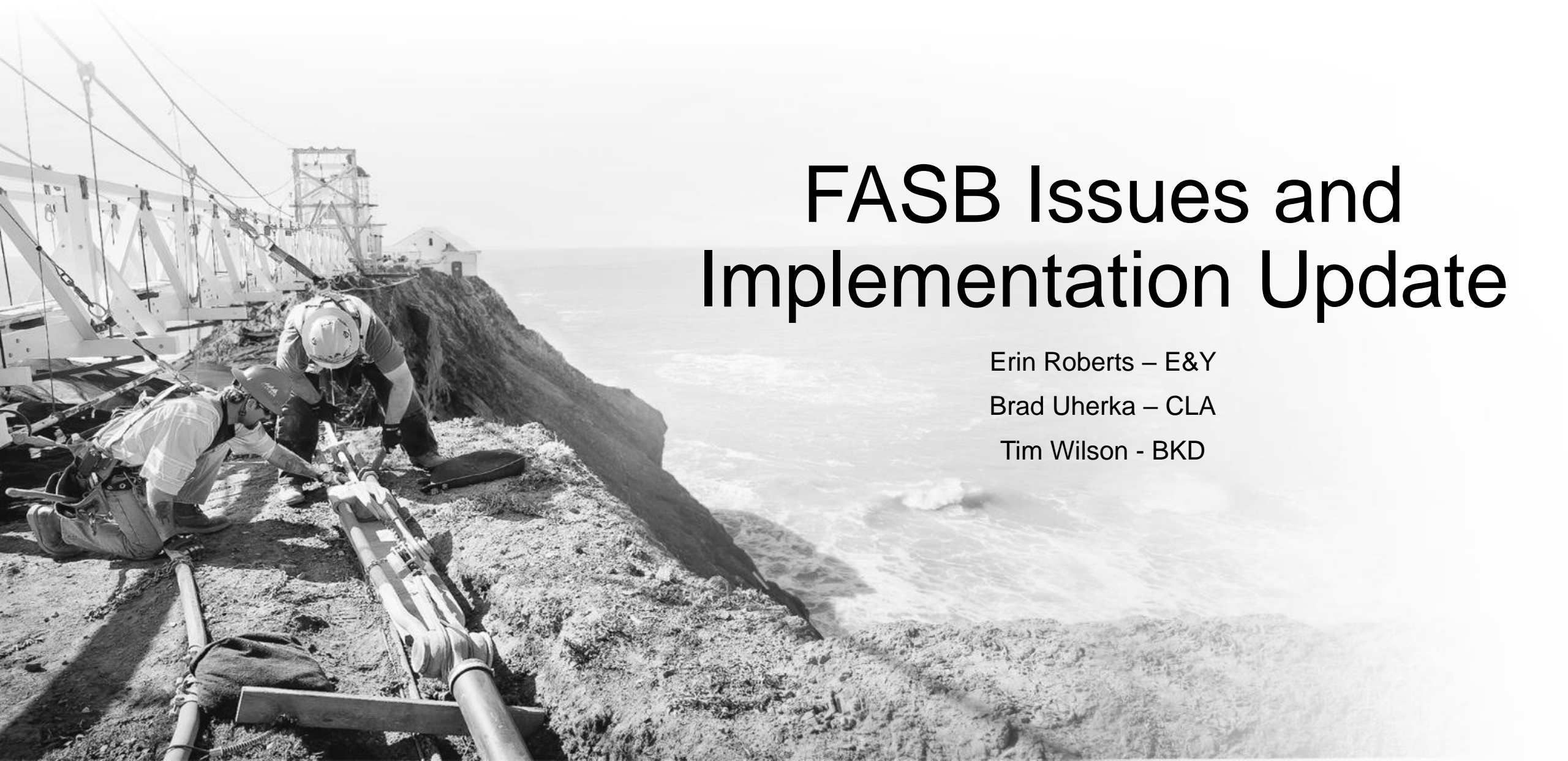


FASB Issues and Implementation Update

Erin Roberts – E&Y

Brad Uherka – CLA

Tim Wilson - BKD



Where are you on Revenue Recognition (Topic 606) Implementation?

