

QUARTERLY ACCOUNTING UPDATE WEBCAST – WINTER 2022



January 13, 2022

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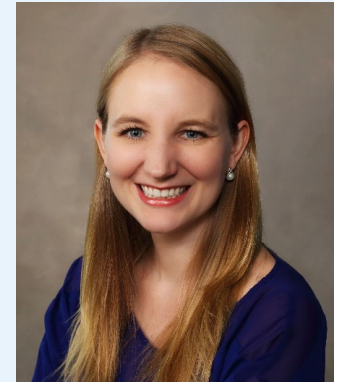
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Agenda

Topic

Recent FASB Activity

Upcoming Effective Guidance

Accounting and Reporting Hot Topics

Recent FASB Activity

Recently issued FASB guidance

| ASU No. | Final ASU - title |
|---------|---|
| 2021-07 | Compensation—Stock Compensation (Topic 718): Determining the Current Price of an Underlying Share for Equity-Classified Share-Based Awards (a consensus of the Private Company Council) |
| 2021-08 | Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers |
| 2021-09 | Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities |
| 2021-10 | Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance |

Private company equity-classified share-based awards

Private company equity shares underlying a share option not actively traded



Observable market prices do not exist



Determining the fair value of share-option awards can be costly and complex



Private company practical expedient: ASU 2021-07

ASU 2021-07

Private company equity-classified share-based awards

- **Expedient:** Determine the current price input using a “reasonable application of a reasonable valuation method”

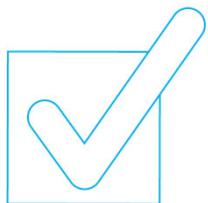
Characteristics:

- Date on which a valuation's reasonableness is evaluated
- Factors that a reasonable valuation should consider
- Scope of information that a reasonable valuation should consider
- Criteria that should be met for the use of a previously calculated value to be considered reasonable

Same characteristics are used in Section 409A of U.S. Internal Revenue Code

ASU 2021-07

Private company equity-classified share-based awards



Apply expedient on a measurement-date-by-measurement-date basis to Equity-classified share-based awards within the scope of ASC 718



Not available for liability-classified awards

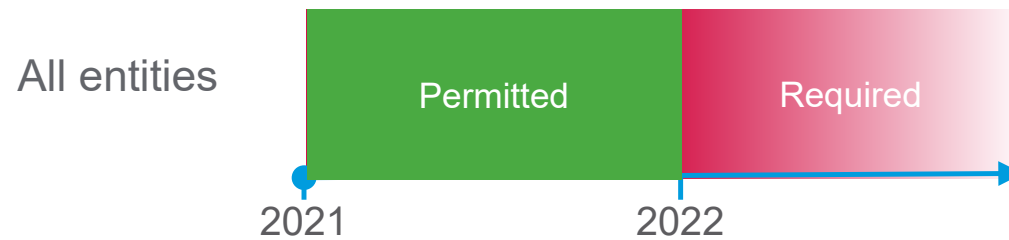
ASU 2021-07

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Effective date

Effective date for calendar year-ends



ASU 2021-07

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Accounting for revenue contracts acquired in a business combination

ASU 2021-08 addresses inconsistency and diversity in the accounting for revenue contracts with customers acquired in a business combination:

Recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with ASC 606

ASU 2021-08

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Accounting for revenue contracts acquired in a business combination

Assess how the acquiree applied ASC 606

- Generally, results in consistent revenue recognition and measurement between acquirer and acquiree

May need to apply ASC 606 to the acquired contract if:

- Acquiree financial statements not in accordance with U.S GAAP.
- Errors identified in the acquiree's accounting.
- Changes needed to conform with the acquirer's accounting policies.

ASU 2021-08

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Accounting for revenue contracts acquired in a business combination



Applies to contract assets and contract liabilities from other contracts to which the provisions of ASC 606 apply



Would not affect the accounting for other assets or liabilities that may arise from revenue contracts acquired in a business combination

