



GROSSMAN YANAK & FORD LLP
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A&A Update

Presented by:

Mark Wolstoncroft & Andy Giallonardo, GYF A&A Services Group

November 4, 2021



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INTRODUCTION



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INTRODUCTION

Objectives

- *To highlight changes to U.S. GAAP and AICPA standards that are recently applicable or will soon be applicable*
- *To focus on certain recent changes to U.S. GAAP and auditing standards*



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INTRODUCTION

We will not seek to discuss:

- *IFRS*
- *SEC and PCAOB Matters*
- *Specialized Industries (i.e., healthcare, banking, gaming, government)*



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NEWLY APPLICABLE ACCOUNTING STANDARDS



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NEWLY APPLICABLE ACCOUNTING STANDARDS

ASU 2016-02 – Topic 842 – *Leases*

- Initially released in February 2016 with effective dates for years beginning after December 15, 2018 (public) and 2019 (private)
- Delayed a number of times, but now effective for fiscal years beginning after December 15, 2021
- The provisions of Topic 842 will be discussed in further detail later in this presentation



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NEWLY APPLICABLE ACCOUNTING STANDARDS

ASU 2017-04 – Topic 350 – *Goodwill*

- Eliminates Step 2 of impairment test
- Compare fair and carrying values at reporting unit level
- Effective for years beginning after December 15, 2021 (2020 for public)
- Early adoption permitted



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NEWLY APPLICABLE ACCOUNTING STANDARDS

ASU 2017-12 – Topic 815 – *Derivatives and Hedging*

- Targeted improvements to accounting for hedging activities
- Originally effective for periods beginning after December 15, 2019 for non-public companies
- The effective date was deferred to periods beginning after December 15, 2020, for non-public companies
- Early adoption was permitted



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NEWLY APPLICABLE ACCOUNTING STANDARDS

ASU 2018-14 – Topic 715 – *Defined Benefit Retirement Plan Disclosure*

- Reduces necessary disclosures for entities that sponsor defined benefit retirement plans
- Effective for fiscal years beginning after December 15, 2020 (public) and 2021 (private)
- Early adoption permitted



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NEWLY APPLICABLE ACCOUNTING STANDARDS

ASU 2018-15 – *Internal Use Software*

- Aligns capitalization of implementation costs in a cloud computing hosting arrangement that is a service contract with other standards
- Service element of hosting arrangement is unchanged
- Effective for years beginning after December 15, 2019 (public) and 2020 (private)
- Early adoption permitted



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NEWLY APPLICABLE ACCOUNTING STANDARDS

ASU 2018-17 – *Topic 810 – Consolidation*

- Indirect interests held through related parties in common control arrangements should be considered on a proportional basis for determining whether fees paid to decision makers and service providers are variable interests
- A private company or reporting entity may elect not to apply VIE guidance to legal entities under common control. If the alternative is elected, other consolidation guidance should be applied, particularly the voting interest entity guidance
- Effective for years beginning after December 15, 2019 (public) and December 15, 2020 (private)



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NEWLY APPLICABLE ACCOUNTING STANDARDS

ASU 2018-18 – Topic 808 – *Collaborative Arrangements*

- Clarifies and aligns certain transactions between collaborative arrangement participants and the revenue recognition standards in Topic 606
- Effective for years beginning after December 15, 2019 (public) and December 15, 2020 (private)



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NEWLY APPLICABLE ACCOUNTING STANDARDS

ASU 2019-12 – Topic 740 – *Income Taxes*

- Update is part of FASB's Simplification Initiative
- Removes four exceptions to general principles in Topic 740
- Required recognition of franchise tax that is partially based on income as an income-based tax
- Required evaluation as to when a step up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction



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NEWLY APPLICABLE ACCOUNTING STANDARDS

ASU 2019-12 – Topic 740 – *Income Taxes (continued)*

- An entity is not required to allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax in its separate financial statements; however, an entity may elect to do so (on an entity-by-entity basis) for a legal entity that is both not subject to tax and disregarded by the taxing authority
- Requiring reflection of the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in an interim period that includes the enactment date
- Effective for periods beginning after December 15, 2021 (private)



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NEWLY APPLICABLE ACCOUNTING STANDARDS

