What's Going on at the FASB

May 22, 2025

1

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2

Agenda

- FASB Effective
- ASUs Down the Pike
- Approved BUT Not Yet Issued

3

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Learning Objectives

1. Recognize the impact of Accounting Standards Updates effective in 2025 on financial reporting
2. Identify changes to financial reporting effective after 2025
3. Recognize proposed changes to GAAP

4

FASB Effective

5

All Entities

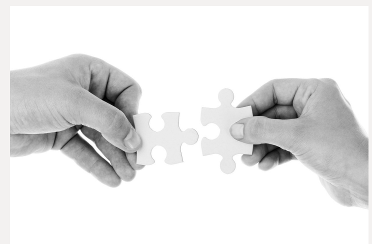
6

ASU 2023-05

Business Combinations—Joint Venture Formations (Subtopic 805-60) – Recognition and Initial Measurement

- Issued: August 2023

- Background:
  - No explicit GAAP on contributions to a joint venture
    - Addresses diversity in practice



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Scope

- Does not apply to any of the following:
  - Transactions between a joint venture and its owners other than the formation of a joint venture
  - Formations of entities determined to be not-for-profit entities in accordance with FASB ASC 958, Not-for-Profit Entities
  - Combinations between entities, businesses, or nonprofit activities under common control
  - Entities in the construction or extractive industries that may be proportionately consolidated by any of their investor-venturers in accordance with FASB ASC 810, Consolidation, specifically 810-10-45-14
  - Collaborative arrangements within the scope of FASB ASC 808, Collaborative Arrangements, except for any part of the arrangement that is conducted in a separate legal entity that meets the definition of a joint venture

Update

- Requires a joint venture to apply a new basis of accounting upon formation
  - Upon formation, would recognize and initially measure its assets and liabilities at fair value
    - Certain exceptions

Differences from Business Combinations

- A joint venture is the formation of a new entity without an acquirer
- A joint venture would measure its identifiable net assets and goodwill, if any, at the formation date
- Initial measurement of the joint venture’s total net assets would be equal to the fair value of 100% of a joint venture’s outstanding equity interests

PCC Alternative

- A joint venture that is a private company may elect to apply the accounting alternative for the recognition of identifiable intangible assets
  - Must also amortize goodwill

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11

11

Effective Date

- Effective prospectively for all joint venture formations with a formation date on or after January 1, 2025
  - A joint venture formed before January 1, 2025 may elect to apply the amendments retrospectively if it has sufficient information
- Early adoption is permitted in any interim or annual period in which financial statements have not yet been issued (or made available for issuance), either prospectively or retrospectively

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12

12

ASU 2023-08

Intangibles—Goodwill and Other-Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets

- Issued: December 2023

- Background:
  - Not currency
  - ITC Agenda Consultation

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13

13

Scope

- Meet the definition of intangible assets
- Do not provide the asset holder with enforceable rights to or claims on underlying goods, services, or other assets
- Are created or reside on a distributed ledger based on blockchain or similar technology
- Are secured through cryptography
- Are fungible
- Are not created/issued by the reporting entity or its related parties

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14

14

Update

Subsequent Measurement

Disclosure

Presentation

Update Cont'd

- Does not address the initial measurement, recognition, and derecognition of crypto assets
  - Account for the initial measurement, recognition, and derecognition of crypto assets in accordance with other GAAP

Subsequent Measurement

- Measure crypto assets at fair value
  - Gains and losses are included in net income

Presentation – BS

- Present separately from other intangible assets
  - Permitted to present crypto assets on a more disaggregated basis (e.g., by individual crypto asset holding or intangible asset class)

Presentation – IS

- Gains and losses included in net income and presented separately from changes in the carrying amount of other intangible assets

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19

19

Presentation – CF

- Cash receipts arising from the sale of crypto assets that are received as noncash consideration in the ordinary course of business (or as a contribution) and are converted nearly immediately into cash
  - General Rule: Operating
    - Exception: For NFPs, if restricted to LT purpose, then financing

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20

20

Disclosures – Interim & Annual

- For each significant (as determined by the fair value) crypto asset holding:
  - Name of the crypto asset
  - Cost basis
  - Fair value
  - Number of units held
- The aggregated cost bases and fair values of the crypto asset holdings that are not individually significant

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21

Disclosures – Annual

- The method used to determine its cost basis for computing gains and losses (for example, first-in, first-out; specific identification; average cost; or other method used)
- If not presented separately, the line item in which gains and losses are reported in the income statement

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22

Disclosures – Annual Cont'd

- Provide a reconciliation, in the aggregate, of activity from the opening to the closing balances
- Separately disclose changes attributable to:
  - Additions
  - Dispositions
  - Gains included in net income for the period, determined on a crypto-asset-by-crypto-asset basis
  - Losses included in net income for the period, determined on a crypto-asset-by-crypto-asset basis

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Disclosures – Annual Cont'd

- A description of the nature of activities that result in additions (for example, purchases, receipts from customers, or mining activities) and dispositions (for example, sales or use as payment for services)
- Total amount of cumulative realized gains and cumulative realized losses from dispositions that occurred during the period

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24

Disclosures – Exception

- An entity that receives crypto assets as noncash consideration in the ordinary course of business (or as a contribution) that are converted nearly immediately into cash need not include reconciliation and related disclosures

