

The Latest Accounting and Financial Reporting Scoop for Smaller Entities and Nonprofits

Practical Insights Into Current Financial Statement Issues

Jennifer F. Louis, CPA



1

Learning Objectives

- List the highlights of recent accounting standards activity
 - Through ASU **2025-05 & GASB 104**
- Explain why significant new FASB & GASB accounting standards were released and the most significant impact
- Identify “hot topics” in accounting and financial reporting
- Recall “plain language” explanations of current and emerging U.S. GAAP requirements

2



2

Expected Credit Loss Model

Nonpublic Entities:

12/31/23 Calendar Year Ends

3/31/24 – 9/30/24 Other Year Ends

3



3

Applicability of ASC Topic 326

- ASC Topic 326, Financial Instruments – Credit Losses, applies to all entities in varying degrees,
 - With the primary goal to improve financial reporting by requiring earlier recognition of credit losses on financing receivables and certain other financial assets
- An allowance is measured and recorded upon the initial recognition of the in-scope financial instrument, regardless of whether it is a)
 - originated, b) purchased, or c) acquired in a business combination



4

Common Applicability

- Trade receivables
- Contract assets (unbilled receivables)
- Notes receivable, including employees/ officers
- Net investment in leases
- Held-to-maturity debt securities
- Off-balance-sheet credit exposures not accounted for as insurance, such as:
 - Loans and loan commitments
 - Financial guarantees



5

Common Items Outside of Scope

- Operating lease receivables under Topic 842
- Available-for-sale debt securities
 - But OTTI model was improved by Subtopic 326-30
- Any financial asset measured at fair value through net income
- Loans to participants by defined benefit contribution plans under Topic 962
- Pledges receivable of a nonprofit under Topic 958
- Loans receivable between entities under common control (as they may be capital contributions)



6

Subsequent Events

- Changes in estimates of credit losses arising after the reporting date, but before the financial statements are issued or available to be issued, should generally be considered Type II (disclosure only) subsequent events
- In legacy GAAP, certain subsequent events affecting the realization of assets (such as customer's bankruptcy after the reporting date) would have been reflected in the allowance at the reporting date



7

SEC Guidance – Subsequent Events

- The SEC stated that asset-specific information about factual conditions that existed at the reporting date should be included in the allowance
- The SEC stated that forecasting assumptions that relates to factual conditions that existed at the reporting date be considered if either:
 - The estimation process is not yet complete (optional update), or
 - There was a weakness/deficiency in the estimation process (required update)



8

Zero Loss Expectation

- An entity's estimate of expected credit losses should include a measure of the expected risk of credit loss even if that risk is remote, regardless of the method applied to estimate credit losses.
- However, if there is an expectation that a financial asset will have a zero loss, then an entity is not required to estimate or recognize an allowance for credit losses.
 - e.g., certain U.S. Treasury bills that are cash equivalents, considering the nature and extent of the government guarantee.



9

Unit of Account – Pooling Required

- Evaluate financial assets on a collective (pool) basis when assets share **similar risk characteristics**
 - If not similar, evaluate the asset individually
 - Revise as risk characteristics change
- May need to apply an aging provision to a more disaggregated level of trade receivables than previously established
 - Particularly when there are long-term receivables with due dates beyond a year



10

Example of Acceptable Method – Trade Receivables

Assumptions

- Trade receivables are due in 90 days
- A 2% discount is offered if paid within 60 days
- Historic patterns with losses by aging category: .003 current; .08 1-30 day; .26 31-60 day; .58 61-90 day; .82 over 90 day
- There is a similar customer base and similar risk characteristics in current trade receivables compared to historical information (no new current conditions)
- Economic conditions have improved compared to past experience, as the unemployment rate declines there is a positive impact on collectibility (there are reasonable supportable forecasts to indicate a continued decline in unemployment is expected over the next year)

Possible Impact

The loss rate is expected to decrease by 10% in each aging bucket – which will be an assumption built into the current expected credit loss model



11

Pulse Check

Do you perceive that many smaller entities may have a single “pooling” for analysis of trade receivables?

- A. Yes.
- B. No.
- C. Uncertain.

12



12

Most Recently Issued Standard – Current Expected Credit Losses

13



13

ASU 2025-05: Credit Losses Topic 606 Receivables

- Scope applies to current accounts receivable and current contract assets arising from transactions accounted for under Topic 606, *Revenue from Contracts with Customers*
 - Also applies to current accounts receivable and current contract assets acquired in a transaction accounted for under Topic 805, *Business Combinations*



14

ASU 2025-05: Credit Losses Topic 606 Receivables

- Practical expedient available to all entities
- Accounting policy election available to all entities other than public business entities
 - Must also elect the practical expedient
- Requires consistent application
- Require an entity to disclose that it has elected the practical expedient and accounting policy election
 - Disclose the date through which subsequent cash collections were evaluated



15

Practical Expedient

- An entity would assume that current conditions as of the balance sheet date persist throughout the remaining life of the asset
- Adjust historical data to reflect current conditions before the balance sheet date
 - E.g., customer under duress, change in credit policies, or onset of severe economic recession



16

Accounting Policy Election

- Allows the entity to consider collection activity after the balance sheet date when estimating expected credit losses
- Consider through the date the financial statements are available to be issued or any alternative date prior selected by the entity
 - A change in selected date is not a change in accounting principle
- The entity would record a credit loss allowance of zero for current accounts receivable and current contract assets that have been fully collected



17

Required Order of Assessment if Both Options Elected

1. Consider subsequent collections of outstanding balances as of the balance sheet date
 - Calculate a remaining uncollected balance
2. Evaluate any remaining uncollected amounts using the practical expedient
 - Entity permitted, but not required, to update historical loss rates for post-balance sheet activity when using an aging schedule (using the rates as of the balance sheet date as the alternative)
 - Apply against the delinquency status as of the subsequent collections date selected by the entity



18

Transition and Effective Date

- Prospective transition
- Effective Date
 - Annual periods beginning after December 15, 2025, and interim periods within
 - Early adoption permitted for financial statements that have not yet been issued or made available for issuance
- A preferability assessment not required by any entity other than a public business entity



19

Pulse Check

Do you like the newest amendments by the FASB?

- A. Yes.
- B. No.
- C. Uncertain.



20

FASB Staff Q&A – Refining Methodology

If an entity's actual credit losses differ from its estimate of expected credit losses, is it required to modify its forecasting methodology?

- Objective is to present the best estimate of the net amount expected to be collected
 - There generally is a range of reasonable outcomes
- Continue to refine future estimates of expected credit losses based on actual experience
 - E.g., if actual results indicate that macroeconomic conditions are having a greater or lesser effect than originally projected, may need to adjust future loss projections to reflect this change



21

FASB Staff Q&A – Internal Information Available

Should an entity use external data to develop estimates of credit losses if internal information is available?

- Information may include internal information, external information, or a combination of both
- An entity is not required to search all possible information that is not reasonably available without undue cost and effort
- An entity that has relevant internal information may rely on that information without acquiring or referencing external information



22

FASB Staff Q&A – Length of Forecast Period

May the length of reasonable and supportable forecast periods vary between different portfolios, products, pools, and inputs?