ASU 2020-05 – Topic 606 – *Revenue from Contracts with Customers*

- ASU 2020-05 was issued in June 2020 and serves to provide additional time for those entities impacted by COVID-19 by deferring the Revenue Recognition literature in ASU 2014-19 (and related ASUs) until accrual reporting periods beginning after December 15, 2020 for entities that had not yet adopted the literature



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NEWLY APPLICABLE ACCOUNTING STANDARDS

ASU 2020-06 – Topics 470 & 815 – *Debt and Derivatives and Hedging*

- Reduces the number of accounting models for convertible debt instruments and convertible preferred stock and amends disclosure requirements to increase transparency
- Introduces a scope exception from derivative accounting relative to contracts in an entity's own equity
- Aligns the calculations of EPS with the accounting models and scope exceptions previously discussed
- Effective for periods after December 31, 2021 (public) and 2023 (private)



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NEWLY APPLICABLE ACCOUNTING STANDARDS

ASU 2020-07 – Topic 958 – *Not-for-Profit Entities*

- Requires separate presentation of contributed nonfinancial assets in the statement of activities, apart from contributions of cash and other financial assets
- Disclosures
 - *A disaggregation of the amount of contributed nonfinancial assets recognized within the statement of activities by category that depicts the type of contributed nonfinancial assets*
 - *Qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the reporting period*
 - *Others, including restrictions and valuation*
- Effective for periods after June 15, 2021



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RECENT CHANGES TO U.S. GAAP

ASU 2021-01 – Topic 848 – *Reference Rate Reform*

- Provides practical expedients and clarification related to derivative instruments and hedge accounting impacted by the change in rates used for discounting
- Amendments in this update are effective immediately and can be applied either as of the date of application or on a full retrospective basis that includes or is subsequent to March 12, 2020
- The amendments do not apply to new or existing hedging relationships or contract modifications after December 31, 2022



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NEWLY APPLICABLE ACCOUNTING STANDARDS

ASU 2021-02 – Topic 606 – *Franchisors – Revenue from Contracts with Customers*

- Provides a practical expedient that permits franchisors that are not public business entities to account for pre-opening services provided to a franchisee as distinct from the franchise license if the services are consistent with those included in a predefined list within the guidance
- Allows for accounting policy election to recognize the pre-opening services as a single performance obligation
- Effective for periods after December 15, 2020 (if Topic 606 was adopted)



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NEWLY APPLICABLE ACCOUNTING STANDARDS

ASU 2021-03 – Topic 350 – Goodwill – Evaluating Triggering Events under the Accounting Alternative

- Provides private companies and not-for-profit entities with an accounting alternative to perform the goodwill impairment triggering event evaluation required in Subtopic 350-20 as of the end of the reporting period, as opposed to throughout the reporting period
- Effective for periods beginning after December 15, 2019



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NEWLY APPLICABLE ACCOUNTING STANDARDS

ASU 2021-04 – Topics 260, 470, 718 and 815 – Earnings Per Share, Debt – Modifications and Extinguishments, Compensation – Stock Compensation, and Derivatives and Hedging – Contracts in Entity's Own Equity

- Clarifies whether an issuer should account for a modification or an exchange of a freestanding equity-classified written call option that remains equity classified after modification or exchange as:
 - *An adjustment to equity and the effects on earnings per share*
 - *An expense and the manner of recognition*
- Effective for all entities for fiscal years beginning after December 15, 2021



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RECENT CHANGES TO U.S. GAAP

ASU 2021-05 – Topic 842 – Leases

- Lessors should classify and account for a lease with variable lease payments that do not depend on a reference index or a rate as an operating lease if both of the following criteria are met:
 - *The lease would have been classified as a sales-type lease or a direct financing lease in accordance with the classification criteria in paragraphs 842-10-25-2 through 25-3*
 - *The lessor would have otherwise recognized a day-one loss*
- Entities that had not adopted Topic 842 prior to ASU 2021-05 should follow the transition requirements of Topic 842



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POTENTIAL CHANGES TO U.S. GAAP



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POTENTIAL CHANGES TO U.S. GAAP

