

FINANCIAL ACCOUNTING SERIES

ACCOUNTING STANDARDS UPDATE

No. 2016-15
August 2016

Statement of Cash Flows (Topic 230)

Classification of Certain Cash Receipts and
Cash Payments

a consensus of the FASB Emerging Issues Task Force

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

The *FASB Accounting Standards Codification*[®] is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective.

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Summary

Why Is the FASB Issuing This Accounting Standards Update (Update)?

Stakeholders indicated that there is diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. This Update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice.

Who Is Affected by the Amendments in This Update?

The amendments in this Update apply to all entities, including both business entities and not-for-profit entities that are required to present a statement of cash flows under Topic 230.

What Are the Main Provisions?

The amendments in this Update provide guidance on the following eight specific cash flow issues:

Cash Flow Issue	Summary of Amendments
Debt Prepayment or Debt Extinguishment Costs	Cash payments for debt prepayment or debt extinguishment costs should be classified as cash outflows for financing activities.
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	At the 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, the issuer should classify the portion of the cash payment attributable to the accreted interest related to the debt discount as cash outflows for operating activities, and the portion of the cash payment attributable to the principal as cash outflows for financing activities.

Cash Flow Issue	Summary of Amendments
Contingent Consideration Payments Made after a Business Combination	<p>Cash payments not made soon after the acquisition date of a business combination by an acquirer to settle a contingent consideration liability should be separated and classified as cash outflows for financing activities and operating activities. Cash payments up to the amount of the contingent consideration liability recognized at the acquisition date (including measurement-period adjustments) should be classified as financing activities; any excess should be classified as operating activities. Cash payments made soon after the acquisition date of a business combination by an acquirer to settle a contingent consideration liability should be classified as cash outflows for investing activities.</p>
Proceeds from the Settlement of Insurance Claims	<p>Cash proceeds received from the settlement of insurance claims should be classified on the basis of the related insurance coverage (that is, the nature of the loss). For insurance proceeds that are received in a lump-sum settlement, an entity should determine the classification on the basis of the nature of each loss included in the settlement.</p>
Proceeds from the Settlement of Corporate-Owned Life Insurance Policies, including Bank-Owned Life Insurance Policies	<p>Cash proceeds received from the settlement of corporate-owned life insurance policies should be classified as cash inflows from investing activities.</p> <p>The cash payments for premiums on corporate-owned policies may be classified as cash outflows for investing activities, operating activities, or a combination of investing and operating activities.</p>

Cash Flow Issue	Summary of Amendments
<p>Distributions Received from Equity Method Investees</p>	<p>When a reporting entity applies the equity method, it should make an accounting policy election to classify distributions received from equity method investees using either of the following approaches:</p> <ol style="list-style-type: none"> 1. Cumulative earnings approach: Distributions received are considered returns on investment and classified as cash inflows from operating activities, unless the investor's cumulative distributions received less distributions received in prior periods that were determined to be returns of investment exceed cumulative equity in earnings recognized by the investor. When such an excess occurs, the current-period distribution up to this excess should be considered a return of investment and classified as cash inflows from investing activities. 2. Nature of the distribution approach: Distributions received should be classified on the basis of the nature of the activity or activities of the investee that generated the distribution as either a return on investment (classified as cash inflows from operating activities) or a return of investment (classified as cash inflows from investing activities) when such information is available to the investor. <p>If an entity elects to apply the nature of the distribution approach and the information to apply that approach to distributions received from an individual equity method investee is not available to the investor, the entity should report a change in accounting</p>

Cash Flow Issue	Summary of Amendments
	<p>principle on a retrospective basis by applying the cumulative earnings approach in (1) for that investee. In such situations, an entity should disclose that a change in accounting principle has occurred with respect to the affected investee(s) due to the lack of available information and should provide the disclosures required in paragraphs 250-10-50-1(b) and 250-10-50-2, as applicable. This amendment does not address equity method investments measured using the fair value option.</p>
<p>Beneficial Interests in Securitization Transactions</p>	<p>A transferor's beneficial interest obtained in a securitization of financial assets should be disclosed as a noncash activity, and cash receipts from payments on a transferor's beneficial interests in securitized trade receivables should be classified as cash inflows from investing activities.</p>
<p>Separately Identifiable Cash Flows and Application of the Predominance Principle</p>	<p>The classification of cash receipts and payments that have aspects of more than one class of cash flows should be determined first by applying specific guidance in generally accepted accounting principles (GAAP). In the absence of specific guidance, an entity should determine each separately identifiable source or use within the cash receipts and cash payments on the basis of the nature of the underlying cash flows. An entity should then classify each separately identifiable source or use within the cash receipts and payments on the basis of their nature in financing, investing, or operating activities. In situations in which cash receipts and payments have aspects of more than one class of cash flows and cannot be</p>

Cash Flow Issue	Summary of Amendments
	separated by source or use, the appropriate classification should depend on the activity that is likely to be the predominant source or use of cash flows for the item.

How Do the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?

Current GAAP either is unclear or does not include specific guidance on the eight cash flow classification issues included in the amendments in this Update. The amendments are an improvement to GAAP because they provide guidance for each of the eight issues, thereby reducing the current and potential future diversity in practice described above.

When Will the Amendments Be Effective?

The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period.

The amendments in this Update should be applied using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable.

Amendments to the *FASB Accounting Standards Codification*[®]

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–26. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

2. The amendments in this Update are organized by eight specific cash flow issues. Some of the Codification paragraphs are amended within more than one issue. Each issue only includes the amendments applicable to that issue. The appendix of this Update includes a summary of the paragraphs that were amended by more than one issue.

Issue 1: Debt Prepayment or Debt Extinguishment Costs

3. The following amendments reflect the Task Force’s consensus that cash payments for debt prepayment or debt extinguishment costs, including third-party costs, premiums paid, and other fees paid to lenders that are directly related to the debt prepayment or debt extinguishment, should be classified as cash outflows for financing activities.

Amendments to Subtopic 230-10

4. Amend paragraph 230-10-45-15, with a link to transition paragraph 230-10-65-2, as follows:

Statement of Cash Flows—Overall

Other Presentation Matters

> Classification

> > Cash Flows from Financing Activities

230-10-45-15 All of the following are cash outflows for financing activities:

- a. Payments of dividends or other distributions to owners, including outlays to reacquire the entity's equity instruments. Cash paid to a tax authority by an employer when withholding shares from an employee's award for tax-withholding purposes shall be considered an outlay to reacquire the entity's equity instruments.
- b. Repayments of amounts borrowed.
- c. Other principal payments to creditors who have extended long-term credit. See paragraph 230-10-45-13(c), which indicates that most principal payments on seller-financed debt directly related to a purchase of property, plant, and equipment or other productive assets are financing cash outflows.
- d. Distributions to counterparties of derivative instruments that include financing elements at inception, other than a financing element inherently included in an at-the-market derivative instrument with no prepayments. The distributions may be either at inception or over the term of the derivative instrument.
- e. Payments for debt issue costs.
- g. Payments for debt prepayment or debt extinguishment costs, including third-party costs, premiums paid, and other fees paid to lenders that are directly related to the debt prepayment or debt extinguishment, excluding accrued interest.

Issue 2: 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

5. The following amendments reflect the Task Force's consensus that at the 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, the issuer should classify the portion of the cash payment attributable to the accreted interest related to the debt discount as cash outflows for operating activities and the portion of the cash payment attributable to the principal as cash outflows for financing activities.

Amendments to Subtopic 230-10

6. Amend paragraphs 230-10-45-15, 230-10-45-17, and 230-10-45-25, with a link to transition paragraph 230-10-65-2, as follows:

Statement of Cash Flows—Overall

Other Presentation Matters

> Classification

> > Cash Flows from Financing Activities

230-10-45-15 All of the following are cash outflows for financing activities:

- a. Payments of dividends or other distributions to owners, including outlays to reacquire the entity's equity instruments. Cash paid to a tax authority by an employer when withholding shares from an employee's award for tax-withholding purposes shall be considered an outlay to reacquire the entity's equity instruments.
- b. Repayments of amounts borrowed, including the portion of the repayments made to settle zero-coupon debt instruments that is attributable to the principal or the portion of the repayments made to settle other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing that is attributable to the principal.
- c. Other principal payments to creditors who have extended long-term credit. See paragraph 230-10-45-13(c), which indicates that most principal payments on seller-financed debt directly related to a purchase of property, plant, and equipment or other productive assets are financing cash outflows.
- d. Distributions to counterparties of derivative instruments that include financing elements at inception, other than a financing element inherently included in an at-the-market derivative instrument with no prepayments. The distributions may be either at inception or over the term of the derivative instrument.
- e. Payments for debt issue costs.

> > Cash Flows from Operating Activities

230-10-45-17 All of the following are cash outflows for operating activities:

- a. Cash payments to acquire materials for manufacture or goods for resale, including principal payments on accounts and both short- and long-term notes payable to suppliers for those materials or goods. The term *goods* includes certain loans and other debt and equity instruments of other entities that are acquired specifically for resale, as discussed in paragraph 230-10-45-21.
- b. Cash payments to other suppliers and employees for other goods or services.
- c. Cash payments to governments for taxes, duties, fines, and other fees or penalties.
- d. Cash payments to lenders and other creditors for interest, including the portion of the payments made to settle zero-coupon debt instruments

that is attributable to accreted interest related to the debt discount or the portion of the payments made to settle other debt instruments with coupon interest rates that are insignificant in relation to the **effective interest rate** of the borrowing that is attributable to accreted interest related to the debt discount. For all other debt instruments, an issuer shall not bifurcate cash payments to lenders and other creditors at settlement for amounts attributable to accreted interest related to the debt discount, nor classify such amounts as cash outflows for operating activities.

- e. Cash payment made to settle an asset retirement obligation.
- f. All other cash payments that do not stem from transactions defined as investing or financing activities, such as payments to settle lawsuits, cash **contributions** to charities, and cash refunds to customers.

