2026 Annual Accounting and Financial Reporting Update

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Learning Objectives

- Recall the highlights of recent accounting standards activity
  - Through ASU 2025-12
- List why significant new FASB accounting standards were released and the most significant impact
- Recall "plain language" explanations of current and emerging U.S. GAAP requirements
- Identify "hot topics" in accounting and financial reporting

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Pulse Check

Are you ready to get started?

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

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Summary of Effective Dates

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Nonpublic Companies

- 1/1/25 forward
  - ASU 2023-05, Joint Venture Formations
- FYE 12/31/25 forward
  - ASU 2023-08, Crypto Assets
  - ASU 2023-02, Investments in Tax Credit Structures
  - ASU 2022-03, Fair Value Equity Securities
  - ASU 2018-12, Insurance Contracts

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Nonpublic Companies

- FYE 12/31/26 forward
  - ASU 2025-05, Credit Losses Topic 606 Receivables
  - ASU 2024-04, Induced Conversion Accounting
  - ASU 2024-02, Codification Improvements
  - ASU 2024-01, Profits Interest Awards
  - ASU 2023-09, Income Tax Disclosures

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Nonpublic Companies

- FYE 12/31/27 forward
  - ASU 2025-08, Purchased Loan Credit Losses
  - ASU 2025-07, Derivative Scope Refinements and Clarification on Share-Based Noncash Consideration From a Customer in a Revenue Contract
  - ASU 2025-04, Share-Based Consideration Payable to a Customer
  - ASU 2025-03, Acquirer in a VIE Acquisition

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Nonpublic Companies

- FYE 12/31/28 forward
  - ASU 2025-09, Hedge Accounting Improvements
  - ASU 2025-06, Accounting for and Disclosure of Software Costs
- FYE 12/31/29 forward
  - ASU 2025-11, Interim Reporting
- FYE 12/31/30 forward
  - ASU 2025-10, Government Grants Received by Business Entities
- TBD
  - ASU 2023-06, Disclosure Improvements

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Focus on Environmental Credits

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ASU 2026-02, Environmental Credits

- Applicable to all entities that internally generate, purchase, or receive in a grant or nonreciprocal transfer environmental credit
  - Or have a regulatory compliance obligation that may be settled with environmental credits
  - Participation may be voluntary or required

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Example Applications

1. Emissions allowances originating from domestic and global cap-and-trade programs
2. Renewable identification numbers originating from the U.S. Renewable Fuel Standard
3. Renewable energy certificates originating from U.S. State Renewable Portfolio Standards.

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Environmental Credits Defined

- Enforceable rights represented to prevent, control, reduce, or remove emissions or other pollution
- The rights are separately transferable in an exchange transaction

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Recognizing an Asset

- Recognize when probable credit will be used or transferred
  - Recognize costs to obtain credits as incurred if not probable
- Subsequent measurement
  - Compliance credits measure at cost
  - Noncompliance credits measure at cost, less impairment (when fair value is lower)
    - Subsequent reversal prohibited
    - May elect fair value for certain eligible credits

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Environmental Credit Obligations Defined

- Enforceable obligations resulting from regulatory compliance programs represented to prevent, control, reduce, or remove emissions or other pollution that may be settled with environmental credits
  - Voluntary initiatives and similar statements of intent do not constitute an environmental credit obligation

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Recognizing a Liability

- Recognize when events (for example, emissions) occurring on or before the reporting date result in an environmental credit obligation
  - Assume that the reporting date is the end of the compliance period regardless of whether the compliance period ends on that date
- Differing treatment for "funded" and "unfunded" portions

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Effective Date

- For public business entities, FYB after 12/15/27, included interim periods within
- For all other entities, FYB after 12/15/28, included interim periods within
- Early adoption permitted as of beginning of annual reporting period
- Retrospective transition to beginning or earliest period presented

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Most Recently Issued Standards
Paid-In-Kind (PIK) Dividends

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ASU 2026-01, Paid-in-Kind Dividends

- Addresses the initial measurement of paid-in-kind dividends on equity-classified preferred stock for issuers of those instruments
  - Does not affect WHEN to recognize PIK dividends
  - Diversity in practice impacts statement of financial position and earnings per share

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What is a PIK Dividend?