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25

25

Disclosures – Interim & Annual Cont'd

- For crypto assets subject to contractual sale restrictions at the balance sheet date:
  - The fair value of the crypto assets that are subject to contractual sale restrictions
  - The nature and remaining duration of the restriction(s)
  - Circumstances that could cause the restriction(s) to lapse

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26

26

Effective Date

- For all entities: For fiscal years beginning after December 15, 2024, including interim periods within those fiscal years
  - Early adoption is permitted for both interim and annual financial statements that have not yet been issued (or made available for issuance)

27

Private Entities

28

ASU 2018-12

Targeted Improvements to the Accounting for Long-Duration Contracts

- Issued: August 2018

- Background and Scope:
  - In 2013, issued Proposed ASU, Insurance Contracts (Topic 834)
    - Introduced new accounting models and disclosures
  - The feedback supported making targeted improvements to the existing insurance accounting model instead
  - Applies to insurance entities issuing long-duration contracts (not holders or non-issuers)

29

Key Changes – At a Glance

Area	What Changed
Assumptions	Must be updated **annually** (cash flows) and **each reporting period** (discount rate); changes go to **net income** or **OCI**
Discount Rate	Use **observable market data** (upper-medium grade fixed-income), not internal expected yield
Market Risk Benefits	All MRBs now measured at **fair value**; **credit risk changes → OCI**
Deferred Acquisition Costs	Straight-line amortization; **no impairment testing**; write-off on early terminations
Disclosures	Detailed **rollforwards** + inputs, judgments, and impact of changes

30

ASU 2019-09 and ASU 2020-11

Financial Services—Insurance (Topic 944): Effective Date

- Issued: November 2019 and November 2020

- Background:
  - New philosophy
  - Implementation issues

Impact of COVID

Delayed by one year in ASU 2019-09

COVID-19

New Effective Dates

- For public business entities that meet the definition of an SEC filer and are not SRCs - For fiscal years beginning after December 15, 2022, and interim periods within those fiscal years
- For all other entities - For fiscal years beginning after December 15, 2024, and interim periods within fiscal years beginning after December 15, 2025

ASU 2022-05

Financial Services—Insurance (Topic 944): Transition for Sold Contracts

- Issued: December 2022

- Background:
  - ASU 2018-12, Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts

Background – Issue

Not decision-useful information

Significant operability challenges

Update

- Would allow an insurance entity to make an **accounting policy election,** on a transaction-by-transaction basis, to exclude contracts from applying ASU 2018-12 when they have been derecognized because of a sale or disposal of individual or a group of contracts or legal entities **prior to** the LDTI effective date and the entity has no significant continuing involvement with the derecognized contracts

Effective Date

- Consistent with the effective dates in ASU 2020-11
  - For public business entities that meet the definition of an SEC filer and are not SRCs - For fiscal years beginning after December 15, 2022, and interim periods within those fiscal years
  - For all other entities - For fiscal years beginning after December 15, 2024, and interim periods within fiscal years beginning after December 15, 2025
  - Early application is permitted

ASU 2022-03

Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions

  - Issued: June 2022

- Background:
  - Language in illustrative example when measuring the fair value of an equity security subject to contractual restrictions that prohibit the sale of an equity security led to diversity in practice

Update

- Clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security
  - Not considered in measuring fair value
- Clarifies that an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction

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39

39

Example

- Reporting entity owns Class A shares eligible for sale on a national securities exchange or an OTC market
  - Enters into a contractual arrangement - will not sell the Class A shares for a certain time period
- May be:
  - Referred to as a lock-up agreement
  - Referred to as a market standoff agreement
  - The result of a provision within a separate agreement between certain shareholders

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40

40

Example Cont'd

- Accounting
  - Restriction is not included in the unit of account and, therefore, is not a characteristic of the asset
  - Equity security subject to the contractual sale restriction is identical to an equity security that is not subject to a contractual sale restriction
  - Fair value of the equity security subject to the contractual sale restriction should be measured on the basis of the market price of the same equity security without the contractual sale restriction
    - Should not be adjusted to reflect the reporting entity's inability to sell the equity security on the measurement date

41

Disclosures

- The fair value of equity securities subject to contractual sale restrictions reflected in the balance sheet
- The nature and remaining duration of the restriction(s)
- The circumstances that could cause a lapse in the restriction(s)

42

Effective Date

- For public business entities
  - For fiscal years beginning after December 15, 2023, and interim periods within those fiscal years
- For all other entities
  - For fiscal years beginning after December 15, 2024, and interim periods within those fiscal years
- Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance

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43

43

ASU 2023-02

Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method, a consensus of the Emerging Issues Task Force

- Issued: March 2023

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44

44

Background

- ASU 2014-01, Accounting for Investments in Qualified Affordable Housing Projects
  - Introduced the option to apply the proportional amortization method to account for investments made primarily for the purpose of receiving income tax credits and other income tax benefits
  - Limited the proportional amortization method to investments in low-income housing tax credit (LIHTC) structures

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Background Cont'd

- Subtopic 323-740 applies to all LIHTC investments regardless of whether they are accounted for using the proportional amortization method
  - Stakeholders questioned whether the specialized guidance for LIHTC investments not accounted for using the proportional amortization method should be retained in this Subtopic

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Update

- Permit entities to elect to account for their tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if certain conditions are met