- Yes, but specific inputs (like unemployment rates) should be consistently applied to the extent that the same inputs are relevant



23

FASB Staff Q&A – Reevaluation Each Reporting Period

- Should an entity reevaluate its reasonable and supportable forecast period each reporting period?
- Yes, as well as other judgments applied



24

Credit Risk vs. Variable Consideration

- The amount of revenue recognized can change as a result of changing transaction prices dependent on future events, including future implied price concessions from a stated contract price
- There may be additional incremental credit risk beyond what was contemplated in the establishment of the transaction price



25

Trade A/R with Deferred Revenue

- Estimate expected credit losses on receivables for which associated revenue has been recognized, generally
- May use a deferred revenue balance to “offset” exposure if goods/ services yet to be transferred



26

Focus on Net Investment in Lease

- Consider the related collateral
 - Cash flows that the lessor would expect to receive (or derive) during the remaining lease term
- Consider both the lease receivable and unguaranteed residual asset
 - Add any cash flows expected to be derived from the residual asset at the end of the lease term, such as selling the underlying asset to a third party
 - Expected gains on disposal should be limited to the amount necessary to offset expected credit losses on the lease payments (do not create negative credit loss)



27

Off-Balance Sheet Exposures

- A liability (not an allowance) for expected credit losses for off-balance sheet credit exposures is recognized if both of the following are met:
 - The entity has a present contractual obligation to extend the credit; and
 - The obligation is not unconditionally cancellable by the entity
- E.g., unfunded loan commitments, standby letters of credit, and other instruments that are not accounted for as insurance or derivatives



28

Pulse Check

Do you think an allowance for credit loss disclosure may be necessary, even if there is no material allowance required?

- A. Yes.
- B. No.
- C. Uncertain.

29



29

Disclosures – Financing Receivables

- Objective is to help users understand:
 - Credit risk inherent in a portfolio
 - How management monitors the credit quality
 - Management's estimate of expected credit losses
 - Changes in the estimate of ECL that took place
- Provide information either by portfolio segment or class of financing receivable, with professional judgment as to determine level of disaggregation



30

Entity Uses Direct Write-off

Accounts receivables are based on amounts billed to customers. Management expects collection of substantially all receivables has elected to record credit losses using the direct write-off method. Accounting principles generally accepted in the United States require that an estimate be made of the allowance for credit losses. **The effect of the use of the direct write-off method, however, is not materially different from the results that would have been obtained had the allowance method been followed and the allowance for credit losses is immaterial to the financial statements.**



31

Accrued Interest Presentation & Disclosure Elections

- Disclose the line item in which accrued interest is presented (if not separately presented)
 - Amount of accrued interest and any associated allowance for credit loss
- A practical expedient permits exclusion of the accrued interest receivable balance from the amortized cost basis for the purposes of disclosure
 - Must disclose the total amount excluded from the disclosed amortized cost basis



32

Allowance for Credit Losses Disclosures

Objective is to help users understand:

- Management's method for developing its allowance for credit losses
- Information management used to develop its current estimate of expected credit losses
- Under circumstances that caused changes, impacting related credit loss expense (or reversal) reported for the period

Note: Disclose by portfolio segment and major security type.



33

Annual Disclosure – Allowance for Credit Losses

The allowance for credit losses for accounts receivable by portfolio segment and the related activity are as follows:

Beginning Balance
Provision for credit losses
Write-offs
Recoveries
Ending Balance

Note: Only required if allowance is deemed material. Disaggregate (as useful) and in total.



34

Note to Auditors

- FASB ASC 326 has numerous disclosure and presentation requirements, which many entities may have omitted based on materiality.
- If the omitted disclosures and presentation requirements are more than clearly trivial, auditors are required to accumulate these for consideration in the aggregate and comply with communication requirements.



35

Most Recently Issued Standard – Share-Based Considerations Payable to a Customer



36

36

ASU 2025-04 – *Share-Based Considerations Payable to a Customer*

- Affects all entities that issue share-based consideration to a customer under Topic 606 as an incentive to purchase its goods and services
 - Or to other parties that purchase the entity's goods or services from the customer
- Clarifies the requirements for share-based consideration payable to a customer that vests upon the customer purchasing a specified volume or monetary amount of goods and services from the entity



37

General Requirement – Distinct Good or Service from Customer

- If consideration payable to a customer is a payment for a distinct good or service from the customer
 - Account for the purchase of the good or service in the same way as purchases from suppliers
- If the consideration payable exceeds the fair value of the good or service received from the customer
 - Account for excess as a reduction of the transaction price
- If cannot reasonably estimate the fair value of the good or service received from the customer
 - Account for all of the consideration payable to the customer as a reduction of the transaction price



38

General Requirements – Consideration Payable to Customer

606-10-32-25 Consideration payable to a customer includes:

- a. Cash amounts that an entity pays, or expects to pay, to the customer (or to other parties that purchase the entity's goods or services from the customer)
- b. Credit or other items (for example, a coupon or voucher) that can be applied against amounts owed to the entity (or to other parties that purchase the entity's goods or services from the customer)



39

c. Share-based consideration (liability or equity classified) granted to the customer (or to other parties that purchase the grantor's goods or services from the customer) in conjunction with selling goods or services

- Share-based consideration encompasses the same instruments as share-based payment arrangements (for example, shares, cash-settled stock appreciation rights, share options and warrants, or other equity instruments)
- NOTE: The grantee (as a customer) need not be a supplier of goods or services to the grantor



40

Added Language in Master Glossary “Performance Condition”

For share-based consideration payable to a customer that can result in a reduction of the transaction price in accordance with Topic 606, a condition affecting the vesting, exercisability, exercise price, or other pertinent factors used in determining the fair value of an award that relates to any of the following:



41

- a. Achieving a specified performance target that is defined solely by reference to the grantor’s own operations (or activities) or by reference to the grantee’s (the customer’s) performance related to the grantor’s own operations (or activities)
- b. The grantee’s purchase (or potential purchase) of the grantor’s goods or services from either the grantor or the grantor’s customers
- c. A purchase (or potential purchase) of the grantor’s goods or services from either the grantee or the grantee’s customers.

The performance targets listed in this definition for employee and nonemployee awards (for example, a change in control) are also examples of performance conditions for share-based consideration payable to a customer.



42

Estimate of Forfeitures Required

- Entities must estimate forfeitures in accordance with ASC 718
 - Eliminates the policy election for entities to account for forfeitures “as they occur” for awards that have service conditions
 - As this may delay revenue recognition for awards that are not probable of vesting
- Improves comparability as revenue recognition for customer awards with service conditions will follow the same forfeiture estimation framework as other arrangements with performance conditions



43

Variable Consideration Constraint

- The variable consideration constraint in ASC 606 does not apply to share-based consideration payable to a customer
- A grantor is required to assess the probability that an award will vest only using ASC 718 guidance
 - Only share-based consideration expected to be earned (or vest) will be reflected as a reduction in revenue



44

Measurement of Share-Based Consideration

- Measure in accordance with ASC 718 before and after the grant date
 - Prior to the grant date, measure at fair value with updates each reporting date
 - Upon the grant date, fair value is fixed with subsequent changes in fair value not impacting the transaction price



45

Required Disclosures

- The transition method applied
- Any adjustments to retained earnings
- The impact on financial statement line items



46

Transition

- Permits either modified retrospective or full retrospective adoption
- If full retrospective adoption, must use actual outcomes of a performance or service condition is known as of the beginning of the annual period of adoption for all prior period estimates
 - Estimate whether conditions will be achieved if actual outcomes are not known



47

Effective Date

- Effective for FYB after 12/15/26 and interim periods within
 - Early adoption permitted for financial statements not yet issued or available for issuance
 - If adopting in an interim period, must apply retrospectively to the beginning of the annual period



48

Most Recently Issued Standard – Acquirer in a VIE Acquisition

49



49

ASU 2025-03 – Acquirer in a VIE Acquisition

- Impacts acquisition transactions effected primarily by exchanging equity interests when the legal acquiree is a VIE that meets the definition of a “business”
- Guidance on determining the accounting acquirer
 - Consider the factors in paragraphs 815-10-55-12 through 15 to determine which entity is the accounting acquirer, like a voting interest entity
- Going forward: The primary beneficiary is not always the acquirer



