

QUARTERLY ACCOUNTING UPDATE WEBCAST – FALL 2022



Oct. 13, 2022

Today's presenters

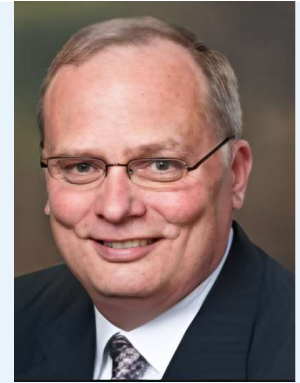
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Agenda

Topic	Minutes
FASB standard-setting activity	30
ASC 842 reminders	30

Natural disasters financial reporting considerations

Natural disasters financial reporting considerations

Property damage
and related
insurance recoveries

Asset impairments /
credit losses

Accounting for
government
assistance

Lease terminations,
inventory and other
considerations

Debt modifications &
liquidity
considerations

Disclosure and
internal control
considerations

FASB Standard-Setting Activity

Recent FASB Accounting Standards Updates (ASU) issued

ASU No.	Title	PBE effective date*	Non-PBE effective date*
2022-04	Disclosure of supplier finance program obligations	1/1/2023	1/1/2023

***Note:** Effective dates are for calendar year-end companies and applies to all but the amendment on roll-forward information, which is effective for fiscal years beginning after Dec. 15, 2023.

Disclosure of supplier finance program obligations

Scope

- Entities that use supplier finance programs in connection with the purchase of goods and services

Transition

- Retrospective, except for changes related to roll forward information that is applied prospectively

Disclosures

- Require the "buyer" to disclose:
 - Key terms of the program
 - The amount confirmed by the buyer that is outstanding at period end and a description of where that amount is presented in the balance sheet
 - For annual periods only, a roll forward of those obligations, including the amount of obligations confirmed and the amount of obligations subsequently paid

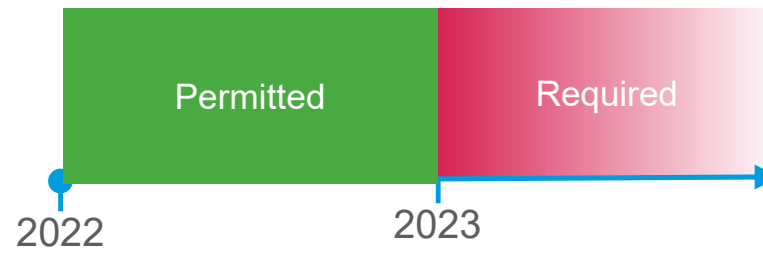
ASU 2022-04

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Effective date

Effective date for calendar year-ends

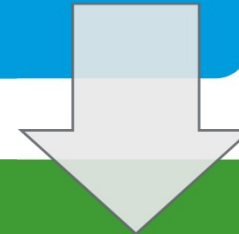


Recently proposed FASB Accounting Standards Updates (ASU)

Proposed ASU	Issued date	Comments due
Financial services — Insurance (Topic 944): Transition for sold contracts	07/14/22	08/08/22
Accounting for investments in tax credit structures using the proportional amortization method (a consensus of the Emerging Issues Task Force)	08/22/22	10/06/22
Segment reporting (Topic 280)	10/06/22	12/20/22

Proposed ASU-Accounting for investments in tax credit structures using the proportional amortization method

Proposed ASU would allow use of the proportional amortization method (PAM) by reporting entities to account for investments made primarily for the purpose of receiving income tax credits and other income tax benefits, when certain criteria are met



The PAM allows an entity to amortize the initial cost of the investment in proportion to the income tax credits and other income tax benefits received and recognize the net amortization of the investment along with the related tax credits and benefits as a component of the income tax expense (benefit)

Proposed

Proposed

Proposed ASU-Accounting for investments in tax credit structures using the proportional amortization method (continued)

Currently, the PAM is limited to investments in low-income housing tax credit (LIHTC) structures, that meet certain qualifying conditions

Other tax equity investments (not in LIHTC structures) are typically accounted for using the equity method or ASC 321

Investment gains or losses and tax credits and other tax benefits are each presented gross on the income statement in their respective line items

Proposed

Proposed

Proposed ASU-Accounting for investments in tax credit structures using the proportional amortization method (continued)

Investors may only elect the PAM under the following conditions:

- It is probable that income tax credits will be available to the investor
- Investor doesn't have significant influence over the operating and financial policies of the underlying project
- Substantially all projected benefits (determined on a discounted basis) are from income tax credits/other income tax benefits
- Investor's projected yield based on cash flows from income tax credits/other tax benefits is positive
- The investor is a limited liability investor for both legal and tax purposes, with its liability limited to its capital investment

Proposed



Proposed

Proposed ASU-Accounting for investments in tax credit structures using the proportional amortization method (continued)

Other provisions of the proposed ASU include:

- Election to use the PAM would be made on a tax-credit-program-by-tax-credit-program basis
- Entities that apply the PAM to qualifying tax credit investments would be required to account for the receipt of the investment tax credits using the flow-through method under ASC 740
- Enhanced disclosures would be required to enable an understanding of the nature of the following:
 - Tax equity investments in projects that generate income tax credits and other income tax benefits from a program for which the reporting entity has elected to apply the PAM
 - The impact of the tax equity investments and related income tax credits on the entity's financial position and results of operations

Proposed

Proposed

Segment reporting

Disclosures:

- Significant segment expenses regularly provided to the CODM
- Amount and description of composition of other segment items by reportable segment
- Interim disclosures of reportable segment's profit or loss and assets
- All disclosures requirements apply to entities with a single reportable segment

Clarification:

- In addition to the measure that is most consistent with the measurement principles under GAAP, entities are not precluded from reporting additional measures of a segment's profit or loss that are used by the CODM.

Proposed

Proposed

FASB agenda

Topic	Stage
Leases (Topic 842): Common control arrangements	Exposure draft
Reference rate reform – Deferral of sunset date of Topic 848 and amendments to the definition of the secured overnight financing rate (SOFR) overnight index swap rate	Exposure draft redeliberations
Interim reporting – Narrow-scope improvements	Exposure draft redeliberations
Accounting for and disclosure of crypto assets	Initial deliberations
Accounting for and disclosure of software costs	Initial deliberations
Acquired financial assets	Initial deliberations
Joint venture formations	Initial deliberations
Disaggregation – Income statement expenses	Initial deliberations
Targeted improvements to income tax disclosures	Initial deliberations

Deferral of sunset date of ASC 848

Sunset date

- Defer the sunset date from Dec. 31, 2022, to Dec. 31, 2024

Definition of SOFR swap rate

- Decided not to amend the definition of SOFR swap rate to include SOFR term as a U.S. benchmark interest rate

Interim reporting – Narrow-scope improvements

- **Disclosure principle:** Provide disclosure at interim periods when a significant event or transaction has occurred since the prior year-end that has a material effect on an entity

Three forms of acceptable interim financial statements

Same level of detail as the previous annual statements, including all notes

Same level of detail as the previous annual statements, with limited notes

Condensed financial statements and limited notes

Accounting for and disclosure of crypto assets

Scope includes crypto assets that:

Meet the definition of intangible asset as defined in the Codification Master Glossary

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

Accounting for and disclosure of software costs

Project added to agenda to:

- Modernize the accounting for software costs
- Enhance the transparency about an entity's software costs

CECL: Acquired financial assets

Tentative board decisions

Eliminate the distinction between purchased credit deteriorated (PCD) and non-PCD assets

Exclude certain asset classes from the PCD accounting model, including credit cards and certain revolving lending arrangements and available-for-sale debt securities

Apply the PCD accounting model to assets acquired in a business combination and in an asset acquisition

Incorporate an element of “seasoning” into the PCD accounting model

Joint venture formations

Tentative board decisions include:

- Define formation date (same as the measurement date) as the date on which an entity initially meets the definition of a joint venture
 - if multiple transactions are accounted for as a single transaction, then the identifiable assets and liabilities would be recognized when they have satisfied the recognition criteria in ASC 805-20
- Recognize any negative goodwill transaction as an adjustment to equity
- Clarify the types of arrangements and business combinations guidance that a joint venture would analyze to determine whether transactions are separate from or part of the joint venture formation
- Apply ASC 805-20 guidance for contingent arrangements deemed to be part of the joint venture formation and classified within assets or liabilities
- Provide guidance for scenarios in which the joint venture replaces share-based payment awards
- Provide a scope exception to all entities that may be proportionately consolidated by one or more of the venturers and not-for-profit entities
- An entity electing the retrospective transition option would apply the relevant business combinations guidance that existed at the formation date



