

Addenda Summary-2011

Note: Due to the issuance of certain new accounting literature, changes in the status of ongoing projects during the past year, or evolution of practice, the following updates to the existing cases should be noted.

Case 03-5a Part I: Trademark

Subsequent to the release of the Exposure Draft issued by the FASB and IASB in June 2010 the Boards received a number of comments and is currently reviewing and analyzing these comments. A revised draft of the Exposure Draft is expected in Q3 of 2011. We encourage users of this case study to follow this project and review the FASB's and IASB's Web site for updates.

Case 04-9: Healthcare Depot

On April 22, 2011, the FASB issued a Proposed Accounting Standards Update, *Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment*. Under the proposed ASU, entities testing goodwill for impairment would have the option of performing a qualitative assessment before calculating the fair value of the reporting unit (i.e., step 1 of the goodwill impairment test). If entities determine, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not greater than the carrying amount, a quantitative calculation would not be needed. The proposal would not change how goodwill is calculated or assigned to reporting units, nor would it revise the requirement to test goodwill annually for impairment. In addition, the proposed guidance does not amend the requirement to test goodwill for impairment between annual tests if events or circumstances warrant; however, it does revise the examples of events and circumstances that an entity should consider. These circumstances include:

- Macroeconomic conditions such as a deterioration in general economic conditions, limitations on accessing capital, fluctuations in foreign exchange rates, or other developments in equity and credit markets
- Industry and market considerations such as a deterioration in the environment in which an entity operates, an increased competitive environment, a decline (both absolute and relative to its peers) in market-dependent multiples or metrics, a change in the market for an entity's products or services, or a regulatory or political development
- Cost factors such as increases in raw materials, labor, or other costs that have a negative effect on earnings
- Overall financial performance such as negative or declining cash flows or a decline in actual or planned revenue or earnings

- Other relevant entity-specific events such as changes in management, key personnel, strategy, or customers; contemplation of bankruptcy; or litigation
- Events affecting a reporting unit such as a change in the carrying amount of its net assets, a more-likely-than-not expectation of selling or disposing all or a portion of a reporting unit, the testing for recoverability of a significant asset group within a reporting unit, or recognition of a goodwill impairment loss in the financial statements of a subsidiary that is a component of a reporting unit
- If applicable, a sustained decrease (both absolute and relative to its peers) in share price.

These factors are not meant to be all-inclusive. Entities should also consider:

- The significance and adversity of each factor relative to the fair value of the reporting unit
- Positive factors and mitigating circumstances that may affect the analysis
- If the entity has a recent fair value calculation for the reporting unit, whether the fair value of the reporting unit exceeded its carrying amount by a substantial margin
- The factors in their totality. No one factor is meant to be a determinative event that triggers a quantitative calculation. Further, “the existence of positive and mitigating events and circumstances is not intended to represent a rebuttable presumption that an entity should not perform the first step of the goodwill impairment test.”

The proposed ASU would also amend the guidance on performing an interim test of goodwill. ASC 350-20-35-30 currently provides examples of events and circumstances indicating when it is more likely than not that the fair value of a reporting unit is less than the carrying amount. The proposal replaces such examples with the factors noted above for the qualitative assessment.

We encourage you to check the [FASB](#) website for further details and developments. You can also check [Deloitte.com](#) for Deloitte publications on proposals and final standards as they are issued.

The FASB’s project is not expected to affect the conclusions in this case.

Case 05-6: Centcom, Inc.

In May 2011, the IASB issued IFRS 10, *Consolidated Financial Statements*, which replaced IAS 27 and SIC 12. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. Early application is permitted under specific circumstances. Under IFRS 10, control is

the single basis for consolidation, irrespective of the nature of the investee; this standard therefore eliminates the risks and rewards approach in SIC-12. IFRS 10 identified three elements of control:

- Power over the investee
- Exposure, or rights, to variable returns from involvement with the investee
- The ability to use power over the investee to affect the amount of the investor's returns.

IFRS 10 would change the analysis for this case; however, Centcom would likely continue to consolidate Britel.

Case 07-03 Part 1: Columbia On-Line Networks

Subsequent to the release of the Exposure Draft issued by the FASB and IASB in June 2010, the Boards received a number of comments and is currently reviewing and analyzing these comments. A revised draft of the Exposure Draft is expected in Q3 of 2011. We encourage users of this case study to follow this project and review the FASB's and IASB's Web site for updates.