50

General Guidance – No Equity Interests Exchanged

1. For a business combination that is not effected primarily by exchanging equity interests in which a VIE is acquired, the primary beneficiary is the accounting acquirer
2. In a business combination effective primarily by transferring cash or other assets or by incurring liabilities, the acquirer is generally the entity that transfer the assets or incurs the liabilities



51

General Guidance – Equity Interests Exchanged

Factors to consider include:

1. Relative voting rights in the combined entity
 - Acquirer is usually who retains the largest portion
 - Consider any unusual or special voting arrangements, options, warrants, or convertible securities
2. Existence of a large minority voting interest in the combined entity if no other owner or group has a significant voting interest
3. Senior management composition, including whether former management dominates post-combination
4. Terms of the exchange, such as how may pay a premium over the pre-combination fair value



52

General Guidance – Other Considerations

- The combining entity whose relative size is significantly larger (e.g., assets, revenues, or earnings)
 - Consider which combining entity initiated the combination and relative size when multiple entities involved
- If new entity formed to issue equity interests (not to transfer cash or other assets or incur liabilities as consideration)
 - One of the entities that previously existed is the acquirer by applying guidance already discussed



53

ASU 2025-03 – Reverse Acquisition Accounting

- No changes to the actual accounting for a transaction determined to be a “reverse acquisition” when is determined to be a business combination
 - Legal acquirer issues securities **and** is the surviving legal entity that issues F/S
 - Legal acquirer often adopts the name of the legal acquiree
 - “Legal acquirer” becomes the “accounting acquiree”
 - “Accounting acquiree” must be a “business”
 - Accounted for using the acquisition method in ASC 805
- E.g., private company is acquired by a public company, but the private company owners obtain control of the public company after the transaction



54

ASC 805 - Consideration Transferred in a Reverse Acquisition

- “Accounting acquirer” usually issues no consideration
- “Accounting acquiree” usually issues its equity shares to the owners of the accounting acquirer
- The acquisition-date fair value of the consideration transferred is based on the number of equity interests the accounting acquirer would have had to issue to give the owners of the legal acquirer the same percentage interest in the combined entity that results from the reverse acquisition



55

ASU 2025-03 – Acquirer in a VIE Acquisition

- No changes in accounting for a transaction in which the “legal acquirer” is not a business
- Effective for all entities for FYB after 12/15/26 and interim periods within
 - Early adoption permitted



56

Other Most Recently Issued Standards

57



57

ASU 2024-04 Application of Induced Conversion Accounting

- Accounting clarification for when an entity settles convertible debt instruments with cash conversion features (CCFs) pursuant to offers that differ from the instruments' existing terms
 - Requires a “preexisting contract approach” for determining whether to apply induced conversion accounting
 - Alternative is extinguishment accounting



58

Example

- Entity has \$1,000 convertible debt outstanding
 - The if-converted value is \$1,500
 - Additional consideration of \$100 is offered to settle the transaction
- If induced conversion accounting
 - \$100 inducement charge
 - Upon conversion carrying amount of debt is reclassified to equity
- If extinguishment accounting
 - Liability is derecognized at full fair value of transferred consideration (\$1,500 + \$100)
 - \$600 loss on extinguishment (\$1,600 less \$1,000)



59

Clarified Applicability

- Clarifies that induced conversion accounting applies to convertible debt instruments within the scope of ASC 470-20 that are not currently convertible.
 - Assuming it had a substantive conversion feature as of both its issuance date and the date the inducement offer is accepted.



60

Preexisting Contract Approach

- To account for a settlement of a convertible debt instrument as an induced conversion, an inducement offer is required to provide the debt holder with, at a minimum, the consideration (in form and amount) issuable under the conversion privileges provided in the terms of the instrument.
- Conversion privileges provided in the terms of the instrument should be assessed as to whether they are satisfied as of the date the inducement offer is accepted by the holder.



61

Impact of Recent Exchanges or Modifications

- If the convertible debt instrument had been exchanged or modified (without being deemed substantially different) within the one-year period leading up to the offer acceptance date, compare the terms provided in the inducement offer with the terms that existed one year before the offer acceptance date.



62

Effective Date

- Effective for all entities for annual reporting periods beginning after December 15, 2025, and interim reporting periods within those annual reporting periods.
- Early adoption is permitted for all entities that have adopted the amendments in Update 2020-06 related to convertible instruments.



63

ASU 2024-03

Disaggregation of Income Statement Expenses

- Enhanced disclosures for public business entities to further disaggregate expense
 - Application to private companies will be separately considered by the PCC
- Goal is to increase transparency as to what is presented in captions such as cost of sales, SG&A, and R&D
 - E.g., employee compensation, depreciation and amortization, purchases of inventory



64

Entity XYZ Consolidated Statement of Operations For the Year Ended December 31, 20X3		Notes to the Financial Statements	
Revenues:		Cost of products sold	
Products	\$ 82,144	Purchases of inventory	\$ 20,213
Services	<u>26,132</u>	Employee compensation	17,578
Total revenues	108,276	Depreciation	10,190
Operating expenses:		Intangible asset amortization	3,914
Cost of products sold	63,456	Warranty expense	4,394
Cost of services	10,496	Other cost of products sold	7,552
Selling, general, and administrative	<u>20,849</u>	Changes in inventories	157
Total operating expenses	<u>94,801</u>	Other adjustments and reconciling items	<u>(542)</u>
Operating income	13,475	Total cost of products sold	<u>\$ 63,456</u>
Interest expense	<u>4,971</u>		
Income before income taxes	8,504		
Income tax expense	<u>1,786</u>		
Net income	<u>\$ 6,718</u>		



65

Effective Date

- Effective for annual reporting periods beginning after December 15, 2026.
 - And interim reporting periods beginning after December 15, 2027.
- Early adoption is permitted.



66

ASU 2025-01 Clarification for DISE

- Clarifies the effective date of ASU 2024-03
- Applies to all public business entities
 - But only potentially affects non-calendar year-ends
- Required to adopt in annual reporting periods beginning after December 15, 2026
 - And interim periods **within annual reporting periods** beginning after December 15, 2027.
- Early adoption of Update 2024-03 is permitted.



67

Pulse Check

Do you think a more disaggregated information should be presented related to expenses?

- A. Yes.
- B. No.
- C. Uncertain.



68

Focus on Goodwill

Nonpublic Entities:

12/31/23 Calendar Year Ends

3/31/24 – 9/30/24 Other Year Ends



69

ASU 2017-04: Simplifying Test for Goodwill Impairment

- SEC filer – Effective for annual or interim impairment tests in FYB after 12/15/19
 - Small reporting entity exception available
- All other entities – Effective for annual or interim impairment tests in FYB after 12/15/22
- Early adoption permitted on testing after 1/1/17
- Prospective transition

70



70

Goodwill Impairment Testing Simplified For All Entities

- Eliminates Step 2 in the goodwill impairment test
 - Comparing implied FV of Reporting Unit (RU) goodwill with carrying amount of the goodwill
 - FV of assets and liabilities (including unrecognized assets and liabilities) as if acquired/assumed in a business combination is no longer necessary
- Assessment only compares FV of RU with its carrying value
 - Recognize impairment if RU's carrying value exceeds FV
 - Should not create negative goodwill for RU

