

A black and white photograph of two hands shaking in a firm grip, symbolizing agreement or partnership. The hands are wearing suit sleeves.

2021 Accounting & Auditing Update

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FASB Update



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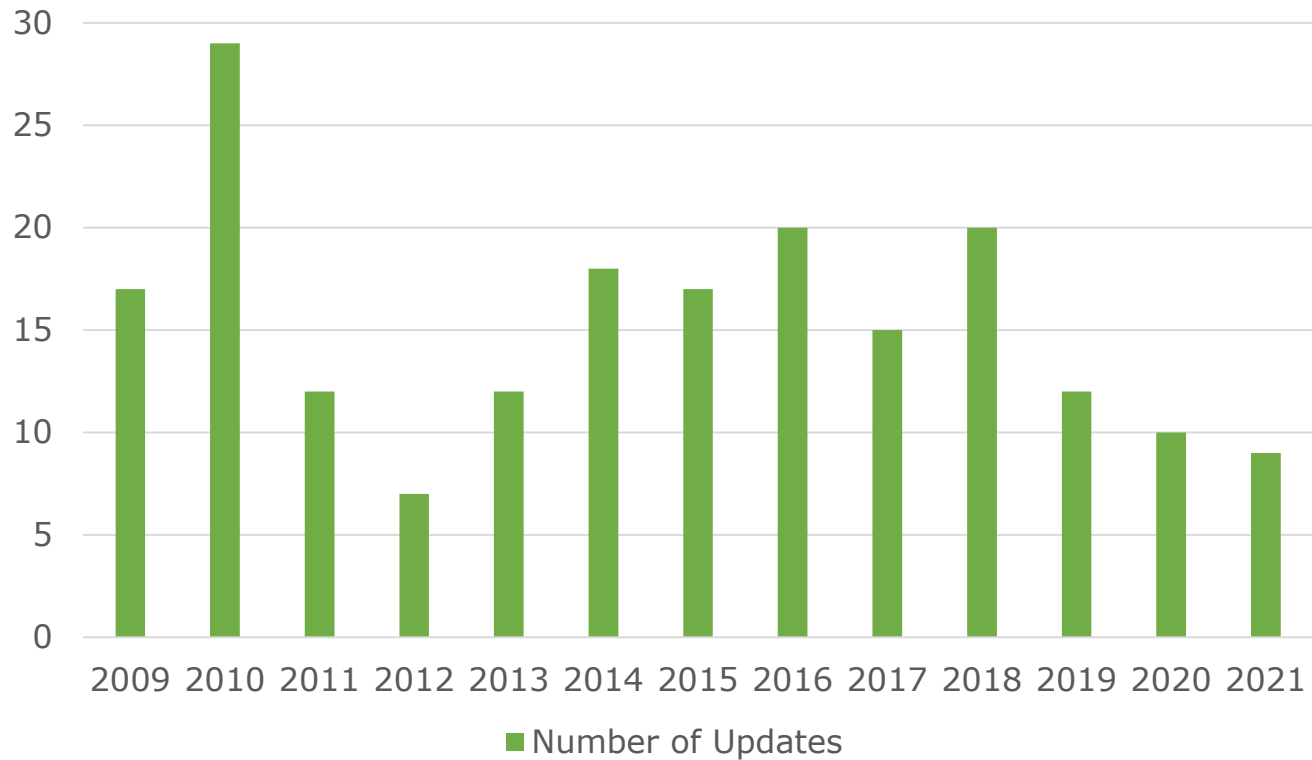
Learning Objectives

Upon completion of this program, participants will be able to:

- Understand the current environment and pace of change brought on by the FASB
- Recognize impact of FASB guidance effective in 2021 & beyond
- Discuss recent developments and other priorities of the Emerging Issues Task Force (EITF) and Private Company Council (PCC)

Pace of Change

Issuance of Accounting Standard Updates



ASUs Issued - Prior

ASU	Title
2016-02	Leases (Topic 842)
2016-13	*Measurement of Credit Losses on Financial Instruments
2017-04	*Simplifying the Test for Goodwill Impairment
2017-12	*Targeted Improvements to Accounting for Hedging Activities
2018-01	Leases: Land Easement Practical Expedient for Transition to Topic 842
2018-10	Codification Improvements to Topic 842, Leases
2018-11	Leases: Targeted Improvements
2018-12	Financial Services—Insurance: Targeted Improvements to the Accounting for Long-Duration Contracts
2018-14	*Compensation—Retirement Benefits—Defined Benefit Plans—General: Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans

ASUs Issued - Prior

ASU	Title
2018-15	*Intangibles—Goodwill and Other—Internal-Use Software: Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract
2018-16	*Derivatives and Hedging: Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes
2018-17	*Consolidation: Targeted Improvements to Related Party Guidance for Variable Interest Entities
2018-18	*Collaborative Arrangements: Clarifying the Interaction between Topic 808 and 606
2018-19	*Codification Improvements to Topic 326, Financial Instruments – Credit Losses
2018-20	Leases: Narrow-Scope Improvements for Lessors
2019-01	Leases: Codification Improvements
2019-02	Improvements to Accounting for Costs of Films and License Agreements for Program Materials

ASUs Issued - Prior

ASU	Title
2019-05	*Credit Losses: Targeted Transition Relief
2019-09	Financial Services – Insurance (Topic 944)
2019-10	*Financial Instruments – Credit Losses, Derivatives and Hedging, and Leases: Effective Dates
2019-11	*Codification Improvements to Topic 326, Financial Instruments—Credit Losses
2019-12	*Simplifying the Accounting for Income Taxes
2020-01	*Clarifying the Interaction between Topics 321, 323 and 825
2020-03	Codification Improvements to Financial Instruments
2020-04	*Reference Rate Reform
2020-05	Revenue from Contracts with Customers and Leases: Effective Dates for Certain Entities
2020-06	Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity

ASUs Issued - Prior

ASU	Title
2020-07	*Presentation and disclosures by NFP entities for contributed nonfinancial assets
2020-08	Codification Improvements to Subtopic 310-20. Receivables – Nonrefundable Fees and Other Costs
2020-10	Codification Improvements
2020-11	Financial Services – Insurance: Effective Date and Early Application

ASUs Issued - 2021

ASU	Title
2021-01	*Reference Rate Reform: Scope
2021-02	*Franchisors – Revenue from Contracts with Customers: Practical Expedient
2021-03	*Intangibles – Goodwill and Other: Accounting Alternative for Evaluating Triggering Events
2021-04	*Issuer’s Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options
2021-05	Leases: Lessors – Certain Leases with Variable Lease Payments
2021-07	*Determining the Current Price of an Underlying Share for Equity-Classified Share-Based Awards
2021-08	*Business Combinations: Accounting for Contract Assets and Contract Liabilities from Contracts with Customers
2021-09	Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities

ASU 2016-13, Credit Losses on Financial Instruments

New current expected credit loss (CECL) Model

- Financial assets measured at amortized cost basis at the net amount expected to be collected when the asset is initially recognized
- Credit losses recorded as an allowance, estimated at each reporting period
- Evaluation on a collective basis for similar risk characteristics
- Report credit losses on AFS debt securities through an allowance for credit losses account
- New disclosures added

Effective Dates (early adoption permitted after 12/15/18):

SEC Filers	All Other Entities
FYs beginning after 12/15/19 (and interim periods within)	FYs beginning after 12/15/22 (and interim periods within)

ASU 2016-13, Credit Losses on Financial Instruments (continued)

- Early application is permitted for all entities
- Transition – Generally, cumulative-effect adjustment to retained earnings.
 - Prospective adoption for PCI (PCD) assets and debt securities with OTTI
- CECL – In Scope
 - Financial assets measured at amortized cost:
 - Trade receivables
 - Loans
 - Loan Commitments
 - Reinsurance receivables
 - Held-to-maturity debt securities
 - Financial Guarantees

ASU 2016-13, Credit Losses on Financial Instruments (continued)

- The Current Expected Credit Loss (“CECL”) Model creates three significant shifts from the current incurred loss model
 - FORWARD LOOKING ANALYSIS, which requires the utilization of future information, and supportable forecasts to estimate the Allowance for Loan and Lease Losses (ALLL) levels
 - REMOVES “PROBABLY” THRESHOLD, which requires you to forego worst-case and best-case scenario and evaluate the possibility that a loss exists or does not
 - LOSS HORIZON CHANGES from the current 12 to 18 month horizon to the lifetime of the loan for all loans. This is broadly expected to expand the horizon used for estimating the ALLL for non-impaired loans and is generally expected to result in the need for an increase in the ALLL levels for non-impaired loans

ASU 2017-04, Simplifying Goodwill Impairment

- Eliminates Step 2 from the goodwill (GW) impairment test
- New one step test comparing the fair value of a reporting unit (RU) with its carrying amount
- Recognize impairment charge for amount by which carrying amount exceeds RU's fair value (up to amount of GW attributed to that RU)
- Retains optional qualitative impairment test ("Step 0")
- Eliminates requirement to perform Step 0 for RU with zero or negative carrying amount, but requires additional disclosure
- Does not eliminate private company alternative in ASU 2014-02

Effective Dates:

SEC Filers	Public Business Entities (not SEC Filers)	All Other Entities
FYs beginning after 12/15/19	FYs beginning after 12/15/20	FYs beginning after 12/15/21

- Early adoption permitted for interim for annual GW impairment tests performed after 1/1/17

ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities

Simplifies and expands the eligible hedging strategies for financial and nonfinancial risks. It also enhances the transparency of how hedging results are presented and disclosed. As well as simplifying its application with targeted improvements in key practice areas through:

- Expansion of the list of items eligible to be hedged
- Amendment of the methods used to measure the effectiveness of hedging relationships
- Prescribing how hedging results are presented and disclosed
- Partial relief on the timing of certain aspects of hedge documentation
- Eliminating the requirement to recognize hedge ineffectiveness separately in earnings in the current period

Effective Dates (early adoption permitted):

Public Business Entities	All Other Entities
FYs beginning after 12/15/18 (and interim periods within)	FYs beginning after 12/15/20 (interim periods within FYs beginning after 12/15/21)

ASU 2018-14, Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans

- Amends ASC 715 (Retirement Benefits) to add, remove and clarify disclosure requirements related to defined benefit pension and other postretirement plans
- Adds requirements to disclose:
 - Weighted average interest rates used in cash balance pension plans and other similar plans
 - Narrative to describe the reasons for significant gains and losses affecting the benefit obligation in the period
 - Explanation of any other significant changes in the benefit obligation or plan assets that are not otherwise apparent
- Removes requirements to disclose:
 - Amounts in AOCI expected to be recognized as part of net periodic benefit cost over the next year
 - Info about plan assets to be returned to the entity, benefits to be covered by related party insurance and annuity contracts and significant transactions between the plan and related party disclosures
 - Reconciliation of opening and closing balances of level 3 plan assets for nonpublic entities
 - Effects of a one percentage point change in the assumed health care costs and the effects of this change

ASU 2018-14, Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans (continued)

- This standard also clarifies previous guidance on defined benefit plans to require disclosure of the PBO and fair value of plan assets for pension plans with PBOs in excess of plan assets as well as the defined benefit plans disclosure of the accumulated benefit obligation and FV of plan assets for pension plans with ABOs in excess of plan assets

Effective Dates (early adoption permitted):

Public Business Entities	All Other Entities
FYs ending after 12/15/20	FYs ending after 12/15/21

ASU 2018-15, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract

Requires a customer in a hosting arrangement (service contract) to apply the guidance on internal-use software to determine which implementation costs to recognize as an asset and which costs to expense.

Implementation activities are upfront costs paid when entering into a software service contract for set up of the software etc.

Key amendments:

- Customer must determine whether an implementation activity relates to the preliminary project stage, the application development stage, or the post-implementation stage.
- Costs for implementation activities in the application development stage will be capitalized depending on the nature of the costs, while costs incurred during the preliminary project and post-implementation stages will be expensed immediately.
- Additional guidance on how to assess capitalized costs for impairment and appropriate presentation of capitalized costs and related amortization.

Effective Dates (early adoption is permitted):

Public Business Entities	All Other Entities
FYs beginning after 12/15/20	FYs beginning after 12/15/21

ASU 2018-16, Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes

Permits the use of the Overnight Index Swap (OIS) Rate based on Secured Overnight Financing Rate (SOFR) as U.S. benchmark interest rates for purposes of hedge accounting

The Master Glossary defines the new term **Secured Overnight Financing Rate Overnight Index Swap Rate** as:

“The fixed rate on a U.S. dollar, constant-notional interest rate swap that has its variable-rate leg referenced to the Secured Overnight Financing Rate (SOFR) (an overnight rate) with no additional spread over SOFR on that variable-rate leg. That fixed rate is the derived rate that would result in the swap having a zero fair value at inception because the present value of fixed cash flows, based on that rate, equates to the present value of the variable cash flows.”

An entity should apply the amendments on a prospective basis

Effective Dates: Required to be adopted concurrently with the amendments in 2017 - 12 (Targeted Improvements to Accounting for Hedging Activities)

ASU 2018-17, Targeted Improvements to Related Party Guidance for Variable Interest Entities

Improves application of consolidation guidance for targeted areas

Key amendments:

- Private company alternative – private companies may elect not to apply VIE guidance to legal entities under a common control (including common control leasing arrangements) if both the parent and the legal entity being evaluated for consolidation are not public business entities
- Clarifies that indirect interests held through related parties in common control arrangements should be considered on a proportional basis for determining whether fees paid to decision-makers and service providers are variable interests, consistent with how indirect interests held through related parties under common control are considered for determining whether a reporting entity must consolidate a VIE

Effective Dates (early adoption is permitted):

Public Business Entities	All Other Entities
FYs beginning after 12/15/19 (and interim periods within)	FYs beginning after 12/15/20 (and interim periods within FYs after 12/15/21)

ASU 2018-18, Clarifying the Interaction between Topic 808 and 606

Targeted improvements to current GAAP for collaborative arrangements.

Key amendments:

- Clarifies that certain transactions between collaborative arrangement participants should be accounted for as revenue under Topic 606 (Revenue Recognition).
- Adds 'unit-of-account' guidance in Topic 808 (Collaborative Arrangements) to align with the revenue recognition guidance in Topic 606
- Requires that in a transaction with a collaborative arrangement participant that is not directly related to sales to third parties, presenting the transaction together with revenue recognized under Topic 606 is precluded if the collaborative arrangement participant is not a customer

Effective Dates (early adoption is permitted, but not earlier than the adoption of Topic 606):

Public Business Entities	All Other Entities
FYs beginning after 12/15/19 (and interim periods within)	FYs beginning after 12/15/20 (and interim periods within FYs after 12/15/21)

ASU 2018-19, Improvements to Financial Instruments – Credit Losses

Amendments to Update 2016-13 (Measurement of Credit Losses on Financial Instruments), meant to align the implementation dates for nonpublic entities' financial statements and to clarify the scope of the guidance

Key Amendments:

- Mitigate transition complexity by requiring amendments of Update 2016-13 to be effective for nonpublic entities for FYs beginning after 12/15/21 (and interim periods within)
- Clarifying that operating lease receivables are not within the scope of the Credit Losses Subtopic. Instead, should be accounted for in accordance with Topic 842, Leases

Effective Dates (same as for 2016-13):

SEC Filers	All Other Entities
FYs beginning after 12/15/19 (and interim periods within)	FYs beginning after 12/15/22 (and interim periods within)

ASU 2019-05, Credit Losses: Targeted Transition Relief

- Provides an alternative to irrevocably elect the fair value option for eligible financial assets measured at amortized cost upon adoption of ASU 2016-13 (credit losses standard)
- For an instrument to be eligible:
 - Asset must be within the scope of the new credit losses standard, and
 - Asset must be eligible for applying the fair value option in ASC 825-10
- Apply on an instrument-by-instrument basis
- Not available for available-for-sale or held-to-maturity debt securities
- Effective concurrent with ASU 2016-13, or FYs beginning after 12/15/19 if already adopted 2016-13

ASU 2019-10, Credit Losses, Derivatives and Hedging, and Leases: Effective Dates

- Reflects new FASB viewpoint about effective dates that staggers the implementation dates of new major accounting standards:
 - Larger public entities, followed by
 - All other entities, including smaller public companies, private companies, employee benefit plans, and not-for-profit organizations
- Defers pending standards as follows:

Effective Dates (Calendar Year-End Companies) utilizing new bucket approach:

	SEC Filers excluding SRCs	All Other Entities
CECL	January 2020	January 2023

■ Represents a change in the effective date

Effective Dates (Calendar Year-End Companies):

	Public Business Entities	All Other Entities
Leases	January 2019	January 2021
Hedging	January 2019	January 2021

■ Represents a change in the effective date

Effective Dates (Calendar Year-End Companies) utilizing new bucket approach:

	SEC Filers excluding SRCs	All Other Entities
Insurance	January 2022	January 2024

■ Represents a change in the effective date

ASU 2019-11, Codification Improvements to Topic 326, Financial Instruments—Credit Losses

- Clarifies certain aspects of CECL:

Expected recoveries for purchased financial assets with credit deterioration (PCD)	<p>Expected recoveries are to be included in the allowance for credit losses for these financial assets. However, the expected recoveries should not exceed the total amortized cost basis that is expected to be, or already has been, written off.</p> <p>If a valuation method other than discounted cash flow is used to determine the expected credit losses, the calculation of expected recoveries should not accelerate the recognition of any noncredit discount.</p>
Troubled debt restructurings (TDR) transition	<p>Provides accounting policy election to adjust the effective interest rate for existing TDR based on the prepayment assumptions applicable on the adoption date of ASC 326 instead of the prepayment assumptions applicable immediately before the restructuring event.</p>
Disclosures for accrued interest receivables	<p>Extends the practical expedient to all additional relevant disclosures involving amortized cost basis.</p>

ASU 2019-11, Codification Improvements to Topic 326 (continued)

- Clarifies certain aspects of CECL:

Financial assets backed by collateral maintenance provisions

An entity should consider the borrower's ability to continue to replenish the collateral associated with the financial assets.

When applying this practical expedient, expected credit losses should be estimated when the amortized cost basis of the financial asset exceeds the fair value of its associated collateral. The allowance would be limited to the difference between the fair value of the collateral and the amortized cost of the associated asset (that is, the unsecured portion of the amortized cost basis).

- Effective dates:
 - For entities that have not adopted ASC 326, the transition requirements and effective dates for ASU 2019-11 are the same as those applicable for ASC 326, as amended by ASU 2019-10
 - For entities that have adopted ASC 326, the amendments are effective in fiscal years beginning after December 15, 2019, including interim periods therein. Early adoption is permitted but no earlier than an entity's adoption date of ASC 326

ASU 2019-12, Simplifying the Accounting for Income Taxes

- Overall objective to clarify and reduce complexity in ASC 740
- Eliminates the following exceptions from ASC 740:

The exception to the incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items (for example, discontinued operations or other comprehensive income).

This simplifies intraperiod allocation and allows for computation of tax effect of pre-tax income or loss from continuing operations (CO) without consideration of the tax effects of other items that are not included in CO.

Exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment.

Exception to the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary (therefore, an entity would have the ability to assert indefinite reinvestment for the entire basis difference of a subsidiary).

Pre-Simplification accounting required an entity to continue to reflect a deferred tax liability for the outside basis difference in a foreign equity method investment, even where the investee becomes a subsidiary.

Exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year.

ASU 2020-01, Clarifying the Interaction between Topics 321, 323 and 825

Clarifies the following issues:

- Measurement alternative for investments in equity instruments that do not have the readily determinable fair value
 - Observable orderly transactions that result in the investor applying (or discontinuing) the equity method of accounting under Topic 323 are considered for purposes of the measurement alternative in Topic 321
- Certain forward contracts and purchased options on securities that would be accounted for under the equity method in Topic 323
 - For purposes of the scope of Subtopic 815-10, Certain Contracts on Debt and Equity Securities, entities should not consider whether, upon the settlement of the forward contract or exercise of the purchased option, the underlying securities would be accounted for under the equity method in Topic 323 or the fair value option in Topic 825

Effective Dates	Public Business Entities	Other Entities
	FYs beginning after 12/15/2020	FYs beginning after 12/15/2021

ASU 2020-04, Reference Rate Reform

Background

- Potential effect on the ability to retain hedge accounting
- Potential challenges in applying GAAP related to modifications of financial instruments
- FASB provided optional practical expedients and exceptions for a limited period of time to ease the burden in accounting for the reference rate reform
- **The guidance applies only to** transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform

Effective Dates

The amendments are effective for all entities as of March 12, 2020 through December 31, 2022. The amendments have various transition requirements.

