



FASB Update PCC Update

Technical Agenda Overview

Revised April 9, 2025

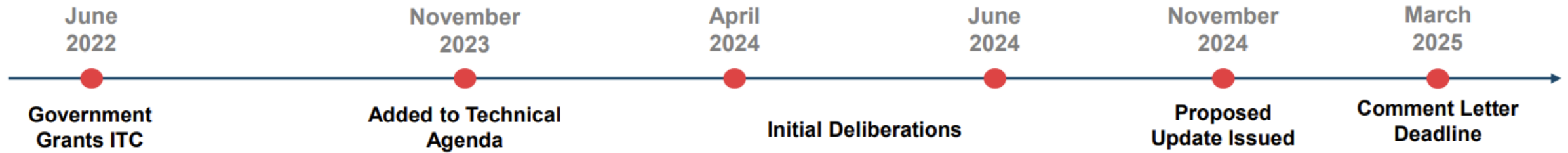
PROJECTS	Next Milestone	Expected Date
Accounting for and Disclosure of Software Costs	Board redeliberations	Ongoing
Accounting for Debt Exchanges	Exposure Draft	2Q 2025
Accounting for Environmental Credit Programs	Exposure Draft	Comments Due April 15, 2025
Accounting for Government Grants	Board redeliberations	Ongoing
Codification Improvements (Evergreen)	Exposure Draft	Comments Due April 22, 2025
Credit Losses—Topic 606 Receivables (PCC)	Final ASU	2Q 2025
Determining the Acquirer in the Acquisition of a VIE	Final ASU	2Q 2025
Financial Instruments—Credit Losses (Topic 326)—Purchased Financial Assets	Board redeliberations	Ongoing
Interim Reporting—Narrow-Scope Improvements	Board redeliberations	Ongoing
Share-Based Consideration Payable to a Customer	Final ASU	2Q 2025
Statement of Cash Flows Targeted Improvements	Board deliberations	Ongoing
Topic 815—Derivatives Scope Refinements	Final ASU	3Q 2025
Topic 815—Hedge Accounting Improvements	Final ASU	3Q 2025

RESEARCH PROJECTS
Accounting for and Disclosure of Intangibles
Accounting for Commodities
Accounting for Derivatives
Agenda Consultation
Consolidation for Business Entities
Financial Key Performance Indicators for Business Entities
Hedge Accounting
Statement of Cash Flows

Accounting for Government Grants (Redeliberations)



Accounting for Government Grants—Project Update and Timeline



Date	Event
June 2022	The FASB issued an Invitation to Comment (ITC) related to the government grants research project.
November 2023	The FASB voted to add a project to the technical agenda and made some tentative decisions.
April 2024	The FASB decided to leverage the accounting framework within IAS 20 for government grants and to include targeted improvements to the guidance based on certain previous Board decisions, including scope and the recognition threshold.
June 2024	The FASB completed initial deliberations and directed the staff to proceed to drafting a proposed Accounting Standards Update for vote by written ballot.
November 2024	Proposed Update issued for public comment.
March 2025	Comment letters due on March 31, 2025.

Accounting for Government Grants—Scope

Definition of a Government Grant

- Transfer of a monetary or tangible nonmonetary asset, other than an exchange transaction, from a government to a business entity (including forgivable loans when recognition criteria are met).

Scope Exclusions

- Exchange transactions, including transactions within the scope of Topic 606, Revenue from Contracts with Customers, and Subtopic 610-20, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets
- Transactions within the scope of Topic 740, Income Taxes
- The benefit of below-market interest rate loans
- Government guarantees

Accounting for Government Grants—Scope Examples

Within Scope

- A transfer of cash to fund future expenditures or reimburse expenditures already incurred (for example, capital expenditures, wages, training and other employee-related costs, R&D, or other operating expenses)
- A transfer of a tangible nonmonetary asset such as a capital asset (for example, a building, land, or equipment)
- A forgivable loan when recognition criteria are met (for example, PPP loan)
- A refundable tax credit (for example, employee retention credit) that is not within the scope of Topic 740.

Out of Scope

- An intangible asset or service
- A reduction of an entity's liabilities (for example, a sales, property, or other tax abatement)
- Government participation in the ownership of an entity
- Contributions to business entities from nongovernmental sources within the scope of Subtopic 958-605 on not-for-profit entities—revenue recognition

Accounting for Government Grants—Initial Recognition

A government grant should be initially recognized when it is *probable* that:

- The entity will comply with the conditions attached to the grant
- The grant will be received.

Two types of government grants

- Grant related to an asset: A government grant in which the primary condition is for the entity to purchase, construct, or otherwise acquire a long-term asset, including the direct grant of a tangible nonmonetary asset. Other conditions also may be attached, such as restricting the type or location of the asset, restricting the periods during which the asset is to be acquired or held, or restrictions on the disposal of the asset.
- Grant related to income: A government grant other than a grant related to an asset.