- A non-cash distribution where a company pays shareholders with additional shares of stock or other securities instead of cash
  - Generally preferred stock
  - Common for private equity to defer cash outflows

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What Would Be the Initial Measurement?

- Requires PIK dividends on equity-classified preferred stock be initially measured on the basis of the PIK dividend rate stated in the preferred stock agreement
  - E.g., Calculated by multiplying the PIK dividend rate by the liquidation value of the preferred stock outstanding
  - Liquidation value is commonly defined in the preferred stock agreement
  - Liquidation value equals original issuance price, assuming the stock is not issued at a discount or premium

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Effective Date and Transition

- Effective for all entities for FYB after 12/15/26, and interim periods within
- Early adoption permitted if F/S have not yet been issued or made available for issuance
  - Apply as of the beginning of the annual reporting period
- Either prospective or modified retrospective transition permitted

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Pulse Check

Do most entities prepare interim financial statements?

A. Yes.

B. No.

C. Uncertain.

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Most Recently Issued Standards Interim Reporting

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ASU 2025-11, Topic 270 Interim Reporting

- Improves the navigability of the required interim disclosures
- Clarifies that guidance is applicable to all entities that provide interim financial statements and notes in accordance with GAAP
- Provides a comprehensive listing of what disclosures should be provided
- Requires entities to disclose events since the last annual reporting period that have a material impact

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Effective Date and Transition

- For public business entities for interim reporting periods within annual reporting periods beginning after 12/15/27
- For all other entities for interim reporting periods within annual reporting periods beginning after 12/15/28
- Early adoption is permitted
- Applied either prospectively or retrospectively to any or all periods presented

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Most Recently Issued Standards Businesses Receiving Government Grants

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Nonprofit Organizations

- ASC 958-605 provides guidance for recognizing revenue for nonexchange transactions
- Recognize revenue when any "conditions" have been substantially met
- If there is a grantor-imposed restriction, consider the impact on net asset classification
- Present grant income on a "gross basis" as grant revenue or other income
- **NOTE:** Nonprofits must use ASC 958 for conditional contributions or ASC 470 for debt (if not expected to meet conditions)

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Conditional Contribution – Two Required Elements

1. Barrier to overcome
   - Measurable performance obligation
   - Limits discretion on the conduct of activity
2. Right of return or release from obligation

Note: Defer revenue recognition until barrier substantially satisfied or explicitly waived

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ASU 2025-10, Government Grants Received by Business Entities

- Government Grant = Transfer of a monetary asset or a tangible nonmonetary asset
- Scope Exceptions:
  - Exchange Transactions under Topic 606 (even if at a significant discount to fair value)
  - Topic 740 Income Tax Matters (e.g., nonrefundable, nontransferable income tax credits - but not refundable tax credit not under scope of Topic 740)
  - Below-Market Interest Rate Loans
  - Government Guarantees
  - **Nonprofits and Employee Benefit Plans**

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Examples of Grants

- A transfer of cash to fund future expenditures or reimburse expenditures already incurred
  - E.g., capital expenditures, wages, training and other employee-related costs, research and development expenses, or other operating expenses
- A transfer of a tangible nonmonetary asset such as a long-lived asset
  - E.g., a building, land, or equipment

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Forgivable Loans

- A loan for which the lender agrees to waive repayment under certain prescribed conditions established by a government
- May include forgivable loans, which are economically similar to a government grant of cash

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What About Intangible Assets?

- E.g., licenses, patent protection, environmental credits, free or reduced rent, etc.
- Too many implementation questions and too broad
- Determining fair value would be costly and complex

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Other Exclusions

- Provision of service
- A reduction of an entity's liabilities (for example, sales, property, payroll, or other tax abatement)
- Government participation in the ownership of an entity
- A contribution to a business entity from a nongovernmental source within the scope of Subtopic 958-605 on not-for-profit entities—revenue recognition
- A transaction within the scope of Subtopic 610-20 on other income—gains and losses from the derecognition of nonfinancial assets

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Do you believe that grants of tangible assets and grants of income should be accounted for differently?

A. Yes.

B. No.

C. Uncertain.

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What is a "Government" Grant?

- Grants administered by
  - Domestic
  - Foreign
  - Local (for example, city, town, county, and municipal)
  - Regional (for example, state, provincial, and territorial)
  - National (federal) governments
  - Entities related to those governments

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What is a "Government" Grant?