> > Reporting Operating, Investing, and Financing Activities

230-10-45-25 In reporting cash flows from operating activities, entities are encouraged to report major classes of gross cash receipts and gross cash payments and their arithmetic sum—the net cash flow from operating activities (the direct method). (Paragraphs 230-10-55-1 through 55-4 and paragraph 230-10-55-21, respectively, discuss and illustrate a method by which those major classes of gross operating cash receipts and payments generally may be determined indirectly.) Entities that do so shall, at a minimum, separately report the following classes of operating cash receipts and payments:

- a. Cash collected from customers, including lessees, licensees, and the like
- b. Interest and dividends received. Interest and dividends that are donor restricted for long-term purposes as included in the list of **financing activities** and paragraph 230-10-45-14(c) are not part of operating cash receipts.
- c. Other operating cash receipts, if any
- d. Cash paid to employees and other suppliers of goods or services, including suppliers of insurance, advertising, and the like
- e. Interest paid, including the portion of the payments made to settle zero-coupon debt instruments that is attributable to accreted interest related to the debt discount or the portion of the payments made to settle other debt instruments with coupon interest rates that are insignificant in relation to the **effective interest rate** of the borrowing that is attributable to accreted interest related to the debt discount
- f. Income taxes paid
- g. Other operating cash payments, if any.

Entities are encouraged to provide further breakdowns of operating cash receipts and payments that they consider meaningful and feasible. For example, a retailer or manufacturer might decide to further divide cash paid to employees and

suppliers (category (d) in the preceding paragraph) into payments for costs of inventory and payments for selling, general, and administrative expenses.

7. Amend paragraph 230-10-50-2, with a link to transition paragraph 230-10-65-2, as follows:

Disclosure

> Interest and Income Taxes Paid

230-10-50-2 If the indirect method is used, amounts of interest paid (net of amounts capitalized), including the portion of the payments made to settle zero-coupon debt instruments that is attributable to accreted interest related to the debt discount or the portion of the payments made to settle other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing that is attributable to accreted interest related to the debt discount, and income taxes paid during the period shall be disclosed.

Issue 3: Contingent Consideration Payments Made after a Business Combination

8. The following amendments reflect the Task Force's consensus that cash payments not made soon after the acquisition date of a business combination by an acquirer to settle a contingent consideration liability should be separated and classified as cash outflows for financing activities and operating activities and that cash payments made soon after the acquisition date of a business combination by an acquirer to settle a contingent consideration liability should be classified as cash outflows for investing activities.

Amendments to Subtopic 230-10

9. Amend paragraphs 230-10-45-13, 230-10-45-15, and 230-10-45-17, with a link to transition paragraph 230-10-65-2, as follows:

Statement of Cash Flows—Overall

Other Presentation Matters

> Classification

> > Cash Flows from Investing Activities

230-10-45-13 All of the following are cash outflows for investing activities:

- a. Disbursements for loans made by the entity and payments to acquire debt instruments of other entities (other than cash equivalents and certain debt instruments that are acquired specifically for resale as discussed in paragraph 230-10-45-21)
- b. Payments to acquire equity instruments of other entities (other than certain equity instruments carried in a trading account as described in paragraph 230-10-45-18)
- c. Payments at the time of purchase or soon before or after purchase to acquire property, plant, and equipment and other productive assets, including interest capitalized as part of the cost of those assets. Generally, only advance payments, the down payment, or other amounts paid at the time of purchase or soon before or after purchase of property, plant, and equipment and other productive assets are investing cash outflows. However, incurring directly related debt to the seller is a financing transaction (see paragraphs 230-10-45-14 through 45-15), and subsequent payments of principal on that debt thus are financing cash outflows.
- d. Payments made soon after the acquisition date of a business combination by an acquirer to settle a contingent consideration liability.

> > Cash Flows from Financing Activities

230-10-45-15 All of the following are cash outflows for financing activities:

- a. Payments of dividends or other distributions to owners, including outlays to reacquire the entity's equity instruments. Cash paid to a tax authority by an employer when withholding shares from an employee's award for tax-withholding purposes shall be considered an outlay to reacquire the entity's equity instruments.
- b. Repayments of amounts borrowed.
- c. Other principal payments to creditors who have extended long-term credit. See paragraph 230-10-45-13(c), which indicates that most principal payments on seller-financed debt directly related to a purchase of property, plant, and equipment or other productive assets are financing cash outflows.
- d. Distributions to counterparties of derivative instruments that include financing elements at inception, other than a financing element inherently included in an at-the-market derivative instrument with no prepayments. The distributions may be either at inception or over the term of the derivative instrument.
- e. Payments for debt issue costs.
- f. Payments, or the portion of the payments, not made soon after the acquisition date of a business combination by an acquirer to settle a contingent consideration liability up to the amount of the contingent consideration liability recognized at the acquisition date, including measurement-period adjustments, less any amounts paid soon after the

acquisition date to settle the contingent consideration liability. See also paragraph 230-10-45-17(ee).

> > Cash Flows from Operating Activities

230-10-45-17 All of the following are cash outflows for operating activities:

- a. Cash payments to acquire materials for manufacture or goods for resale, including principal payments on accounts and both short- and long-term notes payable to suppliers for those materials or goods. The term *goods* includes certain loans and other debt and equity instruments of other entities that are acquired specifically for resale, as discussed in paragraph 230-10-45-21.
- b. Cash payments to other suppliers and employees for other goods or services.
- c. Cash payments to governments for taxes, duties, fines, and other fees or penalties.
- d. Cash payments to lenders and other creditors for interest.
- e. Cash payment made to settle an asset retirement obligation.
- ee. Cash payments, or the portion of the payments, not made soon after the acquisition date of a business combination by an acquirer to settle a contingent consideration liability that exceed the amount of the contingent consideration liability recognized at the acquisition date, including measurement-period adjustments, less any amounts paid soon after the acquisition date to settle the contingent consideration liability. See also paragraph 230-10-45-15(f).
- f. All other cash payments that do not stem from transactions defined as investing or financing activities, such as payments to settle lawsuits, cash **contributions** to charities, and cash refunds to customers.

Amendments to Subtopic 958-805

10. Amend paragraph 958-805-45-11 and add paragraph 958-805-45-12, with a link to transition paragraph 230-10-65-2, as follows:

Not-for-Profit Entities—Business Combinations

Other Presentation Matters

Acquisition by a Not-for-Profit Entity

> Statement of Cash Flows

958-805-45-11 An NFP acquirer shall report the entire amount of any net cash ~~flow~~flows related to an acquisition (cash paid as consideration, if any, less

acquired cash of the acquiree) in the statement of cash flows as an **investing activity**, except for cash payments made to settle a contingent consideration liability arising from the acquisition that are not paid soon after the business combination. Example 7 (see paragraphs 958-805-55-68 through 55-70) illustrates this requirement. In addition, cash payments made soon after the acquisition date of the business combination by an acquirer to settle a contingent consideration liability shall be classified as investing activities.

958-805-45-12 Cash payments, or the portion of the payments, not made soon after the acquisition date of a business combination by the NFP acquirer to settle a contingent consideration liability up to the amount of the contingent consideration liability recognized at the acquisition date, including measurement-period adjustments, less any amounts paid soon after the acquisition date to settle the contingent consideration liability shall be classified as cash outflows for financing activities. Cash payments, or the portion of the payments, not made soon after the acquisition date of a business combination by the NFP acquirer to settle a contingent consideration liability that exceed the amount of the contingent consideration liability recognized at the acquisition date, including measurement-period adjustments, less any amounts paid soon after the acquisition date to settle the contingent consideration liability shall be classified as cash outflows for operating activities.

Issue 4: Proceeds from the Settlement of Insurance Claims

11. The following amendments reflect the Task Force's consensus that the proceeds received from the settlement of insurance claims, excluding proceeds received from corporate-owned life insurance policies and bank-owned life insurance policies, should be classified on the basis of the insurance coverage (that is, the nature of the loss).

Amendments to Subtopic 230-10

12. Amend paragraph 230-10-45-16, and add paragraph 230-10-45-21B and its related heading, with a link to transition paragraph 230-10-65-2, as follows:

Statement of Cash Flows—Overall

Other Presentation Matters

> Classification

>> Cash Flows from Operating Activities

230-10-45-16 All of the following are cash inflows from operating activities:

- a. Cash receipts from sales of goods or services, including receipts from collection or sale of accounts and both short- and long-term notes receivable from customers arising from those sales. The term *goods* includes certain loans and other debt and equity instruments of other entities that are acquired specifically for resale, as discussed in paragraph 230-10-45-21.
- b. Cash receipts from returns on loans, other debt instruments of other entities, and equity securities—interest and dividends.
- c. All other cash receipts that do not stem from transactions defined as investing or financing activities, such as amounts received to settle lawsuits; ~~proceeds of insurance settlements except for those that are directly related to investing or financing activities, such as from destruction of a building;~~ and refunds from suppliers.

> > Proceeds from the Settlement of Insurance Claims

230-10-45-21B Cash receipts resulting from the settlement of insurance claims, excluding proceeds received from corporate-owned life insurance policies and bank-owned life insurance policies, shall be classified on the basis of the related insurance coverage (that is, the nature of the loss). For insurance proceeds that are received in a lump-sum settlement, an entity shall determine the classification on the basis of the nature of each loss included in the settlement.

13. Amend paragraphs 230-10-55-10, 230-10-55-13, and 230-10-55-20(m), with a link to transition paragraph 230-10-65-2, as follows:

Implementation Guidance and Illustrations

> Illustrations

> > Example 1: Direct and Indirect Method for a Manufacturing Entity

230-10-55-10 The following is a statement of cash flows for the year ended December 31, 19X1, for Entity A, a U.S. corporation engaged principally in manufacturing activities. This statement of cash flows illustrates the direct method of presenting cash flows from operating activities, as encouraged in paragraph 230-10-45-25.