Proportional Amortization Method

- Amortize the initial cost of the investment in proportion to the income tax credits and other income tax benefits received and recognizes the net amortization and income tax credits and other income tax benefits in the income statement as a component of income tax expense (benefit)

Conditions

- All of the following conditions must be met:
  - It is probable that the income tax credits allocable to the investor will be available
  - The investor does not have the ability to exercise significant influence over the operating and financial policies of the underlying project
  - Substantially all projected benefits are from income tax credits and other income tax benefits
    - Projected benefits include income tax credits, other income tax benefits, and other non-income-tax-related benefits
    - The projected benefits should be determined on a discounted basis, using a discount rate that is consistent with the cash flow assumptions used by the tax equity investor in making its decision to invest in the project
  - The investor's projected yield based solely on the cash flows from the income tax credits and other tax benefits is positive
  - The investor is a limited liability investor in the limited liability entity for both legal and tax purposes, and the investor's liability is limited to its capital investment

49

Accounting

- An accounting policy election on a tax-credit-program-by-tax-credit-program basis
  - Rather than electing at the reporting entity level or to individual investments
- Account for the receipt of the investment tax credits using the flow-through method under Topic 740, Income Taxes, even if the entity applies the deferral method for other investment tax credits received

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50

Codification Update

- Removes the specialized guidance for LIHTC investments that are not accounted for using the proportional amortization method
  - LIHTC investments accounted for using the equity method must apply the impairment guidance in Subtopic 323-10
  - LIHTC investments that are not accounted for using the proportional amortization method or the equity method apply the guidance in Topic 321 on the accounting for equity investments

Disclosures

- The nature of its tax equity investments
- The effect of its tax equity investments and related income tax credits and other income tax benefits on its financial position and results of operations

Effective Date

- For public business entities - For fiscal years beginning after December 15, 2023, including interim periods within those fiscal years
- For all other entities - For fiscal years beginning after December 15, 2024, including interim periods within those fiscal years
- Early adoption is permitted for all entities in any interim period
  - If an entity adopts the amendments in an interim period, it shall adopt them as of the beginning of the fiscal year that includes that interim period

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53

53

Public Entities

54

ASU 2023-09

Income Taxes (Topic 740): Improvements to Income Tax Disclosures

- Issued: December 2023

- Background:
  - ITC Agenda Consultation
    - Investor request

55

Public Business Entities – Annual

- Disclose specific categories in the rate reconciliation
- Provide additional information for reconciling items that meet a quantitative threshold (if the effect of those reconciling items is equal to or greater than 5% of the amount computed by multiplying pretax income [or loss] by the applicable statutory income tax rate)

56

Public Business Entities

- For the state and local category, required to provide a qualitative description of the states and local jurisdictions that make up the majority (greater than 50 percent) of the effect of the state and local income tax category
- Provide an explanation, if not otherwise evident, of the individual reconciling items disclosed, such as the nature, effect, and underlying causes of the reconciling items and the judgment used in categorizing the reconciling items

Non-PBEs

- Requires qualitative disclosure about specific categories of reconciling items and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate

All Entities – Annual

- The amount of income taxes **paid** (net of refunds received) disaggregated by federal (national), state, and foreign taxes
- The amount of income taxes **paid** (net of refunds received) disaggregated by individual jurisdictions in which income taxes paid (net of refunds received) is equal to or greater than 5% of total income taxes paid (net of refunds received)

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59

59

All Entities – Annual Cont'd

- **Income** (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign
- Income tax **expense** (or benefit) from continuing operations disaggregated by federal (national), state, and foreign

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60

60

Remove

- Eliminates the requirement for all entities to
  - Disclose the nature and estimate of the range of the reasonably possible change in the unrecognized tax benefits balance in the next 12 months or make a statement that an estimate of the range cannot be made
  - Disclose the cumulative amount of each type of temporary difference when a deferred tax liability is not recognized because of the exceptions to comprehensive recognition of deferred taxes related to subsidiaries and corporate joint ventures

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61

61

Terminology

- Replaces the term public entity in Topic 740 with the term public business entity

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62

62

Effective Date

- For public business entities: For annual periods beginning after December 15, 2024
- For other than PBEs: For annual periods beginning after December 15, 2025
- Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance

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63

63

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ASU 2024-01

- Scope Application of Profits Interest and Similar Awards
  - Issued: March 2024
- Background:
  - Reduce diversity in practice with respect to which part of the Codification was appropriate
    - 718 vs. 710

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64

64

Issue

- The term profits interest is not defined in GAAP
  - As opposed to capital interests held by investors that provide rights to the existing net assets in a partnership or similar entity (e.g., LLCs)
- Because profits interest holders only participate in future profits and/or equity appreciation and have no rights to the existing net assets of the partnership, stakeholders indicated that it can be complex to determine whether a profits interest award should be accounted for as
  - A share-based payment arrangement or
  - Similar to a cash bonus or profit-sharing arrangement

65

PCC Involvement

- Originally a PCC issue
  - During research also noted impacts PBEs
  - Then transitioned to FASB project in 2022

66

Update (718-10-15-3B)

- An entity shall apply the guidance in paragraph 718-10-15-3 to determine whether a profits interest or similar award is within the scope of this Topic
  - Paragraphs 718-10-55-138 through 55-148 illustrate how the guidance in paragraph 718-10-15-3 applies to common features in a profits interest or similar award

