

Not-for-Profit Accounting Update

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Agenda

FASB Update

- ASU 2020-07
- Not-for-Profit Advisory Committee Update

Covid Accounting

FASB Leases

Other ASUs Impacting Not-for-Profits

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FASB Update: ASU 2020-07



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ASU 2020-07

Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets

- Issued: September 2020
- Background:
 - Regulatory and legal push for deceptive revenues
 - Increase transparency

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ASU 2020-07 Cont'd

- Objective
 - Increasing transparency about contributed nonfinancial assets through enhancements to presentation & disclosure

ASU 2020-07 Cont'd

- Definition of nonfinancial asset
 - An asset that is not a financial asset.
 - Nonfinancial assets include land, buildings, use of facilities or utilities, materials and supplies, intangible assets, or services.

ASU 2020-07 Cont'd

- Background
 - Current GAAP does not include specific presentation requirements for contributed nonfinancial assets or specific disclosure requirements for contributed nonfinancial assets other than contributed services

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ASU 2020-07 Cont'd

- Background
 - Contributed nonfinancial assets extend cash resources
 - Requires fair value
 - Not really a market participant
 - May not have a market
 - Inputs can be challenging

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ASU 2020-07 Cont'd

- Scope
 - Contributions of nonfinancial assets
 - Fixed assets
 - Supplies
 - Excludes cash and stock (financial assets)

ASU 2020-07 Cont'd

- Update
 - Present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets

GIK Presentation – Separate Line

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and gains			
Contributions			
Cash and other financial assets	65,000	75,000	140,000
In-kind	150,000	-	150,000
Government grants	25,000	-	25,000
Other income	5,000	-	5,000
Net assets released from restrictions	20,000	(20,000)	-
Total revenues, gains, and other support	265,000	55,000	320,000
Expenses			
Program	165,000	-	165,000
Support services:			
Management and general	20,000	-	20,000
Fundraising	1,000	-	1,000
Total expenses	186,000	-	186,000
Change in net assets	79,000	55,000	134,000

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GIK Presentation – Separate Column

	Without Donor Restrictions			With Donor Restrictions	Total
	In-Kind	Other	Total		
Revenues and gains					
Contributions	150,000	65,000	215,000	75,000	290,000
Government grants	-	25,000	25,000	-	25,000
Other income	-	5,000	5,000	-	5,000
Net assets released from restrictions	-	20,000	20,000	(20,000)	-
Total revenues, gains, and other support	150,000	115,000	265,000	55,000	320,000
Expenses					
Program	115,000	50,000	165,000	-	165,000
Support services:					
Management and general	-	20,000	20,000	-	20,000
Fundraising	-	1,000	1,000	-	1,000
Total expenses	115,000	71,000	186,000	-	186,000
Change in net assets	35,000	44,000	79,000	55,000	134,000

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ASU 2020-07 Cont'd

- New Disclosures

- A disaggregation of the amount of contributed nonfinancial assets recognized within the statement of activities by category that depicts the type of contributed nonfinancial assets
- Disclosures for each category

ASU 2020-07 Cont'd

- Disclosures

- Qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the reporting period
 - If utilized, an NFP will disclose a description of the programs or other activities in which those assets were used
- The NFP's policy (if any) about monetizing rather than utilizing contributed nonfinancial assets

ASU 2020-07 Cont'd

• Disclosures

- A description of any donor-imposed restrictions associated with the contributed nonfinancial assets
- A description of the valuation techniques and inputs used to arrive at a fair value measure, in accordance with the requirements in Topic 820, Fair Value Measurement, at initial recognition
- The principal market (or most advantageous market) used to arrive at a fair value measure if it is a market in which the recipient NFP is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial assets

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Contributed Nonfinancial Assets

For the years ended December 31, contributed nonfinancial assets recognized within the statement of activities included:

	20X9	20X8
Building	\$ 550,000	\$ -
Household goods	95,556	100,486
Food	85,407	86,633
Medical Supplies	90,389	115,173
Pharmaceuticals	111,876	113,982
Clothing	85,765	83,890
Vehicles	127,900	-
Services	73,890	65,392
	<u>\$ 1,220,783</u>	<u>\$ 565,556</u>

NFP K recognized contributed nonfinancial assets within revenue, including a contributed building, vehicles, household goods, food, medical supplies, pharmaceuticals, clothing, and services. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

It is NFP K's policy to sell all contributed vehicles immediately upon receipt at auction or for salvage unless the vehicle is restricted for use in a specific program by the donor. No vehicles received during the period were restricted for use. All vehicles were sold and valued according to the actual cash proceeds on their disposition.

The contributed building will be used for general and administrative activities. In valuing the contributed building, which is located in Metropolitan Area B, NFP K estimated the fair value on the basis of recent comparable sales prices in Metropolitan Area B's real estate market.

Contributed food was utilized in the following programs: natural disaster services, domestic community development, and services to community shelters. Contributed household goods were used in domestic community development and services to community shelters. Contributed clothing was used in specific community shelters. Contributed medical supplies were utilized in natural disaster

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Contributed Nonfinancial Assets				
	Revenue Recognized	Utilization in Programs/Activities	Donor Restrictions	Valuation Techniques and Inputs
Building	\$550,000	General and Administrative	No associated donor restrictions	In valuing the contributed building, which is located in Metropolitan Area B, NFP K estimated the fair value on the basis of recent comparable sales prices in Metropolitan Area B's real estate market.
Household goods	\$95,556	Domestic Community Development; Community Shelters	No associated donor restrictions	NFP K estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.
Food	\$85,407	Natural Disaster Services; Domestic Community Development; Community Shelters	No associated donor restrictions	NFP K estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.
Medical supplies	\$90,389	Natural Disaster Services	No associated donor restrictions	NFP K estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.
Pharmaceuticals	\$111,876	International Health Services; Natural Disaster Services	Restricted to use outside the United States	In valuing contributed pharmaceuticals otherwise legally permissible for sale in the United States, NFP K used the Federal Upper Limit based on the weighted average of the most recently reported monthly Average Manufacturer Price (AMP) that approximate wholesale prices in the United States (that is, the principal market). In valuing pharmaceuticals not legally permissible for sale in the United States (and primarily consumed in developing markets), NFP K used third-party sources representing wholesale exit prices in the developing markets in which the products are approved for sale.
Clothing	\$85,765	Natural Disaster Services; Domestic Community Development; Community Shelters	No associated donor restrictions	In valuing clothing, NFP K estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.
Vehicles	\$127,900	It is NFP K's policy to sell all contributed vehicles immediately upon receipt unless the vehicle is restricted for use in a specific program by the donor. All vehicles received were sold.	No associated donor restrictions	Proceeds from vehicles sold are valued according to the actual cash proceeds on their disposition.
Services	\$73,890	Various Administrative Legal Matters	No associated donor restrictions	Contributed services from attorneys are valued at the estimated fair value based on current rates for similar legal services.