Entity A
Consolidated Statement of Cash Flows
For the Year Ended December 31, 19X1
Increase (Decrease) in Cash and Cash Equivalents

Cash flows from operating activities:		
Cash received from customers	\$ 13,850	
Cash paid to suppliers and employees	(12,000)	
Dividend received from affiliate	20	
Interest received	55	
Interest paid (net of amount capitalized)	(220)	
Income taxes paid	(325)	
Insurance proceeds received <u>for business interruption</u>	455	
Cash paid to settle lawsuit for patent infringement	(30)	
Net cash provided by operating activities		<u>\$4,365</u> <u>\$1,355</u>
Cash flows from investing activities:		
Proceeds from sale of facility	600	
Payment received on note for sale of plant	150	
<u>Insurance proceeds received for damage to equipment</u>	10	
Capital expenditures	(1,000)	
Payment for purchase of Entity B, net of cash acquired	(925)	
Net cash used in investing activities		<u>(1,175)</u> <u>(1,165)</u>
Cash flows from financing activities:		
Net borrowings under line-of-credit agreement	300	
Principal payments under capital lease obligation	(125)	
Proceeds from issuance of long-term debt	400	
Proceeds from issuance of common stock	500	
Dividends paid	(200)	
Net cash provided by financing activities		<u>875</u>
Net increase in cash and cash equivalents		1,065
Cash and cash equivalents at beginning of year		600
Cash and cash equivalents at end of year		<u>\$ 1,665</u>
Reconciliation of net income to net cash provided by operating activities:		
Net income		\$ 760
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	\$ 445	
Provision for losses on accounts receivable	200	
Gain on sale of facility	(80)	
Undistributed earnings of affiliate	(25)	
Payment received on installment note receivable for sale of inventory	100	
<u>Gain on insurance proceeds received for damage to equipment</u>	(10)	
Change in assets and liabilities net of effects from purchase of Entity B:		
Increase in accounts receivable	(215)	
Decrease in inventory	205	
Increase in prepaid expenses	(25)	
Decrease in accounts payable and accrued expenses	(250)	
Increase in interest and income taxes payable	50	
Increase in deferred taxes	150	
Increase in other liabilities	50	
Total adjustments		<u>605</u> <u>595</u>
Net cash provided by operating activities		<u>\$4,365</u> <u>\$1,355</u>

In addition, amend the following pending content for paragraph 230-10-55-10, with no additional link to transition:

Pending Content:

Transition Date: *(P) December 16, 2018; (N) December 16, 2019* | **Transition Guidance:** 842-10-65-1

230-10-55-10 The following is a statement of cash flows for the year ended December 31, 19X1, for Entity A, a U.S. corporation engaged principally in manufacturing activities. This statement of cash flows illustrates the direct method of presenting cash flows from operating activities, as encouraged in paragraph 230-10-45-25.

Entity A
Consolidated Statement of Cash Flows
For the Year Ended December 31, 19X1
Increase (Decrease) in Cash and Cash Equivalents

Cash flows from operating activities:		
Cash received from customers	\$ 13,850	
Cash paid to suppliers and employees	(12,000)	
Dividend received from affiliate	20	
Interest received	55	
Interest paid (net of amount capitalized)	(220)	
Income taxes paid	(325)	
Insurance proceeds received <u>for business interruption</u>	465	
Cash paid to settle lawsuit for patent infringement	(30)	
Net cash provided by operating activities		<u>\$1,365</u> <u>\$1,355</u>
Cash flows from investing activities:		
Proceeds from sale of facility	600	
Payment received on note for sale of plant	150	
<u>Insurance proceeds received for damage to equipment</u>	10	
Capital expenditures	(1,000)	
Payment for purchase of Entity B, net of cash acquired	(925)	
Net cash used in investing activities		<u>(1,175)</u> <u>(1,165)</u>
Cash flows from financing activities:		
Net borrowings under line-of-credit agreement	300	
Principal payments under finance lease obligation	(125)	
Proceeds from issuance of long-term debt	400	
Proceeds from issuance of common stock	500	
Dividends paid	(200)	
Net cash provided by financing activities		<u>875</u>
Net increase in cash and cash equivalents		<u>1,065</u>
Cash and cash equivalents at beginning of year		<u>600</u>
Cash and cash equivalents at end of year		<u><u>\$ 1,665</u></u>
Reconciliation of net income to net cash provided by operating activities:		
Net income		\$ 760
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	\$ 445	
Provision for losses on accounts receivable	200	
Gain on sale of facility	(80)	
Undistributed earnings of affiliate	(25)	
Payment received on installment note receivable for sale of inventory	100	
<u>Gain on insurance proceeds received for damage to equipment</u>	(10)	
Change in assets and liabilities net of effects from purchase of Entity B:		
Increase in accounts receivable	(215)	
Decrease in inventory	205	
Increase in prepaid expenses	(25)	
Decrease in accounts payable and accrued expenses	(250)	
Increase in interest and income taxes payable	50	
Increase in deferred taxes	150	
Increase in other liabilities	50	
Total adjustments		<u>605</u> <u>595</u>
Net cash provided by operating activities		<u><u>\$1,365</u></u> <u>\$1,355</u>

230-10-55-13 The following is Entity A's statement of cash flows for the year ended December 31, 19X1, prepared using the indirect method, as described in paragraph 230-10-45-28.

Entity A
Consolidated Statement of Cash Flows
For the Year Ended December 31, 19X1
Increase (Decrease) in Cash and Cash Equivalents

Cash flows from operating activities:		
Net income		\$ 760
Depreciation and amortization	\$ 445	
Provision for losses on accounts receivable	200	
Gain on sale of facility	(80)	
Undistributed earnings of affiliate	(25)	
Payment received on installment note receivable for sale of inventory	100	
<u>Gain on insurance proceeds received for damage to equipment</u>	<u>(10)</u>	
Change in assets and liabilities net of effects from purchase of Entity B:		
Increase in accounts receivable	(215)	
Decrease in inventory	205	
Increase in prepaid expenses	(25)	
Decrease in accounts payable and accrued expenses	(250)	
Increase in interest and income taxes payable	50	
Increase in deferred taxes	150	
Increase in other liabilities	50	
Total adjustments	<u>695</u>	<u>695</u>
Net cash provided by operating activities		<u>4,365</u>
Cash flows from investing activities:		
Proceeds from sale of facility	600	
Payment received on note for sale of plant	150	
<u>Insurance proceeds received for damage to equipment</u>	<u>10</u>	
Capital expenditures	(1,000)	
Payment for purchase of Entity B, net of cash acquired	<u>(925)</u>	
Net cash used in investing activities		<u>(4,175)</u>
Cash flows from financing activities:		
Net borrowings under line-of-credit agreement	300	
Principal payments under capital lease obligation	(125)	
Proceeds from issuance of long-term debt	400	
Proceeds from issuance of common stock	500	
Dividends paid	<u>(200)</u>	
Net cash provided by financing activities		<u>875</u>
Net increase in cash and cash equivalents		1,065
Cash and cash equivalents at beginning of year		<u>600</u>
Cash and cash equivalents at end of year		<u>\$ 1,665</u>

In addition, amend the following pending content for paragraph 230-10-55-13, with no additional link to transition:

Pending Content:

Transition Date: (P) December 16, 2018; (N) December 16, 2019 | **Transition Guidance:** 842-10-65-1

230-10-55-13 The following is Entity A's statement of cash flows for the year ended December 31, 19X1, prepared using the indirect method, as described in paragraph 230-10-45-28.

Entity A
Consolidated Statement of Cash Flows
For the Year Ended December 31, 19X1
Increase (Decrease) in Cash and Cash Equivalents

Cash flows from operating activities:		
Net income		\$ 760
Depreciation and amortization	\$ 445	
Provision for losses on accounts receivable	200	
Gain on sale of facility	(80)	
Undistributed earnings of affiliate	(25)	
Payment received on installment note receivable for sale of inventory	100	
<u>Gain on insurance proceeds received for damage to equipment</u>	<u>(10)</u>	
Change in assets and liabilities net of effects from purchase of Entity B:		
Increase in accounts receivable	(215)	
Decrease in inventory	205	
Increase in prepaid expenses	(25)	
Decrease in accounts payable and accrued expenses	(250)	
Increase in interest and income taxes payable	50	
Increase in deferred taxes	150	
Increase in other liabilities	50	
Total adjustments	<u>605595</u>	
Net cash provided by operating activities		<u>4,365,135</u>
Cash flows from investing activities:		
Proceeds from sale of facility	600	
Payment received on note for sale of plant	150	
<u>Insurance proceeds received for damage to equipment</u>	<u>10</u>	
Capital expenditures	(1,000)	
Payment for purchase of Entity B, net of cash acquired	<u>(925)</u>	
Net cash used in investing activities		<u>(1,175)(1,165)</u>
Cash flows from financing activities:		
Net borrowings under line-of-credit agreement	300	
Principal payments under finance lease obligation	(125)	
Proceeds from issuance of long-term debt	400	
Proceeds from issuance of common stock	500	
Dividends paid	<u>(200)</u>	
Net cash provided by financing activities		<u>875</u>
Net increase in cash and cash equivalents		1,065
Cash and cash equivalents at beginning of year		<u>600</u>
Cash and cash equivalents at end of year		<u>\$ 1,665</u>

230-10-55-20 The following transactions were entered into by Entity A during 19X1 and are reflected in the preceding financial statements:

- m. Entity A collected insurance proceeds of \$15 (\$5 from a business interruption claim that resulted when a storm precluded shipment of inventory for one week and \$10 from a property claim that resulted when fully depreciated manufacturing equipment was damaged by a fire).

