Accounting Hot Topics

December 12, 2024

forvis mazars

1

Performance Objectives

This module should help you do the following:

- Identify some common accounting/auditing issues
- Understand current developments from accounting standard setters
- Understand additional proposed standards

forvis mazars

2

Accounting issues

What Has Caught Our Eye

- **Nonprofits:**
  - Historic federal funding continues, resulting in increased risk
    - Federal focus on oversight, accountability, and transparency
- **Leases:**
  - Sale Leaseback transactions continue to be considered for freeing up cash flow but often fail the accounting tests to qualify
  - People caught off guard by determination of who is the accounting owner for Leasehold improvements
- **SOC:**
  - Organizations not evaluating the proper type of SOC report as part of their financial audit
  - Continue to see organizations not mapping Complementary User Entity Controls (CUECs) to controls within their environment
  - A number of SOC reports have bridge letters greater than 90 days

CPE Polling question #1

Did your organization receive any federal pandemic funding (PPP loan, ERC, grants)?

A Yes

B No

C Not sure, I haven't heard anything about it

D Not sure, I just know there was a lot of discussion around here about it

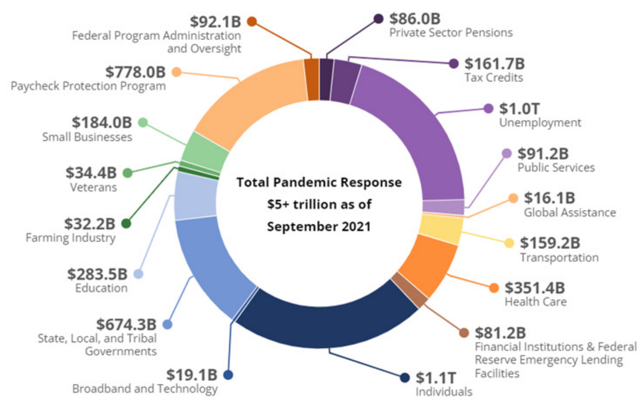
5

5

6

Federal Oversight of Pandemic Funding

Where did Pandemic Relief Funds Go?



Source: [Pandemic Oversight - Home | Pandemic Oversight]

forvis mazars

Federal Oversight of Pandemic Funding

Who's overseeing pandemic funding?

- Pandemic Response Accountability Committee (PRAC)
- IRS
- U.S. Treasury
- Single audits
- Federal agencies

[Back 2 school: We're teaching fraudsters a valuable lesson]

Emergency Relief Funds:
Significant Improvements Are Needed to Address Fraud and Improper Payments

IRS enters next stage of Employee Retention Credit work; review indicates vast majority show risk of being improper

Justice Department Announces Nationwide Coordinated Law Enforcement Action to Combat COVID-19 Health Care Fraud

'Biggest fraud in a generation': The looting of the Covid relief plan known as PPP

forvis mazars

Federal Oversight of Pandemic Funding

What should my organization be doing to keep pandemic funding?

Document
Document
Document

What Are the Most Common SOC Reports Out There?

	SOC 1	SOC 2
What Is Covered by the Report?	Controls related to financial reporting for user organizations	Controls relevant to security, availability, confidentiality, processing integrity, and/or privacy
Intended Audience	Auditors and management of user organizations ("auditor-to-auditor communication")	Auditors, stakeholders (*e.g.*, management, business partners, customers), regulators
Report Format	Long form which includes a detailed description of the system and controls	Long form which includes a detailed description of the system and controls

When would you need a SOC report?

- Understanding the nature and significance of the services being offered by the service provider and the effect of such services on the user organization's internal control environment to provide a basis for the identification and assessment of risks of material misstatements
- Placing reliance on the completeness and accuracy of Information Produced by the Entity (IPE) such as key reports coming from the applications or services provided by the service organization over transaction processing
- Performing Vendor Risk Management (*e.g.*, security or privacy of data managed by the vendor)

What Are the Two Types of SOC Reports?