FASB Exposure Drafts

- One currently open for comment:
 - *Fair Value Measurement for Equity Securities Subject to Contractual Sales Restrictions*
 - The amendments in this proposed update would clarify that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value



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POTENTIAL CHANGES TO U.S. GAAP

Other Topics with Potential Changes

- Fair Value Hedges
- Identifiable Intangible Assets and Goodwill
- Distinguishing Liabilities from Equity
- Credit Losses
- Business Combinations



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UPDATES TO STATEMENTS ON AUDITING STANDARDS



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UPDATES TO STATEMENTS ON AUDITING STANDARDS

SAS 134 – 141

- Initially effective for the periods ending after December 15, 2020; early application was not permitted
- SAS 134 – *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*
 - *Implements changes to the audit report and other client communications*
- SAS 135 – *Omnibus Statement on Auditing Standards – 2019*
 - *More closely aligns ASB guidance with PCAOB guidance*
 - *Primarily in communications with those charged with governance, fraud considerations and related parties*



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UPDATES TO STATEMENTS ON AUDITING STANDARDS

SAS 134 – 141 (*continued*)

- SAS 136 – *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*
 - *Addresses the auditor's responsibility to form an opinion on employee benefit plans subject to ERISA*
 - *Addresses the form and content of the auditor's report issued as a result of an audit of an ERISA plan*



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UPDATES TO STATEMENTS ON AUDITING STANDARDS

SAS 134 – 141 (*continued*)

- SAS 137 – *Auditor's Responsibilities Relating to Other Information Included in Annual Reports*
 - *Clarification of scope of required procedures auditors perform with respect to annual reports*
- SAS 138 – *Amendments to the Description of the Concept of Materiality*
 - *Aligns the description of materiality with that of the U.S. judicial system, PCAOB, SEC & FASB*
 - *Formerly aligned with IAASB*
- SAS 139 – *Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes From SAS No. 134*
 - *Additional reporting requirements to align the changes in SAS 134 to the international and PCAOB standards*



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UPDATES TO STATEMENTS ON AUDITING STANDARDS

SAS 134 – 141 (continued)

- SAS 140 – Amendments to AU-C Sections 725, 730, 930, 935, and 940 to Incorporate Auditor Reporting Changes From SAS Nos. 134 and 137
 - Further aligns reporting requirements PCAOB and Yellow Book standards, including updating the definition of materiality with respect to those engagements
 - Updates reporting requirements for supplementary information to include a separate section of the auditor's report rather than an other-matter paragraph
- SAS 141 – Amendments to the Effective Dates of SAS Nos. 134-140
 - Delayed effective dates of SAS 134-140 to the periods ending after December 15, 2021; early application is permitted



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UPDATES TO STATEMENTS ON AUDITING STANDARDS

SAS 142 – 145

- SAS 142 – Audit Evidence – July 2020
 - Expands guidance on obtaining sufficient appropriate audit evidence
 - Provides guidance on the use of automated tools and techniques used by auditors
 - Incorporates the concepts surrounding professional skepticism throughout the section
 - Effective for periods ending after December 15, 2022
- SAS 143 – Auditing Accounting Estimates and Related Disclosures – July 2020
 - Explains the nature of accounting estimates and the concept of estimation uncertainty
 - Provides guidance on scalability
 - Requires a separate assessment of risk
 - Effective for periods ending on or after December 15, 2023



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UPDATES TO STATEMENTS ON AUDITING STANDARDS

SAS 142 – 145 (continued)

- SAS 144 – Amendments to AU-C Sections 501, 540 and 620 Related to the Use of Specialists and the Use of Pricing Information Obtained From External Information Sources – June 2021
 - Enhances guidance with respect to the use of specialists and information provided by third parties
 - Effective for periods ending on or after December 15, 2023 with early implementation permitted
- SAS 145 – Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement – October 2021
 - Enhances requirements and guidance related to obtaining an understanding of the entity's system of internal control and assessing control risk
 - Enhances guidance that addresses the economic, technological and regulatory aspects of the markets and environment in which entities and audit firms operate
 - Provides revisions to certain definitions and requirements relative to auditor's assessment of risk
 - Effective for periods ending on or after December 15, 2023 with early implementation permitted