- Examples of entities related to governments include departments, independent agencies, boards, commissions, and component units.
- Can also be administered by intergovernmental organizations and other types of organizations
  - Such as **nongovernmental organizations** or government-sponsored enterprises that have **authority from a government to administer grants on its behalf**

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Recognize a Received Grant When:

1. It is probable that BOTH:
   a. A business entity will comply with the conditions attached to the grant
   b. The grant will be received
2. A business entity meets relevant recognition guidance

NOTE:

- Do not recognize a receivable until recognition guidance is met.
- May receive grant for only previously incurred costs.

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What About Variable Grants?

- The standard does not specifically address the measurement of a government grant when the amount to be awarded is not fixed.
  - Estimate the amount that it expects to receive and recognize that amount when the criteria in ASC 832-10-25-1 are met.
  - Estimates should be subsequently updated to address changes in facts and circumstances, recognized on a cumulative catch-up basis

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Grant Related to Income

- E.g., a grant that reimburses operating expenses
- Recognize on the balance sheet using the deferred income approach
  - Recognize in earnings on a systematic and rational basis over the periods in which the business entity recognizes as expenses the costs for which the grant is intended to compensate
- Present as part of earnings EITHER:
  1. Separately as "other income" general heading
  2. Deducted from the related expense

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Deferred Income Approach – Tangible Nonmonetary Assets

- Initially measure at fair value
- Related costs intended to compensate may include depreciation, gain/loss on sale, impairment, etc.
- If nondepreciable asset apply over periods in which the entity incurs costs to which the grant relates

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Cost Accumulation Approach

- Initially recognize a tangible nonmonetary asset directly received at the cost to the entity, if any
  - Carrying value is cost, which effectively is the same as acquiring an asset and then receiving a cash reimbursement from the government
  - Basis may be zero or a nominal cost to transfer
  - NOTE: IAS 20 recognizes at fair value – grant amount
- No separate subsequent recognition of the government grant proceeds in earnings
- The carrying account of the assets after grant accounting is used to determine depreciation or other subsequent accounting

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Grant Related to an Asset

- Conditioned on the purchase, construction, or acquisition of inventory, long-lived asset, or other
- Recognize on the balance sheet as a business entity incurs the related costs for which the grant is intended to compensate, EITHER as:
  1. Deferred income (where related costs are depreciation, gain/loss on sale, impairment, etc.)
  2. Cost accumulation approach - An adjustment to the cost basis for determining the carrying amount of the asset

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Example: Entity Receives Cash Towards Purchase of Building

- $5 million grant to assist with cost or purchasing a building
- Funds received upon purchase of building
- Building has a 40-year useful life
- Deferred Income Approach
  - Once building is place in service, spread over a 40-year period in proportion to depreciation expense
- Cost Accumulation Approach
  - Adjust against the carrying amount of the building
  - No separate recognition in earnings

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Repayment of a Government Grant

- Grant related to income
  - Apply first against unamortized deferred income
  - Any difference recognize immediately in earnings
- Grant related to asset
  - Increase the carrying amount of the asset if cost accumulation approach applied with all related expenses that would have been recognized in earnings to date immediately recognized in earnings
  - Reduce deferred income balance if deferred income approach applied with any excess in earnings

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Pulse Check

Do you agree that specific disclosures related to the nature and risks of government grants received by businesses is helpful?

A. Yes.

B. No.

C. Uncertain.

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Key Disclosures

- Nature of the government grant received
  - General description and form received
  - Fair value of any tangible nonmonetary asset received, even if cost accumulation approach applied
- Accounting policies applied
  - Line items impacted and any applicable amounts in current period
  - Useful life of any asset if cost accumulation approach applied
- Significant terms and conditions of the grant
  - Duration
  - Commitments made by reporting entity and government
  - Any provisions for recapture and triggering conditions
  - Other contingencies

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Effective Date

- For public business entities FYB after 12/15/28 and interim periods within
- All other entities FYB after 12/15/29 and interim periods within
- Early adoption permitted if F/S not yet issued or made available for issuance
- Must adopt as of the beginning of an annual period if interim period adoption

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Most Recently Issued Standards Derivatives and Hedge Accounting

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ASU 2025-09, Hedge Accounting Improvements