Grant Related to an Asset

Cost Accumulation Approach

Recognition: Recognize a grant in determining the carrying amount of the asset on the balance sheet. There is no separate subsequent recognition of grant proceeds in earnings.

Measurement: Initially measure a government grant of a tangible nonmonetary asset at cost, if any, to an entity.

Presentation: Present on the balance sheet as part of the carrying amount of the related asset.

Deferred Income Approach

Recognition: Recognize a grant on the balance sheet as deferred income and in earnings on a systematic and rational basis over the periods in which an entity recognizes as expenses the related costs.

Measurement: Initially measure a government grant of a tangible nonmonetary asset at fair value.

Presentation: Present on the balance sheet as deferred income and present on the income statement either (1) separately under a general heading, such as other income, or (2) deducted in reporting the related expense.

Grant Related to Income

Recognition and Measurement

- Recognize in earnings on a systematic and rational basis over the periods in which an entity recognizes as expenses the related costs for which a grant is intended to compensate.

Presentation

- Present in earnings either:
 - Separately, under a general heading such as other income
 - Deducted in reporting the related expense.

See Example 2 in the proposed Update (paragraphs 832-10-55-13 through 55-15)

Accounting for Government Grants—Disclosures

- The **nature** of the government grant and the **related accounting policy** used to account for the government grant.
- The **line items and amounts** on the balance sheet and income statement that are affected by the government grant
 - For a grant related to an asset that is accounted for using a cost-accumulation approach, the line items on the balance sheet and income statement that are affected by the grant (and related amounts) would be disclosed only in the period in which the government grant is recognized on the balance sheet
- **Significant terms and conditions**, including commitments and contingencies.
- **Fair value** of a tangible nonmonetary asset received is disclosed when the grant is recognized on the balance sheet

Accounting for Government Grants—Transition

- A business entity could elect to apply the proposed amendments either:
 - Prospectively to government grants that either are not completed as of the effective date or are entered into after the effective date
 - Retrospectively to all government grants

Prospective Application

- No prior-period results would be restated. There would be no cumulative effect adjustment.
- A completed government grant is a grant for which all the proceeds have been recognized before the effective date.

Retrospective Application

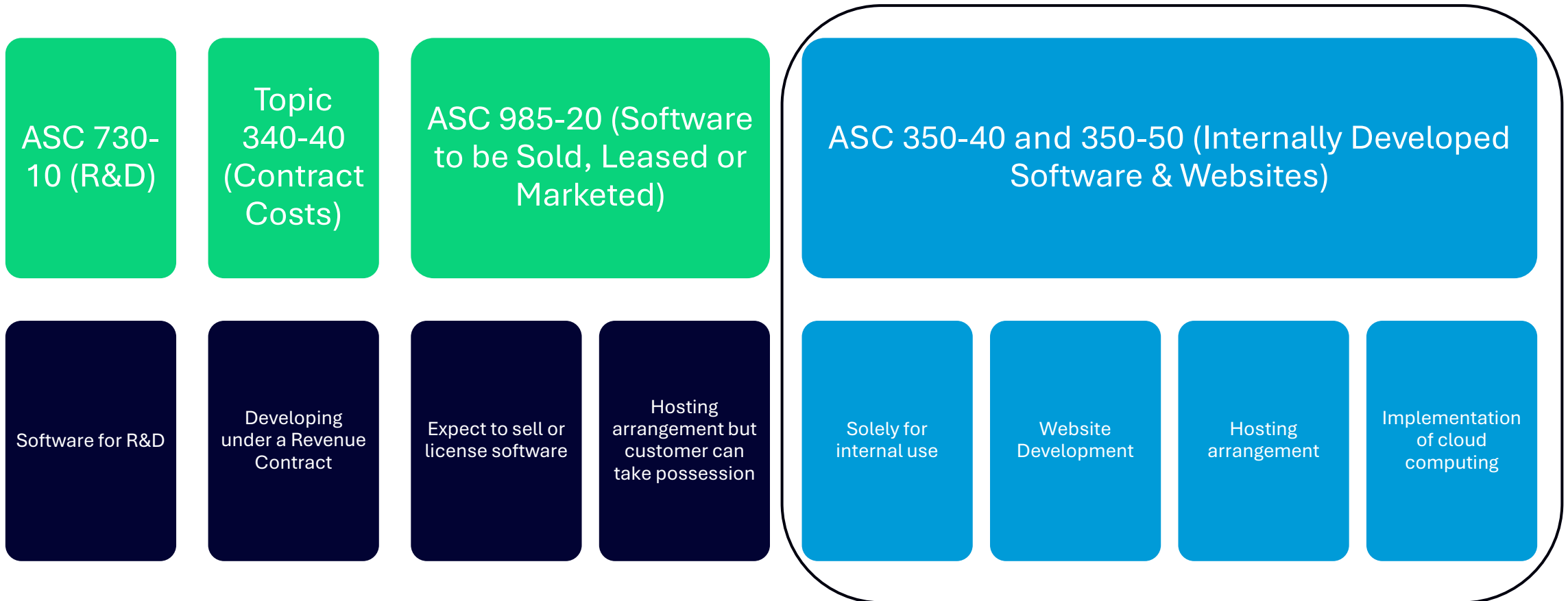
- Record a cumulative-effect adjustment to the opening balance of retained earnings at the beginning of the earliest period presented.