Type 1

- Not to be confused with a SOC 1, a Type 1 report signifies that the report is only as of a specific point in time
- This type of report includes design and implementation but does not include operating effectiveness of controls
- Example: SOC 1 Type 1 or SOC 2 Type 1

Type 2

- Not to be confused with a SOC 2, a Type 2 report signifies that the report covers the operations of controls over a specified period of time
- This type of report includes design, implementation, and operating effectiveness of controls
- Example: SOC 1 Type 2 or SOC 2 Type 2

SOC Bridge Letters

- Did you receive a **Bridge Letter** along with your SOC reporting package?
- **Bridge Letters** are letters from management of the Service Organization directly to its users to cover the “gap” period between the end of the last specified period of SOC report to whatever time frame is requested by the user.
- The Service Auditor is not involved in the issuance of a Bridge Letter.
- Bridge Letters can be written to cover any period of time since the issuance of the last SOC report; however, common practice is that Bridge Letters covering a **period longer than 90 days are not acceptable** by external auditors that might rely on the SOC Report.

Period Covered by SOC 1 Type 2 Report

Period Covered by Bridge Letter

10/1/2022 – Beginning of Examination Period

12/31/2023*

What Should You Be Looking At When Evaluating a SOC Report?

User to Service Provider

- What do you as the User (the company) outsource and how does that compare to the scope of the SOC report(s) received from those Service Providers?
  - ❑ Nature/type of services/processing centers covered
  - ❑ Applications covered and key reports coming from these applications
  - ❑ Period covered by the scope of the report
  - ❑ Unqualified opinion

User Control Considerations

- Are there CUECs that you need to consider to be able to rely on the SOC report?

Subservice Organization to Service Provider

- Is there anything that the Service Provider outsources to a third party and how is this handled in the opinion?

If You Have a Financial Auditor, What Should You Expect When They Evaluate a SOC Report?

What do you as the User (the company) outsource and how does that compare to the scope of the SOC report(s) received from those Service Providers?

- ❑ Nature/type of services/processing centers covered
- ❑ Applications covered and key reports coming from these applications
  - ❖ **Whether each standard report that you are relying on for completeness & accuracy was identified in the report**
- ❑ Period covered by the scope of the report
  - ❖ **If a Bridge Letter was included, the length of period covered by the Bridge Letter**

Are there CUECs that you need to consider to be able to rely on the SOC report?

  - ❖ **How you mapped CUECs to specific controls and the applicable operating effectiveness of such controls**

Is the opinion unqualified?

- ❑ Is there anything that the Service Provider outsources to a third party and how is this handled in the opinion?
  - ❖ **For complementary subservice organization controls that have been identified (*e.g.*, managed security services and release management), whether you performed a separate SOC evaluation on the subservice organization**

Financial reporting and accounting update

Did you know?

Can you name three entertainment superstars that are also accountants?

- Mick Jagger (Rolling Stones)
- Robert Plant (Led Zeppelin)
- John Cleese (Comedian)

Hard to believe that they passed up a chance to be accountants, but they made good second choices!

FASB personnel matters

Hilary Salo appointed vice chair of the FASB

- The Board of Trustees of the Financial Accounting Foundation announced Hillary Salo, whose five-year term on the FASB began on July 1, 2024, will serve as the Board's vice chair upon the start of her term.
- She will succeed current FASB Vice Chair James L. Kroeker, whose final term on the FASB concludes June 30, 2024.
- Ms. Salo rejoined the FASB in 2020 from the New York City office of KPMG LLP where she was a partner in the audit practice and engagement partner for a large global financial services organization.

FASB names three new members to its **Small Business Advisory Committee**

- The three new members are:
  - Mark Hamel, Principal, Assay Research, LLC
  - Urooj Khan, Associate Professor, The University of Texas at Austin – McCombs School of Business
  - Bok Ruckh, Managing Director, Alvarez & Marsal

FASB personnel matters, continued

FASB names two new members to its **Investor Advisory Committee**

- The two new members are:
  - John Puchalla, CFA, Associate Managing Director, Moody's Investors Services
  - Brad Rexroad, CFA, Principal and Equity Analyst, Assay Research, LLC

Jackson M. Day was named as Technical Director of FASB

CPE Polling question #2

Who was recently named the Technical Director at the FASB?