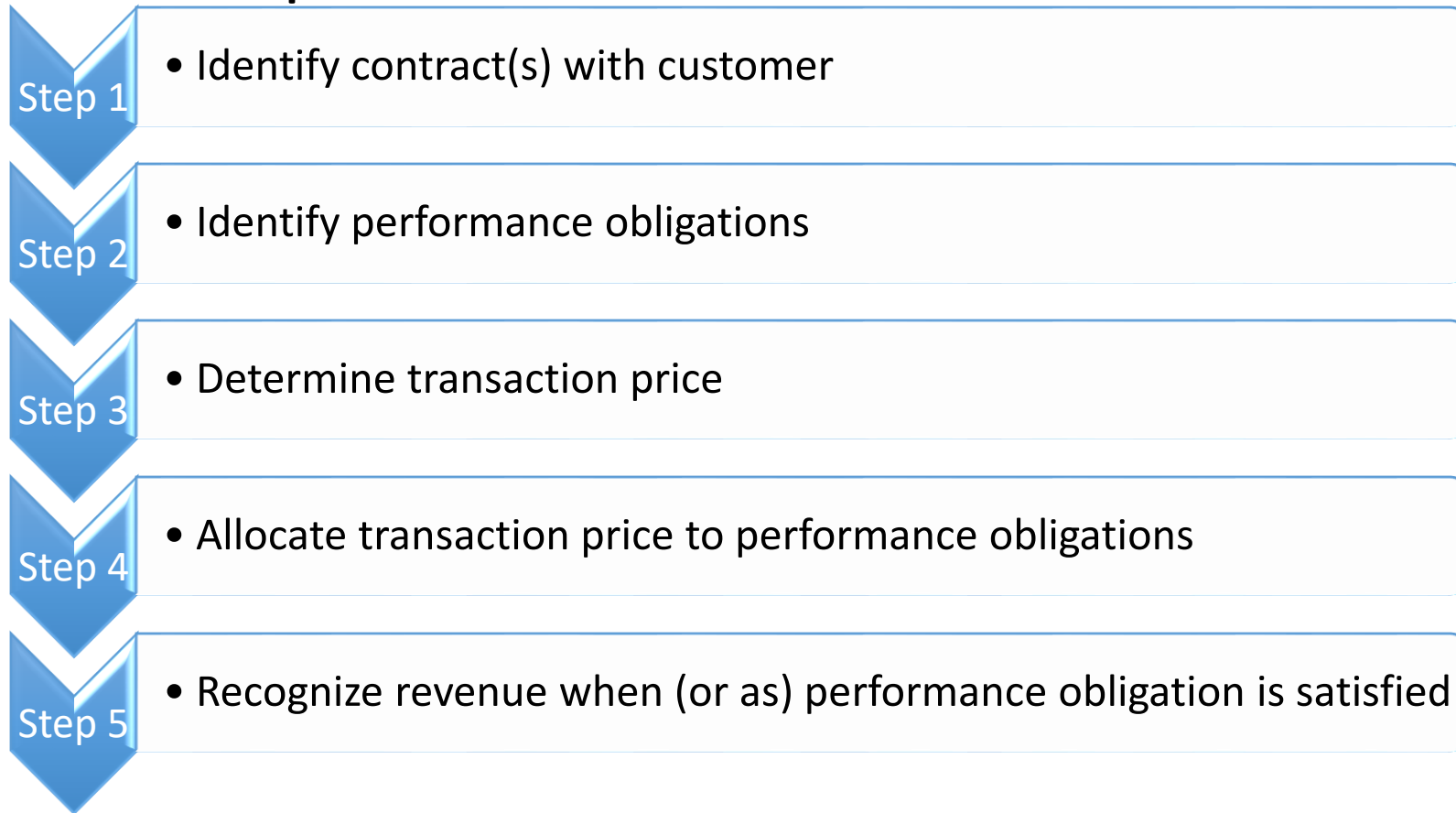


VS.