- Objective is to more closely align hedge accounting with the economics of an entity's risk management activities
- Better enables entities to achieve and maintain hedge accounting for highly effective economic hedges of forecasted transactions

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Effective Date

- For public business entities FYB after 12/15/26 and interim periods within
- For all other entities FYB after 12/15/27 and interim periods within
- Early adoption permitted
- Prospective basis

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ASU 2025-08, Purchased Loan Credit Losses

- Loans (excluding credit cards) acquired without credit deterioration and deemed "seasoned" accounted for using the "gross-up" approach at acquisition
  - All non-PCD loans (excluding credit cards) acquired in a business combination are deemed seasoned
  - Other non-PCD loans (excluding credit cards) are seasoned if they were purchased at least 90 days after origination and the acquirer was not involved in the loan origination

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Effective Date and Transition

- Effective for all entities for FYB after 12/15/26
  - And interim reporting periods within
- Apply prospectively to loans acquired on or after the initial acquisition date
- Early adoption is permitted if F/S have not yet been issued or made available for issuance

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ASU 2025-07, Derivatives and Hedging (Topic 815)

1. Derivative scope refinements
2. Scope clarification for share-based noncash consideration from a customer in a revenue contract

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ASU 2025-07, Derivatives and Hedging (Topic 815)

- Exclude from derivative accounting all:
  - Non-exchange-traded contracts
  - With underlyings based on operations or activities specific to one of the "parties to the contract"
  - "Parties to the contract" may include the parent, subsidiaries, or other entities consolidated by the parent

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Example Non-Exchange Traded Contracts Exempt From Topic 815

- Underlying on which the settlement is based on:
  1. Climatic, geological, and other physical variables
     - E.g., the number of inches of rainfall or snow in a particular area and the severity of an earthquake as measured by the Richter scale
  2. Contracts with settlements based on the volume of items sold or services rendered
     - E.g., royalty agreements
     - Note: The scope exception does not apply to contracts based on changes in sales or revenues due to changes in market prices

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Example Non-Exchange Traded Contracts Exempt From Topic 815

- Underlying on which the settlement is based on:
  3. Financial operating results (or components of those results) of one of the parties to the contract
  4. Occurrence or nonoccurrence of an event specific to the operations or activities of one of the parties to the contract
     - E.g., obtaining regulatory approval, achieving a product development milestone, achieving a greenhouse gas emissions reduction target, occurrence of a successful litigation outcome

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Pulse Check

Do you get confused as to when derivatives exist in accounting?

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

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ASU 2025-07
Share-Based Customer Consideration

- Receiving share options or other equity instruments from a customer for the transfer of goods or services
  - Noncash consideration
- E.g., If entity delivers 5,000 units to customer within 2 years from contract inception
  - Performance bonus of 100 units of customer's common stock is earned
  - Estimated to be worth $100,000 at contract inception, which will be added to the transaction price

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ASU 2025-07
Share-Based Customer Consideration

- Topic 815 and Topic 321 do not apply
  - Unless and until the entity's right to receive or retain the shared-based consideration is unconditional
    - i.e., only the passage of time is required before payment of that consideration is due
  - At that point, a contract asset (e.g., related to warrants owed) is derecognized and other Topics apply

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ASU 2025-07
Effective Date

- Effective for all entities for FYB after 12/15/2026, and interim periods within
  - Early adoption permitted
- Transition either
  1. Prospectively to new contracts entered into on or after the date of adoption OR
  2. Modified retrospective basis through a cumulative-effect adjustment to the opening balance of retained earnings as of the beginning of the annual reporting period of adoption for contracts existing as of the beginning of the annual reporting period of adoption

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Most Recently Issued Standards Accounting for and Disclosure of Software Costs

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Applicability of ASU 2025-06, Accounting for and Disclosure of Software Costs

- Internal-use software
- The proceeds of computer software developed or obtained for internal use that is marketed
- New internal-use software developed or obtained that replaces previously existing internal-use software
- Computer software that consists of more than one component or module
  - For example, an entity may develop an accounting software system containing three elements: a general ledger, an accounts payable subledger, and an accounts receivable subledger
- Costs incurred to develop a website

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When to Start Capitalization

An entity would be required to start capitalizing software costs when both the following occur:

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 (probable-to-complete recognition threshold)
   - Linked "probable" to "future event or events are likely to occur"

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Judgement Involved

- Requires entities to use judgment in evaluating when to recognize software costs
  - If there is significant development uncertainty, the probable-to-complete recognition threshold is not met
  - e.g., the software being developed is novel, unique, has unproven functions, or includes technological innovations
  - e.g., significant performance requirements have yet to be identified or may be substantially revised, getting feedback from user groups on features, etc.