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STATEMENTS ON STANDARDS FOR ACCOUNTING AND REVIEW SERVICES



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STATEMENTS ON STANDARDS FOR ACCOUNTING & REVIEW SERVICES

SSAR 25 – February 2020

- Materiality in a Review of Financial Statements and Adverse Conclusions
 - *The main changes relate to the utilization of materiality in a review engagement as a required practice*
 - Previously, materiality was determined based upon the needs of the financial statement users
 - *Provides guidance relative to adverse conclusions that derive from materially misstated review reports*
 - *Requires an explicit statement regarding independence in the account's review report*



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GOVERNMENT AUDITING STANDARDS (YELLOW BOOK)



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GOVERNMENT AUDITING STANDARDS (YELLOW BOOK)

Yellow Book 2018

- Effective on or after June 30, 2020
- Updated format
- Expands independence requirement
- Defines waste
- Specific consideration of internal controls for performance audits



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CHANGES TO AUDIT COMMUNICATIONS



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CHANGES TO AUDIT COMMUNICATIONS

SAS 134 – Auditor Reporting and Amendments

- Changes to the audit report
 - *Ordering – Opinion first*
 - *Statements re: independence/ethics*
 - *Management responsibility – Going concern*
 - *Auditor responsibilities: Reasonable assurance, fraud detection risk, materiality, professional judgement/skepticism, going concern & communication with governance*
 - *Optional inclusion of Key Audit Matters (KAMs)*



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CHANGES TO AUDIT COMMUNICATIONS

SAS 134 – Auditor Reporting and Amendments

- Impact on engagement letter
 - *Statements re: reasonable assurance, materiality and professional judgement/skepticism.*
 - *Auditor identified significant risks of material misstatement – may be in engagement letter or in separate governance letter*

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
of [Name of Company]

Opinion

We have audited the accompanying financial statements of [Name of Company] (a [State of Incorporation] corporation), which comprise the balance sheet as of [Date] , and the related statements of income, retained earnings, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of [Name of Company] as of [Date] , and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. **We are required to be independent of [Name of Company] and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit.** We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about [Name of Company] 's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- **Exercise professional judgment and maintain professional skepticism throughout the audit.**
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of [Name of Company] 's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- **Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about [Name of Company] 's ability to continue as a going concern for a reasonable period of time.**

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

[Firm's Signature]

[Location of Firm (City, State Where Auditor's Report Is Issued)]

[Report Date]



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LEASES



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LEASES

ASU 2016-02

- Related Subsequent ASUs:
 - *2018-01 – Land Easement Practical Expedient*
 - *2018-10 – Codification Improvements*
 - *2018-11 – Targeted Improvements*
 - *2018-20 – Narrow-Scope Improvements for Lessors*
 - *2019-01 – Codification Improvements*
 - *2019-10 & 2020-05 – Effective Dates*
 - *2021-05 – Certain Leases with Variable Lease Payments*



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LEASES

Overall Impact

- To accurately reflect financial position and eliminate off-balance-sheet financing
- Affects all organizations with leases
- Excludes
 - *Leases of intangible assets, biological assets, inventory, assets under construction*
 - *Leases to explore for or use nonregenerative resources such as minerals, oil and natural gas*
- Transition is a modified retrospective approach



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LEASES

Impact on Lessees

- Right-of-use asset and a lease liability for assets with terms over 12 months
 - *Liability is measured at present value of the lease payments*
 - *Rate determined similar to current rules*
 - *Asset based on the liability, subject to adjustment for items such as initial direct costs*
- Dual model for income statement



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LEASES

Summary of Financial Statement Impact

	Balance Sheet	Income Statement	Cash Flow Statement
Finance lease	<ul style="list-style-type: none"> • ROU Asset • "Debt-like" lease liability 	<ul style="list-style-type: none"> • Amortization expense on straight-line basis • Interest expense 	<ul style="list-style-type: none"> • Principal payments = financing • Interest and all other lease related payments = operating
Operating lease	<ul style="list-style-type: none"> • ROU Asset • Lease liability 	<ul style="list-style-type: none"> • Single lease expense on a straight-line basis 	<ul style="list-style-type: none"> • Lease payments = operating

- Balance sheet treatment may impact financial ratios (bank covenant ratios)
- Finance vs. operating determination impacts EBITDA