Effective for Periods Beginning After
Public – December 15, 2017, Interim included
Non-Public – December 15, 2018, Interim not included

Five-Step Model



Resources Available

- CFMA Revenue Recognition Guide
- AICPA Revenue Recognition Guide
- CPA Firm Publications
- Live and Archived Webinars

AICPA E&C Task Force

- Finalized Seven Issues Papers
 - Identifying the Unit of Account
 - Variable Consideration
 - Acceptable Measures of Progress
 - Uninstalled Materials
 - Impact of Termination for Convenience on Contract Duration
 - Contract Costs
 - Disclosures
- Revenue Recognition Guide Available at aicpastore.com

First Look at Disclosures

- Fluor 10Q
- “In the first quarter of 2018, the company adopted ASU 2014-09 (ASC Topic 606), “Revenue from Contracts with Customers” and related ASUs. See Note 3 for a further discussion of the adoption and the impact on the company’s financial statements.”

Fluor 10Q

- “The company adopted ASC Topic 606 using the modified retrospective method, and accordingly the new guidance was applied retrospectively to contracts that were not completed as of January 1, 2018 (the date of initial application). As a result, the company has recorded a cumulative effect adjustment to decrease retained earnings by \$339 million as of January 1, 2018 as well as the following cumulative effect adjustments:
 - A decrease to accounts receivable of \$50 million;
 - A decrease to contract assets of \$19 million;
 - A decrease to investments of \$4 million;
 - A decrease to other assets of \$14 million;
 - An increase to contract liabilities of \$357 million;
 - A decrease to other accrued liabilities of \$14 million;
 - A decrease to noncurrent liabilities of \$1 million;
 - An increase to deferred taxes assets of \$89 million; and
 - A decrease to noncontrolling interests of \$1 million.”

Sterling 10Q

- “On January 1, 2018, we adopted ASC 606, Revenue from Contracts with Customers (“new revenue standard”) to all contracts using the modified retrospective method. **The adoption of the new revenue standard had no material impact on our condensed consolidated financial statements as it did not require a change in revenue recognition for either of our segments.** As such, comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.”

McDermott 10Q

Significant changes to our accounting policies as a result of adopting of the new standard are discussed below:

1. We measure transfer of control utilizing an input method to measure progress for individual contracts or combinations of contracts based on the total cost of materials, labor, equipment and vessel operating costs and other costs incurred as applicable to each contract. **Previously, under ASC Topic 605-35, Construction-Type and Production-Type Contracts (the “legacy GAAP”), we generally excluded certain costs from the cost-to-cost method of measuring project progress, such as significant costs for procured materials and third party subcontractors;**
2. Our Consolidated Balance Sheet **no longer reflect assets related to cost incurred in excess of cost recognized.** Under legacy GAAP, we generally excluded certain costs from our cost to cost to cost method of measuring progress towards completion, such as significant costs for procured materials and third-party subcontractors, which resulted in the recognition of cost incurred in excess of cost recognized as an asset on our Consolidated Financial Statements.
3. Variable consideration, including change orders, claims, bonus, incentive fees and liquidated damages or penalties will be included in the estimated contract revenue at the most likely amount to which we expect to be entitled. **We will include variable consideration in the estimated transaction price** to the extent we concluded that it is probable a significant revenue reversal will not occur or when the uncertainty associated with the variable consideration is resolved.

Jacobs 10Q

The Company's adoption activities are being performed over three phases: (i) assessment, (ii) design, and (iii) implementation. Our assessment and design phases are substantially complete. **We have established a cross-functional team** to implement ASU 2014-09. **Additionally, we have identified selected changes to our systems, processes** and internal controls and are in the process of designing updates for each to meet the standard's revised reporting and disclosure requirements. The Company continues to evaluate the impact of ASU 2014-09 to the CH2M business and we are largely complete with the assessment phase. We expect to update CH2M's accounting policies, processes and controls to align with the policies, processes and controls being implemented across the Company. We are in the process of implementing the changes discovered during the assessment and design phases. The following are the potential significant differences identified to date:

Performance obligations: the Company has determined, in most instances, it is likely **that engineering and construction services will be required to be combined into a single performance obligation.**

Contract Modifications: In many instances, the Company enters into contracts for construction services subsequent to entering into engineering services contracts ("Phased Projects"). Under ASU 2014-09, **the construction services contract may be deemed to modify the engineering contract, or may be required to be combined with the engineering contract.** This modification or combination of contracts may result in a cumulative catchup adjustment, which will have an immediate impact on the Company's results of operations in the period the contract combination or modification occurs. In addition, it will change the timing and pattern of revenue recognition after the period the contracts have been combined or modified.

