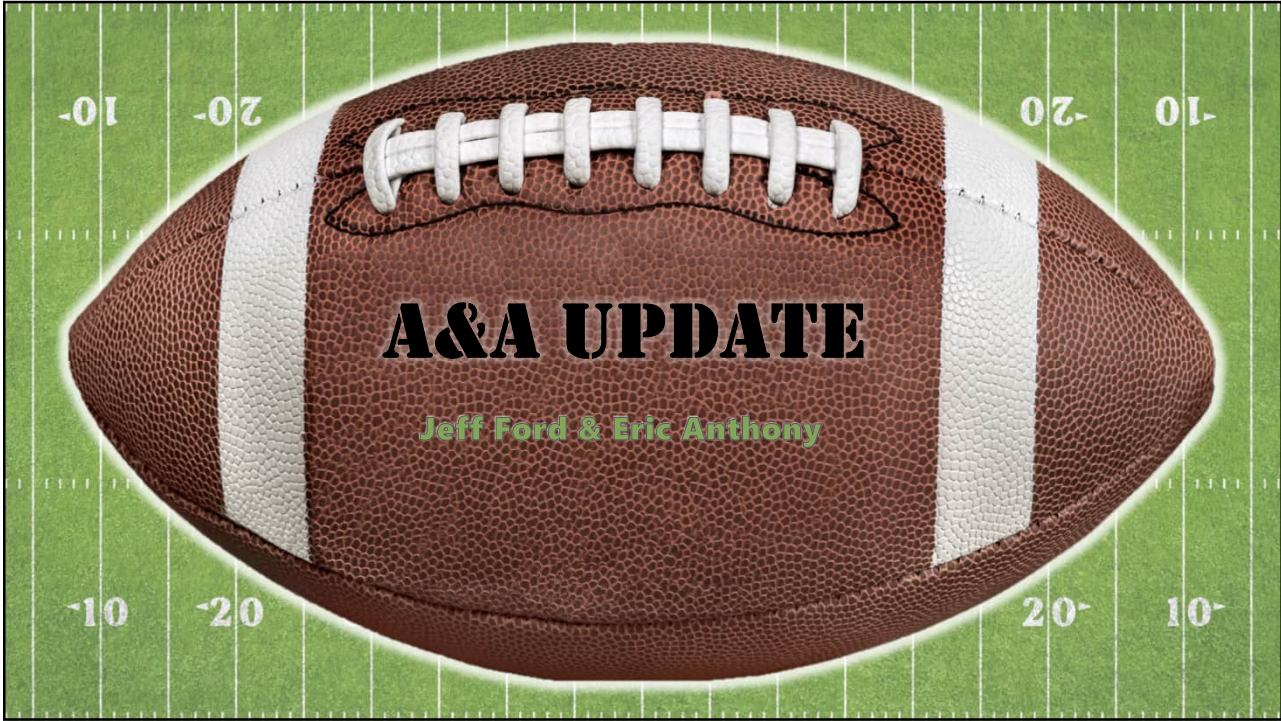


Ruling on the Field Stands – A&A Update



SPEAKERS

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A&A UPDATE

Objectives

- Discuss current CPA/accountant shortage
- Highlight U.S. GAAP changes that are recently applicable or applicable soon
- Address Accounting Standards Updates (ASUs)
- Address high-level, executive audience
- Private vs. public company focus



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A&A UPDATE

Objectives

- We will not seek to address:
 - *IFRS*
 - *SEC and PCAOB Matters*
 - *Specialized Industries (i.e., healthcare, banking, gaming, government)*
 - *Derivatives and hedging*



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CURRENT CPA/ACCOUNTANT SHORTAGE

Nationwide Issue

- *Fortune Magazine*: U.S. is short 340,000 accountants
- While the share of accounting majors has increased recently after several years of declines, experts say this won't be enough to solve a worsening shortage



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CURRENT CPA/ACCOUNTANT SHORTAGE

Reasons for Decline in Accounting Majors

- Several reasons for lack of accounting majors:
 - *The 150-hour requirement to sit for the CPA exam discourages students since that means an extra year of college, together with related expenses*
 - *Perception that starting salaries are lower than other business majors can earn (#1)*
 - 2023 median starting salaries went from highest to lowest (or near lowest) of all business majors
 - *Reputation that the profession has long hours and lack of work/life balance, and*
 - *Increasing complexity of the accounting rules*



