INTRODUCTION

• PRACTICAL WAYS TO BRING THIS MATERIAL INTO YOUR CLASSROOM
• HOW TO GET STUDENTS EXCITED ABOUT IT - TIP! IF YOU HATE IT – THEN THEY WILL HATE IT!
• NOT NECESSARILY ABOUT ADDING MORE BUT REPOSITIONING/LINKING – TIP! MAY HAVE TO CUT BACK IN SOME PLACES – BUT THAT’S OKAY
• THERE ARE SOME BASICS IN ALL THE MINUTIAE THAT WE CAN REINFORCE (THINK COMMONALITIES AND THEMES)
IFRS 16 – LEASES
JANUARY 1, 2019
#1 – THE BIGGIE!

- IFRS 16 – ALL LEASES ON BALANCE SHEET
  - FEW EXCEPTIONS
- EXCLUDE LICENSES FOR MOTION PICTURE FILMS, VIDEO RECORDINGS, PLAYS, MANUSCRIPTS, PATENTS, COPYRIGHTS (BECAUSE SEEN AS IA UNDER IAS 38)
- MAY ACCOUNT FOR OTHER IA UNDER IFRS 16 – NO CONCEPTUAL BASIS FOR EXCLUDING BUT IASB WANT TO REVIEW IA IN GREATER DETAILS
- INCLUDES LAND
- EXCLUDES SERVICE CONTRACTS
- GETS RID OF CLASSIFICATION APPROACH FOR LESSEE
- TIP! IASB HAS 24 ILLUSTRATIVE EXAMPLES!
OFF BALANCE SHEET ISSUE – PRE IFRS 16

IASB Effects Analysis January 2016

TIP – USE IASB MATERIAL!
## OFF BALANCE SHEET ISSUE – PRE IFRS 16

### IASB Effects Analysis January 2016

<table>
<thead>
<tr>
<th>Industry sector</th>
<th>Number of companies</th>
<th>Total assets (in millions of US$)</th>
<th>Future payments for off balance sheet leases (undiscounted) (in millions of US$)</th>
<th>Future payments for off balance sheet leases / total assets</th>
<th>Present value of future payments for off balance sheet leases (coupon) (in millions of US$)</th>
<th>Present value of future payments for off balance sheet leases / total assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airlines</td>
<td>50</td>
<td>526,763</td>
<td>151,549</td>
<td>28.8%</td>
<td>119,384</td>
<td>23.7%</td>
</tr>
<tr>
<td>Retailers</td>
<td>204</td>
<td>2,019,958</td>
<td>571,812</td>
<td>28.3%</td>
<td>431,473</td>
<td>21.4%</td>
</tr>
<tr>
<td>Travel and leisure</td>
<td>69</td>
<td>403,324</td>
<td>115,300</td>
<td>28.6%</td>
<td>83,491</td>
<td>20.7%</td>
</tr>
<tr>
<td>Transport</td>
<td>51</td>
<td>585,964</td>
<td>90,259</td>
<td>15.5%</td>
<td>68,175</td>
<td>11.6%</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>56</td>
<td>2,847,063</td>
<td>219,718</td>
<td>7.7%</td>
<td>173,644</td>
<td>6.1%</td>
</tr>
<tr>
<td>Energy</td>
<td>99</td>
<td>3,192,938</td>
<td>400,194</td>
<td>7.7%</td>
<td>287,858</td>
<td>5.5%</td>
</tr>
<tr>
<td>Media</td>
<td>48</td>
<td>1,020,317</td>
<td>71,743</td>
<td>7.0%</td>
<td>55,764</td>
<td>5.5%</td>
</tr>
<tr>
<td>Distributors</td>
<td>26</td>
<td>581,503</td>
<td>31,410</td>
<td>5.4%</td>
<td>25,092</td>
<td>4.3%</td>
</tr>
<tr>
<td>Information technology</td>
<td>58</td>
<td>1,011,316</td>
<td>69,870</td>
<td>3.7%</td>
<td>56,806</td>
<td>3.6%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>55</td>
<td>1,694,933</td>
<td>72,149</td>
<td>4.4%</td>
<td>54,365</td>
<td>2.9%</td>
</tr>
<tr>
<td>Others</td>
<td>306</td>
<td>13,959,223</td>
<td>401,703</td>
<td>2.9%</td>
<td>306,735</td>
<td>2.2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,022</strong></td>
<td><strong>30,943,002</strong></td>
<td><strong>2,195,510</strong></td>
<td><strong>7.1%</strong></td>
<td><strong>1,661,287</strong></td>
<td><strong>5.4%</strong></td>
</tr>
</tbody>
</table>

See Appendix A to this document for information about the assumptions used to estimate the amounts shown in this table.

Wiecek CAAA June 2017
**OFF BALANCE SHEET ISSUE – PRE IFRS 16**

For an individual company, the use of off balance sheet leases may be very different from the average within its industry sector.

This table shows that, for example, for 36 per cent of retailers in the sample (73 of 204 companies) the estimated present value of future payments for off balance sheet leases to total assets is greater than 50 per cent as compared to 21.4 per cent for all companies in the sample in that sector.

In contrast, for 43 per cent of telecommunications companies in the sample (24 of 56 companies) the estimated present value of future payments for off balance sheet leases to total assets is lower than 5 per cent as compared to 6.1 per cent for all companies in the sample in that sector.

<table>
<thead>
<tr>
<th>Industry sector</th>
<th>Present value of future payments for off balance sheet leases \ total assets by number of companies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-1%</td>
</tr>
<tr>
<td>Airlines</td>
<td>22.7%</td>
</tr>
<tr>
<td>Retailers</td>
<td>21.3%</td>
</tr>
<tr>
<td>Travel and leisure</td>
<td>20.7%</td>
</tr>
<tr>
<td>Transport</td>
<td>11.4%</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>6.1%</td>
</tr>
<tr>
<td>Energy</td>
<td>5.5%</td>
</tr>
<tr>
<td>Media</td>
<td>5.5%</td>
</tr>
<tr>
<td>Distributors</td>
<td>4.3%</td>
</tr>
<tr>
<td>Information technology</td>
<td>3.0%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>2.9%</td>
</tr>
<tr>
<td>Others</td>
<td>2.5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>5.4%</td>
</tr>
</tbody>
</table>

See Appendix A to this document for information about the assumptions used to estimate the amounts used to prepare this table.