Revenue Recognition Implementation Issues

- Determine performance obligations
- Variable consideration
- Uninstalled materials
- Accounting for initial contract costs

Lease Accounting

Key Changes

- Lessee
 - Requires recognition of most leases on their balance sheets as lease liabilities with corresponding right-of-use (ROU) assets
 - Recognize expenses on their income statements in a manner similar to today's accounting
 - Requires impairment testing for new ROU assets
- Lessor
 - Aligns certain classification criteria and accounting guidance with lessee guidance and with the revenue recognition model in Topic 606
 - Includes an assessment of collectability to support classification as a direct financing lease and de-recognize asset & record revenue for sales-type lease
 - Eliminates today's real estate-specific provisions for all entities
 - Leveraged lease accounting not permitted for new transactions or existing transactions modified after the effective date

Effective Dates

- Effective January 1, 2019, including interim periods within those years, for any of the following:
 1. Public business entities
 2. A not-for-profit entity that has issued, or is a conduit bond obligor for securities that are traded, listed, or quoted on an exchange or an over-the-counter market
 3. An employee benefit plan that files financial statements with the SEC
- **For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019 (2020 calendar year end), and interim periods within fiscal years beginning after December 15, 2020.**
- All entities may early adopt

Determining Whether a Lease Exists

Under the standard, a contract is or contains a lease if it conveys the **right to control the use** of identified property, plant or equipment (**an identified asset**) for a period of time in exchange for consideration

An entity is required to reassess whether a contract is or contains a lease only if the terms and conditions of the contract are changed

Initial Measurement of Lessee ROU Asset & Lease Liabilities

Begin by measuring lease liability & make adjustments to get to ROU asset

- Lease liability = present value of future lease payments, using the effective interest method to subsequently account for the lease liability
- ROU asset = Lease liability
 - + Initial direct expenses*
 - + Payments made at or before lease commencement
 - Lessor-provided incentives

*Incremental costs of a lease that would not have been incurred if the lease had not been obtained

Comparison of Lessee Accounting Models

Finance Lease

Balance Sheet

Right of Use (ROU) Asset*
 Lease Liability

Income Statement

Interest Expense (on lease liability)
Amortization Expense (on ROU asset)

Cash Flow

Cash paid for principal payments (financing activities) & interest payments (operating activities)

*Periodically reduced by straight-line amortization

Operating Lease

Balance Sheet

Right of Use (ROU) Asset**
 Lease Liability

Income Statement

Lease/Rent Expense (straight-line)

Cash Flow

Cash paid for lease payments (operating)

**Periodically reduced by the difference between straight-line lease expense & interest cost on lease liability, *i.e.*, “plug figure”

Lease Term

Lease term is the non-cancelable period in which the lessee has the right to use an underlying asset, plus optional periods for which, after considering all relevant factors that may give lessee economic incentive to renew or terminate, it is reasonably certain that the lessee will:

- exercise the renewal option, or
- not exercise the termination option, or
- in which the exercise of those options is controlled by the lessor.

Lease Term

- Lessees will be required to reassess the lease term or a lessee option to purchase the underlying asset if and when the following occurs:
 1. Upon the occurrence of significant event or change in circumstances directly attributable to actions of lessee that affects whether the lessee is reasonably certain to exercise or not to exercise an option to extend or terminate the lease, or to purchase the underlying asset (e.g. lessee makes significant modifications or customizations to the underlying asset)
 2. The lessee elects to exercise (or not exercise) an option to extend or terminate the lease even though it had previously determined it was not reasonably certain to do so, or the contract term obliges the lessee to do so

Lease Term

As a result of the change in lease term, lessee will reassess lease classification, and remeasure the lease liability and corresponding right-of-use asset to reflect the cost of the additional rights

