FASB Update
PCC Update

Polling Question

Question: What are you primarily focused on?

Possible Choices:

a) Public companies
b) Private companies
c) Not-for-profit
d) N/A

Current FASB Technical Agenda

FASB FINANCIAL ACCOUNTING STANDARDS BOARD
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Technical Agenda Overview

Revised October 16, 2024

RECOGNITION & MEASUREMENT PROJECTS	Next Milestone	Expected Date
Accounting for and Disclosure of Software Costs	Exposure Draft	4Q 2024
Accounting for Environmental Credit Programs	Exposure Draft	4Q 2024
Accounting for Government Grants	Exposure Draft	4Q 2024
Codification Improvements (Evergreen)	Exposure Draft	4Q 2024
Determining the Acquirer in the Acquisition of a VIE	Exposure Draft	4Q 2024
Financial Instruments—Credit Losses (Topic 326)—Purchased Financial Assets	Board redeliberations	Ongoing
Induced Conversions of Convertible Debt Instruments	Final ASU	4Q 2024
Share-Based Consideration Payable to a Customer	Exposure Draft	Comments Due November 14, 2024
Topic 815—Derivatives Scope Refinements	Exposure Draft	Comments Due October 21, 2024
Topic 815—Hedge Accounting Improvements	Exposure Draft	Comments Due November 25, 2024

PRESENTATION & DISCLOSURE PROJECTS	Next Milestone	Expected Date
Disaggregation—Income Statement Expenses	Final ASU	4Q 2024
Interim Reporting—Narrow-Scope Improvements	Exposure Draft	4Q 2024
Statement of Cash Flows Targeted Improvements	Board deliberations	Ongoing

RESEARCH PROJECTS
Accounting for and Disclosure of Intangibles
Accounting for Commodities
Accounting for Derivatives
Agenda Consultation
Consolidation for Business Entities
Financial Key Performance Indicators for Business Entities
Statement of Cash Flows

Accounting for Government Grants

FRAZIER&DEETER

What is being done today?

PPP Loans, Employee Retention Credit (ERC), Incentive to build a factory, etc.

Possible Grant Models for Business Entities

IAS 20	958-605	450-30
Reasonably Assured	Substantially Met	When contingency is resolved
Can be gross or netted	Cannot be netted!	Probably can be netted

FASB – Proposal

Scope

- Applies to all ***Business Entities***
- Applies to monetary and nonmonetary tangible assets from a government (including forgivable loans)
- Exclude transactions under the scope of:
  - Topic 606 (Revenue Recognition),
  - Subtopic 610-20 (Derecognition of nonfinancial assets)
  - Topic 740 (Income Taxes)

FASB – Proposal – Main Provisions

Recognition and Measurement

- Refining IAS 20
- Recognize gov't grant when it is probable that
  - (1) Entity will comply with condition(s) to grant
  - (2) Grant will be received

FASB – Proposal – Main Provisions

Grants ***Related to Assets***	Should be recognized as part of the cost of the asset (i.e., ***cost-accumulation approach***)
Grants ***Related to Income***	Should be recognized in P/L in periods in which the entity incurs the grant-related cots
	Presented as Deferred Income on Balance Sheet
	Credit balance in the related P/L category.

FASB – Proposal – Disclosures

Existing Discloses under Topic 832	**Nature** of the transaction and related **accounting policy** used to account for the government assistance
	Line items on the **balance sheet and income statement that are affected** by the transactions
	Significant terms and conditions of the transactions *(e.g., duration, commitments, contingencies, provisions for recapture)*
	If disclosure is legally prohibited provide description of the general nature of the information omitted and the specific source of prohibition

FASB – Proposal – Disclosures

Changes to Topic 832

FV of tangible nonmonetary assets in the period in which the grant is recognized

Remove requirement to disclose balance sheet and income statement affected by the grant for assets under the cost-accumulation model

FASB – Proposal – Transition and Effective Date

Transition	Midstream transactions can be transitioned under either method:	(1)Prospectively
		(2) Retrospectively
Exposure Draft	Expected to be released in Q4 2024	
	90-day comment period	

Accounting for Software Costs

FRAZIER&DEETER

What is being done today?

