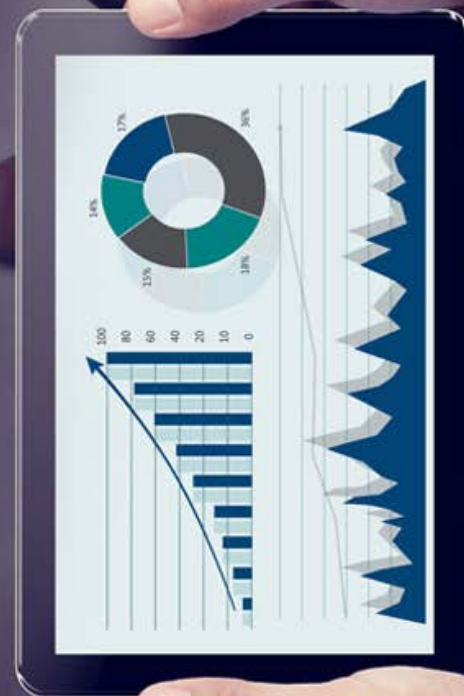




# Accounting changes and error corrections

CFO Financial forum webcast series

October 27, 2020



# Introductions



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# Administrative



## CPE regulations

- Require that online participants take part in online questions
- Must respond to a minimum of three questions
- Polling questions will appear on your media player
- Results will be reviewed in the aggregate; no responses will be tracked back to any individual or organization



## Ask a question

- Use the “Ask A Question” box in your media player



## Technical issues

- Use the ? button in the upper-right corner of your Webcast player to access our online help portal
- If this does not resolve your issue, please submit a question through the Ask a Question box, and you will receive a reply from our technical staff shortly in the Answered Questions box