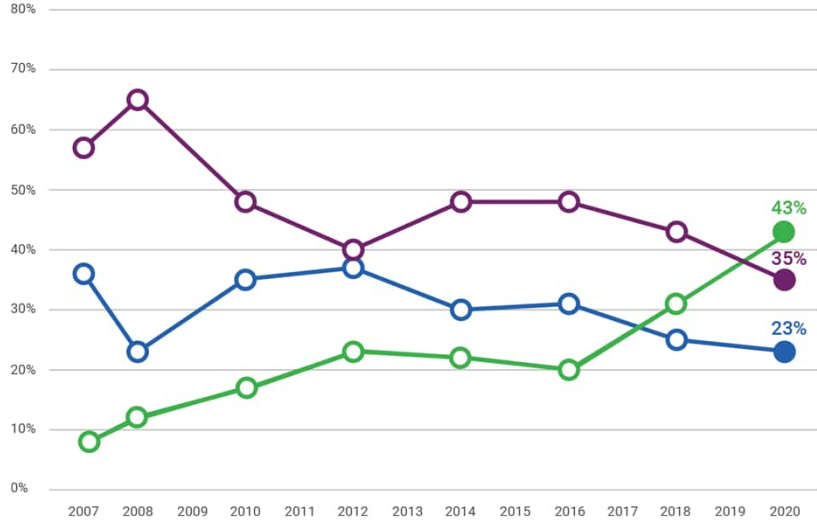
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PIPELINE INTO THE PROFESSION (PICPA)

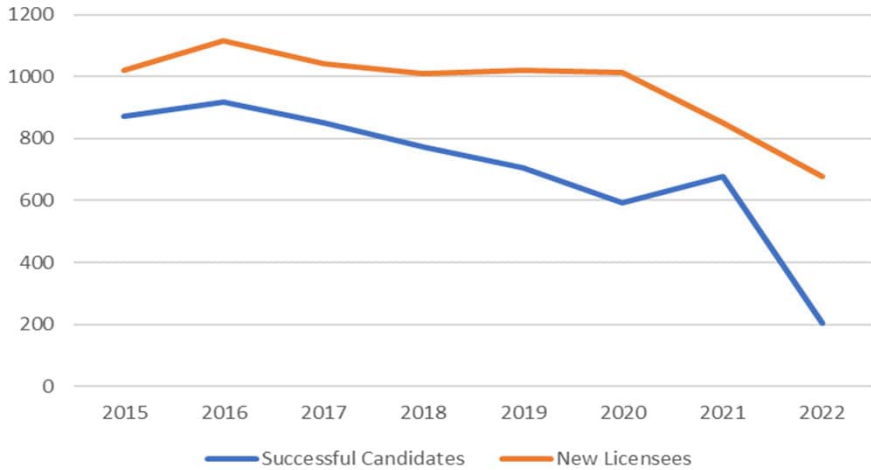
Trends in new bachelor's and master's of accounting and non-accounting graduates hired into accounting/finance functions of US CPA firms by degree type 2007 – 2020

- Bachelor's
- Master's
- Total non-accounting



Source: [AICPA 2021 Trends report](#)

PIPELINE OF NEW CPAS IN PA (PICPA)



Successful Candidate = passed the exam, other requirements for licensure not yet met; data only Q1 & Q2 2022

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NEW & NEWLY APPLICABLE STANDARDS

ASU 2021-07 – Topic 718 – *Compensation-Stock Compensation*

- Private companies only
- Practical expedient vs. accounting alternative
- Allows “reasonable valuation method” for share-based awards
- Conforms with 409A of the Internal Revenue Code
- Effective for years beginning after December 15, 2021



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NEW & NEWLY APPLICABLE STANDARDS

ASU 2024-01 – Topic 718 – *Compensation-Stock Compensation*

- Applies to all entities that account for profits interest awards (i.e., units) as compensation to employees (or nonemployees) in return for goods or services
- Adds illustrative examples to demonstrate how an entity determines whether profits interest and similar awards should be accounted for under Topic 718
- Effective for years beginning after December 15, 2024 (public entities) and years beginning after December 15, 2025 (all other entities); early adoption permitted



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NEW & NEWLY APPLICABLE STANDARDS

ASU 2024-01 – Topic 718 – Compensation-Stock Compensation

- Case A, B, C and D share the following assumptions:
 - Entity X is a partnership
 - Before June 1, 20X1, Entity X had Class A units outstanding
 - On June 1, 20X1, Entity X grants Class B incentive units to employees of a subsidiary of Entity X in exchange for services
 - An exit event may include an IPO, change in control, or liquidation of Entity X's assets



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NEW & NEWLY APPLICABLE STANDARDS

ASU 2024-01 – Topic 718 – Compensation-Stock Compensation

- **Case A**
 - Class B units are profits interest units that are subordinated to Class A units because after vesting they participate pro rata with Class A units once holders of Class A units have received distributions
 - Class B units cliff vest at the end of the three years of service
 - Upon exit event, Class B units vest immediately if a grantee is still providing services to the subsidiary of Entity X
 - Upon such an event, the grantee would retain vested Class B units, or if Class B units are settled through the exit event, Entity X would distribute proceeds to Class B unit holders in the same manner described in first bullet above