Outcome

- Impact
  - Cases A, B & C are share based awards
  - Case D is not

Effective Date

- For PBEs: For annual periods beginning after December 15, 2024, and interim periods within those annual periods
- For all other entities: For annual periods beginning after December 15, 2025, and interim periods within those annual periods
- Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance

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69

69

ASU 2024-02

Codification Improvements—Amendments to Remove References to the Concepts Statements

- Issued: March 2024

- Background:
  - Standing project on its agenda to address suggestions received from stakeholders on the Accounting Standards Codification and other incremental improvements to GAAP

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70

70

Objective

- Remove references to various Concepts Statements and their proposed amendments were included in Section A of a 2019 proposed ASU titled Codification Improvements
  - Sections B and C (“Amendments to Disclosure Sections of the Codification” and “Other Codification Improvements”) were finalized in 2020

71

Issue At Hand

- ASC is authoritative
- Concept Statements are nonauthoritative
  - References could imply the Concept Statements are authoritative

72

Impact

- 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

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73

73

Effective Date

- Effective for public business entities for fiscal years beginning after December 15, 2024
- For all other entities, effective for fiscal years beginning after December 15, 2025
- Early application is permitted for all entities, for any fiscal year or interim period for which financial statements have not yet been issued (or made available for issuance)

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74

74

ASUs Down the Pike

75

ASU 2024-03 - DISE

76

ASU 2024-03

Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses

- Issued: November 2024

- Background:
  - 2021 FASB Invitation to Comment, Agenda Consultation
    - Investors, Lenders, Creditors indicated need for more detailed disclosures about expenses

Scope and Effective Date

- Applies to all **Public Business Entities**
  - **ASU 2025-01** clarified effective for annual reporting periods beginning after December 15, 2026, and interim reporting periods **beginning after** December 15, 2027
    - Early adoption is permitted

- Does NOT apply to the following entities:
  - Private Companies
  - Not-for-profit entities
  - Employee benefit plans within the scope of:
    - Defined Benefit Pension Plans (Topic 960)
    - Defined Contribution Pension Plans (Topic 962)
    - Health and Welfare Benefit Plans (Topic 965)

Main Provisions

- New specified expenses with disclosure requirements
- Include amounts already required for disclosure in the same disclosure as other disaggregation requirements
- Disclose qualitative descriptions of amounts remaining in relevant expense captions not separately disaggregated quantitatively
- Disclose total amount of selling expenses and the definition of selling expenses

Update

- Must present specific expense captions on the face of the income statement
- Must Disaggregate AND describe remaining expenses
- Does not remove any current expense disclosure requirements
  - But may affect where information appears

Relevant Expense Captions

- Relevant Expense Caption Definition
  - An expenses caption presented on the face of the income statement in continuing operations that contains any of the expenses required for disaggregated disclosure
  - Examples of Expense Captions
    - Cost of Products Sold
    - Costs of Services
    - Selling, General, and Admin Expenses
    - Depreciation and Amortization

81

Disaggregated Requirements

- Relevant Expense Captions are required to be disaggregated into the following categories:
  - Purchases of inventory
  - Intangible Asset Amortization
  - Employee Compensation
  - Depreciation
  - DD&A of Oil and Gas Producing Activities

82

Disaggregated Requirements EXCEPTIONS

- Asset-Related Expenses
  - An entity is **not** required to further disaggregate **costs capitalized as an asset**, even if the costs include categories required for disaggregation
  - Practical Expedients
    - Purchase of Inventory
    - Employee Compensation

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83

Disaggregated Requirements EXCEPTIONS Cont'd

- Liability-Related Expenses
  - An entity is **NOT** required to disaggregate expense amounts into the required categories if **ALL** the following are met:
    - Expense relates to obligation that will be settled in the future and there is uncertainty about the timing of settlement
    - The expense related to an obligation that is based on an estimate of a future expenditure
    - The expense is NOT entirely made up of ONE required expense category (i.e., employee compensation)

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84

Disaggregated Requirements (Example)

OLD GUIDANCE

Entity X
Consolidated Income Statement
For the Years Ended December 31, 20X4, 20X3, and 20X2

	20X4	20X3	20X2
Revenues:			
Products	$ 82,144	$ 79,137	$ 75,180
Services	26,132	23,146	21,989
Total revenues	108,276	102,283	[illegible]
Operating expenses:			
Cost of products sold	63,456	60,898	57,244

Expense Caption
ONLY

NEW GUIDANCE

Disaggregation of Relevant Expense Captions

	[illegible]	20X3	20X2
Cost of products sold			
Cost of products sold			
Purchases of inventory	$ 20,213	$ 19,199	$ 16,319
Employee compensation	17,578	16,539	14,078
Depreciation	10,190	9,989	9,650
Intangible asset amortization	3,914	4,050	[illegible]
Warranty expense	4,394	3,952	3,894
Other cost of products sold [(a)]	7,552	7,606	7,993
Changes in inventories	157	(861)	843
Other adjustments and reconciling items [(b)]	(542)	424	538
Total cost of products sold	$ 63,456	$ 60,898	$ 57,244

Expense Caption

Disaggregated Categories

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Additional Disaggregated Requirements

- The following expenses, gains, and losses must be disclosed and integrated into the tabular format disclosure:

Research & Development Assets Acquired	Impairment Loss Recognized on Intangible Asset	Gain or Loss Related to Long-Lived Asset	Gains and Losses on Derivative Instruments
Each Major Cost Type for Exit or Disposal Activity	Components of Net Benefit Cost Recognized	Bargain Purchase Gain Recognized in Business Combination	Gain or Loss from Deconsolidation of a Subsidiary
	Amortization or Impairment of License Agreements	Amortization or Impairment of Film Costs	

Additional Disaggregated Requirements: Other categories required for integrated disclosure categories **if** the amounts are included **entirely** in **one expense caption**:

- Provision for expected credit losses
- Losses on firm purchase commitments
- Amortization expense attributable to the expiration of an insurance or reinsurance coverage***
- Amortization of costs to fulfill a contract with a customer
- Impairment of costs to fulfill or obtain a contract with a customer
- Amortization of costs to obtain a contract with a customer
- Amortization of capitalized implementation costs of hosting arrangements that are service contracts
- Asset retirement obligation accretion expense
- Loss contingencies recognized
- Warranty expense***
- Expense related to counterparty default in own-share lending arrangements issued in contemplation of convertible debt issuance
- Aggregate gain on restructuring of payables by a debtor with a troubled debt restructuring
- Gains and losses upon consolidation of a VIE that is not a business
- Foreign currency transaction gains or losses
- Operating lease cost, Short-term lease cost, Variable lease cost
- Net gain or loss recognized from sale and leaseback transactions
- Gains and losses from nonmonetary transactions
- Amortization of capitalized acquisition costs

Additional Disaggregated Requirements Cont'd

- What does *"amounts are included entirely in one expense caption"* mean?

Cost of services

Cost of services			
Employee compensation	$ 6,598	$ 5,654	$ 4,354
Depreciation	763	765	742
Intangible asset amortization	642	670	650
Other cost of services (c)	2,493	2,479	3,152
Total cost of services	$ 10,496	$ 9,568	$ 8,898

(c) Other cost of services consists primarily of operating lease and travel expenses for the years ended December 31, 20X4, 20X3, and 20X2.

Selling, general, and administrative

Selling, general, and administrative (SG&A)			
Employee compensation	$ 13,242	$ 11,379	$ 10,764
Depreciation	1,454	1,755	1,737
Property, plant, and equipment impairment	412	-	-
Intangible asset amortization	523	596	-
Other SG&A (d)	5,218	5,141	5,615
Total SG&A	$ 20,849	$ 18,871	$ 18,116

(d) Other SG&A consists primarily of professional services fees and operating lease expense for the years ended December 31, 20X4, 20X3, and 20X2.

Operating Lease Expenses Exist for Company

Included in BOTH Expense Captions Cost of Services AND Selling, General, and Administrative

NOT Entirely in ONE Expense Caption NOT Included in Separate Disaggregation

Included in the QUALITATIVE DESCRIPTION Due to Significance in Relation to Remaining Expenses

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Remaining Expenses NOT Disaggregated

- Include Remaining Amount of Relevant Expense Caption within the tabular format disclosure

Remaining Amount = **Total Amount of Relevant Expense Caption** - **Aggregate of Disaggregated Expenses Separately Disclosed**

- Qualitative Descriptions of the composition of Remaining Expense under **Each** Relevant Expense Caption
  - Based on Significance of Items in Remaining Expenses

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89

89

Expense Reimbursements

- For interim and annual reporting periods, an entity that presents a relevant expense caption that includes amounts **recorded net of reimbursement** related to a cost-sharing or cost reimbursement arrangement with another entity, shall either:
  - Separately disclose the amount of the expense reimbursement
  - Disclose the amounts of the expense categories net of any reimbursement effects

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90

90

Expense Reimbursements Included in Relevant Expense Caption

- Additionally for interim and annual reporting periods, the entity shall:
  - Disclose **how** expense reimbursements related to a cost-sharing or cost-reimbursement arrangement are included in the tabular format disclosure
  - If expense reimbursement is included in a relevant expense caption, **separately disclose** the amount of the expense reimbursement in the same tabular format disclosure
  - Disclose **qualitative** descriptions of the expense categories to which reimbursement relates

Changes in Inventories

- Entities have two acceptable basis for disclosing disaggregation for inventory purchases:
  - Cost-incurred basis
  - Expense-incurred basis

Cost-Incurred

- If Cost-Incurred is selected, an entity must include a disaggregated category disclosure including:
  - Change in inventory balance to reconcile costs incurred to expenses recognized
  - Amount of inventory derecognized during period that is not recognized as an expense
  - The amount attributable to differences in foreign currency exchange rates used to translate costs

Selling Expenses

- For interim & annual reporting periods, required to
  - **Determine** what constitutes a selling expense
  - **Disclose** the total selling expenses recognized in continuing operations
- For annual reporting periods, required to
  - **Disclose** how the entity defines the term selling expenses
    - If changes occur to definition prior to interim period, the entity must include the definition in interim reporting

ASU 2024-04 – Induced Conversions

95

ASU 2024-04

Debt—Debt with Conversion and Other Options (Subtopic 470-20): Induced Conversions of Convertible Debt Instruments

- Issued: November 2024

- Background:
  - The induced conversion guidance was written in the context of share-settled convertible debt before cash convertible instruments became prevalent in the marketplace

Scope

- Applies to a convertible debt instrument not currently convertible as long it had a substantive conversion feature at:
  - Issuance Date
  - Date Inducement Offer is Accepted
- Who's impacted?
  - Companies with convertible debt instruments, especially those offering cash conversion features