# Agenda

- Accounting changes
- Error corrections
- Interim reporting
- SEC matters





# Accounting changes

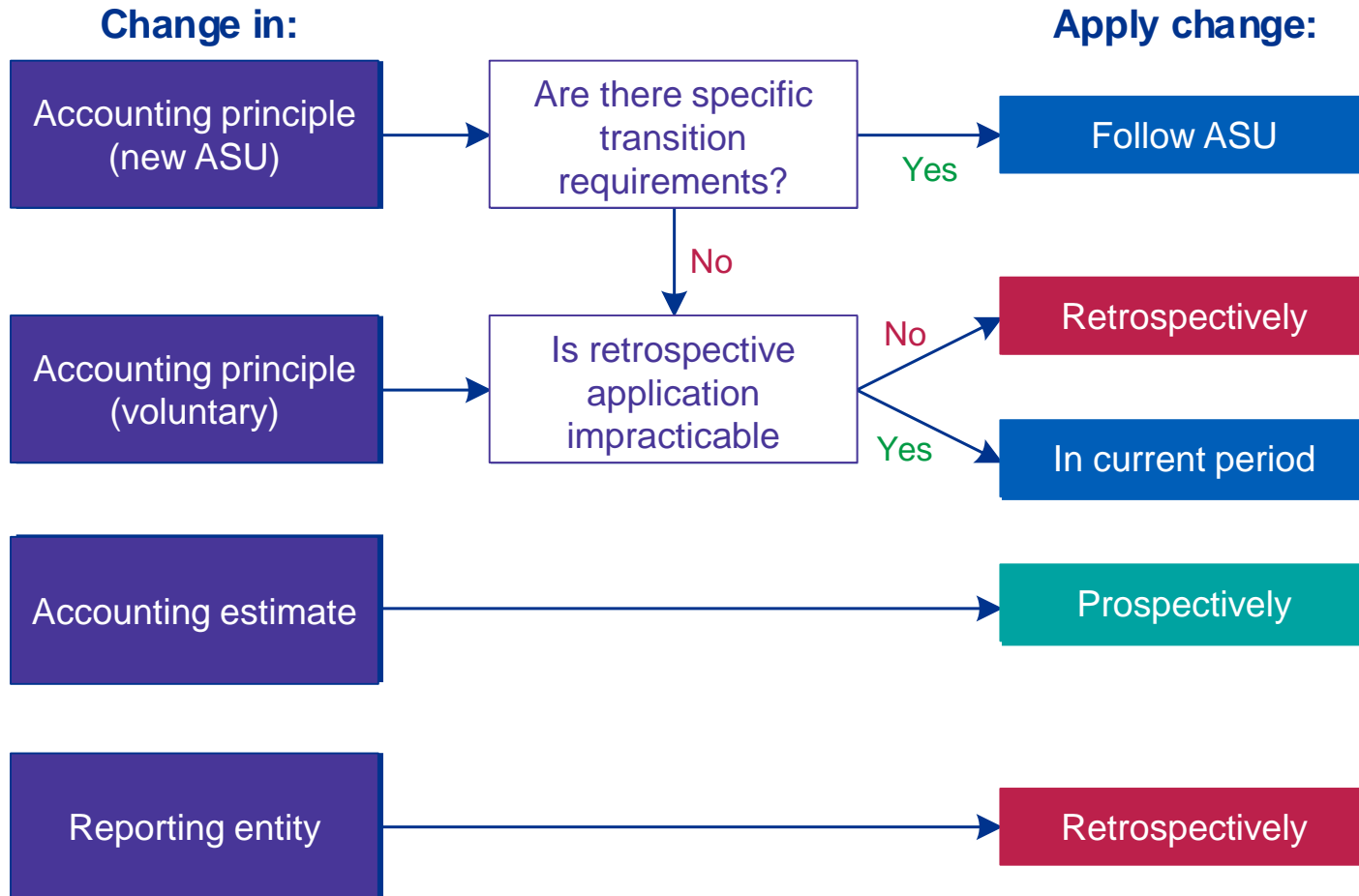
# Polling question #1

**Has your organization made a voluntary change in accounting principle in the past five years?**

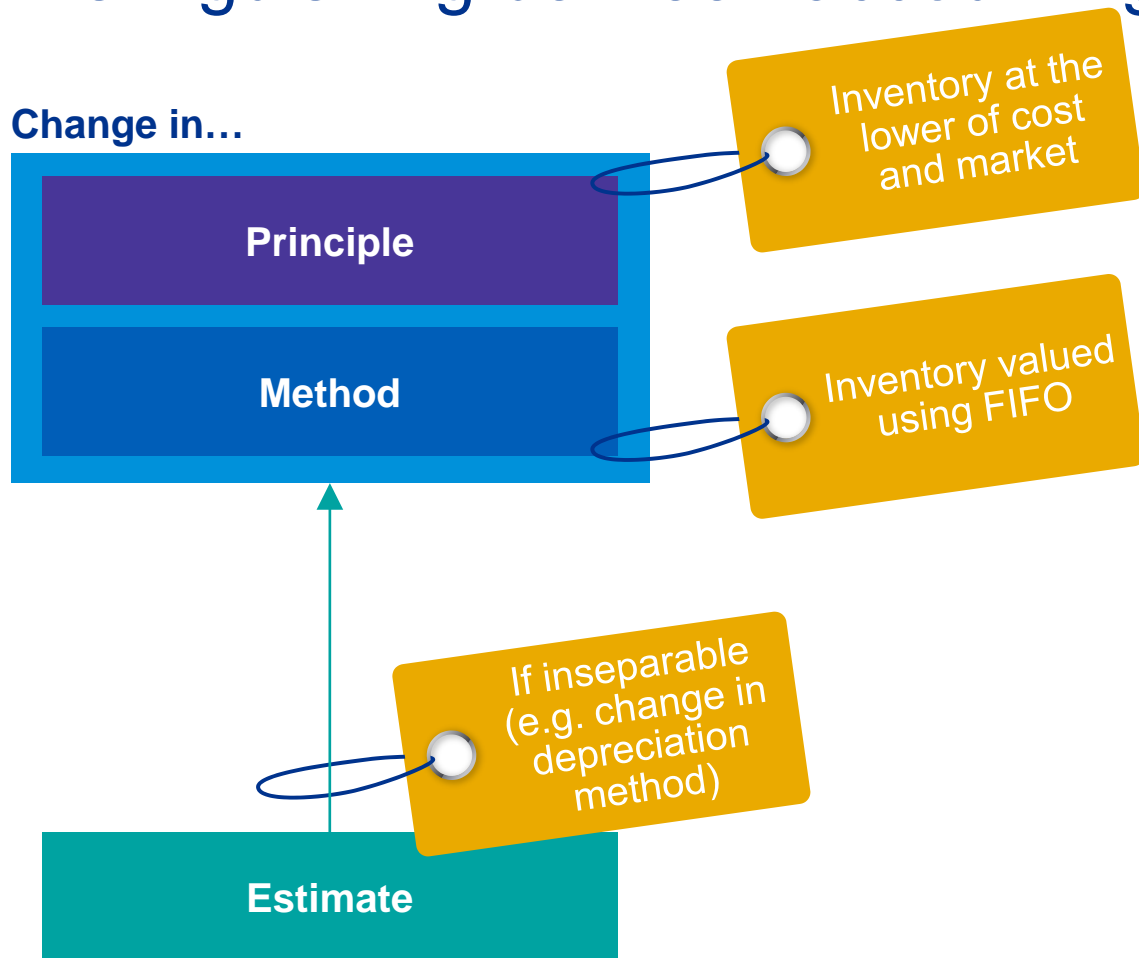
- A. Yes
- B. No
- C. I don't know / N/A



