WINTER 2014

CFGINSIGHTS

INDUSTRY TRENDS AND DEVELOPMENTS FROM CFGI

Welcome to the Winter 2014 edition of CFGInsights. Our goal is to provide you with a round-up of the most pressing accounting and reporting developments that companies face today.

REVENUE CONVERGENCE:
A NEW RECOGNITION MODEL

NEW GUIDANCE ISSUED. In May 2014, the FASB and the IASB issued a new revenue recognition standard, ASU 2014-09, *Revenue from Contracts with Customers or ASC 606*, to provide a single comprehensive accounting model for all revenue arising from customer contracts. The new standard introduces a framework to address recognition issues while removing inconsistencies and creating enhanced disclosures. The new guidance is a move away from the explicit rules-based guidance to a more principles-based approach that may lead to more diversity in practice.

> *The core principle of the new guidance is that "an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflect the consideration ... the entity expects to be entitled in exchange for those goods or services".*

Calendar year end public companies must adopt the new standard on January 1, 2017, while nonpublic companies must adopt on January 1, 2018. Early adoption is not permitted under US GAAP (it is permitted under IFRS), although nonpublic companies may adopt on the public company effective date.

READ MORE FOR FULL DETAILS OF REVENUE CONVERGENCE: A NEW RECOGNITION MODEL ON PAGE 2 >>

PERSPECTIVES

In 2014, the FASB issued several new standards that will impact companies in future periods. In addition to the revenue recognition standard, CFGI analyzed two standards of significance that may impact our clients:

GOING CONCERN: MANAGEMENT'S RESPONSIBILITY

Beginning in 2017, company management will be required to evaluate and disclose a company's ability to continue as a going concern. This update addresses the lack of guidance about management's responsibility to evaluate whether there is substantial doubt about a company's ability to continue as a going concern or to provide related footnote disclosure.

READ MORE ON PAGE 3 >>

PRIVATE COMPANY GOODWILL ACCOUNTING:

Beginning in 2015, private companies will need to make an accounting election to either begin amortizing goodwill or disclose the election to continue the historical process of assessing goodwill through an annual impairment test.

READ MORE ON PAGE 6 >>

CFGI

Our team of top-rated former "Big 4" accounting professionals advises clients on complex issues including all aspects of U.S. GAAP accounting, SEC reporting, SOX compliance, business process and financial system redesign and many other areas. We provide expert consultations on technical policy matters, restatements, carve-outs, audit readiness and due diligence, in addition to filling interim accounting, reporting and tax roles. We can also augment your team by providing highly-skilled resources to review policies and procedures, SEC documents and contractual arrangements and highlight areas of focus.

REVENUE CONVERGENCE:
A NEW RECOGNITION MODEL (CONTINUED)

NEW STANDARD OVERVIEW. The new standard introduces a five-step model for recognizing revenue where companies will: 1) identify the customer contract, 2) identify performance obligations, 3) determine the transaction price, 4) allocate transaction price to the performance obligations, and 5) recognize revenue as performance obligations are satisfied. The new standard includes significant disclosure requirements to convey the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts.

ADOPTION OPTIONS. Companies may elect either the 'Full Retrospective' or 'Modified Retrospective' method of adoption for the new guidance. Under the Full Retrospective method, companies will restate revenue under the new standard for comparative periods (i.e. public companies will restate fiscal 2015 and 2016). The Modified Retrospective method limits the application of the new standard to contracts not completed at the date of adoption. Under the Modified Retrospective application, an adjustment to retained earnings is recorded in the year of adoption to reflect the cumulative effect of adoption.

Companies should carefully evaluate the two transition methods for advantages and disadvantages. One benefit to applying the Full Retrospective adoption is the preparation of comparable revenue results to measure financial performance. A perceived benefit under the Modified Retrospective adoption is the potential for cost savings as a result of only having to analyze contracts not completed at the date of adoption. However, the disclosure requirements that are necessary for companies that choose this option will require a similar level of assessment on historical contracts and may minimize the value of this perceived benefit in the initial year of adoption.