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ASU 2020-07 Cont'd

- Not Changing
 - Will not change the recognition and measurement requirements in Subtopic 958-605 for those assets

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ASU 2020-07 Cont'd

- Effective
 - Apply retrospectively
 - For annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022
 - Early adoption is permitted

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FASB Update:
Not-for-Profit Advisory Committee



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NAC Agenda 3/31/22

ASU 2020-07

- Practice & implementation issues

Agenda Consultation

Implementation Discussion

- CECL
- Leases

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NAC Agenda 3/31/22

- Research Projects
 - Accounting for Exchange-Traded Digital Assets and Commodities
 - Accounting for Financial Instruments with Environmental, Social, and Governance (ESG)-Linked Features and Regulatory Credits
- COVID19 Unresolved Items

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Agenda Consultation



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Agenda Consultation

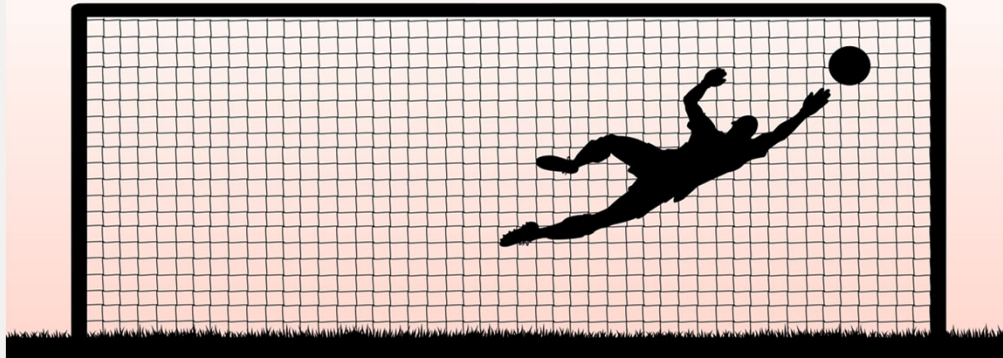
Invitation to Comment - Agenda Consultation

- Issued: June 24, 2021
- Comments Due: September 22, 2021
- Background:
 - New Chair
 - Big 3 and PIR

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Goal

- Solicit broad stakeholder feedback about the future standard-setting agenda



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Questions for Respondents

- Whether the financial reporting topics described in this ITC are areas for which there is potential for significant improvement
- The priority and urgency of addressing each topic
- Which potential solution(s) should the FASB consider in addressing each topic
- For any potential solution, the expected costs and expected benefits:
 - For investors, how a potential solution would directly influence their decisions and behaviors
 - For preparers and practitioners, the feasibility of a potential solution
- Whether there are other financial reporting topics beyond those described in this ITC that the FASB should consider adding to its agenda and the priority and urgency of those topics

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Current Status

- The FASB's current technical agenda includes
 - 25 standard-setting projects
 - 6 research projects
 - 3 post-implementation review (PIR) projects
 - A project on updates to the FASB's nonauthoritative Conceptual Framework

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Feedback

- To begin the 2021 Agenda Consultation process, the FASB staff sought input from numerous stakeholder groups and FASB advisory groups, including

Investor Advisory
Committee (IAC)

Financial Accounting
Standards Advisory
Council (FASAC)

Emerging Issues Task
Force (EITF)

Not-for-Profit
Advisory Committee
(NAC)

Private Company
Council (PCC)

Small Business
Advisory Committee
(SBAC)

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Project Types

- Greater disaggregation and granularity of financial reporting information are needed, either on the face of the financial statements or the notes to financial statements, to provide investors with better, more useful information that will directly influence their decisions and behaviors
 - Chapter 1—Disaggregation of Financial Reporting Information
- Emerging transactions need to be considered, such as in cases in which there is no specific topical authoritative accounting or disclosure guidance¹ or the current accounting outcomes are not intuitive, to reduce diversity in practice, and to retain the relevancy of the Codification
 - Chapter 2—Emerging Areas in Financial Reporting
- Specific areas of existing GAAP need to be reevaluated to reduce unnecessary cost and complexity
 - Chapter 3—Reduction of Unnecessary Complexity in Current GAAP
- Enhancements to, and education on, certain FASB standard-setting processes would help increase transparency and communication
 - Chapter 4—Improvements to FASB Standard-Setting Processes

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Already Considering

- Completing critical projects currently on the agenda that are designed to reduce diversity in practice, improve financial reporting information for investors, and address other practice issues
- Addressing time-sensitive stakeholder concerns in a timely manner as they arise and are brought to the FASB's attention through agenda requests
- Monitoring implementation of the recently completed major projects, addressing related practice issues in a timely manner, and educating stakeholders about the new guidance

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Chapter 1

- Investors requested more granularity and disaggregation about the following:
 - Breakdown of cost of sales (COS) and selling, general, and administrative (SG&A) expense to understand a company's cost structure by nature (such as labor) and/or further by function (such as selling expenses separate from general and administrative expenses)
 - Breakdown of income tax information to better assess global tax risk
 - Breakdown of operating results by regulatory jurisdictions and product lines to understand geographical and jurisdictional risks
 - Defined intermediate operating measures for NFPs to promote better consistency across entities
 - Defined subtotal for operating income and a designation of whether income and expense items (such as restructuring costs) are recurring or nonrecurring to increase comparability across periods and companies
 - Effects of business combinations to compare a company pre- and post-acquisition
 - Effects of environmental, social, and governance (ESG) matters on financial statement line items
 - Effects of foreign currencies on financial statement line items
 - Operating results, cash flows, and balance sheet information of partially owned subsidiaries and equity method investments
 - Operating results and cash flows attributable to noncontrolling interests
 - Types of research and development expenditures

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Business Combinations

- Investors observed that it is difficult to understand organic growth versus acquired growth in a company's financial statements after an acquisition
- Investors suggested that the Board explore additional business combination disclosures, such as a reconciliation from preacquisition book value to the acquisition date fair values
- Investors also observed that limited information is available for certain types of acquisitions, especially when a company enters into multiple immaterial acquisitions that are material in the aggregate, which makes it difficult to understand the effect of those acquisitions on future operations and cash flows

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ESG

- Disclosures about ESG matters and the effect on FS would provide decision-useful information for investors and other FS users
 - Investors noted that there is inadequate information currently being disclosed on climate risk and when climate risk would have a material effect on an impairment analysis, fair value calculation, or estimate of expected credit losses
 - Some stakeholders observed that it would be operationally difficult to differentiate whether (and which) ESG matters have a direct (or indirect) effect on financial statements because of the broad nature of those matters and the challenges in distinguishing the effects of an ESG-related matter and other changes affecting a company's financial statements

Income Taxes

- Investors observed that the existing income tax disclosures do not provide sufficient detail to assess global tax risk
- Investors stated that a requirement for companies to break out operating results by regulatory jurisdictions would help investors gain greater insight into income tax risks

Other Topics

- Partially Owned Subsidiaries and Equity Method Investments
- Performance Reporting—Disaggregation of Performance Information
- Presentation of the Statement of Cash Flows