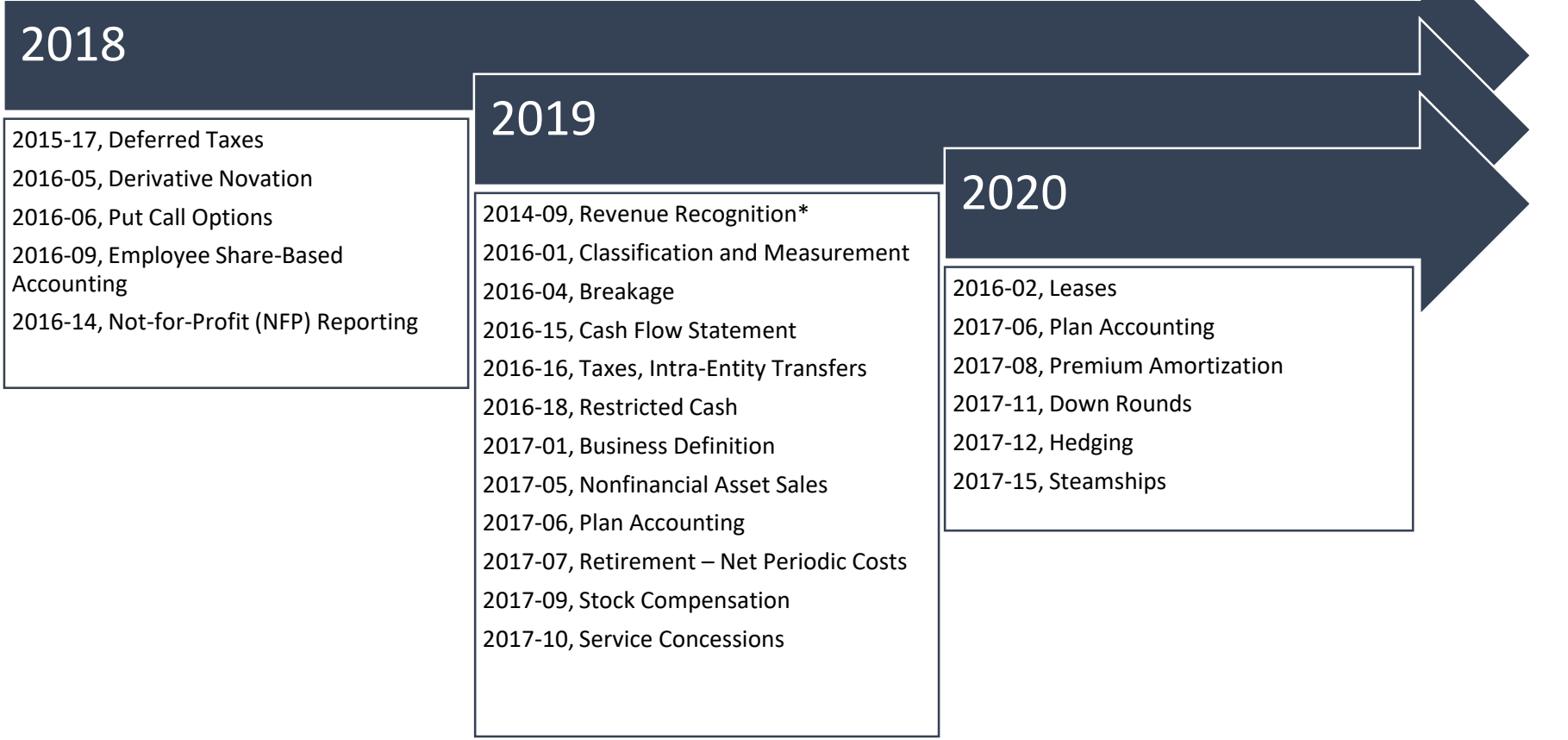
Assumptions such as discount rate and variable rents based on an index or rate will be updated at the remeasurement date

Lessors are not required to reassess the lease term or a lessee option to purchase the underlying asset after initial determination, unless the lease is modified and the modified lease is not a separate contract.

2017 ASU's Issued

Effective Dates for Non-PBEs

Fiscal Years (Calendar Year-End Entities)



* includes all related amendments

Accounting Standards Update (ASU) 2017-01

Business Combinations (Topic 805): Clarifying the Definition of a Business

Summary

Helps entities determine whether a set of transferred assets & activities is a business. An entity would first evaluate whether substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. If the threshold is met, the set of transferred assets & activities is **not** a business. If the threshold isn't met, the entity evaluates whether the set meets the requirement that a business include, at a minimum, an input & a substantive process that together significantly contribute to the ability to create outputs. The guidance narrows the definition of outputs to more closely align with the new revenue guidance.