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NEW & NEWLY APPLICABLE STANDARDS

ASU 2024-01 – Topic 718 – Compensation-Stock Compensation

▪ Case A (continued)

- *IF a grantee of the Class B units terminates employment with the subsidiary of Entity X (for any reasons other than cause), any unvested Class B units will be forfeited for no consideration*
- *IF a grantee of the Class B units terminates employment after vesting, the grantee retains ownership of the vested Class B units, but upon the grantee's termination of employment, Entity X has a call right to repurchase the Class B units*
- *IF the call right is exercised, Entity X would pay the grantee of Class B units an amount of cash equal to the fair value of the Class B units on the call date*



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NEW & NEWLY APPLICABLE STANDARDS

ASU 2024-01 – Topic 718 – Compensation-Stock Compensation

▪ Case B – Additional Assumptions

- *Class B units are profits interest units that are subordinated to Class A units because once granted, they participate pro rata with Class A units once the holders of Class A units have received distributions*
- *The holder of Class B units is eligible to begin participating in nonforfeitable operating distributions at the grant date*
- *Class B units only vest upon an exit event*
 - *Upon such an event, holder retains vested Class B units, or if Class B units are settled through the exit event, Entity X would distribute proceeds to holders of Class B units*
- *Class B units are forfeitable upon employee's termination for any reason before exit event*



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NEW & NEWLY APPLICABLE STANDARDS

ASU 2024-01 – Topic 718 – Compensation-Stock Compensation

▪ Case C – Additional Assumptions

- Class B units do not entitle the employee to receive equity instruments of Entity X
- The holder of Class B units is not eligible to participate in distributions of Entity X
- The holder of Class B units is eligible to receive cash upon an exit event
- Upon such an event, the Class B units vest immediately and must be settled in cash on the basis of the fair value of the Class B units
- The holder of Class B units must be providing services upon exit event to receive proceeds
- Class B units are forfeitable upon employee termination before an exit event



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NEW & NEWLY APPLICABLE STANDARDS

ASU 2024-01 – Topic 718 – Compensation-Stock Compensation

▪ Case D – Additional Assumptions

- Class B units do not entitle the employee to receive equity instruments of Entity X
- The holder of Class B units is eligible to participate in distributions of Entity X equal to 1% of the preceding fiscal year's net income
 - Eligible to begin participating in these distributions after three years of service
- The holder of Class B units is not eligible to receive cash upon exit event (no piece of sale)
- Class B units are forfeitable upon employee termination before an exit event (including after the employee has rendered three years of service)



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NEW & NEWLY APPLICABLE STANDARDS

ASU 2024-01 – Topic 718 – Compensation-Stock Compensation

- Transition Requirements – two options:
 - *Retrospectively (disclosures in period of adoption related to all periods presented)*
 - *Prospectively to profits interest awards granted or modified on or after the date at which the entity first applies ASU 2024-01, with disclosures that describe change in accounting principle*



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NEW & NEWLY APPLICABLE STANDARDS

ASU 2022-04 – Topic 405-50 – Supplier Finance Programs

- Enhance transparency of supplier finance programs (reverse factoring or payables financing)
- New disclosure requirements
- Effective for years beginning after December 15, 2022 (public entities) and years beginning after December 15, 2023 (all other entities); early adoption permitted



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NEW & NEWLY APPLICABLE STANDARDS

ASU 2022-03 – *Topic 820 – Fair Value Measurement*

- Clarify guidance in Topic 820 when measuring the fair value of an equity security subject to contractual restrictions that prohibit the sale
- Introduce new disclosure requirements
- Effective for years beginning after December 15, 2023 (public entities) and years beginning after December 15, 2024 (all other entities)
- Early adoption is permitted



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NEW & NEWLY APPLICABLE STANDARDS

ASU 2023-09 – *Improvements to Income Tax Disclosures*

- Amendment to enhance transparency and decision usefulness of income tax disclosures
- Applies to all entities, however, disclosure requirements for public entities are much more extensive than those for nonpublic entities
- Effective for years beginning after December 15, 2024 (public entities) and years beginning after December 15, 2025 (all other entities); early adoption permitted



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NEW & NEWLY APPLICABLE STANDARDS

ASU 2021-08 – **Topic 805 – *Business Combinations***

- Accounting for acquired contracts with customers in business combination
- Apply Topic 606 – Revenue from Contracts with Customers
- Effective for years beginning after December 15, 2022 (public entities) and years beginning after December 15, 2023 (all other entities)
- Early adoption is permitted



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NEW & NEWLY APPLICABLE STANDARDS