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Chapter 2

- Emerging areas for the FASB to address through financial reporting:
 - Definition of a derivative
 - Digital assets
 - ESG-related transactions, such as renewable energy credits and emissions allowances
 - Financial key performance indicators (KPIs) or non-GAAP metrics
 - Intangible assets, including software
 - Recognition and measurement of government grants for business entities

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Chapter 3

- Specific areas of current GAAP that should be revisited to reduce unnecessary cost and complexity in the system (in alpha order):
 - Balance sheet classification
 - Consolidation
 - Debt modifications
 - Distinguishing liabilities from equity
 - Materiality considerations for disclosures

Chapter 4

- Enhancements and education about certain FASB standard-setting processes to increase transparency and communication
 - Improving the understandability and navigability of the Codification
 - Developing a transparent and thorough cost-benefit analysis framework, including using innovative ways to perform outreach
 - Establishing a new interpretive process to respond to stakeholder questions that do not require amendments to the Codification but that would be published and retrievable
 - Standardizing language used to describe transition requirements of new guidance

COVID Accounting



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Other Accounting Considerations

Asset Impairment

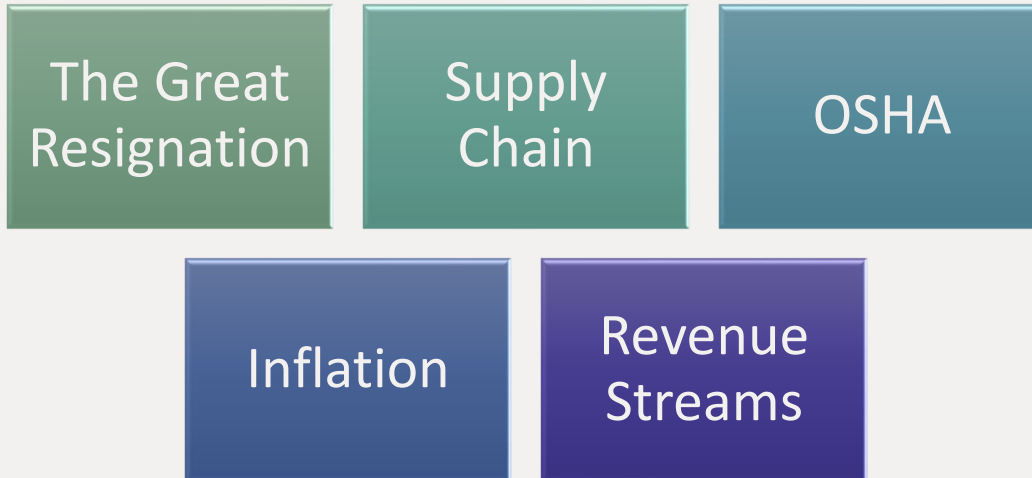
Loss
Contingencies

Risk & Uncertainty
Disclosures

Going Concern

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Risk & Uncertainties



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FASB Staff Q&As

- Topic 815: Cash Flow Hedge Accounting Affected by the COVID-19 Pandemic
- Topic 842 and Topic 840: Accounting for Lease Concessions Related to the Effects of the COVID-19 Pandemic

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958-605 Refresher



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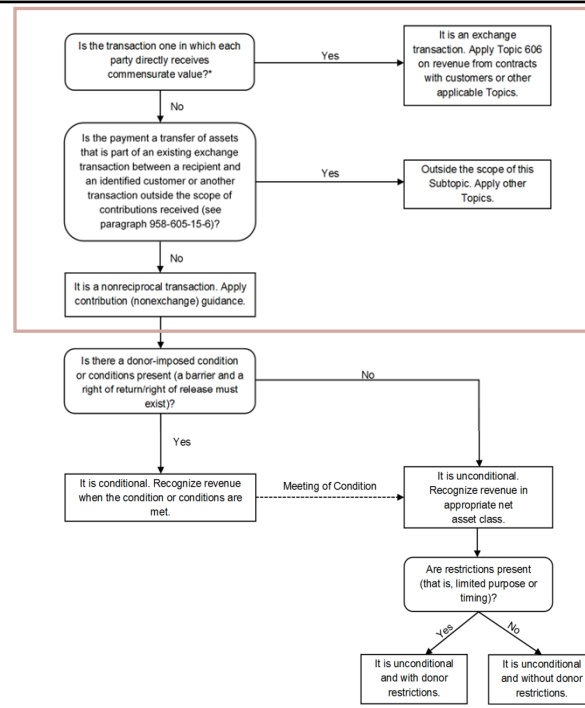
ASU 2018-08

Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made

- Issued: June 2018
- Addresses:
 - Contribution vs. Exchange
 - Condition vs. Restriction

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958-605-55-1A Implementation Guidance



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Condition

- A donor-imposed condition must have both:
 - One or more barriers that must be overcome before a recipient is entitled to the assets transferred or promised
 - A right of return to the contributor for assets transferred or a right of release of the promisor from its obligation to transfer assets

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Indicators

- Measurable Performance-Related Barrier or Other Measurable Barrier
- Limited Discretion by the Recipient on the Conduct of an Activity
- Stipulations That Are Related to the Purpose of the Agreement

Conditions

- Must be determinable from the agreement that a recipient is only entitled to the transferred assets or a future transfer of assets if it has overcome the barrier
 - Does not need to include the specific phrase right of return or release from obligation
 - Should be sufficiently clear to be able to support a reasonable conclusion
- In the absence of any apparent indication the agreement – unconditional

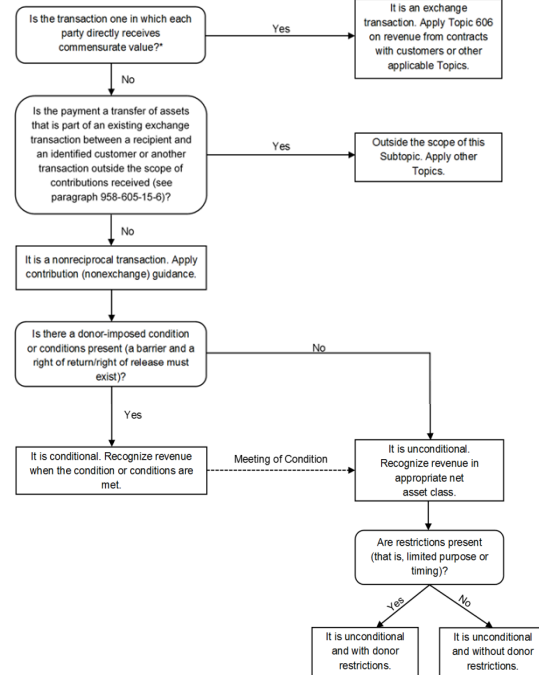
Recognition & Measurement

- A transfer of assets that is a conditional contribution is accounted for as a refundable advance until the conditions have been substantially met or explicitly waived by the donor

Recognition & Measurement Cont'd

- Conditional promises to give which contain donor-imposed conditions are recognized when the condition or conditions on which they depend are substantially met, that is, when the conditional promise becomes unconditional

958-605-55-1A Implementation Guidance



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PPP



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AICPA TQA

Q&A Section 3200, Long-Term Debt

- Issued: June 2020
- Background:
 - Addresses questions regarding accounting for PPP Loans

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Question

How should a nongovernmental entity account for a forgivable loan received under the Small Business Administration Paycheck Protection Program (PPP)?



