Year-End Technical Accounting Update

WHAT YOU NEED TO KNOW

DECEMBER 16, 2024

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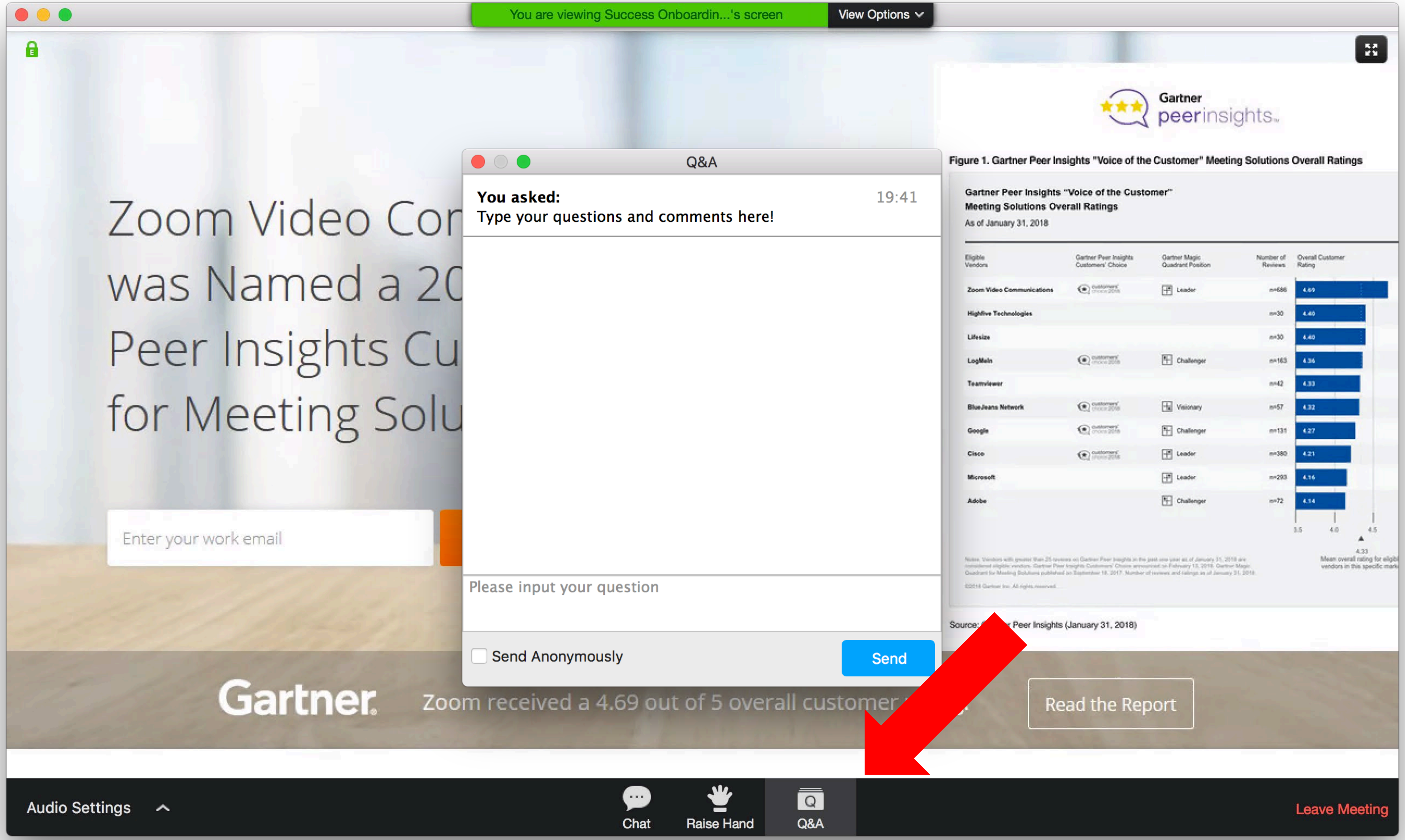
Housekeeping

- This session is being recorded.
- Slides and recording will be sent to you after the session concludes.
- In the event of technical difficulties, please bear with us!
- If you have a question, please use the Q&A button at the bottom of your screen.
- Today's session is eligible for one hour of CPE in Accounting. You must answer at least three polling questions and attend at least 50 of 60 minutes to receive credit.