In addition, amend the following pending content for paragraph 230-10-55-20, with no additional link to transition:

Pending Content:

Transition Date: (P) December 16, 2018; (N) December 16, 2019 | **Transition Guidance:** 842-10-65-1

230-10-55-20 The following transactions were entered into by Entity A during 19X1 and are reflected in the preceding financial statements:

- m. Entity A collected insurance proceeds of \$15 (\$5 from a business interruption claim that resulted when a storm precluded shipment of inventory for one week and \$10 from a property claim that resulted when fully depreciated manufacturing equipment was damaged by a fire).

Issue 5: Proceeds from the Settlement of Corporate-Owned Life Insurance Policies, including Bank-Owned Life Insurance Policies

14. The following amendments reflect the Task Force’s consensus that cash proceeds received from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, should be classified as cash inflows from investing activities. The following amendments also reflect the Task Force’s consensus that cash payments for premiums on corporate-owned life insurance policies, including bank-owned life insurance policies, may be classified as cash outflows for investing activities, operating activities, or a combination of investing and operating activities.

Amendments to Subtopic 230-10

15. Add paragraph 230-10-45-21C, with a link to transition paragraph 230-10-65-2, as follows:

Statement of Cash Flows—Overall

Other Presentation Matters

> Classification

> > Proceeds from the Settlement of Insurance Claims

230-10-45-21C Cash receipts resulting from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, shall be classified as cash inflows from investing activities. Cash payments for premiums on corporate-owned life insurance policies, including bank-owned life insurance

policies, may be classified as cash outflows for investing activities, operating activities, or a combination of cash outflows for investing and operating activities.

Issue 6: Distributions Received from Equity Method Investees

16. The following amendments reflect the Task Force's consensus that a reporting entity should elect an accounting policy to classify distributions received from equity method investees using either of the following approaches:

- a. Cumulative earnings approach: Distributions received are considered returns on investment and classified as cash inflows from operating activities unless the investor's cumulative distributions received less distributions received in prior periods that were determined to be returns of investment exceed cumulative equity in earnings recognized by the investor. When such an excess occurs, the current-period distribution up to this excess is considered a return of investment and should be classified as cash inflows from investing activities.
- b. Nature of the distribution approach: Distributions received should be classified on the basis of the nature of the activity or activities of the investee that generated the distribution as either a return on investment (classified as a cash inflow from operating activities) or a return of investment (classified as a cash inflow from investing activities) when such information is available.

If an entity elects to apply the nature of the distribution approach and the information to apply that approach to distributions received from an individual equity method investee is not available to the investor, the entity should report a change in accounting principle on a retrospective basis by applying the cumulative earnings approach in (a) above for that investee. In such situations, an entity should disclose that a change in accounting principle has occurred with respect to the affected investee(s) due to the lack of available information and should provide the disclosures required in paragraphs 250-10-50-1(b) and 250-10-50-2, as applicable. With either approach described in (a) or (b) above, an entity also should comply with the applicable accounting policy guidance, including the disclosure requirements in paragraphs 235-10-50-1 through 50-6. The amendments do not address equity method investments measured using the fair value option.

Amendments to Subtopic 230-10

17. Add paragraph 230-10-45-21D and its related heading, with a link to transition paragraph 230-10-65-2, as follows:

Statement of Cash Flows—Overall

Other Presentation Matters

> Classification

> > **Distributions Received from Equity Method Investees**

230-10-45-21D When a reporting entity applies the equity method, it shall make an accounting policy election to classify distributions received from equity method investees using either of the following approaches:

- a. Cumulative earnings approach: Distributions received are considered returns on investment and shall be classified as cash inflows from operating activities unless the investor's cumulative distributions received less distributions received in prior periods that were determined to be returns of investment exceed cumulative equity in earnings recognized by the investor (as adjusted for amortization of basis differences). When such an excess occurs, the current-period distribution up to this excess is considered a return of investment and shall be classified as cash inflows from investing activities.
- b. Nature of the distribution approach: Distributions received shall be classified on the basis of the nature of the activity or activities of the investee that generated the distribution as either a return on investment (classified as a cash inflow from operating activities) or a return of investment (classified as a cash inflow from investing activities) when such information is available.

If an entity elects to apply the nature of the distribution approach and the information to apply that approach to distributions received from an individual equity method investee is not available to the investor, the entity shall report a change in accounting principle on a retrospective basis by applying the cumulative earnings approach described in (a) above for that investee. In such situations, an entity shall disclose that a change in accounting principle has occurred with respect to the affected investee(s) due to the lack of available information and shall provide the disclosures required in paragraphs 250-10-50-1(b) and 250-10-50-2, as applicable. With either approach described in (a) or (b) above, an entity also shall comply with the applicable accounting policy disclosure requirements in paragraphs 235-10-50-1 through 50-6.

18. Amend paragraph 230-10-55-20(c), with a link to transition paragraph 230-10-65-2, as follows:

Implementation Guidance and Illustrations

> Illustrations

> > Example 1: Direct and Indirect Method for a Manufacturing Entity

230-10-55-20 The following transactions were entered into by Entity A during 19X1 and are reflected in the preceding financial statements:

- c. Entity A received a ~~distribution dividend~~ of \$20 from an affiliate accounted for under the equity method of accounting. Entity A made an accounting policy election to apply the cumulative earnings approach described in paragraph 230-10-45-21D(a) and determined that the distribution was a return on investment.

In addition, amend the following pending content for paragraph 230-10-55-20, with no additional link to transition:

Pending Content:

Transition Date: (P) December 16, 2018; (N) December 16, 2019 | **Transition Guidance:** 842-10-65-1

230-10-55-20 The following transactions were entered into by Entity A during 19X1 and are reflected in the preceding financial statements:

- c. Entity A received a ~~distribution dividend~~ of \$20 from an affiliate accounted for under the equity method of accounting. Entity A made an accounting policy election to apply the cumulative earnings approach described in paragraph 230-10-45-21D(a) and determined that the distribution was a return on investment.

Issue 7: Beneficial Interests in Securitization Transactions

19. The following amendments reflect the Task Force’s consensus that a transferor’s beneficial interest obtained in a securitization of financial assets should be disclosed as a noncash activity and that cash receipts from payments on a transferor’s beneficial interests in securitized trade receivables should be classified as cash inflows from investing activities.

Amendments to Subtopic 230-10

20. Amend paragraph 230-10-45-12, with a link to transition paragraph 230-10-65-2, as follows:

Statement of Cash Flows—Overall

Other Presentation Matters

> Classification

> > Cash Flows from Investing Activities

230-10-45-12 All of the following are cash inflows from investing activities:

- a. Receipts from collections or sales of loans made by the entity and of other entities' debt instruments (other than cash equivalents, certain debt instruments that are acquired specifically for resale as discussed in paragraph 230-10-45-21, and certain donated debt instruments received by not-for-profit entities (NFPs) as discussed in paragraph 230-10-45-21A) and collections on a transferor's beneficial interests in a securitization of the transferor's trade receivables
- b. Receipts from sales of equity instruments of other entities (other than certain equity instruments carried in a trading account as described in paragraph 230-10-45-18 and certain donated equity instruments received by NFPs as discussed in paragraph 230-10-45-21A) and from returns of investment in those instruments
- c. Receipts from sales of property, plant, and equipment and other productive assets
- d. Subparagraph not used
- e. Receipts from sales of loans that were not specifically acquired for resale. That is, if loans were acquired as investments, cash receipts from sales of those loans shall be classified as investing cash inflows regardless of a change in the purpose for holding those loans.

For purposes of this paragraph, receipts from disposing of loans, debt or equity instruments, or property, plant, and equipment include directly related proceeds of insurance settlements, such as the proceeds of insurance on a building that is damaged or destroyed.

21. Amend paragraph 230-10-50-4, with a link to transition paragraph 230-10-65-2, as follows:

Disclosure

> Noncash Investing and Financing Activities

230-10-50-4 Examples of noncash investing and financing transactions are converting debt to equity; acquiring assets by assuming directly related liabilities, such as purchasing a building by incurring a mortgage to the seller; obtaining an asset by entering into a capital lease; obtaining a beneficial interest as consideration for transferring financial assets (excluding cash), including the transferor's trade receivables, in a securitization transaction; obtaining a building or investment asset by receiving a gift; and exchanging noncash assets or liabilities for other noncash assets or liabilities.

In addition, amend the following pending content for paragraph 230-10-50-4, with no additional link to transition:

Pending Content:

Transition Date: (P) December 16, 2018; (N) December 16, 2019 | **Transition Guidance:** 842-10-65-1

230-10-50-4 Examples of noncash investing and financing transactions are converting debt to equity; acquiring assets by assuming directly related liabilities, such as purchasing a building by incurring a mortgage to the seller; obtaining a **right-of-use asset** in exchange for a **lease liability**; obtaining a beneficial interest as consideration for transferring financial assets (excluding cash), including the transferor's trade receivables, in a securitization transaction; obtaining a building or investment asset by receiving a gift; and exchanging noncash assets or liabilities for other noncash assets or liabilities.

Issue 8: Separately Identifiable Cash Flows and Application of the Predominance Principle

22. The following amendments reflect the Task Force's consensus to provide additional guidance to clarify when an entity should separate cash receipts and cash payments into more than one class of cash flows and when an entity should classify those cash receipts and payments into one class of cash flows on the basis of predominance.