ASSESSING THE IMPACT. Beyond the direct impact to revenue and related disclosures, the new standard could impact other aspects of the financial statements as well as the operation of the organization. Companies should prepare a complete assessment of the business to identify impacted areas, which could include the following:

- Technological capabilities to support the estimates and calculations required by the new standard
- Compliance with the companies processes and controls
- Debt covenant compliance
- Employee compensation and other incentive compensation plans based on revenue or profit metrics
- Customer contracting strategy

All companies are different and require their own assessment and implementation plan. CFGI has been working with clients using a phased approach to scope, assess, measure and ready companies for their adoption of the new standard. The first phase includes performing a diagnostic assessment to scope the impact of the new guidance on revenue streams; comparing the legacy revenue recognition guidance to the new guidance; and, depending on impact, recasting the revenue recognition for each arrangement and revenue stream identified.

TRANSITION RESOURCE GROUP (TRG). At the October 31, 2014 TRG meeting, the FASB announced it plans to perform site visits over the coming months to assess progress made by stakeholders in the ASC 606 implementation process. The FASB plans to reach a final decision on whether to delay the effective date no later than the second quarter of 2015. Stay tuned as the TRG meets over the coming quarters. ■

© 2014 CFGI. CFGInsights is a publication of the Corporate Finance Group, Inc.

PERSPECTIVES:
GOING CONCERN: MANAGEMENT'S RESPONSIBILITY (CONTINUED)

Accounting Standards Update No. 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40): *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, was issued by the FASB in August 2014. The standard applies to both public and nonpublic companies beginning with the first annual period ending after December 15, 2016. This standard requires that management assess a company's ability to continue as a going concern and to provide related footnote disclosures.

Conditions or events that raise substantial doubt about an company's ability to continue as a going concern relate to the entity's ability to meet its obligations as they become due. In management's assessment, consideration should be given to both quantitative and qualitative information that is known and/or should be reasonably known at the date the entity's financial statements are to be issued.

If the conditions or events indicate a substantial doubt about a company's ability to continue as a going concern for at least one year from the issuance date, management should evaluate their mitigation plans. These plans could alleviate the substantial doubt of a going concern if it is probable that the plans will be effectively implemented within one year after the date the financial statements are issued, and probable that the plans will mitigate the relevant conditions and events. Mitigation plans must be approved by management before the issuance date in order for them to alleviate the conditions and events to be considered in this analysis.

In the event substantial doubt about a company's ability to continue as a going concern exists, a company is required to make the following disclosures irrespective of whether management's plans would alleviate the conditions or events:

- Conditions or events that raise substantial doubt about a company's ability to continue as a going concern.
- Management's evaluation of significance of those conditions or events in relation to the ability to meet the obligations.
- Management's plans to alleviate the substantial doubt about a company's ability to continue as a going concern.

In addition, an instance where substantial doubt is raised and Management's plan does not alleviate the doubt, the Company is required to make the following additional disclosures:

- Management's plans that are intended to mitigate the substantial doubt (as compared to alleviate substantial doubt as noted above) regarding a company's ability to continue as a going concern.
- A statement indicating there is substantial doubt about a company's ability to continue as a going concern within one year from the date the financial statements are issued.

© 2014 CFGI. CFGInsights is a publication of the Corporate Finance Group, Inc.