Comment letter feedback due March 31, 2025

Accounting for Software Costs (Redeliberations)



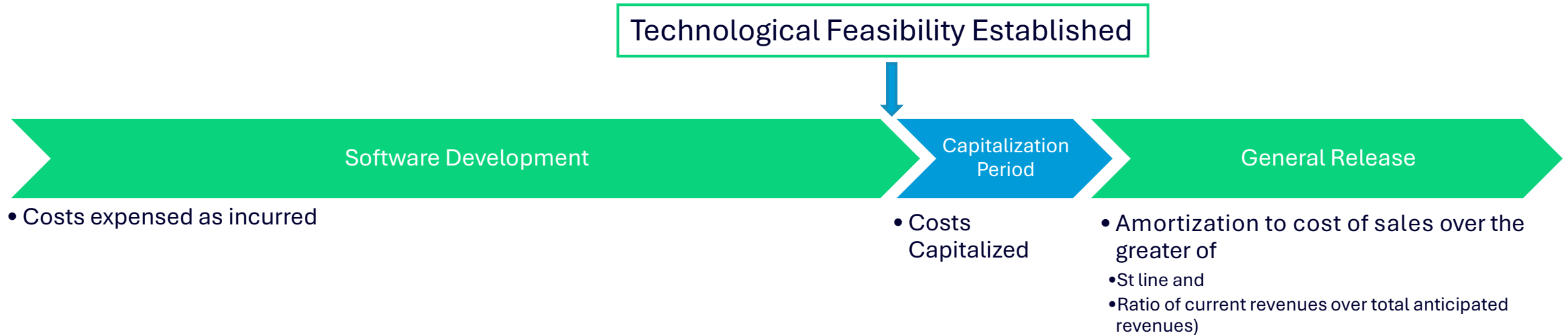
What is being done today?



Software to be Sold, Leased or Marketed



Software to be Sold, Leased or Marketed



985-20-25-2 ...Technological feasibility of a computer software product is established when the entity has completed all planning, designing, coding, and testing activities that are necessary to establish that the product can be produced to meet its design specifications including functions, features, and technical performance requirements...

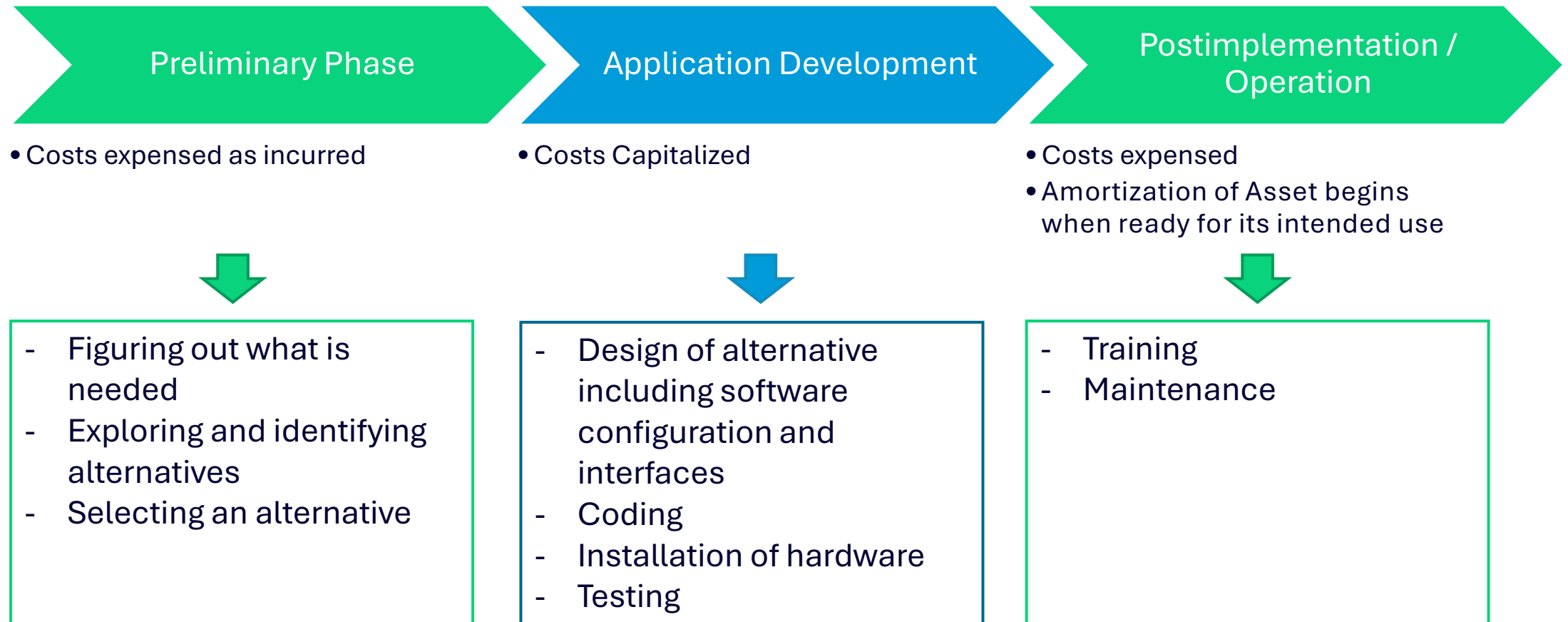
Earlier of:

- 1) Comprehensive Detailed Plan w/ Testing of High Risk Area
- 2) Working Model confirmed by testing

Internally Developed Software



Internally Developed Software



Internally Developed Software - What is required to be capitalized?

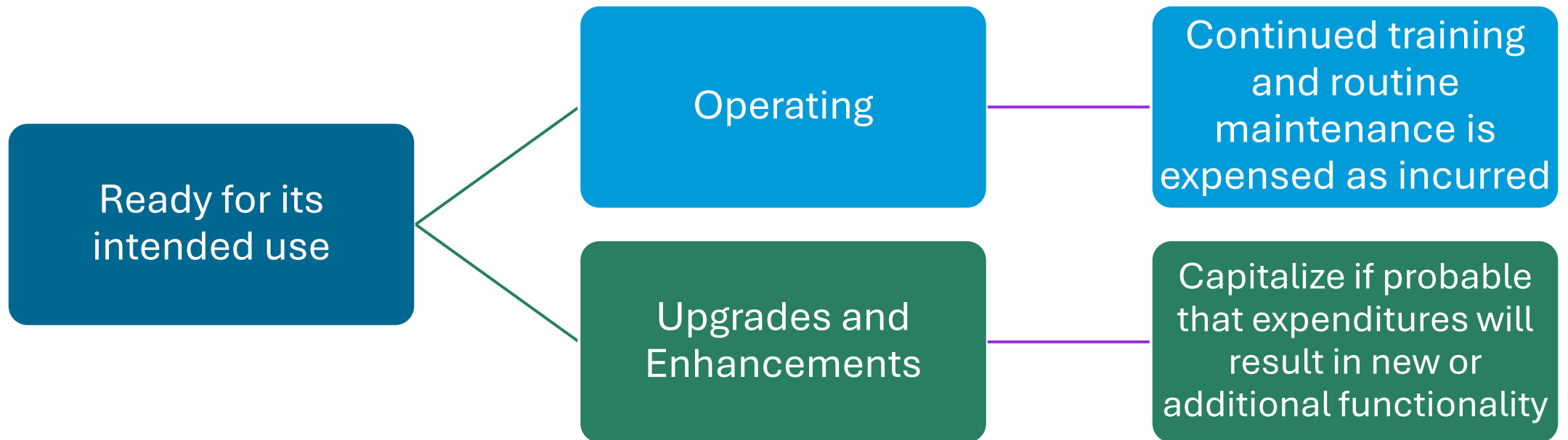
350-40-30-1

- External fees paid to develop software
- External costs incurred to obtain software
- Employee travel expense directly related to developing software
- Employee payroll costs (direct wages, benefits) directly related to development and testing
 - Not in standard but should also include share-based comp to employees directly related to development and testing
- Interest Costs (835-20)