**IASB Effects Analysis January 2016**
**Tip! Use this diagram to compare ASPE (similar to IAS 17) to IFRS 16**

**Taken from IASB Project Summary and Feedback Statement – January 2016**
Background information
The company is an airline. Applying IAS 17, the company reports approximately 80 per cent of its aircraft fleet on the balance sheet (ie around 80 per cent of the company’s aircraft fleet is owned or leased under finance leases). The company leases (under former off balance sheet leases) approximately 20 per cent of its aircraft fleet as well as various buildings.

TIP! Get students to actually adjust f/s

<table>
<thead>
<tr>
<th>Balance sheet</th>
<th>IAS 17</th>
<th>IFRS 16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, plant and equipment</td>
<td>27,886</td>
<td>27,886</td>
</tr>
<tr>
<td>Lease assets</td>
<td>12,030</td>
<td>25,430</td>
</tr>
<tr>
<td>Other</td>
<td>9,114</td>
<td>8,952</td>
</tr>
<tr>
<td>Total non-current assets</td>
<td>49,030</td>
<td>62,268</td>
</tr>
<tr>
<td>Total current assets</td>
<td>21,152</td>
<td>21,152</td>
</tr>
<tr>
<td>Total assets</td>
<td>70,182</td>
<td>83,420</td>
</tr>
<tr>
<td>Borrowings</td>
<td>9,430</td>
<td>9,430</td>
</tr>
<tr>
<td>Lease liabilities</td>
<td>10,516</td>
<td>25,277</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>34,818</td>
<td>34,818</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>54,764</td>
<td>69,525</td>
</tr>
<tr>
<td>Equity</td>
<td>15,418</td>
<td>13,895</td>
</tr>
<tr>
<td>Total liabilities and equity</td>
<td>70,182</td>
<td>83,420</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash flow statement</th>
<th>IAS 17</th>
<th>IFRS 16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating activities</td>
<td>6,265</td>
<td>8,026</td>
</tr>
<tr>
<td>Investing activities</td>
<td>(5,190)</td>
<td>(5,190)</td>
</tr>
<tr>
<td>Financing activities</td>
<td>(851)</td>
<td>(2,612)</td>
</tr>
<tr>
<td>Total cash inflow</td>
<td>224</td>
<td>224</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Income statement</th>
<th>IAS 17</th>
<th>IFRS 16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue and other income</td>
<td>67,272</td>
<td>67,272</td>
</tr>
<tr>
<td>Operating costs</td>
<td>(60,893)</td>
<td>(58,340)</td>
</tr>
<tr>
<td>EBITDA</td>
<td>6,379</td>
<td>8,932</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>(3,908)</td>
<td>(5,674)</td>
</tr>
<tr>
<td>Operating profit</td>
<td>2,471</td>
<td>3,258</td>
</tr>
<tr>
<td>Net finance costs</td>
<td>(865)</td>
<td>(1,656)</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>1,606</td>
<td>1,602</td>
</tr>
<tr>
<td>Income tax</td>
<td>(285)</td>
<td>(285)</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>1,321</td>
<td>1,317</td>
</tr>
</tbody>
</table>
#2 BUT WHEN DOES A CONTRACT CONTAIN A LEASE?

- CONTROL OVER IDENTIFIED ASSET (IFRS 16.9 AND B9-B33)
  - CONTROL IS RIGHT TO OBTAIN SUBSTANTIALLY ALL BENEFITS AND RIGHT TO DIRECT USE
- ASSET MUST BE IDENTIFIED (E.G. TRUCK)
  - MAY BE A PORTION OF AN ASSET – BUT MUST BE DISTINCT (E.G. FLOOR OF A BUILDING)
  - OKAY IF IT REPRESENTS SUBSTANTIALLY ALL OF THE CAPACITY OF THE ASSET E.G. CAPACITY OF A FIBRE-OPTIC CABLE
  - WATCH FOR LESSOR SUBSTITUTION RIGHTS (PRACTICAL ABILITY TO SUBSTITUTE AND WOULD BENEFIT ECONOMICALLY)
IS IT A LEASE – IDENTIFIED ASSET

Example 1 – Substantive substitution right

Lessee L enters into a five-year contract with a freight carrier (Lessor M) to transport a specified quantity of goods. M uses rail cars of a particular specification, and has a large pool of similar rail cars that can be used to fulfil the requirements of the contract. The rail cars and engines are stored at M’s premises when they are not being used to transport goods. Costs associated with substituting the rail cars are minimal for M.

KPMG First Impressions: IFRS 16 Leases – all examples that follow come from this publication and/or the IFRS Illustrative Examples

Tip! USE MATERIAL FROM BIG FIRMS
IS IT A LEASE – IDENTIFIED ASSET

Not an identified asset and no lease – substitution rights

In this case, because the rail cars are stored at M’s premises, it has a large pool of similar rail cars and substitution costs are minimal, the benefits to M of substituting the rail cars would exceed the costs of substituting the cars. Therefore, M’s substitution rights are substantive and the arrangement does not contain a lease.
Example 2 – Primary products and by-products

Utility Company C enters into a 20-year contract with Power Company D to purchase all of the electricity produced by a new solar farm. D owns the solar farm and will receive tax credits relating to the construction and ownership of the solar farm, and C will receive renewable energy credits that accrue from use of the solar farm.
Substantially all benefits passed and therefore a lease

Example 2 – Primary products and by-products

Utility Company C enters into a 20-year contract with Power Company D to purchase all of the electricity produced by a new solar farm. D owns the solar farm and will receive tax credits relating to the construction and ownership of the solar farm, and C will receive renewable energy credits that accrue from use of the solar farm.

C has the right to obtain substantially all of the economic benefits from use of the solar farm over the 20-year period because it obtains:

– the electricity produced by the farm over the lease term – i.e. the primary product from use of the asset; and

– the renewable energy credits – i.e. the by-product from use of the asset.