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Answer

- Although the legal form of the PPP loan is debt, some believe that the loan is, in substance, a government grant

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Debt Accounting

- Proceeds from the loan would remain recorded as a liability until either:
 - The loan is, in part or wholly, forgiven and the debtor has been “legally released”
 - The debtor pays off the loan to the creditor
- Once the loan is, in part or wholly, forgiven and legal release is received, a nongovernmental entity would reduce the liability by the amount forgiven and record a gain on extinguishment

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ASU 2018-08

- Record the cash inflow from the PPP loan as a refundable advance
 - Reduce the refundable advance and recognize the contribution once the conditions of release have been substantially met or explicitly waived

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Not Options for NFPs

Grant
(Analogize IAS 20)

Gain Contingency

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RRF & SVOG



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Background

TQA 5270

- Issued: August 2021
- Background:
 - New federal funding
 - No guidance in US GAAP for for-profit entities

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Question



How should a recipient account for a Shuttered Venue Operators Grant (SVOG) or a Restaurant Revitalization Fund (RRF) Grant issued under the Small Business Administration COVID-19 Relief Programs?

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NOT Loans

- Under the terms of both the SVOG and RRF grants, recipients are not required to repay the funding as long as funds are used for eligible uses by the dates specified by each respective program

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For Profits

- Analogize
 - International Accounting Standard (IAS) 20, Accounting for Government Grants and Disclosure of Government Assistance
 - FASB ASC 958-605, Not-for-Profit Entities — Revenue Recognition
 - FASB ASC 450-30, Contingencies — Gain Contingencies

NFP

- Conditional Grants under FASB ASC 958-605, Not-for-Profit Entities — Revenue Recognition
 - Barriers
 - Incurred eligible expenses
 - Right of Return
 - Noncompliance with the terms and conditions is grounds for recoupment by the Small Business Administration

PRF & the SEFA



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Q&A Section 9160

- Other Reporting
- Background
 - Section 2 CFR 200.514 requires the auditor to determine and report on whether the SEFA is fairly stated in all material respects, in relation to the financial statements as a whole

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Background

- DHHS is requiring reporting on the SEFA based on reporting in the HHS Portal and not the financial statements

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Inquiry

Paragraph .05 of AU-C section 725 requires that the SI relate to the same period as the FS for the auditor to issue an in-relation-to opinion on the SI.

Can an auditor report on a SEFA with PRF funding in relation to the audited financial statements when some of the amounts relate to an entity's prior fiscal year?



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Reply

- Yes. The auditor may provide an in-relation-to opinion on the SEFA as long as the schedule can be reconciled back to the underlying accounting and other records used in preparing the financial statements or to the financial statements themselves, and as long as the other conditions and requirements of AU-C section 725 are met.

Reply Cont'd

- In the case of PRF, the out-of-period amounts reflected on the SEFA were reported in the prior year financial statements but are also reflected in beginning net assets (or net position) of the current year financial statements

Vaccines



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AICPA TQA 6400.71

Accounting by a Recipient Entity for Vaccines or Other Pharmaceuticals, Medical Supplies, or Equipment Received for Distribution to Specified Patients

- Issued: February 2022
- Background:
 - Health care entities receive pharmaceuticals or other items from resource providers to distribute to patients participating in right-to-try programs, clinical trials, prescription assistance programs, or other programs designed to distribute pharmaceuticals to patients free of charge

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Background

- These transactions generally involve three distinct parties:
 - A resource provider
 - The health care entity receiving custody of the items until they are dispensed
 - The specified patients

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Inquiry

Should a health care entity that receives items free of charge to dispense to specified patients recognize the fair value of the items within their financial statements?



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Response

Step 1 – Evaluate if exchange or nonexchange

- Exchange – Topic 606

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Nonexchange

Step 2 – Determine HC entity type

- NFP – apply 958-605
- For Profit – no specific GAAP
 - Can apply 958-605 by analogy

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958-605

Step 3 – Determine if acting as agent or intermediary in agency transaction

- Exceptions to agency transactions
 - Variance Power
 - Financially Interrelated

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Definition

Variance Power

- Variance power is “the unilateral power to redirect the use of the transferred assets to another beneficiary. A donor explicitly grants variance power if the recipient entity's unilateral power to redirect the use of the assets is explicitly referred to in the instrument transferring the assets.”

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Accounting

Step 4 – Account for transaction

- Principal (variance power or financially interrelated)
 - Recognize revenue (if a not-for-profit health care entity) or other income (if a for-profit health care business entity) for the contributed nonfinancial asset it received to distribute to specified patients
- Agent or Intermediary
 - Permitted, but not required, to recognize those assets and the corresponding liability
 - Apply entity's accounting policy

Fair Value Considerations

Step 5 – Determine fair value

- Facts and circumstances, including the lack of marketability or any transferable value, should be considered in determining the fair value of the contributed nonfinancial assets

Disclosures

Step 6 – Consider disclosures

- NFP – presentation and disclosures in ASU 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets
- For-profit – disclosures in ASU 2021-10, Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance
 - Can also analogize ASU 2020-07



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ERC



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Background

- Employee Retention Credit (ERC)
 - Created by CARES Act
 - Amended by CAA
 - Extended by ARPA
 - Terminated by Infrastructure Act

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Background Cont'd

- Originally couldn't have PPP & ERC but CAA amended RETROSPECTIVELY
- Payroll credit
 - Not income tax

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Prospective Treatment - NFPs

- Follow 958-605

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Prospective Treatment – For Profit

- Follow 958-605
- Follow IFRS (IAS 20)
- Gain Contingency

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958-605

- Barriers
 - Eligibility
 - Declining payrolls
 - Qualifying expenses (payroll costs)
- Presentation
 - Refundable Advance (current liability)
 - NFP – Contribution Income
 - For Profit – Other Income

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IAS 20

- Government assistance is not recognized until there is reasonable assurance (similar to the “probable”) that
 - Any conditions attached to the assistance will be met and
 - The assistance will be received
- Recognition
 - Recorded on a systematic basis over the periods in which the entity recognizes as expenses the related costs for which the grants are intended to compensate
 - Income or reduction of expense

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Common Question

- Accounting Policy
 - Does ERC and PPP have to be same treatment?
 - Likely not as PPP could have been a loan

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Goodwill



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ASU 2021-03

Accounting Alternative for Evaluating Triggering Events

- Issued: March 2021
- Background:
 - AICPA Technical Issues Committee liaison meeting
 - COVID-19

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Background

- An entity is required to monitor and evaluate goodwill impairment triggering events **throughout the reporting period**
 - If an event has occurred or circumstances have changed that would **more likely than not** reduce the fair value of a reporting unit (or entity) below its carrying amount
- Then the entity must test goodwill for impairment
 - Without the use of hindsight or **known changes** to facts and circumstances after the triggering event date

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Who is Impacted?