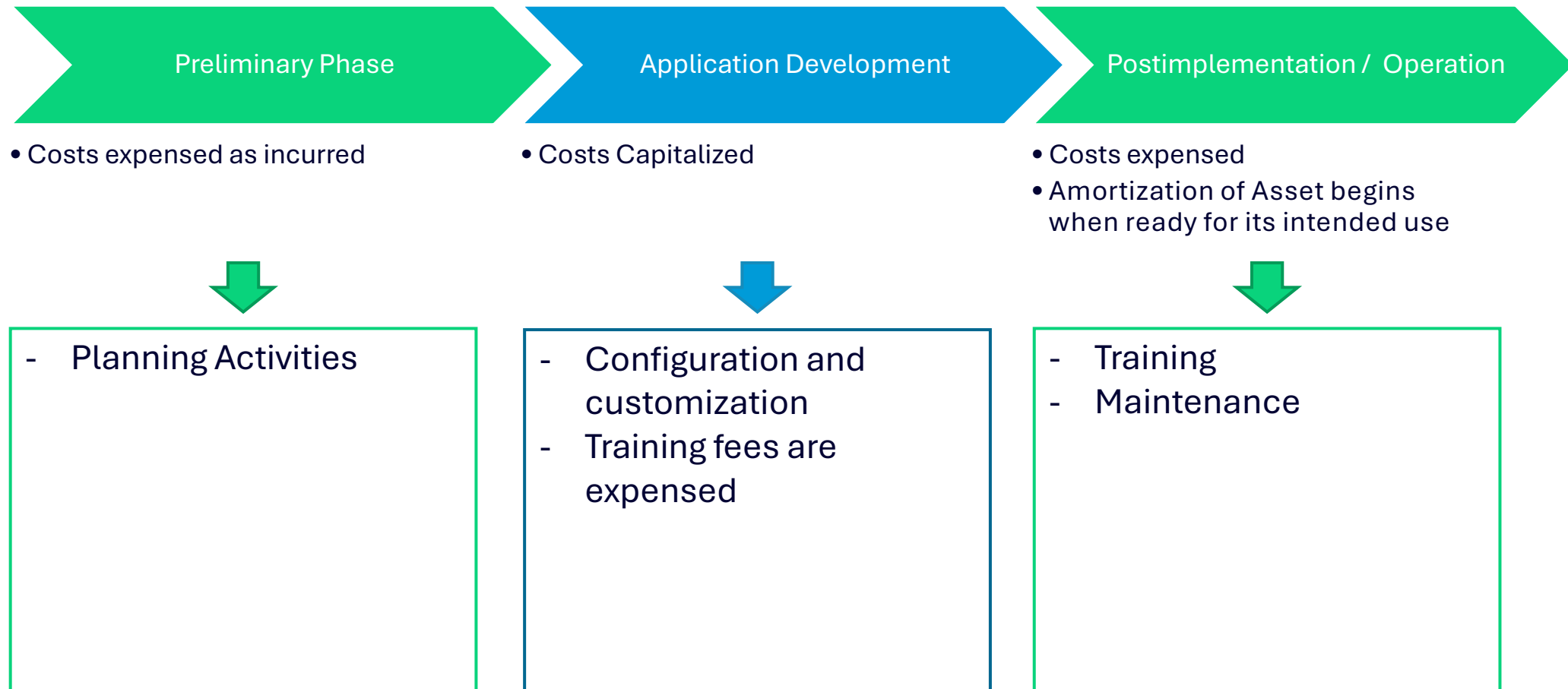
Internally Developed Software - What is expensed?

Expensed Costs
- Training costs (always expensed) - Data conversion costs unless its costs to develop or obtain software to convert - G&A costs and overhead costs

Internally Developed Software – Post-Implementation / Upgrades and Enhancements



Internally Developed Software – Cloud Computing



Actual cloud-computing fees (e.g., Online ERP fees, AWS, MS Azure etc.) are expensed as incurred NOT capitalized

Internally Developed Software – Cloud Computing

When to start amortization

- When each module/component is ready for its intended use
- Consider dependencies

Term of amortization (essentially 842 lease term)

- Noncancelable Term AND:
 - Renewal options reasonably certain of being exercised
 - Includes cancellation options that are equivalent to renewal options
 - Renewal options under control of the vendor

Presentation of amortization

- Expense to the same line item reflecting cloud computing fees
 - Cannot be included with other amortization and depreciation expense

FASB Project Status: Redeliberations

No longer pursuing a single model for all software costs. Only focus on Subtopic 350-40 (Internal)

Remove Stages to Development

- No distinction between linear and nonlinear development methods

Recognition threshold:

- Capitalize software when:
 - Management has authorized and committed to funding software project
 - Include probable to complete recognition threshold and include significant development uncertainties and performance requirements as factors
 - Factors that may indicate that there is significant development uncertainty, as follows:
 - a) Software being developed has novel, unique, unproven functions and features or technological innovations (instead of referring broadly to unresolved high-risk development issues).
 - b) The significant performance requirements have not been selected or the significant performance requirements continue to be revised

Disaggregation – Income Statement Expenses (DISE)



Slice and “DISE” the Income Statement

Presentation & Disclosure	Next Milestone	Expected Date
Disaggregation—Income Statement Expenses	Final ASU	4Q 2024

Entities Subject to Disaggregation Requirements

The Board decided that the disaggregation requirements would apply only to public business entities. **[Vote 4-3]**

The Board affirmed its proposal that the disclosures should apply only to public business entities. **[Vote 7-0]**

Slice and “DISE” the Income Statement

Step 1 - Disclose if P/L includes any of the following:

- ~~Inventory and manufacturing expense~~
- Employee compensation
- Depreciation
- Amortization
- DD&A
- Other (Including Definition)

Entity XYZ			
Consolidated Statement of Operations			
For the Years Ended December 31, 20X3, 20X2, and 20X1			
	20X3	20X2	20X1
Revenues:			
Products	\$ 82,144	\$ 79,137	\$ 75,180
Services	26,132	23,146	21,989
Total revenues	108,276	102,283	97,169
Operating expenses:			
Cost of products sold	63,456	60,898	57,244
Cost of services	10,496	9,568	8,898
Selling, general, and administrative	20,849	18,871	18,116
Total operating expenses	94,801	89,337	84,258
Operating income	13,475	12,946	12,911
Interest expense	4,971	4,213	4,297
Income before income taxes	8,504	8,733	8,614
Income tax expense	1,786	1,834	1,809
Net income	\$ 6,718	\$ 6,899	\$ 6,805