Disaggregation – Income statement expenses

Objective

- To improve the decision usefulness of business entities' income statements through the disaggregation of certain expense captions

Scope

- Any relevant expense line items

Approach

- Reconcile any disaggregated information to the relevant expense caption presented in the income statement
- Disclosure not required for any additional specific expenses or costs incurred

Targeted improvements to income tax disclosures

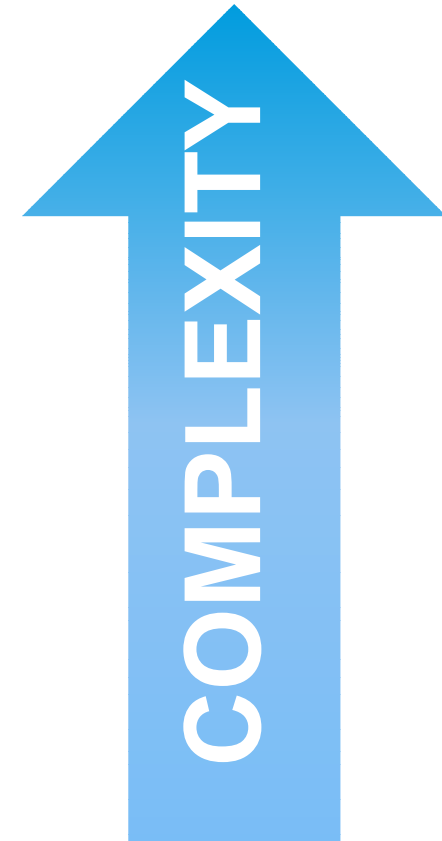
Board directed the staff to further explore, through outreach and research, approaches to:

- Disaggregate income taxes paid by jurisdiction

Implementing ASC 842

Why is implementation difficult?

- Decentralized lease processes
- Identifying leases (including embedded leases)
- Lease and non-lease components
- Data abstraction
- Determining discount rates
- Presentation and disclosure
- Selection of expedients
- Related-party leases



Decentralized lease processes

- Entities with multiple locations
 - Data accumulation
 - Ensure requests are precise and comprehensive
 - Foreign entities
 - Denominated in foreign currency
 - Language other than English

Identifying leases (including embedded leases)

- Not all leases are labelled as leases
 - For example, a service agreement might contain the right to control an asset
- Necessitates review of service agreements for embedded leases
- Types of contracts that often contain embedded leases include:



IT and office equipment



Medical equipment contracts



Advertising



Logistics and warehousing

- If a contract *contains* a lease, it does not automatically indicate that the entire contract is a lease, i.e., it may also contain non-lease components

Lease and non-lease components

- ASC 842 requires entities to separate lease and non-lease components unless the entity elects to apply a practical expedient not to separate
- Considerations:
 - Should be evaluated on an asset class by asset class basis
 - Consider which asset class may benefit from not separating lease and non-lease components
 - Lessors must meet conditions to qualify
- This election does not apply to separate lease components – these must be treated separately and cannot be combined

Component practical expedient

- Advantages to lessees
 - Eliminates complexity and reduces level of effort to determine and allocate the relative standalone prices to both lease and non-lease components
- Disadvantages to lessees
 - Higher right-of-use (“ROU”) asset and liability will be recognized (i.e., overstated ROU assets and liabilities)
 - Risk related to higher ROU asset and therefore, potential increased risk with respect to asset impairment

Data abstraction and review

Overview of RSM's abstraction process

ABSTRACT

- Abstract data from lease documents and prepare templates to be imported into the technology solution
- Apply all judgments made in the preparation phase to the data being abstracted
- Ensure all documents are reviewed and abstracted into the system by checking the most current lease documents against the expenses being recorded in the GL

VALIDATE

- Validate the completeness of information entered into the system
- Validate the accuracy of data entered into the system
- Validate the calculations tie back to the current GL

REVIEW

- Perform reviews to ensure accuracy of the information inputted
- Review of information inputted into the abstraction templates or lease technology solution
- Review the accounting calculations under ASC 842
- Provide population to you for review prior to finalizing the abstracts

