



# Technical Issues Alert

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

## Issues Discussed at FASB and PCC Liaisons

TIC meets annually with the Private Company Council and the Financial Accounting Standards Board and maintains contact with members and staff of both groups throughout the year. These are some of the issues discussed at its most recent meetings with each group.

### Private Company Council

*Goodwill and asset impairment.* In meetings with both the PCC and the FASB, TIC members discussed private company concerns in this area, and described why, given the pandemic and its economic impact, goodwill and asset impairment could be a significant concern this year. They noted that private companies oftentimes struggle with when a triggering event occurs and measurement issues when assessing whether an impairment charge is required. If the business has rebounded to pre-shutdown levels, it may be uncertain that a triggering event has occurred, and an impairment assessment needs to be performed as of the date the triggering event. TIC reviewed some alternatives that might work for private companies. The discussion also included issues related to right of use assets in ASC 842, *Leases*, contract assets in ASC 606, *Revenue Recognition*, and inventory recoverability.

*Proposed Accounting Standards Update—Compensation—Stock Compensation (Topic 718): Determining the Current Price of an Underlying Share for Equity-Classified Share-Option Awards.* TIC members noted their appreciation for the efforts by the PCC and the FASB to address the costs and complexities for private companies in this area. Because private company shares are not publicly traded, valuations are necessary to determine

the value of the underlying shares. While TIC did not generally disagree with the elements of the proposed exposure draft, the committee did not believe it would deliver significant cost savings. TIC thinks companies that obtain valuations under Section 409a of the Internal Revenue Code are the only ones that will gain cost savings under the proposal, and most of TIC firms' clients do not obtain these valuations.

Members of the Auditing Standards Board have told TIC they agree that any potential audit savings would likely be minimal. There is also a concern that preparers and their auditors may incorrectly assume that this practical expedient permits them to base the accounting purely on the 409A valuation without consideration of the reasonableness of the assumptions and process used therein. However, the same level of audit evidence would be required to validate the estimated share price value as is required today.

*Employee Share-Based Payment Disclosures.* TIC, which has long held that some disclosures in this area lack relevance or usefulness for private companies, recommended that the PCC launch a project to address these issues.

*Profits interests and their interrelationship with partnership accounting.* TIC has previously discussed the need for further guidance on profits interest agreements, which are an equity right that gives the holder an interest in the future profits and appreciation of an LLC. TIC and PCC members and staff discussed steps the PCC is taking to address the issues involved, including the need for outreach to stakeholders.

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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 Kristy Illuzzi, CPA, TIC Staff Liaison, at the AICPA at (919) 402-4057 to learn about attending or receiving information on upcoming meetings.

The next TIC meetings will be held:

- November 10 and 11, 2020, virtual TIC meeting.
- January 12 and 13, 2021, virtual TIC liaison meeting with AICPA Auditing Standards Board
- May 5 and 6, 2021, virtual TIC meeting
- June 7-10, 2021, TIC meeting and participation in AICPA Engage Conference
- September 27-29, 2021, TIC liaison with the PCC, FASB and GASB in Norwalk, CT

The PCPS 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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*Accounting for software for sale costs.* TIC discussed why accounting in this area will become more challenging as more companies move to remote workplaces and expand their digital use thereby increasing the demand for accelerated software production cycles. They questioned whether some of the complexity related to capturing and recording related costs for capitalization delivers valuable information for users. While this might be an issue for companies of all sizes, it is particularly difficult for smaller private companies, and TIC suggested that alternatives be considered for them.

### Financial Accounting Standards Board

*Balance sheet classification of debt.* The board has not yet started redeliberations on a revised proposed update issued last fall. Issues discussed at the liaison meeting included the treatment of debt that is refinanced after the financial statement date but before the statements are issued.

*Improving the accounting for asset acquisitions and business combinations (Phase 3 of the FASB's Definition of a Business Project).* In this project in process, the board has decided to address contingent consideration (due to diversity in practice on when it should be recognized), transaction costs, certain recognition and measurement exceptions, as well as in-process research and development by a primary beneficiary of a variable interest entity that is not a business.

*Accounting by a joint venture for nonmonetary assets contributed by investors.* FASB staff gave an update on the focus of the board's initial deliberations on the project, including issues such as definitions and scope in this project in process.

*Accounting Standards Update (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): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity.* An October 20 webcast will

offer details on this standard, which focuses on convertible instruments and the derivatives scope exception for contracts in an entity's own equity. In the meeting, TIC members offered examples of cases when clients and even bankers were unaware of some FASB guidance in this area, and discussed how FAQs, blog posts or other communications tools might address that problem.