Slice and "DISE" the Income Statement

Entity XYZ Consolidated Statement of Operations For the Years Ended December 31, 20X3, 20X2, and 20X1			
	20X3	20X2	20X1
Revenues:			
Products	\$ 82,144	\$ 79,137	\$ 75,180
Services	26,132	23,146	21,989
Total revenues	108,276	102,283	97,169
Operating expenses:			
Cost of products sold	63,456	60,898	57,244
Cost of services	10,496	9,568	8,898
Selling, general, and administrative	20,849	18,871	18,116
Total operating expenses	94,801	89,337	84,258
Operating income	13,475	12,946	12,911
Interest expense	4,971	4,213	4,297
Income before income taxes	8,504	8,733	8,614
Income tax expense	1,786	1,834	1,809
Net income	\$ 6,718	\$ 6,899	\$ 6,805

Notes to the Financial Statements	
<i>Cost of products sold</i>	
Purchases of inventory	\$ 20,213
Employee compensation	17,578
Depreciation	10,190
Intangible asset amortization	3,914
Warranty expense	4,394
Other cost of products sold	7,552
Changes in inventories	157
Other adjustments and reconciling items	(542)
Total cost of products sold	\$ 63,456

Slice and "DISE" the Income Statement

Entity XYZ			
Consolidated Statement of Operations			
For the Years Ended December 31, 20X3, 20X2, and 20X1			
	20X3	20X2	20X1
Revenues:			
Products	\$ 82,144	\$ 79,137	\$ 75,180
Services	26,132	23,146	21,989
Total revenues	108,276	102,283	97,169
Operating expenses:			
Cost of products sold	63,456	60,898	57,244
Cost of services	10,496	9,568	8,898
Selling, general, and administrative	20,849	18,871	18,116
Total operating expenses	94,801	89,337	84,958
Operating income	13,475	12,946	12,211
Interest expense	4,971	4,500	4,200
Income before income taxes	8,504	8,446	8,011
Income tax expense	1,786	1,600	1,500
Net income	\$ 6,718	\$ 6,846	\$ 6,511

Selling, general, and administrative	
Selling, general, and administrative	
Employee compensation	\$ 13,242
Depreciation	1,454
PP&E impairment	412
Intangible asset amortization	523
Other SG&A ^(f)	5,218
Total selling, general, and administrative	\$ 20,849

Slice and “DISE” the Income Statement – Other Key Decisions

Interim Reporting

The Board affirmed its decision to require all disclosures for interim reporting periods, except for the disclosure of an entity’s definition of selling expenses.

[Vote 7-0]

Transition

The Board affirmed its decision to require prospective application of the amendments with optional retrospective application. **[Vote 7-0]**

Effective Date and Early Adoption

The Board decided that the amendments will be effective for fiscal years beginning after December 15, 2026, and interim periods within fiscal years beginning after December 15, 2027. **[Vote 6-1]** The Board also decided to permit early adoption. **[Vote 7-0]**

Private Company Council Update





Keeping Up with the Private Company Council

Mike Cheng

The views expressed in this presentation are those of the presenter.
Official positions of the FASB are reached only after extensive due process and deliberations

PCC Highlights

Led by an
independent Chair
(Jere Shawver—
current PCC Chair)

Private company
practitioners, users,
and preparers
(9 to 12 members)

PCC meetings
4 times a year

Members
appointed by the
FAF Trustees;
subject to FAF
oversight

Other than the
Chair, members are
appointed for initial
3-year term; may
be reappointed for
an additional 3
years

The PCC was established by the Financial Accounting Foundation (FAF) in May 2012. The FAF is the oversight body of the FASB and the GASB.

PCC Members

Preparers



Holly Nelson

Chief Executive Officer at Key Advisory Services



Doug Uhl

Director, Corporate Accounting Policy at Chick-fil-A, Inc. Corporate

Users



Brad Hendricks

Associate Professor at University of North Carolina at Chapel Hill, Kenan-Flagler Business School



Robert Messer

Senior Executive Vice President, Chief Financial Officer-Chief Risk Officer at American National Bank of Texas



Dave Pesce

Head of Surety at Munich RE Specialty Insurance



David Hoagland

Executive Credit Officer at U.S. Bank

Practitioners



Jere Shawver

PCC Chair – effective January 1, 2024
Managing Partner—Assurance and Risk - Baker Tilly US



Michael Cheng

National Professional Practice Partner at Frazier & Deeter LLC



Katina Curtis

Audit Partner at Grant Thornton



David Finkelstein

Director with SingerLewak LLP



Adam Roark

Managing Director at FORVIS

Private Company Decision-Making Framework

Assists the PCC in determining whether and in what circumstances to provide alternative guidance for private companies reporting under U.S. GAAP.