Case 08-3: Hedge Documentation

As of the end of May 2011, the FASB has not yet begun deliberations of comments received on the hedge accounting proposals included in its May 2010 proposed ASU. However, the FASB has continued to monitor the IASB's project to amend the hedge accounting requirements currently included in IAS 39, *Financial Instruments: Recognition and Measurement*. In December 2010, the IASB issued its exposure draft (ED), *Hedge Accounting*. The IASB's proposed model focuses on an entity's risk management objectives as the basis for hedge accounting. In February 2011, the FASB issued a discussion paper (DP), *Selected Issues About Hedge Accounting*, to obtain feedback on the IASB's ED; comments on the DP were due by April 25, 2011. The FASB intends to consider the feedback received on the IASB's proposal during its redeliberations of the May 2010 hedge accounting proposals. The FASB has not yet indicated a specific timeline for when it plans to start such redeliberations.

Case 08-4: Bear Minimum

On August 17, 2010, the FASB and IASB took a significant step toward revamping existing lease accounting rules by issuing an exposure draft (ED) outlining the boards' views on a new accounting model. The boards began redeliberations in January 2011 and expect to issue a final standard late in 2011. The issuance of a final standard could be delayed if the boards decide to reexpose the proposed leasing guidance.

Lease accounting under U.S. GAAP and IFRSs is often criticized for being too reliant on bright lines and subjective judgments. Many believe that such reliance has led entities to account for economically similar transactions differently and has presented opportunities for entities to structure transactions to achieve a desired accounting effect.

The proposed lease model would eliminate operating leases and focus on an entity's right to use an asset. Lessees would record a right-of-use asset and a corresponding obligation to pay rentals for all leases — in other words, the concept of an operating lease would no longer exist, and all leases would be —on balance sheet.¶ As it relates to lessors, the boards proposed two models in the ED: (1) the derecognition approach and (2) the performance obligation approach.

This case does not reflect the tentative decisions that the boards have reached.

Case 09-2: Pharmagen Pharmaceutical Development Funding

On December 19, 2008, the FASB and IASB issued a discussion paper outlining their preliminary views on a single contract-based revenue recognition model. Currently, there are more than 100 revenue recognition standards in U.S. GAAP. The proposed model eliminates conflicting guidance and reduces the number of revenue recognition standards. The Boards issued an Exposure Draft for public comment in the second quarter of 2010 and a final standard expected in the second half of 2011.

We encourage you to review the [FASB](#) and [IASB](#) websites for further details and developments. You can also review [Deloitte.com](#) for Deloitte publications on proposals and final standards as they are issued.

Case 09-04: Needs Space

On August 17, 2010, the FASB and IASB took a significant step toward revamping existing lease accounting rules by issuing an exposure draft (ED) outlining the boards' views on a new accounting model. The boards began redeliberations in January 2011 and expect to issue a final standard late in 2011. The issuance of a final standard could be delayed if the boards decide to reexpose the proposed leasing guidance.

Lease accounting under U.S. GAAP and IFRSs is often criticized for being too reliant on bright lines and subjective judgments. Many believe that such reliance has led entities to account for economically similar transactions differently and has presented opportunities for entities to structure transactions to achieve a desired accounting effect.

The proposed lease model would eliminate operating leases and focus on an entity's right to use an asset. Lessees would record a right-of-use asset and a corresponding obligation to pay rentals for all leases — in other words, the concept of an operating lease would no longer exist, and all leases would be “on balance sheet.” As it relates to lessors, the boards proposed two models in the ED: (1) the derecognition approach and (2) the performance obligation approach.

This case does not reflect the tentative decisions that the boards have reached.

Case 09-05 Part A: Pit Stop Closed/Sold

The FASB expects to re-expose a revised ASU in the second quarter of 2011. The Board's goal is to issue a final ASU in the second half of 2011.

Case 09-05 Part B: Pit Stop Closed/Sold

The FASB expects to re-expose a revised ASU in the second quarter of 2011. The Board's goal is to issue a final ASU in the second half of 2011.

Case 09-08: Classified Information

SEC Comments

There are several SEC Comments cited in the case. These areas continue to be a focus in the SEC comment process. There are a number of additional topics related to financial statement classification on which the SEC staff frequently comments. See the Financial Statement Classification section of [Deloitte's Special Report, SEC Comment Letters – Including Industry Insights: A Snapshot of Current Themes \(Fourth Edition\)](#), for information on these topics. All SEC Comments are also available publicly on the SEC Web site in the IDEA (formerly EDGAR) database.

