The given to follow them. asc 606

Business, Accounting

The theory of insurance has beenaround as long as humans have. The point of insurance is to aid in reducingrisks and spreads the risk from the individual to a larger community whichdiminishes the risk that every insurance policyholders will have losses at thesame time. Insurance also offers a substantial foundation of long-term financefor both the public and private divisions. Insurance contracts in financial statementsare to be characterized as short-duration or long-duration agreements.

Longterm policies comprise policies like whole-life insurance and annuities, whereshort term contracts would comprise property and liability insurance policies. Allinsurance policies have a rule to be in a legal form or text. In American insurance policies are organizedby the Financial Accounting Standards Board (FASB) by state law and each state mayidentify that they only need explicit forms for explicit types of insurance. Furthermore, to make sure these regulations are being obeyed these policiesmust be then accepted by the state insurance department. There are alsoinsurance rules from the International Financial Reporting Standards (IFRS) thatmust be used by the world about how certain types of contacts should be statedin financial statements, like how to insurance companies report theirstatements. There have been two major rules created by FASB and IFRS in thelast year that are becoming issues for accountants due to the time and energythat has to be given to follow them. ASC 606 is being proposed by FASB toprogress financial standard on recognition of revenue from contracts withcustomers.

IFRS 17 is IFRS’s new insurance contract that will entail detaileddisclosures for insurance company’s financial statements. The changes to thedisclosures will offer investors more info on these insurance companies

documentedmonies from insurance policies and the extent of risks ascending from their insurancepolicies. (Chan, 2016) Some feel that these rules will be costly and are notworth the time and energy, while others, like myself, feel that they are muchneeded and will completely help the insurance industry. FASBand the International Accounting Standards Board (IASB) distributed joineddirection on recognizing revenue from contracts with customers. The newguidance is a major achievement to improve this important area of financialreporting. In June 2014, the FASB and the IASB proclaimed the creation of theFASB-IASB Joint Transition Resource Group for Revenue Recognition (TRG). Theobjective of this group is to notify the Boards about possible application problemsthat might occur when businesses state using the newly created revenue standard. The group was also in place to help investors better comprehend explicit facetsof the newly created standards.

ASC 606, Revenue from Contracts withCustomers, was issued mutually by the FASB and IASB on May 28, 2014. Forpublic entities, the original active date for yearly reporting periods beginafter December 15th, 2016. The ASC 606 rule was then differed to the activedate of for another year, so public business entities, not-for-profit entities, and employee benefit plans, the effective date would begin after December 15, 2017. All other entities the effective date would be after December 15th, 2018.

(ASC 606 — Revenue from Contracts with Customer, n. d.) The new amendment willbe effecting all businesses that have contracts to transfer goods and servicesto clients in exchange for money. The purpose of ASC 606 is to create guidelineson how to account for the nature, timing and risk of

revenue from contractswith customers for the users of financial statements. The ones that made thisstandard want to remove discrepancies and flaws in the current revenuerequirements, have a stronger outline for revenue issues, and improving thesimilarity of revenue recognition ways throughout all industries. The new ASC606 standard will not alter the demands that revenue be acknowledged for onlyquantities not anticipated to be returned.

Though, because a right of return isin existence marks the price flexible and subject to the constraint which willend in a variation in timing of revenue recognition to the degree a companydetermines that the appraised sum varies from the estimation under current GAAPrules. Being consistent with GAAP rules, rights of return can be contractual orbased on a business's customary practice. (Impact of the New RevenueRecognition Standard, 2015)Also, the standard was created to deliver improveddisclosure rules and to streamline how the statements are arranged by decreasingthe quantity of requirements that the companies must obey by.

All insurance policiesare to be recorded under the same guidelines as before, ASC 944, however someinsurance companies usually perform other services to their customers that areactually not thought of as insurance policies under ASC 944. In these cases, theneed to conform and understand ASC 606 is significant and must not be ignored. These types of other services that insurance companies do that are not underASC 944 which include but are not limited to agency and advisory typearrangements, claims processing, property valuation, appraisal services, and inforisk management services. These types of services could be done on an unrelatedbasis from the

underlying insurance policies and the performance obligations mightbe different for those services in comparison to the performance obligations ofthe underlying contract.

What this leads to is the need to separately recognizeand calculate the suitable revenue recognition arrangement for each performanceobligation acknowledged by the insurance company. This will create some challengeswhen the contract amount for insurance intermediaries includes services forclaims handing, policy endorsements, risk management and must be independently beexamined for allocation of the contract amount to these performanceobligations. However, this will be drastically beneficial for the insurancecompany financial statement users to understand the risks and rewards of thiscompany. (Jacobs, 2016)TheInternational Accounting Standards Board (IASB) created a team to work on whatwas originally called the “ Insurance project” in 1997 but it actually tooktwenty years for it to be fully completed. Now the new insurance accountingstandard IFRS 17 will be in effect for the annual reporting periods beginningon Jan. 1, 2021.