Amendments to Subtopic 230-10

23. Amend paragraph 230-10-45-22 and add paragraph 230-10-45-22A, with a link to transition paragraph 230-10-65-2, as follows:

Statement of Cash Flows—Overall

Other Presentation Matters

> Classification

> > More than One Class of Cash Flows

230-10-45-22 Certain cash receipts and payments may have aspects of more than one class of cash flows. ~~For example, a cash payment may pertain to an item that could be considered either inventory or a productive asset. If so, the appropriate classification shall depend on the activity that is likely to be the predominant source of cash flows for the item. For example, the acquisition and sale of equipment to be used by the entity or rented to others generally are~~

investing activities. However, equipment sometimes is acquired or produced to be used by the entity or rented to others for a short period and then sold. In those circumstances, the acquisition or production and subsequent sale of those assets shall be considered operating activities. The classification of those cash receipts and payments shall be determined first by applying specific guidance in this Topic and other applicable Topics. In the absence of specific guidance, a reporting entity shall determine each separately identifiable source or each separately identifiable use within the cash receipts and cash payments on the basis of the nature of the underlying cash flows, including when judgment is necessary to estimate the amount of each separately identifiable source or use. A reporting entity shall then classify each separately identifiable source or use within the cash receipts and payments on the basis of their nature in financing, investing, or operating activities.

230-10-45-22A In situations in which cash receipts and payments have aspects of more than one class of cash flows and cannot be separated by source or use (for example, when a piece of equipment is acquired or produced by an entity to be rented to others for a period of time and then sold), the appropriate classification shall depend on the activity that is likely to be the predominant source or use of cash flows for the item.

24. Add paragraph 230-10-65-2 and its related heading as follows:

> Transition Related to Accounting Standards Update No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments

230-10-65-2 The following represents the transition and effective date information related to Accounting Standards Update No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*:

- a. For public business entities, the pending content that links to this paragraph shall be effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years.
- b. For all other entities, the pending content that links to this paragraph shall be effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019.
- c. An entity shall apply the pending content that links to this paragraph retrospectively to all periods presented.
- d. If it is impracticable to apply the pending content that links to this paragraph retrospectively to any prior period presented (see paragraphs 250-10-45-9 through 45-10), an entity shall apply the pending content that links to this paragraph as if the change was made prospectively as of the earliest date practicable.

- e. Earlier application of the pending content that links to this paragraph is permitted, including adoption in an interim period. If an entity early adopts the pending content that links to this paragraph in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes the interim period. An entity that elects early adoption must adopt all of the pending content that links to this paragraph in the same period.
- f. An entity shall provide the disclosures in paragraphs 250-10-50-1(a) and (b)(1) and 250-10-50-2, as applicable, in the first interim and annual period the entity adopts the pending content that links to this paragraph. If retrospective application to any prior period is impracticable, an entity also shall provide the disclosures in paragraph 250-10-50-1(b)(4).

Amendments to Status Sections

25. Amend paragraph 230-10-00-1, by adding the following items to the table, as follows:

230-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Effective Interest Rate	Added	2016-15	08/26/2016
Purchased Financial Assets with Credit Deterioration	Added	2016-15	08/26/2016
230-10-45-12	Amended	2016-15	08/26/2016
230-10-45-13	Amended	2016-15	08/26/2016
230-10-45-15 through 45-17	Amended	2016-15	08/26/2016
230-10-45-21B through 45-21D	Added	2016-15	08/26/2016
230-10-45-22	Amended	2016-15	08/26/2016
230-10-45-22A	Added	2016-15	08/26/2016
230-10-45-25	Amended	2016-15	08/26/2016
230-10-50-2	Amended	2016-15	08/26/2016
230-10-50-4	Amended	2016-15	08/26/2016
230-10-55-10	Amended	2016-15	08/26/2016
230-10-55-13	Amended	2016-15	08/26/2016
230-10-55-20	Amended	2016-15	08/26/2016
230-10-65-2	Added	2016-15	08/26/2016

26. Amend paragraph 958-805-00-1, by adding the following items to the table, as follows:

958-805-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
958-805-45-11	Amended	2016-15	08/26/2016
958-805-45-12	Added	2016-15	08/26/2016

The amendments in this Update were adopted by the affirmative vote of six members of the Financial Accounting Standards Board. Ms. Botosan abstained.

Members of the Financial Accounting Standards Board:

Russell G. Golden, *Chair*
James L. Kroeker, *Vice Chair*
Christine A. Botosan
Daryl E. Buck
R. Harold Schroeder
Marc A. Siegel
Lawrence W. Smith

Appendix: Paragraphs Amended by Multiple Issues

A1. This appendix provides the complete amendments for those paragraphs that are amended by more than one cash flow issue. No new amendments are included in this appendix.

Paragraph 230-10-45-15

230-10-45-15 All of the following are cash outflows for financing activities:

- a. Payments of dividends or other distributions to owners, including outlays to reacquire the entity's equity instruments. Cash paid to a tax authority by an employer when withholding shares from an employee's award for tax-withholding purposes shall be considered an outlay to reacquire the entity's equity instruments.
- b. Repayments of amounts borrowed, including the portion of the repayments made to settle zero-coupon debt instruments that is attributable to the principal or the portion of the repayments made to settle other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing that is attributable to the principal.
- c. Other principal payments to creditors who have extended long-term credit. See paragraph 230-10-45-13(c), which indicates that most principal payments on seller-financed debt directly related to a purchase of property, plant, and equipment or other productive assets are financing cash outflows.
- d. Distributions to counterparties of derivative instruments that include financing elements at inception, other than a financing element inherently included in an at-the-market derivative instrument with no prepayments. The distributions may be either at inception or over the term of the derivative instrument.
- e. Payments for debt issue costs.
- f. Payments, or the portion of the payments, not made soon after the acquisition date of a business combination by an acquirer to settle a contingent consideration liability up to the amount of the contingent consideration liability recognized at the acquisition date, including measurement-period adjustments, less any amounts paid soon after the acquisition date to settle the contingent consideration liability. See also paragraph 230-10-45-17(ee).
- g. Payments for debt prepayment or debt extinguishment costs, including third-party costs, premiums paid, and other fees paid to lenders that are directly related to the debt prepayment or debt extinguishment, excluding accrued interest.

Paragraph 230-10-45-17

230-10-45-17 All of the following are cash outflows for operating activities:

- a. Cash payments to acquire materials for manufacture or goods for resale, including principal payments on accounts and both short- and long-term notes payable to suppliers for those materials or goods. The term *goods* includes certain loans and other debt and equity instruments of other entities that are acquired specifically for resale, as discussed in paragraph 230-10-45-21.
- b. Cash payments to other suppliers and employees for other goods or services.
- c. Cash payments to governments for taxes, duties, fines, and other fees or penalties.
- d. Cash payments to lenders and other creditors for interest, including the portion of the payments made to settle zero-coupon debt instruments that is attributable to accreted interest related to the debt discount or the portion of the payments made to settle other debt instruments with coupon interest rates that are insignificant in relation to the **effective interest rate** of the borrowing that is attributable to accreted interest related to the debt discount. For all other debt instruments, an issuer shall not bifurcate cash payments to lenders and other creditors at settlement for amounts attributable to accreted interest related to the debt discount, nor classify such amounts as cash outflows for operating activities.
- e. Cash payment made to settle an asset retirement obligation.
- ee. Cash payments, or the portion of the payments, not made soon after the acquisition date of a business combination by an acquirer to settle a contingent consideration liability that exceed the amount of the contingent consideration liability recognized at the acquisition date, including measurement-period adjustments, less any amounts paid soon after the acquisition date to settle the contingent consideration liability. See also paragraph 230-10-45-15(f).
- f. All other cash payments that do not stem from transactions defined as investing or financing activities, such as payments to settle lawsuits, cash **contributions** to charities, and cash refunds to customers.

Paragraph 230-10-55-20

230-10-55-20 The following transactions were entered into by Entity A during 19X1 and are reflected in the preceding financial statements:

- a. Entity A wrote off \$350 of accounts receivable when a customer filed for bankruptcy. A provision for losses on accounts receivable of \$200 was included in Entity A's selling, general, and administrative expenses.

- b. Entity A collected the third and final annual installment payment of \$100 on a note receivable for the sale of inventory and collected the third of four annual installment payments of \$150 each on a note receivable for the sale of a plant. Interest on these notes through December 31 totaling \$55 was also collected.
- c. Entity A received a distribution dividend of \$20 from an affiliate accounted for under the equity method of accounting. Entity A made an accounting policy election to apply the cumulative earnings approach described in paragraph 230-10-45-21D(a) and determined that the distribution was a return on investment.
- d. Entity A sold a facility with a book value of \$520 and an original cost of \$750 for \$600 cash.
- e. Entity A constructed a new facility for its own use and placed it in service. Accumulated expenditures during the year of \$1,000 included capitalized interest of \$10.
- f. Entity A entered into a capital lease for new equipment with a fair value of \$850. Principal payments under the lease obligation totaled \$125.
- g. Entity A purchased all of the capital stock of Entity B for \$950 in a business combination. The fair values of Entity B's assets and liabilities at the date of acquisition are presented below.

Cash	\$ 25
Accounts receivable	155
Inventory	350
Property, plant, and equipment	900
Patents	80
Goodwill	70
Accounts payable and accrued expenses	(255)
Long-term note payable	<u>(375)</u>
Net assets acquired	<u><u>\$950</u></u>

- h. Entity A borrowed and repaid various amounts under a line-of-credit agreement in which borrowings are payable 30 days after demand. The net increase during the year in the amount borrowed against the line-of-credit totaled \$300.
- i. Entity A issued \$400 of long-term debt securities.
- j. Entity A's provision for income taxes included a deferred provision of \$150.
- k. Entity A's depreciation totaled \$430, and amortization of intangible assets totaled \$15.
- l. Entity A's selling, general, and administrative expenses included an accrual for incentive compensation of \$50 that has been deferred by

- executives until their retirement. The related obligation was included in other liabilities.
- m. Entity A collected insurance proceeds of \$15 (\$5 from a business interruption claim that resulted when a storm precluded shipment of inventory for one week and \$10 from a property claim that resulted when fully depreciated manufacturing equipment was damaged by a fire).
 - n. Entity A paid \$30 to settle a lawsuit for patent infringement.
 - o. Entity A issued \$1,000 of additional common stock of which \$500 was issued for cash and \$500 was issued upon conversion of long-term debt.
 - p. Entity A paid dividends of \$200.

