Institute of Management Accountants, Akron Chapter

ACCOUNTING STANDARDS OUTLOOK

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Accounting Standards Outlook

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The Big Idea

The AICPA PCPS Technical Issues Committee (TIC) is advocating for private companies, & the standard-setting bodies ***listen***.

Be aware of TIC's current focus as you very well may see changes to the accounting standards in the future.

Introduction and Background

- Introduction

- TIC background
  - CPA practitioner volunteers
  - Regional & local firms' views & their clients
  - Monitor FASB, ASB, GASB & other AICPA Senior Committees
  - Submit comments & recommendations as a collective "voice"

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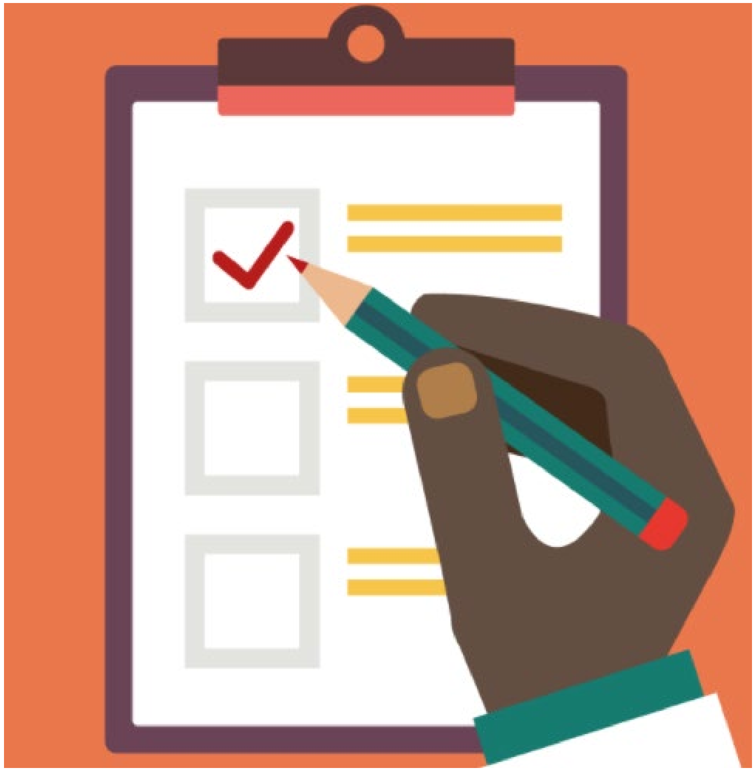
Agenda

- Accounting for PPP Loans
- Revenue Recognition
- Lease Standard
- PCC Employee Share Based Payment
- Goodwill & Asset Impairment
- Software Development Costs
- Profits Interest
- Wrap-Up



Accounting for PPP Loans

- Background
  - CARES Act was signed into law March 27
  - Small business assistance
  - Born quickly – 1 week!
  - Many interim rules & FAQ's
  - Fully forgiven if "rules" are followed
- Issue
  - How to account for PPP loans?

Accounting for PPP Loans

- Nonauthoritative guidance
  - Center for Plain English Accounting (CPEA) & AICPA TQA
    - Intend to repay all of the loan – EASY!
      - Apply ASC 470, *Debt*
      - Accrued interest
        - Scope exception for rates affected by government agency
        - No need to impute interest
    - Intend to have some or all forgiven – DIFFICULT!

- US Government has set some precedence
  - HUD Agency provides capital advances forgiven after 40 years if certain conditions are met
    - Diversity in treatment
      - Some treat as contributions if likelihood of repayment is remote
      - Some treat as a refundable advance

Accounting for PPP Loans

- Not-for-profit organizations
  - Treat as government grants under ASC 958
    - “Contributions of cash & other assets, including promises to give, or a reduction, settlement, or cancellation of liabilities”
  - Conditional contributions should be accounted for as refundable advances until conditions have been substantially met or explicitly waived by the donor
  - When conditions are met over time, recognize contributions as qualifying expenses are incurred
  - Accrue interest for portion estimated to be repaid

Accounting for PPP Loans

- For-profit entities
  - No specific guidance exists!
  - Four potential models exist:
    - ASC 958 – same as for nonprofit entities
    - IAS 20 – government assistance
    - ASC 470 – account as debt
    - ASC 450-30 – account as a gain contingency

- ASC 958
  - GAAP says to consider similar transactions or events within GAAP
  - Recognize revenue over time as the qualifying expenses incurred

Accounting for PPP Loans

- IAS 20
  - Similar to ASC 958

	FASB ASC 958-605	IAS 20
Recognition when conditions are present	When the conditions have been substantially met	When there is reasonable assurance that the entity will comply with the conditions and that the grant will be received
Timing and pattern of recognition	When grant is awarded or, if conditional, immediately once the condition is substantially met (can be substantially met in stages). If conditional, no probability assessment	Using a systematic basis over the periods in which the entity recognizes the related expenses for which the grants are intended to compensate
Presentation of grant income	Grant income is presented on a gross basis (grant revenue or other income)	May be reported separately as 'other income' or deducted from the related expense

** Excerpt from CPEA Article

Accounting for PPP Loans

- ASC 470
  - Extinguishment of debt = legal release from creditor

- ASC 450-30
  - Contingency that might result in a gain should not be reflected in the financial statements because to do so might be to recognize revenue before its realization
  - Do not recognize forgiveness until all uncertainties regarding the final forgiveness of the loan are resolved

- Other items
  - Not Federal Expenditures under Uniform Guidance
  - Presentation of current vs. long-term

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Revenue Recognition

- Background
  - ASC 606 was delayed if not yet implemented to years beginning after December 15, 2019
  - Principles-based approach
  - Remove industry-specific guidance
  - Franchisors have asked specifically for a practical expedient with respect to recognizing initial franchise fees

- Issues
  - Should this limited to franchisors?