The fact that there was no globally accepted insuranceaccounting standard made it very hard for investors and analysts to be able to compareinsurance companies’ which then generated the use “ non-GAAP” measures toevaluate the performance of insurance companies. IFRS 17 finally produces a globalaccounting standard for insurance policies. Its purpose is to create a reliableframework for the acknowledgment, measurement, presentation and reporting of insurancepolicies. Which is supposed to make financial reports more beneficial and clearbecause it will offer additional info about the worth

of insurance obligationsbecause these companies will measure insurance policies at present value; theyshow the time value of money in projected payments to settle sustained claims; and companies will measure their insurance policies based solely on theobligations shaped by these contracts. Info about success is explained more as businesseswill have to deliver dependable data on the components of present and impendingprofits from insurance agreements. IFRS 17 will be valid also for reinsurance policies, reinsurance policies held; and investment agreements with discretionary contributionfeatures, only if the company issues insurance policies too. The General Model forGlobalization gives a formula on how insurance contract assets should be evaluated. This formula relies on the approximations of future cash flows, themodification for the time value of money, risk modification for non-financialrisks, and contractual service margin (CSM).

CSM embodies the unearned profitfor a collection of insurance policies that the business will recognize overtime as it delivers the amenities. These approximations of impending cash flowsare remeasured each reporting period that means that specific alterations in anticipatedfuture cash flows are fixed contrary to the CSM and are then recognized inprofit or loss over the residual contract period. Companies are also given achoice of accounting policy to either show the effects of alterations indiscount rates by putting it in profit or loss or other comprehensive income.

Insurancecontract revenue must be then documented in the statement of comprehensiveincome as the entity’s consideration for giving the services under thecontracts, and the service expenditures will be documented based

on claims and expendituressustained throughout the specific period. These revenue and expenditure quantitiesdiscount any non-distinct investment factor. The insurance companies must then showtheir results independently of their finance revenue or expenditures. IFRS 17demands widespread disclosures to offer info on the recognized amounts frominsurance policies and the degree of risks that can happen because of these insurancepolicies. Examples of these disclosures are but are not limited to thereconciliations of the carrying quantities of insurance policies from theopening to the closing balance and with connections among the movements in theliability to the quantities recognized in the statement of comprehensiveincome. The new standard will also force companies to restate comparative info.

To recognize the issues in providing consistent info, these businesses have twodifferent choices for transition purposes. They can use the modifiedretrospective approach where generalizations are permitted or the fair valueapproach. Using the new standard force companies to use substantial alterationsin the info systems and procedures they use to create their financial reports, applicablecontrols, as well possibly changing the employee that are involved in theaccounting processes. It would be sensible for insurance companies to formulatea comprehensive communications plan to give investors, market analysts, and stockholdersmore simplicity to the alterations to their financial statements and profitprofiles. Insurance companies should start strategizing for how they plan tostart implementing IFRS 17. Impact assessment studies will be able to help thesebusinesses plan those steps, figure out the amount of energy needed to followthis standard, and describe the financial impressions that will be made.

Insurancecompanies should not to observe the IFRS 17 being just like any other expensivegoverning requirement but look at the standard as a way to create improved cooperationand collaboration amongst the Finance and Risk/Actuary departments.

The IFRS 17will be an incentive for insurance business to fix and reconfigure the state oftheir forthcoming financial reporting ways. Deloitte’s global IFRS insuranceleader Francesco Nagari states that IFRS 17 will take much energy to put ineffect for companies but a common international accounting language will permitcustomers, investors, and other involved parties to be able to better compareinsurance products across diverse countries. Raj Juta from Deloitte statesthat insurance companies should start changing for this new standard quicklybecause waiting for them to begin can end in disorder within insurance corporationsand they could realize too late that they are not well equipped to stay on topof the new rules . However, beside the problems that could occur, it will resultin many paybacks. The IFRS 17 will aid in clients making better choices intheir insurance purchases, particularly when the prices vary considerably throughoutthe world.

Also, insurance analysts will not have to be bothered much regardingthe varying standards among the different companies in different countries. Lastly, venture capitalists and other investors can practice IFRS 17 to boosttheir portfolios and to choose investments better. Others also suggest thatprocurement of master’s degree in accounting can definitely help accounting specialistsinvestigate into international accounting standards, especially in theinsurance sector. (IFRS 17 CouldImpact Multinational

Insurance Companies, n. d.)Thereare many individuals that are opposing these new insurance rules because Lifeinsurance and annuities are intricate to begin with, and a change in insuranceaccounting rules with brings hurdles such as the fact that companies will needmore facts and figures. IFRS 17, for example, does not directly affect Americabut it will effect professionals that are a part of a business in America thatdo business with other countries. This means that these accounting professionalswill have to now study and follow the IFRS 17 procedures.

