NOTE B. ACCOUNTING CHANGES

New Standards to be Implemented

Simplifying the Accounting for Income Taxes

Standard/Description—Issuance date: December 2019. This guidance simplifies various aspects of income tax accounting by removing certain exceptions to the general principle of the guidance and also clarifies and amends existing guidance to improve consistency in application.

Effective Date and Adoption Considerations—The guidance is effective January 1, 2021 and early adoption is permitted.

Effect on Financial Statements or Other Significant Matters—The company is evaluating the impact of the guidance and adoption date.

Simplifying the Test for Goodwill Impairment

Standard/Description—Issuance date: January 2017. This guidance simplifies the goodwill impairment test by removing Step 2. It also requires disclosure of any reporting units that have zero or negative carrying amounts if they have goodwill allocated to them.

Effective Date and Adoption Considerations—The guidance was effective January 1, 2020 and early adoption was permitted. The company adopted the guidance on a prospective basis as of the effective date.

Effect on Financial Statements or Other Significant Matters—The guidance is not expected to have a material impact in the consolidated financial results.

Financial Instruments—Credit Losses

Standard/Description—Issuance date: June 2016, with amendments in 2018 and 2019. This changes guidance for credit impairment based on an expected loss model rather than an incurred loss model. It requires the consideration of all available relevant information when estimating expected credit losses, including past events, current conditions and forecasts and their implications for expected credit losses. It also expands the scope of financial instruments subject to impairment, including off-balance sheet commitments and residual value.

Effective Date and Adoption Considerations—The guidance was effective January 1, 2020 with one-year early adoption permitted. The company adopted the guidance as of the effective date, using the transition option whereby prior comparative periods will not be retrospectively presented in the Consolidated Financial Statements.

Effect on Financial Statements or Other Significant Matters—The company has completed its changes to policy, processes, systems and controls. This included the assessment of data availability and presentation necessary to meet the disclosure requirements of the guidance beginning in the first quarter of 2020. At January 1, 2020, an increase in the allowance for credit losses of approximately $15 million and $35 million was recorded for accounts receivable—trade and financing receivables, respectively. The company also recorded an allowance for credit losses of approximately $30 million in other liabilities for its off-balance sheet commitments. Additionally, net deferred taxes were reduced by $15 million in the Consolidated Balance Sheet, resulting in a cumulative-effect net decrease to retained earnings of $65 million.

Standards Implemented

Disclosure Requirements Changes for Fair Value Measurements and Defined Benefit Plans

Standard/Description—Issuance date: August 2018. This guidance changes the disclosure requirements for fair value measurements and defined benefit plans.

Effective Date and Adoption Considerations—The guidance is effective for each of the topics on January 1, 2020 and December 31, 2020, respectively, with early adoption of certain provisions permitted. The company adopted the provision in the fair value guidance that removed the Level 1/Level 2 transfer disclosures in the third quarter of 2018 and the remaining provisions of the guidance are not applicable. The company adopted changes to the disclosure requirements for defined benefit plans in the fourth quarter of 2019.

Effect on Financial Statements or Other Significant Matters—As the guidance is a change to disclosures only, it did not have a material impact in the consolidated financial results.

Leases

Standard/Description—Issuance date: February 2016, with amendments in 2018 and 2019. This guidance requires lessees to recognize ROU assets and lease liabilities for most leases in the Consolidated Balance Sheet. For lessors, it also eliminates the use of third-party residual value guarantee (RVG) insurance in the lease classification test, and overall aligns with revenue recognition guidance. Due to changes in lease termination guidance, when equipment is returned to the company prior to the end of the lease term, the carrying amounts of lease receivables will be reclassified to loan receivables. The guidance also requires qualitative and quantitative disclosures to assess the amount, timing and uncertainty of cash flows arising from leases.

Effective Date and Adoption Considerations—The company adopted the guidance on its effective date of January 1, 2019, using the transition option whereby prior comparative periods were not retrospectively presented in the Consolidated Financial Statements. The company elected the package of practical expedients not to reassess prior conclusions related to contracts containing leases, lease classification and initial direct costs and the lessee practical expedient to combine lease and non-lease components for all asset classes. The company made a policy election to not recognize ROU assets and lease liabilities for short-term leases for all asset classes.

Effect on Financial Statements or Other Significant Matters—The guidance had a material impact on the Consolidated Balance Sheet as of the effective date. As a lessee, at adoption, the company recognized operating and financing ROU assets of $4.8 billion and $0.2 billion, respectively, and operating and financing lease liabilities of $5.1 billion and $0.2 billion, respectively. The transition adjustment recognized in retained earnings on January 1, 2019 was not material. The removal of third-party RVG insurance in the lease classification test did not have a material impact in the consolidated financial results. At December 31, 2019, lease receivables of $386 million were reclassified to loan receivables. Refer to note M, “Leases,” for additional information, including further discussion on the impact of adoption.