71



71

Goodwill Impairment – Full GAAP Requirements

- Goodwill impairment should be evaluated whenever there is a triggering event indicating that it is more likely than not that the fair value of any reporting unit allocated goodwill is below its carrying value
 - Or entity-level goodwill if that option was elected by qualifying nonpublic or nonprofit entities under simplified alternatives
- Requires monitoring of goodwill triggering events throughout an entire reporting period
 - While actual impairment assessment is done at least annually for indefinite-lived intangibles

72



72

ASU 2021-03, Intangibles – Goodwill and Other

- Targeted relief available to nonpublic business entities and nonprofits
- May perform impairment assessment only as of a reporting date, including interim period reporting
- Clarifies that incremental disclosures beyond already existing standards not required

73



73

Focus on Leases

Public and Nonpublic Entities:
12/31/24 Calendar Year Ends



74

ASU 2016-02, *Leases* (Topic 842) – Impact on Lessees

Recognize All Leased Assets and Obligations on Balance Sheet

No More
Disclosure Only
on Operating
Lease
Commitments

Pattern of
Expense
Recognition Will
Vary With
Operating or
Finance Lease
Classification

Leases 12 Months
or Less May Be
Treated as S/L
Lease Expense
Only

75



75

ASU 2023-01 – Nonpublic Entity Written Terms and Conditions

- Practical expedient for nonpublic entities to only use the written terms and conditions of a common control arrangement to determine:
 - Whether a lease exists, how to classify it, and how to account for it
- If no written terms and conditions exist, must use the legally enforceable terms and conditions
 - May document before the date on when the first F/S are issued or available to be issued upon adoption
- May be applied on a case-by-case basis



76

What Does “Common Control” Mean?

- Not currently defined by the FASB ASC
- Should be broader for private companies and nonprofits than what the SEC staff observes
 - E.g., may include an entity owned by a grandparent and an entity owned by a grandchild
- A management employee with significant influence, but no control or other relationship, may be a related party – but not under common control



77

Points to Consider

- Requires lots of administrative due diligence
 - Regularly maintain written leases without renewal options controlled by the lessee that could cause the lease term to exceed one year
- If a written lease expires, then practical expedient no longer eligible (if now verbal agreement instead of on-going arrangement)
 - Ability to document lease post-commencement is only available at initial transition to ASU 2023-01
- Renewal or automatic roll-over clauses may impact a reasonably certain lease term



78

Effective Date

- Effective for all entities with FYB after 12/15/23, including interim periods within.
- Early adoption is permitted if F/S not yet issued or available for issuance.
 - If interim period, must adopt as of beginning of the FY that includes the interim period.
- If adopting concurrent with Topic 842, then use the same transition approach.



79

Transition

For entities that have already adopted Topic 842 either transition:

1. Prospectively to all leases that commence/modified on or after the date of adoption of the ASU.
2. Retrospectively to the beginning of the earliest period presented for all arrangements that exist at the date of adoption of the ASU.
 - Would not be applicable for arrangements no longer in place at the date of adoption of the final Update.



80

Legally Enforceable Considerations – Rights to Terminate

- When both parties each have the right to terminate without permission from the other with no more than an insignificant penalty, then an “at will” arrangement not legally enforceable
 - Or if both parties must agree on terms and conditions to extend a lease
- If only lessee has right to terminate – then it is an option available to be considered as to what is “reasonably certain” to occur
- If only lessor has right to terminate – include option period in the lease term



81

What is a More Than Insignificant Penalty?

- Cash disbursements
- Performing services (e.g., zoning or business permits)
- Incurring or assuming a liability
- Surrender/ transfer of an asset or rights to an asset essential to operations
- Otherwise forgoing an economic benefit or suffering an economic detriment (e.g., below market renewal pricing)
- Abandoned leasehold improvements



82

ASU 2023-01: Leasehold Improvements Useful Life

- Impacts all lease arrangements under common control, including public entities , assuming ASU 2023-01 is adopted
- If lessee pays for an “owns” the improvements
 - Amortize over useful life to the common control group
 - As long as the lessee controls the use of the underlying asset through a lease
 - Account for as an adjustment to equity/ net assets if the lessee subsequently no longer controls the asset
- Normally, amortization period may not exceed the lease term when no common control



83

Required Disclosures

- The unamortized balance of the leasehold improvements at the balance sheet date
- The remaining useful life of the leasehold improvements to the common control group
- The remaining lease term

Note: If common control is lost after lease commencement, account for and disclose prospectively as a change in accounting estimate.



84

Transition Options

1. Prospectively to all new leasehold improvements recognized on or after adoption.
2. Prospectively to all new and existing leasehold improvements on or after adoption date, with unamortized balances amortized over their remaining useful life at that date.
3. Retrospectively to beginning of the period in which the entity first applied Topic 842 for improvements that exist at the date of adoption, with a cumulative-effect adjustment to the retained earnings opening balance.



85

Pulse Check

Do you like the new FASB option related to common control entities only using the written terms of an arrangement?

- A. Yes.
- B. No.
- C. Uncertain.

86



86

Effective for Nonpublic Entities in FY 2024

Assuming 12/31 Year End



87

ASU 2021-08, Business Combinations

- Requires an entity (acquirer) recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606
 - At the acquisition date account for contracts as if it had originated the contracts
 - Do not fair value as with other assets and liabilities to determine goodwill



88

Acquirer Able to Rely on Topic 606 Application

- An acquirer may assess how the acquiree applied Topic 606 to determine what to record for the acquired revenue contracts
 - This should generally result in the acquirer recognizing and measuring consistent with how they were treated in the acquiree's F/S



89

Acquirer Unable to Rely on Topic 606 Application

- In the following situations an acquirer is unable to assess or rely on how the acquiree applied Topic 606:
 - Acquiree does not follow GAAP
 - Errors were identified in the acquiree's accounting
 - There were changes identified to conform with the acquirer's accounting policies



90

Applicability Key Points

- Does not apply to customer-related intangible assets or contract-based intangible assets
 - E.g., customer lists, customer relationships, etc.
 - E.g., licensing, royalty agreements, franchise agreements, construction permits, employment contracts, lessor's operating lease agreements, etc.
- Concepts may apply to other contracts to which Topic 606 applies
 - E.g., contractual liabilities from the sale of nonfinancial assets under Subtopic 610-20



91

Derecognition of Nonfinancial Assets

- Gains and losses on transfers on nonfinancial assets and in substance nonfinancial assets to counterparties that are NOT customers
 - If contract does not meet all the criteria of a contract per Topic 606-10-25-1, do not derecognize the asset
 - Apply guidance in Topic 360-10-40 to any PP&E or 350-10-40 to any intangible assets
 - Continue to depreciate/amortize and evaluate impairment
 - Once a contract meets all the criteria then each distinct asset should be derecognized



92

Topic 606-10-25-1 Requirements

1. Both parties approved contract and are committed to perform
 - In writing, orally, or in accordance with other customary business practices
2. Each party's rights regarding goods and services to be transferred can be identified
3. The payment terms can be identified
4. Contract has commercial substance
 - Risk, timing, or amount of the entity's future cash flows is expected to change
5. Substantial collectibility is probable when due



93

ASU 2021-08, Business Combinations

- For public business entities effective for FYB after 12/15/22, including interim periods within
- For all other entities effective for FYB after 12/15/23, including interim periods in the year thereafter
- Apply prospectively
- Early adoption permitted for F/S not yet issued or available for issuance
 - Retrospective transition where the acquisition date is on or after the beginning of the FY containing early adoption



94

Pulse Check

Does your entity or clients have debt instruments with share conversion features?

- A. Yes.
- B. No.
- C. Uncertain.