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Gartner Peer Insights "Voice of the Customer"
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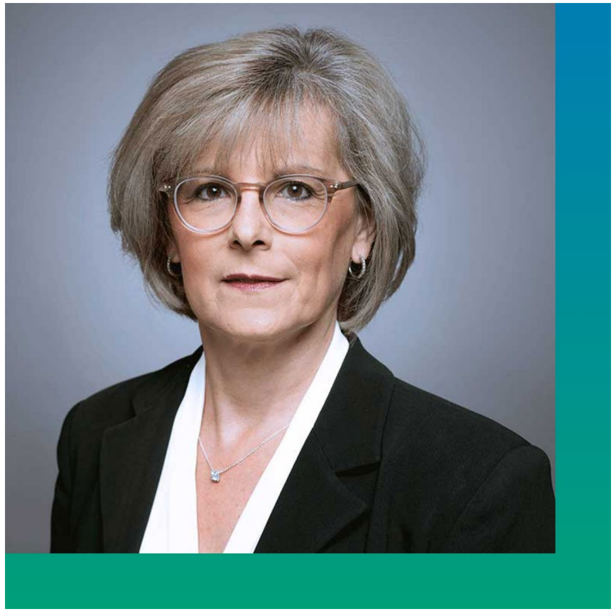

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Agenda

1. New Pronouncements Effective for 2024
2. Standards Updates Effective in Future Years
3. Post-Adoption Lease Accounting Issues
4. Proposed Changes to the Codification
5. Q&A Session

Polling Question #1

When was the last time you attended an Insero Webinar?

A. Within the last year

B. Within 1 to 2 years

C. More than 2 years ago

D. Never

New Pronouncements Effective in 2024

ASU 2020-06: Convertible Instruments

ASU 2022-04: Liabilities – Supplier Finance Programs

ASU 2021-08: Business Combinations – Contract Assets and Liabilities

ASU 2022-01: Portfolio Layer Method for Derivatives and Hedging

ASU 2023-07: Segment Reporting [Public Companies Only]

ASU 2020-06: Convertible Instruments

Main Provisions:

- Simplifies accounting for convertible instruments by reducing the models allowed
  - Eliminates the cash conversion and beneficial conversion features
  - Now instruments recorded as a single instrument – liability or equity
- Expands disclosures on convertible instruments
- Removes certain conditions for equity classification, potentially resulting in more classified as equity
- Changes EPS – Can only use "if converted method" now

Effective Date: For non-public companies, years beginning after December 15, 2023 [For public companies, already effective]. Can be adopted with a modified or full retrospective method.

ASU 2022-04: Supplier Finance Programs

Main Provisions:

- Introduces new disclosures improving transparency around supplier finance obligations
  - Key terms of program
  - Amount outstanding at the end of the period
  - Description of where those obligations are presented in the balance sheet
  - Rollforward of those obligations for the annual period

Effective Date: For all entities - for years beginning after December 15, 2022, except for the rollforward disclosure which is effective for the fiscal years beginning after December 15, 2023

Example Rollforward Disclosure

The rollforward of the Company's supplier finance obligations for the years ended December 31, 2025 and December 31, 2024 are as follows:

	2025	2024
Supplier finance obligations at the beginning of the year	550,000	500,000
Invoices confirmed during the year	220,000	175,000
Confirmed invoices paid during the year	(190,000)	(125,000)
Supplier finance obligations at the end of the year	580,000	550,000

ASU 2021-08: Business Combinations

Main Provisions:

- Aligns contract assets and liabilities acquired in business combinations with ASC 606
- Acquirer should account for the related revenue contracts as if it had originated the contract
- Allows for some practical expedients to simplify

Effective Date: For non-public companies, years beginning after December 15, 2023 [For public companies, already effective]

ASU 2022-01: Portfolio Layer Method

Main Provisions:

- Permits an entity to apply the same portfolio hedging method to both prepayable and non-prepayble financial assets
  - Lowers prepayment risk