ASC 730-10 (R&D)	Topic 340-40 (Contract Costs)	ASC 985-20 (Software to be Sold, Leased or Marketed)		**ASC 350-40 and 350-50** (Internally Developed Software & Websites)			
Software for R&D	Developing under a Revenue Contract	Expect to sell or license software	Hosting arrangement but customer can take possession	Solely for internal use	Website Development	Hosting arrangement	Implementation of cloud computing

Software to be Sold, Leased or Marketed

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Software to be Sold, Leased or Marketed

Technological Feasibility Established

Software Development → Capitalization Period → General Release

Software Development
- Costs expensed as incurred

Capitalization Period
- Costs Capitalized

General Release
- ***Amortization to cost of sales*** *over the greater of*
  - *St line and*
  - *Ratio of current revenues over total anticipated revenues)*

985-20-25-2 …Technological feasibility of a computer software product is established *when the entity has completed all planning, designing, coding, and testing activities that are necessary to establish that the product can be produced to meet its design specifications including functions, features, and technical performance requirements…*

Earlier of:
1) Comprehensive Detailed Plan w/ Testing of High Risk Area
2) Working Model confirmed by testing

Internally Developed Software

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Internally Developed Software

Preliminary Phase

- Costs expensed as incurred

- Figuring out what is needed
- Exploring and identifying alternatives
- Selecting an alternative

Application Development

- Costs Capitalized

- Design of alternative including software configuration and interfaces
- Coding
- Installation of hardware
- Testing

Postimplementation / Operation

- Costs expensed
- ***Amortization of Asset begins when ready for its intended use***

- Training
- Maintenance

Internally Developed Software - What is required to be capitalized?

350-40-30-1

- External fees paid to develop software
- External costs incurred to obtain software
- Employee travel expense directly related to developing software
- Employee payroll costs (direct wages, benefits) directly related to development and testing
  - *Not in standard but should also include share-based comp to employees directly related to development and testing*
- Interest Costs (835-20)

Internally Developed Software - What is expensed?

Expensed Costs
- Training costs (always expensed)
- Data conversion costs unless its costs to develop or obtain software to convert
- G&A costs and overhead costs

 |

Internally Developed Software – Post-Implementation / Upgrades and Enhancements

Ready for its intended use

- Operating — Continued training and routine maintenance is expensed as incurred
- Upgrades and Enhancements — Capitalize if probable that expenditures will result in new or additional functionality

Internally Developed Software – Cloud Computing

Preliminary Phase	Application Development	Postimplementation / Operation
• Costs expensed as incurred	• Costs Capitalized	• Costs expensed • ***Amortization of Asset begins when ready for its intended use***
- Planning Activities	- Configuration and customization - *Training fees are expensed*	- Training - Maintenance

Actual cloud-computing fees (e.g., Online ERP fees, AWS, MS Azure etc.) are expensed as incurred NOT capitalized

Internally Developed Software – Cloud Computing

When to start amortization

- When each module/component is ready for its intended use
- Consider dependencies

Term of amortization (essentially 842 lease term)

- Noncancelable Term AND:
  - Renewal options reasonably certain of being exercised
    - Includes cancellation options that are equivalent to renewal options
  - Renewal options under control of the vendor

Presentation of amortization

- Expense to the same line item reflecting cloud computing fees
  - *Cannot be included with other amortization and depreciation expense*

Proposal

No longer pursuing a single model for all software costs. Only focus on Subtopic 350-40 (Internal)

Remove Stages to Development

- No distinction between linear and nonlinear development methods

Recognition threshold:

- Include **probable** to complete recognition threshold and include significant development uncertainties and performance requirements as factors
- Factors that may indicate that there is significant development uncertainty, as follows:
  - a) Software being developed has novel, unique, unproven functions and features or technological innovations (instead of referring broadly to unresolved high-risk development issues).
  - b) The significant performance requirements have not been selected or the significant performance requirements continue to be revised

ED in Q4 of 2024

Disaggregation – Income Statement Expenses (DISE)

FRAZIER&DEETER

Slice and "DISE" the Income Statement

Presentation & Disclosure	Next Milestone	Expected Date
Disaggregation—Income Statement Expenses	Final ASU	4Q 2024

Entities Subject to Disaggregation Requirements

The Board decided that the disaggregation requirements would apply only to public business entities. **[Vote 4-3]**

The Board affirmed its proposal that the disclosures should apply only to public business entities. **[Vote 7-0]**

Slice and "DISE" the Income Statement

Step 1 - Disclose if P/L includes any of the following:

- ~~Inventory and manufacturing expense~~
- Employee compensation
- Depreciation
- Amortization
- DD&A
- Other (Including Definition)

Entity XYZ
Consolidated Statement of Operations
For the Years Ended December 31, 20X3, 20X2, and 20X1

	20X3	20X2	20X1
Revenues:			
Products	$ 82,144	$ 79,137	$ 75,180
Services	26,132	23,146	21,989
Total revenues	108,276	102,283	97,169
Operating expenses:			
Cost of products sold	63,456	60,898	57,244
Cost of services	10,496	9,568	8,898
Selling, general, and administrative	20,849	18,871	18,116
Total operating expenses	94,801	89,337	84,258
Operating income	13,475	12,946	12,911
Interest expense	4,971	4,213	4,297
Income before income taxes	8,504	8,733	8,614
Income tax expense	1,786	1,834	1,809
Net income	$ 6,718	$ 6,899	$ 6,805

Slice and "DISE" the Income Statement

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Notes to the Financial Statements

Cost of products sold	
Purchases of inventory	$ 20,213
Employee compensation	17,578
Depreciation	10,190
Intangible asset amortization	3,914
Warranty expense	4,394
Other cost of products sold	7,552
Changes in inventories	157
Other adjustments and reconciling items	(542)
Total cost of products sold	$ 63,456

Slice and “DISE” the Income Statement

Entity XYZ
Consolidated Statement of Operations
For the Years Ended December 31, 20X3, 20X2, and 20X1

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Interest expense	4,971		
Income before income taxes	8,504		
Income tax expense	1,786		
Net income	$ 6,718	$ [illegible]	

Selling, general, and administrative	
Selling, general, and administrative	
Employee compensation	$ 13,242
Depreciation	1,454
PP&E impairment	412
Intangible asset amortization	523
Other SG&A [f]	5,218
Total selling, general, and administrative	$ 20,849

Slice and "DISE" the Income Statement – Other Key Decisions

Interim Reporting

The Board affirmed its decision to require all disclosures for interim reporting periods, except for the disclosure of an entity's definition of selling expenses. **[Vote 7-0]**

Transition

The Board affirmed its decision to require prospective application of the amendments with optional retrospective application. **[Vote 7-0]**

Effective Date and Early Adoption

The Board decided that the amendments will be effective for fiscal years beginning after December 15, 2026, and interim periods within fiscal years beginning after December 15, 2027. **[Vote 6-1]** The Board also decided to permit early adoption. **[Vote 7-0]**

Private Company Council Update

Keeping Up with the Private Company Council

Mike Cheng

The views expressed in this presentation are those of the presenter.
Official positions of the FASB are reached only after extensive due process and deliberations

PCC Highlights

Led by an independent Chair

(Jere Shawver—current PCC Chair)

Private company practitioners, users, and preparers

(9 to 12 members)

PCC meetings

4 times a year

Members appointed by the FAF Trustees; subject to FAF oversight

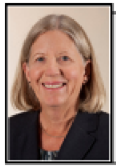
Other than the Chair, members are appointed for initial 3-year term; may be reappointed for an additional 3 years

The PCC was established by the Financial Accounting Foundation (FAF) in May 2012. The FAF is the oversight body of the FASB and the GASB.

FASB FINANCIAL ACCOUNTING STANDARDS BOARD

PCC Members

Preparers



Holly Nelson
Chief Executive Officer at Key Advisory Services

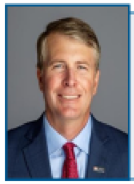
Doug Uhl
Director, Corporate Accounting Policy at Chick-fil-A, Inc. Corporate

Users

Brad Hendricks
Associate Professor at University of North Carolina at Chapel Hill, Kenan-Flagler Business School

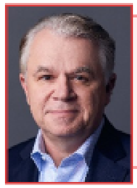
Robert Messer
Senior Executive Vice President, Chief Financial Officer-Chief Risk Officer at American National Bank of Texas

Dave Pesce
Head of Surety at Munich RE Specialty Insurance

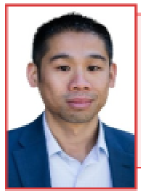


David Hoagland
Executive Credit Officer at U.S. Bank

Practitioners

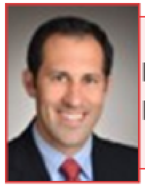


Jere Shawver
PCC Chair – effective January 1, 2024
Managing Partner—Assurance and Risk - Baker Tilly US

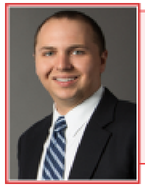


Michael Cheng
National Professional Practice Partner at Frazier & Deeter LLC

Katina Curtis
Audit Partner at Grant Thornton



David Finkelstein
Director with SingerLewak LLP



Adam Roark
Managing Director at FORVIS

Private Company Decision-Making Framework

Assists the PCC in determining whether and in what circumstances to provide alternative guidance for private companies reporting under U.S. GAAP.