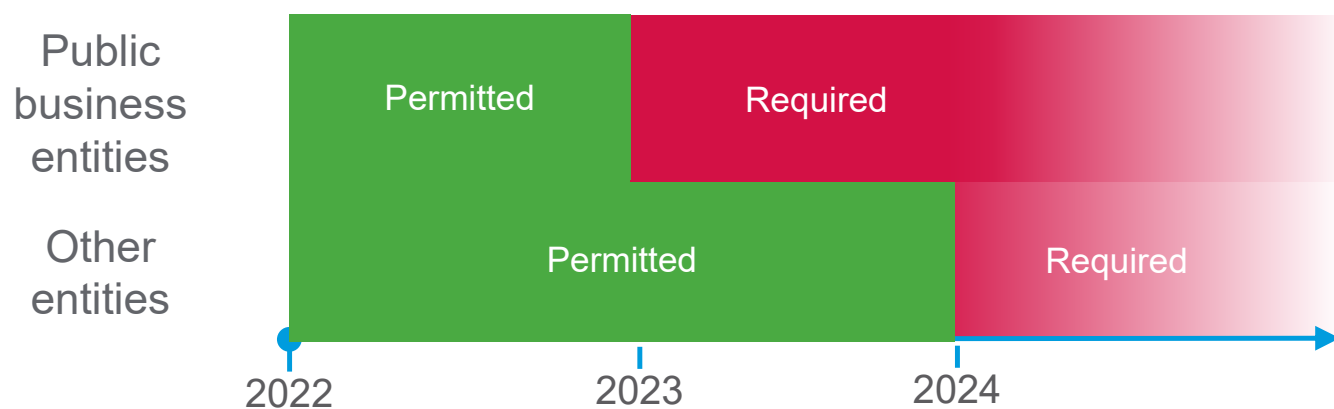
ASU 2021-08

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Effective date

Effective date for calendar year-ends



ASU 2021-08

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Accounting for Government Assistance

| Fact pattern | Business entities | Not-for-profit entities |
|--|--|---|
| When the entity determines it did not qualify for the loan | ASC 470, <i>Debt</i> | |
| When the entity does not expect to meet the conditions for forgiveness of some or all of the loan | ASC 470 for the portion of the loan for which the entity does not expect to meet the forgiveness conditions (see next row for the portion for which the entity expects to meet the forgiveness conditions) | |
| When the entity determines that it does qualify for the loan and expects to meet the conditions for forgiveness of the loan OR Government grants and other assistance not to be repaid | ASC 470 (for loans only) or any of the following by analogy: <ul style="list-style-type: none"> • IAS 20, <i>Accounting for Government Grants and Disclosure of Government Assistance</i> • ASC 958-605, <i>Not-for-Profit Entities – Revenue</i> • ASC 450-30, <i>Gain Contingencies</i> | ASC 470 (for loans only) or ASC 958-605 |

Accounting for Government Assistance

| Accounting Models | Debt (ASC 470) | Government Grant (ASC 958-605) | Gain Contingency (ASC 450-30) | Government Assistance (IAS 20) |
|--|----------------------------|---|--|--|
| Recognition of loan proceeds | Financial liability | Refundable advance | Liability | Deferred income liability |
| Accrued interest | Yes | No | No | No |
| Timing of income recognition and derecognition of the loan | Debtor is legally released | Conditions substantially met or explicitly waived | All contingencies met and gain is realized or realizable | Reasonable assurance that conditions will be met |
| Description | Gain on extinguishment | Contribution received (Grant) | Gain | Other income or reduction of related expenses |

Disclosures by business entities about government assistance

Scope:

- Transactions between a business entity and a government accounted for by analogy to other accounting guidance (e.g., ASC 958-605, IAS 20)

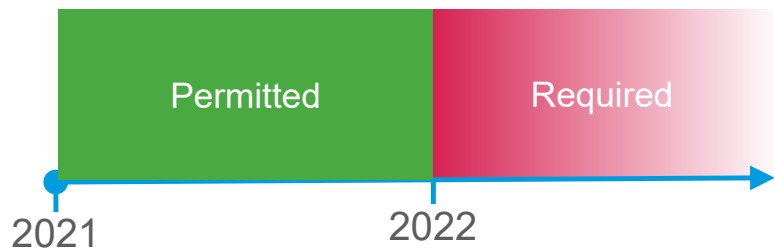
Required Disclosures

- Information about the nature of the transactions and the related accounting policy used to account for the transactions
- The line items on the balance sheet and income statement that are affected by the transactions, and the amounts applicable to each financial statement line item
- Significant terms and conditions of the transactions, including commitments and contingencies

ASU 2021-10

Effective date

Effective date for calendar year-ends



Transition methods

- Prospectively
- Retrospectively

Recently proposed FASB guidance

| Date exposed | Proposed ASU - title | Comments due |
|--------------|---|--------------|
| 11/01/2021 | Interim Reporting (Topic 270): Disclosure Framework—Changes to Interim Disclosure Requirements | 1/31/2021 |
| 11/23/2021 | Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures | 12/23/2021 |
| 12/20/2021 | Disclosure of supplier finance program obligations | 3/21/2021 |

Troubled Debt Restructurings and Vintage Disclosures

Issue 1: Troubled Debt Restructuring by Creditors

The additional designation of a loan modification as a TDR and the related accounting and disclosure are unnecessarily complex and no longer provide decision-useful information ***after the adoption of ASU 2016-13***



Response:

Eliminate the accounting guidance for TDRs by creditors

Enhance disclosure requirements for certain loan refinancings and restructurings

Proposed

Proposed

Troubled Debt Restructurings and Vintage Disclosures (cont.)