*Leases.* The board is conducting a post-implementation review that includes staff outreach to stakeholders and two recent roundtables. While TIC members generally thought implementation has gone well so far, they noted that the identification and allocation of lease and non-lease components was a challenging issue. In 2019, TIC sent the FASB an [unsolicited comment letter](#) urging the board to delay the standard, a step that the board ultimately took.

*Other financial reporting issues.* In discussions with both the PCC and FASB, TIC highlighted these issues that CPA firms and their private company clients are dealing with in the current economic environment:

- Liabilities, such as cost of exit and disposal obligations under ASC Topic 420 and in other situations, contingent liabilities and the situations when force majeure is effective.
- Recording compensation for furloughed employees or benefits for those separated.
- CARES Act funding questions.
- Private companies' navigation of revenue recognition issues
- Debt modification and extinguishments.
- Overhead allocation. ■

## TIC Meets with the GASB

Topics covered at TIC's annual meeting with the Governmental Accounting Standards Board included:

*GASB pandemic assistance.* TIC members thanked the board for release of [GASB Emergency Toolbox](#), which helps stakeholders quickly identify authoritative guidance that could be relevant as a result of the pandemic and its impact.

*Proposed GASB Concepts Statement on Recognition of Elements of Financial Statements.* TIC members expressed their support for the short-term financial resources measurement focus to improve consistency in recognition between governments (see TIC's [comment letter](#) on a 2019 preliminary views document for this project). Dates for public hearings and user forums on

the proposal in May and April of 2021 can be found in the ED. Comments are due by February 26.

*Financial Reporting Model Improvements ED.* This project is a reexamination of Statement No. 34, *Basic Financial Statements— and Management's Discussion and Analysis—for State and Local Governments*. TIC supported the proposed later effective date for smaller governments since the delay offers smaller governments the chance to learn about implementation from the experiences of larger ones. TIC also discussed potential user comprehension challenges if the reporting model uses the terms "outflows and inflows of resources" instead of some variation of the more familiar "revenues and expenses" in the resource flows statement. The comment deadline for the ED is February 26. TIC

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plans to continue to review the document and provide feedback to the GASB.

*Revenue and Expense Recognition preliminary views document.* The comment deadline for this document is February 26.

*Implementation and practice issues.* TIC discussed current concerns that included implementation issues with GASB

Statement No. 84, *Fiduciary Activities*, and with Statement No. 87, *Leases*; recognizing subsequent events; recognizing revenue and expense; timing differences between reporting on the Schedule of Expenditures of Federal Awards (SEFA) and financial statements. ■

## PEEC Proposed Revised Interpretation: *Records Requests*

TIC believes that [this proposal](#) will help members better understand their ethical responsibilities related to requests for records by clients. In its [comment letter](#), TIC did note that the proposal changed the use of the word “provide” in existing literature to “make available.” TIC questioned whether that could cause confusion in practice and recommended that the Professional Ethics Executive Committee develop questions and answers with examples of how specific records could be made available. TIC offered to assist in developing these Q&As. TIC also pointed out ways that the ED could better clarify requirements for initial versus subsequent requests.

The ED calls for CPAs to comply with additional requests to provide records if the client has lost the records due to a natural

disaster, and TIC suggested adding the words “as practicable” to this requirement, since it may not always be possible for the firm to comply, especially if it has been hit by the same disaster. Regarding the proposed guidance on formulas, TIC believes members should only be required to make them available if they are engaged to prepare a formula as part of the work product or if the client financial information is incomplete without it, since some formulas are considered proprietary and since exporting some formulas from IT systems could compromise data integrity. TIC called for Qs&As on this topic to clarify what is required. ■

## SSAE No. 21 Enables New Service: Direct Examination Engagements

The Auditing Standards Board has issued [Statement on Standards for Attestation Engagements \(SSAE\) No. 21](#), which adds a new section in AICPA *Professional Standards* designated as AT-C section 206, *Direct Examination Engagements*. AT-C section 206 enables practitioners to measure or evaluate underlying subject matter against criteria and express an examination opinion that conveys the results of that measurement or evaluation (a direct examination). In this new direct examination engagement, the responsible party is not required to measure or evaluate the underlying subject matter against criteria and the practitioner is not required to obtain a written assertion from the responsible party, however the responsible party continues to be required to acknowledge

responsibility for the underlying subject matter. The new SSAE amends AT-C section 105, *Concepts Common to All Attestation Engagements*, principally for new terminology, and supersedes and renames AT-C section 205 to *Assertion-Based Examination Engagements*. SSAE No. 21 supersedes AT-C section 205 to differentiate it from AT-C section 206, although both types of examination engagements are reasonable assurance engagements. Revised AT-C section 205 continues to enable practitioners to perform traditional assertion-based examination engagements. SSAE No. 21 becomes effective for practitioner’s reports dated on or after June 15, 2022. Early implementation is permitted. ■

