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10 Things to Consider Ahead of Year-End Financial Reporting For Public and Private Companies

Overview

Whether you are a publicly traded or privately held company, there are a lot of things to consider as you prepare for the year-end from a financial reporting perspective. To assist with the process, we have compiled the below list of our top 10 financial reporting reminders and considerations for public and private companies.

Top 5 For Private Companies

- Significant Transactions – Valuation, Audit and Tax Considerations
- ASC 606 Adoption
- Planning Ahead – ASC 842
- Cash Flow Considerations – ASU 2016-15 and ASU 2016-18
- Business Combinations – ASC 805: Clarifying the Definition of a Business

Top 5 For Public Companies

- Significant Transactions – Valuation, Audit and Tax Considerations
- Learning from Others – SEC Comment Letter Trends
- Navigating ASC 842
- Cybersecurity Disclosure Reminders
- Adopting CECL

Top 5 for Private Companies

1. Significant Transactions – Valuation, Audit and Tax Considerations

Did you complete any significant transactions during the year? Significant transactions such as acquisitions, divestitures, and material debt or equity transactions may require valuation assistance, which take time and could cause delays in your year-end financial reporting process, if not planned for appropriately. Transactions may require a valuation of assets, liabilities and/or complex equity instruments for them to be recorded at fair value. Documenting the appropriate accounting treatment for significant transactions early will streamline the process and can be started as soon as the transaction agreements are finalized. In cases where a business or asset(s) were acquired in prior periods, an impairment analysis may need to be conducted regarding goodwill and/or intangible assets. The accounting memorandum should include a draft of the related financial statement disclosure to facilitate the financial statement preparation process. Documenting your accounting position and liaising with third party valuation team members early will prevent delays in your process, as this will give your auditors more time to consider the transaction.

2. ASC 606 Adoption

Have you completed your revenue recognition assessment and appropriately documented your assessment process in addition to your new accounting policies? As you're likely aware, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) issued converged guidance on recognizing revenue in contracts with customers. The new guidance—FASB Accounting Standards Codification (ASC) 606 or International Financial Reporting Standards (IFRS) 15 (the IASB's comparable standard) — replaces substantially all existing U.S. Generally Accepted Accounting Principles (GAAP) on revenue recognition. While the compliance deadline for public companies has already passed, nonpublic companies must apply the new revenue standard for annual reporting periods beginning after Dec. 15, 2018. Documenting your conclusions reached are important, however, you also need to document the roadmap that you used to get there. How many contracts did you select for testing and why, what costs did you consider for capitalization, and what method do you plan for adoption are just some of the questions that you'll need to answer as part of the process. In addition, it is critical to prepare a tracking mechanism to organize all revenue contracts when performing the analysis, this will surely expedite the process for your auditors.

Not sure how to complete? Centri can assist with completing your plan to adopt the standard. We can also provide as much support as you need to perform and document the five-step contract analysis and ultimately identify when revenue should be recognized. From thought leadership to contract review and documentation – Centri can help.

3. Planning Ahead – ASC 842

From identifying to reclassifying lease commitments, it's clear that complying with the ASC 842 standard is a time-consuming process. Based on the FASB approved, delayed effective dates, private companies with a calendar year-end will need to implement the new standard by January 1, 2021. These entities should develop an implementation timeline with several factors top of mind, including existing lease commitments, data governance maturity and cross-firm coordination needs.

Retailers, drug stores, restaurants, supermarkets, airlines and telecommunications companies have seen an outsized impact on their balance sheets because of large brick-and-mortar footprints. Those industries should factor in extra time for both implementation and keeping stakeholders informed. Unexpected roadblocks such as a delay in receiving necessary data from external sources should also be accounted for in the timeline. Benchmarking the organization's progress on implementation against its timeline throughout the balance of the year is paramount in keeping on task and meeting goals.

Now is the time to start considering how your company will handle the new leasing standard. Companies need to start identifying all operating leases. Ensuring completeness over the lease population will be a challenge for all companies. For example, there may be leases embedded into service contracts which could easily go undetected without proper consideration. Centri can help by performing a completeness check to ensure that all leases are appropriately analyzed and recorded.

4. Cash Flow Considerations

The FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. The new standard is intended to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows for areas including:

- Debt prepayment or debt extinguishment costs
- Settlement of zero-coupon
- Debt Instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing
- Contingent consideration payments made after a business combination
- Proceeds from the settlement of corporate-owned life insurance policies including bank- owned life insurance policies
- Distributions received from equity method investees
- Beneficial interests in securitization transactions
- Separately identifiable cash flows and application of the predominance principle

Does your financial reporting team struggle to prepare the statement of cash flows at year-end? These updates provide clarification on these previously obscure areas. Centri can assist your team by providing direction as to where to bucket cash inflows and outflows related to the transactions listed above.

5. Business Combinations – ASC 805: Clarifying the Definition of a Business

Accounting Standards Update (ASU)2017-01 was issued by the FASB to clarify if a set of activities meets the definition of a business. Before this issuance, ASC 805 was being applied broadly by entities, resulting in incorrect analyses and substantial costs to the entity. Under this new guidance, FASB has laid out a more simplified framework for entities to assess if a set of assets and activities meets the new definition of a business.

ASU 2017-01 created a new framework for entities to use in evaluating whether an integrated set of assets and activities (collectively a "set") should be accounted for as an acquisition of a business or a group of assets. It added an initial screen to determine if substantially all the fair value of the gross assets acquired is concentrated in a single asset or group of similar assets. If that screen is met, the set is not a business. The new framework also specifies the minimum required inputs and processes necessary to be a business and removes the need to consider a market participant's ability to replace missing elements.