Preservation of Form and Amount

- Applies to equity, cash, or a combination
- Changes to VWAP formula do not automatically cause an extinguishment

Criteria for Induced Conversion

- Assessed at the acceptance date of the inducement offer
  - Includes changes within one year of the inducement offer
- **All** criteria must be satisfied
  - Conversion privileges only available for a limited period of time
  - Conversion includes the issuance of ALL of the consideration (in form and amount)
  - Existing debt instrument contained a substantive conversion feature as of both:
    - The time of issuance
    - The date the inducement offer is accepted

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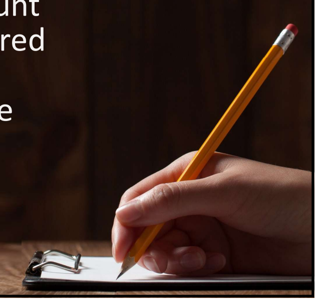
Example of Application (Case C)

- **Inducement Offer in Cash and Warrants**
  - **Original Issuance Facts**
    - On January 1, 2X24, Entity A issues a $1,000 face amount 10% convertible bond maturing December 31, 2X33.
      - Bond has a conversion price of $25 per share.
    - Under the existing conversion privileges, the total amount of cash (or the total value of the cash and shares) required to be issued upon conversion equals the product of 40 shares per $1,000 bond and a volume-weighted average price of Entity A’s common stock calculated over 40



Example of Application (Case C) Cont'd

- **Inducement Facts**
  - On May 15, 2X27, to induce convertible bondholders to convert their bonds promptly.
  - Entity A offers the following consideration in exchange for each $1,000 bond that is converted within 60 days:
    - Cash payment equal to 40 shares multiplied by the VWAP of Entity A's common stock over a period of 15 days
    - Five warrants enabling holder to acquire a share of Entity A's common stock at a fixed price of $40
      - Warrants expire five years after issuance
  - Fair value of Entity A's common stock on date inducement offer accepted (June 1, 2X27) is $40/share

101

Example of Application (Case C) Cont'd

- **Criteria Considerations**
  - Conversion privileges only available for a limited period of time
    - *"Within 60 Days"*
  - Conversion includes the issuance of ALL of the consideration (in form & amount)
    - Inducement includes form (entirely cash) and amount ($1,600)
    - Inclusion of warrants impacts measurement but NOT the assessment
  - Existing debt instrument contained a substantive conversion feature at…
      - The time of issuance:
        - "convertible bond maturing December 31, 2X33"
      - The date the inducement offer is accepted
        - "offers the following consideration in exchange for each $1,000 bond that is converted within 60 days"
        - Not impacted by the VWAP change in days

102

How This Differs From Current GAAP

- Previous Guidance:
  - Limited to equity-based convertible instruments
  - Excluded instruments with cash conversion features
- New Guidance:
  - Includes cash and hybrid settlements
  - Clarifies VWAP interactions and conversion features for instruments not currently convertible

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103

103

Effective Date and Transition

- Effective for **All Entities**
  - Periods beginning after December 15, 2025 and interim reporting period within those annual reporting periods
  - Early adoption permitted
    - Requires prior adoption of ASU 2020-06
  - Transition allows either a prospective or a retrospective basis

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104

104

Approved BUT Not Yet Issued

105

Share-Based Consideration Payable to a Customer

106

Exposure Draft Background

Clarifications to Share-Based Consideration Payable to a Customer

- Issued: September 30, 2024

- Background:
  - Diversity in practice for share-based consideration payable to a customer in conjunction with selling goods or services

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107

107

History

- The guidance in Topic 606 requires an entity to account for consideration payable to a customer as a reduction of the transaction price
  - Scholarship
- Unless the payment is in exchange for a distinct good or service
  - Work study

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108

108

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History Cont'd

- ASU 2019-08, *Codification Improvements—Share Based Consideration Payable to a Customer* requires that a grantor apply the guidance in Topic 718 to measure and classify share-based consideration payable to a customer
- If share-based consideration payable to a customer contains vesting conditions, the grantor must determine whether the vesting conditions represent service conditions or performance conditions
  - Performance Condition - Required to estimate the probable outcome (whether the share-based consideration is expected to vest or is expected to be forfeited)
  - Service Conditions - A grantor **can elect** to account for forfeitures as they occur

109

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Proposal

- Revise the Master Glossary definition of the term performance condition for share-based consideration payable to a customer

Share-Based Payment Arrangements

An arrangement under which either of the following conditions is met:

a. One or more suppliers of goods or services (including employees) receive awards of equity shares, equity share options, or other equity instruments.
b. The entity incurs liabilities to suppliers that meet either of the following conditions:
   1. The amounts are based, at least in part, on the price of the entity's shares or other equity instruments. (The phrase at least in part is used because an award may be indexed to both the price of the entity's shares and something other than either the price of the entity's shares or a market, performance, or service condition.)
   2. The awards require or may require settlement by issuance of the entity's shares.