Revenue Recognition

- FASB has been working with the franchise industry for years
  - Other industries have not raised the up-front fee issue

- Practical expedient aimed at pre-opening services
  - Franchisor performs certain pre-opening activities for franchisee
    - Site selection
    - Obtaining facilities & ready for use
    - Training
    - Preparation & distribution of materials
    - Bookeeping, IT, & advisory services
    - Inspection, testing & QC programs
  - Simplify the guidance on identifying performance obligations if pre-opening services are performed
    - Allow to account for them as distinct if they are consistent with the predefined list of services

Lease Standard

- Background
  - ASC 842 delayed an additional year for all other entities to years beginning after December 15, 2021
- Lease concessions during pandemic
  - Old & new guidance requires lease to be accounted for as a new lease if negotiated modifications change the lease term & conditions for the remainder of the term
  - TQA issued – an entity may or may not apply lease modification guidance

Lease Standard

- With a further delay, are there simplification opportunities?
  - Disclosures
  - Discount rate
  - Short-term lease exception
  - Embedded leases
  - Finance vs. operating
  - Related party

PCC Employee Share Based Payment

- Background
  - Cost & complexities when dealing with stock-based compensation
  - Value of the underlying share
    - Lack of observable prices
    - Use of valuation specialists
  - Practical expedient to use 409A valuation

- Section 409A valuation vs. ASC 718 valuation

PCC Employee Share Based Payment

- Issues
  - Is it operable?
  - Will it reduce costs?
  - Do private companies obtain 409A valuations upon issuance of stock options?
- Alternate focus areas
  - Consider other practical expedients
  - Disclosures

Goodwill & Asset Impairment

- Background
  - Impairment is when carrying amount > implied fair value
  - Test for impairment annually unless a triggering event
  - COVID-19 pandemic may be considered a triggering event
- Issues
  - Impairment tests not typically performed at interim
  - Subsequent recoveries

Goodwill & Asset Impairment

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Goodwill & Asset Impairment

Del Taco Restaurants, Inc.
Consolidated Statements of Comprehensive (Loss) Income
(Unaudited)
(In thousands, except share and per share data)

	12 Weeks Ended	
	March 24, 2020	**March 26, 2019**
Revenue:		
Company restaurant sales	$ 100,333	$ 105,903
Franchise revenue	4,391	4,065
Franchise advertising contributions	3,211	3,131
Franchise sublease and other income	1,875	1,098
Total revenue	109,810	114,197
Operating expenses:		
Restaurant operating expenses:		
Food and paper costs	28,295	28,818
Labor and related expenses	34,936	35,900
Occupancy and other operating expenses	24,408	24,433
General and administrative	9,866	10,465
Franchise advertising expenses	3,211	3,131
Depreciation and amortization	6,137	5,907
Occupancy and other - franchise subleases and other	1,595	854
Pre-opening costs	233	100
Impairment of goodwill	87,277	—
Impairment of trademarks	11,900	—
Impairment of long-lived assets	8,287	—

Goodwill & Asset Impairment

- Public companies show impairment
  - There is no difference in application of goodwill impairment model between public & private companies
- Users of financial statements are informed that Q2, Q3 & Q4 of 2020 are great!
- Impairment testing not usually completed at interim
- Surprise! Year-end financial statements have significant impairment charge
- Management & auditors have a lot of explaining to do

Goodwill & Asset Impairment

- TIC proposals
  - Alternatives
    - Perform the impairment test at ANY POINT between the latest triggering event & the date the financial statements are available to be issued
    - Analogize to the asset impairment model & treat goodwill like any other long-term asset
      - Recoverability test would reduce frequency of impairment

- Is the issue the definition of a triggering event or the valuation itself?

- Is a short-term fix available for private companies?

Software Development Costs

- Background
  - Relates to software for sale
  - Certain software development costs are required to be capitalized
- Issues
  - Production time is now shorter (sprints)
  - Time allocation is HARD (what is development of a new feature & what is maintenance/bug fixes)

Profits Interest

- Background
  - What are profits interests?
  - Are they widespread?
- Issues
  - Accounting for profits interests
    - ASC 710 vs. ASC 718
  - Lack of guidance for partnership accounting in general

Wrap-Up

Stay Current

- TIC Alert (www.aicpa.org)
- FASB meeting minutes, public meeting, technical agenda (www.fasb.org)
- PCC updates (www.fasb.org)
- CPEA (www.aicpa.org) – membership fee applies

Questions?