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Stopping Capitalization

- Capitalization will cease no later than the point at which a project is substantially complete and ready for its intended use, that is, after all substantial testing is completed

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Re-Evaluating Useful Lives

- New software development activities triggers consideration of the remaining useful lives of replaced software
  - Unamortized costs of old software should be expended when replacement software is ready for its intended use

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Permitted Cost Examples

- External direct costs of material and services consumed in developing or obtaining internal-use computer software
  - e.g., fees paid to third parties for software development, travel expenses incurred by employees in their duties directly associated with software development, etc.
- Payroll and payroll-related costs for employees who are directly associated with and who devote time to the software project, to the extent of the time spent directly on the project

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Permitted Cost Examples

- Interest costs incurred while developing software
  - If the entity suspends substantially all activities related to the software developed or obtained for internal use interest capitalization shall cease until activities are resumed
- Costs to develop or obtain software that allows for access to or conversion of old data by new systems
- Customization of on-premises software license
- Implementation of a cloud computing service feature for a software solution

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Disallowed Cost Examples

- Internal and external training costs are expensed as incurred
  - Even if occurring simultaneously with coding and testing
- The process of actual data conversion from old to new systems are expensed as incurred
  - e.g., purging or cleansing of existing data, reconciling or balancing or old and new data, creation of new or additional data, etc.
- General and administrative costs and overhead costs are not to be capitalized

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Pulse Check

Do you agree there can be more clarity to determine which internal software costs may be capitalized?

A. Yes.

B. No.

C. Uncertain.

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Upgrades and Enhancements

- Modifications to existing internal-use software that result in additional functionality
  - Perform tasks previously incapable of performing
  - May require change to all or part of existing software specifications
- Must be probable that expenditures will result in additional functionality

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Maintenance

- Internal and external costs incurred for maintenance are expensed as incurred
- Relatively minor upgrades and enhancements that cannot be reasonably cost-effectively separated are also expensed as incurred
- May be recognized on a straight-line basis over a contract period if combined with unspecified upgrades and enhancements in a contract

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Website Development Costs

- Fees incurred for website hosting are expensed over the period of benefit
  - Involves the payment of a specified, periodic fee to an internet service provider in return for hosting the website on its server(s) connected to the internet
- Costs to obtain and register an internet domain are evaluated for capitalization as an intangible asset under Topic 350-30-25
- Costs to register the website with internet search engines are expensed as incurred
  - Represent advertising costs

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Content & Graphics Development

- Costs to input content into a website are expensed as incurred
  - E.g., photos, text, maps, articles, charts, etc.
- Graphics are a component of software and are evaluated for capitalization
  - Graphics involve the overall design of the web page (use of borders, background and text colors, fonts, frames, buttons, and so forth) that affect the look and feel of the web page and generally remain consistent regardless of changes made to the content

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Licensing Internal-Use Software

- Entities often license internal-use software from third parties
- A software license should be accounted for as the acquisition of an intangible asset
  - And the incurrence of a liability to the extent that all or a portion of the software licensing fees are not paid on or before the acquisition date of the license by the licensee

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Impairment

- If capitalization requirements are no longer met for software being developed
  - Report at lower of the carrying amount or fair value, if any, less costs to sell
- Rebuttable presumption that uncompleted software has a fair value of zero

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Possible Impairment Red Flags

- A lack of expenditures budgeted or incurred for the project
- Programming difficulties that cannot be resolved on a timely basis
- Significant cost overruns
- Information has been obtained indicating that the costs of internally developed software will significantly exceed the cost of comparable third-party software or software products
  - So that management intends to obtain the third-party software or software products instead of completing the internally developed software

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Possible Impairment Red Flags

- Technologies are introduced in the marketplace
  - So that management intends to obtain the third-party software or software products instead of completing the internally developed software
- Business segment or unit to which the software relates is unprofitable or has been or will be discontinued