- Expands fair value hedge accounting to multiple hedged layers of financial assets
  - Example from Journal of Accountancy: *Company forms a closed portfolio of $10m in debt securities [$7.5m expected to remain o/s after 5 years and $2.5m expected to remain o/s for 10 years]. Under the portfolio layer method, the Company could create more than one hedged layer to hedge the FV risk associated with this portfolio, by designating two layers and entering into:*
    - *One hedge for a $7.5m layer with 5 years expected until maturity*
    - *A second hedge for $2.5m layer expected to be o/s for 10 years (years 6-10)*

- Clarifies how basis adjustments are handled and simplifies credit loss considerations

Effective Date: For non-public companies, years beginning after December 15, 2023 [For public companies, already effective]

ASU 2023-07: Segment Reporting [Public Companies Only]

Main Provisions:

- Improves decision-useful information for investors by aligning reporting segments with internal management views (Chief Operating Decision Maker [CODM])
- Improve segment disclosures primarily through enhanced disclosures about significant segment expenses.

Effective Date: Years beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024

Standards Updates Effective in Future Years

ASU 2022-03: Fair Value Measurement for Equity Securities

ASU 2023-05: Business Combinations – Joint Venture Formations

ASU 2023-02: Investments in Tax Credit Structures

ASU 2023-09: Improvements to Income Tax Disclosures

ASU 2024-01: Stock Compensation and Similar Awards

Polling Question #2

How many of the new pronouncements effective in 2024, as discussed on the previous slides, do you believe will impact your company?

A. None
B. All of the ASUs
C. Some of the ASUs
D. I am not sure

ASU 2022-03: Fair Value Measurement

Main Provisions:

- Clarifies that contractual sale restrictions should not be included in fair value measurements
- Expands disclosures for equity securities subject to contractual sale restrictions:
    - Disclose fair value of securities subject to sale restrictions
    - Nature and remaining duration of restrictions
    - Circumstances that could cause a lapse in the restrictions

Effective Date: For public companies, years beginning after December 15, 2023. For all other entities, years beginning after December 15, 2024

ASU 2023-05:
Joint Venture (JV) Formations

Main Provisions:

- Recognize and initially measure assets and liabilities at fair value
  - Similar to fresh-start reporting (Topic 852, Reorganizations) and Subtopic 805-10, Business Combinations - Overall
- Goodwill can be recognized

Effective Date: Prospectively for all JV formations with a formation date on or after January 1, 2025. A Company may apply the amendments retrospectively if there is sufficient information – Otherwise apply prospectively.

ASU 2023-02:
Tax Credit Investments

Main Provisions:

- Expands the use of proportional amortization method to other tax credit programs if certain conditions are met, including:
  - Probability the income tax credits will be available
  - The investor’s inability to exercise significant influence over the project
  - Substantially all projected benefits are from income tax credits and other income tax benefits
  - Projected yield is positive based solely on income tax benefits
  - Investor's liability is limited to its capital investment
- Simplifies accounting and enhances comparability for tax credit investments

Effective Date: For public companies, years beginning after December 15, 2023. For all other entities, years beginning after December 15, 2024

ASU 2023-09: Income Tax Disclosures

Main Provisions:

- Improves transparency with disaggregated income tax disclosures by jurisdiction
- Standardizes rate reconciliation categories and adds granularity for public companies
  - Public companies must disclose specific categories in the rate reconciliation and provide additional information for reconciling items that meet a threshold of 5% of the statutory tax
- Additional disclosures are required for income/loss from continuing operations before income tax expense, disaggregated between domestic and foreign, and income tax, disaggregated by federal, state and foreign

Effective Date: For public companies, years beginning after December 15, 2024. For all other entities, years beginning after December 15, 2025

ASU 2024-01: Stock Compensation

Impact on Businesses:

- Clarifies scope for stock compensation and profits interest awards
- Aligns treatment of similar awards across entities, reducing complexity
- Provides four cases to help illustrate the application of the guidance

Effective Date: For public companies, years beginning after December 15, 2024. For all other entities, years beginning after December 15, 2025

Polling Question #3

What area(s) do you believe will require the most effort for your company in the next year?