ASU 2023-08 – **Subtopic 350-60 – *Crypto Accounting and Disclosures***

- FASB silent until December 2023
- Previously: include in other assets at cost, evaluate for impairment
- Amendments are effective for all fiscal years beginning after January 15, 2024; early adoption permitted
 - *A cumulative-effect adjustment to the opening balance is required in the period of adoption*



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Ruling on the Field Stands – A&A Update

NEW & NEWLY APPLICABLE STANDARDS

ASU 2023-08 – Subtopic 350-60 – Crypto Accounting and Disclosures

- New Guidance:
 - *Must meet definition and criteria – includes Bitcoin, Ether and similar*
 - *Measure, at fair value, with changes to net income*
 - *To be presented separately from other intangible assets; same for gains/losses*
 - *Near immediate conversions to cash to be specifically presented as cash receipts in statement of cash flows*



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NEW & NEWLY APPLICABLE STANDARDS

ASU 2023-08 – Subtopic 350-60 – Crypto Accounting and Disclosures

- Disclosure requirements include, among other things:
 1. *The name, cost basis, fair value, and number of units for each significant crypto asset holding, and the aggregate fair values and cost bases of the crypto asset holdings that are not individually significant*
 2. *Details related to contractual sale restrictions*
 3. *A rollforward, in the aggregate, of activity in the reporting period for crypto asset holdings, including additions, dispositions, gains and losses*



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NEW & NEWLY APPLICABLE STANDARDS

ASU 2023-08 – Subtopic 350-60 – Crypto Accounting and Disclosures

- Disclosure requirements include, among other things:
 4. *For any dispositions of crypto assets in the reporting period, the difference between the disposal price and the cost basis, and a description of the activities that resulted in the dispositions*
 5. *If gains and losses are not presented separately, the income statement line item in which those gains and losses are recognized*
 6. *The method for determining the cost basis of crypto assets*



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NEW & NEWLY APPLICABLE STANDARDS

ASU 2023-05 – Business Combinations – Joint Venture (JV) Formation

- Joint Venture defined as “an entity owned and operated by a small group of businesses (or joint ventures) as a separate and specific business or project for the mutual benefit of the members of the group”
- Previously silent on recognition and initial measurement of assets contributed and liabilities assumed upon formation



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NEW & NEWLY APPLICABLE STANDARDS

ASU 2023-05 – *Business Combinations – Joint Venture (JV) Formation*

- ASU requires new basis of accounting and, thus, fair value at inception (some exceptions)
 - *Follows much from business combinations guidance*
- Effective for joint ventures formed after January 1, 2025; early adoption permitted



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NEW & NEWLY APPLICABLE STANDARDS

2024-ED400 – *Internal Use Software*

- Issued October 29, 2024; Comments due January 27, 2025
- Proposed to start capitalizing software costs when both:
 - *Management has authorized/committed funding the project*
 - *Probable completion and used to perform the function intended*



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OVERTIME – NOT FINAL YET

Tentative FASB Board Decisions

- Accounting for environmental credit programs (ECPs)
- Example: allotment of carbon emissions “credits” by regulatory or government agencies (permission slips to offset assessments)
 - Entity would be permitted to make fair value accounting policy election to remeasure a class of noncompliance environment credits that are obtained in exchange transactions or through a nonreciprocal transfer that is not a grant from a regulator or its designee
 - Entity would be required to disclose certain qualitative and accounting policy information about an entity’s involvement in ECPs, including the activities and events that give rise to environmental credit obligation (ECO) liabilities and the types of environmental credits owned by an entity



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DOL UPDATES

New Participant Count Methodology

- Current methodology: *Eligible participants*
- New methodology: *Participants with account balances*
- Change intended to reduce the number of large plans and, therefore, reduce the number of plans subject to an audit
 - *Plans can still voluntarily elect to have an audit performed*
 - *80/120 rule still applies*
 - *Effective for plans year beginning on or after January 1, 2023*



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POTENTIAL CHANGES

Exposure Drafts Outstanding on Many Topics

- Several joint projects between the FASB and IASB
- We will briefly summarize:
 - *FASB Exposure Drafts*
 - *Delayed Effective Dates for Leases, Derivatives & Hedging, and Credit Losses*
 - *Debt Classification*
 - *Business Combinations*
 - *Stock Compensation*
 - *Income Taxes*
 - *Lease Codification Improvements*
 - *Derivatives & Hedging and Investments*
 - *Reference Rate Reform*



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QUESTIONS?

Thank you for your attention!

- Please reach out directly to the presenters if you need assistance:
 - *Jeff Ford, Partner* – 412-338-9302 – ford@gyf.com
 - *Eric Anthony, Sr. Manager* – 412-763-0528 – anthony@gyf.com



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