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Disclosure Requirements

- Any disclosures in Subtopic 360-10 related to property, plant, and equipment shall be applied to internal-use software costs and related amortization
  - Regardless of how those costs are presented in the financial statements

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ASU 2025-06 Effective Date

- Effective for all entities with FYB after December 15, 2027, and interim periods within
- Early adoption if F/S have not been issued or made available for issuance
  - Adopt as of the beginning of an annual reporting period

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ASU 2025-06 Transition

- May elect either prospective or retrospective transition
- Alternative approach permitted:
  - Prospective for new and in-process projects for which capitalization has not yet begun upon adoption
  - Modified retrospective for in-process projects for which capitalization has begun upon adoption

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Most Recently Issued Standards Application of CECL Model

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Pulse Check

Do you think most nonpublic entities use an aging analysis for identifying the valuation of credit loss allowance?

A. Yes.

B. No.

C. Uncertain.

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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*

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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

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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

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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

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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

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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

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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

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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.**

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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.

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Pulse Check

Do you think the practical expedient and accounting policy election will be adopted by most nonpublic entities?

A. Yes.

B. No.

C. Uncertain.

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93

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

94

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94

Pulse Check

Do you find that many companies may offer stock to customers in order to obtain better terms on sales contracts?

A. Yes.

B. No.

C. Uncertain.

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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

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General Requirements – Impact on Transaction Price

- Account for consideration payable to a customer as a reduction of the **transaction price** and, therefore, of revenue
  - Unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the entity
  - If the consideration payable to a customer **(other than share-based consideration)** includes a variable amount, estimate the transaction price
    - Including assessing whether the estimate of variable consideration is constrained

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Estimate of Forfeitures Required

- Entities must estimate forfeitures in accordance with ASC 718 when issuing share-based consideration to customers
  - Eliminates an available policy election for entities to account for forfeitures "as they occur" for awards that have service conditions
  - The policy elections is still available for share-based awards with service conditions to employees and nonemployees

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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

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Most Recently Issued Standard – Acquirer in a VIE Acquisition

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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

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101

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

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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

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Effective for Nonpublic Entities in FYE 12/31/25 and Forward

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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

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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.

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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. Present separately from other intangible assets using different measurement bases.
3. Present gains/losses separately from effects of other intangible assets (like amortization).
4. Operating cash flow if donated/payment from customer nearly immediately converted into cash
5. Apply Topic 820/840 fair value measurement and related disclosures

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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

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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

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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

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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

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Nonprofit IRS Considerations

- IRS treats cryptocurrency as property, not currency
  - Provide written acknowledgement of the donation
  - Do not assign a dollar value on behalf of donor
- Form 8283 Noncash Charitable Contribution must be filed for donations valued >$500
- Form 8282 Donee Information Return must be provided to donor if the nonprofit sells the donated crypto for >$5,000 within 3 years

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Nonprofit Operational Considerations

- Develop policies for which crypto assets willing to accept and/or hold
- Consider use of a third-party processor, such as The Giving Block to immediately convert donated crypto in cash

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113

Nonprofit Initial Recording of Crypto Donations

- Record as contribution revenue at fair value at time of receipt (or pledge)
  - Whether wallet is managed by the nonprofit or a third-party service
- Expense any related fees and service charged as incurred
- Gain/loss may be recorded if subsequently converted to cash

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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

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115

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

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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

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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

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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

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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

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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

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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

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Pulse Check

Can nonprofits be involved in a joint venture?

A. Yes.

B. No.

C. Uncertain.

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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

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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.

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Effective for Nonpublic Entities in FYE 12/31/26 and Forward

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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

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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)

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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.

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ASU 2024-02, Codification Improvements

- Removes references to the Concepts Statements, which are not authoritative and should not be confused as such
- The references are generally extraneous and not required to understand or apply the codified standards
- No significant changes will result

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Effective Date

- For public business entities, FYB after 12/15/24
  - Must adopt as of the beginning of any fiscal year that includes any interim period
- For all other entities, FYB after 12/15/25
- Early adoption permitted for any financial statements that have not yet been issued or made available for issuance

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Pulse Check

Do you know any entities that give "profits interest" awards?

A. Yes.

B. No.

C. Uncertain.

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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)

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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

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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**

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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

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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.

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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

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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

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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
- Numerous other related disclosures focusing on individually significant reconciling items

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Pulse Check

Can nonprofits be subject to income tax accounting?