Pending Content:

Transition Date: (P) December 16, 2018; (N) December 16, 2019 | **Transition Guidance:** 842-10-65-1

The following transactions were entered into by Entity A during 19X1 and are reflected in the preceding financial statements:

- a. Entity A wrote off \$350 of accounts receivable when a customer filed for bankruptcy. A provision for losses on accounts receivable of \$200 was included in Entity A's selling, general, and administrative expenses.
- b. Entity A collected the third and final annual installment payment of \$100 on a note receivable for the sale of inventory and collected the third of four annual installment payments of \$150 each on a note receivable for the sale of a plant. Interest on these notes through December 31 totaling \$55 was also collected.
- c. Entity A received a ~~distribution dividend~~ of \$20 from an affiliate accounted for under the equity method of accounting. Entity A made an accounting policy election to apply the cumulative earnings approach described in paragraph 230-10-45-21D(a) and determined that the distribution was a return on investment.
- d. Entity A sold a facility with a book value of \$520 and an original cost of \$750 for \$600 cash.
- e. Entity A constructed a new facility for its own use and placed it in service. Accumulated expenditures during the year of \$1,000 included capitalized interest of \$10.
- f. Entity A entered into a capital lease for new equipment with a fair value of \$850. The entity classified the lease as a finance lease. Principal payments under the lease obligation totaled \$125.
- g. Entity A purchased all of the capital stock of Entity B for \$950 in a business combination. The fair values of Entity B's assets and liabilities at the date of acquisition are presented below.

Cash	\$ 25
Accounts receivable	155
Inventory	350
Property, plant, and equipment	900
Patents	80
Goodwill	70
Accounts payable and accrued expenses	(255)
Long-term note payable	<u>(375)</u>
Net assets acquired	<u>\$950</u>

- h. Entity A borrowed and repaid various amounts under a line-of-credit agreement in which borrowings are payable 30 days after demand. The net increase during the year in the amount borrowed against the line-of-credit totaled \$300.
- i. Entity A issued \$400 of long-term debt securities.
- j. Entity A's provision for income taxes included a deferred provision of \$150.
- k. Entity A's depreciation of property, plant, and equipment and amortization of right-of-use assets arising from a finance lease totaled \$430, and amortization of intangible assets totaled \$15.
- l. Entity A's selling, general, and administrative expenses included an accrual for incentive compensation of \$50 that has been deferred by executives until their retirement. The related obligation was included in other liabilities.
- m. Entity A collected insurance proceeds of \$15 (\$5 from a business interruption claim that resulted when a storm precluded shipment of inventory for one week and \$10 from a property claim that resulted when fully depreciated manufacturing equipment was damaged by a fire).
- n. Entity A paid \$30 to settle a lawsuit for patent infringement.
- o. Entity A issued \$1,000 of additional common stock of which \$500 was issued for cash and \$500 was issued upon conversion of long-term debt.
- p. Entity A paid dividends of \$200.

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Task Force's considerations in reaching the conclusions in this Update. It includes the Board's basis for ratifying the Task Force conclusions when needed to supplement the Task Force's considerations. It also includes reasons for accepting certain approaches and rejecting others. Individual Task Force and Board members gave greater weight to some factors than to others.

Background Information

BC2. Stakeholders indicated that there is diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows, which results either from a lack of guidance in Topic 230 and other Topics or from guidance that is unclear in its application. This Update addresses eight specific cash flow issues with the goal of reducing the existing diversity in practice.

BC3. At its November 12, 2015 meeting, the Task Force reached consensus-for-exposure on those issues. The Board subsequently ratified the consensus-for-exposure and on January 29, 2016, issued proposed Accounting Standards Update, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, for public comment, with a comment period that ended on March 29, 2016. The Board received 27 comment letters on the proposed Update.

BC4. The Task Force considered the feedback received on the proposed Update at its June 10, 2016 meeting and reached a consensus. The Board subsequently ratified the consensus, resulting in issuance of this Update.

Issue 1: Debt Prepayment or Debt Extinguishment Costs

BC5. Debt prepayment or debt extinguishment costs are paid by a borrower in connection with settling a debt financing arrangement before the maturity date. A lender often will include a prepayment penalty provision in the financing agreement that can be based on a number of factors, including an approximation of the interest that will not be paid as a result of the early settlement. The absence of specific guidance has resulted in borrowers classifying cash

payments for debt prepayment or extinguishment costs as either financing activities or operating activities.

BC6. Some Task Force members suggested that these cash payments may be consideration for foregone future interest and, thus, do not have the same characteristics as interest (that is, the value paid for amount of time that monies are borrowed). They noted that these payments are associated with the extinguishment of debt principal and should be classified as financing activities. Some Task Force members noted that a user would treat those cash payments as financing activities because they relate to financing transactions. Additionally, some Task Force members believe that these costs are similar to debt issue costs, which are classified as cash outflows for financing activities. However, other Task Force members believe that those cash payments include an element of interest and on the basis of the existing guidance in Topic 230, cash payments to lenders and other creditors for interest should be classified as cash outflows for operating activities. Those Task Force members noted that, under Topic 230, cash flows from operating activities are generally the cash effects of transactions and other events that enter into the determination of net income. They also believe that classifying cash payments for debt prepayment or extinguishment costs as financing activities is inconsistent with the consensus reached on other Issues (for example, Issues 2 and 3) in which portions of the payments that affect net income are classified as operating activities.

BC7. The Task Force reached a consensus that cash payments for debt prepayment or extinguishment costs should be classified as cash outflows for financing activities. The Task Force also concluded that those costs should include all costs for the prepayment or extinguishment of debt (that is, third-party costs, premiums paid to repurchase debt in an open-market transaction, and other fees paid to lenders).

Issue 2: 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

BC8. Zero-coupon bonds are a type of debt security that generally are issued or traded at significant discounts from their face amounts. Interest on zero-coupon bonds is not paid throughout the term of the bond but, instead, is paid at maturity. Diversity in practice exists in how to classify the cash payment made by the bond issuer upon settlement of a zero-coupon bond. Specifically, there is diversity in how to classify the portion of the cash payment attributable to the accreted interest related to the debt discount.

BC9. Some Task Force members were concerned that because the scope of the proposed amendments was limited to zero-coupon bonds, there would be

reduced comparability with the classification of economically similar instruments, such as deeply discounted debt instruments with a near zero-coupon interest rate. The Task Force acknowledged this potential inconsistency and reached a consensus that the guidance should be applied to debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, including debt instruments without a stated coupon interest rate (for example, commercial paper). In addition, some Task Force members believe that some entities might apply this guidance to all other debt instruments or apply the guidance on separately identifiable cash flows and the predominance principle as discussed in paragraph BC39 and reach the same conclusion, while other entities might not apply this guidance, resulting in inconsistent financial reporting. Therefore, the Task Force reached a consensus to clarify that the guidance should not be applied to all other debt instruments. That is, for all other debt instruments, an issuer should not bifurcate cash payments to lenders and other creditors at settlement for amounts attributable to accreted interest related to the debt discount, nor classify such amounts as cash outflows for operating activities.

BC10. On the basis of the current guidance in Topic 230, the majority of Task Force members supported separating and classifying the cash payment for the settlement of debt instruments within the scope of the consensus into operating and financing activities. That is, a portion of the cash payment is attributable to accreted interest related to the debt discount, and Topic 230 explicitly states that payments related to interest shall be classified as operating activities within the statement of cash flows. Additionally, a portion of the cash payment is attributable to principal (amounts borrowed), and Topic 230 explicitly states that repayments of amounts borrowed shall be classified as financing activities within the statement of cash flows.

BC11. A minority of Task Force members believe that the lack of an interest payment each period constitutes a refinancing of interest due; therefore, the issuer of a zero-coupon bond refinances its interest every period into additional principal through a noncash transaction. Those Task Force members believe that the periodic refinancing of interest should be disclosed as a noncash transaction and, at settlement, the entire cash payment on a zero-coupon bond should be classified as cash outflows for financing activities.

BC12. The Task Force reached a consensus that at the settlement of debt instruments within the scope of the consensus, the portion of the cash payment attributable to the accreted interest related to the debt discount should be classified as cash outflows for operating activities and the portion of the cash payment attributable to the principal should be classified as cash outflows for financing activities.

Issue 3: Contingent Consideration Payments Made after a Business Combination

BC13. As defined in the Master Glossary, *contingent consideration* is usually an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquiree as part of the exchange for control of the acquiree if specified future events occur or conditions are met. Topic 230 and Topic 805, Business Combinations, do not provide specific guidance on the cash flow statement classification of cash payments made by the acquirer to settle a contingent consideration liability after the business combination. The lack of guidance has resulted in diversity in practice in the cash flow statement classification of cash payments made after a business combination to settle a contingent consideration liability.

BC14. The majority of the Task Force members favored separating cash payments made to settle a contingent consideration liability that are not made soon after the business combination and classifying them as cash outflows for both financing activities and operating activities because that approach is the one applied most often in practice today and in their view most closely aligns with the requirements of Topic 230. Other Task Force members supported classifying the entire payment as a financing activity because they believe that the entire payment has a financing aspect and that it is more useful to include all cash flows associated with the settlement of such consideration in one place on the cash flow statement.

BC15. The Task Force reached a consensus that cash payments not made soon after the acquisition date of a business combination by an acquirer to settle a contingent consideration liability should be separated and classified as cash outflows for financing activities and operating activities. Specifically, the payments, or the portion of the payments, not made soon after the acquisition date up to the amount of the contingent consideration liability recognized at the acquisition date, including measurement-period adjustments, less any amounts paid soon after the acquisition date that were classified as cash outflows for investing activities should be classified as cash outflows for financing activities. Additionally, the payments, or the portion of the payments, not made soon after the acquisition date in excess of the amount of the contingent consideration liability recognized at the acquisition date, including measurement-period adjustments, less any amounts paid soon after the acquisition date that were classified as cash outflows for investing activities should be classified as cash outflows for operating activities. In response to feedback received from respondents on the amendments in the proposed Update, the Task Force clarified that the acquisition date of the business combination is the date from which entities should determine when a payment is made soon after and when a payment is not made soon after a business combination.