# Topic 250 accounting changes



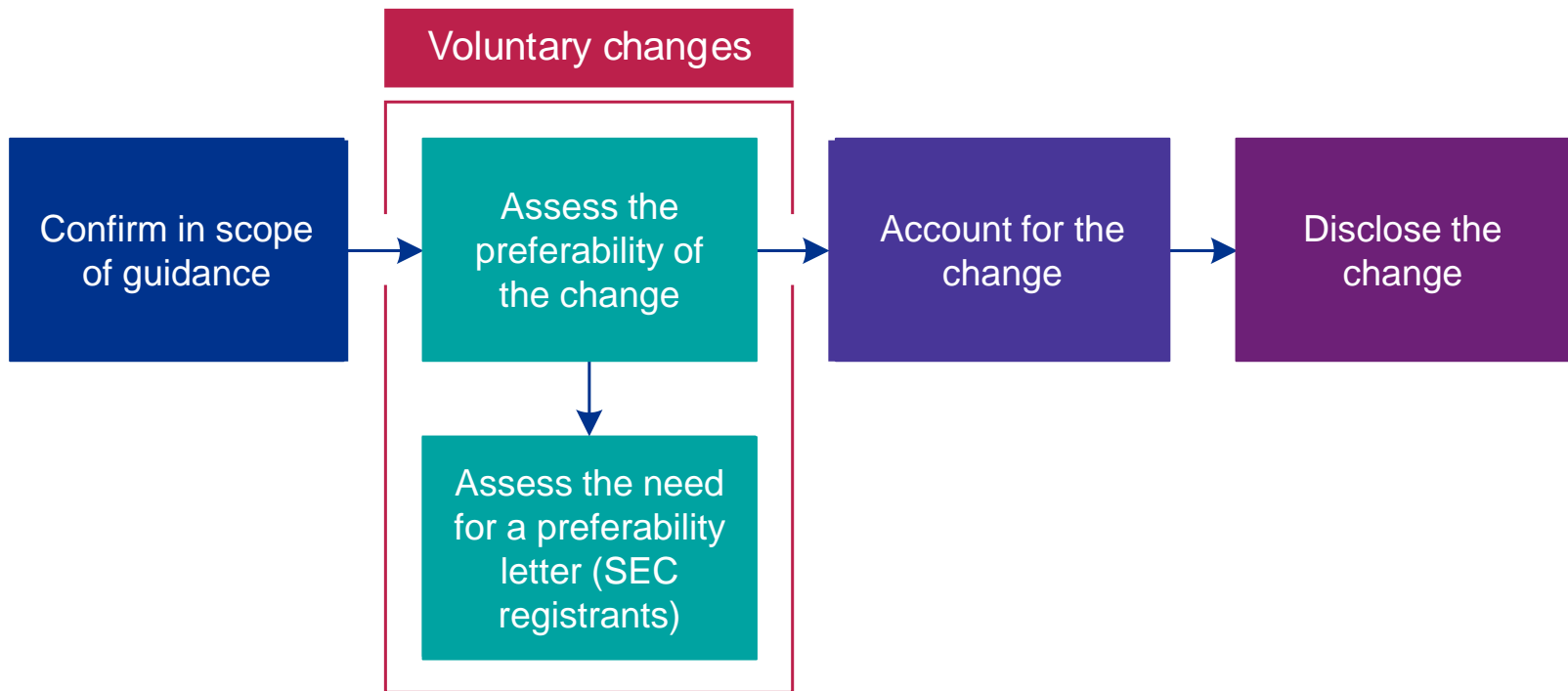
# Distinguishing between accounting changes



What about a change in classification or presentation?



# Change in accounting principle



# Assess preferability of the change

Not required for these changes:

**1**

**New events or transactions**

**2**

**First-time adoption of accounting principle**

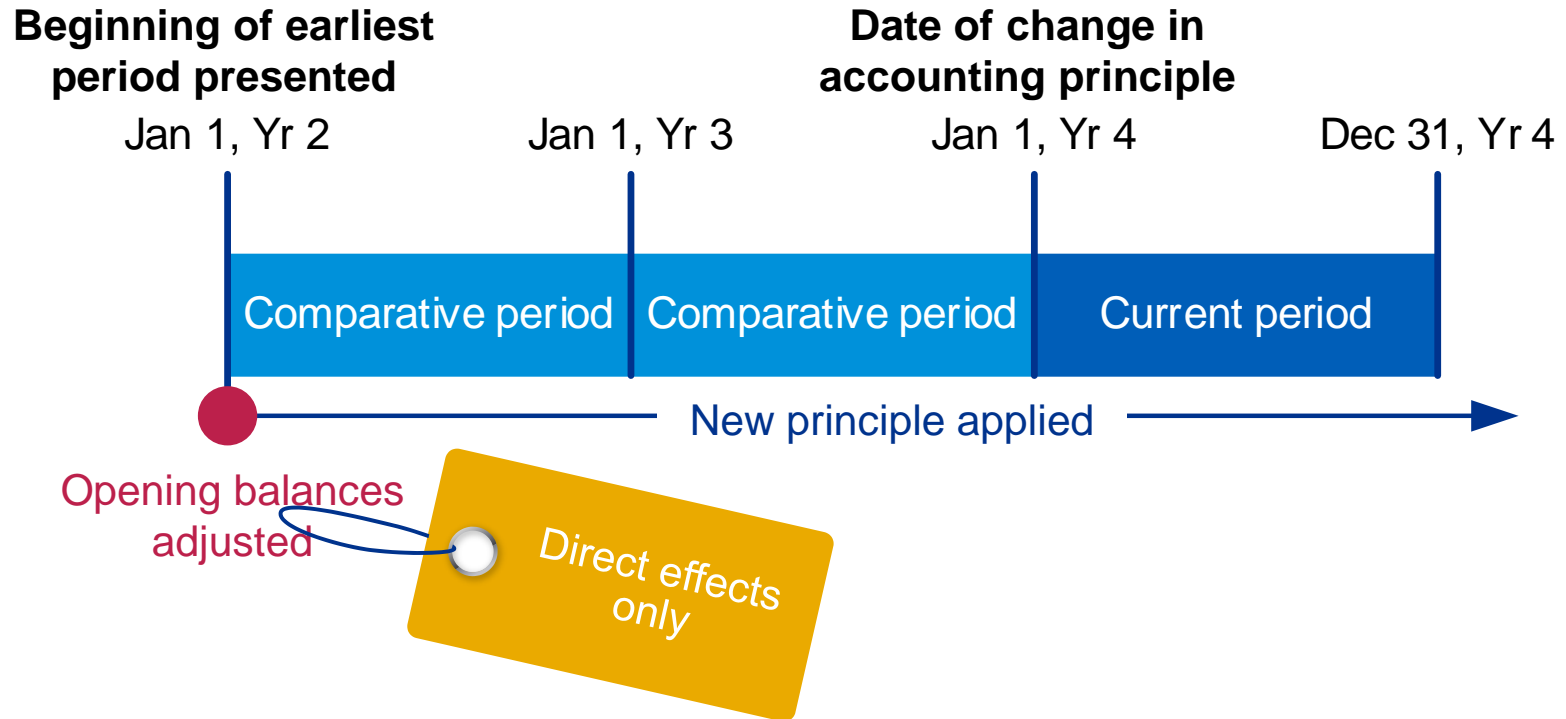
**3**

**Codification expresses preference**

**4**

**Current method no longer acceptable**

# Retrospective application



**Labeling column 'As adjusted' is best practice**

# Retrospective application impracticable

**Beginning of earliest period presented**

Jan 1, Yr 2

**Date of change in accounting principle**

Jan 1, Yr 3

Jan 1, Yr 4

Dec 31, Yr 4

Comparative period  
Old principle

Comparative period  
Old principle

Current period  
New principle

Effect of change  
recognized

**A very high hurdle – not just difficult**

# Polling question #2

**Has your organization applied the impracticability exception, adopting a new accounting principle prospectively?**

- A. Yes
- B. No
- C. I don't know / N/A



# Change in accounting estimate

**Beginning of earliest period presented**

Jan 1, Yr 2

**Date of change in accounting principle**

Jan 1, Yr 3

Jan 1, Yr 4

Dec 31, Yr 4

Comparative period  
Old estimate

Comparative period  
Old estimate

Current period  
New estimate

Effect of change  
recognized

**But remember:**

- Change in estimate may indicate a previous error
- Preferability assessment required for change in estimate that is inseparable from a change in accounting principle (e.g. depreciation method)

# Change in reporting entity

## Type of change

Presenting consolidated or combined statements in place of statements of individual companies



ABC Corp. starts preparing combined financial statements for all of its real estate investees that are under common management

Changing the companies included in combined financial statements



ABC Corp. changes the composition of its combined financial statements following two new real estate investees coming under common management

Changing specific subsidiaries that are included in the group of companies for which the reporting entity presents consolidated financial statements



An intermediate parent company acquires a subsidiary from a sister company in a common control transaction

**Retrospective application**

# Accounting change disclosures

ASC 820 for fair value disclosures

Specific in ASC 250	Principle	Estimate	Reporting entity
Description	✓	✗	✓
Effect on:			
Opening retained earnings	✓	N/A	✗
Income from continuing ops	✓	✓	✓
Net income	✓	✓	✓
OCI	✗	✗	✓
EPS	✓	✓	✓

Plus general disclosure requirements (ASC 205)





