Accounting Updates

+ Impact on Your Organization

Robert Leonard, CPA
Jodi Reynolds, CPA

OBJECTIVE & AGENDA

To provide information about recent accounting pronouncements to allow organizations to plan for changes in accounting which have not yet been implemented and be aware of those which took effect in 2020.

1. Recent Accounting Pronouncements that May Change Your Life
2. Accounting for PPP loans
3. Q&A

New accounting pronouncements affecting for-profit/ commercial entities

- FASB ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606)
  Effective for annual periods beginning after December 15, 2019**
- FASB ASU No. 2016-02, *Leases* (Topic 842)
  Effective for annual periods beginning after December 15, 2021**
- FASB ASU No. 2017-04, *Intangibles – Goodwill and Other* (Topic 350)
  Effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2020**
- FASB ASU No. 2017-08, *Receivables – Nonrefundable Fees and Other Costs – Premium Amortization on Purchased Callable Debt Securities* (Subtopic 310-20)
  Effective for fiscal years beginning after December 15, 2019**
- FASB ASU No. 2018-07, *Compensation – Stock Compensation* (Topic 718)
  Effective for annual periods beginning after December 15, 2019**
- FASB ASU No. 2018-13, *Fair Value Measurement* (Topic 820)
  Effective for annual periods beginning after December 15, 2019**
- FASB ASU No. 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General* (Subtopic 715-20)
  Effective for annual periods beginning after December 15, 2020**
- FASB ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software* (Subtopic 350-40)
  Effective for annual periods beginning after December 15, 2020**
- FASB ASU No. 2018-17, *Consolidation* (Topic 810)
  Effective for annual periods beginning after December 15, 2020**
- FASB ASU No. 2019-12, *Income Taxes* (Topic 740)
  Effective for annual periods beginning after December 15, 2021**
- FASB ASU No. 2020-04, *Reference Rate Reform* (Topic 848)
  Effective as of March 12, 2020 through December 31, 2022
- FASB ASU No. 2020-06, *Debt – Debt with Conversion and Other Options* (Subtopic 470-20) and *Derivatives and Hedging – Contracts in Entity's Own Equity* (Subtopic 815-40)
  Effective for annual periods beginning after December 15, 2023**

**EFFECTIVE DATE IS FOR NON-PUBLIC BUSINESS ENTITIES

ASU 2014-09

REVENUE RECOGNITION IMPACT

Lessons learned on ASC 606 implementation

TAKING A CLOSER LOOK AT COSTS……

1. Costs to **obtain** a contract (only capitalized when amortization period longer than 1 year):
    - Must be both incremental and recoverable
2. Costs to **fulfill** a contract
    - Must relate directly to a contract/anticipated contract
    - Generate or enhance resources of the entity that will be used to satisfy performance obligations in the <u>future</u>
    - Entity must expect to recover the costs
3. A contract asset is recognized on the balance sheet for such capitalized costs.
    - Amortized on a systematic basis consistent with transfer of goods or services to the customer, and subject to impairment testing

ASU 2016-02

LEASES, (Topic 842)

A contract is a lease, or contains a lease, if the contract 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.

Polling question

ASU 2017-04

INTANGIBLES – GOODWILL AND OTHER, (Topic 350)

The FASB issued this guidance to simplify accounting for goodwill.

These new rules eliminate Step 2 from the goodwill impairment test.

The guidance is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2021.

Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017.

ASU 2017-08

PREMIUM AMORTIZATION ON PURCHASED CALLABLE DEBT SECURITIES

This guidance is effective for 2020 financials. Previous Generally Accepted Accounting Principles (GAAP) required that entities amortized premiums on callable debt securities to the contractual maturity date. This change requires entities to amortize the securities to the earliest call date.

When the amortization period was longer under previous GAAP, if the security was called, it would result in a loss being recorded for the unamortized premium.

This guidance includes scope exceptions for debt securities held at a discount, debt securities where the call date/price is not known in advance, and debt securities held at a premium that are contingently callable (once the contingency is resolved they would fall under the scope).