BC16. Many respondents indicated that cash flow classification guidance also is needed to address situations in which an acquirer makes a cash payment to settle a contingent consideration liability soon after the business combination to eliminate any ambiguity about the classification and to help achieve consistency in practice. In response to the feedback, the Task Force reached a consensus that cash payments made soon after the acquisition date of a business combination by an acquirer to settle a contingent consideration liability should be classified as cash outflows for investing activities because such classification most closely aligns with the requirements of Topic 230. The Task Force considered defining the time period associated with the term *soon after*. Although the Task Force decided not to explicitly state a time period, some Task Force members believe that a payment for contingent consideration that was made soon after a business combination is an extension of the cash paid for the business acquisition (an investing activity), if that payment for contingent consideration was made within a relatively short period of time after the acquisition date (for example, three months or less).

BC17. The Task Force noted that the consensus reached on the classification of cash payments made to settle a contingent consideration liability, including payments made soon after and not made soon after the acquisition date of the business combination, most closely align with the requirements in Topic 230. That is, paragraphs 230-10-45-13(c) and 230-10-45-15(c) state that cash payments made at the time of purchase or soon before or after purchase to acquire property, plant, and equipment and other productive assets are investing cash outflows. However, incurring directly related debt to the seller is a financing transaction, and subsequent payments of principal on that debt are financing cash outflows.

Issue 4: Proceeds from the Settlement of Insurance Claims

BC18. Diversity in practice exists on how to classify proceeds received from the settlement of insurance claims. Existing guidance states, in part, that cash inflows from operating activities include proceeds of insurance settlements except for those that are directly related to investing or financing activities, such as from destruction of a building. Stakeholders have indicated that it is unclear what “directly related to investing or financing activities” means and whether it was meant to relate to the insurance coverage or the planned use of the insurance proceeds.

BC19. The Task Force believes that the proceeds received from the settlement of insurance claims should be classified on the basis of the insurance coverage and the nature of the loss. The Task Force noted that classification based on the nature of the loss provides more relevant information to users of financial statements.

BC20. The Task Force reached a consensus that a reporting entity should classify the proceeds received from the settlement of insurance claims, excluding proceeds received from corporate-owned life insurance policies and bank-owned life insurance policies, on the basis of the insurance coverage (that is, the nature of the loss), including those proceeds that are received in a lump-sum settlement in which judgment is required to determine the classification on the basis of the nature of each loss.

Issue 5: Proceeds from the Settlement of Corporate-Owned Life Insurance Policies, including Bank-Owned Life Insurance Policies

BC21. Life insurance policies are purchased by entities for a variety of purposes, including funding the cost of providing employee benefits and protecting against the loss of key persons. These types of policies generally have been known as corporate-owned life insurance and bank-owned life insurance. (References to corporate-owned life insurance also include bank-owned life insurance.) One of the primary benefits of using an insurance policy as a funding mechanism is the ability for an entity to receive the death benefits tax-free. Investment income is accumulated tax-free through the internal build-up of the cash surrender value.

BC22. Diversity in practice exists on how the proceeds received upon settlement of corporate-owned life insurance policies are classified. Some entities classify those proceeds on the basis of an entity's intended objectives or purposes for acquiring the corporate-owned life insurance policy. Additionally, because of the current lack of explicit guidance in GAAP, stakeholders have indicated that entities classify premium payments on corporate-owned life insurance policies in investing activities, in operating activities, or in a combination of those activities.

BC23. The Task Force reached a consensus that cash proceeds received from the settlement of corporate-owned life insurance policies should be classified as cash inflows from investing activities. The majority of Task Force members believe that corporate-owned life insurance policies are purchased primarily as investment vehicles and, therefore, the proceeds should be classified as investing activities.

BC24. The Task Force considered, but ultimately rejected, separating cash proceeds from the settlement of corporate-owned life insurance policies and classifying them as cash inflows from operating and investing activities. Some Task Force members supported that approach because they believe that corporate-owned life insurance policies generally have both a term insurance component, which would be an income replacement, and an investment component, which would facilitate the growth of capital. Furthermore, separating

the proceeds received from the settlement of corporate-owned life insurance policies and classifying the components into more than one class of cash flows would be more consistent with the consensuses reached on Issues 2, 3, 4, 6, and 8 in this Update. However, the Task Force decided that the benefit of splitting the cash flows between two categories would not justify the effort.

BC25. The Task Force also reached a consensus to permit, but not require, alignment of the classification of premiums paid with the classification of proceeds received. Therefore, cash payments for premiums may be classified as cash outflows for investing activities, operating activities, or a combination of cash outflows for investing and operating activities. Some Task Force members favored not requiring the alignment of premiums paid and proceeds received because they wanted to allow management flexibility in determining the most appropriate classification for premium payments. Additionally, premium payments generally are insignificant to the financial statements as a whole.

Issue 6: Distributions Received from Equity Method Investees

BC26. Cash receipts from an equity method investee that represent returns on investment typically are classified as cash inflows from operating activities, consistent with the classification of cash receipts of interest and dividends. Cash receipts from an equity method investee that represent returns of investment typically are classified as cash inflows from investing activities, consistent with the classification of returns of investment in equity instruments of other entities (other than certain equity instruments carried in a trading account). However, while there is agreement on these concepts, there is diversity in practice on how they are applied.

BC27. The Task Force proposed that all distributions received from an equity method investee are considered returns on investment and should be classified as cash inflows from operating activities unless the investor's cumulative distributions received less distributions received in prior periods that were determined to be returns of investment exceed cumulative equity in earnings recognized by the investor (as adjusted for amortization of basis differences). When such an excess occurs, the current-period distribution up to this excess is considered a return of investment and classified as cash inflows from investing activities. In practice, this approach is commonly referred to as the cumulative earnings approach. While a majority of respondents supported the amendments in the proposed Update, multiple respondents asserted that the proposal would not provide financial statement users with the most useful information or accurately reflect the nature of distributions received from equity method investees. Those respondents noted that the cash flow classification should be based on an approach that is commonly referred to as the look-through approach in which distributions are presumed to be returns on investment (operating

activities) unless information is available that indicates the nature of the distribution is a return of investment (investing activities), on the basis of the nature of the activity or activities of the investee that generated the distribution from the perspective of the investee.

BC28. The Task Force reached a consensus to permit an entity to make an accounting policy election to classify distributions received from equity method investees using either the cumulative earnings approach or the nature of the distribution approach. The nature of the distribution approach is similar to the look-through approach except that it does not include a presumption that all distributions are returns on investment. Instead, the nature of the distribution approach requires all distributions to be classified on the basis of the nature of the activity or activities of the investee that generated the distributions. If an entity elects to apply the nature of the distribution approach and the information to apply that approach to distributions received from an individual equity method investee is not available to the investor, the entity should report a change in accounting principle on a retrospective basis by applying the cumulative earnings approach for that investee. The Task Force recognized that comparable financial reporting is better achieved through consistent application of the same guidance by all entities and that the overall goal of the amendments in this Update is to reduce diversity in practice. However, the Task Force was concerned that for those entities that apply the look-through approach today, application of the cumulative earnings approach might not provide financial statement users with the most useful information or the most accurate reflection of the nature of the distributions received. Additionally, if the Task Force required entities to apply the look-through approach as it is currently used in practice by some entities, it may not be possible for some entities to obtain the necessary information about the nature of distributions from some or all investees, resulting in an operating activities classification for all distributions for which the specific nature could not be determined by the investor.

BC29. The Task Force considered whether to require a reporting entity to elect the same accounting policy for all of its equity method investments or elect an accounting policy on an equity-method-investment-by-equity-method-investment basis. Some Task Force members noted that there are differences in the purpose and type of equity method investments that can affect the availability of information obtained by an investor from its equity method investees. Other Task Force members believe that an accounting policy election on an equity-method-investment-by-equity-method-investment basis would create confusion for financial statement users. The Task Force reached a consensus to require the same accounting policy election for all equity method investments of the reporting entity. However, as discussed in paragraph BC28, if an entity elects to apply the nature of the distribution approach and determines that the necessary information for an individual equity method investee is not available to the investor, the entity would apply the cumulative earnings approach for that investee and the nature of the distribution approach for all other equity method

investees. The Task Force concluded that because equity method investments can differ, allowing application of the cumulative earnings approach if information necessary to apply the nature of the distribution approach is not available to the investor provides flexibility to entities to address the varying levels of information available for different equity method investments.

BC30. The Task Force also reached a consensus that an entity would be required to comply with the applicable accounting policy disclosure requirements in paragraphs 235-10-50-1 through 50-6. The consensus does not address equity method investments measured using the fair value option.

Issue 7: Beneficial Interests in Securitization Transactions

BC31. In a securitization transaction accounted for as a sale under Topic 860, Transfers and Servicing, the transferor typically sells financial assets to an unconsolidated securitization entity in return for cash and a beneficial interest. In some instances, the transferor does not receive in cash the full fair value of the financial assets at the inception of the securitization transaction. Rather, the transferor receives an amount of cash based on amounts paid by third parties for interests in the assets (that is, the fair value of the assets net of the beneficial interest retained by the transferor). There is no specific cash flow guidance on whether, at inception of a securitization transaction, the receipt of the beneficial interest by the transferor should be considered a noncash activity or whether the transaction should be presented on a gross basis as a cash inflow for the sale of the financial assets and a cash outflow for the purchase of the beneficial interest.