Issue 2: Vintage Disclosures – Gross Writeoffs

Inconsistency in the requirement for a public business entity (PBE) to disclose gross writeoffs and gross recoveries about certain asset classes



Response:

Require that PBEs disclose current-period gross writeoffs by year of origination for financing receivables and net investments in leases

Proposed

Proposed

Disclosure of supplier finance program obligations

Scope

- Entities that use supplier finance programs in connection with the purchase of goods and services

Transition

- The amendments would be applied retrospectively with early adoption permitted

Disclosures

- Require the buyer to disclose the following:
 - The key terms of the program as identified by management
 - The amount confirmed by the buyer that is outstanding at period end and a description of where that amount is presented in the balance sheet
 - A rollforward of the amount confirmed by the buyer that is outstanding at period end


Proposed

Proposed

Upcoming Effective Guidance

Effective date reminders

- Annual Effective Date Reminder
 - Lists those pronouncements issued as of November 1, 2021 that became effective on or after January 1, 2021 for most entities or have not yet become effective for all entities as of November 1, 2021.



This Effective Date Reminder lists only those pronouncements issued as of November 1, 2021, which became effective on or after January 1, 2021 for most entities or have not yet become effective for all entities as of November 1, 2021.

FINANCIAL ACCOUNTING STANDARDS BOARD (FASB)


ASU 2016-02, Leases (Topic 842)

Among many other provisions, this ASU requires lessees to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases. The ASU was effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, for (a) a public business entity; (b) a not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market (except as provided below); and (c) an employee benefit plan that files or furnishes financial statements with or to the SEC. (If an entity is a public business entity solely because its financial statements or financial information is included in another entity's filing with the SEC pursuant to certain SEC rules and regulations, see the alternative effective date provided by ASU 2017-13 as discussed below.) For all other entities, the ASU is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Additionally, the ASU was effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, for not-for-profit entities that have issued or are conduit obligors for securities that are traded, listed or quote on an exchange or an over-the-counter market that had not yet issued (or made available for issuance) financial statements as of June 3, 2020.

ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments

Among other provisions, this ASU requires the allowance for credit losses to reflect management's current estimate of credit losses that are expected to occur over the remaining life of a financial asset. For public business entities that are SEC filers, except for entities eligible to be smaller reporting companies (as defined by the SEC), the ASU was effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. (Please see our [website](#) for information with respect to when an entity should conclude whether it is a smaller reporting company for purposes of the effective date determination.) For all other entities, the ASU is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. However, the Consolidated Appropriations Act, 2021 extends the end date for an insured depository

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ASU 2020-06: Accounting for convertible instruments and contracts in an entity's own equity

- Addresses the complexity of guidance for certain financial instruments with characteristics of liabilities and equity:
 - Convertible instruments
 - Primarily affects those issued with beneficial conversion features (BCF) or cash conversion
 - All convertible instruments impacted by disclosure changes
 - Contracts in an entity's own equity
 - Primarily affects freestanding instruments and embedded features that are accounted for as derivatives under the current guidance because of failure to meet the share settlement conditions of the derivatives scope exception

Accounting for convertible instruments and contracts in entity's own equity

- Potential impact on
 - Entities with outstanding convertible instruments that recognized a BCF or cash conversion feature in equity under ASC 470-20
 - Entities that are accounting for registered warrants as a liability due to an implied obligation to settle in cash if registered shares aren't available

Effective January 1, 2022 for public business entities that are not smaller reporting companies

ASU 2020-06

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ASC 842 coming into effect

ASC 842 is effective January 1, 2022 for calendar-year-end private companies

- Consider incorporating changes into interim financial statements to:
 - Minimize surprises
 - Allow companies to have proactive communications about impact

Get started!

What is Changing?

| Topic | ASC 842 | ASC 840 |
|---------------------------|---|---|
| Existence of a lease | Arrangement must convey the right to control use of an identified asset | Lease could exist without control if customer takes substantially all output |
| Substitution rights | <ul style="list-style-type: none"> • Must be “substantive” • Supplier must have practical ability and must benefit economically | Lessor does not need to benefit economically |
| Inception vs commencement | <ul style="list-style-type: none"> • Initial measurement occurs at <u>commencement</u> • Classification assessed at <u>commencement</u> • Recognition at <u>commencement</u> | <ul style="list-style-type: none"> • Initial measurement occurs at <u>inception</u> • Classification assessed at <u>inception</u> • Recognition at <u>commencement</u> |