A. Yes.

B. No.

C. Uncertain.

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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

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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.

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Income Taxes Paid Disclosures – All Entities

- Disclose the year-to-date amount of income taxes 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

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Example Disclosure
Taxes Paid

	20X6	20X5
Federal	$100	$120
State	$10	$15
Total	$110	$135
State*		
North Carolina	$10	$8
New York	$ **	$7

*Jurisdictions where income taxes paid (net of refunds) exceeded 5% of total Income taxes paid (net of refunds).

** Jurisdiction below the threshold for the period presented

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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

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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
    - Income taxes on foreign earnings that are imposed by the jurisdiction of domicile are included in the amount for that jurisdiction of domicile (that is, the jurisdiction imposing the tax)

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Other Recent FASB Activity

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ASU 2025-12, Codification Improvements

- Makes the Codification easier to understand and apply by clarifying, correcting errors, and making minor improvements
  - 34 Total issues addressed
- Not expected to have a significant effect on current accounting practice
- Effective for FYB after 12/15/2026, and interim periods within
  - Early adoption permitted if financial statements not yet issued or made available for issuance

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Example Codification Improvements

- Remove the Master Glossary Term "Amortized Cost"
- Correct wording error in a comprehensive income example in Subtopic 220-10-55-7
- Clarify that lease receivables arising from sales-type or direct financing leases are excluded from the enhanced disclosure requirements introduced by ASU 2022-02 Troubled Debt Restructurings and Vintage Disclosures

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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

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Entity XYZ
Consolidated Statement of Operations
For the Year Ended December 31, 20X3

Revenues:	
Products	$ 82,144
Services	26,132
Total revenues	108,276
Operating expenses:	
Cost of products sold	63,456
Cost of services	10,496
Selling, general, and administrative	20,849
Total operating expenses	94,801
Operating income	13,475
Interest expense	4,971
Income before income taxes	8,504
Income tax expense	1,786
Net income	$ 6,718

Notes to the Financial Statements

Cost of products sold

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

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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.

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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.

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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

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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

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Pulse Check

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

A. Yes.

B. No.

C. Uncertain.

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Current FASB Projects

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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.

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Equity Method of Accounting

- Address accounting for a subset of equity method investments in partnerships and similar entities for which the investor is unable to significantly influence the operating and financial policies of the investee
  - But is required to apply the equity method because of presumptive levels of influence
- Clarify how equity method investors in a non-real-estate entity should determine equity in earnings for investees with complex allocation structures

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Accounting for Transfers of Crypto Assets

- Expanding scope of Subtopic 350-60 to address wrapped tokens and receipt tokens
- Clarifying the derecognition guidance for crypto transfer arrangements to assess whether the control of a crypto asset has been transferred

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Classification of Certain Digital Assets as Cash Equivalents

- Clarify classification of certain digital assets

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Statement of Cash Flows – Targeted Improvements

- Address how differences between classification requirements and the underlying purpose may result in a statement that is not decision useful
  - E.g., Many activities of a nonfinancial institution that are classified as investing or financing are operating activities of a financial institution
- Develop a disclosure about the entity's cash interest received

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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

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GASB Update

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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

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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)

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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

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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

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"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

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GASB 105
Subsequent Events

- Effective date is for fiscal years beginning after June 15, 2026, and all reporting periods thereafter
  - Early adoption is encouraged
  - Apply prospectively

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Subsequent Events Defined

Transactions or other events that occur after the date of the financial statements but before the date the financial statements are available to be issued

- Date the financial statements are available to be issued is the date when:
  1. The financial statements are complete in a form and format that complies with GAAP
  2. Approvals necessary for issuance have been obtained
     - Professional judgment may be necessary to determine what constitutes the "approvals necessary" for issuance

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Required Disclosure

- The date the financial statements are available to be issued should be disclosed in notes to the financial statements
  - This disclosure is required, even if there is not a recognized or non-recognized event meriting disclosure

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Recognized Event Defined

1. Provides evidence of conditions existing at the financial statement date
2. Informs accounting estimates reported as of the financial statement date
   - Accounting estimates reported as of the financial statement date should reflect the conditions that existed at that date, including conditions substantiated by recognized events

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Professional Judgment Required