ASU 2018-07

COMPENSATION – STOCK COMPENSATION

Effective for fiscal years beginning after December 15, 2019

Prior GAAP included separate guidance for share-based awards to nonemployees, which indicated they were measured at the fair value of the consideration received OR the fair value of the equity instruments issued, whichever was more reliably measured.

New GAAP includes share-based awards to nonemployees with the guidance on share-based awards to employees by requiring the company to measure the awards based on the grant date fair value of the equity instruments.

Prior GAAP required entities to measure liability classified nonemployee share-based payment awards at fair value.

New GAAP allows a nonpublic entity to make a onetime election to switch from measuring liability classified nonemployee share-based awards at fair value to intrinsic value.

ASU 2018-13
FAIR VALUE MEASUREMENT

Effective for fiscal years beginning after December 15, 2019

Improves the effectiveness of disclosures in the notes to the financial statements

ASU 2018-14

COMPENSATION – RETIREMENT BENEFITS – DEFINED BENEFIT PLANS

Effective for fiscal years beginning after December 15, 2020

To add, remove, and clarify disclosure requirements

ASU 2018-15

CUSTOMER'S ACCOUNTING FOR IMPLEMENTATION COSTS INCURRED IN A CLOUD COMPUTING ARRANGEMENT THAT IS A SERVICE CONTRACT

- ASU No. 2015-05, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement, provided guidance on accounting for the cost of a cloud computing arrangement…
    - *If a software license is provided, capitalize the cost and amortize over the term*
    - *If the arrangement is a service contract, expense the cost*
- Confusion arose over accounting for ancillary costs like internal labor, external contractors assisting with implementation and/or customization, data conversion, etc.

ASU 2018-15

CUSTOMER'S ACCOUNTING FOR IMPLEMENTATION COSTS INCURRED IN A CLOUD COMPUTING ARRANGEMENT THAT IS A SERVICE CONTRACT (CONT.)

- ASU 2018-15 requires use of ASC Subtopic 350-40, Internal-Use Software, which classifies ancillary costs into three categories based on project stages:
  - *Costs in the preliminary project stage (prior to implementation) are expensed*
  - *Costs in the development stage are capitalized*
  - *Costs in the post-implementation stage are expensed*