BC32. A securitization transaction may involve the transfer of trade receivables. After the transfer of trade receivables in a securitization transaction, the transferor (due to the retention of a beneficial interest) has a right to receive cash from the securitization entity's collections on the trade receivables. There is no specific guidance in Topic 230 on how to classify cash receipts associated with beneficial interests in securitization transactions. That lack of specific guidance has resulted in entities classifying the subsequent cash receipts from payments on beneficial interests obtained by the transferor in a securitization of the transferor's trade receivables as either operating activities or investing activities in the statement of cash flows. Diversity in practice has not been identified for cash receipts from beneficial interests involving financial assets other than trade receivables (for example, mortgages and commercial loans).

BC33. The Task Force reached a consensus to require disclosure of a transferor's beneficial interest obtained in a securitization of financial assets as a noncash activity. The Task Force supported this disclosure because it reflects the actual form of the securitization transaction. That is, it would be consistent with the form of the securitization transaction because a transferor of assets does not receive or pay cash to obtain the beneficial interest. The Task Force also noted that disclosing a transferor's beneficial interest as a noncash activity is

consistent with the requirement in Topic 230, which states that noncash investing activities shall be disclosed.

BC34. Some Task Force members noted that financial statement users typically view cash receipts from a transferor's beneficial interest in securitized trade receivables as an operating activity. As such, when those cash receipts are classified as investing activities, financial statement users may adjust the statement of cash flows to classify them as operating activities. One Task Force member also noted that classifying the cash receipts as an investing activity creates a lack of symmetry between sales and operating cash flows. That is, the sale that created the trade receivable that was securitized will never result in a subsequent operating cash inflow for the seller. Additionally, that Task Force member noted that the absence of symmetry raises a broader question about cash flow symmetry for other fact patterns beyond this issue.

BC35. The Task Force reached a consensus that cash receipts from payments on a transferor's beneficial interests in securitized trade receivables should be classified as cash inflows from investing activities. The Task Force supported this classification because GAAP supports treating a transferor's beneficial interests like an investment security. Although cash flows from trading securities that are acquired specifically for resale typically result in an operating activities classification, some Task Force members believe that it is unlikely that a beneficial interest in securitized trade receivables would be acquired specifically for resale. Some of those same Task Force members supported the investing activities classification because the transferor's ability to receive cash from its beneficial interest is sometimes linked to the performance of third-party trade receivables. That is, the additional exposure to credit risk makes the transferor's beneficial interest more akin to an investment in the securitization entity than to an existing trade receivable. The Task Force also noted that an investing activity classification is consistent with existing guidance in Topic 230 when considering its consensus to disclose the transferor's beneficial interest obtained in a securitization of financial assets as a noncash activity. That is, Topic 230 requires disclosure of noncash investing activities but does not require disclosure of noncash operating activities. In addition, an investing activity classification is consistent with the structure of securitization transactions, whereby the trade receivables are transferred to the securitization entity (that is, the transferor does not retain ownership of the trade receivables). Therefore, the Task Force noted that the transferor should not classify cash receipts from its beneficial interest as if they were collections of trade receivables.

BC36. In reaching its consensus, the Task Force considered whether the cash receipts from beneficial interests arising from long-term trade receivables should be bifurcated between interest and notional components consistent with the consensus reached on Issues 2, 3, 4, 6, and 8 to separate and classify cash flows into more than one class of cash flows and consistent with existing guidance that requires receipts of interest to be classified as operating activities in the statement of cash flows. However, stakeholders have indicated that the

interest component on such transactions is generally insignificant. Therefore, the Task Force does not believe that the benefits of bifurcating the interest and notional components justify the cost. As such, the Task Force decided that *all* cash receipts from payments on a transferor's beneficial interest in securitized trade receivables should be classified as investing activities in the statement of cash flows as a practical expedient.

Issue 8: Separately Identifiable Cash Flows and Application of the Predominance Principle

BC37. Topic 230 recognizes that the most appropriate classification of cash flows will not always be clear, particularly in situations in which cash receipts and payments have aspects of more than one class of cash flows. In those situations, the appropriate classification depends on the nature of the activity that is likely to be the predominant source of cash flows for the item. That guidance is referred to as the predominance principle.

BC38. Significant diversity in practice exists about how to interpret and apply the predominance principle. The lack of clear guidance has resulted in some entities applying the predominance principle narrowly (that is, to only a few cash receipts and cash payments). Other entities apply the principle more broadly, particularly when there is a lack of specific cash flow classification guidance in Topic 230 and in other Topics.

BC39. The Task Force reached a consensus to provide additional guidance that clarifies when an entity should separate cash receipts and cash payments and classify them into more than one class of cash flows (including when reasonable judgment is required to estimate and allocate cash flows) and when an entity should classify the aggregate of those cash receipts and payments into one class of cash flows based on predominance. In applying the additional guidance, the classification of cash receipts and payments should be determined first by applying specific guidance in Topic 230 and other applicable Topics. In the absence of specific guidance, a reporting entity should determine each separately identifiable source (for inflows) or each separately identifiable use (for outflows) within the cash receipts and cash payments on the basis of the nature of the underlying cash flows. A reporting entity should then classify each separately identifiable source or use within the cash receipts and payments on the basis of their nature in financing, investing, or operating activities. In situations in which cash receipts and payments have aspects of more than one class of cash flows and those aspects cannot be separately identified by their nature (for example, when a piece of equipment is acquired or produced by an entity to be rented to others for a period of time and then sold), the appropriate classification should depend on the activity that is likely to be the predominant source or use of cash flows for the item. Some Task Force members noted that an entity should determine each separately identifiable source or use within cash

receipts and cash payments on the basis of the nature of the underlying cash flows because it is consistent with the principle in Topic 230 that nature is the basis for determining the classification of all cash flows. Some Task Force members emphasized that the cash flow statement should not be considered on a standalone basis when applying the clarifying guidance. Rather, the classification of the cash flows related to an asset or liability should be consistent with its classification on the statement of financial position. For example, the cash flows from amounts reported as inventory on the statement of financial position should be classified as operating activities in the statement of cash flows. One Task Force member noted that there could be situations in which an entity has no basis to reasonably estimate the amount of each separately identifiable source or use within cash receipts and cash payments, and it is unclear whether the entity could classify those cash flows on the basis of the predominant cash flow. Some Task Force members thought that in those situations, an entity would not be precluded from classifying those cash flows on the basis of predominance when there is a reasonable basis for doing so.

BC40. The Task Force considered, but ultimately rejected, providing implementation guidance and illustrative examples about how an entity could determine the predominant cash flow. Some Task Force members noted that the additional guidance on how to apply the predominance principle is clear and, therefore, illustrative examples are not necessary. Furthermore, because the Task Force reached a consensus on specific cash flow classification issues for which stakeholders indicated that the predominance principle is being applied, there is less need to provide illustrative examples because fewer cash flow classifications will be determined as a result of applying this additional guidance.

BC41. The Task Force also reached a consensus to not require specific disclosures when classification is based on the predominant cash flow. Many Task Force members stated that classifying cash payments or receipts on the basis of the predominant cash flow is not an accounting policy election and that entities that choose to classify cash flows on the basis of the predominant cash flow should not be required to provide extensive disclosures.

Transition

BC42. The Task Force reached a consensus that an entity should apply the amendments in this Update retrospectively to all periods presented. The Task Force believes that there will be a significant benefit to retrospective transition because it would enhance the interperiod consistency and comparability of financial information. The Task Force also reached a consensus to provide an impracticability provision similar to that in Topic 250, Accounting Changes and Error Corrections, in order to alleviate cost and complexity for those entities that lack the information necessary to apply the amendments or portions of the amendments retrospectively.

BC43. The Task Force reached a consensus to require the transition disclosures in paragraphs 250-10-50-1(a) and (b)(1) and 250-10-50-2, as applicable, in the interim and annual period in which the amendments in this Update are adopted. If retrospective application to any prior period is impracticable, the Task Force reached a consensus to also require the disclosures in paragraph 250-10-50-1(b)(4).

Effective Date

BC44. The Task Force decided that the amendments in this Update should be effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period.

How Do the Provisions Compare with International Financial Reporting Standards (IFRS)?

BC45. IFRS does not provide specific guidance about the cash flow classification of cash payments for debt prepayment or extinguishment costs, proceeds received from the settlement of insurance claims, proceeds received from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, beneficial interests in securitization transactions, cash payments for the settlement of a zero-coupon debt instrument, contingent consideration payments made after a business combination, and distributions received from an equity method investee. For those issues, the amendments in this Update will differ from IFRS.

BC46. IFRS provides guidance that states that a single transaction may include cash flows that are classified differently, which is consistent with a portion of the amendments in this Update that clarify when an entity should separate cash receipts and payments and classify them into more than one class of cash flows.

BC47. IFRS also provides guidance that states that cash payments to manufacture or acquire assets held for rental to others and subsequently held for sale are cash flows from operating activities and that the cash receipts from rents and subsequent sales also are cash flows from operating activities. The amendments in this Update address when an entity should separate cash receipts and payments and classify them into more than one class of cash flows and when an entity should apply the predominance principle for all types of

transactions for which no specific authoritative guidance exists rather than just situations in which assets are held for rental to others and subsequently sold.

Benefits and Costs

BC48. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Task Force's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC49. The Task Force does not anticipate that entities will incur significant costs as a result of the amendments in this Update because the amendments do not represent a significant change in practice for most entities. The Task Force agreed that specific guidance on these cash flow classification issues will benefit users by reducing diversity in practice. Thus, on balance, the Task Force concluded that those benefits justify the limited costs that entities are expected to incur as a result of the application of the amendments in this Update.

Amendments to the XBRL Taxonomy

The amendments to the *FASB Accounting Standards Codification*® in this Accounting Standards Update require changes to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). Those changes, which will be incorporated into the proposed 2017 Taxonomy, are available for public comment through [ASU Taxonomy Changes](#) provided at www.fasb.org, and finalized as part of the annual release process.