110

Amends Term Performance Condition

2. For share-based consideration payable to a **customer** that is not in exchange for a distinct good or service (or that is in exchange for a distinct good or service and can result in a reduction of the transaction price in accordance with paragraph 606-10-32-26), a condition affecting the vesting, exercisability, exercise price, or other pertinent factors used in determining the fair value of an award that relates to any of the following:
   a. Achieving a specified performance target that is defined solely by reference to the grantor's own operations (or activities) or by reference to the grantee's (the customer's) performance related to the grantor's own operations (or activities)
   b. The grantee's purchase of the grantor's goods or services from either the grantor or the grantor's customers
   c. A purchase of the grantor's goods or services from either the grantee or the grantee's customers.

   The performance targets listed in this definition for employee and nonemployee awards (for example, a change in control) are also examples of performance conditions for share-based consideration payable to a customer.

111

Proposal Cont'd

- For awards with service conditions eliminates the policy election permitting a grantor to account for forfeitures as they occur
  - When measuring share-based consideration payable to a customer that has a service condition, the grantor would be required to estimate the number of forfeitures expected to occur

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112

112

Proposal Cont'd

- Clarifies that a grantor should not apply the guidance in Topic 606 on constraining estimates of variable consideration to share-based consideration payable to a customer
  - Therefore, a grantor would be required to assess the probability that an award will vest using only the guidance in Topic 718

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113

113

Comments Due

- Comments were due November 14, 2024

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114

114

Status

- Affirmed
  - The definition of the term performance condition for share-based consideration payable to a customer should be revised to explicitly incorporate conditions that relate to achieving a specified performance target that is defined by reference to the grantee's purchases of goods or services from the grantor
  - The definition of the term performance condition should include performance targets based on purchases by parties that purchase the grantor's goods or services from its customer
  - The entity-wide policy election permitting an entity to account for forfeitures as they occur should be eliminated for any remaining customer awards that would continue to have service conditions
  - The variable consideration constraint in Topic 606 should not apply to share-based consideration payable to customers either before or after the grant date

115

Status Cont'd

- Clarified
  - Conditions relating to "potential purchases" should be included in the definition of performance conditions
  - When the grant-date fair value of share-based consideration payable to a customer exceeds the fair value of distinct goods or services received (and is accounted for as both a reduction to the transaction price and the purchase of a distinct good or service), the entire award is subject to the guidance for awards granted to customers on performance conditions and forfeitures
  - Before the grant date, the fair value of share-based consideration payable to a customer should be measured under the guidance in Topic 718

116

Effective Date

- For all entities
  - Effective for annual reporting periods (including interim periods within annual reporting periods) beginning after December 15, 2026, for all entities
- Early adoption for both interim and annual financial statements that have **not yet been issued** (or been made available for issuance)

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117

117

Determining the Accounting Acquirer in the Acquisition of a Variable Interest Entity

118

Exposure Draft Background

Business Combinations (Topic 805) and Consolidation (Topic 810) - Determining the Accounting Acquirer in the Acquisition of a Variable Interest Entity

- Dated: October 2024

- Background:
  - Challenges with existing guidance:
    - Lack of comparability between VIE and non-VIE transactions
    - Inconsistent application in identifying the accounting acquirer

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119

119

Key Elements of the Proposal

- Improves comparability between equity exchange transactions with similar transactions
- Replaces the automatic designation of the primary beneficiary as the acquirer with an assessment of specific factors
- Clarifies criteria for determining the accounting acquirer in VIE acquisitions
- Emphasizes economic substance over form in acquirer determination

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120

120

Exchanging Equity Interests Examples

- Acquisition of a VIE Issuing Common Stock
  - A company seeking to expand into a new market issues shares to acquire a controlling interest in a VIE that operates in that market, transferring ownership rights without cash payment
- Formation of a Joint Venture
  - Two companies form a joint venture structured as a VIE, with one party contributing operational assets and the other contributing cash or equity. In exchange, the operational control party issues equity interests in its company to the other participants
- Equity Swap for Control
  - A company exchanges its equity for existing equity interests in a VIE to obtain a majority or controlling financial interest. This often occurs when the acquiring company does not want to use cash but instead leverages its stock value as currency for the acquisition.

121

Criteria for Determining Acquirer

- Acquirer
  - Receives the largest portion of voting rights
  - Receives the largest minority voting interest
  - Ability to appoint majority of governing members
  - Former management dominates combined entity
  - Pays premium over pre-combination fair value of equity interests

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122

Criteria for Determining Acquirer Cont'd

- Acquiree
  - Receives the smaller portion of voting rights
  - Receives a smaller minority voting interest
  - Ability to appoint minority of governing members
  - Limited representation of senior management team
  - Receives discount from pre-combination fair value of equity interests

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123

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Comment Period Deadline

- Comment Deadline - December 16, 2024

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124

124

Status

- The Board affirmed its decisions to require an entity involved in an acquisition transaction that meets all of the following conditions to assess the factors to determine which entity is the accounting acquirer:
  - The legal acquiree is a VIE
  - The legal acquiree VIE meets the definition of a business
  - The transaction was effected primarily by exchanging equity interests

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125

125

Effective Date

- For All Entities - For annual reporting periods (including interim periods within annual reporting periods) beginning after December 15, 2026
  - Early adoption permitted.
    - Can electing to early adopt as of the beginning of an annual reporting period or the beginning of an interim reporting period
  - Prospective application

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126

126

Measurement of Credit Losses for Accounts Receivable and Contract Assets

127

Exposure Draft Background

Measurement of Credit Losses for Accounts Receivable and Contract Assets for Private Companies and Certain Not-for-Profit Entities