FASB/IASB Joint Project on Financial Statement Presentation

In this project, the FASB and IASB are taking a "fresh look" at the manner in which financial information is presented in an entity's statement of financial position, statement of comprehensive income, and statement of cash flows. The revised financial statement format is expected to be more cohesive and split between business (i.e., operating and investing) and financing activities. This format would largely resemble the current presentation in the statement of cash flows. The intent of requiring a single financial statement presentation is to enhance the usefulness of financial information and increase the comparability and consistency of financial statements within and across entities.

Specific changes would include the following:

- Statement of financial position — Requiring presentation of assets and liabilities by major activity within operating, investing, and financing categories.
- Statement of comprehensive income — Requiring a single statement of comprehensive income grouped by using the same categories as those in the statement of financial position; further disaggregation of line items in the statement would be required.
- Statement of cash flows — Requiring separate presentation of the main categories of cash receipts and cash payments for operating activities (i.e., direct method) rather than reconciliation of net income to net operating cash flows (i.e., indirect method). However, a reconciliation of operating income to net operating cash flows would be required in the notes to the financial statements.

- Notes to the financial statements — Requiring disclosure of the rationale used to classify assets and liabilities into categories and sections in the statement of financial position. In addition, an entity would be required to provide a reconciliation of beginning to ending balances of select assets and liabilities that management deems to be important to understanding the entity's financial position.

The FASB and IASB halted deliberations of their financial statement presentation project, with further consideration not expected before December 2011. While it is clear that changes to financial statement presentation will occur once a final ASU is issued, implications to this case solution are unknown at this point.

Case 10-01: SolvGen, Inc.

In December 2010, the FASB and IASB discussed some of the common themes identified in the feedback received on the new revenue recognition principle that the boards exposed for comment in June 2010.

In January 2011, the boards started redeliberations by discussing two fundamental issues raised by constituents: (1) determining when a customer has obtained control of a good or service and (2) separating performance obligations. The boards plan to focus on the remaining issues at future meetings.

This project represents a broad reconsideration of the manner in which an entity recognizes and reports information about revenue resulting from contracts with customers. It would supersede most of the current guidance on revenue recognition in U.S. GAAP, with certain exceptions, doing away with the volumes of industry-specific guidance that many have been using for years. In its place, entities would apply a broad principle when recognizing revenue for contracts under which goods or services are provided to customers. That broad principle would require an entity to (1) identify the contract with a customer, (2) identify the distinct performance obligations, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations, and (5) recognize revenue when the performance obligations are satisfied.

On November 14, 2011, the FASB and IASB jointly issued their revised exposure draft, Revenue From Contracts With Customers.

We encourage you to check the FASB and IASB websites for further details and developments. You can also check Deloitte.com for Deloitte publications on proposals and final standards as they are issued

Case 10-02: Ida's Impairment

In April 2011, the FASB issued an exposure draft on testing goodwill for impairment. Under the proposal, entities would have the option of performing a qualitative assessment before calculating the fair value of the reporting unit (i.e., step 1 of the goodwill impairment test). If entities determine, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not greater than the carrying amount, a

quantitative calculation would not be needed. The proposal would not change how goodwill is calculated or assigned to reporting units, nor would it revise the requirement to test goodwill annually for impairment. In addition, the proposed guidance does not amend the requirement to test goodwill for impairment between annual tests if events or circumstances warrant; however, it does revise the examples of events and circumstances that an entity should consider.

As it relates to this case, Ida would have the option of considering certain qualitative factors to determine whether it was more likely than not that the fair value of the reporting unit was less than its carrying amount. This assessment would be based on all facts and circumstances; however, the change in legislation and expected effect on Ida's production may indicate that (1) it is more likely than not that the fair value of the reporting unit is less than the carrying amount and (2) Ida should perform step 1 of the goodwill impairment analysis.

Case 10-03: Restructuring Costs

The IASB is currently re-deliberating amendments to IAS 37 to (1) improve the guidance on identifying liabilities, (2) reduce differences between IAS 37 and U.S. GAAP, (3) make the recognition requirements consistent with the requirements for other liabilities, and (4) clarify the measurement of liabilities. As it relates to restructuring charges, the proposed amendments would align the accounting for restructuring costs under IAS 37 (and termination benefits under IAS 19) with ASC 420-10.