CFGINSIGHTS

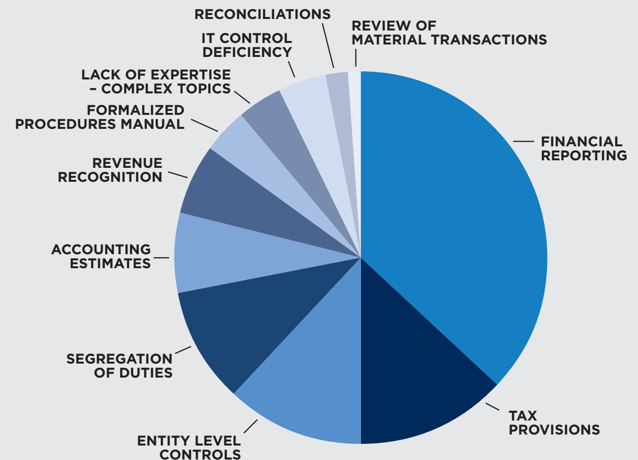
TRENDS IN MATERIAL WEAKNESS DISCLOSURE

Our analysis of the trends in material weaknesses is based on our cumulative research of public companies with a market capitalization between $100 million and $1 billion dollars and extends back to January 1, 2013. In addition to the cumulative analysis to the right, we analyzed the trends in the top 5 material weakness categories over the previous CFGInsights editions which confirms consistency related to material weaknesses period over period.

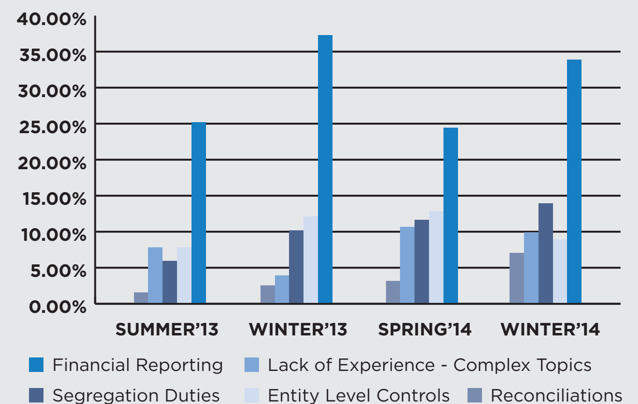
The cumulative research continues to indicate that the most common material weakness impacting companies are financial reporting related. Companies note in their remediation responses that staffing constraints and process breakdowns stemming from increasing regulatory pressures are the primary causes of the material weaknesses.

CFGI has the knowledge and expertise that comes from assisting companies with their control remediation efforts and provide process improvements. We team with clients to develop a robust, yet cost-effective approach to enhance their control environment. Our experience working with the largest public accounting firms validates our approach to proper control design and implementation while managing effectiveness in order to mitigate the likelihood of control deficiencies.

TYPES OF MATERIAL WEAKNESSES



TOP 5 MATERIAL WEAKNESEES



CFGI
15 BROAD STREET, 5TH FLOOR, BOSTON, MA 02109 | T: 617.531.8270
250 PARK AVENUE, 7TH FLOOR, NEW YORK, NY 10177 | T: 212.572.6296

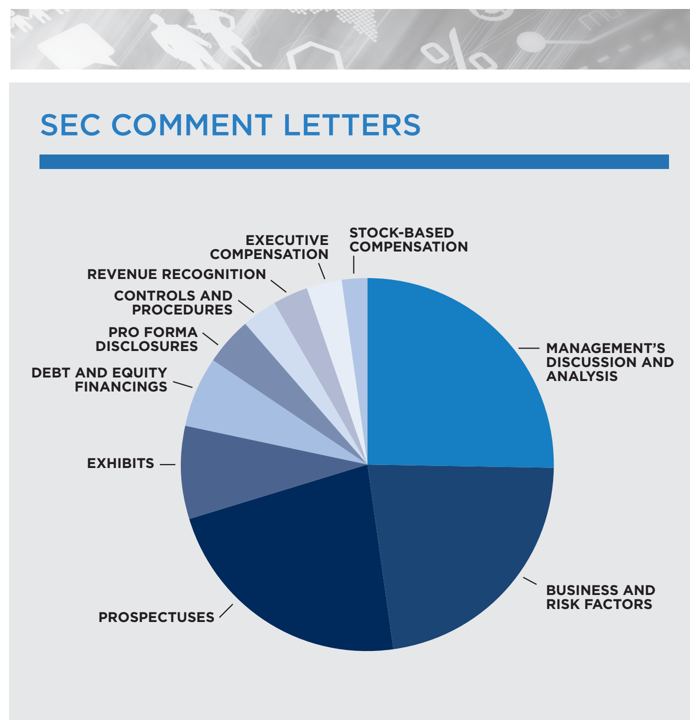
© 2014 CFGI. CFGInsights is a publication of the Corporate Finance Group, Inc.