- Private companies and not-for-profit entities

Accounting Alternative

- Can now perform the goodwill impairment triggering event evaluation as of the end of the reporting period, whether the reporting period is an interim or annual period
- Not required to monitor for goodwill impairment triggering events during the reporting period but, instead, should evaluate the facts and circumstances as of the end of each reporting period to determine whether a triggering event exists and, if so, whether it is more likely than not that goodwill is impaired

Effective Date

- For fiscal years beginning after December 15, 2019
 - Prospective treatment
 - Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance as of March 30, 2021
 - An entity should not retroactively adopt the amendments in this Update for interim financial statements already issued in the year of adoption

Opt In

- Includes an unconditional one-time option for entities to adopt the alternative prospectively after its effective date without assessing preferability

FASB Leases



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ASU 2016-02

- Leases (Topic 842)
 - Issued: February 2016
 - New ASC Section

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What is a Lease?



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Definition

Lease

- A lease is a contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration

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Control

- Control means that the customer has both
 - The right to obtain substantially all of the economic benefits from the use of the asset;
 - And the right to direct the use of the asset

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Economic Benefits

- A customer is required to have the right to obtain **substantially all** of the economic benefits from use of the asset throughout the period of use
 - i.e., by having exclusive use of the asset throughout that period

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Economic Benefits Cont'd

- Economic Benefits
 - Using, holding, or subleasing the asset
 - Includes its primary output and by-products (including potential cash flows derived from these items)
 - Other economic benefits from using the asset that could be realized from a commercial transaction with a third party

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Direct the Use

- The customer has the right to direct how and for what purpose the asset is used throughout the period of use

Examples:

- Right to change the type of output produced by an asset
- Right to change when the output is produced
- Right to change where the output is produced
- Right to change whether the output is produced and the quantity of that output

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Not in Scope

- Leases of intangible assets
- Leases to explore for or use minerals, oil, natural gas, and similar nonregenerative resources
- Leases of biological assets, including timber
- Leases of inventory
- Leases of assets under construction

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Steps

- 1 Determine whether a contract contains a lease
- 2 Identify the separate lease components within the contract
- 3 The consideration in the contract shall be allocated to each separate lease component and nonlease component of the contract

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Step 1

- Is there an identified asset?
- Does the customer have the right to substantially all the economic benefits?
- Does the customer have the right to direct how and for what purpose the asset is used?
- Does the customer have the right to operate the asset throughout the period w/o the supplier having the right to change those operating instructions?
- Did the customer design the asset in a way that predetermines how and for what purpose the asset will be used?

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Substantive Substitution Rights

- Even if an asset is specified, a customer does not have the right to use an identified asset if the supplier has the substantive right to substitute the asset throughout the period of use
 - The supplier has the practical ability to substitute alternative assets throughout the period of use
 - The supplier would benefit economically from the exercise of its right to substitute the asset

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Right to Direct the Use

- An entity has the right to direct the use of the asset throughout the period of use in either of the following situations
 - Customer has the right to direct how and for what purpose the asset is used throughout the period
 - The relevant decisions about how and for what purpose the asset is used are predetermined and at least one of the following conditions exists
 - The customer has the right to operate the asset throughout the period of use without the supplier having the right to change those operating instructions
 - The customer designed the asset in a way that predetermines how and for what purpose the asset will be used throughout the period of use

Protective Rights

- Contract may include terms and conditions designed to protect the supplier's interest in the asset or other assets, to protect its personnel, or to ensure the supplier's compliance with laws or regulations
- Protective rights typically define the scope of the customer's right of use but do not, in isolation, prevent the customer from having the right to direct the use of an asset

How and for What Purpose an Asset Is Used

- If, within the scope of its right of use defined in the contract, it can change how and for what purpose the asset is used throughout that period
- Consider the decision-making rights that are most relevant to changing how and for what purpose an asset is used throughout the period of use
 - Examples of decision-making rights that do not grant the right to direct how and for what purpose an asset is used include rights that are limited to operating or maintaining the asset

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Step 2

- Consider the right to use an underlying asset to be a separate lease component if both of the following criteria are met
 - The lessee can benefit from the right of use either on its own or together with other resources that are readily available to the lessee
 - The right of use is neither highly dependent on nor highly interrelated with the other right(s) to use underlying assets in the contract

112

Step 3

- Allocate the consideration in the contract on a relative standalone price basis to the separate lease components and the nonlease components of the contract
 - If observable standalone prices are not readily available, estimate the standalone prices by maximizing the use of observable information
 - A residual estimation approach may be appropriate

Step 3 - Practical Expedient

- An accounting policy election by class of underlying asset, may choose not to separate nonlease components from lease components and instead to account for each separate lease component and the nonlease components associated with that lease component as a single lease component
 - Originally a lessee concept
 - ASU 2018-11 offers similar concept for lessors

Lease Term



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Lease Term

- The noncancelable period for which a lessee has the right to use an underlying asset, together with all of the following:
 - Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option
 - Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option
 - Periods covered by an option to extend (or not to terminate) the lease in which exercise of the option is controlled by the lessor

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Implementation Guidance

- Determine if reasonably certain by considering
 - All economic factors relevant to that assessment—contract-based, asset-based, market-based, and entity-based factors

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Reasonably Certain

- Examples:

Contractual terms and conditions for the optional periods compared with current market rates

Significant leasehold improvements

Costs related to termination

Importance of asset to the lessee's operations

118

Lessee Accounting



119

Lease Classification

- Classify each separate lease component at the commencement date
 - Do not reassess the lease classification after the commencement date unless the contract is modified and the modification is not accounted for as a separate contract

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Lease Classification Cont'd

- Finance Lease

- A lease that meets any of the following criteria at lease commencement
 - a) The lease transfers ownership of the underlying asset to the lessee by the end of the lease term
 - b) The lease grants the lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise

Lease Classification Cont'd

- c) The lease term is for the major part of the remaining economic life of the underlying asset
 - If the commencement date falls at or near the end of the economic life, this criterion shouldn't be used
- d) The present value of the sum of the lease payments and any residual value guaranteed by the lessee equals or exceeds substantially all of the fair value of the underlying asset
- e) The underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term

Implementation Guidance

- One reasonable approach:
 - 75% or more of the remaining economic life of the underlying asset is a major part of the remaining economic life of that underlying asset
 - A commencement date that falls at or near the end of the economic life of the underlying asset refers to a commencement date that falls within the last 25% of the total economic life of the underlying asset
 - 90% or more of the fair value of the underlying asset amounts to substantially all the fair value of the underlying asset

Implementation Guidance Cont'd

- Transfer of ownership is met in situations in which the lease requires the payment by the lessee of a nominal amount in connection with the transfer of ownership
 - Bargain purchase

Lease Classification Cont'd

- Operating Lease
 - Any lease other than a finance lease

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Recognition

- All lessees, regardless of classification, should recognize
 - A liability to make lease payments
 - A right-of-use asset representing its right to use the underlying asset for the lease term