ASU 2020-04, Reference Rate Reform (continued)

Optional expedients for contract modifications

Contracts in the scope of Topic 310, <i>Receivables</i> and Topic 470, <i>Debt</i>	Accounting for the modification by prospectively adjusting the effective interest rate.
Lease modifications in the scope of Topics 840, 842	Accounting as a continuation of the existing contract – no reassessment of lease classification and discount rate, and no remeasurement of the lease payments.
Contracts in the scope of other topics or industry subtopics	Entities are permitted to consider modifications as an event that does not require contract remeasurement or reassessment of previous accounting determination.
Embedded derivatives	Entities are not required to reassess whether embedded derivatives are considered clearly and closely related to the host contract.

- Elected expedients for contract modifications must be applied consistently to all eligible contracts or transactions

ASU 2020-04, Reference Rate Reform (continued)

Hedge accounting

Critical terms	Qualifying changes in the critical terms of an existing hedging relationship due to the reform will not result in dedesignation of the hedging relationship
Excluded components	Entities may change the systematic and rational method used to recognize in earnings the components excluded from hedge effectiveness assessment
Shortcut method	Entities may continue to apply this method for the remainder of the hedging relationship for fair value and cash flow hedges
Fair value hedges	Entities may change the designated benchmark interest rate documented at hedge inception to a different eligible benchmark interest rate, which will be applied consistently across similar fair value hedging relationships
Cash flow hedges	<p>Entities may continue hedge accounting following a change in the hedged interest rate risk if the hedge is highly effective</p> <p>Entities may disregard potential changes in the designated hedged interest rate risk when it assesses whether the hedged forecasted transaction is probable</p> <p>Entities may change the designated method used to assess hedge effectiveness in order to disregard certain mismatches between the designated hedging instrument and the hedged item</p>

- Except for the expedient to change the designated benchmark interest rate in a fair value hedge, all optional expedients for hedge accounting may be elected on an individual hedging relationship basis

ASU 2020-04, Reference Rate Reform (continued)

HTM securities

- Entities are permitted to make a one-time election to sell or transfer (or both) debt securities classified as held to maturity to be available for sale or trading
- Debt securities are eligible for this election if they:
 - Were classified as held to maturity before January 1, 2020, **and**
 - Reference a rate that is expected to be discontinued because of the reference rate reform
- Entities are not required to transfer all of the remaining debt securities classified as held to maturity

ASU 2020-07, Presentation and Disclosures by NFP Entities for Contributed Nonfinancial Assets

- Contributed nonfinancial assets will be presented as a separate line item in the statement of activities
- NFPs shall disclose disaggregated amounts of contributed nonfinancial assets recognized by category and provide the following for each category:
 - Qualitative information about whether the contributed nonfinancial assets were either monetized or used during the reporting period
 - The NFP's policy (if any) about monetizing rather than using contributed nonfinancial assets
 - A description of any donor-imposed restrictions associated with the contributed nonfinancial assets
 - A description of the valuation techniques and inputs used to arrive at a fair value measure
 - The principal market (or the most advantageous market) used to arrive at a fair value measure if a donor-imposed restriction exists

ASU 2020-07 - Transition

- FYs beginning after June 15, 2021
- Interim periods within annual periods beginning after June 15, 2022
- Amendments should be applied on a retrospective basis
- Early adoption permitted

ASU 2021-01, Reference Rate Reform: Scope

- Clarify that certain optional expedients and exceptions in Topic 848, Reference Rate Reform for contract modifications and hedge accounting would apply to derivative contracts that use an interest rate for margining, discounting, or contract price alignment that is modified in connection with reference rate reform (“discounting transition”)
- The amendments are effective for all entities immediately
- Entities may elect either full retrospective or prospective basis transition
- The amendments do not apply to transactions/modifications after December 31, 2022

ASU 2021-02, Franchisors – Revenue from Contracts with Customers: Practical Expedient

- As a practical expedient, nonpublic franchisors may account for the following pre-opening services as distinct from the license:
 - Assistance in the selection of a site
 - Assistance in obtaining and preparing the facilities for their intended use, including financing, lease negotiation and architectural services.
 - Training of franchisee’s personnel or the franchisee
 - Preparation and distribution of manuals and similar material concerning operations, administration and record-keeping
 - Bookkeeping, information technology, and advisory services related to income, real estate, and other taxes or about local regulations
 - Inspection, testing and other quality control programs
- Franchisors that elect to use the practical expedient may elect an accounting policy to account for the bundle of pre-opening services as a single performance obligation, instead of evaluating whether each of the pre-opening services is distinct

ASU 2021-02, Franchisors – Revenue from Contracts with Customers: Practical Expedient (continued)

- Nonpublic franchisors electing to use the practical expedient or making the accounting policy election should disclose that fact
- Application of this guidance directly or by analogy is prohibited for all other entities
- If a franchisor elects not to apply the practical expedient or the pre-opening services in the arrangement do not qualify for the practical expedient, the franchisor shall apply the general guidance on identifying performance obligations in ASC 606

Effective Dates:

Franchisors that have already applied Topic 606	All other nonpublic franchisors
FYs and interim periods beginning after 12/15/2020, with early application permitted	Existing transition provisions and effective date in ASC 606-10-65-1

- For franchisors that have already applied 606 amendments, this ASU should be applied retrospectively to each prior period by means of a cumulative-effect adjustment to the opening retained earnings as of the date Topic 606 was adopted

ASU 2021-03, Intangibles – Goodwill and Other: Accounting Alternative for Evaluating Triggering Events

- As an accounting alternative, private companies and not-for-profit entities may make an accounting policy to perform goodwill impairment triggering event evaluations only as of the end of each reporting period, whether the reporting period is an interim or annual period
- An entity electing the accounting alternative shall assess triggering events as follows:
 - If the entity has elected the existing accounting alternative for amortizing goodwill - evaluate triggering events only as of each reporting date
 - If the entity does not amortize goodwill –
 - If the entity performs its annual goodwill impairment test as of the end of the reporting period, it should not evaluate its goodwill for impairment during the reporting period
 - If the annual impairment test is performed on a date other than the end of the reporting period, the evaluation of impairment between annual goodwill impairment tests (as described in ASC 350-20-35-30) should be performed only as of the end of the reporting period

ASU 2021-03, Intangibles – Goodwill and Other: Accounting Alternative for Evaluating Triggering Events (continued)

- The accounting alternative does not affect the following existing guidance:
 - The requirement to assess other assets for impairment (for example, long-lived assets and indefinite-lived intangibles)
 - The requirements to test the remaining goodwill for impairment if only a portion of goodwill is allocated to a business or nonprofit activity to be disposed of in accordance with paragraph 350-20-40-7
- Entities contemplating IPO should consider the requirement to reverse the effects of the alternative

Effective Date and Transition:

The amendments are effective prospectively for annual periods beginning after December 15, 2019. Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance as of March 30, 2021. An entity shall not retroactively adopt the amendments for interim periods already issued in the year of adoption

ASU 2021-04, Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options

- No current guidance – diversity in practice
- Issuers should treat modifications or exchanges of freestanding equity-classified written call options that remain equity-classified after modification or exchange as an exchange of the original instrument for a new instrument
- Measure the effect of a modification/exchange as the difference between the FV of the modified/exchanged written call option and the FV of the written call option immediately before it is modified/exchanged
- Increases in FV are accounted for; however, there is no accounting for decreases in FV
 - Similar to modifications of equity-based instruments accounted for under ASC 718
 - Exception: FV decreases are included in 10% cash flow test for debt amendments

ASU 2021-04 – Issuer’s Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options (continued)

- Any increase in fair value resulting from such modification or exchange would be accounted based on the economic substance of the transaction as follows:
 - Financing transaction to raise equity – As an equity issuance cost under Topic 340
 - Financing transaction to raise debt – In accordance with Subtopic 470-50 or 470-60
 - Transaction intended to compensate for goods or services – As a compensation cost under Topic 718
 - All other modifications – As a deemed dividend based on the nature of the instrument
- In a multiple-element transaction (e.g., one which includes both debt financing and equity financing), the total increase in fair value is allocated to the respective elements and accounted for accordingly
- The amendments do not affect the accounting by holders of freestanding equity-classified written call options

ASU 2021-04 – Issuer’s Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options (continued)

- Incremental disclosure requirements for freestanding equity-classified written call options that were modified or exchanged:
 - Information about the nature of the modification or exchange transaction
 - The amount of the effect of the modification or exchange
 - How this effect has been recognized

Effective Date

All entities

The amendments are effective for FYs and interim periods beginning after December 15, 2021. Early adoption is permitted at any time. Early adoption in an interim period must be applied as of the beginning of the fiscal year that includes the interim period.

The amendments should be applied prospectively to modifications or exchanges occurring on or after the adoption date

ASU 2021-07, Determining the Current Price of an Underlying Share for Equity- Classified Share-based Awards

- Practical expedient that specifically permits private companies to use 409A valuations prepared under US Treasury regulations to estimate the FV of certain awards under ASC 718
- Under legacy guidance a company that issues an equity-classified share-based award typically utilizes an option pricing model to determine the awards FV. This ASU removes the complexity and challenges of this approach
- Through this update a private company is allowed to use a reasonable valuation method to measure the FV of the underlying equity share of a share-based award that is classified within equity
- Companies may not use this practical expedient for liability classified awards

ASU 2021-07, Determining the Current Price of an Underlying Share for Equity- Classified Share-based Awards (continued)

- Characteristics of a reasonable application consistent with a 409A valuation are:
 - The reasonableness of the valuation should be assessed on the measurement date
 - All information that is material to the company should be assessed as part of the valuation
 - Other elements, such as the value of the company's tangible and intangible assets, PV of expected future cash flows
 - MV of stock or equity issued by competitors
 - Recent sales or transfers of stock or equity interest with third parties
 - Control premiums or discounts for a lack of marketability of the shares
 - Company's prior use of a valuation method and whether it was consistently applied

Effective Date:

The update is effective on a prospective basis for qualifying awards issued or modified in fiscal years starting after December 15, 2021 and interim periods starting after December 15, 2022. Early adoption, including adoption in an interim period, is allowed for financial statements that have not been issued or made available for issuance as of October 25, 2021

ASU 2021-08, Business Combinations - Accounting for Contract Assets and Contract Liabilities from Contracts with Customers

- This ASU was issued to improve the accounting for acquired revenue contracts with customers in a business combination by addressing diversity in practice and inconsistency related to:
 - Recognition of an acquired contract liability
 - Payment terms and their effect on subsequent revenue recognized by the acquirer
- ASU 2021-08 amends ASC 805 to add contract assets and contract liabilities to the list of exceptions to the recognition and measurement principles that apply to business combinations and to require that an entity (acquirer) recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606
- An acquirer will generally recognize and measure acquired contract assets and liabilities consistent with how the acquiree recognized and measured them in the financial statements pre-acquisition

Effective dates:

Public business entities	All other entities
Fiscal years beginning after December 15, 2022 including interim periods within those fiscal years	Fiscal years beginning after December 15, 2023, including interim periods within those fiscal years.



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EITF and PCC UPDATE

Emerging Issues Task Force (EITF)

March 2021 Meeting

The EITF met on March 11, 2021, to discuss Issue 19-B*

- This issue relates to the accounting for
 - (a) contract modifications under which the contract term for existing rights is extended, while also adding rights
 - (b) The revocation of licensing rights (including conversion of term software licenses to software as a service arrangement)
- The Task Force recommended moving this project back to the board for consideration and the FASB will decide whether to take on this issue directly through standard-setting or the Post-Implementation Review (PIR) process
- Subsequently the Board discussed the direction of this issue and with the EITF recommendation decided to remove the project from the FASB technical agenda. The Board will consider the issue as part of the FASB PIR process of Topic 606

** Revenue Recognition: Contract Modifications of Licenses of Intellectual Property"*

Emerging Issues Task Force (EITF)

March 2021 Meeting (continued)

- Additionally at the March 11, 2021 meeting the EITF met and reached a consensus on Issue 19-C (ASU 2021-04) to affirm the following:
 - The proposed recognition framework
 - The proposed measurement approach subject to certain conforming changes to ensure consistency with the existing requirements in Subtopic 470-50, Debt—Modifications and Extinguishments
 - The proposal whereby no specific allocation approach is prescribed for situations in which the substance of the transaction includes multiple elements
 - The proposal whereby no specific allocation approach is prescribed for situations in which the substance of the transaction includes multiple elements
 - To require disclosures about the nature and effect of a modification within the scope of the amendments in the final Update.
- The FASB ratified the consensus reached by the task force and the FASB issued ASU 2021-04

Private Company Council (PCC)

2021 Meetings

The PCC met on April 20, June 21 and 22 as well as September 28 to discuss the following:

- Proposed Accounting Standards Update, Compensation-Stock Compensation (Topic 718): Determining the Current Price of an Underlying Share for Equity-Classified Share-Option Awards (ASU 2021-07)
- A summary of the financial reporting issues the board should consider adding to its technical agenda (including debt modifications, troubled debt restructurings, disclosure materiality and others)
- Accounting Standards Update, Accounting Standards Update No. 2021-03, Intangibles—Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events
- Current issues in financial reporting such as the current business environment under the COVID-19 Pandemic, accounting and reporting for the employee retention credits included in the CARES Act and PPP Loan Classification
- Disclosures by Business Entities about Government Assistance
- Implementation issues related to ASC 606
- Leases and implementation issues related to ASC 842
- Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions

The next meeting is scheduled for **December 16, 2021**

Questions



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Regulatory Updates

Presenter



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Regulatory Update

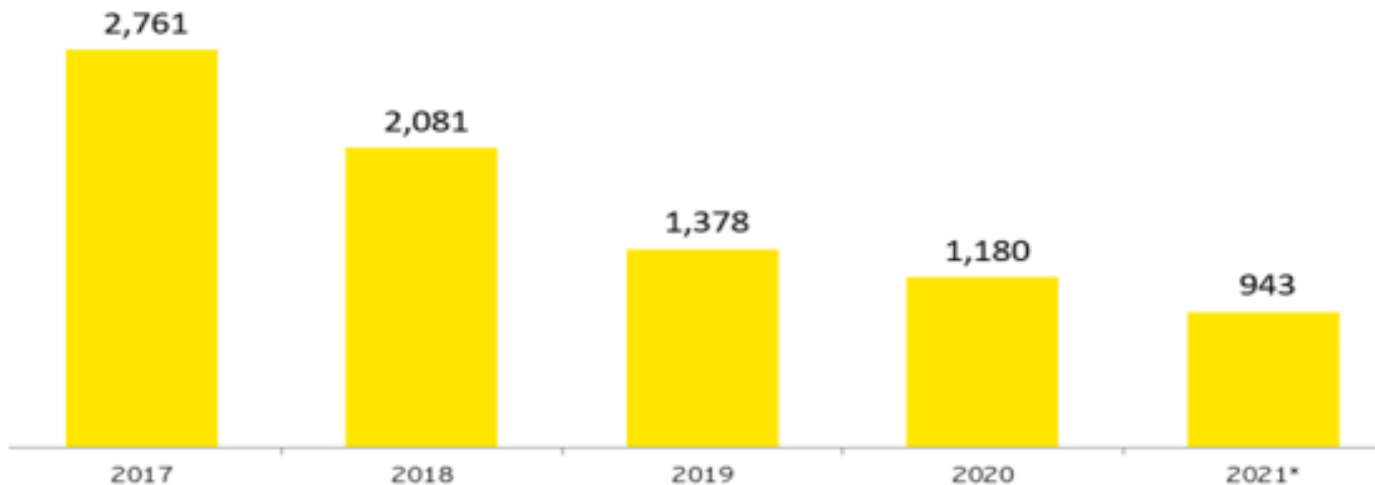
In this session, I will be your guide through the alphabet soup of the accounting world. That's right! There are many acronyms that we hold near and dear to our hearts that will be covered during the session:

- SEC
- PCAOB
- FASB
- PCC
- AICPA
- ERISA
- GASB

SEC Updates – Comment Letter Trends

- The volume of SEC staff comment letters has continued to decrease with additional concentration focused on those companies with larger public float.

Number of SEC comment letters by year

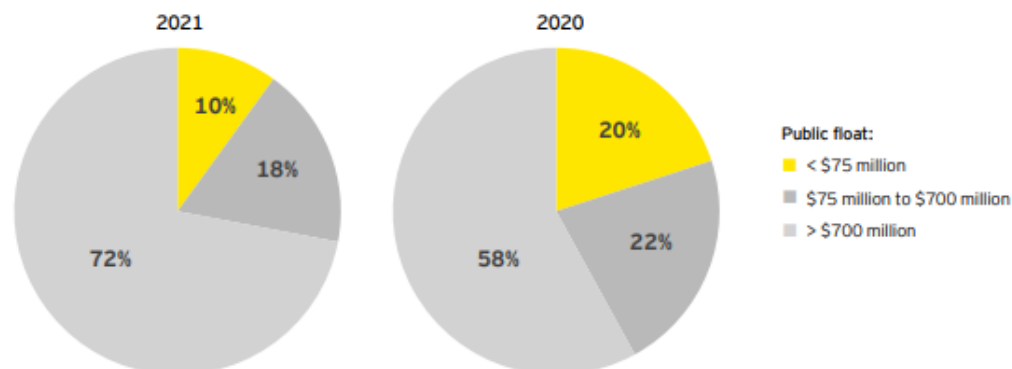


Source: Audit Analytics – SEC UPLOAD of comment letters related to Forms 10-K and 10-Q that were publicly available during the 12-month periods ended on 30 June each year.

* The SEC publicly releases comment letters no earlier than 20 business days after the completion of its reviews, meaning the SEC staff may have issued some letters before 30 June but those letters may not have been publicly available as of the date of our analysis.

SEC Updates – Comment Letter Trends

Size of registrants receiving comment letters on Forms 10-K and 10-Q filings



Source: Audit Analytics – SEC UPLOAD comment letters issued related to Forms 10-K and 10-Q for the 12-month periods ended 30 June 2021 and 30 June 2020.

Comment area	Ranking 12 months ended 30 June		Comments as a % of total registrants that received comment letters* 2020 and 2021
	2021	2020	
Non-GAAP financial measures	1	1	37%
Management's discussion and analysis (MD&A)**	2	2	37%
Segment reporting	3	4	17%
Revenue recognition	4	3	19%
Fair value measurements***	5	5	8%
Signatures/exhibits/agreements	6	10	6%
Goodwill and intangible assets	7	6	7%
Contingencies	8	7	5%
Inventory and cost of sales	9	8	5%
Income taxes	10	9	4%

SEC Updates – Additional Points of Emphasis

- Additional points of emphasis included within comment letters and statements from the SEC include:
 - COVID-19 observations – inclusion of appropriate disclosure/risk factors
 - Non-GAAP financial measures as a result of COVID-19 (temporary payments, insurance recoveries, cleaning/disinfecting costs, termination of contracts)
 - CARES Act Funding
 - IPO/SPAC Activity
 - Pro Forma requirement update discussed in the following slides
 - Projections – disclosure of material assumptions
 - Valuation of share-based payments

SEC Updates – Pro Forma Financial Information

- Previously, in May 2020, the SEC voted to adopt amendments to its significance tests to identify “significant subsidiaries” acquired or disposed of.
- Subsidiaries that meet the significance test require additional information to be provided to the public:
 - Separate audited annual and unaudited interim financial statements of the acquired subsidiary
 - Pro-forma adjustments
- The amendments, among other things, raised the threshold to determine significance from 10% to 20% and also changed reporting requirements of reported Pro Forma information.

Amendments to Article 11, Pro Forma Financial Information

OLD	NEW
<p>Pro forma adjustments are limited to those:</p> <ul style="list-style-type: none">▶ Directly attributable to the transaction▶ Factually supportable, and▶ Expected to have a continuing impact (as it relates to the income statement)	<p>Pro forma adjustments reflect:</p> <ul style="list-style-type: none">▶ Transaction accounting adjustments (i.e., the accounting for the transaction irrespective of whether it has a continuing impact)▶ Autonomous entity adjustments▶ Optional management adjustments (in the footnotes)
<p>Certain pro forma financial information was presented on the face of the historical financial statements</p>	<p>Prohibits presentation of pro forma information on the face of the historical financial statements unless required by GAAP</p>

Regulation S-X Rule 11

	TRANSACTION ACCOUNTING	AUTONOMOUS ENTITY	MANAGEMENT
When to present	Required	Required when the entity was previously part of another entity (generally spinoff transactions)	Optional – judgment must be applied to determine when there is a reasonable basis for such adjustments
Where to reflect	Presented in a separate column in the pro forma financial information	Presented in a separate column in the pro forma financial information	Presented in the explanatory notes to the pro forma financial information
What to reflect	<ul style="list-style-type: none"> ▶ Application of the required accounting for the acquisition ▶ Total consideration transferred/ received, including its components and how they were measured ▶ Additional information if the accounting for the acquisition is incomplete 	<ul style="list-style-type: none"> ▶ Incremental expenses or charges necessary to present the registrant as if it were a separate stand-alone company ▶ Description of material uncertainties, assumptions, calculations and qualitative information necessary for a fair and balanced presentation 	<ul style="list-style-type: none"> ▶ The effect of synergies and dis-synergies that in the opinion of management, are necessary for fair presentation ▶ May include forward-looking information¹ ▶ The basis for and material limitations of each adjustment, including any assumptions or uncertainties, the estimated time frame to achieve and explanation of methods of calculation ▶ Reconciliation to pro forma net income from continuing operations and EPS data
How to reflect	For the pro forma statements of income, apply adjustments assuming transaction occurred as of the beginning of the acquiror's fiscal year presented		
	For the pro forma balance sheet, apply adjustments assuming transaction occurred on the date of the acquiror's balance sheet presented		N/A

ESG (Environmental, Social & Governance)

- Stakeholder demand for additional enhanced ESG reporting continues to increase. The SEC has taken note of this and reviewed its most recent ESG guidance (issued in 2010).
- In December 2020, the SEC ESG Subcommittee issued a preliminary recommendation to require disclosure of material ESG risks.
- In March 2021, the SEC requested public input regarding the disclosure rules.
- SEC disclosure-related proposals are anticipated on (1) climate change, (2) human capital and (3) cybersecurity risk governance
- Key takeaways
 - ESG reporting (particularly climate-related) is inevitable.
 - Formulate your ESG strategy now!
 - An effective strategy is a top-down approach and involves stakeholders across the organization. This will allow for meaningful discussion to formulate disclosure that reflects the organization's goals, current landscape, risk areas, etc.