Differential Factors Between Private and Public Companies

- Number of primary users and their access to management
- Investment strategies
- Ownership and capital structure
- Accounting resources
- Learning about new financial reporting



Areas in Which Guidance Might Differ Between Private and Public Companies

- Recognition & Measurement
- Display (Presentation)
- Disclosures
- Effective Date
- Transition Method

Principle: Consider cost and complexity but focus on user relevance

PCC Finalized Alternatives

Accounting Standards Update (ASU) No.

Description

2021-07	Compensation—Stock Compensation (Topic 718): Determining the Current Price of an Underlying Share for Equity-Classified Share-Based Awards
2014-18	Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination
2014-07	Consolidation (Topic 810): Applying the Variable Interest Entities Guidance to Common Control Leasing Arrangements
2014-03	Derivatives and Hedging (Topic 815): Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps—Simplified Hedge Accounting Approach
2014-02	Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill

The PCC has influenced many other standards. Examples:

- Scope application of profits interest and similar awards (ASU 2024-01)
- Leases: Common control arrangements (ASU 2023-01)
- Extended goodwill amortization alternative to not-for-profits (ASU 2019-06)
- Broader simplifications to hedge accounting (ASU 2017-12)
- Improvements to employee share-based compensation (ASU 2016-09) and improvements to nonemployee share-based payment accounting (ASU 2018-07)

PCC Agenda Priorities

Evaluation Factors

Which issues are pervasive and are the issues pervasive to all entities or private companies only (that is, whether the issue is pervasive and to whom)?

Whether technically feasible solutions exist or could be developed

Whether there is an identifiable scope

Whether the FASB already has a research or technical agenda project

Which of the issues are reasonable from the Board's perspective (for example, are the issues supported by the Private Company Decision-Making Framework)?

The degree to which the issue has been raised, by whom, and with what frequency

Project plan and timeline to resolve the issue

Relative priority to the PCC and private company stakeholders (near term or longer term)

PCC Project—Credit Losses—Topic 606 Receivables

Background

- The PCC identified the application of certain principles of Topic 326, Financial Instruments—Credit Losses, as operationally burdensome to apply to current accounts receivable and contract assets resulting from transactions accounted for under Topic 606, Revenue from Contracts with Customers (referred to as Topic 606 receivables), while not being as relevant given the short-term nature of those receivables and, generally, a lack of a history of significant credit losses
- At its September 2024 meeting, the PCC added a project to its technical agenda. PCC members completed initial deliberations and made decisions, which were endorsed by the FASB on October 16, 2024.

Key Tentative Decisions

- **Scope:** Current accounts receivable and contract assets resulting from transactions accounted for under Topic 606, Revenue from Contracts with Customers, for private companies and not-for-profit entities excluding not-for-profit conduit bond obligors.
- **Practical Expedient:** An entity that elects the practical expedient would not be required to adjust historical loss information to reflect changes related to relevant economic data. Rather, an entity would assume that current economic conditions as of the balance sheet date will persist throughout the forecast period.
- **Accounting policy election (optional):** An entity that elects the practical expedient would also be permitted to make an accounting policy election to consider subsequent cash collection after the balance sheet date but before the date the financial statements are available to be issued.
- **Disclosure:** Disclose when the practical expedient or accounting policy election has been used.
- **Transition:** Prospective