ASU 2017-01

Business Combinations (Topic 805): Clarifying the Definition of a Business

Effective Date & Transition

- PBEs – Annual periods & interim beginning after December 15, 2017
- All other entities – Annual periods beginning after December 15, 2018, & interim periods beginning after December 15, 2019
- Early adoption is permitted, with specific transition guidance
- Prospective application

Resources

BKD Thoughtware®: [New Business Definition](#) & [FASB Updates 'Business' Definition](#)

ASU 2017-02

NFP Entities—Consolidation (Subtopic 958-810): Clarifying When a Not-for-Profit Entity That Is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity

Summary

Affirms current practice for NFP entities applying consolidation accounting to for-profit limited partnerships

Effective Date & Transition

- Annual periods beginning after December 15, 2016, & interim periods beginning after December 15, 2017

Resources

BKD Thoughtware: [NFP Consolidation Guidance Updated](#)

ASU 2017-03

Accounting Changes and Error Corrections (Topic 250) and Investments—Equity Method and Joint Ventures (Topic 323): Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings (SEC Update)

Summary

ASU adds SEC comments only; there are no new presentation & disclosure requirements

Effective Date

Effective on issuance

ASU 2017-04

Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment

Summary

Step 2 of the goodwill impairment test is eliminated; entities will use a one-step goodwill impairment test that compares a reporting unit's fair value with its carrying amount to identify the existence of potential impairment & the amount of impairment loss

Effective Date & Transition

- PBE SEC filers – Annual & interim periods beginning after December 15, 2019
- All other PBEs – Annual & interim periods beginning after December 15, 2020
- All other entities – Annual & interim periods beginning after December 15, 2021
- Early adoption for annual & interim periods for goodwill impairment testing dates after January 1, 2017
- Prospective application

Resources

BKD Thoughtware: [Goodwill Impairment Test Simplified](#)

ASU 2017-05

Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets

Summary

- Specific scope exclusion for businesses & NFP activities; entities would no longer have to consider whether a business also is an in-substance nonfinancial asset
- Codified definition of “in-substance nonfinancial asset” will improve consistency in applying appropriate guidance
- Updating Accounting Standards Codification (ASC) 845, *Nonmonetary Transactions*, to exclude exchanges of a nonfinancial asset for a noncontrolling ownership interest; those transactions will now be accounted for under ASC 610-20
- An equity method investment would no longer meet the definition of an in-substance nonfinancial asset, eliminating the need for a scope exception for transfers of equity method investments in real estate entities deemed to be in-substance nonfinancial assets in ASC 860, *Transfers and Servicing*
- Contributions of nonfinancial assets to joint ventures are covered by ASC 610-20

ASU 2017-05

Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets

Effective Date & Transition

- Same time as ASU 2014-09
- Early adoption is permitted for annual reporting periods after December 15, 2016
- Retrospective or modified retrospective application

Resources

BKD Thoughtware: [New Accounting Rules for Nonfinancial Asset Sales](#)

ASU 2017-06

Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): Employee Benefit Plan Master Trust Reporting

Summary

An employee benefit plan will be required to report an interest in a master trust & change in value of that interest as separate line items on statement of net assets available for benefits & statement of changes in net assets available for benefits. A plan will have to disclose the master trust's investments & other assets & liabilities as well as the dollar amount of its interest in these balances. Investments measured at fair value will have to be presented by general type of investment. The guidance also eliminates a disclosure requirement related to 401(h) retiree health accounts for health & welfare plans.

Effective Date & Transition

- Effective for fiscal years beginning after December 15, 2018
- Early adoption is permitted
- Retrospective application

Resource

BKD Thoughtware: [Updates to EBP Master Trust Reporting & Disclosures](#)

ASU 2017-07

Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

Summary

Employers that sponsor defined benefit pension &/or other post-employment benefits plans will present service cost component of net periodic benefit cost in the same income statement line item(s) as other employee compensation costs arising from services rendered during the period. Only the service cost component will be eligible for capitalization in assets. Employers will present the other components of the net periodic benefit cost separately from the line item(s) that includes the service cost & outside of any subtotal of operating income, if one is presented. These components won't be eligible for capitalization in assets.