Although D receives economic benefits from the solar farm in the form of tax credits, these economic benefits relate to the ownership of the solar farm. The tax credits do not relate to use of the solar farm and therefore are not considered in this assessment.
Example 3 – Right to direct the use

Customer R enters into a contract with Company S, a ship owner, for the transport of cargo from A Coruña to Hartlepool on an identified ship. The contract details the cargo to be transported on the ship and the dates of pick-up and delivery. The cargo will occupy substantially all of the capacity of the ship. S operates and maintains the ship and is responsible for the safe passage of the cargo on board the ship. R is prohibited from hiring another operator for the ship during the term of the contract or operating the ship itself.
IS IT A LEASE – CONTROL – RIGHT TO DIRECT USE?

Cannot direct use and therefore no lease

Example 3 – Right to direct the use

Customer R enters into a contract with Company S, a ship owner, for the transport of cargo from A Coruña to Hartlepool on an identified ship. The contract details the cargo to be transported on the ship and the dates of pick-up and delivery. The cargo will occupy substantially all of the capacity of the ship. S operates and maintains the ship and is responsible for the safe passage of the cargo on board the ship. R is prohibited from hiring another operator for the ship during the term of the contract or operating the ship itself.

R does not have the right to control the use of the ship because it does not have the right to direct its use. R does not have the right to direct how and for what purpose the ship is used. How and for what purpose the ship is used – i.e. the journey from A Coruña to Hartlepool transporting specified cargo – is predetermined in the contract. R does not have the right to operate the ship and did not design the ship in a way that predetermined how and for what purpose it would be used. R has the same rights regarding the use of the ship as if it were only one of many customers transporting cargo on the ship. Therefore, the contract does not contain a lease.
Example 4 – Right to direct the use

Customer T enters into a five-year contract with Company U, a ship owner, for the use of an identified ship. T decides whether and what cargo will be transported, and when and to which ports the ship will sail throughout the period of use, subject to restrictions specified in the contract. These restrictions prevent T from sailing the ship into waters at a high risk of piracy or carrying explosive materials as cargo. U operates and maintains the ship, and is responsible for safe passage.
Right to direct and therefore a lease

Example 4 – Right to direct the use

Customer T enters into a five-year contract with Company U, a ship owner, for the use of an identified ship. T decides whether and what cargo will be transported, and when and to which ports the ship will sail throughout the period of use, subject to restrictions specified in the contract. These restrictions prevent T from sailing the ship into waters at a high risk of piracy or carrying explosive materials as cargo. U operates and maintains the ship, and is responsible for safe passage.

T has the right to direct the use of the ship. The contractual restrictions are protective rights that protect U’s investment in the ship and its personnel (see 3.5). In the scope of its right of use, T determines how and for what purpose the ship is used throughout the five-year period because it decides where and when the ship sails, as well as the cargo that it will transport. T has the right to change these decisions throughout the period of use. Therefore, the contract contains a lease.
LAND - EASEMENTS

• LEASE LAND AND BUILDING FOR RESTAURANT
• FARMER LEASES LAND TO PIPELINE COMPANY – RUN A PIPE UNDER THE FARMERS LAND
• TIP- USE IFRS DISCUSSION GROUP MATERIAL (POSTED ON ACSB WEBSITE)
HELP IS ON THE WAY

- PRACTICAL EXPEDIENTS
  - LOW VALUE - LAPTOPS, OFFICE FURNITURE, PHONES
    - NOT DEFINED BUT BASIS OF CONCLUSIONS REFERS TO < $US5000
  - SHORT TERM – LESS THAN 12 MONTHS
#3 – WATCH YOUR LANGUAGE

- Old terminology versus new
- Classification system labels – Finance/Operating – now NA for lessees = Right of Use Assets
- For lessee – purchase option - not whether it is a bargain but rather whether the option reasonably certain to be exercised (similar for renewal options)
  - Look at economic incentives to exercise or renew
- Variable lease payments – take care with the word “contingent” payments (16.B37(A)(II))
  - Payments based on percentage of future sales are expensed (not included as lease liability)
#4 – BRAVE NEW WORLD

• IS IT A BIRD IS IT A PLANE? IT’S A RIGHT OF USE ASSET!!
• WHAT IS A ROU ASSET????
• NOT QUITE A FI, NOR TANGIBLE ASSET, IS IT AN INTANGIBLE ASSET?
AN ASSET LIKE NO OTHER?

KPMG insight – Right-of-use asset is neither an intangible asset nor an item of property, plant and equipment

IFRS 16 does not specify that a right-of-use asset is in the scope of either IAS 16 or IAS 38. Instead, it appears that a right-of-use asset is a new category of asset in the scope of IFRS 16 itself.

This could have important consequences for assessing some of the impacts of the new standard. Companies won’t have the full picture until other accounting and regulatory bodies have responded. For example, the new accounting could prompt changes in the tax treatment of leases. A key question for the financial sector is how the prudential regulators will treat the new assets and liabilities for regulatory capital purposes.

BDO comment

It is important to note that while IFRS 16 references other standards for guidance on subsequent measurement (IAS 16 and IAS 40), it does not state or require that the underlying asset in the lease contract meets the definition of these standards (e.g. a right-of-use asset could be accounted for using the cost model in IAS 16 without meeting the definition of an item in the scope of IAS 16).

Right-of-use assets appear to be a distinct class of assets, however, they often exhibit similar characteristics to assets within the scope of other IFRSs.
#5 – FOCUS ON MEASUREMENT

- **Measure at Expected Value** – **Tip! Link back to Chapter 3 in Kieso**

- **Critical Estimate and Judgements** – What payments are you **reasonably certain** to make? Which are **economically avoidable**?

- **Include** fixed payments, variable payments (function of index or rate) expected to be paid under residual value guarantees/purchase options/penalties

- **Need to Continually Remeasure**

- **GRV** – No longer looking at full amount = amount expected to be paid

- **Payments contingent upon output or sales** – not included in lease liability

Wiecek CAAA June 2017
VARIABLE PAYMENTS

Example 12 – Variable payments not depending on an index or rate

Company X leases a store. The lease payments for the store amount to 1% of the store’s revenues. There is no minimum rental payment.