95

ASU 2020-06, Convertible Instruments and Contracts in Own Equity

- Simplifies financial reporting associated with accounting for convertible instruments
 - Reduced number of accounting models for convertible debt instruments and convertible preferred stock
 - Will result in fewer embedded conversion features being separately recognized from the host contract
 - More convertible debt instruments will be reported as a single liability instrument
 - More convertible preferred stock will be reported as a single equity instrument with no separate accounting for embedded conversion features



96

Simplified Accounting for Convertible Instruments

New Guidance Under ASU 2020-06

No allocation model – no amounts allocated to embedded conversion feature. NOTE: Replaces the first three models of legacy GAAP. No more beneficial conversion feature model or cash conversion feature model.

Substantial premium model – record premium in additional paid-in capital (substantial amount above principal) and liability at principal or par amounts.

Embedded derivative model – separate embedded conversion feature at fair value and record as a derivative liability.



97

Simplified Diluted Earnings Per Share Calculation

- For contracts that may be settled in common shares or cash at reporting entity's option
 - Entity determines whether cash or share settlement is more dilutive by calculating under both assumptions
 - May only present assuming cash settlement if it is deemed to be more dilutive than share settlement
- All convertible instruments shall follow the if-converted method
 - The treasury stock method will no longer be available for any convertible instrument



98

Diluted EPS Calculation Key Points

- If the principle is contractually required to be settled in cash, interest charges are not added back to the numerator because interest would always be paid
- The if-converted method will continue to use the beginning of period share price in the calculation unless the number of additional shares is variable
 - In that case, the average share price shall be used to calculate the number of shares to include in the denominator



99

Effective Date and Transition

- For public business entities that are SEC filers, effective for FYB after 12/15/21, including interim periods within
 - Excludes smaller reporting companies
- For all other entities, effective for FYB after 12/15/23, including interim periods within
- Early adoption is permitted
 - No earlier than FYB after 12/15/20.
 - Must adopt as of beginning of an annual fiscal year.

100



100

Effective for Nonpublic Entities in FY 2025

Assuming 12/31 Year End



101

ASU 2023-08 Crypto Assets

The following digital assets may be subsequently measured at fair value, with changes in net income:

- Meet the definition of an intangible asset
- Do not provide the asset holder with enforceable rights to, or claims on, underlying goods, services, or other assets
- Are created or reside on a distributed ledger or “blockchain”
- Are secured through cryptography
- Are fungible
- Are not created or issued by a reporting entity or its related party



102

Pulse Check

Do you agree with FASB's change to have certain crypto assets to be reported at fair value?

- A. Yes.
- B. No.
- C. Uncertain.

103



103

Key Points

1. An alternative measurement (such as historical cost less impairment) will not be permitted, even for assets not traded in an active market.
2. Apply Topic 820/840 fair value measurement and related disclosures
3. Present separately from other intangible assets using different measurement bases.
4. Present gains/losses separately from effects of other intangible assets (like amortization).
5. Operating cash flow if donated/payment from customer nearly immediately converted into cash



104

Required Disclosures – Interim and Annual Period

- Individually significant crypto asset holdings
 - Name, cost basis, fair value, and number of units
- Aggregate cost basis and fair value of holdings that are not individually significant
- Fair value of crypto assets with contractual sale restrictions at the balance sheet date
 - Nature and remaining duration of restrictions
 - Circumstances when restrictions may lapse
 - Consider the level of aggregation and detail needed when multiple relevant assets involved



105

Required Disclosures – Annual Period Only

- Disclose the method for determining cost basis
 - E.g., FIFO, specific identifications, average cost, etc.
- Disclose the income statement line item that gains and losses are recognized, if not separately presented



106

Required Annual Disclosures – If Not Nearly Immediately Converted to Cash

- Aggregate roll-forward of balance in annual F/S
 - Including additions and dispositions
 - Including gains and losses reporting in net income for the period, determined on an asset-by-asset basis
- For all additions and disposals, include a description of the activities leading to the result
 - E.g., purchases, receipts from customers, receipt for providing mining, sales, use as payment for services
- Disclose total cumulative realized gains and total cumulative losses during the period



107

Effective Date and Transition

- Effective for FYB beginning after 12/15/24, including interim periods within
 - If adopting as of an interim period, adopt as of the beginning of the FY that includes that period
- Early adoption permitted if F/S not yet issued or made available for issuance
- Modified retrospective transition with a cumulative-effect adjustment to the opening retained earnings as of the beginning of year of adoption



108

Reporting Entity Uses a Third-Party Hosted Wallet Service

- If a reporting entity holds its digital assets with a custodian:
 - Recognize the digital assets if the reporting entity has “control” over the digital asset
 - “Control” is discussed in Topic 606 and elsewhere
- Consider the specific facts and circumstances of the custodian and depositor agreement
- Legal analysis may be necessary

109



109

What if the Custodian Has Control?

- Depositor should recognize a right to receive the digital asset as an asset
- Custodian would recognize the digital asset and a corresponding liability
 - **Note:** An embedded derivative may also require bifurcation per Topic 815 for both the depositor and custodian

110



110

ASU 2023-04, Liabilities

- Amendments to SEC paragraphs
 - Due to SEC SAB No. 121
- Views on accounting for entities that have obligations to safeguard crypto-assets held for their platform users
 - Maintains internal recordkeeping
 - May also maintain cryptographic key information necessary to access the asset

111



111

Staff Accounting Bulletin 121 Rescinded

- SAB No. 122 effective January 2025
- Rescinds the interpretive guidance included in Topic 5.FF in the Staff Accounting Bulletin Series entitled *Accounting for Obligations to Safeguard Crypto-Assets an Entity Holds for its Platform Users*
- An entity that safeguards crypto-assets for others should determine whether to recognize a liability related to the risk of loss under such an obligation, and if so, the measurement of such a liability, by applying the recognition and measurement requirements for liabilities arising from loss contingencies under GAAP

112



112

Transition to the Rescission

- Fully retrospective in annual periods beginning after December 15, 2024
- Include clear disclosure of the effects of a change in accounting principle upon initial application of this rescission

113



113

Pulse Check

Do you have any accounting and reporting of joint ventures?

- A. Yes.
- B. No.
- C. Uncertain.

114



114

ASU 2023-05, Joint Venture Formations

- Requires a joint venture to be recognized and initially measured using a new basis of accounting upon formation
 - Measurement date is when the entity initially meets the definition of a joint venture
- Disclosures explain the nature and financial effect of the joint venture formation in the period occurs

115



115

Initial Measurement

- Initially measure at fair value, with exceptions consistent with business combination guidance
- Initial measurement of total net assets is equal to fair value of 100% of the joint venture's equity immediately following formation
 - Including any noncontrolling interest

116



116

Effective Date & Transition

- Apply prospectively to all joint venture formations on or after 1/1/25
- Any JV formed prior to 1/1/25 may elect to retrospectively apply
 - Assuming it has sufficient information
- Early adoption is permitted in any interim or annual period for which F/S have not been issued or made available for issuance

117



117

ASU 2023-02, Investments in Tax Credit Structures

- Permits broader accounting for qualifying investments in tax credit structures using the proportional amortization method
 - Results in cost of the investment being amortized in proportion to the income tax credits and other income tax benefits received
 - Amortization is presented net as a component of income tax expense (benefit)
 - Election may be made on a tax credit program basis, versus for the entity or investment as a whole
 - Enhanced disclosures are required



118

ASU 2023-02, Effective Date

- For public business entities, FYB 12/15/23 and interim periods within
- For all other entities, FYB 12/15/24 and interim periods within
- Early adoption permitted
- Apply either modified retrospective or retrospective basis



119

ASU 2022-03, Fair Value Equity Securities

- When measuring the fair value of an equity security subject to contractual restrictions that prohibit the sale of the equity security
 - Do not consider in measuring fair value
 - Do not recognize and measure a contractual sale restriction
- Disclose the following:
 - FV of these items
 - Nature and remaining duration of restrictions
 - Any circumstances that could cause lapse in restrictions



120

ASU 2022-03, Effective Date

- For public business entities, FYB 12/15/23 and interim periods within
- For all other entities, FYB 12/15/24 and interim periods within
- Early adoption permitted
- Apply prospectively with any adjustments from adjustment to be recognized in earnings at date of adoption
 - Except for investment companies under Topic 946 where special transition rules



121

ASU 2018-12, Insurance Contracts

- The following areas were improved:
 - Assumptions used to measure the liability for future policy benefits for traditional and limited-payment contracts
 - Measurement of market risk benefits
 - Amortization of deferred acquisition costs
 - Disclosures
- ASU 2022-05 related to transition for sold contracts

122



122

Newest Effective Date per ASU 2020-11

- SEC filers except smaller reporting companies FYB after 12/15/22 and interim periods within.
- All other entities FYB after 12/15/24 and interim periods thereafter.