These proceduresdemand that they must follow all IASB rules. Other issues that will come fromthe IFRS 17 accounting rule for insurance will be that the necessities forcedby the IASB that requests substantial amounts of work in terms of dividingportfolios. IFRS 17 will force individual insurance businesses to divideportfolios even more in-house to recompense for profit- and loss-makingportfolios which will lead to insurance firms being faced by granular distinctionamongst and within explicit portfolios. Also insurers have to use a specificmeasurement model for ever reporting period.

This model is to make sure yourreports include discounted cash flows, probability-weighted cash flows, riskadjustment, and contractual service margins. Then separate their contracts intothree categories such as contracts that are onerous, contracts that carry norisk of becoming onerous and contracts that don’t apply to either of the firsttwo categories. (IFRS 17 Could Impact Multinational Insurance Companies, n.

d.) These insurance companies will need additional data technology, internalcontrols where means many more people in a trade that has

previously beenconfronted by cutbacks. ASC 606 forces companies to figure out the impact thestandard would have on the previous fiscal year. For public businesses who havethree years of data they must gauge the influence on two previous years. Companies must also look over contracts that began numerous years before theeffective state of the new standard and may even have to do dual tracking ofrevenues for the retrospective period which will definitely be a time-consumingand difficult chore.

Companies that imagine having alterations amongsttheir present revenue accounting and the new method they must use under the newrule might opt for the full retrospective changeover technique. This is becauserevenue will be reflected steadily for every year existing in the financialstatements. Obeying to ASC606 will certainly encompass a widespread renovationof methods, procedures and controls across all departments of insurancecompanies. (ASC 606: Benefits of Early Adoption of the New Revenue RecognitionStandard, n.

d.) Companies are holdingoff on adapting to the new standard because they believe that their insurancespolicies are under ASC 944 but they do not realize that if they are out of thatscope in the slightest they could still be subject to the rule because thereare revenue streams that do fall under ASC 606. Research shows that IFRS 17 isgoing to affect 450 listed insurers who manage 13 trillion dollars in assets. Baker A study piloted by top 10 accounting firm Baker Tilly Virchow Krause, LLPshowed that 60 percent of insurance corporations are hardly ready to stateusing the new auditing standard. BakerTilly’s staff also say that execution of the new standard will

disturb avariation of business functions so it is important that internal resourcerestrictions be in place when considering to evaluate and the updated standard.(Insurance Companies Not Prepared to Implement New Accounting Standards, 2017)WillisTowers Watson said that these rules will affect the capability to pay dividendsand management bonuses, and meet market-wide performance goals.

Even the accountingfirm Deloitte says that the effort of the accountants and companies will createoperation expenses for the insurers. by an estimated three and four billiondollars for insurers as a whole. (Jones, 2017) This will also lead to companiesneeding to hire someone that already has been trained in these types of rules. Companies will look for future employees with greater education and experiencewith more insights into global accounting as well as skills for dealing withinternational insurance policies. As you can imagine, it would be easierto hire someone from out of the country because they will have greaterunderstanding.

Hiring others from overseas will in turn lead to less jobs forAmericans. Toconclude, both ASC 606 and IFRS 17 have the objective of changing insurancefinancial reporting for investors and others so they can better understandthem. The objective of ASC 606 is to create principle ways to report the usefulinfo to these user in the financial statements regarding the nature andimprobability of revenue from insurance policies with their customers. Whilethe IFRS 17 is an international standard for reporting insurance policies tohelp the same people understand the insurers risk level,

productivity, andfinancial wellbeing. As we can see these rules will lead to more updated anduseful data for users of the financial statements.

Obviously we know this willlead to exponentially more work for companies and accountants because they willhave to make alterations to their operating metrics, data systems, evaluatingspecific revenue streams and weighing the need for further internal controlsover financial reporting. (Jacobs, 2016) However, it seems apparent that thesechanges will be made because it is worth it for the investors to feelcomfortable enough to financial support these insurance companies. This isalmost the same situation as America not wanting to give up their usage ofGenerally Accepted Accounting Principles (GAAP) for IFRS so we can all run onthe same international standards. We know that these changes will have to bemade eventually so adapting to them quickly instead of resisting will make thechange of rules easier for the company in the long run. So many pieces ofbusiness will be affected by these rules and there is so much at stake, so thesooner a corporation can acclimatize to the new rules, the sooner it can yieldits assets.

This process will take time to gain a better understanding but preemptivebusinesses will start discussions with auditors and shareholders as soon aspossible to figure out the exact influence there will be on revenue recognitionfor their organization.(ASC 606: Benefits of Early Adoption of the New RevenueRecognition Standard, n. d.) IASB Chairman, Hans Hoogervorst, believes that reduced quality accounting has turnedinvestors away and the benefits of the new rules will compensate costs by awide margin and that

the improved transparency of the market will definitelybring enhanced invest ability of the insurance sector. (Jones, 2017)