A. Business Combinations
B. Income Taxes
C. Stock Compensation
D. Other

Post-Adoption Lease Accounting (ASC 842)

Common Control Arrangements - ASU 2023-01

Landlord Incentive and Leasehold Improvements

Impairment of ROU Assets

Lease Terminations, Reduced Payments and Subleases

ASU 2023-01 – Leases (Topic 842) – Common Control Arrangements

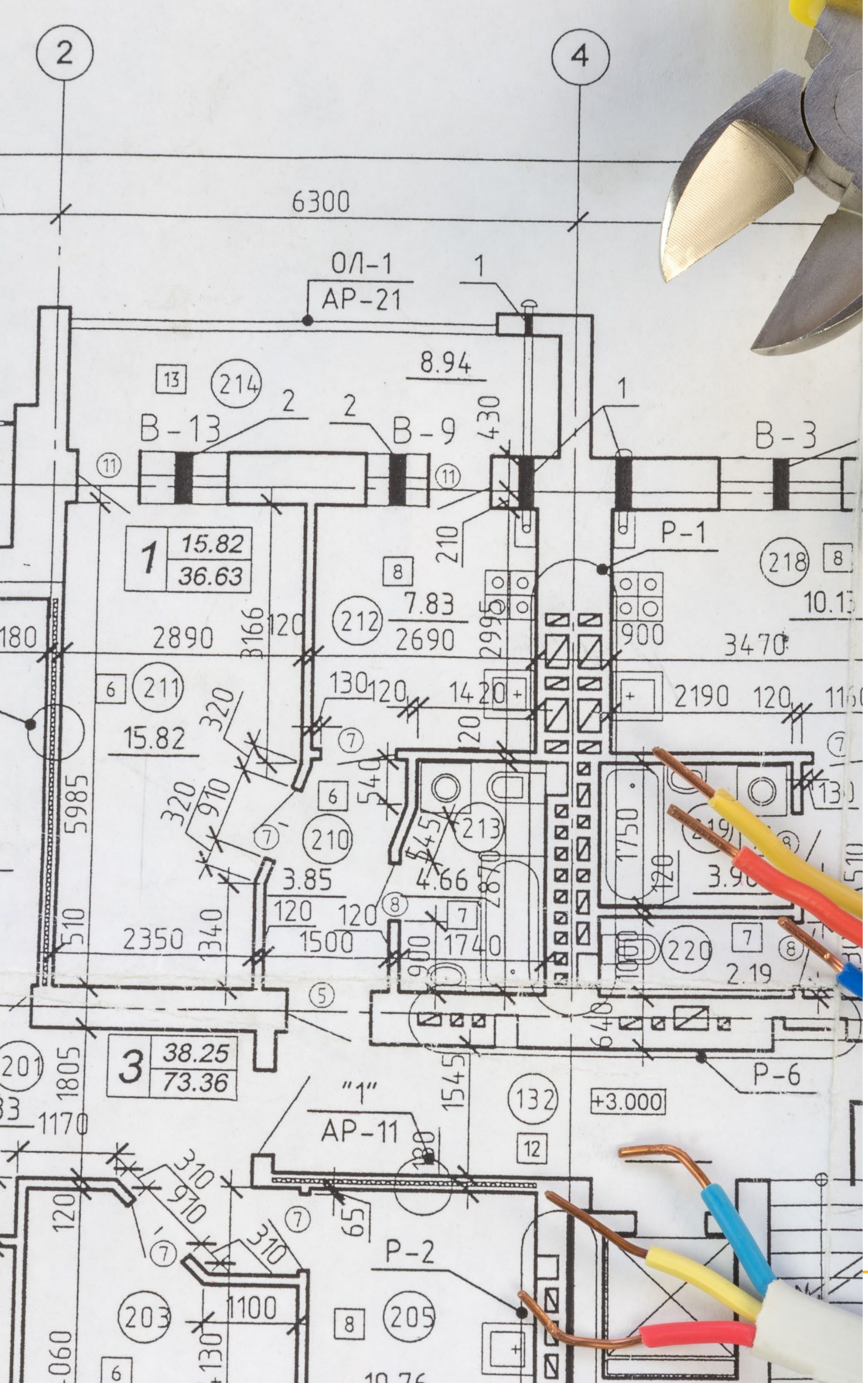
Main Provisions:

- Practical expedient to use the written terms and conditions of a common control arrangement to determine whether a lease exists and how to account for the lease
- Leasehold improvements associated with common control leases are to be amortized over the useful life of the improvements, regardless of the lease term.
  - If lease ends before useful life, asset is transferred to the lessor/common control.