Effective Calendar 2021 with early adoption permitted

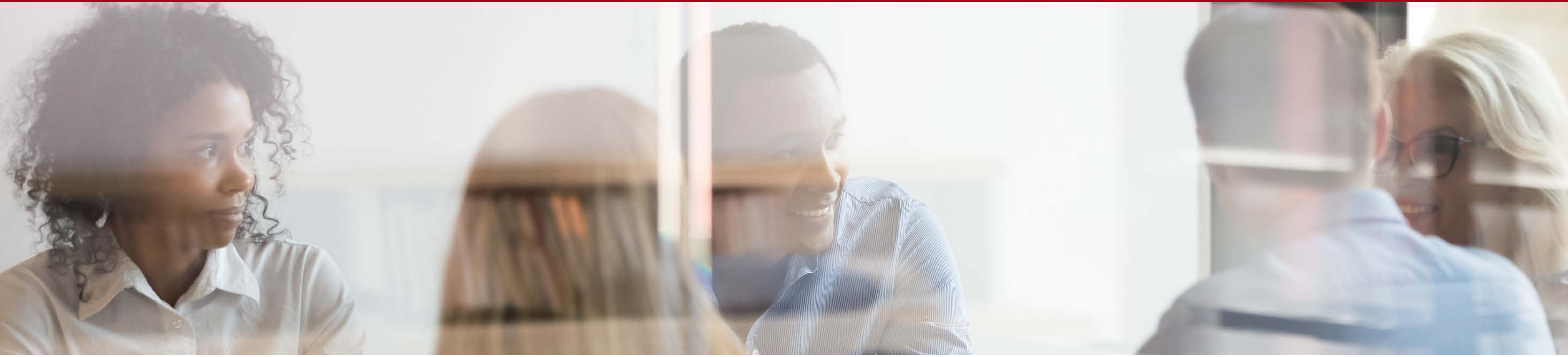
Polling question

ASU 2018-17

TARGETED IMPROVEMENTS TO RELATED PARTY GUIDANCE FOR VARIABLE INTEREST ENTITIES

- Non-public business entities (PBEs) can elect to not apply rules for variable interest entities (VIEs), provided the VIE isn't also a PBE (previously only available in lease arrangements)
- If elected, ASU 2018-17 must be applied to all commonly controlled non-PBE VIEs
- Certain disclosures still required

Effective Calendar 2021 with early adoption permitted



ASU 2019-12
INCOME TAXES

Effective for fiscal years beginning after December 15, 2021

Simplifying the accounting for income taxes – reducing complexity while maintaining or improving the usefulness of the information provided to users of financial statements

ASU 2019-12

INCOME TAXES (CONT'D)

New guidance issued:

- In the separate financial statements of a non-tax paying entity (i.e. a partnership or single member LLC) that files a consolidated return with a taxpaying entity, current and deferred income tax expense is not required to be allocated.
- When a step up in the tax basis of goodwill occurs subsequent to a business combination, a company will be required to assess whether the step up is part of the business combination or a separate transaction.

Updates to existing guidance:

- How to make intraperiod allocations, if there is a loss in continuing operations and gains outside continuing operations (i.e. with discontinued operations).
- Determining when a deferred tax liability is recognized after investor in foreign entity transitions to or from equity method of accounting.
- Accounting for tax law changes and year to date losses in interim periods.
- Determining how to apply income tax guidance to franchise taxes which are partially based on income.

ASU 2020-04
REFERENCE RATE REFORM

Effective as of March 12, 2020 through December 31, 2022

At the end of 2021, bank will no longer be required to report information that is used to determine London Inter-bank Offering Rate (LIBOR). As a result, LIBOR could be discontinued.

ASU 2020-06

DEBT WITH CONVERSION AND OTHER OPTIONS, AND

DERIVATIVES AND HEDGING – CONTRACTS IN ENTITY'S OWN EQUITY

Effective for fiscal years beginning after December 15, 2023

ASU 2020-06

DEBT WITH CONVERSION AND OTHER OPTIONS…. (CONTINUED)

The purpose of this guidance is to simplify the accounting for convertible instruments (i.e. convertible debt).

THERE ARE NOW 3 MODELS FOR EVALUATING CONVERTIBLE INSTRUMENTS:

1. If conversion feature is required to be separately accounted for as a derivative, would account for it as a derivative liability (at fair value).
2. If the instrument is a convertible preferred share classified in equity, there would be no additional accounting.
3. If the convertible instrument is issued at a substantial premium, the premium would be recorded in APIC separately.

THE GUIDANCE:

- Eliminates the beneficial conversion feature and cash conversion models.
- Updates the analysis as to whether a contract qualifies for a scope exception from derivative accounting.

Impact of COVID-19 on financial reporting

ACCOUNTING FOR PAYCHECK PROTECTION PROGRAM (PPP) LOANS

- Conservatively, the loans should be accounted for as debt until forgiven by both the bank and the Small Business Association (SBA).
- Loans in excess of $2m will be audited by the government and therefore be subject to greater scrutiny if a company wishes to reflect them as a grant.
- What will be examined if a company wants to treat the loan as a grant (without obtaining full forgiveness first):
    - Expenses supporting forgiveness to ensure compliance with the rules
    - Payroll records
    - Affiliation rules
    - For loans in excess of $2m: access to capital and necessity of the PPP loan. ***There will be subjectivity in this conclusion!***

Polling question

Contact us

Jodi Reynolds, CPA
Senior Manager
207.991.5175
jreynolds@berrydunn.com

Robert Leonard, CPA
Principal
617.965.5959
rleonard@berrydunn.com