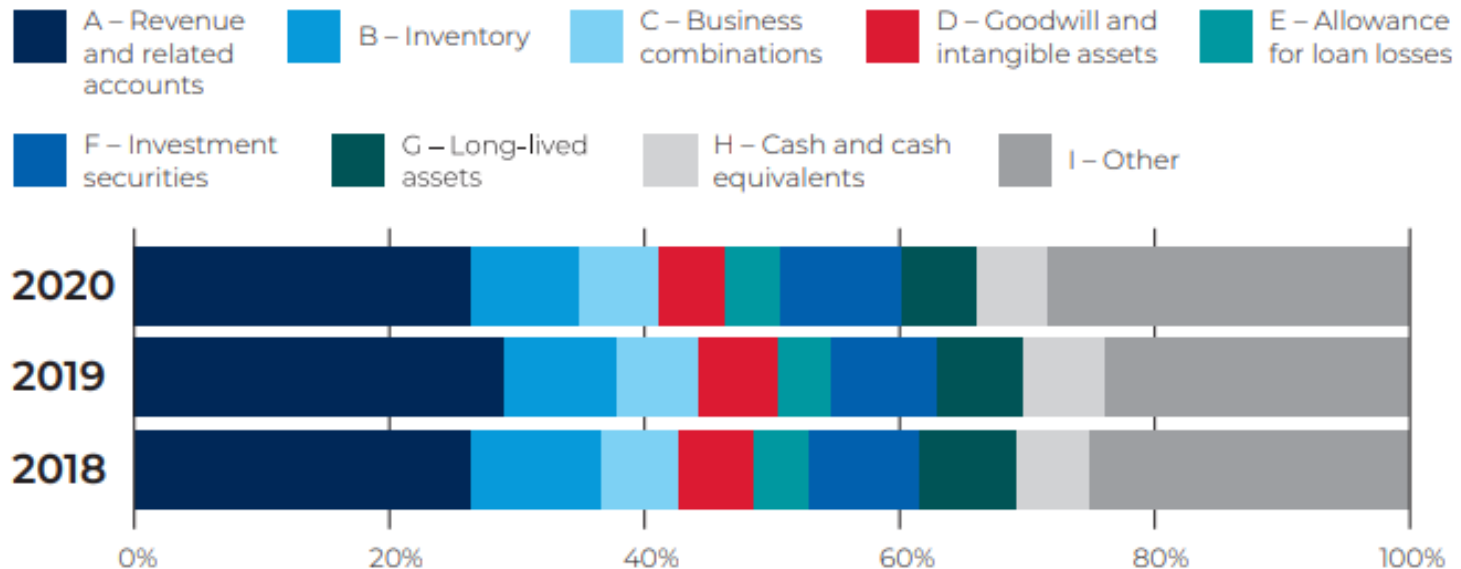
- Updated Independence standards
 - No significant changes but align PCAOB independence standards with those of the SEC
- Currently in the comment stage, but strengthened regulations for lead auditors expected for the supervision of audits involving other auditors
- Additional standard setting for quality control standards at CPA firms ongoing (focus on assignment and documentation of firm supervisory responsibility)
- Updated guidelines under the Holding Foreign Companies Accountable Act (HFCAA)
 - The guidelines, among other things, provide a framework for the PCAOB to use when determining whether the PCAOB Board is unable to inspect or investigate registered public accounting firms in a foreign jurisdiction
- Future policymaking is expected to be centered on:
 - Usage of technology and automation within audits
 - Auditor's response to risks of material misstatement (including unpredictability, identifying management bias, revisions to planned audit response, etc.
 - Evaluating the relevance and reliability of audit evidence obtained from external sources

PCAOB – 2020 Inspection Observations

- PCAOB recently released a preview of key observations from 2020 reviewed engagements
 - High number of deficiencies continue to be observed although aggregate number decreasing
 - Areas of deficiency still remain common
 - Revenue
 - Accounting estimates
 - Inventory
 - CAM's (Critical Audit Matters)
 - Form AP
 - Auditing ICFR
 - Observations related to Quality Control
 - Independence
 - EQR
 - Internal Monitoring
 - Other Observations
 - Good practices
 - Cybersecurity/Technology

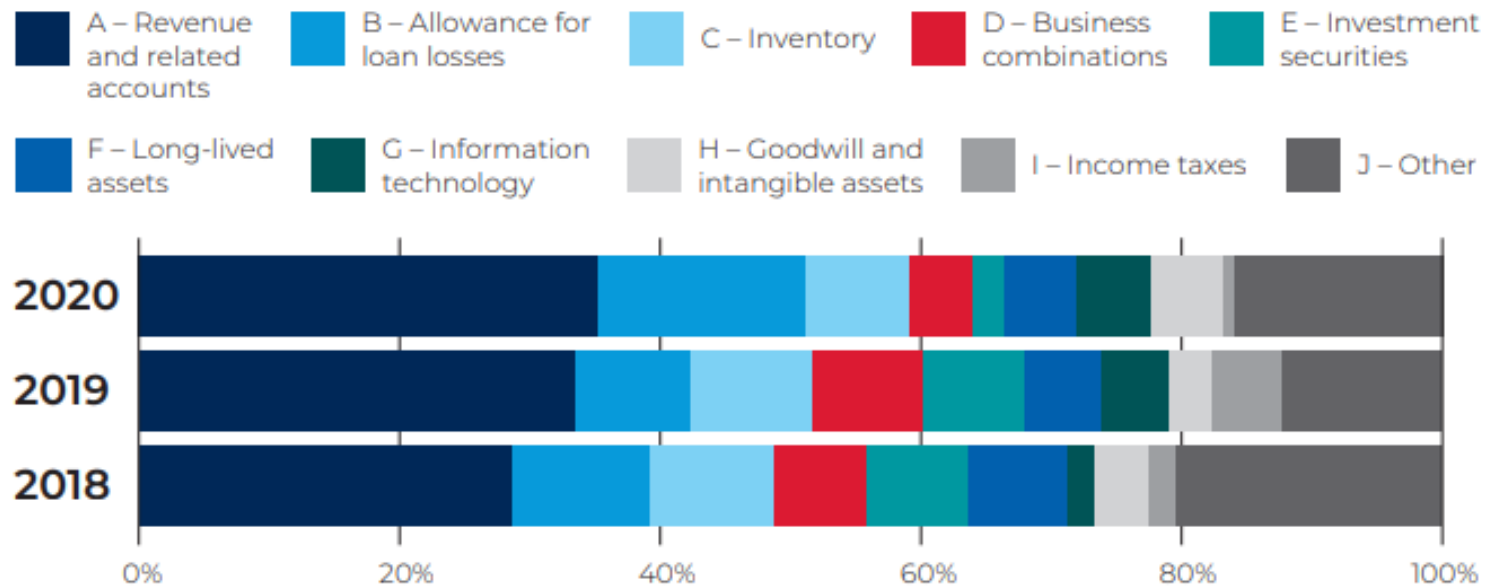
PCAOB – 2020 Inspection Comments

Common Financial Statement Deficiency Areas, Excluding ICFR



PCAOB – 2020 Inspection Comments

Deficiencies in Auditing ICFR by Financial Statement Area



FASB Invitation to Comment

- The FASB is in the process of an agenda consultation process that should conclude in the near future.
- The purpose of the process was to solicit feedback about the future standard setting agenda of the FASB.
- Three prime areas were considered
 - Disaggregation of financial reporting information
 - Emerging areas in financial reporting
 - Reduction of unnecessary complexity in current GAAP
- The comment period ended September 22, 2021 and results should be shared in the near future

FASB – ASU 2021-09 – ASC 842 Discount Rate

- Discount rate for Lessees that are not public business entities
- Concern has been expressed by private companies of the time and effort needed to calculate discount rates utilized.
- It is often complex and cumbersome to estimate the incremental borrowing rate for private companies due to a variety of factors:
 - A valuation specialist may need to be utilized
 - Private companies often do not have a sophisticated treasury function
 - Lack of access to pertinent financial data (credit spreads, corporate bond rates, etc.)
- Current guidance allows for an entity-wide policy election of a risk-free rate when the implicit rate is not readily determinable
- Updated language is expected to allow for the election to be made by class of underlying asset, versus company-wide
- Disclosure of the asset classes where the election is utilized would be required

FASB – Proposed ASU – Fair Value Hedging

- Expands the current single last-of-layer model to allow multiple-layer hedges. Current guidance allows for a designation of an amount that is not expected to be affected by prepayments, defaults and other events affecting the timing and amount of cash flows.
- In layman's terms, allows entities to hedge multiple layers of a single portfolio (think a mortgage-backed security with different tranches) versus a single-layer hedge that ignores prepayment risk. This did not align with the risk management objectives of stakeholders.
- The last-of-layer method would be renamed "Portfolio Layer Method"
- Provides additional guidance on the accounting for and disclosure of fair value hedges
- Comment period ended and formalized standard expected to be forthcoming

Private Company Council (PCC)

- As a reminder, there is an advisory group that regularly meets with the FASB to advise them on private company matters. They advise the FASB on private company user's needs to help identify expedients and alternatives to GAAP that may be preferable to private companies.
- There are many recent updates to discuss from recent Private Company Council meetings
 - Practical Expedient to Measure Grant Date Fair Value of Equity-Classified Share-Based Awards
 - Profits Interests and their Interrelationship with Partnership Accounting
 - Disclosures by Business Entities about Government Assistance (point of emphasis given PPP loan and other activity)
 - Improving the Accounting for Asset Acquisitions and Business Combinations
 - Contingent consideration recognized when it is probable and estimable or recognition at the acquisition date?

Practical Expedient to Measure Grant Date Fair Value of Equity-Classified Share Based Awards

- Accounting relief for private companies associated with the determination of FV of equity awards at the grant date or upon modification has been discussed for quite some time.
- Determination of FV of these awards is very costly and complex for private companies
- As a result of this project, ASU 2021-07 has been issued – *Determining the Current Price of an Underlying Share for Equity-Classified Share-Based Awards*
- ASU 2021-07 allows for a practical expedient to determine the current price input by using what is considered to a “reasonable application of a reasonable valuation method”
- While this does allow for internal valuation methods to be utilized if the method can be argued to be reasonable, an independent appraisal is still considered the preferred method due to the cost and complexity that should be considered (control premiums, lack of marketability discounts, etc.)

Profits Interests and their Interrelationship with Partnership Accounting

- Profits Interests are commonly issued forms of compensation by partnerships and LLC's due to a variety of factors
 - Tax regulations are often favorable
 - Profits interests are often paid upon an exit or liquidity event but are often subordinate to other classes of equity and include a distribution hurdle
 - Often have other explicit performance conditions associated
- Given these characteristics, the accounting for these awards can be complex due to a variety of factors
 - ASC 710 Compensation vs. ASC 718 Stock Compensation
 - Valuation of the award given lack of readily determinable FV
- Accounting issues are being researched by the PCC to determine if a solution for accounting relief can be reached

AICPA – SAS 134

- SAS 134 is going to bring around a plethora of new changes related to auditor communication within the auditor's report
- This is the AICPA response to required reporting for public company audits.
- New requirements include (not an all-inclusive list):
 - Key audit matters (KAM's) are required to be communicated whether in the auditor's report or to those charged with governance. KAM's will include significant risks, areas that require considerable auditor judgment and significant event/transactions
 - If reporting on KAM's in the auditor's report, the following are required to be described
 - Primary reason for designation as a KAM
 - How the KAM was addressed in the audit
 - Reference to the financial statement accounts and disclosures
 - Change in the format of the auditor's report

AICPA – SAS 134 – Report BEFORE Adoption

Independent Auditor's Report

We have audited the accompanying consolidated financial statements of ABC Company, which comprise the consolidated balance sheets as of December, 2020 and 2019, and the related consolidated statements of income and comprehensive income, stockholders' equity and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ABC Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

AICPA – SAS 134 – Report AFTER Adoption

Independent Auditor's Report

Opinion

We have audited the accompanying consolidated financial statements of ABC Company, which comprise the consolidated balance sheets as of December, 2021 and 2020, and the related consolidated statements of income and comprehensive income, stockholders' equity and cash flows for the years then ended and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ABC Company as of December 31, 2021 and 2020 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of ABC Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are any conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

AICPA – SAS 134 – Report AFTER Adoption

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objective are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ABC Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control matters that we identified during the audit.

AICPA – SAS 135

- SAS 135 amends AU-C 260, *Communication with Those Charged with Governance*, AU-C 550, *Related Parties* as well as other sections.
- The intent is to enhance audit quality by heightening focus on certain areas as well as aligning communication requirements with those of the PCAOB.
- The new standard creates new communication requirements for:
 - Significant unusual transactions
 - Difficult or contentious matters the auditor consulting outside the engagement team
 - Uncorrected misstatements that could potentially cause material misstatements on future-period financial statements even though they are currently immaterial

ERISA – SAS 136

- The major upcoming change in Employee Benefit Plan audits upcoming is the adoption of SAS 136 which is required to be adopted for audits of ERISA plan financial statements for years ending on or after December 15, 2021
- Some of the noticeable changes are as follows (not all-inclusive):
 - Limited Scope audits are now referred to as ERISA Section 103(a)(3)(c) audits
 - Updates to the auditor's report
 - Changes in plan acceptance procedures – management's responsibilities associated with investment certification
 - A substantially complete draft Form 5500 must be obtained and read prior to the issuance of audited financial statements
 - Additions to management representations in the management rep letter

AICPA – SAS 137 – SAS 139

- SAS 137
 - Includes clarification of the scope of documents that the auditor is required to perform procedures on when the audited financial statements are included in an annual report
- SAS 138
 - Eliminated inconsistencies between the AICPA Professional Standards and the definition of materiality used by the U.S. Judicial System and other standard setters
- SAS 139
 - New auditor reporting language for statements prepared following special purpose frameworks, single financial statements, specific accounts or items of a financial statement and summary financial statements
 - Updates to going concern considerations to apply irrespective of whether the going concern basis of accounting is relevant to the special purpose statements

AICPA – SAS 140

- SAS 140 would be considered an “add on” standard to SAS 134 to clarify certain language regarding supplementary information and other reports referenced in the auditor’s report
- Specifically, the following updates are noted:
 - Supplementary info should be presented in a separate section of the audit report, not in the emphasis of matter or other matter paragraphs.
 - Updates to the auditor reports on compliance and internal control over compliance associated with Uniform Guidance single audits
 - Changes to reporting requirements concerning audits of internal control over financial reporting that is integrated with an audit of financial statements.
- All of the updates included in SAS 134 – SAS 140 are required to be adopted for years beginning after December 15, 2020.

AICPA – CPA Exam Updates

- Changes to CPA exam being formalized and expected to take effect in 2024. The joint effort between the AICPA and NASBA
- Exam will include three core parts
 - Auditing & AIS
 - Accounting & Data Analytics
 - Tax
- Candidates will also be required to choose one of the following three disciplines
 - Business Analysis & Reporting
 - Information Systems & Controls
 - Tax Compliance & Planning

GASB

- There has been an extension of single audit submission dates due to COVID as well as the various classes of additional federal funding that organizations have received (both for-profit and not-for-profit) that are causing Uniform Guidance audits for the first time.
- Organizations need to be cognizant of a total federal money they have expended as any entity with total expenditure of federal funds of \$750,000 or more in a year will more than likely qualify (note that PPP money IS excluded).

Fiscal Year-End	Original Deadline	Extended Deadline
6/30/2020	3/31/2021	9/30/2021
9/30/2020	6/30/2021	12/31/2021
12/31/2020	9/30/2021	3/31/2022
3/31/2021	12/31/2021	6/30/2022
6/30/2021	3/31/2022	9/30/2022

Questions?



Break



A black and white photograph of two hands shaking in a firm grip, symbolizing a business agreement or partnership. The hands are positioned in the upper center of the frame, with the background blurred.

ASC 842 Leases - Guidance on Implementation

Presenters



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Objectives



- General understanding of ASC 842
- Implementation opportunities and challenges

ASC 842 Leases – Current Dates

Effective Dates



→ **Public Companies**

- Fiscal years beginning after December 15, 2018

→ **All other entities**

- Fiscal years beginning after December 15, 2021

ASC 842 Crash Course

- The “end game” is to get all leases with service lengths greater than 12 months onto the balance sheet.
- Leases 12 months or less in length are excluded from the guidance and are expensed pro-rata over the contract with no balance sheet impact.
- Operating/capital terminology replaced with operating/finance leases.
- Finance lease requirements remained relatively unchanged outside of the following:
 - Bargain purchase option reworded to purchase option reasonably certain to be exercised
 - New 5th category – specialized nature asset that only the lessee can use (i.e. no alternative use to the lessor without significant modification)

ASC 842 vs 840

ASC 842

- ✓ Lease classification determined at lease commencement
- ✓ Fixed payments and “in substance” fixed payments are identified as payments
- ✓ Executory costs (i.e. insurance, taxes, maintenance) considered
- ✓ Added a 5th criterion to the determination of Finance/Capital Lease
- ✓ Asset is recorded at the amount calculated using a discount rate
- ✓ only expected amounts owed at the end of the lease term should be included as lease payments

ASC 840

- ✓ Lease classification determined at execution
- ✓ Capital lease classification resulted in a liability
- ✓ Operating lease footnote disclosures only
- ✓ Executory costs (i.e. insurance, taxes, maintenance) excluded
- ✓ 4 Criterion tests for Capital vs Operating Lease
- ✓ Lease < Fair Value
- ✓ Residual value guarantees were included in the minimum lease payments

ASC 842 Implementation

- Implementation method is a modified retrospective transition using EITHER of the following:
 - Comparative option applied to all periods presented
 - Effective date option where a cumulative-effect adjustment is made on the first day of the year of adoption to retained earnings (i.e. only the current year is impacted)
- Comparative will require comparative presentation of ASC 842 and also comparative disclosures.
- The effective date option is much simpler and will require in much less implementation effort from a financial reporting lens. However, for companies with significant ASC 842 adjustments, financials under this method will lack the comparability of the comparative option.

Implementation Practical Expedients

- Practical expedients package (must be adopted on an “all or nothing” approach)
 - No reassessment of lease classification.
 - No reevaluation of existing/expired contracts for embedded leases
 - No reassessment of previously recorded initial direct costs.
- Hindsight expedient (lease terms, options, etc.)
- Combination of lease and non-lease components
 - Would just require the PV of fixed consideration to be calculated (i.e. fixed lease payments excluding executory costs such as CAM, insurance, etc.). Can be elected based on the asset class.
- Private company discount rates
 - The risk-free interest rate can be utilized if there is no discount rate implicit in a lease contract.
 - Will result in larger lease liabilities on the balance sheet.
- Land easement expedient – historical treatment applies.

Leases Implementation Q&A



Questions?





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Cybersecurity and Assessing Third Party Risk

Presenters



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Cybersecurity Trends

Expanded "Attack Surface"

- Work from home
- Digital Transformation
- Automation
- Supply Chain

Threats on the rise

Top Attack Patterns (82% of breaches):

- System Intrusion
- Social Engineering
- Basic Web Application Attacks

Predominant manufacturing industry threats:

- Ransomware
- Business Email Compromise

Big Stories in the News:

- Colonial Pipeline Ransomware
- JBS Ransomware



Cyberliability Insurance Industry Responds

Market Changes

- Non-renewal
- Premiums rising 3x on renewal

Greater Scrutiny of Controls

Required:

Multifactor Authentication is *something you know* (i.e. password) and *something you have* (i.e. token, dongle, fob, text, etc.) used in combination to gain access to protected systems
At a minimum: Privileged Accounts, Remote Access (i.e. VPN, etc.), Remote Email Access (i.e. Microsoft 365)

Increased Attention:

Incident Response Plan is the process when a cyber event happens to Stop it! Remove it! Get back to work!