123



123

Effective for Nonpublic Entities in FY 2026

Assuming 12/31 Year End



124

ASU 2023-09, Income Tax Disclosures

- Requires disaggregated information about a reporting entity's effective tax rate reconciliation into eight specific categories
 - Disclosures are different for public business entities
- Enhances disclosures on income taxes paid by requiring disaggregation by jurisdiction



125

Effective Date and Transition

- For public business entities, effective annual periods beginning after 12/15/24
- For all other entities, effective for annual periods beginning after 12/15/25
- Early adoption permitted that have not been issued or made available for issuance
- Apply prospectively or retrospectively



126

Annual Required Disclosure for Public Business Entity

- Tabular rate reconciliation using BOTH percentages AND reporting currency amounts
 - Reported income tax expense (benefit) from continuing operations TO
 - Product of the income (or loss) from continuing operations before income taxes and the applicable statutory federal (national) income tax rate of the jurisdiction (country) of domicile using specific categories
- Separate disclosure for any reconciling items within 8 specified categories that are equal to or greater than 5% (of the above calculation)
 - Call “other adjustment if does not fit in a category



127

Eight Specific Categories for Public Business Entities

1. State and local income tax, net of federal (national) income tax effect
 - Include income taxes imposed by state and local jurisdictions within the jurisdiction (country) of domicile
2. Foreign tax effects
 - Included all other income taxes imposed by jurisdictions outside the country of domicile
3. Changes in unrecognized tax benefits
 - May include reconciling items for all jurisdictions on an aggregate basis
 - Only includes effect changes in judgment related to tax positions taken in PRIOR annual reporting periods



128

Eight Specific Categories for Public Business Entities

4. Effect of changes in tax laws or rates enacted in the current period
 - Impact at the date of enactment on current or deferred tax assets and liabilities
5. Effect of cross-border tax laws net of any related tax credit
6. Tax credits
7. Changes in valuation allowances either initially recognized or subsequently adjusted
8. Nontaxable or nondeductible items

Note: For all the above, ONLY include federal (national) income tax impacts imposed by the jurisdiction (country) of domicile.



129

Rate Reconciliation Disclosures for Non-PBE's

- Qualitatively disclose the nature and effect of the specific categories of reconciling items and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate
 - Numerical reconciliation is not required



130

Sample Non-PBE Disclosure

The difference between ENTITY effective tax rate and its statutory rate is primarily attributed to tax credits, state taxes, and foreign taxes. The foreign tax effects of ENTITY operations in Germany had a decreasing effect on its effective tax rate, while the foreign tax effects of ENTITY operations in Canada had an increasing effect on its effective tax rate. ENTITY received federal research and development tax credits, which decreased its effective tax rate, while state taxes in New York increased its effective tax rate.



131

Pulse Check

Do you think this is useful information for resource providers to business entities?

- A. Yes.
- B. No.
- C. Uncertain.

132



132

Income Taxes Paid Disclosures – All Entities

- Disclose the year-to-date amount of income taxed paid (net of cash refunds received) disaggregated by general (national), state, and foreign
 - Note: Comparative by year, not by jurisdiction
- Disclose additional disaggregated information on income taxes paid (net of refunds received) to an individual jurisdiction $>$ or $=$ 5% of total income taxes paid (net of refunds received)
 - A local, state, or country may be a jurisdiction



133

Key Point About Materiality

- Materiality always applies, and explicitly in the Basis for Conclusion FASB gave these examples:
 - The required specific categories or reconciling items if they are immaterial, even if the quantitative threshold is met
 - Income taxes paid for any jurisdiction (whether federal, state, or foreign groupings or individual jurisdictions are $>5\%$ if the amount is not material



134

Other Added Disclosures

- The following disclosures were codified for all entities to align with pre-existing SEC rules:
 - Income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign
 - Income tax expense (or benefit) from continuing operations disaggregated by federal (national), state, and foreign



135

Disclosures Removed

- Nature and estimate of the range of reasonably possible increases or decreases in the unrecognized tax benefits balance in the next 12 months (or that an estimate cannot be made)
 - But still monitor whether disclosures are required under ASC 275, Risks and Uncertainties
- The cumulative amount of each type of temporary difference when a deferred tax liability is not recognized because of the exceptions to comprehensive recognition of deferred taxes related to undistributed earnings of subsidiaries/ joint ventures



136

Pulse Check

Do you know any entities that grant profits interest awards or similar instruments?

- A. Yes.
- B. No.
- C. Uncertain.

137



137

ASU 2024—01, Profits Interest Awards

- Clarifies when profits interest and similar awards should be accounted for under Topic 718 as Stock-Based Compensation
- Profits interest awards defined
 - May benefit employees or nonemployees
 - Aligns compensation with an entity's operating performance
 - Provides holders to participate in future profits and/or equity appreciation of the entity
 - No rights to existing net assets (so not capital interests, such as in a limited liability company)



138

Share-Based Awards Under Topic 718, Stock Compensation

1. Entity issues (or offers to issue) its shares, share options, or other equity instruments to an employee or nonemployee
2. Entity incurs liabilities to an employee or nonemployee that EITHER:
 1. Amounts are based, at least in part, on the price of the entity's shares or other equity instruments
 2. Awards require or may require settlement by issuing the entity's equity share or other equity instruments



139

Illustrative Case Studies- Common Assumptions

- Entity X is a partnership
- Before 6/1/20X1, Entity X has Class A units outstanding
- On 6/1/20X1, Entity X grants Class B incentive units to employees of a subsidiary of Entity X in exchange for services
- An exit event may include an initial public offering, a change in control, or a liquidation of Entity's X's assets



140

Fact Pattern #1- Award is a Share-Based Award

6. If grantee terminates employment after vesting, the grantee retains ownership of the vested Class B

- But upon termination, Entity X has a call right to repurchase the Class B
- **If the call right is exercised, Entity X would pay the grantor cash equal to the fair value of the units on the call date**



141

Fact Pattern #4 – Award is NOT Share-Based

1. Class B units do not entitle the grantee to receive equity instruments of Entity X

- Often called “phantom share units”

2. Grantee of Class B is eligible to participate in operating distributions made by Entity X **equal to 1% of the preceding fiscal year’s net income**

- An operating metric not tied to Entity X’s share price

3. Grantee of Class B is eligible to begin participating in these operating distributions after 3 years of service



142

Effective Date

- For public business entities, effective for annual periods beginning after 12/15/24 and interim periods within.
- For all other entities effective for annual periods beginning after 12/15/25 and interim periods within.
- Early adoption permitted for interim or annual F/S that have not yet been issued for available for issuance.



