FASB finalizes limited effective-date deferrals for ASC 606 and 842

On June 3, 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-05, Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities. In the ASU, the FASB provided the following one-year effective date deferrals for certain entities and guidance in its Accounting Standards Codification (ASC):

- ASC 606, Revenue from Contracts with Customers, for which the ASU defers the effective date (on an optional basis) for private companies (which includes those entities that are not public business entities [as defined in the Master Glossary of the ASC]) and private not-for-profit entities provided they have not issued (or made available for issuance) financial statements as of June 3, 2020 that reflect the adoption of ASC 606. For these entities only, the effective date of ASC 606 has been deferred to annual reporting periods beginning after December 15, 2019, and interim reporting periods within annual reporting periods beginning after December 15, 2020. This deferral represents an expansion of the FASB’s proposed effective date deferral for ASC 606, which would have only applied to private franchisors.

- ASC 842, Leases, for which the ASU defers the effective date for not-for-profit entities that have issued, or are conduit bond obligors for, securities that are traded, listed or quoted on an exchange or an over-the-counter market (i.e., public not-for-profit entities) that have not issued (or made available for issuance) financial statements as of June 3, 2020 that were fully compliant with U.S. generally accepted accounting principles (GAAP) (which would have included the adoption of ASC 842). For these entities only, the effective date of ASC 842 has been deferred to fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Paragraphs BC29 to BC34 of ASU 2020-05 discuss whether a public not-for-profit entity is eligible for the deferral if it has filed financial information reflecting the application of ASC 842 in the Electronic Municipal Marketplace Access (EMMA) system. Based on paragraph BC32 of ASU 2020-05, when a public not-for-profit entity has only filed interim financial information (and not U.S. GAAP-compliant interim financial statements) reflecting the adoption of ASC 842 in the EMMA system, it is still eligible for the deferral. Conversely, when a public not-for-profit entity has filed interim or annual U.S. GAAP-compliant financial statements reflecting the adoption of ASC 842 in the EMMA system, it is not eligible for the deferral.

- ASC 842, for which the ASU defers the effective date for private companies and private not-for-profit entities. For these entities only, the effective date of ASC 842 has been deferred to fiscal years
beginning after December 15, 2021, and interim periods within fiscal years beginning after December
15, 2022.

ASC 842 may still be adopted early by the entities eligible for the related deferrals.

SEC

Audits involving cryptoassets

The Public Company Accounting Oversight Board (PCAOB) recently published Audits Involving
Cryptoassets: Information for Auditors and Audit Committees, which highlights considerations for
addressing certain responsibilities under PCAOB standards for auditors of issuers transacting in or
holding cryptoassets. Such considerations for auditors generally include the following, among many
others:

- Determining whether specialized skill or knowledge is needed in the performance of the audit
- Obtaining and analyzing relevant information about the nature of the issuer’s transactions involving
cryptoassets
- Understanding the issuer’s objectives, strategies and related business risks involving cryptoassets
- Understanding the issuer’s internal controls that are important to addressing risks relating to
cryptoassets
- Identifying and discussing fraud risks related to cryptoassets

The document also includes the following questions audit committees may consider asking the auditor
when transactions involving cryptoassets or holdings of cryptoassets are material to the issuer’s financial
statements:

- What is the experience of the engagement partner and other senior engagement team members with
cryptoassets? Would the firm be able to supplement the engagement team’s expertise if necessary
(e.g., by engaging relevant specialists)?
- What is the auditor’s understanding of the technology underlying the issuer’s cryptoasset-related
activities?
- Are specialized technology-based audit tools needed to identify, assess and respond to risks of
material misstatement?
- What is the auditor’s understanding of the legal and regulatory (including know-your-customer and
anti-money-laundering provisions) implications of the issuer’s cryptoasset-related activities?
- How does the audit firm monitor auditor independence considerations associated with audit
engagements involving cryptoassets?
- What policies and procedures does the audit firm have regarding conducting and monitoring audit
engagements involving cryptoassets, including considering the risks associated with performing such
audits?