Differential Factors Between Private and Public Companies

- Number of primary users and their access to management
- Investment strategies
- Ownership and capital structure
- Accounting resources
- Learning about new financial reporting

Areas in Which Guidance Might Differ Between Private and Public Companies

- Recognition & Measurement
- Display (Presentation)
- Disclosures
- Effective Date
- Transition Method

Principle: *Consider cost and complexity but <u>focus</u> on user relevance*

PCC Finalized Alternatives

Accounting Standards Update (ASU) No.	Description
2021-07	Compensation—Stock Compensation (Topic 718): Determining the Current Price of an Underlying Share for Equity-Classified Share-Based Awards
2014-18	Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination
2014-07	Consolidation (Topic 810): Applying the Variable Interest Entities Guidance to Common Control Leasing Arrangements
2014-03	Derivatives and Hedging (Topic 815): Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps—Simplified Hedge Accounting Approach
2014-02	Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill

The PCC has influenced many other standards. Examples:

- Scope application of profits interest and similar awards (ASU 2024-01)
- Leases: Common control arrangements (ASU 2023-01)
- Extended goodwill amortization alternative to not-for-profits (ASU 2019-06)
- Broader simplifications to hedge accounting (ASU 2017-12)
- Improvements to employee share-based compensation (ASU 2016-09) and improvements to nonemployee share-based payment accounting (ASU 2018-07)

PCC Agenda Priorities

December 2023

PCC discussed undertaking a more structured process to evaluate its agenda priorities, noting that the process could increase the PCC's efficiency and could benefit private company stakeholders.

Pre-April 2024 meeting

- PCC members completed a **survey**, providing initial priority rankings of **16** potential agenda issues.
- Issues were identified by PCC members, FASB members and staff, and private company stakeholders (ex. TIC, RMA).

April 2024

Using evaluation factors, the PCC ***preliminarily*** prioritized several top ***potential*** agenda issues.

Next Steps: Workplan to be prepared; PCC members to decide on agenda; research and outreach begin.

PCC Agenda Priorities

Evaluation Factors
Which issues are pervasive and are the issues pervasive to all entities or private companies only (that is, whether the issue is pervasive and to whom)?
Whether technically feasible solutions exist or could be developed
Whether there is an identifiable scope
Whether the FASB already has a research or technical agenda project
Which of the issues are reasonable from the Board's perspective (for example, are the issues supported by the Private Company Decision-Making Framework)?
The degree to which the issue has been raised, by whom, and with what frequency
Project plan and timeline to resolve the issue
Relative priority to the PCC and private company stakeholders (near term or longer term)

PCC Project—Credit Losses—Topic 606 Receivables

Background

- The PCC identified the application of certain principles of Topic 326, Financial Instruments—Credit Losses, as operationally burdensome to apply to current accounts receivable and contract assets resulting from transactions accounted for under Topic 606, Revenue from Contracts with Customers (referred to as Topic 606 receivables), while not being as relevant given the short-term nature of those receivables and, generally, a lack of a history of significant credit losses
- At its September 2024 meeting, the PCC added a project to its technical agenda. PCC members completed initial deliberations and made decisions, which were endorsed by the FASB on October 16, 2024.

Key Tentative Decisions

- **Scope:** Current accounts receivable and contract assets resulting from transactions accounted for under Topic 606, Revenue from Contracts with Customers, for private companies and not-for-profit entities excluding not-for-profit conduit bond obligors.
- **Practical Expedient:** An entity that elects the practical expedient would not be required to adjust historical loss information to reflect changes related to relevant economic data. Rather, an entity would assume that current economic conditions as of the balance sheet date will persist throughout the forecast period.
- **Accounting policy election (optional):** An entity that elects the practical expedient would also be permitted to make an accounting policy election to consider subsequent cash collection after the balance sheet date but before the date the financial statements are available to be issued.
- **Disclosure:** Disclose when the practical expedient or accounting policy election has been used.
- **Transition:** Prospective

Next Steps: An Exposure Draft is expected to be issued in November or December 2024.