# Error corrections

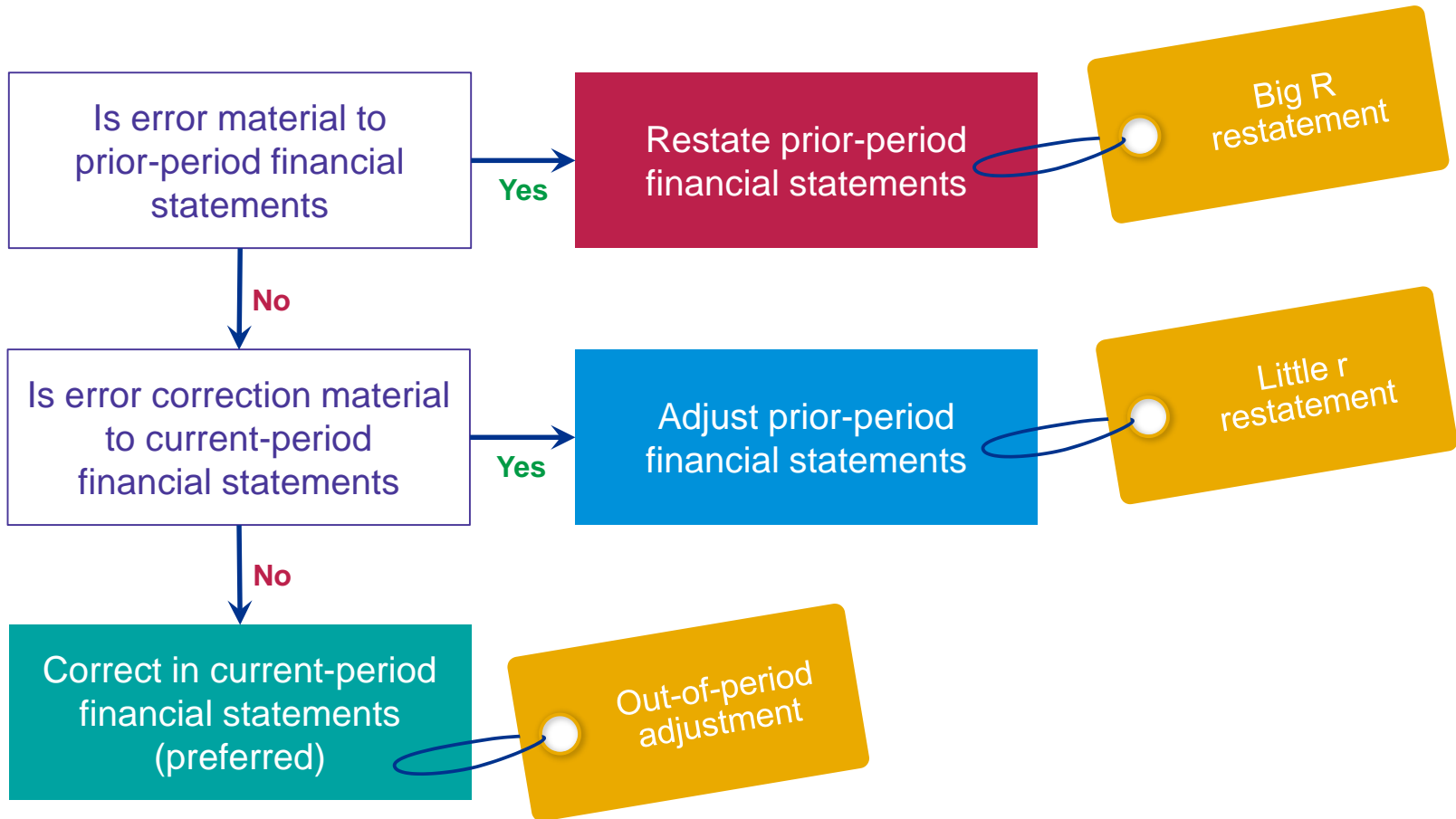
# Polling question #3

**Has your organization ever had a restatement?**

- A. Yes
- B. No
- C. I don't know / N/A



# Error corrections – General principles



# Materiality – General principles

We believe all entities should consider the SEC guidance

Would the item affect the decision of a reasonable investor?

## Quantitative factors:

The size of the item relative to net income or other key metrics

Consider:

- Materiality levels
- Specific financial statement captions / disclosures involved
- Financial statements as a whole

## Qualitative factors:

Examples:

- Changes a trend
- Changes a loss to income
- Changes key performance metrics

# Materiality – Example considerations

## Consider the reasonable investor

**Netting may not be appropriate**

**Evaluate both individually  
and in the aggregate**

**Consider effect on  
non-GAAP measures**

**Evaluate in relation to  
totals and subtotals**

**Consider effect of uncorrected  
errors on future periods**

**Consider materiality irrespective  
of anticipated effect on share price**

**Misstatements (or omissions) in narrative disclosures may be material**

# Quantitative materiality – Methods

## Iron curtain method

Based on effects of correcting error existing in balance sheet at end of current period, irrespective of error's period(s) of origin

## Rollover method

Based on effects of correcting error existing in each relevant financial statement

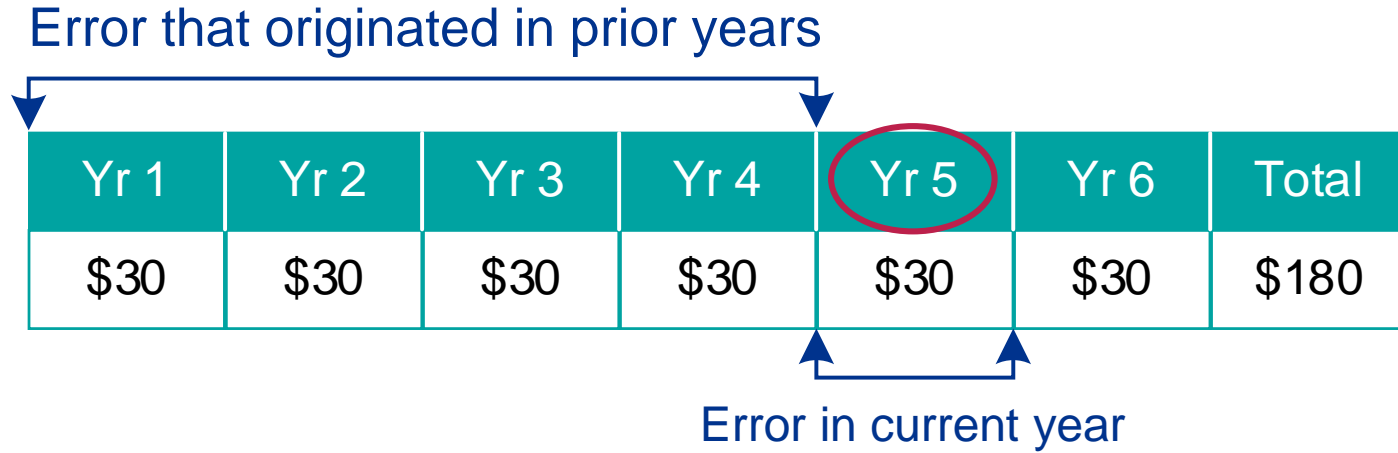
Quantifies 'actual' financial statement errors considering amounts that would have been in the financial statements if no error existed