What is Changing? (cont.)

| Topic | ASC 842 | ASC 840 |
|-----------------------|--|--|
| Lessee classification | <ul style="list-style-type: none"> Bright lines removed Fifth criterion added | Bright lines led to structuring opportunities |
| Lessee accounting | Recognize asset and liability for almost all leases | Do not recognize asset and liability for operating lease |
| Components | <ul style="list-style-type: none"> Taxes and insurance are part of lease payments (not components) Right to use land is a separate lease component (unless “insignificant”) Practical expedient to not separate | <ul style="list-style-type: none"> Taxes and insurance are executory costs Land is a separate component if FV of land is 25% or more of total FV No practical expedient |

What is Changing? (cont.)

| Topic | ASC 842 | ASC 840 |
|----------------------|--|---|
| Initial direct costs | Incremental costs that would not have been incurred if lease had not been obtained | Can include costs incurred before lease was obtained (including internal costs) |
| Discount rate | <ul style="list-style-type: none">• Use implicit rate if it is readily determinable (even if greater than incremental rate)• Must reflect a secured borrowing rate• Expedient available for nonpublic entities | <ul style="list-style-type: none">• Use implicit rate unless it exceeds incremental borrowing rate• May be unsecured |

Discount Rate for Lessees That Are Not Public Business Entities

Scope

- Lessees that are not public business entities

Current guidance

- Practical expedient allows accounting policy election to use a risk-free rate as the discount rate for **all** leases

Updated guidance:

- Risk-free rate election can be made by class of underlying asset, rather than at the entity-wide level
- When the rate implicit in the lease is readily determinable for any individual lease, the lessee would use that rate

Disclosure requirement

- Which asset classes apply a risk-free rate

ASU 2021-09

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Discount Rate for Lessees That Are Not Public Business Entities

ASC 842 has not been adopted as of November 11, 2021

- Apply transition and effective date provisions for ASC 842 adoption

ASC 842 has been adopted as of November 11, 2021

- Effective for annual reporting periods beginning after December 15, 2021
- Modified retrospective transition method

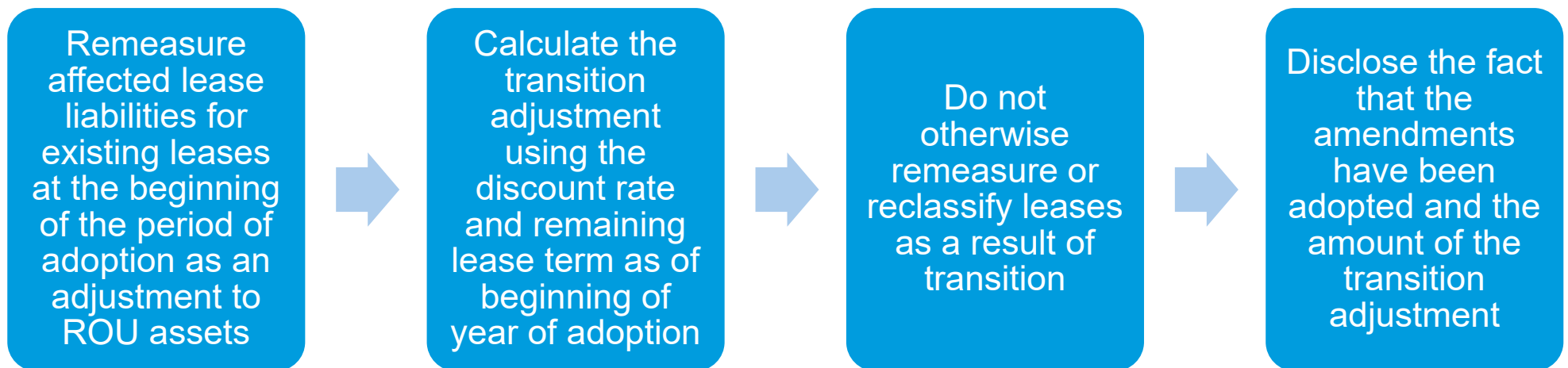
ASU 2021-09

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Discount Rate for Lessees That Are Not Public Business Entities

Modified Retrospective Transition Method



ASU 2021-09

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Accounting and Reporting Hot Topics

2021 AICPA & CIMA Conference on Current SEC and PCAOB Developments – Accounting & Reporting Hot Topics

- Reference rate reform
- Revenue recognition topics of consultation with the SEC staff
- Transactions involving special purpose acquisition companies (SPACs)
- Environmental, social and governance (ESG) matters



Save the date!
Next quarterly
accounting update

QUESTIONS AND CLOSING REMARKS

THANK YOU FOR
YOUR TIME AND
ATTENTION

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