CALCPA Accounting Principles and
Auditing Standard (APAS) State Committee
Zoom Meeting
November 5, 2020

Meeting started at 9:02am with introductions

Minutes Approval from Last Meeting

- Gail Anikouchine – motion with correction
- Gary Dales – 2nd
- Approved virtually

FASB ED Update – Paul Petersen and Aleks Zabreyko 9:10am

- Aleks - ED – Franchisors-Revenue from Contracts with Customers (Subtopic 952-606)
- Aleks presented ED 2020-700 lease accounting improvements
    - Issue 1: Deals with sales-type lease as classified by lessor – under current standard revenue recognition creates large loss up front because of variable payments dealing with consumables. Proposal suggests when payments are predominately variable there could be an exception for the lessor to treat as an operating lease and amortize over lease term.
        - Copiers, medical equipment, etc. would be good examples of these types of leases
        - Our position is we support the ED/guidance
        - Is "predominant" threshold ok? - Not exactly a new term but not defined either. Judgement involved. Term predominant is not in the master glossary. Aleks suggested that we ask FASB to include examples of what predominant means or to define what predominant means – **Poll to ask for a definition of predominant or swap out another word/measure for predominant in our response. Poll Results (94% yes, 6% no)**

PCC Update – Jeremy Dillard 10:15am

- PCC overall quiet this year
- Meetings have been focused on issues
    - Implementation issues 606 and 842
- PCC Issue 2018-01 – ways to handle recording stock options (FV or Intrinsic Value) – Jeremy went through some history on accounting for these awards across several new standards over the past few years
    - Practical expedient could use US Treasury Regulations to valuation.
        - 409a within 12 months preceding the grant date
        - Valuation based on a formula
        - Good faith/written report – usually start up world.
    - Practical expedient allowable for EE and Non EE awards

    - Vote on recommendation to final standard to FASB in April 2021. Possible standard in the summer of 2021
- Profits Interest Project – nothing in GAAP that talks about what this means – in tax code because profits interest defer taxation (LLC's and partnerships)
    - Profits Interest roadmap – if it is deferred comp or equity could involve accounting guidance to topics 710 or 718
        - 710 – List of indicators (more significant indicators if tied to employment or no fixed redemption features)
        - 718 – Indicators – ownership & value of how profit interests can increase or decrease value
            - Also have to determine equity or liability treatment
    - Longer road to final standard. Jeremy indicated it could be 3-4 years because of impact on GAAP

Break 10:48

FASB ED Update – Paul Peterson and Aleks Zabreyko 11:05am

- Aleks presented ED 2020-700 lease accounting improvements
    - Issue 2: Permits entities to remeasure lease liabilities for changes in a reference index or rat on which variable payments are based – there are some companies that have to do two books because of inconsistencies under US GAAP and IFRS
        - Proposal would permit entities to do remeasurements under US GAAP. Allows accurate BS reporting and would have to make a policy election
        - **APAS broadly in support of this**
    - Issue 3: If an entity terminates a lease for an asset but not others in a lease reporting entity has to apply modification accounting which is costly/complex/counterintuitive
        - FASB has agreed to provide specific change to 842 which would be a requirement to adopted (if you meet criteria that remaining lease assets do not change) to not have to use the modification accounting.
        - **APAS broadly supports guidance/improvement - may be worthwhile to make a comment to FASB to see if this makes sense in the international standards as well so standards are in alignment.**
- Aleks 2020-800 Equity Option Modifications – EITF
    - Framework to account for modifications of equity-classified options, warrants and forwards – Addresses diversity in practice
    - **Recommendation is to support guidance & would be an update to codification for options that are not in 718 (505, etc.)**
- Aleks 2020-900 reference rate reform Topic 848
    - Impacts reporting entities impacted by elimination of LIBOR.
- Aleks 2020-500 Concepts Statement No 8 – updates definitions in Chapter 4, Elements of Financial Statements – FASB ED
    - **Comment on what Intention is on this one. Concern about why this is necessary**
- Aleks FASB Agenda Items
    - Cryptocurrencies
    - Consolidation by for-profit entities of non-profits

- Paul - ED – Franchisors-Revenue from Contracts with Customers (Subtopic 952-606)
  - Franchise companies can recognize upfront fees in revenues as certain pre-operating services are performed (bypasses the analysis of whether pre-opening services are distinct from the franchise license)
    - Most public companies have taken position that pre-opening costs are not distinct so up-front fees have been amortized
    - Allows private companies an accounting treatment that is different than 606

Adjourn for lunch at 12:05

1:00 p.m. Return from lunch

<u>FASB Updates – Alex Zabreyko & Paul Peterson</u>

- Franchisors – Revenue from Contracts with Customers (Subtopic 952-606)
  This provision would introduce a new practical expedient that would simplify and permit franchisors that are not public business entities to account and recognize the upfront fees in revenues as certain pre-opening services are performed (bypassing the analysis of whether pre-opening services are distinct from franchise license).

- Note that in most franchise contracts reported by public companies, pre-opening services are not distinct, and the upfront fees are amortized over the term of the license.

- Committee opposes this because it's creating a separate guidance for a specific industry. This is not considered principal base.

<u>ASB – Nancy Rix</u>

- Discusses AU-C Section 315 Exposure draft to improve COSO

<u>Communications – Mark Wille & Howard Sibelman</u>

- COVID-19 Considerations:
  - Subsequent event disclosure
  - Going concern disclosure
    - If Covid-19 footnote wasn't included in financial statements issued after March 2020, they should go back and correct this, even if it is a financial statement without footnotes and disclosures.
    - Covid-19 should be addresses in all representation letter for 2020 even in a compilation.
  - Inventory observations may be difficult so consider delaying it or looking at other alternatives
  - Treatment of PPP loans using the debt model or conditional government grant model
  - Debt modification for COVID-19 concessions

- Standards Delayed:

    - Revenue recognition standards delayed until years beginning after 12/15/2019, with early adoption permitted

    - Leasing standards delayed until years beginning after 12/15/2021, with early adoption permitted

    - New audit report delayed until years ending on or after 12/15/2021, with early adoption permitted

    - New ERISA audit report and procedures delayed until years ending on or after 12/15/2021, with early adoption permitted

<u>PEEC – Lewis Sharptone</u>

- Lewis was recently appointed to the PEEC (Professional Ethics Executive Committee)
- Exposure draft to the AICPA Professional Ethics Division related to staff augmentation arrangements

- Your audit client needs staff resources to help. Does this impact independence? NASBA believes it does impact independence.

<u>ARSC – Gail Anikouchine</u>

- SSARS Update
    - Improving quality of reviews and compilations by addressing these items that peer reviewers identified:
        - Engagement letter missing
        - Management representation letter missing or missing appropriate wordings with the letters
        - Documenting expectations and comparing to actual
        - Not having the appropriate reports for compilation s and reviews

3:38 p.m. Meeting adjourn