ASU 2017-07

Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

Effective Date & Transition

- PBEs – Annual & interim periods beginning after December 15, 2017
- All other entities – Annual periods beginning after December 15, 2018; interim beginning after December 15, 2019
- Early adoption is permitted
- Retrospective application for the presentation of service cost component & other components of net periodic pension cost & net periodic postretirement benefit cost in the income statement; prospective application for service cost capitalization & net periodic postretirement benefit in assets

ASU 2017-08

Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities

Summary

Shortens amortization period to the earliest call date for certain callable debt securities; entities will avoid recording a loss when debt securities held at a premium are called early

Effective Date & Transition

- PBE – Annual & interim periods beginning after December 15, 2018
- All other entities – Annual periods beginning after December 15, 2019; interim periods beginning after December 15, 2020
- Early adoption is permitted, including in an interim period
- Modified retrospective application

Resource

BKD Thoughtware: [Relief for Early Calls on Debt](#)

ASU 2017-09

Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting

Summary

Provides guidance about what changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718, *Compensation—Stock Compensation*

Effective Date & Transition

- All entities – Annual & interim periods beginning after December 15, 2017
- Early adoption is permitted, including in an interim period
- Prospective application to an award modified on or after the adoption date

Resources

BKD Thoughtware: [Modification Accounting Requirements Clarified for Stock-Based Compensation](#)

ASU 2017-10

Service Concession Arrangements (Topic 853): Determining the Customer of the Operation Services

Summary

Clarifies that for service concession arrangements within the scope of Topic 853, the grantor is the operating entity's customer in all cases

Effective Date & Transition

- Public entities (PBEs, certain NFPs & employee benefit plans) – Annual & interim periods beginning after December 15, 2017
- All other entities – Annual periods beginning after December 15, 2018; interim periods beginning after December 15, 2019
- Special transition guidance applies depending on whether ASU 2014-09 (Revenue) has been adopted

Resource

BKD Thoughtware: [Customer Clarification for Operating Entities of SCAs](#)

ASU 2017-11

Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Down Round Features, (Part II) New Scope Exception for Certain Mandatorily Redeemable Financial Instruments and Noncontrolling Interests

Summary

A financial instrument with a down-round feature would no longer be classified as a liability solely because of that feature's existence

Effective Date & Transition

- PBEs – Annual & interim periods beginning after December 15, 2018
- All other entities – Annual periods beginning after December 15, 2019; interim periods beginning after December 15, 2020
- Early adoption is permitted, including in an interim period
- Full or modified retrospective application

Resource

BKD Thoughtware: [Down-Round Treatment Simplified](#)

ASU 2017-12

Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities

Summary

Targeted but substantial improvements

- Expanding component hedging to nonfinancial risks for preparers to more accurately present—and users to better understand—an entity's risk exposures & risk management activities
- Eliminating the separate measurement & presentation of hedge ineffectiveness that has resulted in complexity in the financial reporting process & hindered the decision usefulness of reported information
- Aligning the financial reporting for hedges of interest rate risk with the economic results of those risk management activities
- Reducing the costs & complexity of monitoring the effectiveness of a hedging relationship by allowing more qualitative assessments
- Allowing more time for the preparation of hedge documentation for preparers that elect hedge accounting

ASU 2017-12

Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities

Effective Date & Transition

- PBEs – Annual & interim periods beginning after December 15, 2018
- All other entities – Annual periods beginning after December 15, 2019; interim periods beginning after December 15, 2020
- Early adoption is permitted, including in an interim period
- Modified retrospective application for the cumulative effect to eliminate hedging ineffectiveness; prospective application of presentation & disclosure requirements – multiple one-time transition elections available to allow entities to apply amendments to existing hedging relationships

Resource

BKD Thoughtware: [A Deep Dive into Hedging](#)

ASU 2017-13

Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017 EITF Meeting and Rescission of Prior SEC Staff Announcements and Observer Comments

Summary

Entities that only meet the PBE definition due to the inclusion of their financial statement in another SEC registrant's filing would have additional time to implement the new revenue & lease standards—most commonly equity method investees & acquisition targets of public companies. For this limited group of entities, the SEC won't object if those PBEs adopted the revenue standard (ASU 2014-09) for annual periods beginning after December 15, 2018, & interim periods beginning after December 15, 2019, & the leases standard (ASU 2016-02) for annual periods beginning after December 15, 2019, & interim periods beginning after December 15, 2020.

