

ACCOUNTING & AUDIT UPDATE PANEL DISCUSSION FOLLOW UP

Accounting for & general update on PPP loans

Remember, there are currently four potential models to account for PPP loans under:

1. Accounting Standards Codification (ASC) 470, *Debt*, (always acceptable);
2. ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*;
3. ASC 450-30, *Gain Contingencies*; and
4. International Accounting Standards (IAS) 20, *Accounting for Government Grants and Disclosure of Government Assistance*

Other potential accounting & auditing issues due to the pandemic:

- Debt restructuring
 - Debt guidance can be found in ASC 470-50, *Debt – Modifications and Extinguishments*, and ASC 470-60, *Debt – Troubled Debt Restructurings by Debtors*.
 - If debt agreements are amended, a company first should evaluate if they meet the criteria of troubled debt restructuring under the two-step model approach. If the modification does not qualify as troubled debt restructuring then the debtor would need to determine whether it is an extinguishment or modification.
- Asset impairment
 - Indefinite-lived intangible assets are tested first for impairment in accordance with ASC 350, *Intangibles – Goodwill and Other*. Next, groups of long-lived assets are then tested for impairment in accordance with ASC 360, *Property, Plant, and Equipment*. Goodwill is tested for impairment last, and those tests are performed at the reporting unit level under ASC 350.
 - Remember that your company might have encountered unusual factors in 2020 due to the COVID-19 pandemic that may prompt the evaluation of potential asset impairment.

- Lease abatement
 - Generally, subsequent changes to lease payments that are not stipulated in the original lease contract are accounted for as lease modifications under *ASC Topic 840* and *Topic 842*.
 - Currently the FASB believes it is acceptable for companies to make an election to account for concessions related to the effects of COVID-19 pandemic consistent with how the concessions would be accounted for under *Topic 840* and *Topic 842* as though enforceable rights and obligations for these concessions existed, regardless of whether they are explicitly stated in the contract.
- Discontinued operations
 - Accounting Standards Update (ASU) 2014-08, *Presentation of Financial Statements (Topic 205) and PP&E (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components from an Entity*.
 - Remember, a component is defined as part of the business that comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.
- Going concern evaluation & conclusions
 - ASU No. 2014-15—*Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*.
 - The key principal to remember is that management must evaluate the entity's ability to continue as a going concern for a period of at least 12 months from the date the financial statements are available to be issued.

Follow up with panelists directly or your BNN engagement team members:

Jeff Wheeler, Assurance Principal

jwheeler@bnncpa.com

Joe Jalbert, Assurance Principal

jjalbert@bnncpa.com

Drew Nagus, Assurance Principal

dnagus@bnncpa.com

Jess Bouchard, Assurance Senior Manager

jbouchard@bnncpa.com

Maria Alemian, Assurance Manager

malemian@bnncpa.com



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NEWMAN
NOYES

A Quick Guide to Accounting Standards Updates and Their Effective Dates

- 2020-05: Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities - Effective dates extended one year to 1/1/2020 for 606 and to 1/1/2022 for 842 if you have not yet adopted
- 2020-04: Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting - Effective through 12/31/2022
- 2017-12 Hedging: Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities - Effective date extended to 1/1/2021
- 2018-13: Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement - Effective 1/1/2020
- 2019-06: Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958): Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities - Effective upon election to adopt
- 2019-12: Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes - Effective 1/1/2022
- 2017-04: Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment - Effective 1/1/2022
- 2018-17: Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities - Effective 1/1/2021
- 2018-15: Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract - Effective 1/1/2021
- 2020-06: Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging— Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity - Effective 1/1/2024
- 2020-01: Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)—Clarifying the Interactions between Topic 321, Topic 323, and Topic 815 - Effective 1/1/2022
- 2018-14: Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans - Effective 1/1/2022