Disclosure amendments: Acquired and disposed businesses

The SEC recently issued a final rule that amends the financial disclosure requirements in Rules 3-05, 3-
14, 8-04, 8-05 and 8-06 and Article 11 of Regulation S-X, as well as related rules and forms, for
businesses acquired or to be acquired and for business dispositions. Among other ramifications, the
amendments:
Update the significance tests by:
- Revising the investment test and the income test
- Expanding the use of pro forma financial information in measuring significance
- Conforming, to the extent possible, the significance threshold and tests for a disposed business to those used for an acquired business
- Revising the aggregation requirements for immaterial acquisitions

Require financial statements of the acquired business to cover no more than the two most recent fiscal years

No longer require separate acquired business financial statements once the business has been included in the registrant’s post-acquisition financial statements for nine months or a complete fiscal year, depending on significance

Align Rule 3-14 with Rule 3-05 where no unique industry considerations exist

Clarify the application of Rule 3-14 regarding the determination of significance, the need for interim income statements, special provisions for blind pool offerings, and the scope of the rule’s requirements

Amend the pro forma financial information requirements to include disclosure of:
- “Transaction Accounting Adjustments” reflecting only the application of required accounting to the transaction
- “Autonomous Entity Adjustments” reflecting the operations and financial position of the registrant as an autonomous entity if the registrant was previously part of another entity
- Optional “Management’s Adjustments” depicting synergies and dis-synergies, if such adjustments would enhance an understanding of the pro forma effects of the transaction and certain conditions related to the basis and the form of presentation are met

Make corresponding changes to the smaller reporting company requirements in Article 8 of Regulation S-X, which also will apply to issuers relying on Regulation A

Add Regulation S-X Rule 6-11 to govern financial reporting for fund acquisitions by investment companies and business development companies

The amendments will be effective January 1, 2021. However, early application of the amendments is permitted.

EMPLOYEE BENEFIT PLANS

Josie Hammond to chair AICPA Employee Benefit Plans Expert Panel

RSM’s National Director of Employee Benefit Plan Services Josie Hammond recently was appointed as chairperson of the AICPA Employee Benefit Plans Expert Panel. The Panel monitors employee benefit plan industry developments, trends and opportunities to identify and advise on reporting, attest and assurance issues unique to employee benefit plans.

In addition to being the chairperson of the Employee Benefit Plans Expert Panel, Josie is the chairperson of the AICPA Employee Benefit Plans Audit Guide Revision Task Force. She also serves the profession in other advisory capacities, such as by being a member of the AICPA Employee Stock Ownership Plans Task Force, the AICPA Employee Benefit Plans Audit Risk Alert Task Force and the Employee Benefit Plans Auditor Reporting Task Force of the AICPA Auditing Standards Board.
As a member of RSM’s National Professional Standards Group, Josie is responsible for tracking audit and accounting issues that impact the firm’s employee benefit plan audit practice and participates in the development of the firm’s positions on related proposed audit and accounting pronouncements. She develops and presents professional education material, practice aids and tools to support the firm’s employee benefit plan practice.

RSM National Audit Leader Joel Shamon believes the profession will benefit from Josie’s expertise in leading the Expert Panel, “Josie provides deep knowledge on all aspects of employee benefit plan audit issues. With more than 25 years of focused experience, she has both the technical knowledge and the ability to apply that knowledge to real world situations. The panel, and the profession, will benefit from both her knowledge and her understanding.”

INTERNATIONAL

IASB issues narrow-scope amendments to standards

The International Accounting Standards Board (IASB) recently issued narrow-scope amendments to the following standards:

- International Accounting Standard (IAS) 16, *Property, Plant and Equipment*, to prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, such sales proceeds and related cost should be recognized in profit or loss.

- IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, to specify which costs a company includes when assessing whether a contract will be loss-making.


As part of the IASB’s annual improvements, minor amendments also were made to other standards to clarify wording or correct minor consequences, oversights or conflicts between requirements.

All amendments are effective January 1, 2022.