A. Jackson M Day
B. Michael Jackson
C. Elon Musk
D. Harrison Ford

FASB activity

21

FASB activity

FASB has issued two Accounting Standards Updates and some related technical guidance on current FASB projects

- *ASU No. 2024-01 Compensation – Stock Compensation (Topic 718), Scope Application of Profits Interest and Similar Awards* was issued in late March 2024.
- *ASU No. 2024-02, Codification Improvements – Amendments to Remove References to the Concepts Statements* was also issued in late March 2024.
- The FASB issued a press release related to **Tentative Board Decisions** related to the following issues:
    - Accounting for environmental credit programs (ECPs)
    - Software

22

ASU No. 2024-01 Compensation – Stock Compensation (Topic 718)
Scope Application of Profits Interest and Similar Awards

- The FASB is issuing this ASU to improve GAAP and add an illustrative example to demonstrate how an entity should apply the scope guidance in paragraph 718-10-15-3 to determine whether profits interest and similar awards ("profits interest awards") should be accounted for in accordance with Topic 718, *Compensation – Stock Compensation*.
- Certain entities provide employees or nonemployees with profits interest awards to align compensation with an entity's operating performance and provide those holders with the opportunity to participate in future periods and/or equity appreciation of the entity.
  - The term profits interest is not defined in GAAP but differentiates those interests from capital interests held by investors that provide those holders with rights to the existing net assets in a partnership or similar entity (e.g., a limited liability company).
  - Stakeholders indicated that it can be complex to determine whether a profits interest award should be accounted for as a share-based payment arrangement (Topic 718) or similar to a cash bonus or profit-sharing arrangement.

forv/s mazars

ASU No. 2024-01 Compensation – Stock Compensation (Topic 718)
Scope Application of Profits Interest and Similar Awards, continued

- **Currently,** entities evaluate the terms, conditions, and characteristics of a profits interest award and apply judgment to determine whether to account for the award under Topic 718 or Topic 710, *Compensation – General.*
  - As a result, diversity in practice has occurred.
  - Stakeholders have requested examples to clarify the guidance in Topic 718 should be applied to profits interest awards.
- The scope application issue, along with other related issues, was identified and discussed by the Private Company Council (PCC) because of the prevalence of profits interest awards among private companies.
- However, because the PCC research indicated that certain public business entities (PBEs) also may be required to account for profits interest awards, the PCC recommended that the Board add a project to address the scope application issue for PBEs and entities other than PBEs (that is, all reporting entities).
- This ASU applies to **all reporting entities** that account for profits interest awards as compensation to employees or nonemployees in return for goods or services.

forv/s mazars

ASU No. 2024-01 Compensation – Stock Compensation (Topic 718)
Scope Application of Profits Interest and Similar Awards, continued

The **two master glossary terms** that are implicated in the FASB's decision, as follows:

- Equity instruments are not issued until the issuing entity has received the consideration.
  - The grant of stock options or other equity instruments **subject to vesting conditions**, is not considered to be an issuance.
- A share-based payment award becomes **vested** at the date that the grantee's right to receive or retain shares, other instruments, or chase under the award is no longer contingent on satisfaction of either a service condition or a performance condition.
  - **Market conditions** are not vesting conditions.
- Vesting:
  - As indicated in the definition of requisite service period and equally applicable to a nonemployee's vesting period, the stated vesting period may differ from those periods in certain circumstances.
  - Thus, the more precise terms would be options, shares, or awards for which the requisite good has been delivered or service has been rendered and the end of the employee's requisite service period or the nonemployee's vesting period.
- There are four examples provided in the literature for the application of 718-10-15-3 which we will cover briefly.

forvis mazars

ASU No. 2024-01 Compensation – Stock Compensation (Topic 718)
Examples

Cases A, B, C, and D share the **following assumptions**:

- Entity X is a partnership.
- Before June 1, 20X1, Entity X had Class A units outstanding.
- On June 1, 20X1, Entity X grant Class B incentive units to employees of a subsidiary of Entity X in exchange for services.
- An exit event may include an initial public offering, a change in control, or a liquidation of Entity X's assets.