Third party (supply chain) risk management is the process used to measure risk in critical supply chain suppliers

At a minimum:

- Cyber supply chain
- Those that might have a material impact to financials



Actions to Take

Review Cyber policy requirements well in advance of renewal

- Are underwriting requirements changing?
- Are you top risks covered by cyber policy?

Conduct routine security assessments (annual)

- Trust your IT but verify strength of security posture

Conduct disaster recovery restoration testing

- Time to recover is key in ransomware event



Be Prepared – Record Keeping

What can you recover if you are the victim of a cyberattack?

- Generally, the insurance policy will cover “but-for” lost profit and extra expenses
- What would your profits have been “but-for” the cyberattack?

Key records to keep to assist with a cyberattack claim:

- Record revenue and expenses by service line
- Keep a clear record of fixed versus variable expenses and what drives the variable expenses
- Keep contemporaneous records related to the cyberattack:
 - Additional expenses incurred
 - Expenses not incurred due to any potential shut down
 - Customer communications regarding impacted/canceled orders
 - Any and all documentation that “connects the dots”

Cyberattack – Now What?

Review
your
insurance
policy

Determine
coverage and
process for
recovery with
counsel/broker

Gather
documents
necessary
to prove
lost profit

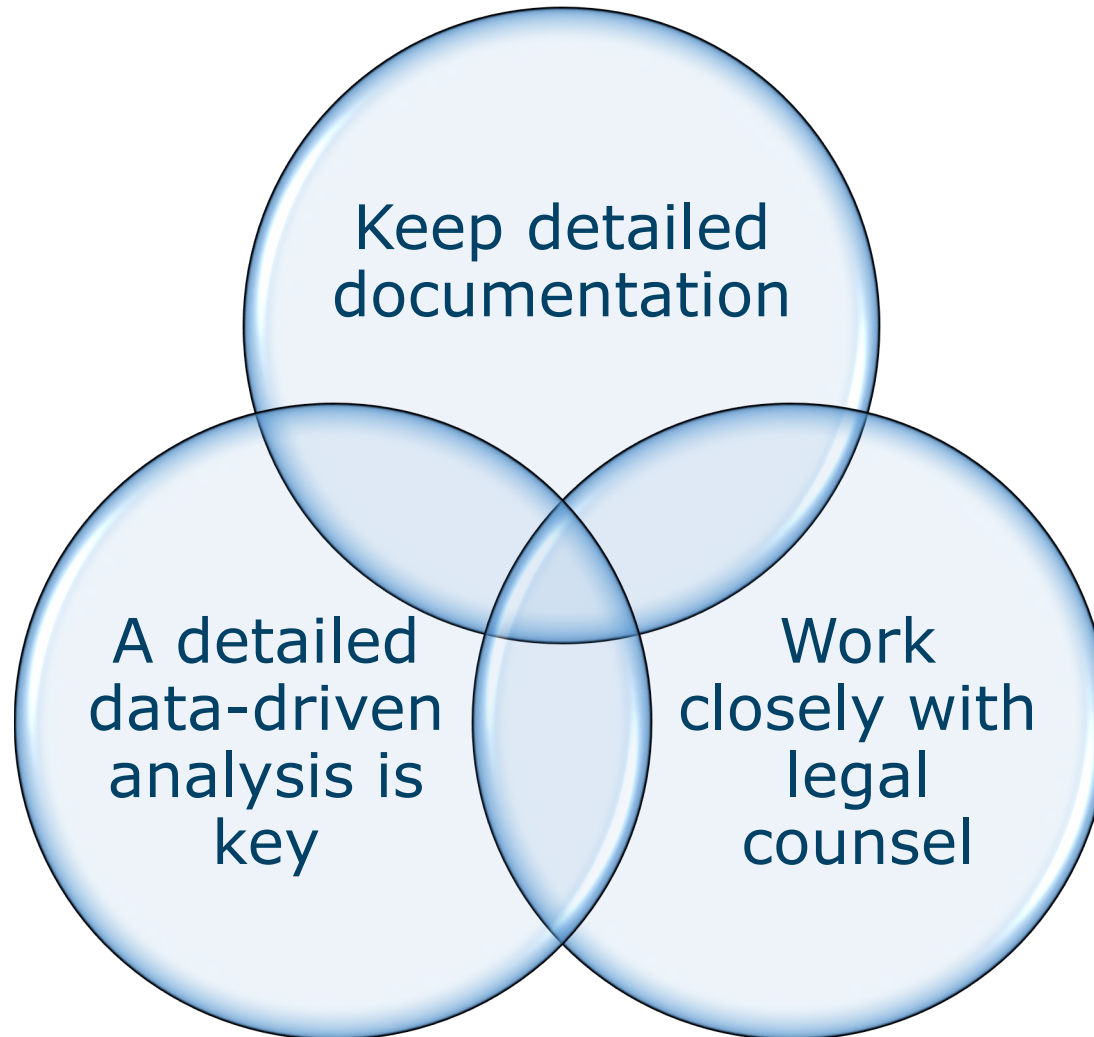


Contact
counsel

Assess
what
portion(s)
of your
business
were
impacted

Calculate
your own
lost profit

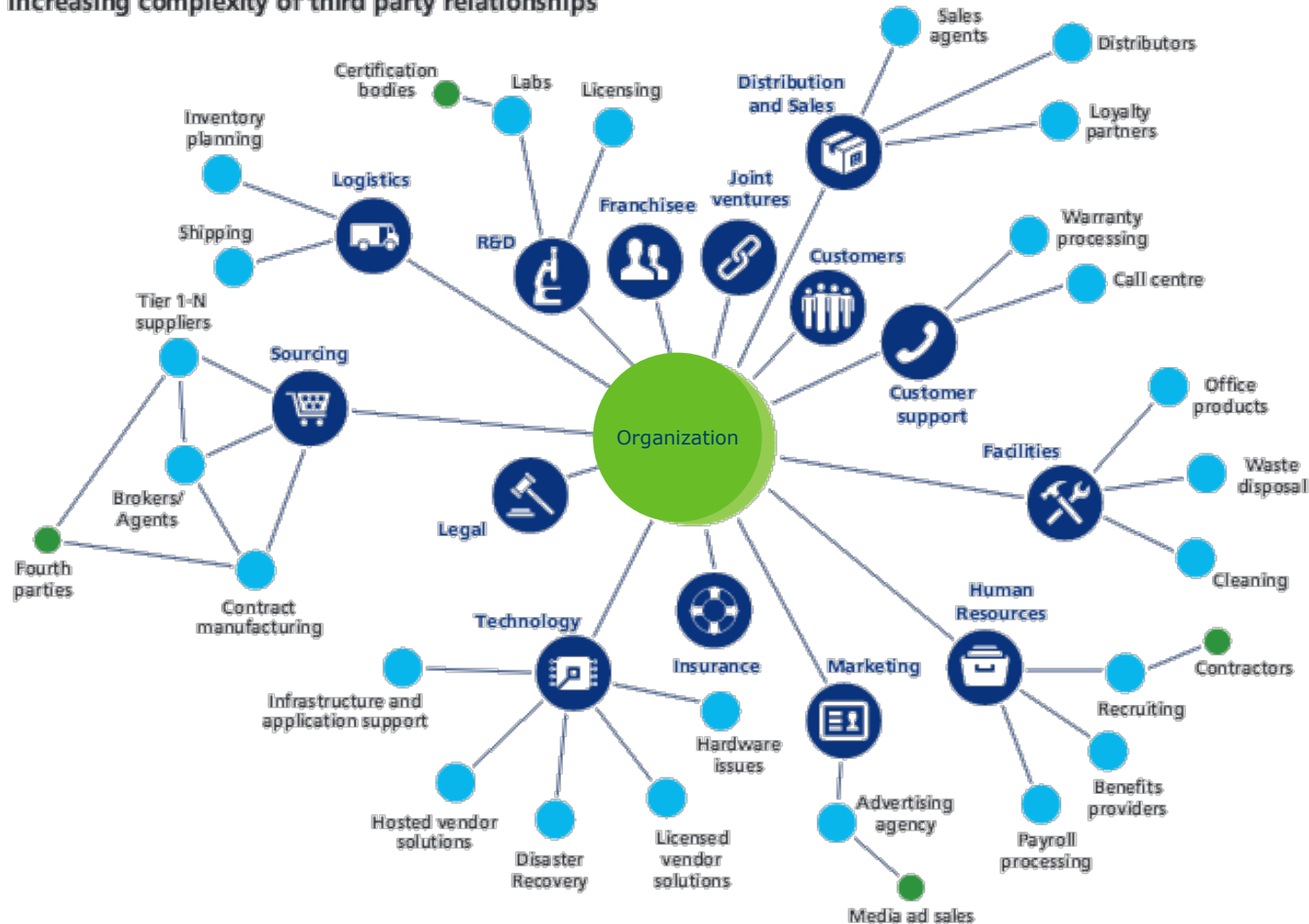
Key Takeaways for Successful Claim



Third Party Risk Management

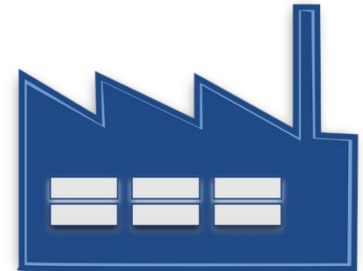
Increasing complexity of third party relationships

- Third parties and service providers are increasingly used more every year
- Companies in all industries use vendors to outsource certain elements of the business



























Third Party Risk Management

- Risk is inherent – giving third parties access to your facilities, physical assets and information technology assets (data)
- Vendors are often hired with an implied level of trust, not subject to the same scrutiny and monitoring as employees
- Giving a third party access to your systems = assuming the risk of how that party manages its risks



Third Party
Vendor
Service Organization

Third Party Risk Management

Company	Breach/Incident	Third Party that Caused it	Use of the Third Party
	15M customer records (SSNs, birthdays, driver license #)		Customer credit assessment
	Current and former drivers info including SSNs, birthdays	 	Online database to store drivers' info
	56B customers' credit card info	Not disclosed	Not disclosed
	Data of 70M customers and 40M customers' credit card info		Heating, ventilation and air conditioning (HVAC) services
	Personal info (SSNs, names, addresses) of 143M consumers	Not disclosed	A 3 rd party tool to build web applications
	6M customer records including account and personal info		Providing customer service analytics
RT Jones Capital	Personal info of 100k individuals and 1000s of clients	Not disclosed	Web server hosting
   	Customers' credit card and personal info		Online photo order and print
      	60M records of clients		E-mail management

Third Party Risk Management



Develop a vendor risk management program:

- Vendor selection
- Contract development
 - SLAs, confidentiality, non-disclosure
- Due diligence
 - Financials, audit reports, SOC 1, SOC 2
- Monitoring
 - Database of all third parties used
- Recurring reviews, **often risk-based**
- Termination procedures

System & Organization Controls

SOC reports are becoming a key part of **Vendor Management** programs, and more and more companies that don't issue a SOC report themselves are **requesting SOC reports from their vendors.**

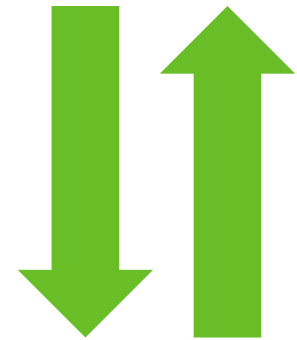
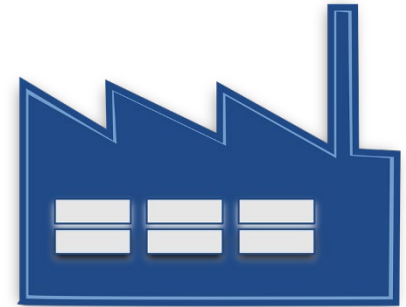
What is SOC?

Audit of **internal controls** of a service organization.
System and Organization Controls (SOC) reporting options include

- SOC for Service Organizations (SOC 1, SOC 2, SOC 3)
- SOC for Cybersecurity
- SOC for Supply Chain

Why do you need a SOC Examination?

Provide trust and transparency for stakeholders. If you continuously receive questionnaires or must be in compliance with customer obligations, a SOC examination can help meet these demands.



Third Party
Vendor
Service Organization

System & Organization Controls

	Initial question to ask	What is reported on?	Who uses it?
SOC 1	Do customers rely on your controls for their financial reporting?	Internal controls over financial reporting	Restricted use – User’s auditor, management
SOC 2	Do customers rely on you to process and safeguard their sensitive data?	Security, availability, confidentiality, processing integrity and/or privacy controls	Restricted use – Management, current/prospective customers
SOC 3	Do you need a simpler SOC 2 report to share externally?		Publicly available to anyone
Cybersecurity	Do customers request assurance related to your cybersecurity risk management program?	Security, availability, and confidentiality	Restricted or public use – external stakeholders, customers, vendors

SOC 1 and SOC 2 reports can be issued in two formats:

- **Type 1** – opinion covers suitability of design and implementation of controls in place **at a point in time**
- **Type 2** – opinion covers the suitability of design, implementation, and **operating effectiveness** of controls **over a period of time**

SOC 2 Categories and Criteria

Security (Common) – Information and systems are protected against unauthorized access, unauthorized disclosure of information, and damage to systems that could compromise the availability, integrity, confidentiality, and privacy of information or systems and affect the entities ability to meet its objectives

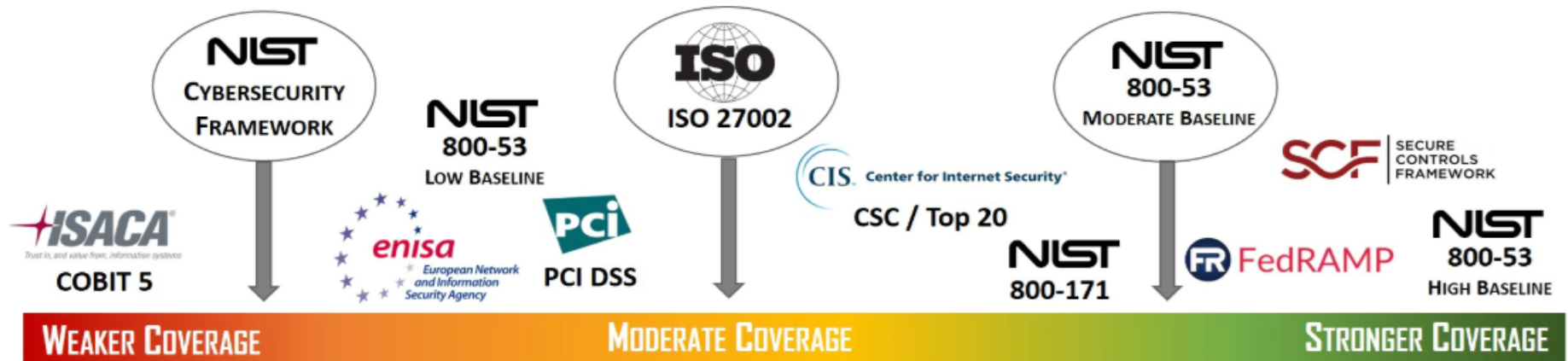
Additional Criteria:

- **Availability** –Information and Systems are available for operation and use to meet the entity’s objectives
- **Processing Integrity** – System processing is complete, valid, accurate, timely and authorized to meet the entity's objectives
- **Confidentiality** – Information designated as confidential is protected to meet the entity’s objectives
- **Privacy** – Personal information is collected, used, retained, disclosed, and disposed of to meet the entity’s objectives.

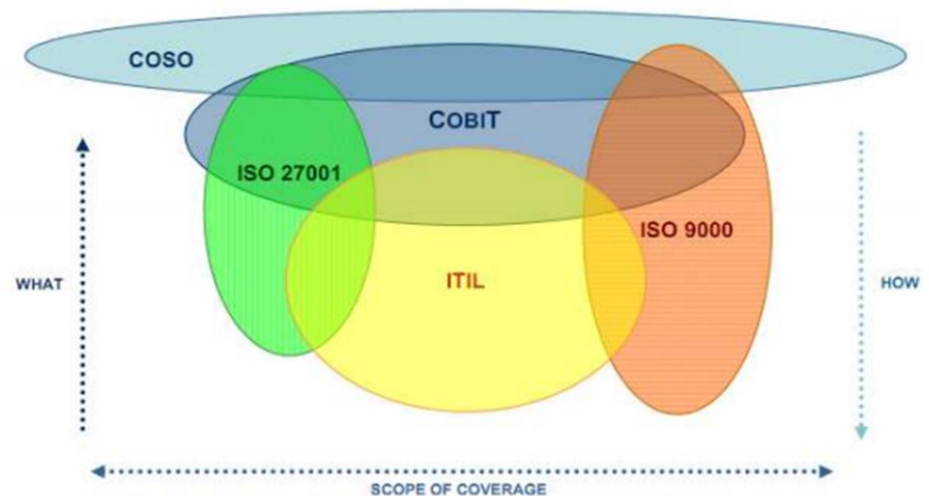
Common Criteria for Security Category

- **CC1 [COSO 1-5]**
Control Environment
- **CC2 [COSO 13-15]**
Communications & Information
- **CC3 [COSO 6, 8-9]**
Risk Assessment
- **CC4 [COSO 16-17]**
Monitoring Activities
- **CC5 [COSO 10-12]**
Control Activities
- **CC6 Logical & Physical Access**
- **CC7 Systems Operations**
- **CC8 Change Management**
- **CC9 Risk Mitigation**

IT Control Security Frameworks & SOC 2



- Broad vs Deep
- Process vs Technical
- Risk vs Operational



SOC 2 + (Other Reporting Frameworks)

- **NIST 800-53** – may be necessary for Federal Agencies
- **HIPAA** - may be requested by Health Care Companies
- **HiTrust** – may be requested by Health Care Companies – **HiTrust Alliance offers proprietary certification**
- **PCI** – may be requested by large companies who accept credit cards online or at point of sale – **PCI Security Standards Council offers proprietary certification**
- **Cloud Security Alliance** – for a company whose primary service is an application, platform, or infrastructure as a service provider
- **GDPR** - companies who transact business with European customers

Questions?



Lunch Break





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Fair Value Accounting: Business Combinations, Purchase Price Allocations & Other

When Are Valuations Required and How to Audit Them

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Agenda

- Opening Comments & Introduction
- ASC 805 – Business Combinations / Purchase Price Allocations
- ASC 350 – Goodwill & Indefinite-Lived Asset Impairment Testing
- ASC 360 – Definite-Lived Asset Impairment Testing
- ASC 718 – Equity-Based Compensation Valuations
- Wrap Up and Final Thoughts





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Opening Comments and Introduction

Consider These Facts

- McDonald's most valuable asset (trade name) is not on its balance sheet. If McDonald's was acquired tomorrow, this asset would be on its balance sheet.
- What useful information do investors glean from Twitter's balance sheet, which claims a book value of equity of \$8 billion when its market value of equity is \$40-45 billion?
- Two identical companies that own the same assets can have different assets on their balance sheets.
- Two identical companies can account for intangible assets in a completely different way.
- ***Welcome to the world of accounting, where there is a hodge-podge of historical cost accounting and fair value accounting!***

Definition of Fair Value (ASC 820)

“the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”



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Business Combinations/Purchase Price Allocations (ASC 805)

Business Combination Requirements

- Within 1 year of a business combination, an acquirer shall recognize all identified assets acquired (including previously unrecorded intangible assets) and liabilities assumed at the acquisition date fair value
- The fair value of the purchase price shall include the fair value of any contingent consideration, equity interests, and debt assumed
- Identifiable intangible assets must meet the contractual-legal or separability criteria to be recognized separately from goodwill
- Assembled workforce is not an identifiable intangible asset and is subsumed in goodwill
- Allocations must be at the “reporting unit” level

SEC's Thoughts on Intangible Asset Valuation

"As the staff has been reviewing the goodwill impairment charges recorded by certain companies, I have been at times surprised by the number of those companies that have not separately identified intangible assets or have represented that they could not separately value them, instead recording goodwill for the entire excess purchase price in a purchase business combination...The staff has, on numerous occasions in the past, emphasized the importance of separately identifying and valuing intangible assets acquired in a purchase business combination...The staff continues to be highly skeptical of registrants' claims that a valuation of separately identified intangibles is not possible when it appears that intangible assets exist and are valued in other merger transactions."