- Issued: December 3, 2024

- Background:
  - Private companies experienced challenges when applying Topic 326 to current accounts receivable and current contract assets arising from transactions accounted for under Topic 606

128

Proposed Scope

- Private companies and not-for-profit entities, excluding not-for-profit entities that have issued, or are conduit bond obligors for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market

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129

Proposal

- Practical Expedient
  - An entity that elects the practical expedient would be able to assume that current conditions as of the balance sheet date persist throughout the forecast period
- Accounting Policy Election
  - An entity that elects the accounting policy election would be able to consider subsequent cash collection activity after the balance sheet date but before the date the financial statements are available to be issued as part of its estimate of expected credit losses

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130

Comment Period

- Comments Due January 17, 2025

Status

- The Board decided that all entities should be eligible to elect the practical expedient
  - Includes PBEs and ALL nonprofits
- The Board decided that entities, **other than public business entities**, should be eligible to elect the accounting policy election
  - Includes ALL nonprofits

Status Cont'd

- Scope
  - Endorsed the PCC's decision that the scope of the guidance should be current accounts receivable and current contract asset balances arising from transactions accounted for under Topic 606, Revenue from Contracts with Customers
  - Clarified that the proposed amendments would apply to current accounts receivable and current contract assets acquired in a business combination

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133

133

Status Cont'd

- Practical Expedient and Accounting Policy Election
  - Endorsed the PCC's decision to provide a recognition and measurement practical expedient
  - Endorsed the PCC's decision to provide an accounting policy election when the practical expedient is elected by an entity other than a public business entity

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134

134

Status Cont'd

- Disclosure
  - Endorsed the PCC's decision to require that an entity annually disclose when the practical expedient and accounting policy election have been applied, along with a requirement to disclose the date through which subsequent cash collections were evaluated for entities that elect the accounting policy

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135

135

Effective Date

- For interim and annual periods beginning after December 15, 2025, with early adoption permitted for financial statements that have **not yet been made available for issuance**
  - PBEs electing the practical expedient must do so in the first interim or annual period the amendments are effective
  - All others may elect the practical expedient and, if applicable, the accounting policy election in any period after the effective date

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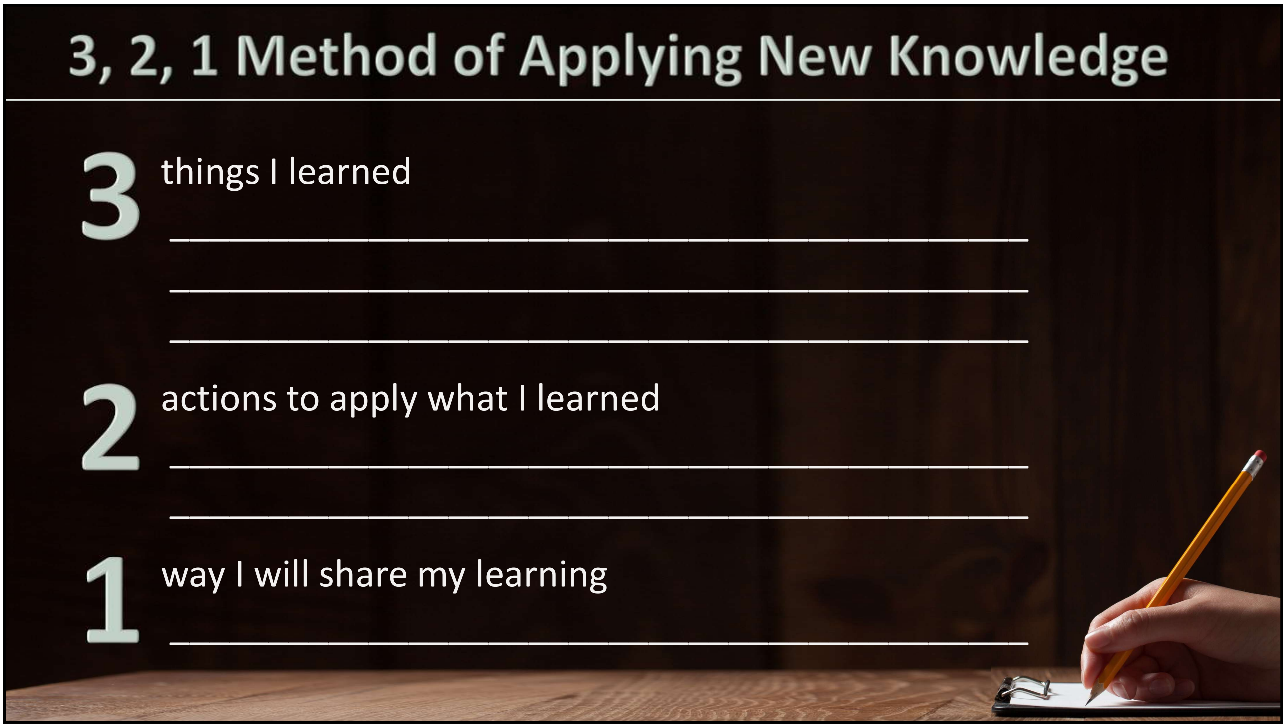
136

136


3, 2, 1 Method of Applying New Knowledge
3 things I learned
2 actions to apply what I learned
1 way I will share my learning

137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138

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What Questions Do You Have?

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139