Next Steps: Final ASU to be issued in Q2 2025

PCC Agenda Prioritization—April 2024 Meeting

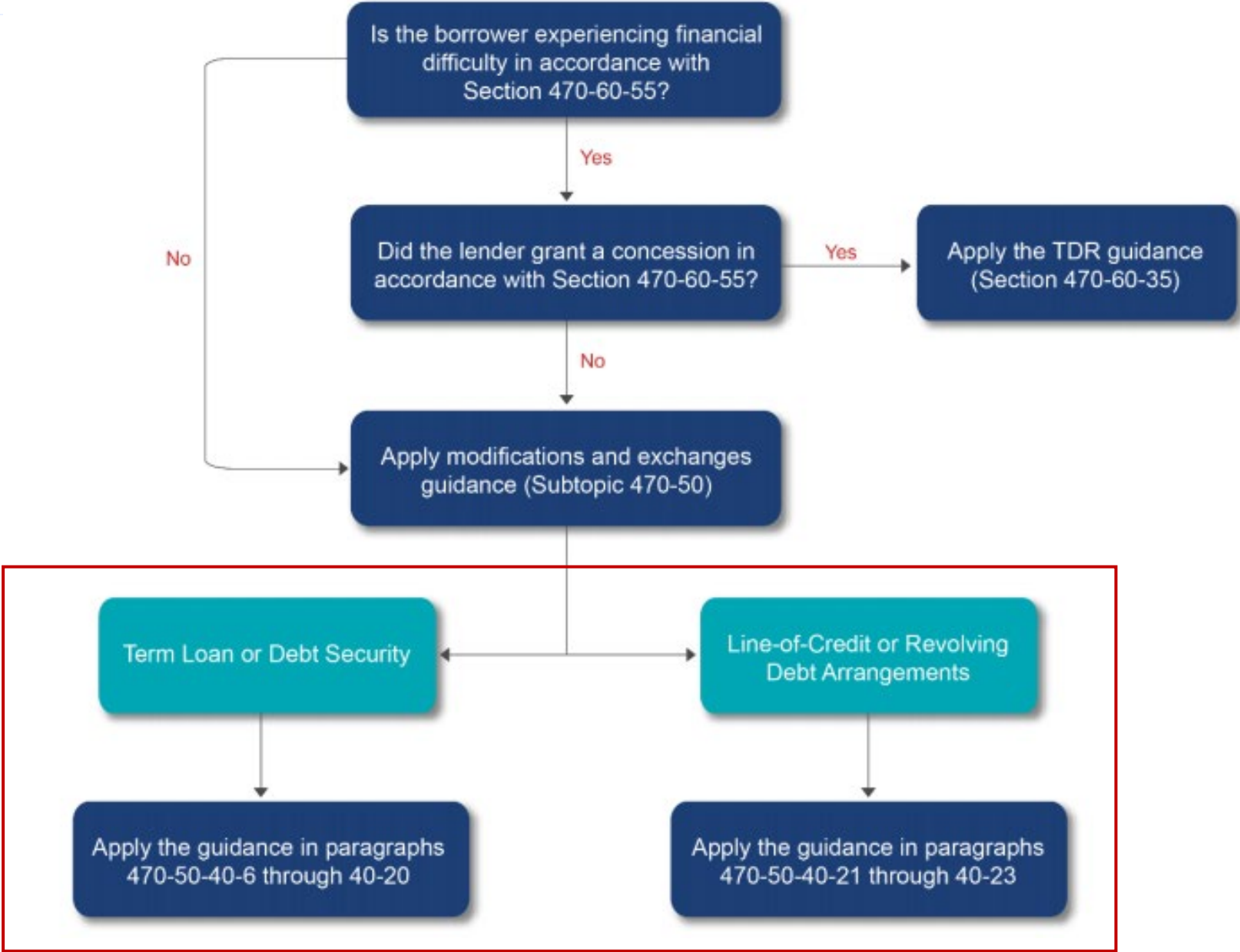
Debt Modifications and Extinguishments

- **Subtopic 470-50, Debt—Modifications and Extinguishments** requires that an entity assess whether a modification or extinguishment of debt has occurred when an entity modifies the terms of an existing debt instrument or issues a new debt instrument and concurrently satisfies an existing debt instrument.
- Outcome of that assessment influences the accounting treatment.
- **Feedback:** Applying the guidance can be complex and costly; benefits of the financial reporting outcome may not justify the costs.

What is the Solution?

PCC could consider a **private company practical expedient or alternative** that would decrease the cost and complexity of applying the guidance, while considering the information needs of private company financial statement users.

Background on Modifying Debt



Term Loan Model – “10% Test”

Modification (Cash Flow Change < 10%)

- Prospective **effective interest rate** method based on carrying value of debt and revised cash flows
- No gain or loss
- **Fees to lender (or on behalf of lender) -> Capitalize**
- **Fees to 3rd Party -> Expense**

Extinguishment (Cash Flow Change >10%)

- Record gain or loss based on difference between:
 - Recording new debt at **fair value**
 - Derecognizing old debt
- **Effective interest rate** based on new debt
- **Fees to lender -> Expense** (Opposite of modification accounting)
- **Fees to 3rd Party -> Capitalize** (Opposite of modification accounting)

Term Loan Model – Complexities w/ Modifying Debt

Correctly applying the right modification model (e.g., term loan model vs revolver model)

Distinguishing between Debt Issuance Costs vs Debt Discount

Correctly applying effective interest rate method

Properly fair valuing new debt to determine gain/loss on extinguishment

More complicated lending arrangements:

- Facilities including (1) term loan, (2) revolver and (3) delayed draw term loan (**Allocation Issues**)
- Not applying the 10% test correctly
- Syndicated lending arrangements (i.e., more than 1 lender involved)

PCC Agenda Prioritization—April 2024 Meeting

Leases

- Applying certain areas of guidance in **Topic 842, Leases**, can be costly and complex to apply.
- While Topic 842 already provides some relief for private companies in certain areas, private company stakeholders have indicated that additional simplifications, practical expedients, or alternatives for private companies should be considered (for example, on lease modifications).



What is the Solution?

PCC could consider private company simplifications, practical expedients, alternatives, or educational initiatives once specific issues are identified.

Do you have suggestions for simplifications, practical expedients, or alternatives for private companies pertaining to the leases guidance? Please reach out.

Contact information: jjwyss@fasb.org