Resource

BKD Thoughtware: [SEC Grants More Time on Revenue & Lease Standards in Limited Situations](#)

ASU 2017-14

Income Statement—Reporting Comprehensive Income (Topic 220), Revenue Recognition (Topic 605), and Revenue from Contracts with Customers (Topic 606) (SEC Update)

Summary

This ASU supersedes various SEC paragraphs & amends an SEC paragraph pursuant to the issuance of Staff Accounting Bulletin No. 116

Effective Date

Effective on issuance

ASU 2017-15

Codification Improvements to Topic 995, U.S. Steamship Entities: Elimination of Topic 995

Summary

This ASU supersedes Topic 995, *U.S. Steamship Entities*, because its guidance is no longer relevant

Effective Date & Transition

- All entities – Annual & interim periods beginning after December 15, 2018
- Modified retrospective application

2018 ASU's Issued

ASU 2018-01

Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842

Summary

- Optional transition practical expedient to not evaluate existing or expired land easements that were not previously accounted for as leases. New or modified land easements will need to be evaluated under Topic 842 (the new lease accounting guidance)

Effective Date & Transition

- All entities – same as Topic 842 (new lease accounting guidance)
- PBEs – Annual & interim periods beginning after December 15, 2018
- All other entities – Annual periods beginning after December 15, 2019; interim periods beginning after December 15, 2020

ASU 2018-02

Income Statement-Reporting Comprehensive Income (Topic 220) Reclassification of Certain Tax Effects from AOCI

Summary

- Impact of Tax Cuts and Jobs Act signed in December, 2017 – impact on accumulated other comprehensive income (stranded tax effects). This standard eliminates the stranded tax effects caused by the Act.

Effective Date & Transition

- All entities – Annual & interim periods beginning after December 15, 2018. Early adoption permitted if statements are not already issued

ASU 2018-03

Technical Corrections and Improvements to Financial Instruments-Overall (Subtopic 825-10)

Summary

- Targeted improvements to ASU 2016-01. Focused on six issues, primarily around fair value calculations

Effective Date & Transition

- Effective for fiscal periods:
 - Beginning after December 15, 2017 (public)
 - Beginning after December 15, 2018 (non-public)

ASU 2018-04

Investments-Debt Securities (Topic 320) and Regulated Operations (Topic 980)

Summary

- Amends SEC paragraphs pursuant to SAB 117 and SEC Release 33-9273

Effective Date & Transition

- All entities – effective immediately

ASU 2018-05

Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC SAB 118

Summary

- SEC guidance on implementing the Tax Cuts and Jobs Act when the accounting for certain income tax effects of the Act will be incomplete when the financial statements are issued.

Effective Date & Transition

- Immediately

ASU 2018-06

Codification Improvements to Topic 942, Financial Services-Depository and Lending

Summary

- Remove outdated guidance from OCC's Circular 202, Accounting for Net Deferred Tax Charges

Effective Date & Transition

- Immediately

Exposure Drafts Outstanding

- Intangibles – Goodwill and Other-Internal Use Software (Subtopic 350-40)
 - Accounting for implementation costs incurred in a cloud computing arrangement that is a service contract
 - Disclosures for implementation costs incurred for internal-use software and cloud computing arrangements

Exposure Drafts Outstanding

- Collaborative Arrangements (Topic 808)
 - Establishes unit-of-account guidance
 - Determine if the collaborative participant is a customer – recognize revenue
 - If not a customer, no revenue

Private Company Council Activity

- Not much.....

FASB Technical Agenda

- Related Party Guidance for VIE's – Q3 2018
- Leases – Targeted Amendments – Q2 2018
- Technical Corrections and Improvements – Leases – Q2 2018
- Presentation and Disclosure Projects for defined benefit plans, fair value measurements and simplifying balance sheet classification of debt – all Q3 2018

Thank you

FOR MORE INFORMATION // For a complete list of our offices
& subsidiaries, visit bkd.com