The June 2005 Exposure Draft stated the following regarding restructuring provisions: IAS 37 states that an entity that (a) has a detailed formal plan for restructuring and (b) has raised a valid expectation in those affected that it will carry out the restructuring has a constructive obligation. Therefore, it recognises a provision for the direct expenditures arising from the restructuring. The exposure draft proposes:

- revisiting the application guidance for restructuring provisions to specify that a non-financial liability for a cost associated with a restructuring is recognised only when the definition of a liability has been satisfied for that cost. Accordingly, a cost associated with a restructuring is recognised as a liability on the same basis as if that cost arose independently of a restructuring.
- specific guidance for accounting for costs that are often associated with a restructuring as follows:
 - the cost of employee termination benefits is recognised in accordance with IAS 19 *Employee Benefits*.
 - a liability for costs that will continue to be incurred under a contract for its remaining term without equivalent economic benefit to the entity is recognised when the entity ceases using the right conveyed by the contract (in addition to any liability recognised if the contract was previously determined to be onerous).

- the cost of terminating a contract before the end of its term is recognised when the entity terminates the contract in accordance with the contract terms.

The IASB has indicated that the project will not be discussed again by the Board until the second half of 2011.

Case 10-07: Impaired Abilities

The incurred-loss impairment models in both U.S. GAAP and IFRSs were criticized during the financial crisis for delaying recognition of losses and not incorporating more forward-looking information. To address these concerns, the FASB and the IASB (the “boards”) issued proposals on impairment.

The IASB issued an exposure draft (ED), *Financial Instruments: Amortised Cost and Impairment*, on November 5, 2009. The comment period ended on June 30, 2010. Under the proposals in the IASB’s ED, the amortized cost of a financial asset would be the present value of the future expected cash flows from the asset as adjusted for expected lifetime credit losses. To recognize the initially estimated credit losses, entities would reduce the amount of interest revenue recognized on the financial asset by adjusting the effective interest rate of the asset to reflect the initially expected lifetime credit losses. However, any subsequent changes to the estimate of lifetime credit losses would be immediately recognized in profit or loss. On May 26, 2010, the FASB issued a proposed ASU, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*. The comment period ended on September 30, 2010. Under the proposed ASU, an entity should not apply a probability threshold when determining whether a credit loss exists. That is, in assessing credit impairment, the entity would not wait until a loss is probable before recognizing an impairment loss. Although the entity would not forecast future events or economic conditions that do not exist as of the reporting date in assessing a financial asset for credit impairment, the entity would consider the impact of past events and existing conditions on the current and future collectibility of the cash flows associated with the financial asset. The boards had different objectives for their respective impairment projects. The FASB’s goal was to ensure that the allowance was sufficient to absorb all expected credit losses. The IASB’s goal was to recognize initially expected lifetime credit losses over the life of the asset in accordance with the view that credit loss considerations are a component in the pricing of the asset. In other words, the FASB focused more on the statement of financial position, and the IASB focused more on earnings. In an effort to converge on improvements to accounting for impairment, on January 31, 2011, the boards proposed a common solution for impairment accounting in the supplementary document (SD) *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities — Impairment*. The comment period ended on April 1, 2011.

Scope

The proposals in the SD would apply to (1) loans and debt instruments under U.S. GAAP that are managed on an “open” portfolio basis, provided that they are not measured at fair value with changes in fair value recognized in net income, and (2) financial assets under IFRSs that are managed on an open-portfolio basis and measured at amortized cost.

Good Book Versus Bad Book

The SD proposes that, in determining an impairment allowance, an entity differentiate between financial assets managed in a “good book” and those managed in a “bad book,” depending on the degree of uncertainty about the collectability of the cash flows of the financial asset. An asset would be transferred to the bad book when the entity’s credit-risk management objective changes for that asset from receiving payments from the debtor to recovery of all or a portion of the financial asset. The lifetime expected losses for assets in the good book would be recognized over time, whereas the lifetime expected losses for assets transferred to the bad book would be recognized immediately in profit or loss to the extent that the losses were not already recognized in profit or loss.

Impairment — The Good Book Approach

The SD proposes that for financial assets for which it is appropriate to recognize expected credit losses over time (i.e., the good book), the allowance amount would be determined as the higher of (1) a portion of lifetime expected credit losses determined under a time-proportional approach and (2) credit losses expected to occur in the foreseeable future (defined in the SD as no less than 12 months after the reporting date).