Example 13 – Variable payments depending on an index

Company Y rents an office building. The initial annual rental payment is 2,500,000. The rent will be reviewed every year and increased by the change in the consumer price index (CPI).
VARIABLE PAYMENTS

Measure lease at 0

Adjust lease liability each year for changes

Example 12 – Variable payments not depending on an index or rate

Company X leases a store. The lease payments for the store amount to 1% of the store’s revenues. There is no minimum rental payment.

Because the lease contains only variable lease payments that do not depend on an index or rate, X measures the lease liability at the commencement of the lease as zero.

Example 13 – Variable payments depending on an index

Company Y rents an office building. The initial annual rental payment is 2,500,000. The rent will be reviewed every year and increased by the change in the consumer price index (CPI).

This is an example of a variable lease payment that depends on an index. The initial measurement of the lease liability is based on the value of the CPI on lease commencement – i.e. Y assumes an annual rental of 2,500,000. If during the first year of the lease the CPI increases by 5%, then at the end of the first year the lease liability is recalculated assuming future annual rentals of 2,625,000 (i.e. 2,500,000 x 1.05).
Example 14 – Residual value guarantees

Lessee Z has entered into a lease contract with Lessor L to lease a car. The lease term is five years.

In addition, Z and L agree on a residual value guarantee – if the fair value of the car at the end of the lease term is below 400, then Z will pay to L an amount equal to the difference between 400 and the fair value of the car.

At inception of the lease, Z expects that the fair value of the car at the end of the lease term will be 400.
VARIABLE PAYMENTS

GRV measured at expected amount to be paid = $0

Example 14 – Residual value guarantees

Lessee Z has entered into a lease contract with Lessor L to lease a car. The lease term is five years.

In addition, Z and L agree on a residual value guarantee – if the fair value of the car at the end of the lease term is below 400, then Z will pay to L an amount equal to the difference between 400 and the fair value of the car.

At inception of the lease, Z expects that the fair value of the car at the end of the lease term will be 400.

Z therefore includes an amount of zero in the lease payments when calculating its lease liability.
#6 – IT’S ALL ABOUT THE METRICS

- THINK ANALYTICAL!
- VOLATILITY
  - NEW ESTIMATES AND JUDGEMENTS
METRICS

KPMG insight – EBITDA will increase

For most leases, expenses are presented as depreciation and interest expense – except for variable payments that are expensed as they are incurred. As a result, the lessee’s EBITDA will increase.

Summary of impact on key financial ratios

<table>
<thead>
<tr>
<th>Profit or loss</th>
<th>Balance sheet</th>
<th>Ratios</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA</td>
<td>Total assets</td>
<td>Gearing</td>
</tr>
<tr>
<td></td>
<td>Net assets</td>
<td></td>
</tr>
<tr>
<td>EPS (in early years)</td>
<td>Interest cover</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Asset turnover</td>
<td></td>
</tr>
</tbody>
</table>

Wiecek CAAA June 2017
9.3. ADJUSTED NET DEBT

The following table reflects Air Canada’s adjusted net debt balances as at December 31, 2014 and as at December 31, 2013.

<table>
<thead>
<tr>
<th>CANADIAN DOLLARS IN MILLIONS, EXCEPT WHERE INDICATED</th>
<th>DECEMBER 31, 2014</th>
<th>DECEMBER 31, 2013</th>
<th>$ CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total long-term debt and finance leases</td>
<td>$4,732</td>
<td>$3,959</td>
<td>$773</td>
</tr>
<tr>
<td>Current portion of long-term debt and finance leases</td>
<td>484</td>
<td>374</td>
<td>110</td>
</tr>
<tr>
<td>Total long-term debt and finance leases,</td>
<td>5,216</td>
<td>4,333</td>
<td>883</td>
</tr>
<tr>
<td>including current portion</td>
<td>(2,275)</td>
<td>(2,208)</td>
<td>(67)</td>
</tr>
<tr>
<td>Less cash, cash equivalents and short-term investments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NET DEBT</td>
<td>$2,941</td>
<td>$2,125</td>
<td>$816</td>
</tr>
<tr>
<td>Capitalized operating leases</td>
<td>2,191</td>
<td>2,226</td>
<td>(35)</td>
</tr>
<tr>
<td>ADJUSTED NET DEBT</td>
<td>$5,132</td>
<td>$4,351</td>
<td>$781</td>
</tr>
<tr>
<td>EBITDA (EXCLUDING THE IMPACT OF BENEFIT PLAN AMENDMENTS) (TRAILING 12 MONTHS)</td>
<td>$1,671</td>
<td>$1,433</td>
<td>$238</td>
</tr>
<tr>
<td>ADJUSTED NET DEBT TO EBITDA RATIO</td>
<td>3.1</td>
<td>3.0</td>
<td>$0.1</td>
</tr>
</tbody>
</table>

1 Adjusted net debt is a non-GAAP financial measure used by Air Canada and may not be comparable to measures presented by other public companies. Adjusted net debt is a key component of the capital managed by Air Canada and provides management with a measure of its net indebtedness. Air Canada includes capitalized operating leases which is a measure commonly used in the industry to describe a value to obligations under operating leases. Common industry practice is to multiply these capitalized operating leases by 7. This definition of capitalized operating leases is used by Air Canada and may not be comparable to similar measures presented by other public companies. Aircraft rent was $13.1 million for the 12 months ended December 31, 2014 and $13.8 million for the 12 months ended December 31, 2013.
#7 - WHAT HAS STAYED THE SAME?