PCC Project—Presentation of Contract Assets and Contract Liabilities for Construction Contractors

Project Background

- Users have indicated that netting contract assets against contract liabilities in accordance with the presentation requirements in Topic 606, Revenue from Contracts with Customers, does not provide decision useful information for private construction companies.
- At its September 2024 meeting, the PCC added a project on the issue to its technical agenda. PCC members completed initial deliberations and made decisions, which were endorsed by the FASB on October 16, 2024.

Key Tentative Decisions

- **Scope:** Private company construction companies within the scope of Subtopic 910-10, Contractors—Construction.
- **Private company alternative:** Present contract assets and contract liabilities on a gross basis on the statement of financial position. The presentation alternative would be applied at the entity level.
- **Disclosure:** Disclose when the private company alternative has been elected.
- **Transition:** Retrospective

Next Steps: An Exposure Draft is expected to be issued in November or December 2024.

PCC Project—Presentation of Contract Assets and Contract Liabilities for Construction Contractors

Presentation in Accordance with Topic 606

Company X
Balance Sheet for the year ended December 31, 20X4

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 12,000,000
Accounts receivable	1,000,000
TOTAL CURRENT ASSETS	13,000,000
Property, plant, and equipment--net	12,000,000
TOTAL ASSETS	$ 25,000,000
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	$ 1,500,000
Contract liabilties, net	200,000
TOTAL CURRENT LIABILITIES	1,700,000
Long-term debt	13,700,000
TOTAL LIABILITIES	$ 15,400,000

Presentation under the Proposed Private Company Alternative

Company X
Balance Sheet for the year ended December 31, 20X4

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$12,000,000
Accounts receivable	1,000,000
Contract assets	500,000
TOTAL CURRENT ASSETS	13,500,000
Property, plant, and equipment--net	12,000,000
TOTAL ASSETS	$25,500,000
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	$ 1,500,000
Contract liabilities	700,000
TOTAL CURRENT LIABILITIES	2,200,000
Long-term debt	13,700,000
TOTAL LIABILITIES	$15,900,000

