ACCOUNTING

Coronavirus: Recent developments in financial reporting considerations

We have updated our white paper, Coronavirus: Financial reporting considerations, to address the following recent developments:

- Relief requested by the International Swaps and Derivatives Association for the accounting treatment for ongoing cash flow hedges in which the hedged forecasted transactions are interest payments that are expected to be delayed beyond the period specified in the hedge documentation due to the coronavirus pandemic
- The views of the Securities and Exchange Commission staff in the Division of Corporation Finance regarding disclosures about operations, liquidity and capital resources that SEC registrants should consider with respect to the business and market disruptions related to COVID-19
- Activities undertaken and resources provided by the Governmental Accounting Standards Board to alleviate the financial reporting issues encountered by state and local governments during the coronavirus pandemic

For these and many other topics entities should consider when preparing financial statements affected by the coronavirus pandemic, see our white paper, Coronavirus: Financial reporting considerations.

The financial reporting considerations related to the coronavirus pandemic are continuing to evolve. This white paper will continue to be updated periodically as developments warrant. For additional resources related to the coronavirus pandemic, visit our Coronavirus Resource Center.

Fourth edition of A guide to accounting for business combinations

We have published the fourth edition of A guide to accounting for business combinations, our comprehensive publication designed to assist middle market companies in their application of the guidance in Topic 805, “Business Combinations,” of the Financial Accounting Standards Board’s (FASB) Accounting Standards Codification (ASC). This edition reflects numerous changes made to the accounting for business combinations by the FASB and addresses many additional practice issues. The following list highlights some of the more significant topics added to, expanded upon or otherwise updated in the fourth edition of our business combinations guide:

- Accounting for combinations or transfers between entities under common control
- Determining whether what was acquired meets the definition of a business
Accounting for acquired accounts and loans receivable and investments in debt securities within the scope of ASC 326, “Financial Instruments—Credit Losses”

Accounting for acquired customer contracts within the scope of ASC 606, “Revenue from Contracts with Customers”

Performing reasonableness checks when a customer relationship intangible asset’s fair value was determined using a projected cash flow approach and the buyer is considering use of the straight-line amortization method for that asset

Determining the fair value of inventory

Accounting for acquired leases within the scope of ASC 842, “Leases”

Determining the fair value of a noncontrolling interest

Accounting for when the buyer pays off the seller’s debt in connection with a business combination

Accounting for consideration transferred held in escrow

Measuring the fair value of seller-financed debt

Recognizing and measuring the fair value of rollover equity

Accounting by the seller for contingent consideration

Accounting for payments to selling shareholders retained as employees when those payments are contingent upon future employment

Accounting for asset acquisitions

Accounting for increases or decreases in the buyer’s controlling ownership interest

For changes made by the FASB to existing guidance for which there are significantly deferred effective dates (e.g., ASC 326 and 842), discussion is provided on both the preexisting guidance and the changed guidance.

A complete list of all the topics covered and examples and checklists provided in our business combinations guide is included in the table of contents.

Long-duration insurance: Proposed deferral and ease of adoption

The Financial Accounting Standards Board issued a proposed Accounting Standards Update (ASU), Financial Services – Insurance (Topic 944): Effective Date and Early Application. If finalized, the standard would provide an additional year for the implementation of ASU 2018-12, Financial Services – Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts, as follows:

- For SEC filers, excluding smaller reporting companies as defined by the SEC, ASU 2018-12 would be effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years
- For all other entities, ASU 2018-12 would be effective for fiscal years beginning after December 15, 2024, and interim periods within fiscal years beginning after December 15, 2025

In addition, the proposal would ease the adoption provisions by allowing insurance companies that choose to early adopt ASU 2018-12 to restate only one previous period, rather than two.

The proposed ASU is available for comment until August 24, 2020.
FINANCIAL INSTITUTIONS

**TQAs address COVID-19-related lender accounting issues**

The American Institute of Certified Public Accountants has issued the following Technical Question and Answers (TQAs) regarding certain COVID-19-related lender accounting issues:

- **TQA 2130.41** addresses the determination of the effective interest rate when a creditor restructures a loan due to COVID-19 to include a period of reduced payments, and the restructuring is neither a troubled debt restructuring nor required to be accounted for as a new loan.

- **TQAs 2130.42 - 44** discuss the following issues related to advances under the Small Business Administration (SBA) Paycheck Protection Program (PPP):
  - The classification of such advances as a loan (as opposed to a facilitation of a government grant).
  - Consideration of the SBA guarantee under the PPP as “embedded” guarantees (as opposed to a “freestanding contract”) that are considered in estimating credit losses.
  - Accounting for the loan origination fee received or receivable from the SBA and the potential clawback of the fee.

Further information regarding various COVID-19-related lender accounting issues is available in RSM’s white paper, *Coronavirus: Financial reporting considerations*.

PUBLIC SECTOR

**GASB issues coronavirus-related accounting guidance**


- Resources received from the Coronavirus Relief Fund.
- CARES Act programs that provide resources to address a government’s loss of revenue attributable to the effects of COVID-19.
- Amendments to the CARES Act enacted after a government’s statement of net position date but prior to the issuance of financial statements.
- Forgivable loans received pursuant to the Paycheck Protection Program.
- CARES Act resources provided to a business-type activity or enterprise fund.
- Outflows of resources incurred in response to the coronavirus disease.

The requirements of the Technical Bulletin were effective upon its release on July 2, 2020.

SEC

**The role of auditors in company-prepared ESG information**

The Center for Audit Quality recently issued *The Role of Auditors in Company-Prepared ESG Information: Present and Future*. This publication provides an overview of:

- What environmental, social and governance (ESG) reporting is.
- How ESG information is presented and what management’s responsibilities are for ESG disclosures.
How investors are using the information
What the auditor’s current responsibilities are related to ESG information
Why auditors are well positioned to provide assurance on this information

The publication also provides key questions board members can use to discuss ESG reporting with management and auditors, as well as questions investors may want to consider as they use ESG information to make capital allocation decisions.

For more ESG information, see these recent RSM publications:

- The intersection of ESG and risk assessment
- Environmental, social and governance issues in the middle market
- U.S. Department of Labor proposes ESG investment regulation
- How COVID-19 could impact private equity’s approach to ESG