



Technical Issues Alert

Information on technical issues affecting small businesses
and the CPAs who serve them.

TIC Liaison Meeting with FASB and PCC

Every year, TIC meets with the Financial Accounting Standards Board (FASB), the Private Company Council (PCC) and staff members of each group to review guidance in development and current practice concerns. Issues discussed this year included:

Agenda Consultation. This FASB Invitation to Comment (ITC) sought feedback on where the board should focus standard-setting efforts going forward. Among other recommendations, in its [comment letter](#), TIC noted that the ITC's proposed changes would considerably increase disclosures. TIC said it could not support any new disclosure disaggregation requirements that haven't been evaluated by the PCC in line with the Private Company Decision-Making Framework. TIC identified suggested new disclosure requirements that would be particularly difficult for private companies to follow and cited issues for not-for-profits, as well. In questions related to derivatives, TIC recommended that educational materials would best help standard users understand how to apply the existing guidance. TIC members also discussed their experiences with digital assets (including cryptocurrencies and non-fungible tokens) and environmental, social and governance (ESG) transactions, and gave the private company perspective on redefining key performance indicators and the recognition and measurement of government grants.

Debt modification. In its meeting with the PCC, TIC members discussed the potential for a private company alternative on accounting for debt modification, a topic that was mentioned in the FASB *Agenda Consultation* ITC. Because the current model can be difficult for private companies to understand and correctly apply, TIC suggested that a simplification of the guidance could reduce complexity and the cost of compliance.

Challenging standards for private companies. Regarding two complex recent standards, TIC provided feedback and recommendations to the PCC on areas of potential relief for private companies and discussed issues for the FASB to consider in its [post-implementation review process](#) of each standard. The standards were:

- FASB Topic 606, *Revenue Recognition*. TIC described implementation issues related to areas that included accounting for consumer options for additional goods and services that are a material right; short-cycle manufacturing contracts; and retainage issues for construction contractors.
- FASB Topic 842, *Leases*. A proposed [Accounting Standards Update](#) would allow companies that are not public business entities to make a risk-free rate election available to these entities by class of underlying asset, rather than at the entity-wide level. In their discussions, TIC members suggested that lengthening the term of a lease subject to a short-term lease exception from 12 to 18 or 24 months could benefit private companies by scoping out many less

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Future Meetings

TIC meetings offer local practitioners the chance to provide their unique perspectives in the standard-setting process. All CPAs are invited to attend. Contact Mike Austin, CPA, TIC Staff Liaison, at the AICPA at mike.austin@aicpa-cima.com to learn about attending or receiving information on upcoming meetings.

The next TIC meetings will be held:

- November 10, virtual TIC meeting
- January 24 and 25, virtual meeting
- May 4 and 5, TIC meeting
- June 8, TIC meeting at the [AICPA Engage Conference](#), Las Vegas (tentative)

The Private Companies Practice Section Technical Issues Committee (TIC) provides standard setters with the unique perspective of local CPA firms on accounting, auditing and reporting issues. We hope these highlights of issues that affect local firms will help you, your firm or your group to participate in the standard-setting process.

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significant leases. They also recommended a potential private company practical expedient for the requirements on embedded leases and lease allocation between lease and nonlease components.

Compensation--Stock Compensation (Topic 718): Determining the Current Price of an Underlying Share for Equity-Classified Share-Based Awards. This practical expedient from the PCC is intended to offer relief to private companies by allowing them to determine the current price of a share underlying an equity-classified share-option award using a valuation method performed in accordance with specific Treasury Department regulations that provide acceptable methodologies to comply with the "presumption

of reasonableness" requirements of Section 409A of the U.S. Internal Revenue Code.

Identifiable Intangible Assets and Subsequent Accounting for Goodwill. FASB staff reviewed progress on an ongoing effort to address issues in this area.

Improving the Accounting for Asset Acquisitions and Business Combinations. This is the third phase of a project on the Definition of a Business. TIC members discussed steps that could lower cost and complexity for private companies and offered recommendations that would further facilitate implementation for private clients. ■

TIC Meets with GASB

TIC's annual meeting with the Governmental Accounting Standards Board addressed a range of timely topics.