## Dual method

Combines both iron curtain and rollover methods

**Dual method required for SEC registrants**

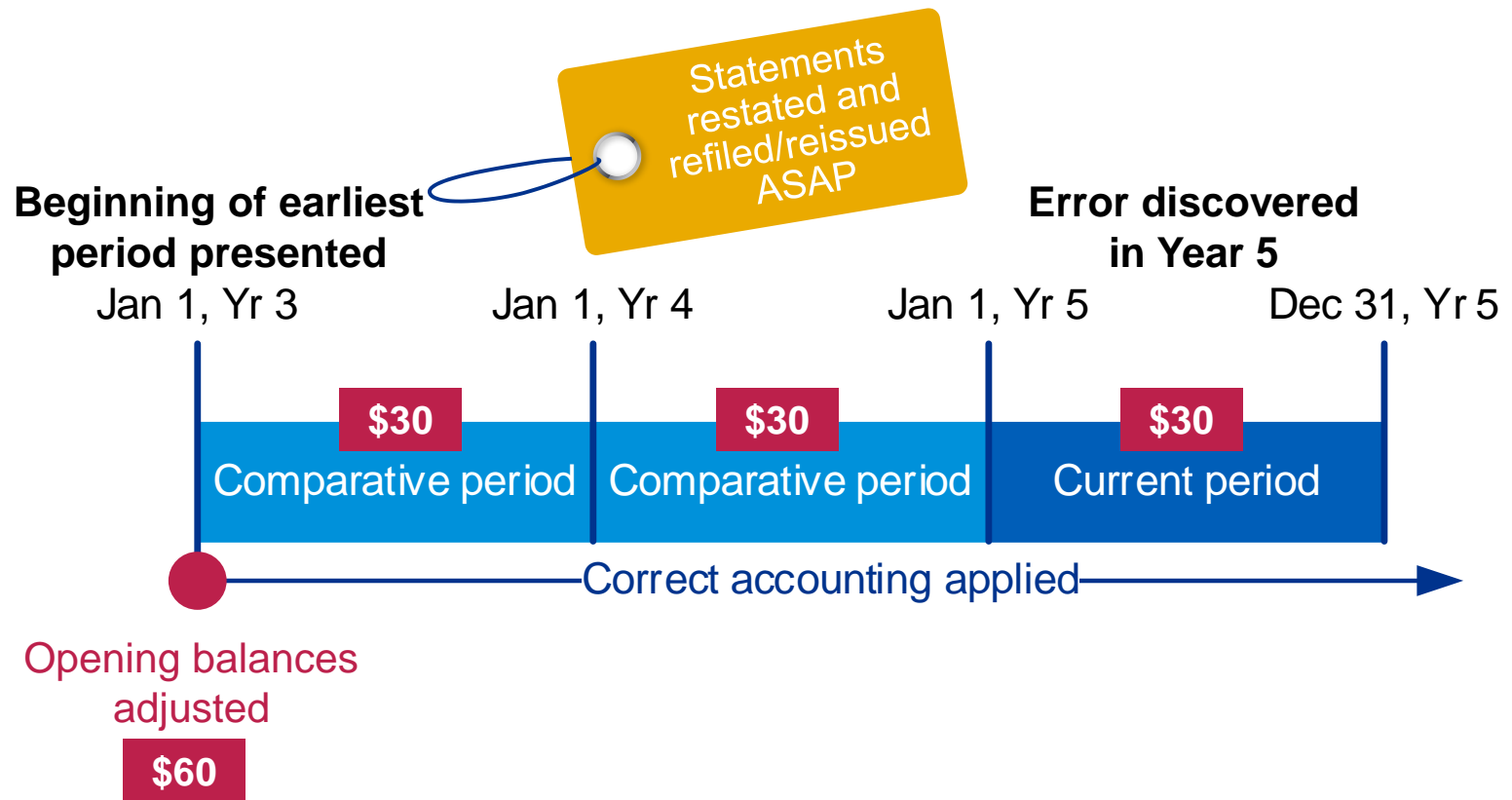
# Quantitative materiality



Effect on:	Income statement	Balance sheet
<b>Iron curtain</b>	The amount by which the current-period balance sheet is misstated <b>\$150</b>	Under both methods, the amount by which the current-period balance sheet is misstated <b>\$150</b>
<b>Rollover</b>	The amount by which the current-period income statement is misstated <b>\$30</b>	