Lynn E. Turner

Former Chief Accountant of the SEC

Common Steps in a Purchase Price Allocation

- 1) Determine Fair Value of Purchase Price (including all forms of consideration)
- 2) Reverse-engineer DCF analysis using management's forecast (including only market participant synergies) and the purchase price to solve for the internal rate of return ("IRR) on the transaction, which should be relatively consistent with an independently-derived weighted average cost of capital ("WACC")
- 3) Determine the Fair Value of all intangible assets, tangible assets, and liabilities
- 4) Determine the residual goodwill
- 5) Assess the reasonableness of the conclusions based on common sense, company factors, and a weighted average returns analysis ("WARA")

Calculating Internal Rate of Return

- The IRR is the rate of return needed to equate the cash flow projections to the purchase price
- Market participant-based cash flow forecast (no buyer-specific synergies)

Internal Rate of Return						
	Year 1	Year 2	Year 3	Year 4	Year 5	Residual Period
Revenue	\$ 197,864	\$ 212,712	\$ 229,164	\$ 247,486	\$ 268,010	\$ 337,520
Earnings Before Income Taxes	7,224	9,314	12,100	15,162	19,091	27,486
Income Taxes @ 26%	1,878	2,422	3,146	3,942	4,964	7,146
Debt-Free Net Income	5,346	6,892	8,954	11,220	14,127	20,339
Adjustments:						
Plus: Depreciation	663	658	657	662	667	854
Less: Capital Expenditures	(500)	(650)	(650)	(700)	(700)	(880)
Less: Additional Working Capital	-	(3,014)	(3,266)	(3,738)	(4,092)	(1,995)
Distributable Cash Flow	5,508	3,886	5,695	7,444	10,003	18,319
Multiplied By: Partial Year Factor	0.44	1.00	1.00	1.00	1.00	
Remaining Distributable Cash Flow	2,433	3,886	5,695	7,444	10,003	
Present Value Factor @ 20.1%	0.9603	0.8413	0.7003	0.5829	0.4851	
Present Value of Distributable Cash Flow	\$ 2,177	\$ 3,269	\$ 3,988	\$ 4,339	\$ 4,853	
PV of Cash Flows (Years 1 to 10)	41,493					
PV of Residual Cash Flow	20,712					
Enterprise Value	\$ 62,205					
						Residual Cash Flow
						\$ 18,319
						Discount Rate
						20.1%
						Less: Residual Growth Rate
						-3.0%
						Capitalization Rate
						17.1%
						Residual Cash Flow Value
						106,865
						Present Value Factor
						0.1938
						PV of Residual Cash Flow
						\$ 20,712

*Years 6 through 10 not shown for presentation purposes.

Weighted Average Cost of Capital

- The WACC, which is derived from a number of market participant assumptions, is the rate of return on debt and equity as required by market participants. It should approximate the IRR.

Cost of Equity	
Risk Free Rate of Return	2.10%
Market / Equity Risk Premium	6.00%
Selected Equity Beta	1.28
Small Stock Risk Premium	4.99%
Subject Company (Unsystematic) Risk Premium	15.00%
Cost of Equity	29.75%
Cost of Debt	
Investment Grade Corporate Bond Yield	3.75%
Plus: Additional Credit Risk Premium	3.50%
Pretax Cost of Debt	7.25%
Less: Income Tax Factor of 26%	-1.89%
Cost of Debt	5.37%
Weighted Average Cost of Capital	
Percentage of Capital Structure Comprised of Equity	60.00%
Cost of Equity	29.75%
Percentage of Capital Structure Comprised of Debt	40.00%
Cost of Debt	5.37%
Weighted Average Cost of Capital	20.0%
Rounded	20.0%

Company Name	Debt/ Capital	Debt/ Equity	Tax Rate	Beta (U) ¹	Beta (RL) ²
Central Garden & Pet Company	38.5%	62.7%	22.5%	0.62	0.93
SiteOne Landscape Supply, Inc.	16.7%	20.1%	18.6%	0.92	1.37
Applied Industrial Technologies, Inc.	29.9%	42.6%	31.1%	0.86	1.28
DXP Enterprises, Inc.	32.7%	48.6%	20.2%	0.85	1.26
Fastenal Company	2.8%	2.9%	28.6%	1.09	1.62
Genuine Parts Company	23.6%	30.8%	29.9%	0.84	1.26
H&E Equipment Services, Inc.	56.4%	29.5%	28.9%	0.73	1.09
Lawson Products, Inc.	3.2%	3.3%	23.9%	0.94	1.40
W.W. Grainger, Inc.	11.0%	12.4%	29.2%	0.93	1.39
Watsco, Inc.	5.6%	5.9%	22.8%	0.83	1.25
WESCO International, Inc.	41.5%	71.0%	24.6%	0.85	1.28
Median	23.6%	30.8%	24.6%	0.85	1.28

Unlevered Beta = Initial "Adjusted" Beta / (1+D/E*(1-T))

Where: D = Debt plus Preferred Stock of Comparable Company
E = Market Value of Equity of Comparable Company

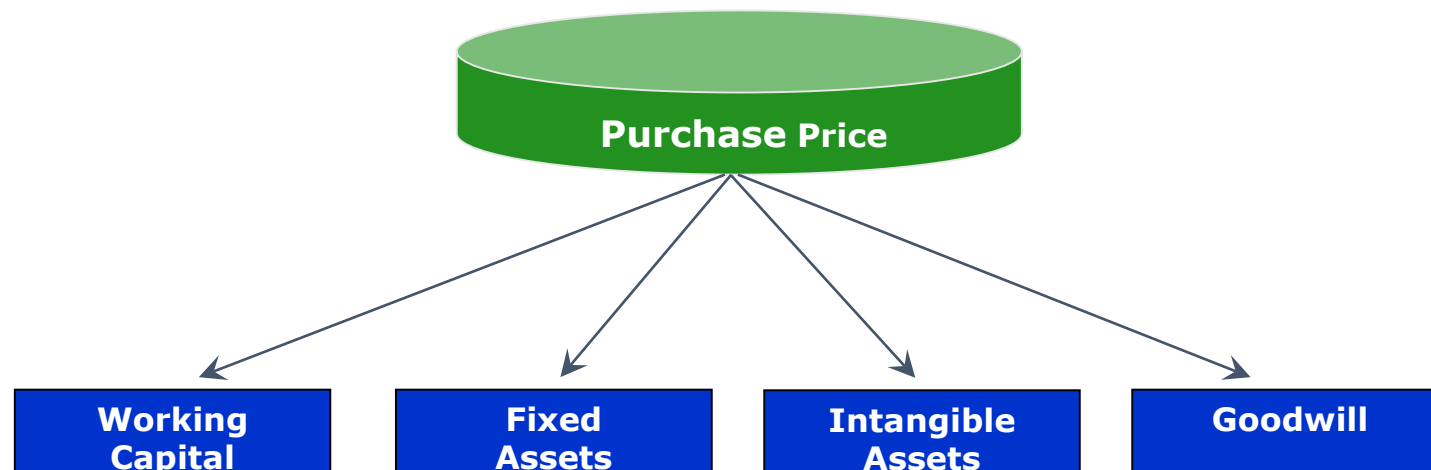
Relevered Beta = (Unlevered Beta) * (1 + (Target D/E) * (1 - T))

Bargain Purchases

- A bargain purchase exists when the fair value of the acquired enterprise exceeds the purchase price.
- Bargain purchases should be very rare.
- Prior to SFAS 141R (which is now ASC 805), the “negative goodwill” associated with bargain purchases was recorded as a pro-rata reduction of non-current assets acquired.
- Currently, under ASC 805, all acquired assets and liabilities are recorded at their fair values (regardless of the purchase price), and any excess is recorded as an immediate gain on the income statement.

Purchase Price Allocation Overview

- In a business combination, acquired assets are recorded at “fair value”; any excess is allocated to goodwill
- Valuator’s job is typically focused on intangible assets



Common Intangible Assets

Customer or Marketing – Related

- Customer Relationships
- Trademarks & Trade Names
- Non-Competition Agreements



Contract – Related

- Lease Agreements
- Management Contracts
- Broadcast Rights



Types of Intangible Assets

Technology – Related

- Software
- Patented / Unpatented Technology
- Databases
- Know-How



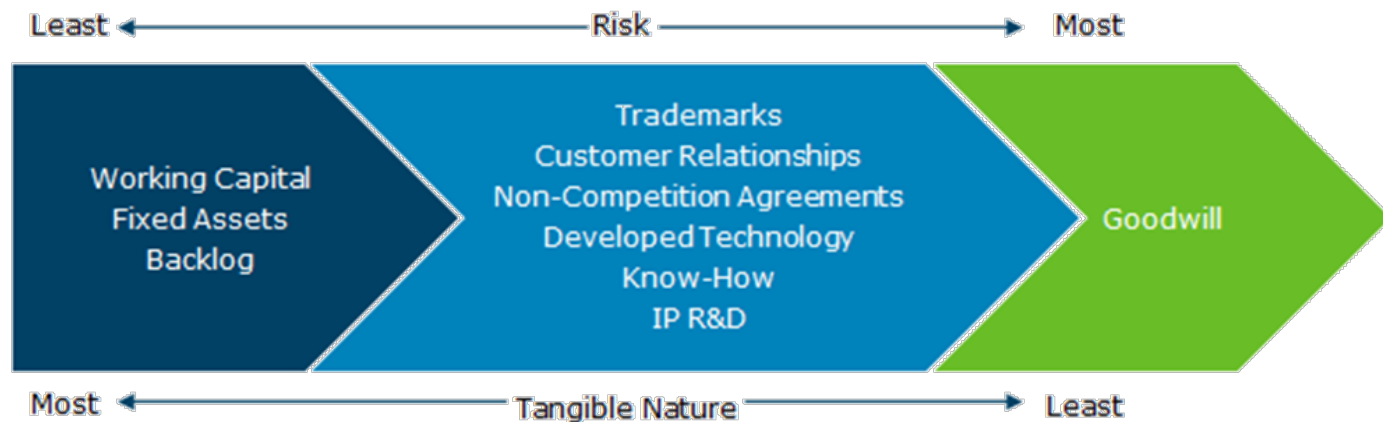
Artistic – Related

- Literary Works
- Musical Works
- Photographs
- Video



Risk Spectrum & Rates of Return

- An enterprise consists of a combination of tangible and intangible assets, each with their own risk profiles and corresponding required rates of return.
- A “hierarchy of returns” concept applies in the selection of returns attributable to specific underlying assets of a given business. All returns are evaluated within the context of the WACC, but some assets carry more risk than others.
- Generally, intangible assets carry the most risk in a business, whereas cash and receivables, at the opposite end of the risk spectrum, may carry the least risk and consequently, lower required rates of return.



Valuation Approaches for Intangible Assets

Multi-Period Excess Earnings



Used when two or more assets work together to create a cash flow stream. Isolate the cash flows attributable to a particular asset by subtracting “charges” for contributory assets.

Relief from Royalty



Present value of after-tax royalties saved by owning an intangible asset (instead of having to license it). Market-based royalty rate data incorporates elements of a Market Approach.

Replacement Cost



After-tax costs required to reconstruct an asset into its current form.

Lost Income



A way of valuing non-competition agreements, as “with and without” scenarios are modeled and compared, factoring in the probability of successful competition.

Customer Relationships

- Typically valued using a Multi-Period Excess Earnings Method
- Projections are associated with existing customers
- Key Assumptions:
 - % of Customers where a Meaningful Relationship Exists
 - Forecasted Revenue from Existing vs. New Customers
 - Customer Attrition Rate
 - Sales and Marketing Expenses
 - Contributory Asset Charges
 - Discount Rate
 - Remaining Useful Life

Customer Relationship Valuation Example

Customer Relationships Valuation

Multi-Period Excess Earnings Method

In \$000's

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Existing Customer Revenue	\$ 195,885	\$ 208,086	\$ 221,444	\$ 236,139	\$ 252,393	\$ 270,479	\$ 278,594	\$ 286,951	\$ 295,560	\$ 304,427
New Customer Revenue	1,979	4,626	7,720	11,347	15,617	20,670	21,286	21,929	22,590	23,263
Total Company Revenue	197,864	212,712	229,164	247,486	268,010	291,149	299,880	308,880	318,150	327,690
Growth Rate - Total Company	3.3%	7.5%	7.7%	8.0%	8.3%	8.6%	3.0%	3.0%	3.0%	3.0%
Growth Rate - Existing Customers		6.2%	6.4%	6.6%	6.9%	7.2%	3.0%	3.0%	3.0%	3.0%
Existing Customer Revenue	195,885	208,086	221,444	236,139	252,393	270,479	278,594	286,951	295,560	304,427
Partial Period Adjustment	0.44	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Partial Period Revenue to Existing Customers	86,516	208,086	221,444	236,139	252,393	270,479	278,594	286,951	295,560	304,427
Revenue	86,516	208,086	221,444	236,139	252,393	270,479	278,594	286,951	295,560	304,427
Multiplied by: Cumulative Retention Rate	3.0% 97.0%	95.7%	92.8%	90.1%	87.4%	84.7%	82.2%	79.7%	77.3%	75.0%
Revenue to Existing Customers	83,920	199,169	205,596	212,662	220,481	229,192	228,986	228,780	228,574	228,368
EBITA Margin	3.7%	4.4%	5.3%	6.1%	7.1%	8.2%	8.1%	8.1%	8.1%	8.1%
Add: Business Development Expenses	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Add: Additional Depreciation Expense From Step-Up to Fixed Assets	-0.2%	-0.2%	-0.2%	-0.3%	-0.3%	-0.3%	-0.3%	0.0%	0.0%	0.0%
Adjusted EBITA Margin	4.0%	4.7%	5.6%	6.4%	7.4%	8.4%	8.4%	8.7%	8.7%	8.7%
EBITA to Existing Customers	3,378	9,398	11,500	13,650	16,314	19,327	19,261	19,927	19,907	19,883
Less: Inventory Step-Up	(581)									
Less: Income Taxes	(727)	(2,443)	(2,990)	(3,549)	(4,242)	(5,025)	(5,008)	(5,181)	(5,176)	(5,169)
Debt-Free Cash Flow (Before Contributory Asset Charges)	2,070	6,954	8,510	10,101	12,072	14,302	14,253	14,746	14,731	14,713
Less: Contributory Asset Charges										
Net Working Capital, Net of Cash	(2,906)	(6,668)	(6,868)	(7,090)	(7,335)	(7,602)	(7,789)	(7,782)	(7,775)	(7,768)
Fixed Assets	(472)	(989)	(871)	(751)	(628)	(500)	(378)	(321)	(323)	(324)
Normalized Land	(18)	(41)	(39)	(37)	(36)	(34)	(33)	(32)	(31)	(30)
Trade Name and Trademarks	(207)	(491)	(507)	(525)	(544)	(565)	(564)	(564)	(564)	(563)
Technology (Cost Approach)	-	-	-	-	-	-	-	-	-	-
Technology	(186)	(442)	(456)	(472)	(489)	(509)	(508)	(508)	(507)	(507)
Non-Competition Agreements	(43)	(94)	(90)	(86)	(83)	(44)	-	-	-	-
Goodwill - Assembled Workforce	(181)	(411)	(406)	(400)	(395)	(389)	(389)	(388)	(388)	(388)
Debt-Free Cash Flow (After Contributory Asset Charges)	(1,944)	(2,182)	(728)	740	2,563	4,659	4,591	5,151	5,143	5,133
Rate of Return Attributable to Customer Relationships	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Discount Period	0.22	0.94	1.94	2.94	3.94	4.94	5.94	6.94	7.94	8.94
Present Value Factor	0.9519	0.8105	0.6484	0.5187	0.4150	0.3320	0.2656	0.2125	0.1700	0.1360
Present Value of Cash Flows (Years 1-10)	(1,850)	(1,768)	(472)	384	1,064	1,547	1,219	1,094	874	698
Sum of Present Value of Cash Flows (Years 1-30)	5,520									
Add: Present Value of Income Tax Savings from Amortization	446									
Fair Value of Customer Relationships	5,967									
Rounded	\$ 6,000									

Customer Relationship Valuation Example

Contributory Asset Charges

In \$000's

Asset Class	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Total Revenue	\$ 197,864	\$ 212,712	\$ 229,164	\$ 247,486	\$ 268,010	\$ 291,149	\$ 299,880	\$ 308,880	\$ 318,150	\$ 327,690
Revenue Growth		7.5%	7.7%	8.0%	8.3%	8.6%	3.0%	3.0%	3.0%	3.0%
Net Working Capital										
Beginning Balance	40,218	40,384	43,398	46,663	50,402	54,494	59,116	60,888	62,716	64,598
+ Additional Working Capital	166	3,014	3,266	3,738	4,092	4,622	1,773	1,827	1,882	1,937
Ending Balance	40,384	43,398	46,663	50,402	54,494	59,116	60,888	62,716	64,598	66,535
Average Fair Value	40,301	41,891	45,031	48,533	52,448	56,805	60,002	61,802	63,657	65,566
Required Rate of Return	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%
Return Charged	6,851	7,121	7,655	8,251	8,916	9,657	10,200	10,506	10,822	11,146
CAC as a % of Revenue	3.46%	3.35%	3.34%	3.33%	3.33%	3.32%	3.40%	3.40%	3.40%	3.40%
Fixed Assets										
Beginning Balance	6,474	6,255	5,816	5,284	4,702	4,020	3,238	2,424	2,521	2,613
+ Capital Expenditures	221	650	650	700	700	700	780	810	830	860
- Depreciation (Return Of Fixed Assets)	(440)	(1,089)	(1,182)	(1,282)	(1,382)	(1,482)	(1,593)	(713)	(739)	(769)
Ending Balance	6,255	5,816	5,284	4,702	4,020	3,238	2,424	2,521	2,613	2,704
Average Fair Value	6,365	6,036	5,550	4,993	4,361	3,629	2,831	2,473	2,567	2,659
Required Rate of Return "On"	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%
Return Charged	1,114	1,056	971	874	763	635	495	433	449	465
CAC as a % of Revenue	0.56%	0.50%	0.42%	0.35%	0.28%	0.22%	0.17%	0.14%	0.14%	0.14%
Normalized Land										
Fair Value	249	249	249	249	249	249	249	249	249	249
After-Tax Rate of Return	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%
After-Tax Rental Payment	44	44	44	44	44	44	44	44	44	44
CAC as a % of Revenue	0.02%	0.02%	0.02%	0.02%	0.02%	0.01%	0.01%	0.01%	0.01%	0.01%
Trade Name and Trademarks										
Fair Value	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600
CAC as a % of Revenue	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%
Technology										
Fair Value	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
CAC as a % of Revenue	0.22%	0.22%	0.22%	0.22%	0.22%	0.22%	0.22%	0.22%	0.22%	0.22%
Non-Competition Agreements										
Fair Value	300									
After-Tax Rate of Return	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%				
After-Tax Rental Payment (Return "On" and "Off")	100	100	100	100	100	56				
CAC as a % of Revenue	0.05%	0.05%	0.04%	0.04%	0.04%	0.02%	0.00%	0.00%	0.00%	0.00%
Goodwill - Assembled Workforce										
Beginning Balance	2,100	2,163	2,228	2,295	2,364	2,434	2,508	2,583	2,660	2,740
+ Investment in ASW Growth	63	65	67	69	71	73	75	77	80	82
Ending Balance	2,163	2,228	2,295	2,364	2,434	2,508	2,583	2,660	2,740	2,822
Average Fair Value	2,132	2,195	2,261	2,329	2,399	2,471	2,545	2,621	2,700	2,781
ASW Growth	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Required Rate of Return	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Return Charged	426	439	452	466	480	494	509	524	540	556
CAC as a % of Revenue	0.22%	0.21%	0.20%	0.19%	0.18%	0.17%	0.17%	0.17%	0.17%	0.17%

ASC 805 – Purchase Price Allocation

- Typically valued using a Relief From Royalty Method
- Key Assumptions:
 - Revenue forecast for trade names
 - Royalty rate
 - Discount rate
 - Remaining useful life
- Software is typically valued in a similar fashion

ASC 805 – Purchase Price Allocation

Tradenames - Example

Assumptions

Royalty Rate	0.33%
Required Rate of Return	29.5%
Tax Rate	26.0%

Year	Total Projected Revenue	Revenue Attributable to the Trade Name and Trademarks	Relief from Royalty	Trade Name and Trademarks Lifting	Trade Name and Trademarks Royalties	Taxes	After-Tax Cash Flow	Present Value Factor	Present Value of Cash Flow
Year 1	\$ 87,390	\$ 87,390	\$ 291	100.0%	\$ 291	\$ 76	\$ 216	0.9445	\$ 204
Year 2	212,712	212,712	709	100.0%	709	184	525	0.7839	411
Year 3	229,164	229,164	764	100.0%	764	199	565	0.6054	342
Year 4	247,486	247,486	825	100.0%	825	214	610	0.4675	285
Year 5	268,010	268,010	893	100.0%	893	232	661	0.3610	239
Year 6	291,149	291,149	970	100.0%	970	252	718	0.2787	200
Year 7	299,880	299,880	1,000	100.0%	1,000	260	740	0.2152	159
Year 8	308,880	308,880	1,030	100.0%	1,030	268	762	0.1662	127
Year 9	318,150	318,150	1,061	100.0%	1,061	276	785	0.1283	101
Year 10	327,690	327,690	1,092	100.0%	1,092	284	808	0.0991	80

Fair Value Conclusion

Sum of Present Value of Relief from Royalty

Add: Present Value of Income Tax Savings from Amortization

2,148

151

Fair Value of Trade Name and Trademarks

2,298

Rounded

2,300

Non-Compete Agreements

- Typically valued using a Lost Income Method
- Key Assumptions:
 - Revenue at risk
 - Changes in margins
 - Probability of successful competition



Non-Compete Agreement

Valuation Example

In \$000's

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Summary of Competition						
Net Sales - No Competition	\$ 197,864	\$ 212,712	\$ 229,164	\$ 247,486	\$ 268,010	\$ 291,149
EBIT - No Competition	7,224	9,314	12,100	15,162	19,091	23,782
Net Sales - With Competition	148,398	191,441	211,977	235,112	261,310	291,149
EBIT - With Competition	4,492	7,993	10,893	14,190	18,504	23,782
Lost Cash Flows due to Competition						
Decrease (Increase) in EBIT	2,732	1,321	1,207	972	587	-
Income Taxes	(710)	(343)	(314)	(253)	(153)	-
Increase (Decrease) in Additional Working Capital	(10,096)	5,756	840	980	1,158	1,362
After-Tax Lost Cash Flow Due to Competition	(8,074)	6,734	1,733	1,699	1,592	1,362
Partial Period Adjustment	0.44	1.00	1.00	1.00	1.00	0.56
Lost Cash Flows Allocated to Projection Period	(3,566)	6,734	1,733	1,699	1,592	761
Present Value of Lost Cash Flows						
Rate of Return	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Discount Period	0.22	0.94	1.94	2.94	3.94	4.72
Present Value Factor	0.9605	0.8422	0.7019	0.5849	0.4874	0.4229
Present Value of Lost Cash Flows	(3,425)	5,672	1,216	994	776	322
Fair Value						
Indicated Value of Damages Before Probability Adjustment	5,554					
Multiplied By: Effective Probability of Successful Competition	4.3%					
Indicated Value of Damages from Competition	236					
Add: Present Value of Income Tax Savings from Amortization	23					
Fair Value of Non-Competition Agreement	259					
Rounded	\$ 300					

Weighted Average Return on Assets (WARA)

- The weighted-average return on assets ("WARA") is used as a sanity check for the IRR and WACC. If the analysis is performed correctly, the IRR, WACC and WARA should all be within a reasonable range.
- Rates of return are developed for all acquired working capital, fixed assets, intangible assets and goodwill. Rates of return should match the risk profile associated with each asset.