- The bankruptcy of a water utility's major customer during the subsequent events time frame may be indicative of deteriorating financial conditions that existed at the financial statement date
  - Which should be incorporated into the measurement of uncollectible accounts receivable
- If that customer experienced a major casualty, such as a fire or flood, during the same timeframe it would not be indicative of conditions that existed at the financial statement date
  - Would NOT incorporate the effects of that event in the measurement of uncollectible accounts receivable

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Non-Recognized Event Defined

Results in a significant effect (favorable or unfavorable) that is recognized or disclosed in the basic financial statements in the reporting period in which the event occurs AND is ONE of the following:

1. A debt-related transaction
2. A government combination or disposal of government operations
3. A change to the legally separate entities that compose the financial reporting entity
4. A transaction or other event that is of such a nature that the information items in notes are essential to a user's analysis for making decisions or assessing accountability

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Non-Recognized Event Disclosure

1. A description of the non-recognized event and its effect
2. An estimate of the amount of the effect of the non-recognized event
   - Or the reason why an estimate of the amount cannot be made

Note: Disclosure should correspond with the reporting units in the financial statements, but may be combined that avoids unnecessary duplication

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Debt-Related Exclusions

1. Regularly scheduled debt service payments
2. Long-term financing activities other than debt
   - E.g., leases, public-private partnerships, or subscription-based information technology arrangements

Note: these activities may constitute a non-recognized event if of such a nature that the information is essential to a user's analysis for making decisions or assessing accountability

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General Overarching Concept

- Provisions need not be applied to immaterial items

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Pulse Check

Do you agree that governments can provide more clarity on subsequent events?

A. Yes.

B. No.

C. Uncertain.

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GASB Implementation Guide

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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

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Topics Addressed

- Cash Flows Reporting
- Basic Financial Statements and Management's Discussion and Analysis
  - Focus on presentation on interest revenue and subsidies
- Leases
  - Vehicle lease ends after 3 years or 60,000 miles, whichever first - 3 years is the noncancellable period
- Clarification as to what qualifies as "conduit debt" when a component unit issues debt on behalf of its primary government
- Compensated absence accrual based on current pay rates, even if future rate known

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Topics Addressed

- A change in a government's capitalization threshold is not a change in accounting principle since it is the application of materiality to a specific asset class (not an accounting principle)
- For accounting changes and error corrections restatements clarification
- Clarity in changes between major and nonmajor fund designations

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Recent Exposure Draft

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Infrastructure Assets Defined

1. Consist of multiple components
2. Part of a network of long-lived assets used to provide a service
3. Are stationary in nature
4. Can be maintained or preserved for a significant number of years

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Exclusions from Infrastructure Assets

- Stadiums
- Parks
- Airports
- Mass transit systems
- Natural systems
- Other capital assets used in operations and management of infrastructure assets

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Potential Infrastructure Assets

- Road and highways
- Bridges and tunnels
- Lighting systems
- Water and sewer systems
- Communication networks or towers
- Assets of public power utilities
- Buildings, if they are a part of a network of infrastructure assets used to provide a service

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Historical Cost Less Depreciation

- Periodically review estimated useful lives and salvage value
- Separately depreciate each component significant to the total cost if the estimated useful lives of components are substantially different
  - E.g., Roadbed, pavement overlay, curbs, gutters

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Deferred Maintenance

- Expected costs not yet incurred should not be recognized as a liability or disclosed in notes

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Modified Approach

1. Maintain an up-to-date inventory of infrastructure assets
   - A formal "asset management system" not required
2. Perform complete condition assessments
3. Estimate annual amounts to maintain and preserve infrastructure at or above established condition levels
   - Report as RSI annual estimates compared to actual expenses for each of past 10 fiscal years

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Modified Approach

4. Maintain documentation demonstrating that those infrastructure assets are being preserved approximately at (or above) a condition level established and presented as RSI by the government.

NOTE: The condition level should be established and documented by administrative or executive policy, or by legislative action.

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Disaggregation by Network

- Report infrastructure assets **by network**
- If a government has a maintenance and preservation policy, it must disclose a brief description of how infrastructure condition is monitored
- Enhanced disclosure of assets at (100%) and near (80%) of useful life
  - Historical-cost weighted-average age by network

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Pulse Check

Did you learn something today?

A. Yes.

B. No.

C. Uncertain.

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Thank You

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