# Big R restatement

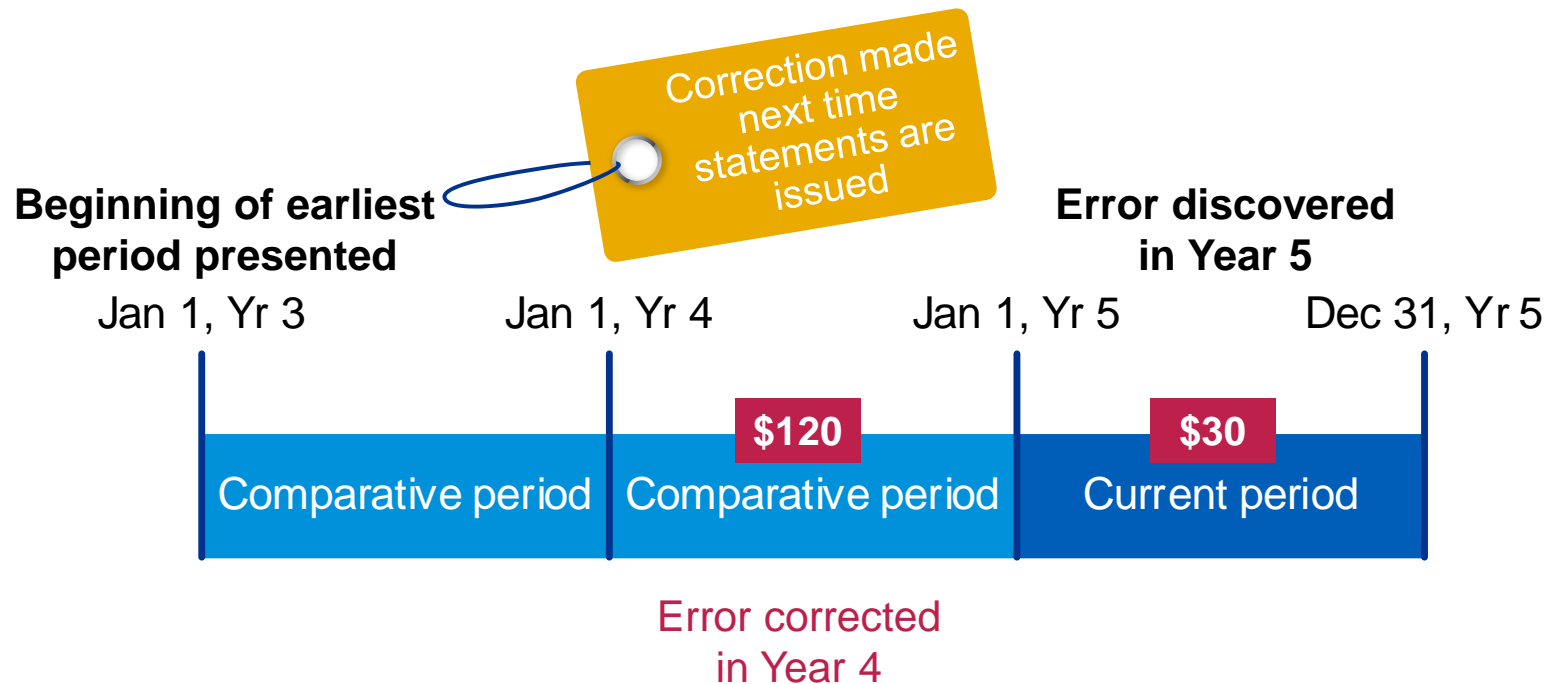
Error is material to one or more prior-period financial statements





# Little r restatement

- Error is immaterial to prior-period financial statements
- But correction of the error is material to the current period



