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What's in Store for Private Company Financial Reporting

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Agenda/Objectives

- Standard Setting for GAAP
- Upcoming Changes to Financial Reporting
- Challenges of Recently Implemented Standards/Areas of Potential Relief

Standard Setting for GAAP



Financial Accounting Standards Board (FASB)

- Financial Accounting and Reporting Standards - Entities following U.S. GAAP
- Financial Accounting Standards - Promote financial reporting useful to investors and other users
- Oversight by Financial Accounting Foundation (FAF)
- [About the FASB](#)

Private Company Council (PCC)

- Primary Roles and Responsibilities
 - › Advisory - **primary private company advisory body** to the FASB
 - › Considers private company accounting alternatives
 - › Outreach - participates in FASB outreach with private company stakeholders
 - › [PCC \(fasb.org\)](https://www.fasb.org/pcc)

Polling Question #1

- Which of the following ASUs that came out of the PCC has been most helpful to your company?
 - › ASU 2021-07, Compensation – Stock Compensation (Topic 718): Determining the Current Price of an Underlying Share for Equity-Classified Share-Based Awards
 - › ASU 2014-02, Intangibles – Goodwill and Other (Topic 350): Accounting for Goodwill
 - › ASU 2014-18, Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination
 - › We haven't adopted any of these PCC alternatives

Upcoming Changes



Recently Issued Standards

- Improvements to Income Tax Disclosures
- Accounting for and Disclosure of Crypto Assets
- Application of Profits Interest and Similar Awards

Polling Question #2

- Which of the following items impact the accounting for your company now or could in the future? You can make multiple selections.
 - › Improvements to Income Tax Disclosures
 - › Accounting for and Disclosure of Crypto Assets
 - › Application of Profits Interest and Similar Awards
 - › None/Unsure

Recently Issued Standards

- Improvements to Income Tax Disclosures
 - › Effective for private entities for annual periods beginning after December 15, 2025
 - › Reasons for these changes
 - › Primarily relate to 3 areas:
 - Rate reconciliation
 - Income taxes paid
 - Disclosures



Recently Issued Standards

- Improvements to Income Tax Disclosures
 - › Rate reconciliation - Places more specificity around what a private company should be disclosing
 - Nature and effect of specific categories of reconciling items and individual jurisdictions that result in a significant difference between statutory tax rates and effective tax rates. Numerical reconciliation is NOT required.

Recently Issued Standards

- Improvements to Income Tax Disclosures
 - › Rate reconciliation example disclosure (New)
 - The difference between Entity W's effective tax rate and its statutory rate is primarily attributed to tax credits, state taxes, and foreign taxes. More specifically, the foreign tax effects of Entity W's operations in Ireland had a decreasing effect on its effective tax rate, while the foreign effects of Entity W's operations in France had an increasing effect on its effective tax rate. Entity W received federal research and development tax credits, which decreased its effective tax rate, while California increased its effective tax rate.

Polling Question #3

- Do you think the increased disclosure requirements around tax rate reconciliation items will be beneficial to the readers of your financial statements?
 - › Yes
 - › No
 - › Unsure

Recently Issued Standards

- Improvements to Income Tax Disclosures
 - › Income taxes paid
 - Disaggregation of income taxes paid at federal, state and foreign levels; disaggregated by individual jurisdiction comprising 5% or more of total income taxes paid
 - Can be disclosure rather than on face of the cash flow statement

Recently Issued Standards

- Improvements to Income Tax Disclosures
 - › Income taxes paid example disclosure

	Year Ended December 31, 2026								
	U.S. Federal	U.S. States				Foreign			Total
		New Jersey	Missouri	Other	Subtotal	Mexico	Other	Subtotal	
Income taxes paid (refunded), net	\$11,000	\$4,000	\$2,000	\$1,000	\$7,000	\$4,000	\$1,000	\$5,000	\$23,000

Recently Issued Standards

- Improvements to Income Tax Disclosures (continued)
 - › Income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign
 - › Income tax expense (or benefit) from continuing operations disaggregated by federal, state and foreign

Recently Issued Standards

- Accounting for and Disclosure of Crypto Assets
 - › Effective for ALL entities for annual periods beginning after December 15, 2024
 - › Reasons:
 - Shortcomings of impairment model
 - Lack of crypto specific guidance
 - Users wanted enhanced transparency

Recently Issued Standards

- Accounting for and Disclosure of Crypto Assets
 - › Scope - 6 criteria
 - › Measurement - fair value
 - › Presentation
 - Balance Sheet
 - Income Statement
 - Statement of Cash Flows



Recently Issued Standards

- Accounting for and Disclosure of Crypto Assets
 - › Disclosure
 - Table of significant crypto asset holdings
 - Restrictions on crypto assets held
 - Reconciliation of activity for the period
 - Historical realized gains and losses