- LESSOR ACCOUNTING (3065, IAS 17 AND IFRS 16 ESSENTIALLY THE SAME) – YAY 😊
- SERVICE LEASES – STILL OFF BALANCE SHEET!!!
#8 – THE ECONOMICS ARE STILL THE ECONOMICS

• ANCHOR IN THE ECONOMICS AND CONTRACT - MUST UNDERSTAND FIRST

• ASK STUDENTS TO BREAK INTO GROUPS AND WRITE A LEASE CONTRACT – GIVE THEM SOME ROLES TO PLAY – MAYBE DIFFERENT ROLES FOR DIFFERENT GROUPS

• ASK THEM TO THINK ABOUT WHAT THE WANT IN THEIR ROLES AND WHAT THEY ARE WORRIED ABOUT – WHAT ARE THEY GOING TO DO ABOUT IT? WHAT TERMS DO THEY WANT IN THE CONTRACT? ARE THEY WILLING TO PAY FOR THESE ADDITIONAL THINGS? HOW DO THEY PROTECT THEMSELVES AGAINST THE RISKS?
#9 ANCHORING IN BASICS - INTEGRATION

- IFRS 16 INTEGRATES BY LINKING INTO OTHER STANDARDS SUCH AS IFRS 15, IAS 16, 36, 38, 40 AND OTHER

- TIP! BUILD ON THE OTHER SECTIONS/REINFORCE THE BASICS FROM BOTH PERSPECTIVES/REMIND THEM WHAT YOU COVERED IN THOSE OTHER CLASSES AND HOW IT FITS IN HERE E.G. DEPRECIATION
#10 – ANOTHER BIGGIE - SALE-LEASEBACK

- A SELLS BUILDING TO B FOR FV $1,800,000 (CV $1,000,000) – POTENTIAL GAIN $800,000
- A LEASES THE BUILDING BACK FOR 18 YEARS (ANNUAL PAYMENTS $103,553 DUE AT THE END OF EACH YEAR – PV $1,259,200 (REPRESENTS 70% OF THE ASSET)
- IR/IBR – 4.5%
- LIFE OF BUILDING 50 YEARS
SALE-LEASEBACK 1FRS 16

LESSEE – SALE UNDER IFRS 15 AND RIGHT OF USE ASSETS UNDER IFRS 16

DR. CASH $1,800,000

DR. ROU ASSET 699,555

CR. BUILDING 1,000,000

CR. LEASE LIABILITY/FL 1,259,200

CR. GAIN 240,355

LESSOR WOULD RECORD THE ASSET AND A CREDIT TO CASH FOR $1,800,000. IT WOULD BE AN OPERATING LEASE.
THAT’S ALL FOR LEASES!
#1 - THE BIGGIE!

- APPLIES TO ALL CONTRACTS WITH CUSTOMERS
- VERY DETAILED – AND YOU KNOW WHAT THEY SAY ABOUT DETAILS………..
- REPLACES A SIGNIFICANT OF LITERATURE UNDER US GAAP
- REPLACES IAS 11 AND 18 (ALL COVERED UNDER ONE)
- INTRODUCES A 5 STEP MODEL – EASY FOR STUDENTS (AND ALL OF US)
- TIP! IASB HAS 63 ILLUSTRATIVE EXAMPLES!
#2 – JUST WHAT IS A CONTRACT WITH CUSTOMERS?

• A CONTRACT IS AN AGREEMENT BETWEEN TWO OR MORE PARTIES THAT CREATES ENFORCEABLE RIGHTS OR OBLIGATIONS (IFRS 15.9)

• CAN BE WRITTEN, ORAL OR IMPLIED

---

<table>
<thead>
<tr>
<th>Apply IFRS 15 to Contract If:</th>
<th>Disregard IFRS 15 If:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The contract has commercial substance.</td>
<td>• The contract is wholly unperformed, and</td>
</tr>
<tr>
<td>• The parties to the contract have approved the contract and are committed to perform their respective obligations.</td>
<td>• Each party can unilaterally terminate the contract without compensation.</td>
</tr>
<tr>
<td>• The company can identify each party's rights regarding the goods or services to be transferred.</td>
<td></td>
</tr>
<tr>
<td>• The company can identify the payment terms for the goods and services to be transferred.</td>
<td></td>
</tr>
<tr>
<td>• It is probable that the company will collect the consideration to which it will be entitled.</td>
<td></td>
</tr>
</tbody>
</table>
COLLECTIBILITY

- CONSIDER ONLY CUSTOMER ABILITY/INTENT TO PAY
- AMOUNT OF CONSIDERATION MAY BE LESS THAN STATED PRICE IF ENTITY GRANTS PRICE CONCESSIONS
IS IT A CONTRACT?

Example 1—Collectability of the consideration

IE3  An entity, a real estate developer, enters into a contract with a customer for the
sale of a building for C11 million. The customer intends to open a restaurant in
the building. The building is located in an area where new restaurants face high
levels of competition and the customer has little experience in the restaurant
industry.

IE4  The customer pays a non-refundable deposit of C50,000 at inception of the
contract and enters into a long-term financing agreement with the entity for the
remaining 95 per cent of the promised consideration. The financing
arrangement is provided on a non-recourse basis, which means that if the
customer defaults, the entity can repossess the building, but cannot seek further
compensation from the customer, even if the collateral does not cover the full
value of the amount owed. The entity’s cost of the building is C600,000. The
customer obtains control of the building at contract inception.

IASB IE1 — note that all examples that follow are from the IFRS IE
Example 1—Collectability of the consideration

IE3 An entity, a real estate developer, enters into a contract with a customer for the sale of a building for CU1 million. The customer intends to open a restaurant in the building. The building is located in an area where new restaurants face high levels of competition and the customer has little experience in the restaurant industry.

IE4 The customer pays a non-refundable deposit of CU50,000 at inception of the contract and enters into a long-term financing agreement with the entity for the remaining 95 per cent of the promised consideration. The financing arrangement is provided on a non-recourse basis, which means that if the customer defaults, the entity can repossess the building, but cannot seek further compensation from the customer, even if the collateral does not cover the full value of the amount owed. The entity’s cost of the building is CU600,000. The customer obtains control of the building at contract inception.

IE5 In assessing whether the contract meets the criteria in paragraph 9 of IFRS 15, the entity concludes that the criterion in paragraph 9(e) of IFRS 15 is not met because it is not probable that the entity will collect the consideration to which it is entitled in exchange for the transfer of the building. In reaching this conclusion, the entity observes that the customer’s ability and intention to pay may be in doubt because of the following factors:

(a) the customer intends to repay the loan (which has a significant balance) primarily from income derived from its restaurant business (which is a business facing significant risks because of high competition in the industry and the customer’s limited experience);

(b) the customer lacks other income or assets that could be used to repay the loan; and

(c) the customer’s liability under the loan is limited because the loan is non-recourse.