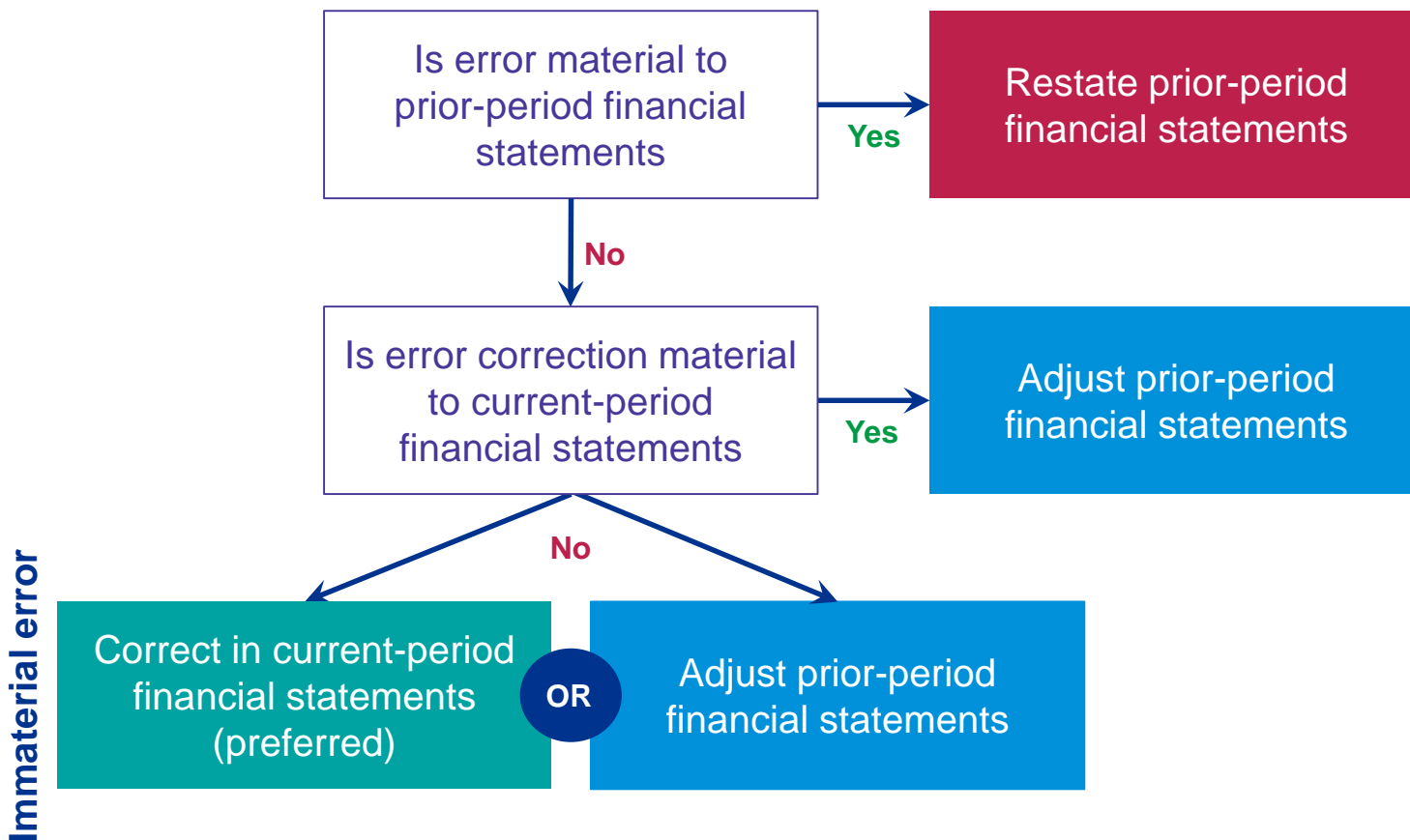
# Error correction disclosures

Type of restatement:	Big R	Little r
Description	✓	✓
Effect on:		
Opening retained earnings	✓	✗
Net income, including income tax effect	✓	✗
Each affected line item	✓	✗
EPS	✓	✗

To provide context

## Additional SEC requirements

# Error is immaterial to all periods



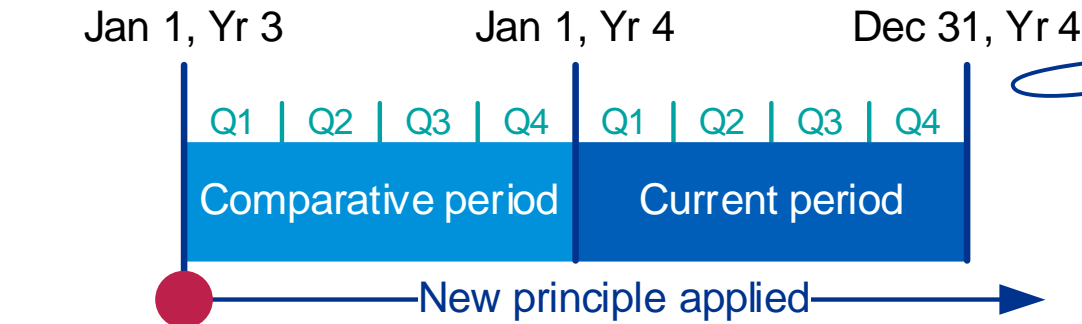


# Interim reporting

# Accounting changes and error corrections

## Accounting changes

### Beginning of earliest period presented



Impracticability exception does not apply in that fiscal year

## Error corrections

Supplemental materiality guidelines

Estimated full-year earnings and effect on earnings trends

# Other adjustments

## Specific guidance for:

- Settlement of litigation or similar claims
- Certain income taxes
- Renegotiation proceedings
- Utility revenue under rate-making processes

- 
- Effect is material
  - Identifiable and directly related to specific prior interim periods
  - Reasonably estimable

# Polling question #4

**Do any of these apply to your organization? (Select all that apply)**

- A. Settlement of litigation or similar claims
- B. Certain income taxes
- C. Renegotiation proceedings
- D. Utility revenue under rate-making processes
- E. I don't know / none of these apply





# SEC matters



# Preferability letters

Not required for these changes in principle:

**1**

**Change in estimate  
inseparable from change in  
principle**

**2**

**Change by foreign private  
issuer (may be required on  
Form 6-K)**

**3**

**Mandatory change in  
accounting principle**

**4**

**Change is immaterial  
currently and in future  
(expected)**

**5**

**Change in principle does not  
require preferability  
assessment**

**6**

**Change in goodwill  
impairment test date**

# Polling question #5

**Is your organization contemplating an accounting change that will require a preferability letter?**

- A. Yes
- B. No
- C. I don't know / N/A



# Effect of recently issued ASUs

## Disclose for ASUs relevant to the registrant

Area	Disclosure
<b>Background</b>	Brief description of ASU
<b>Timing</b>	Required adoption date and expected adoption date (if earlier)
<b>Adoption method</b>	Allowable methods and which the registrant expects to use (if determined)
<b>Effect of ASU</b>	<ul style="list-style-type: none"><li>— Effect adoption is expected to have on registrant's financial statements, if known or reasonably estimable</li><li>— Otherwise, further qualitative disclosures – e.g. comparison to current accounting policies, status of implementation process</li></ul>
<b>Other effects</b>	Other significant matters registrant believes might result from adoption – e.g. technical violations of debt covenant agreements, planned or intended changes in business practices

**Recommended for all entities**



Thank you

# Presenter's contact details

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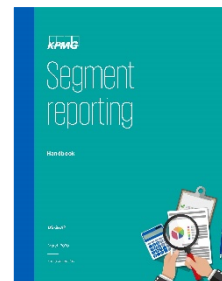
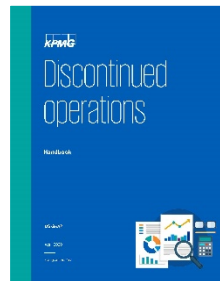
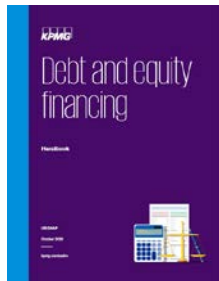
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November 4, 2020

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