A minimum floor allowance equal to the credit losses expected to occur in the foreseeable future (but no less than 12 months after the reporting date) was included so that a sufficient allowance is recognized for asset classes that experience higher default rates early in the asset’s life.

Impairment — The Bad Book Approach

Upon the transfer of an asset from the good book to the bad book, all remaining lifetime expected credit losses would be recognized immediately. Entities that do not manage their credit risk by differentiating assets on the basis of the good book versus bad book criteria outlined in the SD would still be required to differentiate their assets to determine an impairment allowance.

Expected Credit Loss Estimates

The boards have clarified that the expected credit loss estimate should take into account all information available, including internal and external information (e.g., historical data and current economic conditions as well as reasonable and supportable forecasts of future events and future economic indicators). The estimate of future conditions should be consistent with both currently available information and management’s internal forecasts. The estimate of expected credit losses should be updated at least as of each reporting date.

Entities will need to develop two separate expected-loss estimates: (1) one for the lifetime expected losses under the time-proportional approach and (2) a second for losses expected to occur in the foreseeable future period (at least 12 months after the reporting date) in determining the minimum floor for the allowance under the good book approach. The foreseeable future period is a constant period and would not change from period to

period, but it may vary in length among different asset classes depending on the characteristics for each asset class.

Next Steps

As a result of the general lack of support for the SD from constituents, in their joint meeting held on May 17–19, 2011, the boards decided not to pursue the proposed joint impairment approach. The boards will establish a working group consisting of FASB and IASB members and senior staff to develop a new variation of the proposals. The working group will consider all the feedback received on the original SD proposals of both boards and, after considering various elements of the impairment approaches, will make a recommendation to the boards regarding objectives and baseline models.

Case 11-03: Masters of the Universe

IFRS Addendum

Overview

On May 12, 2011, the IASB issued the following new and amended guidance (the —package of five) on consolidated financial statements and joint arrangements:

- IFRS 10, which replaces IAS 27 and SIC-12.
- IFRS 11.
- IFRS 12.
- IAS 27 (Revised 2011), which has been amended for the issuance of IFRS 10 but retains the current guidance on separate financial statements.
- IAS 28 (Revised 2011), which has been amended for conforming changes on the basis of the issuance of IFRS 10 and IFRS 11.

The above package of five now provides the primary source of IFRS guidance for determining when and how to prepare consolidated financial statements. The IASB’s objective in issuing IFRS 10 and related guidance was to develop a single source of authoritative guidance on consolidation accounting that focuses on control. IFRS 10 includes a revised definition of control, including additional application guidance, to make it more comprehensive and to address perceived inconsistencies between IAS 27 (which focuses on control) and SIC-12 (which focuses on risks and rewards).

IFRS 10 identifies the following three elements of control:

- “[P]ower over the investee.”
- “[E]xposure, or rights, to variable returns from involvement with the investee.”
- “[T]he ability to use power over the investee to affect the amount of the investor’s returns.”

An investor must possess all three elements to conclude that it controls an investee. The assessment of control is based on all facts and circumstances, and the conclusion is reassessed if there are changes to at least one of the three elements.

Under IFRS 10, to have control over an investee, an investor must have not only (1) the power over an investee and exposure or rights to variable returns from its involvement with the investee, but also (2) the ability to use its power over the investee to affect its returns from its involvement with the investee. Furthermore, the reporting entity shall conduct the assessment of control continually.

IFRS 10 retains IAS 27's presumption that an entity that holds more than half of the voting rights in another entity has the power to direct its activities, but it also clarifies that a reporting entity can have the power to direct the activities of another entity even if it holds less than half of the voting rights of that entity. This could occur when a reporting entity with less than half of the voting rights nevertheless has more voting rights than any other party, and those voting rights are sufficient to give the reporting entity the ability to determine the entity's strategic operating and financing policies.

Joint Control

IFRS 11 defines a joint arrangement as an —arrangement of which two or more parties have joint control and clarifies that joint control exists only when —decisions about the relevant activities require the unanimous consent of the parties that control the arrangement collectively.. Note that this concept of joint control includes control by more than two parties, but not when decisions may be reached by more than one combination of those parties.