Accounting Changes and Error Corrections. In its *comments* on this exposure draft, TIC generally agreed with proposed changes, including those to or within the financial reporting entity. However, TIC recommended against required disclosure of changes in the fund presentation as major or nonmajor. TIC believes the existing disclosures are sufficient and that proposed additions could lead to confusion among users. TIC also described additional situations where reclassifications in the financial statements due to a change in accounting principle and an error correction would be appropriate. TIC asked the GASB for added guidance for entities on the extent and location of disclosure for comparative information that is only reported within required supplementary information and/or supplementary information.

Omnibus 20XX. TIC's *comments* focused on exchange or exchange-like financial guarantees. To avoid potential inconsistency in practice, TIC recommended that the board include guidance on how revenue should be recognized for the consideration received by a guarantor.

Compensated Absences—Reexamination of Statement 16. In its *comments* on this ED, TIC supported aspects of the proposal, including modernizing the definition of compensated absences to include a wide range of leaves. However, TIC believed the proposed standard could lower the threshold for reporting compensated absences, which would

increase cost and the need for professional judgment related to items that are not material to the financial statements in many cases.

Conceptual Framework: Disclosure Framework. A recent exposure draft related to this project seeks to create a conceptual framework for the development and evaluation of notes to financial statements. It also aims to improve the effectiveness of note disclosures in government financial reports. TIC will issue a comment letter reaffirming its *initial comments* associated with this project and offering comments on the updates to the explanation of what is to be deemed "essential" to the notes.

Practice issues in government accounting. TIC and GASB members discussed issues seen in practice, including lease modifications occurring due to COVID-19, especially related to airlines. TIC also pointed to diversity in practice in implementing GASB Statement No. 87, *Leases*.

GASB project updates. Current projects under way include:

- GASB Preliminary Views document on *Revenue and Expense Recognition*. The board and staff are reviewing field test results on this proposal.
- *Financial Reporting Model Improvements and Recognition of Elements of Financial Statements*. In its deliberations on feedback to these EDs, the board has reaffirmed that recognition in government funds would follow the proposal's short-term approach to recognition, which TIC had supported.

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- [Risks and Uncertainties Disclosures](#). This project is considering what related disclosures might be needed in the government environment.

[The Annual Comprehensive Financial Report](#). A final draft of this guidance, which renames this report and changes its acronym to ACFR, was expected soon. TIC offered to provide feedback on awareness and adoption of the change.

[Pension guidance in review](#). A number of TIC members have been involved in roundtables related to the post-implementation review of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB encouraged TIC members to offer further feedback based on issues they're seeing in practice. TIC will also offer input on potential future technical agenda projects. ■

Comment on Proposed New Guidance

Practitioners should be aware of these recent exposure drafts and are encouraged to comment if they affect their practices or clients.

- [Peer review. Clarification of AICPA Standards for Performing and Reporting on Peer Reviews](#) would clarify existing guidance to make it easier to read, understand, and apply. Comments are due by December 15.
- [Ethics](#):
 - [Unpaid Fees](#), a proposed revised interpretation, would replace existing guidance with a principles-based framework for members to determine when unpaid fees impair independence. Comments are due by December 20.

- [Accounting Standards Implementation Services](#), a proposed new interpretation, would establish the impact on independence when a member assists an attest client with implementing new or existing accounting standards. Comments are due by December 20.
- [Loans, acquisitions, and other transactions](#), a proposed revision to the definition of "beneficially owned," and revisions to interpretations on "Loans," "Loans and Leases With Lending Institutions," "Immediate Family Members," and "Client Affiliates." Comments are due by January 5 ■

FAQ on Software Tools in SOC 2® Examinations

An AICPA Frequently Asked Question (FAQ), [Effect of the Use of Software Tools in SOC 2® Examinations](#), addresses the increasing number of software solutions intended to improve the efficiency with which service organizations can prepare for and undergo SOC 2 examinations. The FAQ describes the potential risks of using SOC 2 tools, how those risks may affect the ways in which the service auditor meets relevant

responsibilities in a SOC 2 examination, and the professional and ethical responsibilities that a service auditor may need to consider before entering into certain business relationships with providers of SOC 2 tools. The FAQ represents the views of AICPA staff based on the input of members of the AICPA Assurance Service Executive Committee's SOC 2 working group. ■

Let Us Hear from You

If you have questions, local firm advocacy issues or suggestions for TIC, contact:

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