Weighted Average Return on Assets

Asset	Fair Value	Rate of Return	Weighted Average	Source	Allocated Debt %	Allocated Equity %	Implied Debt to Total Capital	
							Implied Debt Capital	Implied Equity Capital
Normalized Net Working Capital	\$ 40,218,438	17.0%	11.0%	Est. Debt Leverage	52.5%	47.5%	\$ 21,114,680	\$ 19,103,758
Normalized Fixed Assets (Excl Land)	6,474,396	17.5%	1.8%	Est. Debt Leverage	50.0%	50.0%	3,237,198	3,237,198
Normalized Land	249,000	17.5%	0.1%	Est. Debt Leverage	50.0%	50.0%	124,500	124,500
Trade Name and Trademarks	2,600,000	29.5%	1.2%	Est. Debt Leverage	0.0%	100.0%	0	2,600,000
Technology	1,500,000	29.5%	0.7%	Est. Debt Leverage	0.0%	100.0%	0	1,500,000
Customer Relationships	6,000,000	25.0%	2.4%	Est. Debt Leverage	20.0%	80.0%	1,200,000	4,800,000
Non-Competition Agreements	300,000	20.0%	0.1%	WACC	40.0%	60.0%	120,000	180,000
Goodwill - Assembled Workforce	2,100,000	20.0%	0.7%	WACC	40.0%	60.0%	840,000	1,260,000
Goodwill	2,763,255	45.0%	2.0%	Facts and Circumstances	0.0%		0	2,763,255
Implied Enterprise Value	\$ 62,205,089		20.0%				\$ 26,636,378	\$ 35,568,711

WARA 20.0%

IRR 20.1%

WACC 20.0%

Common Audit Issues in Purchase Price Allocations

- Is the forecast reasonable and do all assumptions reflect those of a “market participant”?
- Are all forms of consideration properly valued to determine the purchase price?
- Are all intangible assets and liabilities identified
- Are all intangible assets properly valued with adequate support for each key assumption (*there are many complex nuances of intangible asset valuation*)?
- Do the WACC, IRR, and WARA reconcile?

A black and white photograph of two hands shaking in a firm grip, symbolizing a business agreement or partnership. The hands are wearing suit sleeves.

**ASC 606 Revenue from
Contracts with Customers**

New Guidance issued October 28, 2021

- FASB issued guidance that will result in the acquirer recognizing contract asset and contract liabilities (i.e., deferred revenue) at the same amounts recorded by the acquiree.
- New guidance should be applied prospectively and is effective for calendar year public business entities in 2023 and all other calendar-year entities in 2024. Early adoption is permitted.

Review Question #1

In a Business Combination, which of the following must be recorded at Fair Value?

- a) Tangible assets
- b) Liabilities
- c) Identifiable intangible assets, even if they were previously unrecorded
- d) All of the above

Review Question #1

In a Business Combination, which of the following must be recorded at Fair Value?

- a) Tangible assets
- b) Liabilities
- c) Identifiable intangible assets, even if they were previously unrecorded
- d) All of the above**

PCC Alternative

- In December 2014, FASB issued an optional amendment to allow private companies to elect an alternative treatment related to the recognition of intangible assets in a business combination.
- An entity that elects the accounting alternative to recognize or otherwise consider the fair value of intangible assets as a result of any in-scope transactions should no longer recognize separately from goodwill (1) customer-related intangible assets unless they are capable of being sold or licensed independently from the other assets of the business and (2) noncompetition agreements.



Goodwill Impairment Testing (ASC 350)

Accounting for Goodwill

Historical Overview

- Pre-2001 (APB Opinion 17): Goodwill amortized over 40-year period.
- 2001-2008 (SFAS 142 & later ASC 350): Goodwill tested for impairment
 - Testing at the reporting unit level
 - Tested annually, or when a triggering event occurs
 - Tested using a 2-step valuation process
 - SFAS 141 also implemented, which outlined how intangible assets (including goodwill) should be originated in business combinations

Accounting for Goodwill (continued)

- 2011-2013: In an effort to reduce costs, a new qualitative approach (i.e., “Step Zero”) may be used to test for impairment prior to a quantitative approach (i.e., Step One), with a “more likely than not” standard for moving to Step One.
- 2014-Current: In another effort to reduce costs, the FASB’s Private Company Council introduced an alternative to accounting for goodwill (“Little GAAP”), available only for private companies and not-for-profit companies, including:
 - Goodwill may be amortized over a period of 10 years (with exceptions to the 10)
 - Impairment testing is only performed when there is a triggering event
 - Impairment testing can be done at the reporting unit level
 - The “Step Two” calculation for goodwill impairment is eliminated
- **Result: We now have a hodge-podge of Big GAAP & Little GAAP alternatives related to goodwill**

Comparison of Accounting Treatment for Goodwill

<u>Requirement:</u>	<u>Big GAAP:</u>	<u>Little GAAP:</u>
Test Goodwill for Impairment Annually	YES	NO, can amortize over 10 years or less
Test with Triggering Event	YES	YES
Step Zero (Qualitative Test) Permitted	YES	YES

Step Zero (i.e., Qualitative) Goodwill Impairment Test

- Accounting Standards Update (“ASU”) 2011-08, Testing Goodwill for Impairment issued on September 15, 2011
- Allows entities to consider qualitative factors prior to performing a full goodwill impairment test
- Is it more likely than not that the Fair Value of the company (or Reporting Unit) is greater than the carrying value?
 - Yes – No further analysis is required
 - No – Proceed to Step 1 analysis

Step Zero (i.e., Qualitative) Goodwill Impairment Test

- Key Assumptions/Factors:
 - Amount of time elapsed and the results from a recent fair value determination and the amount of “cushion” between the estimated fair value and carrying value (often requires a “benchmark” valuation)
 - Qualitative factors such as economic & industry conditions, financial performance, company-specific events, share price, etc.
 - Documentation; some have found Step 0 compliance only slightly less complex than Step One compliance

Step 1 Goodwill Impairment Test

- Impairment exists when carrying value (i.e., book value) exceeds the fair value
- The Step 1 test is an enterprise valuation, typically performed using valuation methodologies such as Discounted Cash Flow Method, Guideline Public Company Method, Guideline Transaction Method
- The Fair Value of the company (or reporting unit) is compared to its carrying value – if the fair value is less than the carrying value, a goodwill impairment charge is taken in that amount.

ASC 350 – Goodwill Impairment Test

Step 1 Test Example

Discounted Cash Flow						
	Year 1	Year 2	Year 3	Year 4	Year 5	Residual Period
Net Sales	\$ 103,756	\$ 156,210	\$ 181,915	\$ 199,071	\$ 209,024	\$ 215,295
Cost of Goods Sold	38,830	57,435	66,857	73,256	76,918	79,226
Gross Profit	64,926	98,775	115,058	125,815	132,106	136,069
Operating Expenses	72,134	85,053	90,406	96,400	101,120	104,094
Income from Operations	(7,208)	13,722	24,652	29,414	30,986	31,975
Other Income	-	-	-	-	-	-
Earnings Before Income Taxes	(7,208)	13,722	24,652	29,414	30,986	31,975
Income Taxes @ 28%	(2,018)	3,842	6,903	8,236	8,676	8,953
Debt-Free Net Income	(5,189)	9,880	17,750	21,178	22,310	23,022
Adjustments:						
Plus: Depreciation and Amortization	3,184	2,000	2,000	2,000	2,000	2,000
Less: Capital Expenditures	(3,184)	(2,000)	(2,000)	(2,000)	(2,000)	(2,060)
Less: Additional Working Capital		(955)	(519)	(364)	(204)	(128)
Distributable Cash Flow	(5,189)	8,925	17,231	20,814	22,106	22,834
Multiplied By: Partial Year Factor	0.75	1.00	1.00	1.00	1.00	
Remaining Distributable Cash Flow	(3,878)	8,925	17,231	20,814	22,106	
Less: Partial Period Additional Working Capital	4,572					
Adjusted Distributable Cash Flow	694					
Mid-year Convention	0.3736	1.2472	2.2472	3.2472	4.2472	
Present Value Factor @ 17.2%	0.9424	0.8204	0.7000	0.5973	0.5096	
Present Value of Distributable Cash Flow	\$ 654	\$ 7,322	\$ 12,062	\$ 12,432	\$ 11,266	
PV of Discrete Period Cash Flows	\$ 43,736					
PV of Residual Cash Flow	81,949					
Enterprise Value	125,684					
Rounded	\$ 125,700					
						Residual Cash Flow
						\$ 22,834
						Discount Rate
						17.2%
						Less: Residual Growth Rate
						-3.0%
						Capitalization Rate
						14.2%
						Residual Cash Flow Value
						160,803
						Present Value Factor
						0.5096
						PV of Residual Cash Flow
						\$ 81,949

ASC 350 – Goodwill Impairment Test

Step 1 Test Example

Guideline Public Company Method Conclusion of Value

Valuation Analysis and Conclusion of Value				
Measure of Performance	Indicated Multiple	Selected Multiple	Sustainable Performance	Enterprise Value
EV / LTM EBITDA	6.1	} 9.0	x \$ 13,000,000 = \$	117,000,000
EV / 5-Yr. Wtd. Avg. EBITDA	8.1			
EV / Year 1 EBITDA	10.9			
EV / Year 2 EBITDA	7.6			
EV / LTM Revenue	0.87	} 0.90	x 142,500,000 =	128,250,000
EV / 5-Yr. Wtd. Avg. Revenue	0.91			
EV / Year 1 Revenue	0.83			
EV / Year 2 Revenue	0.79			
Concluded Enterprise Value				\$ 123,000,000
Plus: Control Premium			9.8%	<u>11,992,500</u>
Concluded Fair Value				<u>\$ 135,000,000</u>

ASC 350 – Goodwill Impairment Test

Step 1 Test Example

Guideline Transaction Method Conclusion of Value

Valuation Conclusion: Guideline Transaction Method						
Performance Measure	Sustainable Performance		Selected Multiple		Enterprise Value	
Enterprise Value / Net Sales	\$ 142,500,000	x	0.90 to 1.10	=	\$ 128,250,000 to	\$ 156,750,000
Enterprise Value / EBITDA	13,000,000	x	9.00 to 10.00	=	117,000,000 to	130,000,000
Concluded Enterprise Value						<u>\$ 133,000,000</u>

ASC 350 – Goodwill Impairment Test

Step 1 Test Example

Reconciliation of Valuation Methods	
Valuation Method	Indication of Value
Discounted Cash Flow Method	\$ 125,700,000
Guideline Public Company Method	135,000,000
Guideline Transaction Method	133,000,000
Selected Fair Value	<u>\$ 131,000,000</u>
Adjusted Carrying Value	<u>\$ 209,951,587</u>
Amount of Impairment	<u>\$ 78,951,587</u>

ASC 360 – Long-Lived Asset Impairment Test

Overview

- ASC 360 provides guidance on accounting for the impairment or disposal of long-lived assets.
- Some events that may trigger an ASC 360 test are decreases in market value, changes in condition, operating losses, costs in excess of original estimates, etc.
- The 360 impairment testing methodology considers the “recoverability” of an asset.
- ASC 360 impairment (i.e., write-downs of long-lived assets) affects the carrying value calculation for ASC 350; as such, the 360 test must be completed before the 350 test.

Common Audit Issues in Goodwill Impairment Testing

- Are all appropriate valuation methodologies applied correctly
- Did the valuation specialist utilize appropriate valuation techniques?
- Does the forecast used in the DCF make sense?
- Are guideline public company and guideline transaction methods used (particularly important given market participant requirement)?
- Are all rates of return and multiples well-supported?
- How does the concluded enterprise value compare with the prior year's enterprise value?
- Reconcile reporting unit Fair Values with market capitalization (for publicly traded companies)

Common Audit Issues in Goodwill Impairment Testing (continued)

Observations About Impairment Testing:

- For publicly-traded companies, they must be able to reconcile an enterprise's value to its market capitalization. The values need not be identical, but differences should be explainable
- Company-prepared impairment analyses are frequently void of sufficient support and fraught with valuation errors
- This is an extremely challenging area to audit

Review Question #2

Which of the following is NOT a common valuation method used when testing for goodwill impairment under Step 1 of ASC 350?

- a) Guideline transaction (M&A) method
- b) Book value method
- c) Discounted cash flow method
- d) Guideline public company method

Review Question #2

Which of the following is NOT a common valuation method used when testing for goodwill impairment under Step 1 of ASC 350?

- a) Guideline transaction (M&A) method
- b) Book value method**
- c) Discounted cash flow method
- d) Guideline public company method

A black and white photograph of a businessman in a suit and tie, holding a magnifying glass over a folder of papers. The image is partially obscured by a green horizontal bar at the bottom.

**Equity-Based Compensation
(ASC 718 & IRC 409A)**

ASC 718 – Equity-Based Compensation Requirements

- For financial statement reporting purposes, companies must measure the expense associated with equity compensation based on the “fair value” of the securities issued on the issuance date
- Compensation expense is recognized as services are received (over requisite service period)
- Both publicly-traded and privately-held companies must comply, so stock issuances/grants, phantom stock, options, etc. must be “fair-valued”
- Auditors review equity compensation valuations closely and rely upon the AICPA’s Practice Aid Valuing Privately-Held Company Equity Securities Issued As Compensation
- Valuation analysis and report must be “auditable” and many large CPA firms will have their valuation teams rigorously review these valuations
- Keep in mind that virtually all ASC 718 valuations are also IRC 409A valuations, so these valuations are not only for financial reporting, but also have income tax implications

Required Steps in an Equity-Based Compensation Valuation Analysis

- 1) Determine the Fair Value of the Company Using one of 3 Methods:**
 - Publicly-traded stock price
 - “Back-solve” method (a reference to a recent arms’-length transaction)
 - For privately-held companies with no recent transactions to rely upon, a traditional valuation analysis must be completed (i.e., discounted cash flow analysis, guideline public company analysis, guideline transaction analysis)

- 2) Allocate Fair Value to all Classes of Equity:**
 - Analysis can be highly complex depending on capital structure and features of various classes of equity
 - Intrinsic value method may be appropriate for simpler capital structures
 - Black-Scholes model may be appropriate for securities with basic features, but more complex lattice models or Monte Carlo simulation may be necessary for securities with complex features (e.g., embedded options, down-round protection, etc.)

Typical Assumptions in Option-Based Valuation Models

- Current fair value of underlying stock
 - Publicly available stock price (if actively traded)
 - Price implied by recent offering (back-solve)
 - Valuation of the Company using typical valuation methods
- Exercise/strike price
- Expected option term
 - Contractual term vs. Expected term (exercise behavior)
 - Depends on model (lattice vs. closed form)
 - Considers the following:
 - Vesting period
 - Historical exercise / post-vesting employment termination behavior
 - Employee demographics (age, length of service, etc.)

Typical Assumptions in Option-Based Valuation Models (continued)

- Expected volatility of underlying share price (for expected term)
 - Very key assumption...value is highly sensitive to volatility
 - Often based on historical/implied volatility of guideline public companies, adjusted for capital structure
- Expected dividends on underlying share (for expected term)
- Risk-free rate (for expected term)

Black-Scholes Option Pricing Model

Valuation Assumptions & Example

Spot	\$174.372
Strike	\$165.000
Annual Volatility	30.0%
Annual Risk Free	1.49%
Annual Dividend Rate	0%
Term	3.000
Steps per Year	200.00
Return on Investment	2.5

Up Factor	1.0214
Down Factor	0.9790
Risk Neutral	0.4965
Per Step Volatility	2.1%
Per Step Risk Free	0.01%

0	1	2	3	4	5	6	7	8	9	10
\$174.37	178.11	181.93	185.83	189.81	193.88	198.04	202.29	206.62	211.05	215.58
	170.71	174.37	178.11	181.93	185.83	189.81	193.88	198.04	202.29	206.62
		167.13	170.71	174.37	178.11	181.93	185.83	189.81	193.88	198.04
			163.62	167.13	170.71	174.37	178.11	181.93	185.83	189.81
				160.19	163.62	167.13	170.71	174.37	178.11	181.93
					156.82	160.19	163.62	167.13	170.71	174.37
						153.53	156.82	160.19	163.62	167.13
							150.31	153.53	156.82	160.19
								147.15	150.31	153.53
									144.07	147.15
										141.04

Challenges with Start-Up and High-Growth Companies

- Many companies that issue equity-based compensation are start-ups and high-growth companies
- The business forecast often calls for hyper-growth and is highly risky and uncertain
- Limited historical track record
- Oftentimes it is difficult to find comps
- For these reasons, ASC718/IRC409A valuations are often more difficult, time-consuming, and expensive
- Many of these companies are cash-poor and fee-sensitive, so there may be resistance to hire a qualified valuation professional

Stock Values Can Be Volatile

- Particularly with highly leveraged companies

	<u>6.0x</u>	<u>5.0x</u>	<u>4.0x</u>
EBITDA	\$2,000,000	\$2,000,000	\$2,000,000
x Multiple	<u> x 6.0</u>	<u> x 5.0</u>	<u> x 4.0</u>
Enterprise Value	12,000,000	10,000,000	8,000,000
-Debt/Preferred	<u>-8,000,000</u>	<u>-8,000,000</u>	<u>-8,000,000</u>
Common Equity Value	4,000,000	2,000,000	0
# Shares	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>
Common Stock Value	\$4.00/share	\$2.00/share	<i>now what?</i>

ASC 718 & IRC 409A Valuations Can Have Many Audiences

- IRS - to ensure 409A compliance
- SEC - concerned with “cheap stock” issues if the company registers its shares
- Auditor – ASC 718 requires fair value and the auditor needs an auditable report
- Recipient – generally prefers a low value, but is the potential victim if the value is below FMV
- Potential acquirers – concerned with an IRC 409A liability or understated compensation expense if ASC 718 was not followed properly

Scary War Story... Professionals Need to Communicate

- Client issues stock options
- Board member is a venture capitalist and he sets the price at \$1 per share
- Attorney advisor approves of this for IRC 409A purposes
- This happens for several years
- Eventually the company needs audited financial statements. The company's auditor is not comfortable with the \$1 price and won't sign the audit without a more comprehensive (and independent) valuation
- Valuation firm is hired and values the common stock at \$8 per share
- Auditor is now satisfied, but company and option recipient now has a major income tax problem, and the attorney has an irate client

Final Thoughts on ASC 718 & IRC 409A

- The only realistic “safe-harbor” option for 409(A) compliance is an independent valuation
- Auditors often require independent valuations for ASC 718, and many audit firms and their valuation teams will rigorously review valuation opinions
- Given the nature of many companies that issue stock options, these valuations can be difficult, time-consuming, and relatively expensive
- Oftentimes companies will resist a recommendation for an independent valuation for reasons including (a) cost and (b) control of the price

Common Audit Issues in Equity-Based Compensation Valuations

Is There a Valuation At All?