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Lease Liability

- Measure the lease liability at PV of lease payments
 - a) Fixed payments, including in substance fixed payments, less any lease incentives paid or payable to the lessee
 - b) The exercise price of an option to purchase the underlying asset if the lessee is reasonably certain to exercise that option
 - c) Payments for penalties for terminating the lease
 - d) Amounts probable of being owed by the lessee under residual value guarantees

Lease Liability Cont'd

- e) Include variable lease payments that depend on an index or a rate initially measured using the index or rate at the commencement date
- f) Include payments to be made in optional periods only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease
- g) Optional payments to purchase the underlying asset should be included in the measurement of lease assets and lease liabilities only if the lessee is reasonably certain to exercise that purchase option

Do Not Include

- Variable lease payments other than those tied to an index or rate
 - i.e. usage
- Any guarantee by the lessee of the lessor's debt
- Amounts allocated to nonlease components

129

Discount Rate

- The discount rate initially used to determine the present value is calculated on the basis of information available at the commencement date
- A lessee should use the rate implicit in the lease whenever that rate is readily determinable
 - If the rate implicit in the lease is not readily determinable, use its incremental borrowing rate

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Discount Rate - Exception

- Private Company Exception:
 - Permitted to use a risk-free discount rate for the lease **instead of its incremental borrowing rate**, determined using a period comparable with that of the lease term, as an accounting policy election made **by class of underlying asset**
 - As amended by ASU 2021-09

Asset

- The cost of the right-of-use asset consists of all of the following:
 - The amount of the initial measurement of the lease liability
 - Any lease payments made to the lessor at or before the commencement date, minus any lease incentives received
 - Any initial direct costs incurred by the lessee

IS Impact

- Finance Lease
 - Amortization of the right-of-use asset
 - Interest on the lease liability
 - Effective Interest Rate Method

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Amortization

- Amortize the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term

Exception

- If the lease transfers ownership to the lessee or the lessee is reasonably certain to exercise an option to purchase the underlying asset, amortize the right-of use asset to the end of the useful life of the underlying asset

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BS Impact

- Finance Lease

- Increasing the carrying amount of the lease liability to reflect interest on the lease liability and reducing the carrying amount to reflect the lease payments made during the period
- The right-of-use asset at cost less any accumulated amortization and any accumulated impairment losses

IS Impact Cont'd

- Operating Lease

- Recognize a single lease cost, calculated so that the remaining cost of the lease is allocated over the remaining lease term on a straight-line basis unless another systematic and rational basis is more representative
- Expense variable lease payments not included in the lease liability in the period in which the obligation for those payments is incurred
- Expense any impairment of the right-of-use asset

Example Amortization Table

Year	Beginning Balance	Interest	Asset Amortization	Liability Balance	Lease Expense
Year 1	Beginning Balance	Discount Rate * Outstanding Lease Liability	Straight Line Rent – Interest (Plug)	Adjusted Liability Balance + Interest Expense – Payment	Straight Line Rent

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Example Journal Entries

Accrual		
Db	Lease Expense	\$ Interest
Cr	Lease Payable	\$ Interest
Db	Lease Expense	\$ Amortization
Cr	Accum Amortization	\$ Amortization

Payment		
Db	Lease Payable	\$ Interest
Db	Lease Payable	\$ Amortization
Cr	Cash	\$ Payment

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Cash Flow

- Finance:
 - Principal → Financing
 - Interest → Operating
- Operating:
 - Lease Cost → Operating

Short Term Lease Exception

- Leases with a term of 12 months or less - a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities
- Recognize lease expense for such leases on a straight-line basis over the lease term

Presentation

- Either present in the statement of financial position or disclose in the notes all of the following:
 - Finance lease right-of-use assets and operating lease right-of-use assets separately from each other and from other assets
 - Finance lease liabilities and operating lease liabilities separately from each other and from other liabilities

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Lessor Accounting



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Lessor Accounting

- Classifies a lease as a sales-type lease when the lease meets any of the following criteria:
 - The lease transfers ownership of the underlying asset to the lessee by the end of the lease term
 - The lease grants lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise
 - The lease term is for the major part of the remaining economic life of the underlying asset
 - The PV of the sum of the lease payments and any residual value guaranteed by the lessee equals or exceeds substantially all of the fair value of the underlying asset
 - The underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term

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Lessor Accounting Cont'd

- If doesn't meet definition of a sales type lease
 - Default: Operating lease
 - Exception: If BOTH of the following criteria are met - direct financing lease:
 - The present value of the sum of the lease payments and any residual value guaranteed by the lessee and/or any other third party unrelated to the lessor equals or exceeds substantially all of the fair value of the underlying asset
 - It is probable that the lessor will collect the lease payments plus any amount necessary to satisfy a residual value guarantee

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Exception (ASU 2021-05)

- Lessors should classify and account for a lease with variable lease payments that do not depend on a reference index or a rate as **an operating lease** if both of the following criteria are met:
 - The lease would have been classified as a sales-type lease or a direct financing lease in accordance with the classification criteria in paragraphs 842-10-25-2 through 25-3
 - The lessor would have otherwise recognized a day-one loss

Present Value

- Use the rate implicit in the lease
- Assume that no initial direct costs will be deferred if, at the commencement date, the fair value of the underlying asset is different from its carrying amount

Common to Lessors & Lessees

- Lease Term Determination
- Initial Measurement of the Lease Payments
 - Determination of inclusion of payments

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Recognition: BS – Sales Type Lease

- Recognize:
 - Net Investment In Lease
 - Selling Profit or Loss
- Expense Initial Direct Costs if, at the commencement date, the FV of the underlying asset is different from its carrying amount
- Derecognize underlying asset

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Net Investment In Lease – Sales Type

- Include:
 - The lease receivable (PV of the lease payments not yet received and the amount guaranteed by the lessee or any other third party unrelated to the lessor)
 - The unguaranteed residual asset (PV of the amount the lessor expects to derive that is not guaranteed by the lessee or any other third party unrelated to the lessor)

Recognition: IS – Sales Type Lease

- Interest income on the net investment in the lease
- Variable lease payments that are not included in the net investment in the lease
- Impairment of the net investment in the lease

Recognition: BS – Direct Financing Lease

- Recognize
 - A net investment in the lease
 - Selling loss arising from the lease (if applicable)
- Derecognize the underlying asset
- Defer selling profit and initial direct costs
 - Included in the measurement of the net investment in the lease

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Net Investment In Lease – Direct Financing

- Include:
 - The lease receivable (*PV of the lease payments not yet received and the amount guaranteed by the lessee or any other third party unrelated to the lessor*)
 - The unguaranteed residual asset (*PV of the amount the lessor expects to derive that is not guaranteed by the lessee or any other 3rd party unrelated to lessor*)
 - Selling profit and initial direct costs are deferred
- Subtract:
 - The amount of any selling profit

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Recognition: IS – Direct Financing Lease