Case A – Award is a share-based payment arrangement.

- The Class B units are profits interest units that are subordinated to the Class A units because after vesting they participate pro rata with the Class A units once the holders of the Class A units have received distributions equal to a predetermined distribution threshold established on the grant date of the Class B units.
- The Class B units cliff vest at the end of three years of service.
- Upon an **exit event**, the Class B units vest immediately if the grantee is still providing services to the subsidiary of Entity X. Upon such an event, the grantee would retain the vested Class B units, or if Class B units are settled through the exit event, Entity x would distribute proceeds to the Class B unit holders in the same manner as is described in the first bullet.

forvis mazars

ASU No. 2024-01 Compensation – Stock Compensation (Topic 718)
Examples

Case A – Award is a share-based payment arrangement.

- If a grantee of the Class B units terminates employment with the subsidiary of Entity X (whether voluntarily, upon death, disability, retirement, or at the election of Entity X for reasons other than cause), any unvested Class B units will be forfeited for no consideration.
- If a grantee of the Class B units terminates employment after vesting, the grantee retains ownership of the vested Class B units, but upon the grantee's termination of employment, Entity X has a call right to repurchase the Class B units.
- If the call right is exercised, Entity X **would pay** the grantee of the Class B units an amount of cash equal to the fair value of the Class B units on the call date.

Class B units meet the condition in paragraph 718-10-15-3(a) and would be treated under Topic 718 because:

- Either upon three years of service or an exit event, the grantor will have received the agreed-upon consideration (that is, the service will have been provided, and the performance condition will have been met, if applicable) and the award will vest.
- Holding the vested Class B units provides the grantee with the right to participate in the residual interest of Entity X through periodic distributions, upon an exit event, or upon settlement proportionate to ownership of Class B units of Entity X in accordance with the distribution waterfall described in paragraph 718-10-55-140(a).

— Therefore, Entity X would account for the Class B units by applying the guidance in Topic 718.

forvis mazars

ASU No. 2024-01 Compensation – Stock Compensation (Topic 718)
Examples

Case B – Award is a share-based payment arrangement.

Additional assumptions for this case are as follows:

- The Class B units are profits interest units that are subordinated to the Class A units because once granted, they participate pro rata with the Class A units once the holders of the Class A units have received distributions equal to a predetermined distribution threshold established on the grant date of the Class B units.
- The grantee of the Class B units is eligible to begin participating in nonforfeitable operating distributions at the grant date.
- The Class B units **only vest** upon an exit event.
- Upon such an event, the grantee would retain the vested Class B units, or if Class B units are settled through the exit event, Entity X would distribute proceeds to the Class B unit holders in the same manner as is described in (a).
- Class B units are forfeitable upon the grantee's termination for any reason at any time before an exit event.

forvis mazars

ASU No. 2024-01 Compensation – Stock Compensation (Topic 718)
Examples

Case B – Award is a share-based payment arrangement.

The Class B units meet the condition to be treated under Topic 718 because:

- Upon an exit event, the grantor will have received the agreed-upon consideration (that is, the service will have been provided, and the performance condition will have been met) and the award will vest.
- Holding the vested Class B units provides the grantee with the right to participate in the residual interest of Entity X through periodic distributions, upon an exit event, or upon settlement proportionate to ownership of Class B units of Entity X in accordance with the distribution waterfall described in paragraph 718-10-55-142(a).

— The grantee of the Class B units is not entitled to retain the units if the grantee ceases to provide services before an exit event.

- Upon termination of employment before an exit event, the grantee of the Class B units would forfeit all rights to future distributions and would forfeit Class B units for no consideration.
- Entity X would account for the grantee's right to participate in nonforfeitable operating distributions in accordance with paragraph 718-10-55- 45.

forvis mazars

ASU No. 2024-01 Compensation – Stock Compensation (Topic 718)
Examples

Case C – Award is a share-based payment arrangement.