TRENDS IN SEC COMMENT LETTERS

Our analysis of SEC Comment Letters is based on our research of companies with a market capitalization between $100 million and $1 billion that extends back to January 1, 2013. Our research indicates the trends in SEC Comment Letters continue to be consistent from period to period with MD&A remaining the most common topic to receive an SEC Comment Letter. The areas within MD&A that receive SEC Comment Letters most frequently include: results of operations, business overview, critical accounting policies, and liquidity and capital resources.

During the first half of 2014, the market produced 132 initial public offerings (IPOs), the most robust six-month period since 2000 [(1)]. This rise in S-1 filings was reflected in the increase in comments on topics such as prospectuses and debt and equity financings.

CFGI assists clients with their SEC filings in order to minimize the likelihood of receiving comments by paying close attention to SEC focus areas and the adequacy of the company's disclosures. Our tracking of SEC releases, industry sources and continued independent research allows us to stay abreast of the latest guidance and anticipate potential SEC comments related to key judgments by contemporaneously documenting the company's accounting positions. ■



(1) Wilmer Hale June and Q2 2014 IPO Market Review, July 16, 2014

© 2014 CFGI. CFGInsights is a publication of the Corporate Finance Group, Inc.

PERSPECTIVES:
PRIVATE COMPANY GOODWILL ACCOUNTING (CONTINUED)

Accounting Standards Update No. 2014-02, Intangibles - Goodwill and Other (Topic 350): *Accounting for Goodwill*, was issued by the FASB in January 2014. Companies that elect to amortize goodwill will do so on a straight-line basis over the lesser of 10 years, or the most appropriate useful life. Companies not electing to amortize goodwill are required to make an accounting policy election to test goodwill for impairment.

Consistent with current guidance, companies would test goodwill for impairment when a triggering event occurs indicating the fair value of the Company (or a reporting unit) may be below its carrying amount. When a triggering event occurs, a company has the option to first assess qualitative factors to determine whether the quantitative impairment test is necessary.

If that qualitative assessment indicates that it is more likely than not that goodwill is impaired, the entity must perform the quantitative test to compare the entity's fair value with its carrying amount, including goodwill. If the qualitative assessment indicates that it is not more likely than not that goodwill is impaired, further testing is unnecessary.

The goodwill impairment loss, if any, represents the excess of the carrying amount of a company over its fair value. The goodwill impairment loss cannot exceed a company's (or the reporting unit's) carrying amount of goodwill.

The disclosures required under this alternative are similar to existing U.S. GAAP. However, companies electing the accounting alternative are not required to present changes in goodwill in a tabular reconciliation. Early application is permitted, including application to any period for which a company's annual or interim financial statements have not been made available for issuance. ■

WHY CFGI?

At CFGI, we define our success by the quality of our work and the satisfaction of our clients. Through our deep knowledge base, industry expertise and passion for client service, we provide value add solutions to address client needs. We built a reputation as the go-to solution for all critical finance and accounting projects and continue to build our business by attracting the industry's best professionals and supporting them with the cumulative expertise of our firm. When you partner with CFGI, you gain access to a full-service financial consulting and corporate finance team. Through our well-rounded operational and technical expertise, our team is ready to deliver the services and support needed to achieve your goals quickly, efficiently and effectively.

Whether it is assistance evaluating and documenting complex technical accounting issues, or assistance with your financial close process, financial reporting and tax process, or assistance with your SOX process and documentation, we are uniquely positioned to help you with those needs. ■

© 2014 CFGI. CFGInsights is a publication of the Corporate Finance Group, Inc.