- Recognize
 - Interest income on the net investment in the lease
 - Variable lease payments that are not included in the net investment in the lease
 - Impairment of the net investment in the lease

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Subsequent Measurement

- Adjust net investment in the lease
 - Increasing the carrying amount to reflect the interest income on the net investment in the lease
 - Reducing the carrying amount for payments received

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End of Lease

- Reclassify the net investment in the lease to the appropriate category of asset
 - PP&E
 - Measure at carrying value of net investment in lease

155

Operating Lease – Balance Sheet

- Defer initial direct costs
- Measure underlying asset according to other ASC topics

156

Operating Lease – Income Statement

- Recognize:
 - Lease payments as income in profit or loss over the lease term on a straight-line basis
 - Variable lease payments as income in profit or loss in the period occurred
 - Initial direct costs as an expense over the lease term

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Cash Flow

- Cash receipts from leases – Cash Flows From Operating Activities

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Effective Date & Transition



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Effective Dates

- Public companies: For fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018
 - Public business organization
 - Not-for-profit organization that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market
 - Employee benefit plan that files/furnishes financial statements to the SEC
- All other organizations: For fiscal years beginning after December 15, 2019, and for interim periods beginning after December 15, 2020
- Early application is permitted for all organizations

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ASU 2019-10

Financial Instruments-Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates

- Issued: November 15, 2019
- Background:
 - FASB has greater understanding about the implementation challenges encountered by all types of entities when adopting a major standard
 - The challenges are often magnified for private companies, smaller public companies, and not-for-profit organizations

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Impact

- Delayed 1 year for nonpublic entities
 - NFPs with conduit debt not included

162

ASU 2020-05

Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities

- Issued: June 2020
- Background:
 - Challenges related to COVID-19
 - NFP Conduit Bond Obligors hit heavily



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Leases

- Defers the effective date for one year for private entities and all NFP entities
 - For entities within the “all other” category would be effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022
 - For **Public** NFPs that have *not yet issued financial statements* would be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years
 - Early application would continue to be permitted



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Additional ASUs Impacting Leases



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ASU 2018-11

Targeted Improvements

- Issued: July 2018
- Background:
 - ASU 2016-02, Leases (Topic 842), increases transparency and comparability by recognizing lease assets and lease liabilities on the balance sheet

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ASU 2018-11 Cont'd

- Background:
 - ASU 2016-02 required entities to use a modified retrospective transition method
 - Initially applies the new leases standard at the beginning of the earliest period presented
 - Therefore, public entities lessees with calendar year ends must recognize lease assets and liabilities for all leases starting with January 1, 2017 even though those leases may have expired before the effective date
 - Lessees also must provide the new and enhanced disclosures for each period presented, including the comparative periods

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ASU 2018-11 Cont'd

- As entities have started to implement the new leases standard, many preparers have cited their plan to implement new systems and are observing some unanticipated costs and complexities associated with the comparative period reporting requirements

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ASU 2018-11 Cont'd

- Update:
 - Provides another transition method in addition to the existing transition method by allowing entities to initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption

ASU 2018-11 Cont'd

- Background:
 - Entities must separate lease components from nonlease components
 - Consideration is allocated between components
 - Lessees were allowed a practical expedient to not separate nonlease components
 - Lessors were not given similar practical expedient

ASU 2018-11 Cont'd

- Update:
 - Provides lessors with a practical expedient, by class of underlying asset, to not separate nonlease components from the lease component
 - Limited to circumstances in which the nonlease component(s) would be accounted for under Topic 606 AND both
 - The timing and pattern of transfer are the same for the lease and nonlease component(s)
 - The lease component, if accounted for separately, would be classified as an operating lease

ASU 2018-11 Cont'd

- Also clarifies which Topic (Topic 842 or Topic 606) applies for the combined component
 - If the nonlease component(s) associated with the lease component are the predominant component of the combined component, use Topic 606
 - Otherwise, account for the combined component as an operating lease in accordance with Topic 842

ASU 2018-11 Cont'd

- Disclosures:
 - Required to disclose by class of underlying asset:
 - The fact that it elected the expedient
 - Which class(es) of underlying asset the lessor made the election to
 - The nature of:
 - The lease component and nonlease component(s) that were combined as a result of applying the practical expedient; and
 - Any nonlease components that were not eligible for the practical expedient and, thus, not combined
 - The Topic the entity applies to the combined component (Topic 606 or Topic 842)

ASU 2018-11 Cont'd

- Effective Date:
 - Not yet adopted: follow ASU 2016-02 transition
 - Already adopted:
 - The practical expedient may be elected either in the first reporting period following the issuance or at the original effective date
 - The practical expedient may be applied either retrospectively or prospectively

ASUs Impacting NFPs



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ASU 2020-08

Codification Improvements to Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs

- Issued: October 2020
- Background:
 - Ongoing codification improvement project
 - Issued separately due to financial instrument project

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ASU 2020-08 Cont'd

- Update
 - Clarifies that an entity should reevaluate whether a callable debt security that has multiple call dates each reporting period

ASU 2020-08 Cont'd

- Effective Date
 - For public business entities: For fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020
 - Early application is not permitted
 - For all other entities: For fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022
 - Early application is permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020

ASU 2020-10

Codification Improvements

- Issued: October 2020
- Background:
 - Standing agenda to address clarifications and minor improvements

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ASU 2020-10 Cont'd

• Update

Disclosures
Guidance

Cash balance
plans

Corrects header
titles

Removes the
word "all" to be
less misleading

Fixes Typos

Massages
verbiage for
better accuracy

Net asset
terminology

Adds helpful
cross
references

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ASU 2020-10 Cont'd

- **Effective Date**
 - Public Business Entities: For annual periods beginning after December 15, 2020
 - For all other entities: For annual periods beginning after December 15, 2021, and interim periods within annual periods beginning after December 15, 2022

ASU 2016-13

Measurement of Credit Losses on Financial Instruments

- Issued: June 2016
- **Background:**
 - Began as a joint project with the IASB
 - Recognition & Measurement
 - Impairment
 - Hedging

ASU 2016-13 Cont'd

- Background
 - Global Financial Crisis in 2008
 - Financial Crisis Advisory Group (FCAG)
 - Goal - To advise the Boards on improvements to financial reporting in response to the financial crisis
 - Recommended exploring more forward-looking alternatives to the incurred loss methodology

ASU 2016-13 Cont'd

- Overview
 - Accounting Issues
 - Current incurred loss model delays recognition until it is probable a loss has been incurred
 - Accounting for purchased credit impaired financial assets was criticized as complex and difficult to apply

ASU 2016-13 Cont'd

- Scope

- Financial assets measured at amortized cost basis, including:
 - Financing receivables
 - Held-to-maturity debt securities
 - Receivables that result from revenue transactions within the scope of Topic 605 & 606 on revenue and Topic 610 on other income
 - Reinsurance receivables that result from insurance transactions within the scope of Topic 944 on insurance
 - Receivables that relate to repurchase agreements and securities lending agreements within the scope of Topic 860
- Net investments in leases recognized by a lessor in accordance with Topic 842 on leases