143

Transition

Either:

1. Retrospectively to all prior periods presented in the F/S (with certain disclosures) OR
2. Prospectively to profits interest awards granted or modified on or after the date at which the entity first applies the amendments



144

Other Recent FASB Activity Primarily Impacting Public Business Entities



145

ASU 2023-06, Disclosure Improvements

- Modify the disclosure or presentation requirements of a variety of Topics
- In SEC Release No. 33-10532, *Disclosure Update and Simplification*, issued August 17, 2018, the SEC referred certain of its disclosure requirements that overlap with, but require incremental information to, generally accepted accounting principles (GAAP) to the FASB for potential incorporation into the Codification
 - The amendments in this Update are the result of the Board's decision to incorporate into the Codification some of the disclosures referred by the SEC

146



146

Effective Date

- The effective date for each amendment will be the date on which the SEC's removal of that related disclosure from Regulation S-X or Regulation S-K becomes effective, with early adoption prohibited
 - For all other entities, the amendments will be effective two years later
- If by June 30, 2027, the SEC has not removed the applicable requirement from Regulation S-X or Regulation S-K, the pending content of the related amendment will be removed from the Codification and will not become effective for any entity

147



147

Pulse Check

Are you grateful that there are not many ASU updates coming into effect on the horizon?

- A. Yes.
- B. No.
- C. Uncertain.

148



148

Current FASB Projects

149



149

Accounting for Disclosure of Software Costs

- Comments Due 1/27/25
- Removes all references to a prescriptive and sequential software development method, called “project stages”.
- Present cash paid for capitalized internal-use software costs as investing cash outflows in the statement of cash flows.

150



150

When Capitalization May Begin

- Both the following must have occurred:
 1. Management has authorized and committed to funding the software project.
 2. It is probable that the project will be completed, and the software will be used to perform the function intended.
 - Referred to as the “probable-to-complete recognition threshold”.
 - May have significant uncertainty considerations.

151



151

Interim Reporting – Narrow Improvements

- Comments Due 3/31/25
- Clarifies that the guidance in Topic 270 applies to all entities that provide interim financial statements and notes in accordance with generally accepted accounting principles (GAAP)
- Creates a comprehensive list of required interim disclosures
- Improve the form and content of interim F/S

152



152

Accounting for Government Grants

- Comments Due 3/31/25
- A grant related to an asset is when the primary condition is for the business entity to purchase, construct, or otherwise acquire a long-term asset.
 - Including the direct grant of a tangible nonmonetary asset from a government.
- A grant related to income is other than a grant related to an asset.
 - For example, a grant that reimburses a business entity for operating expenses.

153



153

Initial Recognition

- Initially recognized when it is probable:
 1. A business entity will comply with the conditions attached to the grant and
 2. The grant will be received.
- Recognize in the balance sheet either as:
 1. Deferred income (the deferred income approach).
 2. A part of the cost basis in determining the carrying amount of the asset (the cost accumulation approach).

154



154

Accounting for Environmental Credit Programs

- Comments Due 4/15/25
- Addresses the recognition, measurement, presentation, and disclosure of environmental credits and environmental credit obligations
 - For all entities that purchase or hold environmental credits or have a regulatory compliance obligation that may be settled with environmental credits.

155



155

Accounting for Debt Exchanges

- Would require a debt exchange transaction involving multiple creditors to be accounted for as a debt extinguishment and the issuance of new debt when the following are met:
 - The existing debt has been repaid in accordance with its original contractual terms or repurchased at market terms.
 - The new debt was issued at market terms following the issuer's normal marketing process for new debt issuances.

156



156

Presentation for Construction Contractors

- Addresses the presentation of contract assets and contract liabilities for private construction companies
- Provides an alternative for private companies to present contract assets and contract liabilities on a gross basis on the statement of financial position

157



157

Other Ongoing Projects

- Financial Instruments – Credit Losses for Purchased Financial Assets
- Refinements in Derivatives Scope
- Hedge Accounting Improvements
- Improvements to Statement of Cash Flows

158



158

GASB Update



159

GASB 102: Certain Risk Disclosures

- Objective is to provide essential information about risks related to vulnerabilities due to certain concentrations or constraints
- Requires assessment as to whether the following are vulnerable to the risk of a substantial impact:
 - The primary government reporting unit or
 - Other reporting unit(s) that report a liability for revenue debt



160

Effective Date & Transition

- Effective for FYB after June 15 2024, and all reporting periods thereafter
- Early application encouraged



161

Examples of “Concentrations”

- A lack of diversity related to an aspect of a significant inflow of resources or outflow of resources
 - Employees
 - Inflows of resources
 - Workforce covered by collective bargaining agreements
 - Providers of financial resources
 - Suppliers of material, labor, or services
 - Industries



162

Examples of “Constraints”

- A limitation imposed by an external party or by formal action of a government’s highest level of decision-making authority
 - Limitations in raising revenue
 - Limitations in spending
 - Limitations on the incurrence of debt
 - Mandated spending



163

Assessment Period

- Assess whether an event(s) associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur
 - Within 12 months of the date the F/S are issued



164

Required Disclosure Elements

- Sufficient detail to enable F/S users to understand:
 - The concentration or constraint
 - Each event associated with the government's vulnerability to the risk of a substantial impact
 - If the event had occurred or had begun to occur prior to F/S issuance
 - Actions taken by the government prior to the issuance of the F/S to mitigate the risk



165

Key Points

- If comparative F/S, only apply to current period
- Combine with other disclosures as appropriate to avoid unnecessary duplication
 - Including combining same information for more than one reporting unit



166

GASB 103: Financial Reporting Model Improvements

- Effective for FYB after 6/15/25
 - Earlier application encouraged
- Goal to enhance transparency, comparability, and overall financial report quality



167

GASB 103 New or Modified Content

1. Management's Discussion and Analysis refined structure with five specific sections
2. Unusual or infrequent items distinct presentation
3. Presentation of proprietary fund statement of revenues, expenses, and changes in fund net position clarified
4. Information about major component units in basic financial statements based on "readability"
5. Budgetary comparison information as RSI
6. Financial trends information expanded (statistical section)



168

GASB 104

Disclosure of Certain Capital Assets

- Effective for FYB after 6/15/25
- Requires certain types of capital assets and the related amortization to be disclosed separately by major class of underlying asset
 - Leased asset under GASB No. 87, Leases
 - Intangible right-to-use assets under GASB No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements
 - Subscription assets under GASB No. 96, Subscription-Based Information Technology Arrangements



169

Capital Assets Held for Sale

- Enhanced disclosure, including historical cost and depreciation by major class of asset
- Disclose the carrying amount of debt where assets held for sale are pledged as collateral for each major class of asset
- Continue to report within the appropriate major class of capital asset



170

“Held for Sale” Classification

- Capital assets are “held for sale” if:
 - The government has decided to pursue the sale
 - It is probable (likely to occur) that sale will be completed within one year of the financial statement date



171

GASB Implementation Guide



172

Implementation Guidance Update - 2025

- June 2025
- Applicability is to financial statements of all state and local governments
 - Unless a narrower applicability is specifically provided for in the pronouncement addressed by a question and answer
- Effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter
 - Earlier application is encouraged
 - See guidance for transition requirements

173



173

Implementation Guidance Update - 2025

Cash Flows Reporting

- For a transaction reported as part of *operating income* in the statement of revenues, expenses, and changes in fund net position *and* in a cash flow statement category *other than operating activities*
 - Present as a reconciling item in the reconciliation of operating income to net cash flow from operating activities
 - For example, interest income of a finance authority would be deducted as a reconciling adjustment (similar to depreciation)