Understanding the new requirements when considering and negotiating an acquisition can result in reduced accounting and financial reporting efforts. Do you know how you can capitalize on these criteria? If you are unsure, Centri can help you efficiently evaluate the impacts of the transactions and how they apply.

Top 5 for Public Companies

1. Significant Transactions – Valuation, Audit and Tax Considerations

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Centri can assist companies with preparing accounting memorandums, complex valuations, purchase price allocations, impairment analyses and associated financial statement disclosures in connection with the transaction. In addition, Centri can help to prepare or compile other supporting documentation for management to provide to auditors the requisite analysis supporting the amounts recorded in these high-risk areas.

2. Learning from Others – SEC Comment letter trends

Securities and Exchange Commission (SEC) comment letter trends illustrate the agency's focus on the following areas:

- Revenue Recognition – performance obligations, determining a principal or agent in contracts with customers, estimated variable considerations, criteria used to apply the residual approach, timing of revenue recognition, costs to obtain a contract, gross versus net presentation, and disaggregated revenue.

- Non-GAAP Financial Measures – presentation of comparable GAAP financial measure, reconciliation to most comparable GAAP financial measure, adjustments to eliminate or smooth non-recurring, infrequent, or unusual items, and management's disclosure for selecting the non-GAAP presentation.

- Fair Value Measurement – valuation techniques and key inputs, quantitative information provided for significant unobservable inputs, and sufficiency of disclosure related to non-recurring fair value measurements, such as impairments.

•Goodwill & Other Intangibles – identification of reporting units, particularly when multiple components have been combined into a single reporting unit, and at-risk reporting units, including key assumptions used to determine fair value and test for impairment, as well as timing of any impairment charges.

•Business Combinations – purchase price allocations (PPA), completeness of PPA disclosures when the allocation is preliminary, and compliance with the pro forma financial information requirements for business combinations in Regulation S-X Article 11.

•Management's Discussion and Analysis – results of operations, including description of unusual events or significant economic changes, critical accounting estimates, and liquidity and capital resources.

•Income Taxes – effective tax rate reconciliations and uncertain tax positions, valuation allowances, and the indefinite reinvestment assertion, including circumstances that led to changes in indefinite reinvestment conclusions.

•Segment Reporting – disclosures for revenues from external customers for groups with similar products and services, as well as geographic disclosures of revenues from external customers and long-lived assets that are identifiable to the public entity's country, as well as foreign countries.

•Debt, Quasi-Debt, Warrants and Equity – disclosures for consideration of the conversion and redemption options in determining the classification of debt or equity, classification of financing transactions as extinguishments or modifications of debt, and expanded disclosures for material items within debt agreements, including compliance with financial covenants and the sensitivity associated with such measures.

•Internal Control over Financial Reporting (ICFR) – disclosure of material weaknesses, including why a restatement or revision did not result in a material weakness, management's disclosure behind the effectiveness of ICFR, and management's documentation of changes in ICFR that materially affected, or are reasonably likely to affect ICFR required by Item 308 of Regulation S-K.

Our expertise in financial reporting can help your team to prepare all required financial statement disclosures, focusing on completing all relevant disclosure checklists as part of your regular financial reporting close process will facilitate in mitigating the risk of an SEC comment letter.

If the company does receive questions on its filings from the SEC, Centri can assist in responding to any accounting and disclosure questions.

3. Navigating ASC 842

The primary challenges companies face in navigating the continued accounting and financial reporting required by ASC 842 include ensuring completeness of lease population, data gathering and analysis, supporting the various assumptions utilized, and the need for system, process, and control changes and enhancements. The detail and volume of information required to maintain and update for ASC 842 and related disclosures is significantly greater than the lease information historically accumulated and maintained by most companies. Low quality lease documentation and decentralized lease processes are factors that will slow the process of capturing complete data required for the ongoing ASC 842 accounting and financial reporting.

How will your company assert the completeness of its lease population and accuracy of its accounting and disclosures? Centri can assist in ensuring a complete lease population, as well as providing assistance to record the corresponding leasing assets and liabilities on the books at the appropriate value

4. Cybersecurity Disclosure Reminders

As technology increasingly plays a major role in businesses, the SEC continues to stress the importance of entities protecting customer data. Entities that were aware of material breaches, or the misuse of customer data, but failed to timely disclose such information to investors is a focus of the SEC. Interpretive guidance was issued in February of 2018 by the SEC, which clarified the required disclosures for cybersecurity. The following are sections within interim and annual reports where disclosure of cybersecurity risks would be expected:

- Risk Factors
- Description of Business
- MD&A
- Legal Proceedings
- Financial Statement Disclosures
- Board Risk Oversight

Not sure what cyber security disclosures your company needs to include in interim and annual reports? Let our team here at Centri help.

5. Adopting CECL

ASC 326- Current and Expected Credit Losses (CECL). revises the accounting requirements related to the measurement of credit losses and will require organizations to measure all expected credit losses for financial assets based on historical experience, current conditions and reasonable and supportable forecasts about collectability. Assets must be presented in the financial statements at the net amount expected to be collected.

The effective date For CECL for SEC filers (except SRC's) is January 2020. For CECL, an entity will determine its effective date based on its most recent SRC determination at November 15, 2019, which is the date the ASU was issued. An entity's SRC status is determined on the last business day of the most recent second quarter. For example, the most recent determination date will be June 28, 2019 for a calendar-year-end company. The effective date for that entity will not change even if the entity subsequently loses its SRC status.