Additional assumptions for this case are as follows:

- The Class B units **do not entitle** the grantee to receive equity instruments of Entity X. This type of unit is often referred to as a phantom share unit.
- The grantee of the Class B units is **not eligible** participate in distributions in the ordinary course of business.
- The grantee of the Class B units is eligible to receive cash upon **an exit event**.
  - Upon an exit event, the Class b units vest immediately and must be settled in cash on the basis of the fair value of the Class B units.
  - The fair value of the Class B units is calculated by reference to the price of Class A units of Entity X as determined at the date of the exit event.
- The grantee of the Class B units must be providing services when the exit event occurs to receive any proceeds, and the Class B units are forfeitable upon the grantee's termination for any reason at any time before an exit event.

forvis mazars

ASU No. 2024-01 Compensation – Stock Compensation (Topic 718)
Examples

Case C – Award is a share-based payment arrangement.

Entity X evaluates the conditions in paragraph 718-10-15-3 to determine whether to account for the Class B units by applying the guidance in this Topic.

- The Class B units do not meet the condition in paragraph 718-10- 15-3(a) because they do not entitle the grantee to receive shares or other equity instruments of Entity X; therefore, Entity X is not issuing, or offering to issue, shares, share options, or other equity instruments.
- However, the condition in paragraph 718-10-15-3(b)(1) is met because the cash proceeds received by the grantee upon settlement in an exit event are based, at least in part, on the price of Entity X's shares.
- Therefore, Entity X would **account for the Class B units** by applying the guidance Topic 718.

forvis mazars

ASU No. 2024-01 Compensation – Stock Compensation (Topic 718)
Examples

Case D – Award is not a share-based payment arrangement.

Additional assumptions for this case are as follows:

- The Class B units **do not entitle** the grantee to receive equity instruments of Entity X. This type of unit is often referred to as a phantom share unit.
- The grantee of the Class B units is eligible participate in operating distributions made by Entity X equal to 1 percent of the preceding fiscal year's net income.
  - The grantee of the Class B units is eligible to begin participating in these distributions after three-years of service.
- The grantee of the Class B units is **not eligible** to participate in any proceeds distributed upon an exit event.
- The Class B units are forfeitable upon the grantee's termination for any reason at any time (including after the grantee has rendered three-years service).

forvis mazars

ASU No. 2024-01 Compensation – Stock Compensation (Topic 718)
Examples

Case D – Award is not a share-based payment arrangement.

Entity X evaluates the conditions determine if it should apply the guidance in Topic 718 and finds:

- The Class B units **do not meet** the condition in paragraph 718-10- 15-3(a) because they do not entitle the grantee to receive shares or other equity instruments of Entity X; therefore, Entity X is not issuing, or offering to issue, shares, share options, or other equity instruments.
- In addition, the condition in paragraph 718-10-15-3(b)(1) is not met because the proceeds received by the grantee related to operating distributions are based on an operating metric (1 percent of the preceding fiscal year's net income) of Entity X and are not based, at least in part, on the price of Entity X's shares.
  - Furthermore, the condition in paragraph 718-10-15-3(b)(2) is not met because there is no circumstance in which Entity X would be required to issue its equity shares or other equity instruments.
- Therefore, Entity X would not apply the guidance in Topic 718 to account for the Class B units and, instead, would account for the Class B units in accordance with other topics in the Topic 700 series.

ASU No. 2024-01 Compensation – Stock Compensation (Topic 718)
Scope Application of Profits Interest and Similar Awards, continued

- **Transition requirements:**
  - Entity X evaluates the conditions to determine if it should apply the guidance in Topic 718 and finds:
    - This ASU will be effective for **public business entities** for annual periods beginning after December 15, 2024, and for interim periods within those annual periods.
    - For **all other entities**, this ASU will be effective for annual periods beginning after December 31, 2025, and interim periods within those annual periods.
    - **Early adoption is permitted** for both interim and annual financial statements that hav enot yet been issued or made available for issuance.
  - An entity shall apply the pending content as follows:
    - **Retrospectively** to all periods presented in the financial statements. An entity that selects retrospective application shall provide the required disclosures in the period of adoption.
    - **Prospectively** to profits interest or similar awards granted or modified on or after the date at which the entity first applies the pending content, with disclosures that describe the nature of and reason for the change in accounting principle.