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ASU 2016-13 Cont'd

- Scope

- Off-balance-sheet credit exposures not accounted for as insurance
 - Off-balance- sheet credit exposure refers to credit exposures on off-balance sheet loan commitments, standby letters of credit, financial guarantees not accounted for as insurance, and other similar instruments, except for instruments within the scope of Topic 815 on derivatives and hedging
- Available for Sale Debt Securities

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ASU 2016-13 Cont'd

- Not in Scope
 - Financial assets measured at fair value through net income
 - Loans made to participants by defined contribution employee benefit plans
 - Policy loan receivables of an insurance entity
 - Promises to give (pledges receivable) of a not-for-profit entity
 - Loans and receivables between entities under common control

ASU 2016-13 Cont'd

- Changes to the Codification
 - ASC 310-10 – Deletes paragraphs related to Loans and Debt Securities Acquired with Deteriorated Credit Quality
 - ASC 326 – New
 - Financial Instruments—Credit Losses—Overall

ASU 2016-13 Cont'd

- Amortized Cost
 - Financial assets measured at amortized cost are to be presented at the net amount expected to be collected
 - Use a valuation account (allowance for credit losses) that is deducted asset account to present the net carrying value

ASU 2016-13 Cont'd

- Amortized Cost
 - Report in net income (as a credit loss expense) the amount necessary to adjust the allowance for management's current estimate of expected credit losses on financial asset(s)
 - Reflects the measurement of credit losses for newly recognized financial assets PLUS expected changes in expected credit losses that have taken place during the period

ASU 2016-13 Cont'd

- Amortized Cost Considerations

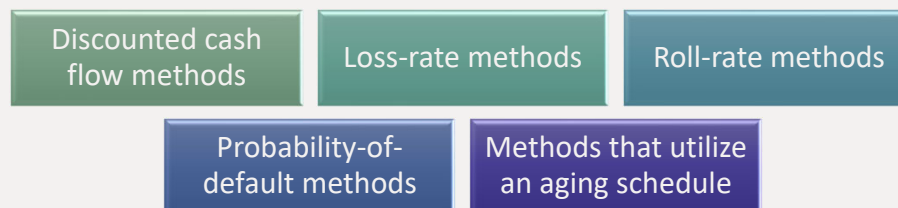
- Consider available information relevant to assessing the collectability of cash flows
 - Internal, External or Both
 - Include relevant information about past events, historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability
 - Consider relevant qualitative and quantitative factors
- Not required to search all possible information that is not reasonably available without undue cost and effort
- **Use professional judgment!**

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ASU 2016-13 Cont'd

- Methodology

- The allowance may be determined by a variety of methods



- Not required to reconcile selected method with DCF method
- If selects DCF Methodology must use effective interest rate
 - Allowance reflects difference between amortized cost and present value of expected cash flow

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ASU 2016-13 Cont'd

- Impact

- FASB believes that an entity can leverage its current systems and methods for recording the allowance for credit losses
 - However, the inputs used to record the allowance for credit losses generally will need to change

ASU 2016-13 Cont'd

- Subsequent Measurement

- Changes in credit risk - Compare current estimate of expected credit losses with the estimate of expected credit losses previously recorded
- Report in net income (credit loss expense or reversal of credit loss expense) the amount necessary to adjust the allowance for credit losses for management's current estimate of expected credit losses
- Evaluate whether a financial asset in a pool continues to exhibit similar risk characteristics with other financial assets in the pool
 - Borrower circumstances, recognition of write-offs, or cash collections

ASU 2016-13 Cont'd

- Available for Sale
 - Not applicable to NFPs

ASU 2016-13 Cont'd

- Effective Date
 - SEC filers: Fiscal years beginning after December 15, 2019, including interim periods within those fiscal years
 - For all other public business entities: Fiscal years beginning after December 15, 2020, including interim periods within those fiscal years
 - For all other entities: Fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021

Delays

- ASU 2019-10

- Public business entities that meet the definition of an SEC filer, **excluding entities eligible to be SRCs as defined by the SEC**, for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years
- All other entities for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years
 - Two year delay

Related Amendments

- ASU 2018-19—Codification Improvements to Topic 326, Financial Instruments—Credit Losses
- ASU 2019-04—Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments
- ASU 2019-05- 2019-05—Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief
- ASU 2019-11—Codification Improvements to Topic 326, Financial Instruments—Credit Losses
- ASU 2020-03 - 2020-03—Codification Improvements to Financial Instruments

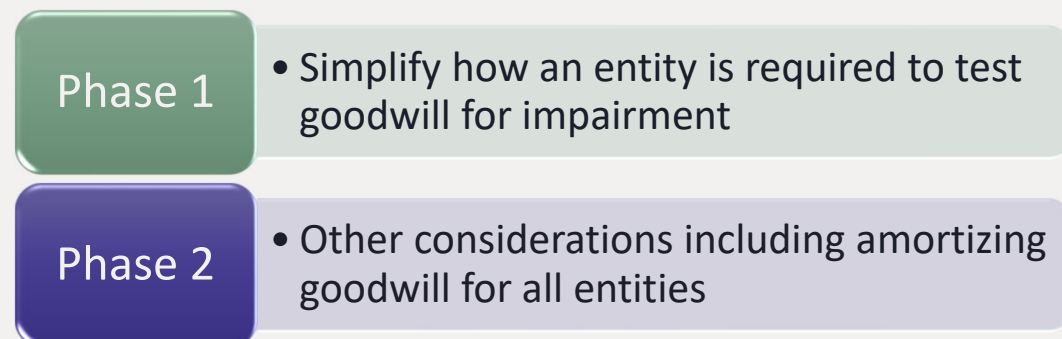
ASU 2017-04

Simplifying the Test for Goodwill Impairment

- Issued: January 2017
- Background:
 - PCC Alternative
 - The FASB added a project to its agenda to determine whether similar amendments should be considered for other entities, including public business entities and not-for-profit entities

ASU 2017-04 Cont'd

- FASB separated the project into two phases:



ASU 2017-04 Cont'd

- The current two step impairment process:
 - The first step of the current impairment model identifies a potential impairment when the fair value of the reporting unit is less than its carrying amount
 - The second step valued the impairment using an implied goodwill methodology

ASU 2017-04 Cont'd

- Update
 - FASB eliminated Step 2 from the goodwill impairment test
 - An entity should perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value
 - The loss should not exceed the total amount of goodwill allocated to that reporting unit

ASU 2017-04 Cont'd

- An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary

ASU 2017-04 Cont'd

- Effective
 - SEC filers: For its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019
 - A public business entity that is not an SEC filer: For its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2020
 - All other entities, including not-for-profit entities: For their annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2021
 - Early adoption is permitted

Delays

- ASU 2019-10
 - Amends the mandatory effective date for the elimination of Step 2 from the goodwill impairment test
 - Maintains the Board's intentional alignment of the mandatory effective dates for Goodwill with those for Credit Losses



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What Questions Do You Have?



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