Potential Voting Rights

IFRS 10 further requires an investor to also consider potential voting rights held either by itself or by other parties. Paragraph B50 of IFRS 10 indicates that potential voting rights are considered only when they are substantive and —alone, or in combination with other rights, can give an investor the current ability to direct the relevant activities.¶

Considerations for this Case

Conceptually, the characteristics of a Primary Beneficiary under ASC 810 discussed above and a controlling entity under IFRS 10 are substantially the same. Saturn's decision making power with regard to the —design, manufacturing, pricing, sales and distribution of clothing¶, its equity holdings and the fact that the areas over which it has control are clearly those areas that determine operating performance and, hence, return on investment, would result in its being considered the controlling entity under international standards as well.

Current Status of the Consolidations Project — June 2011

The consolidations project began as a joint project between the FASB and IASB to develop improved, converged consolidation standards that would apply to all entities (i.e., variable interest entities (VIEs), voting interest entities, and investment companies). However, the boards ultimately decided not to converge on all aspects of this topic, mainly because of differences of opinion on —control with less than a majority of the voting rights¶ and the consideration of —potential voting rights.¶ For the IASB, the project resulted in the issuance of new consolidation guidance in May 2011 (see discussion below and in the beginning of this addendum). The FASB is currently working on a narrower project to clarify whether a decision maker is acting as a principal or as an agent.

The IASB issued final IFRSs on Consolidation, Joint Arrangements, and Disclosures in May 2011 as discussed above. The FASB plans to issue proposed and final amendments to the

consolidation guidance in 2011. Those amendments would address the narrow topic of whether a decision maker is acting as a principal or as an agent on behalf of others. We encourage you to check the FASB and IASB websites for further details and developments. You can also check Deloitte.com for Deloitte publications on proposals and final standards as they are issued.

The FASB's project is not expected to affect the conclusions in this case.

Case 11-05: Venus Cellular

Under current U.S. GAAP, entities can choose between several alternatives for displaying other comprehensive income and its components in the financial statements. In June 2011, the FASB issued ASU 2011-05¹, which revises the manner in which entities present comprehensive income in their financial statements. The new guidance removes the presentation options in ASC 220² and requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. Under the two-statement approach, the first statement would include components of net income, which is consistent with the income statement format used today, and the second statement would include components of other comprehensive income (OCI). The ASU does not change the items that must be reported in OCI.

For public entities, the ASU's amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Nonpublic entities are required to apply the ASU's provisions for annual periods ending after December 15, 2012, and interim and annual periods thereafter. For all entities, guidance must be applied retrospectively for all periods presented in the financial statements. Early adoption is permitted, and the ASU does not require any incremental disclosures in addition to those already required under ASC 250³ or under any transition disclosures.

Since the issuance of the ASU, however, constituents have raised questions about the operability of a provision that requires adjustments for items that are reclassified from OCI to net income to be presented in both net income and OCI. Accordingly, the FASB tentatively decided to indefinitely defer the ASU's provisions related to the presentation of reclassification adjustments so that it could appropriately review and evaluate constituents' concerns. The effective date for unaffected provisions (i.e., the requirement to report the components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements) would remain unchanged. For public entities, this effective date is for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. Nonpublic entities are required to apply the provisions for annual periods ending after December 15, 2012, and interim and annual periods thereafter.

The FASB also tentatively decided that during the deferral period, entities would be required to comply with all existing requirements for reclassification adjustments in ASC 220. ASC

220-10-45-17 currently states that “an entity may display reclassification adjustments on the face of the financial statement in which comprehensive income is reported, or it may disclose reclassification adjustments in the notes to the financial statements.”

The FASB is expected to issue a proposed ASU reflecting these decisions in November 2011.

Case 11-06: Lessee, Ltd.

On August 17, 2010, the FASB and IASB took a significant step toward revamping existing lease accounting rules by issuing an exposure draft (ED) outlining the boards’ views on a new accounting model. The boards began redeliberations in January 2011 and expect to issue a final standard late in 2011. The issuance of a final standard could be delayed if the boards decide to reexpose the proposed leasing guidance.

Lease accounting under U.S. GAAP and IFRSs is often criticized for being too reliant on bright lines and subjective judgments. Many believe that such reliance has led entities to account for economically similar transactions differently and has presented opportunities for entities to structure transactions to achieve a desired accounting effect.

The proposed lease model would eliminate operating leases and focus on an entity’s right to use an asset. Lessees would record a right-of-use asset and a corresponding obligation to pay rentals for all leases — in other words, the concept of an operating lease would no longer exist, and all leases would be “on balance sheet.” As it relates to lessors, the boards proposed two models in the ED: (1) the derecognition approach and (2) the performance obligation approach.

This case does not reflect the tentative decisions that the boards have reached.