CPE Polling question #3

For all entities (other than public), ASU 2024-01 will be effective for annual periods beginning after:

A. December 15, 2024
B. December 15, 2025
C. December 15, 2026
D. December 15, 2030

35

36

ASU No. 2024-02 Codification Improvements – Amendments to Remove References to the Concept Statements

- This Update contains amendments to the Codification that remove references to various FASB Concept Statements.
    - In most instances, the references are extraneous and not required to understand or apply the guidance.
    - In other instances, the references were used in prior Statements to provide guidance in certain topical areas.
- The Concept Statements are not considered authoritative statements, although they are referenced in the Accounting Standards Codification.
- In the FASB's view, removing all references to Concept Statements in the guidance will simplify the Codification and draw a distinction between authoritative and nonauthoritative literature.
- These issues to remove references to various Concept Statements and their proposed amendments were included in Section A ("Amendments to Remove References to the Concept Statements") of the 2019 proposed Accounting Standards Update.
- Codification improvements, Sections B and C ("Amendments to Disclosure Sections of the Codification" and "Other Codification Improvements") of that proposed Update were finalized in 2020.

ASU No. 2024-02 Codification Improvements – Amendments to Remove References to the Concept Statements, continued

- The references relate to the following:
    - The definition of the term "expected cash flow."
    - The definition of the terms "expected losses, expected residual returns, and expected variability."
    - The definition of the term "financial instrument."
    - The assertion that all contractual rights and contractual obligations meet the definition of an asset and a liability in Concepts Statement 6 is not correct.
        - This amendment removes the reference to Concepts Statement 6 and clarifies that some contractual rights or contractual obligations that are financial instruments may not meet some other recognition criteria.
    - The Master Glossary term obligation is restricted to Topic 480, *Distinguishing Liabilities from Equity*.
        - That definition also states that the definition of obligation used in Topic 480 is different from that used in Concepts Statements.
        - Because the definition is clear in that it is restricted to items within the scope of Topic 480, it is not necessary to include a reference to any other definition of the term obligation, including the definition provided in Concepts Statement.
    - A parenthetical reference at the end of the Master Glossary definition is based on a paragraph in FASB Concept Statement No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises* has been superseded.
    - The Master Glossary term "transaction" includes a parenthetical reference to Concept Statement No. 6 and has been removed.

ASU No. 2024-02 Codification Improvements – Amendments to Remove References to the Concept Statements, continued

- The references relate to the following:
  - The Master Glossary term “transfer” has been amended and removed in reference to Concepts Statement No. 6.
  - Similar amendments have been made to topics in the following Codification topics:
    - Subtopic 350-30, *Intangibles – Goodwill and Other – General Intangibles other than Goodwill*
    - Subtopic 410-20, *Asset Retirement and Environmental Obligations–Asset Retirement Obligations*
    - Subtopic 420-10, *Exit or Disposal Cost Obligations–Overall*
    - Subtopic 805-20, *Business Combinations–Identifiable Assets and Liabilities, and Any Noncontrolling Interest*
    - Subtopic 815-20, *Derivatives and Hedging–Hedging–General*
    - Subtopic 845-10, *Nonmonetary Transactions, Overall*
    - Subtopic 860-10, *Transfers and Servicing–Overall*
    - Subtopic 946-20, *Financial Services–Investment Companies–Investment Company Activities*
    - Subtopic 946-720, *Financial Services–Investment Companies–Other Expenses*
    - Subtopic 945-405, *Health Care Entities–Liabilities*
  - Transition related to ASU 2024-02:
    - Fiscal years beginning after December 15, 2024, for public business entities and fiscal years beginning after December 15, 2025, for all other entities.
    - Early application is permitted.
    - This ASU should have minimal effects on most entities.

forvis mazars

39

Tentative FASB standards

40

Tentative FASB Decisions

- Accounting for environmental credit programs ("ECPs")
  - The FASB Board discussed a fair value accounting policy election for certain noncompliance environmental credits, disclosures, and transition.
  - The Board decided that an entity would be permitted to make a fair value accounting policy election to remeasure a class of noncompliance environmental credits that are obtained in exchange transaction or through a nonreciprocal transfer that is not a grant from a regulator or its designee.
  - The Board decided that an entity would be required to disclose certain qualitative and accounting policy information about an entity's involvement in ECPs, including the activities and events that give rise to environmental credit obligation ("ECO") liabilities and the types of environmental credits owned by an entity.
  - There will be several new disclosures related to both ECPs and ECO liabilities and will be applicable for both public and private entities.
  - No final information has been released.