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Prior to 2016-02	After 2016-02
A lease that transfers ownership of the leased asset to the lessee at the end of the lease term.	
A lease containing an option allowing the lessee to purchase the leased asset at a bargain price at the end of lease term	The lease grants the lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise
A lease term greater than or equal to 75% of the asset's economic life	The lease term is for the major part of the remaining economic life of the underlying asset, unless the commencement date of the lease falls at or near the end of the economic life of the underlying asset.
A lease where the present value of the minimum lease payments (including any required lessee guarantee of residual value of the leased asset to the lessor at the end of the lease term) was greater than or equal to 90% of the fair value of the leased asset at the inception of the lease.	The present value of the sum of lease payments and any residual value guaranteed by the lessee not already reflected in lease payments equals or exceeds substantially all of the fair value of the underlying asset.
	The underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term.



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LEASES

Example #1

New Operating Lease Effective 1/1/2022 with No Initial Direct Costs

- XYZ Company enters into an operating lease of a building with ABC on 1/1/2022. The building has a fair value of \$100,000 and a 10-year useful life. The lease calls for annual payments of \$10,000 over a 5-year lease term. The lease does not transfer ownership or include a purchase option at the end of the lease. The interest rate implicit to XYZ Company is 3%.
 - *Based on the fact pattern above, this will be classified as an operating lease*
 - *A right-of-use asset and lease liability will need to be recognized as of 1/1/2022 and will be amortized over the life of the lease*



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LEASES

Example #1 (continued)

Present value of the lease = \$45,797.07

Based upon \$50,000 in total lease payments at the implicit rate of 3%.

Amortization Table					
Date	Lease Payment	"Interest"	Amortization of Asset and Liability	Asset	Liability
1/1/2022				\$45,797	\$45,797
12/31/2022	\$ 10,000	\$ 1,374	\$ 8,626	37,171	37,171
12/31/2023	10,000	1,115	8,885	28,286	28,286
12/31/2024	10,000	849	9,151	19,135	19,135
12/31/2025	10,000	574	9,426	9,709	9,709
12/31/2026	10,000	291	9,709	(0)	(0)
Totals	50,000	\$ 4,203	\$ 45,797		



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LEASES

Example #1 (continued)

- Based upon the amortization table, the required entries in the first year would be as follows:

Right-of-Use Asset	\$ 45,797	
Operating Lease Liability		\$ 45,797
<i>To record the operating lease right-of-use asset and liability at inception</i>		
Lease Expense	\$ 10,000	
Operating Lease Liability	\$ 8,626	
Cash		\$ 10,000
Right-of-Use Asset		\$ 8,626

To record annual lease payment and related expense, as well as amortization of the operating lease right-of-use asset and liability on 12/31/2022.



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LEASES

Example #2

New Operating Lease Effective 1/1/2022 with Initial Direct Costs

- XYZ Company enters into an operating lease of a building with ABC on 1/1/2022. The building has a fair value of \$100,000 and a 10-year useful life. The lease calls for annual payments of \$10,000 over a 5-year lease term. The lease does not transfer ownership or include a purchase option at the end of the lease. The interest rate implicit to XYZ Company is 3%. In order to obtain the lease, XYZ paid the previous tenant \$10,000.
 - *Based on the fact pattern above, this will be classified as an operating lease*
 - *A right-of-use asset and lease liability will need to be recognized as of 1/1/2022 and will be amortized over the life of the lease*
 - *Initial direct costs of \$10,000 are included in the determination of the right-of-use asset and amortized over the life of the lease*



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LEASES

Example #2 (continued)

Present value of the lease = \$45,797.07

Based upon \$50,000 in total lease payments at the implicit rate of 3%.

Initial direct costs = \$10,000.00

Added to the initial measurement of the right of use asset and amortized over the life of the lease.