174



174

Implementation Guidance Update - 2025

Basic Financial Statements and Management's Discussion and Analysis

- Interest revenues related to a proprietary fund's operations to provide loans to first-time homeowners is reported as operating revenues since a part of the fund's "principal ongoing operations" are related to the operations of the program
 - Any interest expense incurred related to borrowings to finance those operations are always reported as nonoperating expenses

175



175

Implementation Guidance Update - 2025

Basic Financial Statements and Management's Discussion and Analysis

- If the principal ongoing operation of an enterprise fund or business-type activity (BTA) is related to leasing property to other entities, the principal ongoing operation is conveying control of the right to use an underlying asset
 - Any interest revenue is related to "financing the operation" of conveying control of the right to use an underlying asset, rather than the operation itself
 - Always reported as nonoperating revenue, unless financing transactions constitute a proprietary fund's principal ongoing operations
 - Leases are financing, but they are differing from loans and other financings

176



176

Implementation Guidance Update - 2025

Basic Financial Statements and Management's Discussion and Analysis

- Deferred inflow of resources related to leases are required to be recognized as inflows of resources (e.g., revenue) over the lease term
 - If reported as revenues, a BTA or an enterprise fund should report those inflows of resources as operating revenue
 - Only the interest revenue recognizes from a lease is related to financing and should be reported as nonoperating revenue

177



177

Implementation Guidance Update - 2025

Basic Financial Statements and Management's Discussion and Analysis

- Any asset purchased as part of economic development activity is reported as a capital asset having useful lives longer than a single reporting period

178



178

Implementation Guidance Update - 2025

Basic Financial Statements and Management's Discussion and Analysis

- Subsidies are classified as “noncapital” if the provider either does *not* limit the use of the resources or limits the use to something *other than* the acquisition of capital assets
- If subsidy resources are used for the acquisition of capital assets in circumstances in which the provider of a subsidy did not limit the use of the resources to the acquisition of capital assets, they are still classified as “noncapital” subsidies

179



179

Implementation Guidance Update - 2025

Basic Financial Statements and Management's Discussion and Analysis

- The recipients use of all or a portion of a subsidy for “capital” purposes does not, by itself, result in all or a portion of the subsidy being a “capital” subsidy being reported as other nonoperating revenues and expenses

180



180

Implementation Guidance Update - 2025

Basic Financial Statements and Management's Discussion and Analysis

- Payments in Lieu of Taxes (PILOTs) may meet the definition of “subsidies”
 - Yes, if a payment from a BTA or proprietary fund either to a primary government's general fund or another government to compensate for tax revenue lost due to tax exemptions for the purpose of supporting general governmental activities
 - Yes, if a BTA or proprietary fund establishes a rate or fee that produces operating income greater than or equal to the amount of the PILOT

181



181

Implementation Guidance Update - 2025

- Payments in Lieu of Taxes (PILOTs) may meet the definition of “subsidies”
- No, if a PILOT is a payment from a BTA or proprietary fund to another government or fund for goods or services provided to the BTA or proprietary fund

Note: The name of the arrangement is not relevant to the determination of whether it is a subsidy for accounting or reporting purposes

182



182

Implementation Guidance Update - 2025

- Payments in Lieu of Taxes (PILOTs) may meet the definition of “subsidies”
 - A third-party’s responsibility to make payments to a healthcare provider in accordance with an insurance contract with an individual is not a “subsidy”
 - The insured individual received goods or services from the healthcare provider and the insurer is paying in place of the insured

183



183

Implementation Guidance Update - 2025

Leases

- If a vehicle lease ends after 3 years or 60,000 miles, whichever comes first, with no other options to extend or terminate – the 3 years is the noncancellable period
 - If mileage is reached first, reassess the lease term at that point
- Remeasurement of a lease liability due to a lease modification should be calculated from the modification date (not the lease commencement date)

184



184

Implementation Guidance Update - 2025

Conduit Debt Obligations

- Conduit debt is when a component unit issues debt on behalf of its primary government (who is the third-party obligor)
- One of the characteristics which must be met for “conduit debt” is that the issuer and the third-party obligor are not within the same financial reporting entity

185



185

Implementation Guidance Update - 2025

Conduit Debt Obligations

- For a component unit’s standalone financial statements, the characteristic refers to the relationship between the issuer and the third-party obligor, not the financial reporting entity covered by a set of financial statements
- If a component unit issues debt on behalf of its primary government (the third-party obligor), the debt does not meet the characteristics of “conduit debt”
- The component unit would not report debt as “conduit debt” in stand-alone financial statements, but would apply provisions related to long-term debt

186



186

Implementation Guidance Update - 2025

Accounting Changes and Error Corrections

- A change in a government's capitalization threshold is not a change in accounting principle since it is the application to a specific asset class
- An individual adjust to or restatement of beginning net position, fund balance, or fund net position can not be displayed separately from the remaining aggregate of adjustments to or restatements of those beginning balances
 - A single line presenting the sum of all adjustments to and restatements of beginning balances for each reporting unit should be displayed
 - Unless each accounting change and each error correction is separately displayed in accordance with a permitted exception permitted by Statement 100 paragraph 32

187



187

Implementation Guidance Update - 2025

Accounting Changes and Error Corrections

- When there is a change in a fund's presentation from major to nonmajor:
 - A column should continue to be presented in the statement of revenues, expenditures, and changes in fund net position (as applicable) that displays
 - The funds beginning balance as previously reported in the major column AND
 - The adjustment to that balance (even though that column does not present activity for the reporting period)

188



188

Implementation Guidance Update - 2025

Accounting Changes and Error Corrections

- When there is a change in a fund's presentation from major to nonmajor:
 - The column that presents nonmajor funds in the aggregate in the statement of revenues, expenditures, and changes in the fund balances (or revenues, expenses, and fund net position – if applicable) should display the adjustment to its beginning balance
 - This does not change if the major fund no longer exists as a result of the movement of continuing operations like an enterprise fund reported as part of the general fund

189



189

Implementation Guidance Update - 2025

Compensated Absences

- Do not use future pay rates, even if known, in the measurement of leave liability that is more likely than not to be paid at the future pay rate
 - For example, the next year's salary increases are approved, or a collective bargaining agreement is in place
 - Future pay rate changes are recognized in the period of the change

190



190

Implementation Guidance Update - 2025

Financial Reporting Model Improvements (Statement 103)

- If a primary government is implementing Statement 103 for its fiscal year ended June 30, 2026, and it will include a component unit with a fiscal year-end of December 31, 2025, the component unit should implement Statement 103 in its December 31, 2025, financial statements
- Effective upon issuance

191



191

Implementation Guidance Update - 2025

Amendments to Previously Issued Questions and Answers

- Title to an asset generally is equivalent to “ownership”, where the title holder reports an asset in its financial statements
 - “Ownership” is a collection of rights to “use and enjoy” property or to transmit it to others
 - “Title” is used to refer to the right to ownership of an asset and used to refer to the evidence of such ownership
 - However, facts and circumstances should be considered, such as the issuer of conduit debt does not recognize a capital asset even though it holds title from the beginning of the arrangement

192



192

Implementation Guidance Update - 2025

Fund Balance Reporting and Governmental Fund Type Definitions

- Governments are not required to use special revenue funds to report restricted or committed revenue sources
 - Except to report the general fund of a blended component unit or to report restricted resources that are legally mandated to be reported in a special revenue fund

193



193

Pulse Check

Did you learn something today?

- A. Yes.
- B. No.
- C. Uncertain.

194



194

Thank you!