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## Exposure Draft Update

In addition to some of the documents mentioned elsewhere in this issue, TIC also plans to review and comment on these exposure drafts on standards in development:

### FASB

*Franchisors—Revenue from Contracts with Customers (Subtopic 952-606): Practical Expedient.* This exposure draft aims to reduce cost and complexity for private company franchisors in applying Topic 606 and to address the accounting outcome of deferring some or all of the initial franchise fee over the franchise license term. The comment deadline is November 5.

*Proposed FASB Concepts Statement No. 8, Conceptual Framework for Financial Reporting—Chapter 4, Elements of Financial Statements.* This ED would establish broad financial reporting concepts for elements such as assets, liabilities, revenues and expenses. The due date for comment letters is November 13.

### PEEC

*Staff Augmentation Arrangements.* Significant changes have been made to this proposed interpretation in light of comments on an original proposal issued in December 2018, including concerns expressed by the National Association of State Boards of Accountancy. Comments are due by December 8.

### Auditing Standards Board

*Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement.* The ED, which would supersede SAS No. 122, as amended, section 315 of the same title, and various AU-C sections in *AICPA Professional Standards*, is based on the International Standard on Auditing 315, *Identifying and Assessing the Risks of Material Misstatement*. The comment period ends November 25. ■

## AICPA Releases Information Related to Health Care Considerations

- Developed by the [AICPA Health Care Expert Panel](#), the AICPA has issued [Technical Questions and Answers \(TQAs\) 6400.55–.62](#) (AICPA, [Technical Questions and Answers](#)) to provide background and nonauthoritative accounting information about lease components in continuing care retirement community Type A life care contracts. [These TQAs](#) discuss determining whether there is an embedded lease under FASB ASC 842, *Leases*; identifying the lease and non-lease components; allocating the consideration in the contract to the lease and non-lease components; determining the lease payments; evaluating the lease term; and determining the lease classification. In addition, the AICPA recently issued TQAs [6400.53–.54](#), which discuss accounting for costs health care entities incur in connection with the implementation of electronic health record systems for internal use, and financial presentation considerations related to transactions involving provider taxation programs and similar arrangements.
- The coronavirus pandemic has created a great deal of uncertainty for health care entity financial statement preparers and their auditors. With assistance from a group of health care experts formed by the AICPA, [an updated FAQ](#) has been released to include two additional topics aimed at assisting financial statement preparers and audit practitioners as they work through some of the challenges they are encountering amid the pandemic.
- Developed by the [AICPA Health Care Expert Panel](#), the AICPA has issued [Technical Questions and Answers \(TQA\) 6400.63–.70](#) (AICPA, [Technical Questions and Answers](#)) to provide background and nonauthoritative accounting information about CARES Act provisions and COVID-related FEMA funding specific to nongovernmental health care entities, which include business entities and not-for-profit entities. The CARES Act [TQAs](#) discuss the accounting for Provider Relief Fund general distribution payments and payments for treating uninsured COVID-19 patients, payments received under the Medicare Accelerated and Advance Payment Program, and temporary increases in payments for services to Medicare and Medicaid patients. ■

## AICPA COVID-19 Resources

- [AICPA Coronavirus \(COVID-19\) Resource Center](#). This site includes a wealth of tools and information, including topics related to the Small Business Administration Paycheck Protection Program, the CARES Act, accounting and reporting, audit and assurance, government and small firm concerns.
- [AICPA Coronavirus audit and accounting resources](#). Tools—in the form of articles, webcasts, toolkits and FAQs—fall into areas that include planning a remote audit, risk assessment and response, communications and reporting and professional ethics.
- [AICPA Center for Plain English Accounting](#). Subscribers have access to a variety of [reports](#) on topics related to the pandemic, including “Pandemic Lease Concessions: Treatment Options Under FASB ASC 840,” “Accounting in the Fog of War: Treatment of PPP Loans,” and “Accounting for Termination Benefits: Other Accounting Impacts of COVID-19.” ■

### Let Us Hear from You

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

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