Amortization Table

Date	Lease Payment	"Interest"	Amortization of Asset and Liability	Amortization of Initial Direct Costs	Asset	Liability
1/1/2022					\$55,797	\$45,797
12/31/2022	\$ 10,000	\$ 1,374	\$ 8,626	\$ 2,000	45,171	37,171
12/31/2023	10,000	1,115	8,885	2,000	34,286	28,286
12/31/2024	10,000	849	9,151	2,000	23,135	19,135
12/31/2025	10,000	574	9,426	2,000	11,709	9,709
12/31/2026	10,000	291	9,709	2,000	(0)	(0)
Totals	50,000	\$ 4,203	\$ 45,797	\$ 10,000		



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LEASES

Example #2 (continued)

- Based upon the amortization table, the required entries in the first year would be as follows:

Right-of-Use Asset	\$ 55,797	
Operating Lease Liability	\$ 45,797	
Cash or accrued liability	\$ 10,000	

To record the operating lease right-of-use asset and liability at inception on 1/1/2022.

Lease Expense	\$ 12,000	
Operating Lease Liability	\$ 8,626	
Cash	\$ 10,000	
Right-of-Use Asset	\$ 10,626	

To record annual lease payment and related expense, inclusive of the amortization of the operating lease right-of-use asset, liability and initial direct costs on 12/31/2022.



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LEASES

Transition Options – Two Modified-Retrospective Applications

- Comparative Option
 - Standard applied at the beginning of the earliest period presented with a cumulative effect adjustment to the opening balance of equity in that period.
 - i.e. If presenting December 31, 2022 and 2021 comparative financial statements, apply as of January 1, 2021
 - Full retrospective application is not permitted
 - Disclosures will be more streamlined



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LEASES

Transition Options – Two Modified-Retrospective Applications

- Effective Date Option
 - *Standard applied at the effective date with a cumulative effect adjustment to the opening balance of equity in the period of adoption*
 - i.e. If presenting December 31, 2022 and 2021 comparative financial statements, applied as of January 1, 2022
 - *Disclosures will not be as streamlined*
 - *Transitional relief and practical expedients available*



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LEASES

Transition Relief – Practical Expedients

- “Package of Three”
 - *An entity need not reassess whether any expired or existing contracts are or contain leases*
 - *An entity need not reassess the lease classification for any expired or existing leases (for example, all existing leases that were classified as operating leases in accordance with Topic 840 will be classified as operating leases, and all existing leases that were classified as capital leases in accordance with Topic 840 will be classified as finance leases)*
 - *An entity need not reassess initial direct costs for any existing leases*
- Must utilize all three expedients and apply consistently to all leases
- If elected with the Hindsight Practical Expedient, the expedients in this package will take precedent



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LEASES

Transition Relief – Practical Expedients

- Hindsight Practical Expedient
 - *An entity also may elect a practical expedient, which must be applied consistently by an entity to all of its leases (including those for which the entity is a lessee or a lessor) to use hindsight in determining the lease term (that is, when considering lessee options to extend or terminate the lease and to purchase the underlying asset) and in assessing impairment of the entity's right-of-use assets*
- Use of the hindsight may increase complexity in reporting
- If utilizing this practical expedient and do not elect the practical expedient package, lease term and the initial measurement of the lease may be impacted



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LEASES

Impact on Lessors

- Substantially similar to current model
 - *Conformity with revenue recognition standards under ASC 606*
 - *Leveraged lease classification eliminated*
- Classify as sales-type or direct financing



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LEASES

Short-Term Leases

- Policy can be elected for leases with a maximum lease term of 12 months or fewer and does not include a purchase option
 - *Can be recorded consistently with previous GAAP*
 - *Month-to-month leases should be evaluated for capitalization if:*
 - The lease is specialized and difficult to replace
 - The lease is commercially disruptive to exit



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LEASES

Other Matters

- Term is defined as the initial term plus likely renewals
 - *Once established, term should only be reassessed for certain conditions*
 - Significant change in the lessee's control
 - Lessee exercises an option that was previously determined would not be exercised
 - Lessee terminates a lease for which the option was previously determined not to be exercised



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LEASES

Other Matters

- Premeasurement necessary for changes to term, contingencies and/or other contract changes
- Bundled lease to be segregated and consideration given to each component
- Sales-leaseback guidance more closely conforms to revenue recognition
- Clarified guidance for related party leases



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LEASES

Disclosure

- Implementation will require additional disclosure items for both lessees and lessors
- Both quantitative and qualitative



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GYF VIRTUAL CPE DAY 2021

Questions?

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