Not a contract under IFRS 15
Example 2—Consideration is not the stated price—implicit price concession

IE7
An entity sells 1,000 units of a prescription drug to a customer for promised consideration of C$1 million. This is the entity’s first sale to a customer in a new region, which is experiencing significant economic difficulty. Thus, the entity expects that it will not be able to collect from the customer the full amount of the promised consideration. Despite the possibility of not collecting the full amount, the entity expects the region’s economy to recover over the next two to three years and determines that a relationship with the customer could help it to forge relationships with other potential customers in the region.
IS IT A CONTRACT?

Example 2—Consideration is not the stated price—implicit price concession

IE7
An entity sells 1,000 units of a prescription drug to a customer for promised consideration of CUC1 million. This is the entity’s first sale to a customer in a new region, which is experiencing significant economic difficulty. Thus, the entity expects that it will not be able to collect from the customer the full amount of the promised consideration. Despite the possibility of not collecting the full amount, the entity expects the region’s economy to recover over the next two to three years and determines that a relationship with the customer could help it to forge relationships with other potential customers in the region.

IE8
When assessing whether the criterion in paragraph 9(e) of IFRS 15 is met, the entity also considers paragraphs 47 and 52(b) of IFRS 15. Based on the assessment of the facts and circumstances, the entity determines that it expects to provide a price concession and accept a lower amount of consideration from the customer. Accordingly, the entity concludes that the transaction price is not CUC1 million and, therefore, the promised consideration is variable. The entity estimates the variable consideration and determines that it expects to be entitled to CUC400,000.

IE9
The entity considers the customer’s ability and intention to pay the consideration and concludes that even though the region is experiencing economic difficulty, it is probable that it will collect CUC400,000 from the customer. Consequently, the entity concludes that the criterion in paragraph 9(e) of IFRS 15 is met based on an estimate of variable consideration of CUC400,000. In addition, on the basis of an evaluation of the contract terms and other facts and circumstances, the entity concludes that the other criteria in paragraph 9 of IFRS 15 are also met. Consequently, the entity accounts for the contract with the customer in accordance with the requirements in IFRS 15.
IF IT IS NOT A CUSTOMER CONTRACT UNDER IFRS 15

• WHEN CONSIDERATION RECEIVED – DEFER REVENUE UNTIL:
  • NO REMAINING OBLIGATIONS AND SUBSTANTIALLY ALL CONSIDERATION RECEIVED OR
  • CONTRACT TERMINATED AND CONSIDERATION NON-REFUNDABLE

• PERHAPS IT IS A TRIAL SHIPMENT? TIP! DISCUSSED AT IFRS DISCUSSION GROUP
Tip! Embrace the 5 step framework

Step 1: Identify the contract with customers.

A contract is an agreement between two parties that creates enforceable rights or obligations. In this case, Boeing has signed a contract to deliver airplanes to WestJet.

Step 2: Identify the separate performance obligations in the contract.

Boeing has only one performance obligation: to deliver airplanes to WestJet. If Boeing also agreed to maintain the planes, a separate performance obligation is recorded for this promise.

Step 3: Determine the transaction price.

Transaction price is the amount of consideration that a company expects to receive from a customer in exchange for transferring a good or service. In this case, the transaction price is straightforward—it is $100 million.
FIVE-STEP PROCESS

Step 4: Allocate the transaction price to the separate performance obligations.

In this case, Boeing has only one performance obligation: to deliver airplanes to WestJet.

Step 5: Recognize revenue when each performance obligation is satisfied.

Boeing recognizes revenue of $100 million for the sale of airplanes to WestJet when it satisfies its performance obligation: the delivery of the airplanes to WestJet.
#3 – WATCH YOUR LANGUAGE

• **NOT EARNED** – RATHER WHETHER **PERFORMANCE OBLIGATION IS SATISFIED**
  
  • **PERFORMANCE OBLIGATION IS A GOOD/SERVICE (OR BUNDLE) THAT IS DISTINCT OR A SERIES OF DISTINCT GOODS/SERVICES THAT ARE SUBSTANTIALLY THE SAME AND SAME PATTERN OF TRANSFER**

• **DISTINCT GOODS AND SERVICES**
  
  • **CUSTOMER CAN BENEFIT (CAN USE, CONSUME, SELL OR USE IN A WAY THAT IT GENERATES BENEFITS) AND**
  
  • **PROMISE IS SEPARATELY IDENTIFIABLE FROM OTHER PROMISES**
    
    • **NOT SEPARATELY IDENTIFIABLE IF**
      
      • ENTITY PROVIDES A SERVICE TO INTEGRATE WITH OTHER SERVICES
      
      • ONE OR MORE OF THE SERVICES SIGNIFICANTLY MODIFIES THE GOODS/SERVICES
      
      • GOODS/SERVICES HIGHLY INTERDEPENDENT OR INTERRELATED

• **IF NOT DISTINCT – COMBINE WITH OTHER GOODS/SERVICES**

• **NOT ONLY ABOUT RISKS AND REWARDS PASSING** BUT WHETHER **CONTROL HAS PASSED**
Example 11—Determining whether goods or services are distinct

Case A—Distinct goods or services

An entity, a software developer, enters into a contract with a customer to transfer a software licence, perform an installation service and provide unspecified software updates and technical support (online and telephone) for a two-year period. The entity sells the licence, installation service and technical support separately. The installation service includes changing the web screen for each type of user (for example, marketing, inventory management and information technology). The installation service is routinely performed by other entities and does not significantly modify the software. The software remains functional without the updates and the technical support.
Example 11—Determining whether goods or services are distinct

Case A—Distinct goods or services

An entity, a software developer, enters into a contract with a customer to transfer a software licence, perform an installation service and provide unspecified software updates and technical support (online and telephone) for a two-year period. The entity sells the licence, installation service and technical support separately. The installation service includes changing the web screen for each type of user (for example, marketing, inventory management and information technology). The installation service is routinely performed by other entities and does not significantly modify the software. The software remains functional without the updates and the technical support.

The entity assesses the goods and services promised to the customer to determine which goods and services are distinct in accordance with paragraph 27 of IFRS 15. The entity observes that the software is delivered before the other goods and services and remains functional without the updates and the technical support. Thus, the entity concludes that the customer can benefit from each of the goods and services either on their own or together with the other goods and services that are readily available and the criterion in paragraph 27(a) of IFRS 15 is met.