- Oftentimes there is reluctance to perform a full and comprehensive valuation analysis
- Beware of reliance on old transactions, rules of thumb, or board member or PE firm “estimations”, especially with high-growth companies; these analyses frequently do not comply with requirements under 409A

Enterprise Value:

- How was the valuation of the company determined?
- Were methods applied & supported properly?

Equity Allocation:

- Was a proper valuation model used?
- Volatility: how was it supported?

Review Question #3

Valuations for equity-based compensation are often required for which purpose?

- a) Income tax compliance in connection with IRC 409A
- b) Financial reporting compliance in connection with ASC 718
- c) For SEC “cheap stock” protection purposes
- d) All of the above

Review Question #3

Valuations for equity-based compensation are often required for which purpose?

- a) Income tax compliance in connection with IRC 409A
- b) Financial reporting compliance in connection with ASC 718
- c) For SEC “cheap stock” protection purposes
- d) All of the above**

Wrap Up and Final Thoughts

- There has been a gradual movement away from cost-based accounting and toward fair value accounting for many years (decades)
- ASC 805, 350, and 718 are prominent examples of fair value accounting requirements
- Fair value accounting is generally favored by the investing community
- Many companies have complained about the costs and efforts to comply with fair value requirements
- The FASB has mentioned the potential for further changes to ease the burden of fair value compliance
- Pay attention to upcoming guidance in the valuation of certain assets:
 - Deferred Revenue: switching back to book value
 - Inventory: will require a more complex fair value process

Questions?



The top portion of the slide features a grayscale photograph of the United States flag waving on the left, with the dome of the United States Capitol building visible in the background on the right. A solid green horizontal bar is positioned below the photograph.

SAS 134 - 136 Updates - Auditor Reporting Model Changes

Presenter



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SAS 134 – The Auditor’s Report is Getting a Facelift!

- Effective for reporting periods ending on or after December 15, 2020.
- Issued by the Accounting Standard’s Board to:
 - 1) Converge GAAS with the auditor reporting standards promulgated by the International Auditing and Assurance Standards Board
 - 2) To create consistency with the revised auditor reporting model supported by the Public Company Accounting Oversight Board (PCAOB)
- Issued to:
 - 1) Provide more transparency into the audit and the related auditor’s report.
 - 2) Satisfy the user’s need for more information by addressing the auditor’s responsibility
 - 3) Provide new guidance for the form and content of the auditor’s report.

Early adoption of this new auditor’s report is not allowed to prevent audit reports from being issued in different formats for the same reporting period.

SAS 134 – The Auditor’s Report is Getting a Facelift!

So what’s changing?

1) LAYOUT

- The Auditor’s Opinion is now first! Historically, the Auditor’s Opinion paragraph came much later in the report.
 - The Auditor’s Opinion is followed by the “Basis for Opinion” paragraph, which is now required in every auditor’s report.
 - Previously, the “Basis for Opinion” paragraph was only required for reports that contained a modified opinion. The paragraph must state the following:
 - The fact that the auditor is required to be independent of the entity and to meet other ethical responsibilities.
 - Reference to the section of the auditor’s report that describes the auditor’s responsibilities under Generally Accepted Auditing Standards (GAAS).
 - A statement that the audit was conducted in accordance with GAAS in the United States.
 - A statement regarding whether the auditor believes the audit evidence obtained during the audit is sufficient and appropriate to provide a basis for the auditor’s opinion.

SAS 134 – The Auditor’s Report is Getting a Facelift!

2) ENTITY’S ABILITY TO CONTINUE AS A GOING CONCERN

- A going concern disclosure is now required in every auditor’s report.
 - Included in the expanded “Responsibilities of Management” section and specifically states that “Management is required to evaluate, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern” This sentence is present whether or not there is any doubt about going concern.
- Previously, the term “going concern” was only used when there was substantial doubt over the entity’s ability to continue operating for at least a year following the date of the auditor’s report
- If some events or conditions give rise to substantial doubt over an entity’s ability to continue as a going concern, a new paragraph entitled “Substantial Doubt about the Entity’s Ability to Continue as a Going Concern”
 - Previously, this was discussed within an Emphasis of Matter paragraph
- This section is also to be used by the auditor for disclosure of facts and circumstances surrounding going concern if going concern matters relevant to the audit are not appropriately disclosed in the footnotes of the financial statements

SAS 134 – The Auditor’s Report is Getting a Facelift!

3) ADDITIONAL REQUIRED STATEMENTS WITHIN THE AUDITOR’S REPORT

- Expanded descriptions of the responsibilities of management about the audit, including the evaluation of going concern.
- In the “Auditor’s Responsibilities for the Audit of the Financial Statements” section, auditors must state that the auditor has the following responsibilities:
 - Exercise professional judgment and maintain professional skepticism throughout the audit
 - Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error and design and perform audit procedures that respond to those risks
 - Obtain an understanding of internal control to design audit procedures that are appropriate in the circumstances, but not to express an opinion on the effectiveness of the entity’s internal control
 - Evaluate the appropriateness of the accounting policies used, the reasonableness of significant accounting estimates made by management and the overall presentation of the financial statements
 - Conclude whether, in the auditor’s judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern for a reasonable time.

SAS 134 – The Auditor’s Report is Getting a Facelift!

Independent Auditor’s Report

[Appropriate Addressee]

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of ABC Company, which comprise the balance sheets as of December 31, 20X1 and 20X0, and the related statements of income, changes in stockholders’ equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ABC Company as of December 31, 20X1 and 20X0, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company’s ability to continue as a going concern for *[insert the time period set by the applicable financial reporting framework]*.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, we:

- ▶ Exercise professional judgment and maintain professional skepticism throughout the audit.
- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ABC Company’s internal control. Accordingly, no such opinion is expressed.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- ▶ Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters identified during the audit.

SAS 134 – The Auditor’s Report is Getting a Facelift!

4) DISCLOSURE OF KEY AUDIT MATTERS (KAMS)

- Optional disclosure within the auditor’s report.
- Allows auditors to communicate significant matters to those charged with governance that is deemed to be the most significant
- KAM are specified by the auditor using professional judgment
- Required elements in the description of a KAM
 - Why the matter was considered to be one of most significance in the audit and therefore determined to be a KAM; and
 - How the matter was addressed in the audit.
- Communication of KAM is not a substitute for any required disclosures in financial statements or a modified opinion!

SAS 134 – The Auditor’s Report is Getting a Facelift!

Example KAM Disclosures

- Goodwill
 - Under US GAAP, the Group is required to annually test the amount of goodwill for impairment. This annual impairment test was significant to our audit because the balance of \$10,000,000 as of December 31, 2021, is material to the financial statements. In addition, management’s assessment process is complex and highly judgmental and is based on assumptions, specifically [describe certain assumptions], which are affected by the expected future market or economic conditions, particularly those in China.
 - Our audit procedures included, among others, using a valuation experts to assist us in evaluating the assumptions and methodologies used by the Group, in particular those relating to the forecasted revenue growth and profit margins for [name of business line]. We also focused on the adequacy of the Group’s disclosures about those assumptions to which the outcome of the impairment test is most sensitive, that is, those that have the most significant effect on the determination of the recoverable amount of goodwill.

SAS 134 – The Auditor’s Report is Getting a Facelift!

Example KAM Disclosures

- Hedge Accounting

The Company reports net derivative financial assets at a fair value of \$100,000 and net derivative financial liabilities at a fair value of \$50,000 as of December 31, 2021. Derivative financial instruments are used to manage and hedge commodity price risks, foreign currency exchange risks and interest rate risks. These instruments are typically designated in a fair value or cash flow hedge relationship. Financial instruments that are not designated in a hedging relationship, and where no hedge accounting is applied, are measured at fair value. The fair value of the derivative financial instruments is based on quoted prices in active markets or on valuation models using observable input data. We focused on this because of the number of contracts, their measurement and the complexity related to hedge accounting.

SAS 134 – The Auditor’s Report is Getting a Facelift!

Example KAM Disclosures

- Hedge Accounting

We performed the following audit procedures related to this matter:

- Obtained an understanding of the risk management policies and tested key controls for the use, recognition, and measurement of derivative financial instruments.
- Reconciled derivative financial instruments data to third-party confirmations.
- Compared input data used in the valuation models to independent sources and external market data.
- Compared valuation of derivative financial instruments with market data and with results from alternative, independent valuation models.
- Tested the applicability and accuracy of hedge accounting.
- Considered the appropriateness of disclosures in relation to financial risk management, derivative financial instruments and hedge accounting

SAS 135 – Bringing AICPA Guidance Closer to PCAOB Standards

- Effective for reporting periods ending on or after December 15, 2020.
- SAS 135 is intended to more closely align AICPA guidance with the PCAOB's standards by primarily amending AU-C section 260, *Communications With Those Charged With Governance*, AU-C section 550, *Related Parties*, and AU-C section 240, *Consideration of Fraud in a Financial Statement Audit*, in AICPA Professional Standards
- Impacts on Management and the Auditors:
 - Additional communications by the auditor to those charged with governance:
 - Significant and unusual transactions
 - Difficult or contentious matters
 - Uncorrected misstatements
 - Enhanced focus on audit procedures over significant unusual transactions
 - Enhanced focus on audit procedures over related party transactions

SAS 135 – Communication – The Key to Any Successful Relationship!

- Significant and Unusual Transactions:
 - Identifying such transactions require auditor judgment!
 - Complex equity transactions
 - Hedging transactions
 - Business combination
 - Leasing or management services provided without consideration
 - Auditor's communication should include:
 - Auditor's views on the policies and practices management used to account for significant unusual transactions
 - Auditor's understanding of the business purpose

SAS 135 – Communication – The Key to Any Successful Relationship!

- Matters that are difficult or contentious:
 - Auditor's communication must include matters that are difficult or contentious **for which the auditor consulted outside the engagement team** and that are, in the auditor's professional judgment, significant and relevant to those charged with governance regarding their responsibility to oversee the financial reporting process
 - Issues that are complex or unfamiliar
 - Estimates with a high degree of estimation uncertainty
 - Limitations imposed by management
 - Non-compliance with laws and regulations
 - If there were none, the auditor should include an affirmative statement that no difficult or contentious matters have been identified.
- Uncorrected misstatements:
 - Auditor's communication should state that uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even if the auditor has concluded that the uncorrected misstatements are immaterial to the financial statements under audit.

SAS 135 – Updated Inquiries

- Significant and Unusual Transactions
 - Inquiry as to whether the entity has entered into any significant unusual transactions (nature, term, business)
 - Inquire about controls around authorization and approval of significant unusual transactions
- Related Party Transactions
 - Business purpose of entering into a transaction with a related party versus an unrelated party
 - Related party transactions not subject to standard internal control procedures
 - The understanding of those charged with governance of related party relationships and transactions
 - Whether those charged with governance have concerns about related party relationships and transactions
- Consideration of fraud
 - Evaluate whether significant unusual transactions and related party transactions may have been entered into to engage in fraudulent financial reporting or conceal misappropriation of assets.

SAS 136 – Forming and Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA

SAS No. 136 requires enhanced audit quality and a revised auditor's report on ERISA plan financial statements to provide better insight into the responsibilities of both management and the auditor.

- **Purpose**

- Enhance the quality of audits of ERISA plans by prescribing certain procedures that are required to be performed in the audit
- Add transparency to the nature and scope of ERISA benefit plan audits as presented in the auditor's report

The overriding goal of these changes is to clarify each party's role and responsibility throughout the audit process and formalize certain procedures that in the past were sometimes left to the auditor's judgment.



SAS 136 – Forming and Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA

Changes to Audit Procedures and Documentation

- SAS 136 implements changes that affect multiple aspects of an ERISA plan audit, including engagement acceptance, risk assessment and response, communication with those charged with governance, and performance procedures and reporting.
- Some of the most notable changes include:
 - If a plan sponsor elects an ERISA Section 103(a)(3)(C) – **formerly known as a limited scope audit** – management must affirm that this is permissible and that the qualified institution can certify the investment information
 - 2-Part Opinion – No longer disclaimed!
 1. An opinion on the fair presentation of information in the financial statements not covered by the certification
 2. An opinion on whether the investment information in the financial statements reconciles with information in the certification.
 - Management must provide to the auditor a substantially complete Form 5500 draft before issuance of the auditor’s report
 - The auditor must communicate reportable findings

Questions





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Understanding the Financial Implications of State and Local Tax Matters

Presenters



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Wayfair Update - Recent Trends and Outlook for 2022

- All states enforcing some form of economic nexus for sales tax
 - Florida effective July 1, 2021
 - Missouri effective January 1, 2023
- Movement away from transactional thresholds
- Movement away from physical presence – Does economic nexus truly replace the physical presence test?
- Increased enforcement efforts targeted at sales tax collection
 - Taxing jurisdictions shifting focus from purchase audits to sales audits
 - Notices and nexus questionnaires
- Auditors will scrutinize nexus positions for periods prior to economic nexus effective dates
 - Other nexus drivers will come into play (physical, click-through, affiliate, cookie)

Wayfair Update - Compliance

- Perform analysis of sales by state
 - Overlay nexus thresholds
 - Consider customer exemptions (e.g. manufacturing and resale)
 - Consider product exemptions (e.g. food and medicine)
- Factor in income and franchise risk analysis
- Assess prior period risk
- Create tiered analysis of risk by state
- Create an action plan for compliance

Wayfair Update – Compliance (continued)

Nexus Tracking

- Increased importance of regular review of filing footprint
- Focus on sales amounts
- Importance of transactional thresholds in question
- Use of gross sales or taxable sales for purposes of thresholds
- Measurement periods
- Grace periods for registrations after nexus threshold reached
- Filing requirements for retailers in marketplace facilitator states
- Create tracking/reporting process

Post *Wayfair* Compliance (continued)

Exemption certificates

- Increased nexus footprint = greater exemption certificate requirements
- Include in customer set-up process
- Process for updating customer taxability in billing system/ERP
- Importance of policy and process for tracking
- “Home grown” tracking and storage vs. third party software solutions for exemption certificate management
- Ensure certificates properly completed

Wayfair Update - Accounting and Financial Statement Implications

- Larger dollars in sales/use tax collections = greater scrutiny on related accounts
- Includes internal audit teams as well as external auditors
- Importance of account reconciliations and written procedures around accounting for sales/use tax and filing positions
- Accounting firms focused on Wayfair – Includes Audit/Assurance departments
- Sales/use tax will likely become a larger focus during financial statement audits
- Wayfair related analysis (or at least questions) likely to be added to audit checklists
- “Above-the-line” impact of exposures
- Buy and sell side due to diligence considerations

Wayfair Update - Accounting and Financial Statement Implications

- Financial Statement Impact (ASC 450)
 - Review compliance with sales/use tax law
 - Where non-compliant, exposure exists
 - Record accruals when exposure is probable and reasonably estimable
 - Because of Wayfair, it's easier than ever to meet both standards
 - Determine the range of potential exposure
 - Book the low end of the range unless there is a better number in between
 - Disclosure requirements in certain instances
 - Impacts both operating earnings (P&L) and balance sheet
 - Timing of reserve release in question where no returns are filed
- Recommend analysis be completed and documented with memo and supporting calculations
 - Compile audit-ready file
 - Extended lookback periods

Wayfair Update - Accounting and Financial Statement Implications

- Financial Statement Impact – Consider amounts in play and materiality thresholds
 - Material – Book an accrual
 - Unrecorded Audit Differences (Past Adjustments) – Does not meet materiality but must be disclosed
 - Immaterial
- Materiality could change very quickly with increased footprint

M&A Activity – SALT Considerations

- Preparing for a transaction
 - Sell Side
 - Complete preliminary review to get ahead of potential issues
 - Gather information relating to all past audits, VDAs, state correspondence, etc.
 - Consider exposure mitigation ahead of going to market
 - Prospective registrations/filings
 - Amnesty/Voluntary Disclosures
 - Document tax/nexus positions
 - Buy Side
 - Understand industry of target from a tax perspective
 - Sales Tax
 - Taxability of product/service
 - Nexus issues (Wayfair)
 - Income/Franchise Tax
 - Nexus issues / P.L. 86-272
 - Apportionment

M&A Activity – SALT Considerations (continued)

- During Transaction
 - Buy Side
 - Opportunity to uncover all unknown tax issues
 - Exposure calculations should error on the high end of reasonableness range
 - Sell Side
 - Defend positions/business decisions
 - Identify errors in buyer's exposure calculation
 - Materiality of potential exposure
 - Purchase price reduction/escrow
- Post-Transaction
 - Exposure mitigation
 - Go-Forward compliance
 - Integration into current processes (consolidation of filings)

M&A Activity – SALT Considerations (continued)

- Accounting/Financial Implications
 - Escrow
 - Unforeseen tax exposure can increase escrow
 - Amount/timing
 - What is covered?
 - Tax liability
 - Professional fees
 - Purchase price reduction
 - Earn out modification
 - Tax exposure may terminate deal
 - Will likely include financial statement impact as well

P.L. 86-272

Public Law 86-272

- P.L. 86-272 is a federal law that prohibits states from imposing a net income tax upon an out-of-state company if the company's activities in a state are limited to the solicitation of orders for the sale of tangible personal property and the orders are approved and filled from outside the state.
- On August 4, 2021, the Multistate Tax Commission (MTC) updated its Statement of Information concerning practices of the MTC and supporting states under P.L. 86-272.
- Added a section on activities conducted over the Internet and includes several examples
- The guidance is not automatically adopted by the States.

Public Law 86-272 – MTC Examples

- “1. The business provides post-sale assistance to in-state customers by posting a list of static FAQs with answers on the business’s website. This posting of the static FAQs does not defeat the business’s P.L. 86-272 immunity because it does not constitute a business activity within the customers’ state.”
- “5. The business places Internet “cookies” onto the computers or other electronic devices of in-state customers. These cookies gather customer search information that will be used to adjust production schedules and inventory amounts, develop new products, or identify new items to offer for sale. This in-state business activity defeats the business’s P.L. 86-272 immunity because it does not constitute, and is not entirely ancillary to, the in-state solicitation of orders for sales of tangible personal property.”

Pass-Through Entity Taxes

Update on PTETs

- For states that have enacted *an entity-level pass-through entity tax* (PTET), the entity can deduct the SALT taxes paid.
- This concept is meant to be a workaround to the \$10,000 cap on state and local taxes (“SALT Cap”) that an individual can deduct as an itemized deduction.
- Approximately twenty states have enacted some type of entity-level pass-through entity tax, including AL, AR, AZ, CA, CO, CT, GA, ID, IL, LA, MA, MD, MN, NJ, NY, OK, OR, RI, SC and WI.
- Ohio S.B. 246 (in committee) proposes to levy a tax on a pass-through entity’s income apportioned to Ohio.

Pass-Through Entity Taxes

Update on PTETs

- In CT, pass-through entity filing is required, but composite is elective. In the other states, filing at the entity level is generally elective.
- Individual owners need to consider the impact of entity-level taxes on their resident state credits.
- If Congress and the Biden administration change the cap, these SALT cap workarounds may not be as impactful.
- We will likely see more states propose entity-level pass-through entity taxes. Others proposed in NC, PA and MI.

Remote Employee Tax Matters

Income Tax Nexus

- Some states released guidance on the income tax nexus implications of remote employees due to COVID-19. Some have now expired.
- Of those states, the majority said that they would not impose nexus due to employees *temporarily* teleworking in their states.
- Many states have *not* released guidance on this topic.
- The MTC's Statement on P.L. 86-272 lists as an **un**protected activity:
 - Activities performed by an employee who telecommutes regularly from within the state unless the activities constitute the solicitation of orders for sales of tangible personal property or are entirely ancillary to such solicitation.
- In some cases, there may be nexus but no tax due.

Remote Employee Tax Matters

Withholding Implications

- Employers must understand income tax withholding for remote workers and the nexus implications of income tax withholding.
- Will the employee be telecommuting temporarily or permanently?
- Employers must be aware of jurisdictions that use the “convenience of the employer” test. Compensation is sourced to the employer’s location where the employee is based unless the arrangement is for the employer’s necessity. Applicable states include AR, CT, DE, NE, NY and PA.
- Employers must also consider states with reciprocal agreements.
- Similar to income tax, some states issued guidance on withholding requirements due to COVID-19 remote work.
- Local rules may differ from state rules.