Recently Issued Standards

- Application of Profits Interest and Similar Awards
 - › Effective for private entities for annual periods beginning after December 15, 2025
 - › Began as a research project of the PCC
 - › Adds illustrative example cases on how an entity should apply the guidance in ASC 718, Compensation – Stock Compensation, to help determine whether such awards should be accounted for in accordance with that topic

Polling Question #4

- Were you impacted by the accounting for government grants during and/or post-pandemic (PPP/ERTC)?
 - › Yes
 - › No

FASB Agenda Highlights

- Technical (11 projects)
 - › Accounting for and Disclosure of Software Costs
 - › Accounting for Government Grants (Business Entities)
 - › Disaggregation - Income Statement Expenses (Public Companies Only)

Accounting for and Disclosure of Software Costs

- Different Guidance for Internal-Use Software and Software to be Sold, Leased or Marketed
 - › Project objectives
 - › Explored several models, but landed on:
 - Targeted improvements to internal-use software guidance (ASC 350-40)
 - Explore disclosures
 - Retain recognition and measurement guidance in ASC 985-20

Accounting for Government Grants (Business Entities)

- NO Existing Guidance on Recognizing, Measuring and Presenting Government Grants
 - › Companies analogize to:
 - IFRS IAS 20, Accounting for Government Grants and Disclosure of Government Assistance
 - FASB ASC 958-605, Not-for-Profit Entities – Revenue Recognition

Accounting for Government Grants (Business Entities)

- FASB Leveraging Accounting Framework in IAS 20
 - › Scope
 - › Recognition
 - › Presentation



Disaggregation of Income Statement Expenses

- Scope
 - › Public business entities
 - › PCC provided input to the FASB
 - Private companies ultimately **EXCLUDED**
 - Could be revisited in future

FASB Agenda Highlights

- Research
 - › Accounting for and Disclosure of Intangibles
 - Consider improvements, including to internally developed intangibles and R&D
 - › Consolidation of Business Entities
 - Explore a potential single consolidation model
 - › Statement of Cash Flows
 - Explore improvements to provide additional decision-useful information

Polling Question #5

- Which topic on the FASB's research agenda do you have the most interest in following the progress of and/or getting more information on?
 - › Accounting for and Disclosure of Intangibles
 - › Consolidation of Business Entities
 - › Statement of Cash Flows

FASB Agenda Highlights

- Post-Implementation Review (PIR)
 - › Objectives
 - Determine whether a standard is accomplishing its stated purpose
 - Evaluate implementation, continuing compliance costs and related benefits
 - Provide feedback to improve standard-setting process
 - › 3 Stages
 - Stage 1: Post-issuance date implementation monitoring
 - Stage 2: Post-effective date evaluation of costs and benefits
 - Stage 3: Summary of research and reporting

FASB Agenda Highlights

- Post-Implementation Review (PIR)

- › Oversight

- PIR process subject to FAF Board of Trustees' oversight
- FASB reports on the progress of PIR projects
- Final PIR report is published on FAF website

- › PIRs in Process

- Topic 606, Revenue from Contracts with Customers (soon to be in Stage 3)
- Topic 842, Leases (Stage 2)
- Topic 326, Financial Instruments – Credit Losses (Stage 1)

FASB Agenda Consultation

- Later in 2024, FASB Agenda Consultation Initiative
- Outreach
- Invitation for Public Comment – Specific Inquiry on Private Companies

Polling Question #6

- What area do you think the PCC should make its highest priority?
 - › Credit losses (CECL)
 - › Debt modifications and extinguishments
 - › Debt disclosures
 - › Presentation of conditional retainage (ASC 606)
 - › Leases
 - › Something else

PCC Priorities



PCC's Role

- Factors Considered by the PCC in Determining Issues to Address/Timing
 - › Pervasive? To all entities or private companies only?
 - › Are there technically feasible solutions?
 - › Is there an identifiable scope?
 - › Has the FASB already done research on the topic?
 - › Are they reasonable/supported by the Private Company Decision-Making Framework?
 - › Who raised the issue and with what frequency?
 - › Project plan and timeline to resolve the issue
 - › Priority to the PCC and private company stakeholders

PCC Priorities

- Credit Losses - Short-Term Trade Receivables and Contract Assets
 - › Challenges for non-financial private companies in applying CECL model with minimal effect to credit losses
- Debt Modifications and Extinguishments
 - › Applying guidance can be complex and costly

PCC Priorities

- Debt Disclosures
 - › Enhanced debt disclosures requested by users
- Presentation - Conditional Retainage and Overbillings as Contract Assets and Liabilities
- Leases
 - › Feedback that additional simplifications, practical expedients, or alternatives for private companies should be considered

Thank You!

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Staying Ahead of State &
Local Taxation

Wednesday, August 14

11 a.m. to Noon EDT

What You Should Know – Now –
About Beneficial Ownership Information Reporting

Wednesday, August 21

11 a.m. to Noon EDT

Register at cohencpa.com



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