The entity also considers the factors in paragraph 29 of IFRS 15 and determines that the promise to transfer each good and service to the customer is separately identifiable from each of the other promises (thus the criterion in paragraph 27(b) of IFRS 15 is met). In particular, the entity observes that the installation service does not significantly modify or customise the software itself and, as such, the software and the installation service are separate outputs promised by the entity instead of inputs used to produce a combined output.

Yes – each is distinct!
#4 – THOSE LONG-TERM/CONSTRUCTION CONTRACTS

• THIS IS A BIGGIE – REALLY DIFFERENT WAY OF THINKING ABOUT IT

• BUT FIRST……
  • HOW DO WE ACCOUNT FOR LONG-TERM/CONSTRUCTION CONTRACTS NOW?
#4 – THOSE LONG-TERM/CONSTRUCTION CONTRACTS

- UNDER IFRS 15……
- RECOGNIZE REVENUE OVER TIME OR POINT IN TIME
- RECOGNIZE OVER TIME ONLY IF:
  - CUSTOMER SIMULTANEOUSLY RECEIVES AND CONSUMES BENEFIT
  - PERFORMANCE CREATES OR ENHANCES AN ASSET CONTROLLED BY THE CUSTOMER
  - PERFORMANCE CREATES AN ASSET WITH NO ALTERNATIVE USE TO THE ENTITY AND ENTITY HAS ENFORCEABLE RIGHT TO PAYMENT
- CAN STILL USE PERCENTAGE OF COMPLETION
- DEFAULT TO ZERO COST METHOD IF CANNOT MEASURE
RECOGNIZE OVER TIME?

Example 13—Customer simultaneously receives and consumes the benefits

An entity enters into a contract to provide monthly payroll processing services to a customer for one year.
Yes — over time
RECOGNIZE OVER TIME?

Example 15—Asset has no alternative use to the entity

IE73  An entity enters into a contract with a customer, a government agency, to build a specialised satellite. The entity builds satellites for various customers, such as governments and commercial entities. The design and construction of each satellite differ substantially, on the basis of each customer’s needs and the type of technology that is incorporated into the satellite.

IE74  At contract inception, the entity assesses whether its performance obligation to build the satellite is a performance obligation satisfied over time in accordance with paragraph 35 of IFRS 15.
RECOGNIZE OVER TIME?

Yes — over time!

Example 15—Asset has no alternative use to the entity

IE73 An entity enters into a contract with a customer, a government agency, to build a specialised satellite. The entity builds satellites for various customers, such as governments and commercial entities. The design and construction of each satellite differ substantially, on the basis of each customer’s needs and the type of technology that is incorporated into the satellite.

IE74 At contract inception, the entity assesses whether its performance obligation to build the satellite is a performance obligation satisfied over time in accordance with paragraph 35 of IFRS 15.

IE75 As part of that assessment, the entity considers whether the satellite in its completed state will have an alternative use to the entity. Although the contract does not preclude the entity from directing the completed satellite to another customer, the entity would incur significant costs to rework the design and function of the satellite to direct that asset to another customer. Consequently, the asset has no alternative use to the entity (see paragraphs 35(c), 36 and B6–B8 of IFRS 15) because the customer-specific design of the satellite limits the entity’s practical ability to readily direct the satellite to another customer.

IE76 For the entity’s performance obligation to be satisfied over time when building the satellite, paragraph 35(c) of IFRS 15 also requires the entity to have an enforceable right to payment for performance completed to date. This condition is not illustrated in this example.
#5 – MEASUREMENT – ANOTHER BIGGIE!

• TRANSACTION PRICE = AMOUNT OF CONSIDERATION ENTITY EXPECTS TO RECEIVE (SIMILAR TO LEASES)

• CONSIDER
  • VARIABLE CONSIDERATION (INCLUDING ANY CONSTRAINTS) – DISCOUNTS, REBATES, REFUNDS, PRICE CONCESSIONS, INCENTIVES, PERFORMANCE BONUSES, PENALTIES
    • USE EXPECTED VALUE OR MOST LIKELY AMOUNT – LOOK BACK TO CHAPTER 3 IN KIESO
    • REFUND LIABILITY WHERE RETURNS
  • SIGNIFICANT FINANCE COMPONENTS – IGNORE IF LESS THAN 1 YEAR – PRACTICAL EXPEDIENT
  • NON-CASH CONSIDERATION – FAIR VALUE
  • CONSIDERATION PAYABLE TO CUSTOMERS

• MUST ALLOCATE TO PERFORMANCE OBLIGATIONS BASED ON STANDALONE SELLING PRICE
  • GENERALLY ALLOCATE DISCOUNTS PROPORTIONATELY
#6 – ACCOUNTS RECEIVABLE OR CONTRACT ASSET/LIABILITY?

Example 38—Contract liability and receivable

**Case A—Cancellable contract**

IE198 On 1 January 20X9, an entity enters into a cancellable contract to transfer a product to a customer on 31 March 20X9. The contract requires the customer to pay consideration of CU1,000 in advance on 31 January 20X9. The customer pays the consideration on 1 March 20X9. The entity transfers the product on 31 March 20X9. The following journal entries illustrate how the entity accounts for the contract:

(a) The entity receives cash of CU1,000 on 1 March 20X9 (cash is received in advance of performance):

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>CU1,000</td>
</tr>
<tr>
<td>Contract liability</td>
<td></td>
</tr>
<tr>
<td>CU1,000</td>
<td></td>
</tr>
</tbody>
</table>

(b) The entity satisfies the performance obligation on 31 March 20X9:

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract liability</td>
<td>CU1,000</td>
</tr>
<tr>
<td>Revenue</td>
<td></td>
</tr>
<tr>
<td>CU1,000</td>
<td></td>
</tr>
</tbody>
</table>
ACCOUNTS RECEIVABLE OR CONTRACT ASSET/LIABILITY?