Remote Employee Tax Matters

What's next?

- Remote employees may have an impact on state income tax apportionment and sales sourcing for apportionment purposes.
- As a result of Wayfair and budget shortfalls due to COVID-19, states will likely be more aggressive in trying to impose income tax nexus.
- More states may enact factor-presence nexus standards for income tax purposes.
- Look for an increase in state nexus questionnaires.
- Companies may need to evaluate their no nexus positions for income tax purposes, as well as any potential financial statement implications.
- In regards to teleworkers, companies will need to understand which arrangements are temporary versus permanent.

Economic Nexus

Income Tax Nexus

- Whether physical presence is necessary to create income tax nexus has been a topic of debate for many years.
- In 1993, in *Geoffrey, Inc. v. South Carolina Tax Commission*, the South Carolina Supreme Court held that physical presence was not required for the imposition of income tax.
- The court concluded that the presence in South Carolina of Geoffrey's intangibles was enough to establish substantial nexus for corporation income tax.
- Quill is a sales and use tax case only!
- Given the uncertainty of the concept of economic nexus, we began to see the adoption of factor-presence, or bright-line, nexus standards.

Economic Nexus

Factor-Presence Nexus

- For corporate income tax and gross receipts tax purposes, some states have already enacted factor-presence nexus standards.
- Out-of-state corporations are deemed to have nexus for corporate income tax or gross receipts tax purposes where they have property, payroll, or sales in those states that exceed the statutory thresholds.
- States with a factor-presence nexus standard for income tax include Alabama, California, Connecticut, Colorado, Michigan, New York and Tennessee.
- States with a factor-presence nexus standard for gross receipts tax include Nevada, Ohio and Washington.
- In 2016, the Ohio Supreme Court ruled that the bright-line presence standard of the Ohio Commercial Activity Tax (CAT) satisfied the substantial nexus requirement under the Commerce Clause of the U.S. Constitution.

Economic Nexus

Economic Nexus Thresholds

- Washington updated its economic nexus standard for B&O Tax. Effective 1/1/20, the threshold matches the \$100K (gross income) sales tax threshold.
- Hawaii was the first state to enact a sales or transaction nexus standard for an income tax based on the economic sales tax nexus thresholds at issue in *Wayfair*.
- Texas, Pennsylvania, Massachusetts, Maine and the City of Philadelphia have followed with economic nexus thresholds.

Economic Nexus

Public Law 86-272

- P.L. 86-272 does not protect a company from the state franchise tax.
- *Wayfair* does **not** overrule P.L. 86-272.
- P.L. 86-272 will remain in force unless Congress decides to change it.
- The general consensus currently in the state tax community is that Congress will not eliminate P.L. 86-272.
- Federal Bill H.R. 3063 – Business Activity Tax Simplification Act of 2019

Other Multistate Income Tax Updates

2021 Income Tax Compliance

- Review for apportionment changes. For example, Alabama is a single sales factor for tax years beginning on or after 1/1/2021.
- Review each state's rules on the taxability of COVID-related programs.
- Many states have changed their corporate and/or individual tax rates.
- Some states, such as Illinois and California, have enacted temporary limitations on NOL carryover deductions.
- Connecticut is offering a tax amnesty program from November 1, 2021, to January 31, 2022.

Questions



Break



A detailed 3D rendering of a virus particle, likely a coronavirus, showing its spherical shape, textured surface, and numerous spike-like protrusions. A second, smaller virus particle is visible in the background to the left.

COVID-19 Update & GAAP Considerations

Presenters



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Agenda Overview

- COVID EIDL Program
- Employee retention credit
- PPP loan accounting
- Employer payroll tax deferral
- Asset impairments
- Going concern assessment and disclosure
- Exit or disposal activities
- Debt restructuring and covenants
- Lease concessions
- Additional considerations



COVID EIDL Program

- Improvements made
 - Loans up to \$2M (up from \$500K)
 - Allows prepayment of commercial and credit card debt
 - Allows for repayment of Federal loans (no prepayment)
 - Eligibility rules like Restaurant Revitalization Fund
- Eligibility
 - Must have been in business in 2019
 - Must have less than 500 employees
 - 2019 sales less 2019 cost of sales times 2
 - 24-month deferment from original loan closing date
 - Cannot be used for business expansion
- Use of funds – operating expenses, payroll, rent/mortgage, utilities
- Next steps
 - If you've already applied, log back into the portal and request
 - If new applicant, log into the portal and apply

Employee Retention Tax Credit

- Falls under IAS 20
- Accrue once probable
- Recording options
 - Other income
 - Reduction of payroll expense
- If IAS 20 policy is chosen for PPP accounting, must continue to a consistent classification
 - Most chose ASC 470 for PPP debt forgiveness presentation
- For tax, presented as a reduction of wage expense

Accounting for PPP Loans as Debt

- Day 1 - Recorded as debt on the balance sheet
 - P&I payments are deferred until the earlier of:
 - Forgiveness has been determined by SBA
 - 10 months after the end of the covered period
 - Monthly interest should be accrued from day 1
- Capitalize and amortize related debt issuance costs
 - Accounting and legal fees
 - Documentation prep costs
 - External, incremental costs to advisors

Accounting for PPP Loans as Debt

- Forgiveness accounting
 - Apply for forgiveness with banker or SBA website
 - Provide banker requested documentation
 - Extinguishment only after being legally released
 - Occurs once the SBA has approved forgiveness (the bank has 60 days to submit decision and SBA thereafter has 90 days to approve forgiveness)
 - Removal from the balance sheet
 - CARES Act considers it canceled indebtedness
 - “SBA audit” risk and exposure is accounted for separately from forgiveness (i.e. record reserve once probable and estimable under ASC 450, *Contingencies*)

Accounting for PPP Loans as Debt

Forgiveness accounting in practice

- Measured based on net carrying value related to forgiveness
 - Loan balance
 - Accrued interest (if eligible)
 - Deferred finance costs
- Journal entry to record forgiveness
 - Dr. PPP Loan
 - Dr. Accrued interest
 - Cr. Deferred finance costs
 - Cr. Gain on forgiveness

Accounting for PPP Loans as a Gov't Grant

- Authoritative Guidance
 - ASC 105 – allows application of nonauthoritative guidance by analogy when guidance is not specified
 - AICPA TQA 3200.18 – allows an election to treat as a grant if it is probable that it will meet both:
 - Eligibility criteria for a PPP loan
 - Loan forgiveness criteria for all or substantially all of PPP loan
- Continual assessment of whether criteria are met
- How to account for it:
 - Day 1 – recorded as deferred income liability (not debt)
 - Ongoing – relieved on a systematic basis over a covered period for which expenses were incurred for the intended purpose
 - Income statement presentation options
 - Presented separately
 - Offset against the related expense
 - If less than 100% forgiveness is expected, treated as a change in estimate

Big Picture: Debt vs. Grant

Which method should you choose?

Accounting Impact	Debt	Grant
Balance sheet presentation	Recorded as debt	Recorded as deferred income liability
P&L presentation of forgiveness	Gain on Cancellation of Debt	Option of separate line item or offset to related expense
Recognition of forgiveness timing	Extinguishment only after being legally released	Recognized as related expenses occur – no delay
Pros	<ul style="list-style-type: none"> -Simpler accounting -Less judgment -Most commonly used 	Conceptual alignment of forgiveness and expenditures
Cons	<ul style="list-style-type: none"> -Leverage ratio impact -Forgiveness may occur next year -Tax provision impact 	Comparability issues if netting with expenses

PPP Loan Accounting – Best Practices

- Know what your bank expects for documentation
- Take the time to understand the safe harbors around FTEs and wage reduction penalties
- Use payroll records when possible to substantiate loan proceeds used
 - Consider eligibility for Employee Retention Credits
 - Makes the application process easier
 - Less documentation to pull together
- Leverage third-party payroll PPP reports for FTE calculations
 - Owners may need to be manually pulled out
- Related party rents limited to the related mortgage interest
- Are you using the right application form?

PPP Loan Accounting – Future Reporting Implications

- Debt covenants – discuss with your bank expectations around EBITDA/ similar calculations and whether forgiveness income should be included or excluded

ASU 2021-10 Government Assistance

- Disclosure only guidance
- Applies to all entities except nonprofits and benefit plans
 - Examples: PPP loans and employee retention credit
- Effective for periods beginning after 12/15/21 (2022 for most)
 - Applied prospectively or retroactively, early adoption permitted
- Disclosure requirements
 - Nature of transaction
 - Accounting policy
 - Financial statement line item impact and related amount
 - Terms and conditions

Employer Payroll Tax Deferral



- Election to defer payroll tax payments through 2020 (regardless of PPP loan forgiveness)
- Cash flow assistance, not a reduction of expense
- Results in higher accrued expenses until paid on 12/31/21 and 12/31/22

Asset Impairments

- Numerous “impairment” models under GAAP depending on the nature and type of account subject to assessment
- Most models incorporate a triggering event mechanism or otherwise require consideration of indicators of impairment arising during a period
- Hierarchy and sequence of impairment assessments are important
 1. Other accounts (A/R, inventory, investments, etc.)
 2. Indefinite lived intangible assets
 3. Long-lived assets held and used
 4. Goodwill

Inventory



- Lower of cost or net realizable value (NRV); seasonal inventories, perishable products, and those with shorter shelf lives
- Firm purchase commitments
- Excess capacity and implications to capitalized overhead, labor and similar costs

Financing Receivables and Contract Assets (before CECL)

- Recognition for probable losses incurred based on past events and conditions existing at the date of the financial statements
- Accounts receivable collectability
 - Specific vs. general (e.g. aging) reserves
 - Consideration of subsequent events

Investments (before adoption of new credit loss/CECL model)

- Other than temporary impairment (OTTI)
 - Available for sale (AFS) or held to maturity (HTM) debt securities
 - Equity method investments
- Equity securities using measurement alternative (cost less impairment adjusted for observable prices)



Long-Lived Assets, Goodwill and Intangible Assets

- Negative triggers (indicators of impairment) likely exist, even within models based on annual assessments
- Long-lived assets assessed for recoverability first prior to fair value measurement (undiscounted cash flows relative to carrying value)
- Goodwill and indefinite-lived intangible assets have no recoverability step
- Unit of account (primary asset, reporting unit, etc.)
- Non-recurring fair value disclosures

Going Concern

- Required of management and auditors
- Preparation of financial statements on a going concern basis until liquidation becomes imminent (at that time, apply liquidation basis accounting)
- One year look-forward period on its ability to meet its obligations
 - One year from date of financial statement issuance (not one year from year-end date)
- Substantial doubt – conditions and events, in the aggregate, indicate that it is *probable* that the entity will be unable to meet its obligations within the one-year look forward period
- Consideration of management plans to mitigate going concern issues
 - Capital infusion
 - Debt restructuring
 - Securing new debt
 - Financial projections
 - Member pledge to support operations

Going Concern

- Two sets of disclosure requirements depending on whether substantial doubt is alleviated by management plans.
- Disclose the following irrespective of whether substantial doubt is alleviated by management plans:
 - Principal conditions/events that raise substantial doubt
 - Management's evaluation of the significance about the ability to meet its obligations
 - Management plans that are intended to mitigate (or have alleviated) the conditions/events that raised substantial doubt
- If substantial doubt is not alleviated by management plans:
 - Must include a statement in notes that "substantial doubt" exists
 - Emphasis of matter paragraph in audit report required

Exit or Disposal Activities

- Relates to restructuring initiatives, business closures and similar reorganizations
- Long-lived assets held for sale – suspend depreciation and mark to lower of carrying or fair value if certain conditions are met
- One-time employee termination benefits
 - Recognize when communicated under most instances
 - Amount recognized depends on whether future services are required
- Contract terminations (including leases) – consideration of sub-lease rentals
 - For lease obligations, recognize on date of business closure

Debt Restructurings and Covenants

- Three ways to account for debt restructurings:
 - Modification – substantially similar terms
 - Extinguishment – substantially different terms
 - Troubled debt restructurings (TDRs) – experiencing financial difficulty and concession granted
- Short-term loan modifications (e.g., deferral of payments) made to help borrowers that are current on existing loans and experiencing issues as a result of COVID-19, generally would not be considered TDRs
- Different accounting for unamortized deferred finance costs, fees paid to creditors and costs with third-parties
- Covenants
 - Violations subsequent to period end and before financial statements are issued are recognized subsequent events
 - Implications to balance sheet presentation (current liability) and going concern assumptions

Lease Concessions

- In response to COVID, the FASB allowed companies not to treat lease concessions provided by in CARES Act as lease modifications.
- Important to note in regards to lease concession:
 - It has to be a direct result of COVID
 - It should not result in a substantial increase in the right of lessor or obligations of the lessee

Lease Concessions Accounting Methods

- Two acceptable methods follow for lease concession accounting
- Example: Assume the following:
 - Company A received a lease concession for a six-month deferral
 - Pre-COVID straight-line debit monthly rent and debit deferred rent, with credit to cash.
- Method 1
 - Account for the concession as if no changes to the contract were made:
 - Dr. Straight-line rent expense
 - Dr./Cr. Deferred rent
 - Cr. Accounts payable
 - No change to the P&L, rent expense is recognized, and AP increases until payments commence
 - Lower bottom-line in the year of impact - debt covenants compliance considerations

Lease Concessions Accounting Methods

- Method 2
 - Account for the deferred payment as variable lease payments
 - No entry is recorded
 - Rent is expensed when paid
 - Better bottom-line for the year of the impact and additional rent will be recognized in the years when paid
 - The Company will have to adjust the deferred rent schedule for lack of rent
- Disclosure considerations:
 - Lessors/ Lessees should provide disclosures about material concessions granted/received

Additional Considerations

- Contingencies
 - Loss contingencies – recognize when probable and estimable
 - Gain contingencies – generally recognized when realized (cash, etc.)
 - Insurance recoveries – business interruption (gain contingency); property and casualty (accrue when probable up to the amount of loss recognized)
- Revenue recognition – estimates of variable consideration
- Pension and postretirement plans – funded status, curtailment accounting for significant changes in census information
- Tax strategies and consideration of valuation allowances on deferred tax assets

Additional Resources

- [Going Concern Disclosures Today](#) (October 15, 2021)
- [10 Financial Statement Areas To Watch For COVID-Related Effects](#) (October 8, 2021)
- [Accounting For The Employee Retention Tax Credit](#) (October 20, 2021)
- [COVID-19 EIDL Program Expansion](#) (September 22, 2021)
- [Updated Guidance For Impairment Testing: When To Consider Triggering Events](#) (April 6, 2021)



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Questions





**The Role of ERP & IT Systems
in Financial Reporting**



Presenter



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Role of ERP Systems

- Because of the power of cloud technology, the following can be adopted by SMB and Enterprise organizations easier than ever before:
 - **Strong Internal Controls**
 - **Rigorous Segregation of Duties Rules**



Implementing These Indispensable Tools Can Help With Preventing

- **Mismanagement**
- **Fraud**

Implementing Strong Internal Controls

Internal controls are an integral component of an entity's management. They help:

- Prevent errors
- Prevent fraud
- Provide reasonable assurance that accurate financial and management data is being reported
- Serve as the first line of defense in safeguarding cash and other assets
- Allow leadership to deliver goods and services more effectively, maintain accountability, and comply with applicable laws and regulations

What is Cloud ERP Governance, Risk and Compliance?

Cloud ERP governance, risk and compliance capabilities empower an organization to:

- Establish the right controls to meet risk objectives.
- Monitor and report on the effectiveness of those controls.
- Built-in processes are designed to handle increasingly complex regulatory, operational and compliance challenges as companies grow.
- Automation allows for greater efficiency, reduces risk and enhances your ability to track data changes for enhanced financial integrity.

Cloud ERP Application and Resources

- Features natively support quality requirements, including documentation, training, accuracy, reporting, security, and process control

Accuracy



Embedded Barcode Scanning



Mobile Data Collection



Decimal Precision and Resolution



eWorkplace Apps QMS AQL / Sampling

Process Control



GAAP and IFRS Compliant Accounting



Rules-Based Product Configurator



Engineering Changes with PLM



eWorkplace Apps QMS NC and CAPA

Training



Extensions for Skills and Certifications



Embedded CRM for Task Management



Open University



Connected Human Capital Management

Cloud ERP Platform & Infrastructure

Documentation



Wikis for Instructions and Quality Manuals



Embedded Document Management



Acumatica Visual Workflow Engine



Configurable Online Help

Security



Multiple Security Levels with Security Roles



Native Cybersecurity Features



Data Security for PCI, GDPR, SOC, more



Security Audit Logs

Reporting



Dashboards, Inquiries, Reporting, and BI



Business Events for Notifications and Alerts



Improved Data Accuracy through AI with ML



Connected, Real-Time Data

Compliance for Cloud ERP

Cloud built for the cloud and equipped with features to secure sensitive data, including:

- Credit card and personally identifiable information
- Externally audited to SOC 1 Type 2 and SOC 2 Type 2 (SSAE18 and ISAE 3402) standards
- ISO 27001 and 27018
- PCI DSS and PA DSS

Automate Controls



- Cloud ERP includes a host of extensible, automated controls, with powerful search and reporting capabilities. Easily automate and tailor the ERP with custom preventative and detective controls using workflows, scripts, saved search alerts and custom fields. Automating these processes minimizes or even eliminates labor-intensive and error-prone back-end reviews.

ERP Governance, Risk, and Compliance Solves

- **User Access Management.** Roles assigned to individual users control the pages they can access and the tasks they are allowed to complete.
- **Inconsistent Transaction Approval.** Improve auditability by setting up customized workflows to process and enforce approvals.
- **Inability to Identify Security Vulnerabilities.** Security and vulnerability scans are performed regularly by Cloud ERP, eliminating the need to perform these scans manually.

General Quality and Compliance Regulations

There are six types of quality and compliance regulations facing distributors and manufacturers. Acumatica Cloud ERP software provides a framework to develop procedures to improve quality for general business and financial, information technology, labor, government, industry, and trading partner compliance regulations and initiatives.



BROUGHT TO YOU BY:



Specialized Government Agency Quality and Compliance Regulations by Industry

Government regulations cross every industry segment with environmental and product safety restrictions. The most heavily regulated industries include aerospace and defense, electronics and electrical, and process industries such as food, beverage, chemicals, and pharmaceuticals. Modern applications like Acumatica provide an adaptable platform to tailor system workflows, secure data, and connect disparate applications for ever-changing quality and compliance regulations.

4 It US DoD International Traffic in Arms Regulations ITAR		AEROSPACE AND DEFENSE		5 Cp US FDA Corrective and Preventative Action CAPA	6 Sd OSHA Occupational Safety and Health Administration Safety Data Sheets SDS	7 Ts US EPA Toxic Substances Control Act TSCA	8 Ne US EPA National Emission Standards for Hazardous Air Pollutants NESHAP	1 Rh EU RoHS 2002/95/EC Restriction of the Use of Hazardous Substances in Electrical and Electronic Equipment
				10 Dc DoD Defense Contract Audit Agency DCAA	11 Ls DoD Logistic Support Analysis LSA	12 Fi US EPA Federal Insecticide, Fungicide, and Rodenticide Act FIFRA	13 Sa US EPA Superfund Amendments and Reauthorization Act SARA	14 Vo US EPA Volatile Organic Compound VOC Emissions
18 Mm DCAA Material Management and Accounting System MMAS	19 Df US DoD Defense Federal Acquisition Regulation Supplement DFARS	20 Ha US FDA and Department of Agriculture Hazard Analysis and Critical Control Points HACCP	21 Tr OSHA Occupational Safety and Health Administration Total Recordable Incident Rate	22 Ce US EPA Comprehensive Environmental Response, Compensation, and Liability Act CERCLA	23 Rk US EPA Emergency Planning and Community Right-to-Know EPCRA	24 Ca California Air Resources Board Emissions CARB	GENERAL COMPLIANCE	
25 Tn US DoD Truth in Negotiations Act TINA	26 Nl US FDA Nutrition Labeling and Education Act NLEA	27 Fa US FDA Food Allergen Labeling and Consumer Protection Act FALCPA	28 Pd US FDA Prescription Drug Marketing Act (Pedigree) PDMA	29 Fd US FDA Food Safety Modernization Act FSMA	30 Eu Euro6 European Union Emissions Standards	31 Cn US Consumer Product Safety Commission FFA Flammable Fabrics Act		
				PROCESS INDUSTRIES Food, Chemicals, Life Science		33 Co Country of Origin or Country of Origin Labeling (COOL)	34 Ev US EPA National Environmental Policy Act NEPA	35 Cc General Certificate of Conformity

BROUGHT TO YOU BY:



Look Under The Hood With Acumatica

Role Based Security

Complex Approval Maps

Robust Audit Trail History

Automation & Monitoring

AI/ ML

Intuitive Financial Statement Reporting

Questions





THANK YOU!