Only applies to private companies and most non-profits

Effective date:

- Years beginning after December 15, 2023, with early adoption permitted



Landlord Incentives and Leasehold Improvements

Examples:

- Lessors might offer to reimburse the lessee for a portion of the cost of leasehold improvements or may offer a payment to offset a lessee's loss on exiting another lease
- Could also be a payment made for on behalf of the lessee

Accounting Considerations:

- Depends on whether lessee asset or lessor asset.
- If Lessee Asset – Record improvement in PP&E and landlord incentive as reduction of rent
- If Lessor Asset – Record payment for LHI as rent and landlord incentive as reduction in rent
- Amortization of leasehold improvements (Lessee Asset)
  - Shorter of the useful life of the improvement or remaining lease term

Impairment of ROU Assets

- Impairment models for ROU assets are the same as those for property, plant and equipment
  - Identify asset groups
  - Perform a recoverability test if a triggering event has occurred
  - Recognize an impairment loss if appropriate (two-step model)
- Accounting for ROU assets after impairment
- Abandoned assets

Impaired Asset

[im-'perd 'a-,set]

An asset that has a market value less than the value listed on the company's balance sheet.

Lease Terminations, Reduced Payments and Subleases

Early Terminations:

- Decrease carrying amount of the ROU asset proportionate to the termination
- Any difference between the reduction in lease liability and reduction in ROU asset should be recognized as a gain or loss

Reduced Lease Payments:

- Remeasure the lease liability using the reduced payments, discounted at the rate in effect at the date of modification
- Reduced ROU asset by the change in lease liability; No gain or loss

Subleasing:

- Recognize sublease income
- Continue to account for prime/head lease as lessee (no change to ROU asset/liability)

Polling Question #4

How do you handle your lease accounting?

A. Outsource
B. Internally with software
C. Internally with Excel
D. I don't have any leases

Proposed Changes to Watch

ASC 326 – Credit loss Expedient

Hedge Accounting Improvements

Clarifications to Share-Based Consideration Payable to Customers

ASC 326 Credit Loss Expedient (Private Companies Only)

Background:

- ASC 326 was effective in 2023 for private companies
- Required credit loss allowance to be based on current and future conditions
- Difficult to estimate forecasted conditions for accounts receivable and contract assets

Proposed ASU Provides Expedient for Private Entities:

- For accounts receivable and contract assets
  - Election to not estimate forecasted conditions
  - Consider subsequent collections in estimating credit losses

Feedback from stakeholders due by January 17, 2025

Hedge Accounting Improvements

Background:

- Challenges with applying the guidance for highly effective hedging relationships
- Global reference rate reform has highlighted areas that need updating

Proposed ASU Provides Guidance on the Following Areas of Hedge Accounting:

- Cash flow hedges of a group of forecasted transactions where the individual transactions share a similar hedged risk
- Cash flow hedges of forecasted interest payments on variable-rate debt instruments with terms that allow changes to the interest rate index or reset frequency
- Cash flow hedges of the variable price component of forecasted purchases or sales of nonfinancial assets (clearly-and-closely-related criteria)
- Cash flow hedges where the hedging instrument is a compound derivative, such as an interest rate swap with a written cap or floor
- Dual hedges, where a foreign-currency-denominated debt instrument is both the hedging instrument in a net investment hedge and the hedged item in a fair value hedge of interest rate risk

Feedback from stakeholders was due by November 25, 2024

Share-Based Consideration Payable to Customers

Background:

- Some companies offer share-based consideration to customers
- If consideration has vesting conditions, the Company needs to determine if they are service or performance conditions.
- Clarification is needed to distinguish between service and performance conditions
- Align how forfeitures affect the measurement of transaction price

Proposed Updates:

- Revise definition of performance conditions for share-based consideration payable to customers
- Definition also covers performance targets based on purchases made by other parties that buy from the customer's customers
- For grants with service conditions, companies would be required to estimate the number of forfeitures
- Clarify that Topic 606 does not apply to grants with constraining estimates of variable consideration (Topic 718 to assess probability of vesting)

Feedback from stakeholders was due by November 14, 2024

Questions & Answers

Thank You

Thank you for your attendance at today’s program.

For more information regarding the topics discussed today,
please feel free to contact us at

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