PCC Agenda Prioritization—April 2024 Meeting

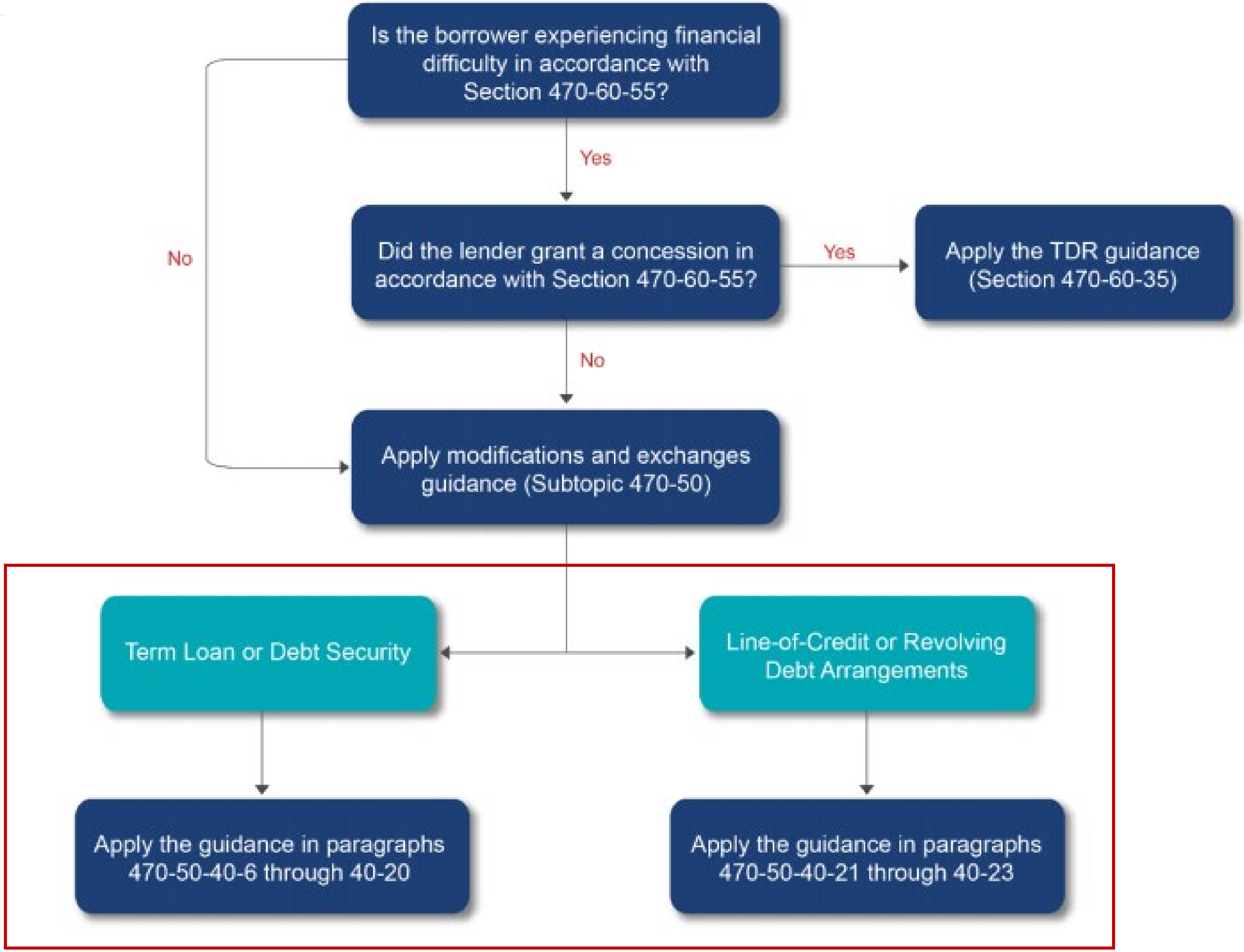
Debt Modifications and Extinguishments

- **Subtopic 470-50, Debt—Modifications and Extinguishments** requires that an entity assess whether a modification or extinguishment of debt has occurred when an entity modifies the terms of an existing debt instrument or issues a new debt instrument and concurrently satisfies an existing debt instrument.
- Outcome of that assessment influences the accounting treatment.
- **Feedback:** Applying the guidance can be complex and costly; benefits of the financial reporting outcome may not justify the costs.

What is the Solution?

PCC could consider a **private company practical expedient or alternative** that would decrease the cost and complexity of applying the guidance, while considering the information needs of private company financial statement users.

Background on Modifying Debt



Term Loan Model – "10% Test"

Modification (Cash Flow Change < 10%)

- Prospective effective interest rate method based on carrying value of debt and revised cash flows
- No gain or loss
- Fees to lender (or on behalf of lender) -> Capitalize
- Fees to 3rd Party -> Expense

Extinguishment (Cash Flow Change >10%)

- Record gain or loss based on difference between:
  - Recording new debt at fair value
  - Derecognizing old debt
- Effective interest rate based on new debt
- Fees to lender -> Expense (*Opposite of modification accounting*)
- Fees to 3rd Party -> Capitalize (*Opposite of modification accounting*)

Term Loan Model – Complexities w/ Modifying Debt

- Correctly applying the right modification model (e.g., term loan model vs revolver model)
- Distinguishing between Debt Issuance Costs vs Debt Discount
- Correctly applying effective interest rate method
- Properly fair valuing new debt to determine gain/loss on extinguishment
- More complicated lending arrangements:
  - Facilities including (1) term loan, (2) revolver and (3) delayed draw term loan (*Allocation Issues*)
  - Not applying the 10% test correctly
  - Syndicated lending arrangements (i.e., more than 1 lender involved)

PCC Agenda Prioritization—April 2024 Meeting

Leases

- Applying certain areas of guidance in **Topic 842, Leases**, can be costly and complex to apply.
- While Topic 842 already provides some relief for private companies in certain areas, private company stakeholders have indicated that additional simplifications, practical expedients, or alternatives for private companies should be considered (for example, on lease modifications).

What is the Solution?

PCC could consider private company simplifications, practical expedients, alternatives, or educational initiatives once specific issues are identified.

Do you have suggestions for simplifications, practical expedients, or alternatives for private companies pertaining to the leases guidance? Please reach out.

Contact information: jjwyss@fasb.org

FASB FINANCIAL ACCOUNTING STANDARDS BOARD