Case B—Non-cancellable contract

IE199 The same facts as in Case A apply to Case B except that the contract is non-cancellable. The following journal entries illustrate how the entity accounts for the contract:

(a) The amount of consideration is due on 31 January 20X9 (which is when the entity recognises a receivable because it has an unconditional right to consideration):

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivable</td>
<td>CU1,000</td>
</tr>
<tr>
<td>Contract liability</td>
<td>CU1,000</td>
</tr>
</tbody>
</table>

(b) The entity receives the cash on 1 March 20X9:

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>CU1,000</td>
</tr>
<tr>
<td>Receivable</td>
<td>CU1,000</td>
</tr>
</tbody>
</table>

(c) The entity satisfies the performance obligation on 31 March 20X9:

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract liability</td>
<td>CU1,000</td>
</tr>
<tr>
<td>Revenue</td>
<td>CU1,000</td>
</tr>
</tbody>
</table>
#7 – IS ANYTHING THE SAME????

- THE 5 STEP APPROACH IS NOT SO DIFFERENT AT 30,000 FEET 😊
- TIP! CAN TUCK YOUR ASPE TEACHING MATERIAL INTO THE 5 STEP APPROACH AT A HIGH LEVEL (NOTING OF COURSE THAT ASPE HAS VERY LITTLE GUIDANCE)
- CAN STILL USE PERCENTAGE OF COMPLETION AND ZERO PROFIT METHOD FOR LONG TERM CONTRACTS
- BUNDLED SALES GUIDANCE SIMILAR
#8 – THE ECONOMICS ARE THE SAME!

- WHAT IS BEING SOLD?
- THINK ABOUT FACEBOOK – WHAT ARE THEY SELLING? WHAT ARE THEIR ASSETS
- TIP! HAVE STUDENTS SORT THROUGH THE ECONOMICS AND MAKE SENSE OF THE INCOME STATEMENT AND DISCLOSURES

Item 1. Business
Overview

Our mission is to give people the power to share and make the world more open and connected.

Our top priority is to build useful and engaging products that enable people to connect and share through mobile devices, personal computers, and other surfaces. We also help people discover and learn about what is going on in the world around them, enable people to share their opinions, ideas, photos and videos, and other activities with audiences ranging from their closest friends to the public at large, and stay connected everywhere by accessing our products, including:

- **Facebook.** Facebook enables people to connect, share, discover, and communicate with each other on mobile devices and personal computers. There are a number of different ways to engage with people on Facebook, the most important of which is News Feed which displays an algorithmically-ranked series of stories and advertisements individualized for each person.

- **Instagram.** Instagram enables people to take photos or videos, customize them with filter effects, and share them with friends and followers in a photo feed or send them directly to friends.

- **Messenger.** Messenger allows for a rich and expressive way to communicate with people and businesses alike across a variety of platforms and devices, which makes it easy to reach almost everyone seamlessly and securely.

- **WhatsApp.** WhatsApp Messenger is a fast, simple and reliable messaging application that is used by people around the world and is available on a variety of mobile platforms.

- **Oculus.** Our Oculus virtual reality technology and content platform power products that allow people to enter a completely immersive and interactive environment to play games, consume content, and connect with others.

We generate substantially all of our revenue from selling advertising placements to marketers. Our ads let marketers reach people based on a variety of factors including age, gender, location, interests, and behaviors. Marketers purchase ads that can appear in multiple places including on Facebook, Instagram, and third-party applications and websites.

We are also investing in a number of longer-term initiatives, such as connectivity efforts and artificial intelligence research, to develop technologies that we believe will help us better serve our communities and pursue our mission to make the world more open and connected.
#8 – THE ECONOMICS ARE THE SAME

<table>
<thead>
<tr>
<th>Assets</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$8,903</td>
<td>$4,907</td>
</tr>
<tr>
<td>Marketable securities</td>
<td>20,546</td>
<td>13,527</td>
</tr>
<tr>
<td>Accounts receivable, net of allowances for doubtful accounts of $94 and $68 as of December 31, 2016 and December 31, 2015, respectively</td>
<td>3,993</td>
<td>2,559</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>959</td>
<td>659</td>
</tr>
<tr>
<td>Total current assets</td>
<td>34,401</td>
<td>21,652</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>8,591</td>
<td>5,687</td>
</tr>
<tr>
<td>Intangible assets, net</td>
<td>2,535</td>
<td>3,246</td>
</tr>
<tr>
<td>Goodwill</td>
<td>18,122</td>
<td>18,026</td>
</tr>
<tr>
<td>Other assets</td>
<td>1,312</td>
<td>796</td>
</tr>
<tr>
<td>Total assets</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Revenue</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs and expenses:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of revenue</td>
<td>3,789</td>
<td>2,867</td>
<td>2,153</td>
</tr>
<tr>
<td>Research and development</td>
<td>5,919</td>
<td>4,816</td>
<td>2,666</td>
</tr>
<tr>
<td>Marketing and sales</td>
<td>3,772</td>
<td>2,725</td>
<td>1,680</td>
</tr>
<tr>
<td>General and administrative</td>
<td>1,731</td>
<td>1,295</td>
<td>973</td>
</tr>
<tr>
<td><strong>Total costs and expenses</strong></td>
<td>15,211</td>
<td>11,703</td>
<td>7,472</td>
</tr>
<tr>
<td>Income from operations</td>
<td>12,427</td>
<td>6,225</td>
<td>4,994</td>
</tr>
<tr>
<td>Interest and other income/(expense), net</td>
<td>(91)</td>
<td>(31)</td>
<td>(84)</td>
</tr>
<tr>
<td>Income before provision for income taxes</td>
<td>12,518</td>
<td>6,193</td>
<td>4,910</td>
</tr>
<tr>
<td>Provision for income taxes</td>
<td>2,301</td>
<td>2,506</td>
<td>1,970</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>$10,217</td>
<td>$3,688</td>
<td>$2,940</td>
</tr>
<tr>
<td>Less: Net income attributable to participating securities</td>
<td>29</td>
<td>19</td>
<td>15</td>
</tr>
<tr>
<td><strong>Net income attributable to Class A and Class B common stockholders</strong></td>
<td>$10,188</td>
<td>$3,669</td>
<td>$2,925</td>
</tr>
</tbody>
</table>
#9 – OTHER GOOD STUFF!

- CUSTOMER LOYALTY POINTS – PERFORMANCE OBLIGATIONS
- WARRANTIES – ASSURANCE VERSUS INSURANCE/ONGOING SERVICE
- BILL AND HOLD
- LICENSES
- FRANCHISE
• WE COULD GO ON 😊.........
THE END!! THANKS!!!!