CPE Polling question #4

The final standard for Environmental Credit Programs (ECPs) has been released and will be effective this year.

A. True
B. False

Tentative FASB Decisions, continued

- Software – The FASB discussed the targeted improvements to accounting for and disclosure of software costs (Subtopic 350-40, *Intangibles – Goodwill and Other – Internal-Use Software*) and decided to make the following changes to the targeted improvement to Subtopic 350-40:
  - Remove all references to "stages" throughout Subtopic 350-40.
  - Require the same recognition guidance for all software within the scope of Subtopic 350-40.
    - That is, all entities would be required to evaluate the probable to complete threshold and include significant development uncertainties and performance requirements as factors to consider in the evaluation.
    - This would result in no distinction in the guidance between linear and nonlinear software development methods.
  - Move the evaluation of whether the software being developed has unresolved high-risk development issues (e.g., novel, unique, unproven functions and features or technological innovations) from the scope guidance to the recognition guidance as a factor to consider in evaluating the probable to complete recognition threshold

Tentative FASB Decisions, continued

- Software – The FASB discussed the targeted improvements to accounting for and disclosure of software costs (Subtopic 350-40, *Intangibles – Goodwill and Other – Internal-Use Software*) and decided to make the following changes to the targeted improvement to Subtopic 350-40:
  - Streamline the evaluation of significant development uncertainties and unresolved high-risk development issues.
    - Specify that if it is unclear that it is probable that the project will be completed and the software will be used to perform the function intended, an entity should consider whether there is significant uncertainty associated with the development activities for the software.
    - Include factors that may indicate that there is significant development uncertainty, as follows:
      - The computer software being developed has novel, unique, unproven functions and features or technological innovations (instead of referring broadly to unresolved high-risk development issues).
      - The significant performance requirements have not been selected, or the significant performance requirements continue to be revised (instead of having this as the only example listed of a significant development uncertainty).
    - Clarify that an entity should determine the unit of account for an asset incorporates both software and tangible components and whether the software component should be accounted for as:
      - Accounted for separately under Subtopic 350-40.
      - Combined with the tangible component in accordance with other GAAP, such as Subtopic 360-10, *Property, Plant and Equipment – Overall.*
      - Define the term probable in the probable to complete recognition threshold consistently with the definition in the Master Glossary. Probable is defined in the Master Glossary as the future event or events are likely to occur.
    - The FASB acknowledged that the targeted improvements would require entities to use judgment in evaluating when to recognize software costs.

forv/s mazars

Tentative FASB Decisions, continued

- Software – The FASB discussed the targeted improvements to accounting for and disclosure of software costs (Subtopic 350-40, *Intangibles – Goodwill and Other – Internal-Use Software*) and decided to make the following changes to the targeted improvement to Subtopic 350-40:
  - The FASB decided to supersede Subtopic 350-50, *Intangibles–Goodwill and Other–Website Development Costs*, and incorporate website-specific development costs guidance into Subtopic 350-40.
  - Presentation and disclosure: The FASB decided to require cash outflows for software costs capitalized under Subtopic 350-40, other than implementation costs of a hosting arrangements that is a service contract, to be presented separately as investing cash flows in the statement of cash flows.
  - The FASB decided not to:
    - Require that the disclosures under paragraphs 350-30-50-1 through 50-3 be provided for software costs capitalized under Subtopic 350-40.
    - Require any incremental presentation or disclosure requirements for software costs accounted for under Subtopic 985-20, *Software–Costs of Software to Be Sold, Leased, or Marketed.*
  - No final information has been released.

forv/s mazars

Any questions?

Thank you for your attendance!