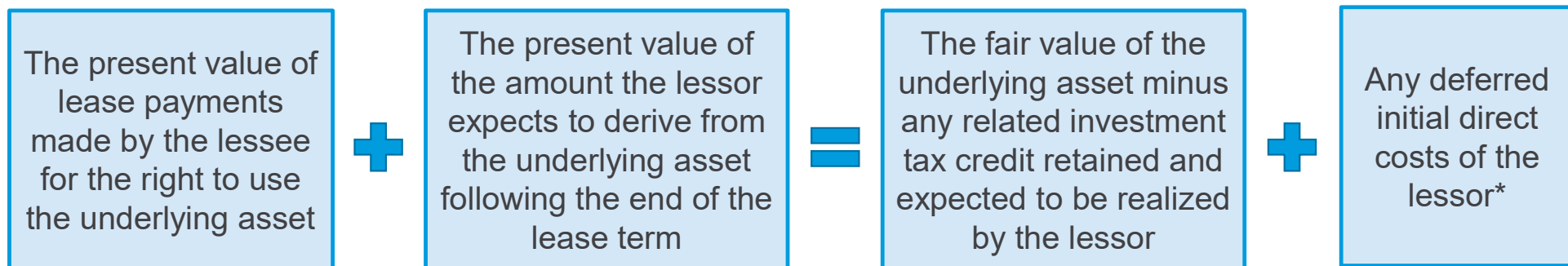
Data collection – Abstraction

Key information that will be needed to apply accounting for leases under ASC 842 includes:

- Lease commencement date
- Lease expiration date
- Renewal option(s)
 - Lease payment terms
 - Lease incentives related to renewal
 - Option exercise evaluation
- Termination option(s)
 - Option date
 - Payment amount
 - Option exercise evaluation
- Purchase option(s)
 - Option date
 - Payment amount
 - Option exercise evaluation
- Lease payments
 - Fixed payments excluding consideration allocated to non-lease components
 - Free rent or rent credit
 - Variable payment – based on index
 - Variable payment – based on performance or usage
 - Payment frequency
- Lease classification (fair value and economic life of leased asset)
- Initial direct costs
- Lease incentives
- Residual value guarantee
- Discount rate
- Prepaid/accrued lease-related balance

Discount rates

- Lessees should use the rate implicit in the lease if readily determinable:



- Lessees use their incremental borrowing rate when the rate implicit in the lease cannot be readily determined (will often be the case)
- Lessees that are not PBEs are permitted to make an accounting policy election (for all leases) to use a risk-free rate determined using a comparable lease term
- Lessors use implicit rate

Discount rate (non-PBE)

842-20-30-3: A lessee that is not a public business entity is permitted to use a risk-free discount rate for the lease, determined using a period comparable with that of the lease term, as an accounting policy election for all leases.

Advantages

- Cost relief and reduced level of effort in determining the discount rates for leases (or portfolio of leases) with comparable lease terms

Disadvantages

- May apply the same discount rates to leases with different terms and conditions (e.g., may apply the same discount rates to real estate leases and equipment leases, when different discount rates may be obtained for these types of assets if the company were to acquire the assets) resulting in a higher ROU asset
- Risk related to higher ROU asset and therefore, potential increased risk with respect to asset impairment

Transitional elections

- Package of practical expedients
 - Do not re-assess
 - Existence of a lease
 - Classification
 - Initial direct costs
- Hindsight
- Method of adoption
 - Restate comparative periods?

Presentation and disclosure

- Finance lease ROU assets must be presented separately from operating lease ROU assets
- Finance lease liabilities must be presented separately from operating lease liabilities
- If not presented on balance sheet, lessees must disclose which line items include those ROU assets and liabilities

Related party leases

- ASC 842 requires entities to consider the "legally enforceable terms and conditions" of the lease
 - Has led to issues related to determination of "legally enforceable"
 - Has to some counterintuitive arguments, especially in situations with short lease terms and significant leasehold improvements

Recent developments

- FASB expected to issue a proposed ASU that would:
 - Provide private companies (i.e., entities within the scope of ASC 842-10-65-1(b)) a practical expedient to use written terms and conditions for:
 - Determining whether a lease exists and, if so,
 - How to classify and account for that lease
 - All entities would amortize leasehold improvements associated with leases between entities under common control over the useful life of the improvements, provided the lessee continues to use the underlying asset
 - When lessee stops using underlying asset, treat as a transfer between entities under common control



Save the date!
Next quarterly
accounting update

QUESTIONS AND CLOSING REMARKS

THANK YOU FOR
YOUR TIME AND
ATTENTION

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