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Accounting Relief Coming for Private Companies & NFPs?

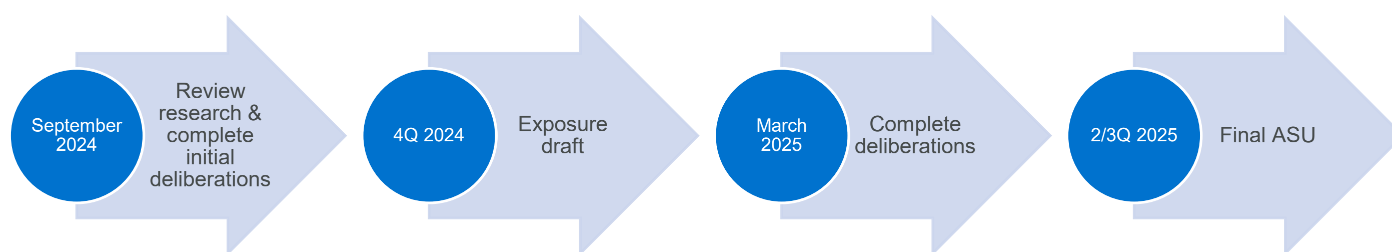
The Private Company Council (PCC) is the primary advisory body to FASB on private company accounting matters and advises the board on possible GAAP alternatives to meet the unique needs of users of private company financial statements. The PCC is considering research on possible practical expedients or accounting alternatives for leases, CECL, debt modifications, and retainage. If these research projects are approved, some could be finalized in early 2025.

Credit Losses

For many private companies, applying Accounting Standards Codification (ASC) 326, *Financial Instruments—Credit Losses* (CECL), to short-term trade receivables is time-consuming and results in minor change in credit loss provisions. Feedback from nonpublic entities as part of the post-implementation review (PIR) process has highlighted that certain CECL principles may be operationally burdensome to apply or difficult to understand when financial assets have limited loss experience and are short term in nature, *e.g.*, adjusting historical loss experience for current conditions and reasonable and supportable forecasts. Potential solutions that will require further research include:

- Permitting a private company to exclude the evaluation of reasonable and supportable forecasts (similar to an incurred loss model)
- Allowing for the collection of receivables after the balance sheet date but before the financial statements are available to be issued to be considered in measuring expected credit losses at the balance sheet date

Tentative Project Time Frame



Debt Modifications

Guidance in ASC 470-50, *Debt—Modifications and Extinguishments*, is complex to understand and costly to apply, especially for transactions with multiple lenders. For private companies, the costs may exceed the benefits.

Under ASC 470-50, an issuer of loans or debt instruments must assess whether the exchange results in debt terms that are “substantially different” (or results in a “substantial modification” if the debt is modified rather than exchanged). An exchange or modification is considered substantially different if the present value of the cash flows under the terms of the new debt instrument is at least 10% different from the present value of the remaining cash flows under the original instrument’s terms. Many financial statement preparers find this “10% cash flow test” to be arbitrary and difficult to understand. Depending on the outcome of the 10% test, different accounting is required. A different assessment is required for lines of credit and revolving debt arrangements.

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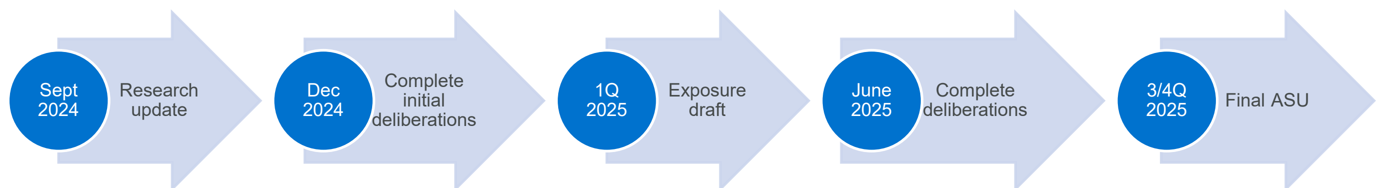
Since the debt modification guidance was first issued, FASB has received feedback on the operational challenges and costs to apply. FASB considered various projects to address concerns in the past, but the board was unable to reach a consensus on a solution.

Potential solutions that are being researched include:

- Account for all debt exchanges and modifications as debt extinguishments. A private company could elect an accounting policy to account for all the transactions as debt extinguishments.
- Account for all debt exchanges and modifications as debt modifications. A private company could elect an accounting policy to account for all the transactions as debt modifications.
- Permit the use of a qualitative assessment. A private company could elect to apply a qualitative assessment instead of (or before performing) the 10% test.
- Perform the quantitative assessment at the instrument level. A private company entity would be permitted to perform the quantitative assessment based on the total cash flows of the instrument instead of performing the assessment for each lender.

Tentative Project Time Frame



Retainage & Overbillings

In the construction industry, contracts often contain retainage provisions, which allow a customer to withhold a portion of invoice billings (usually in an escrow account) until certain project milestones are met or the project is completed.

Before the adoption of ASC 606, *Revenue from Contracts with Customers*, industry practice was to present conditional retainage separately from billings in excess of costs (deferred revenue). Under ASC 606, retainage may be classified as a contract asset or as a receivable, depending on whether the payment is conditioned on the entity's future performance. If the retainage is determined to be a contract asset, it must be netted with contract liabilities within the same contract for financial statement presentation. Some companies are voluntarily disclosing gross amounts in financial statement notes for surety companies, but under ASC 606, they are precluded from breaking out the amounts on the face of the financials. The surety industry has lobbied for easier-to-find decision-useful information on gross retainage amounts to accurately assess risk.

PCC research will determine how pervasive this issue is and consider two potential alternatives:

- Require private companies in the construction industry to **disclose** the gross amount of each contract's conditional retainage/contract assets and overbilling/contract liabilities that are presented net in the financial statements.

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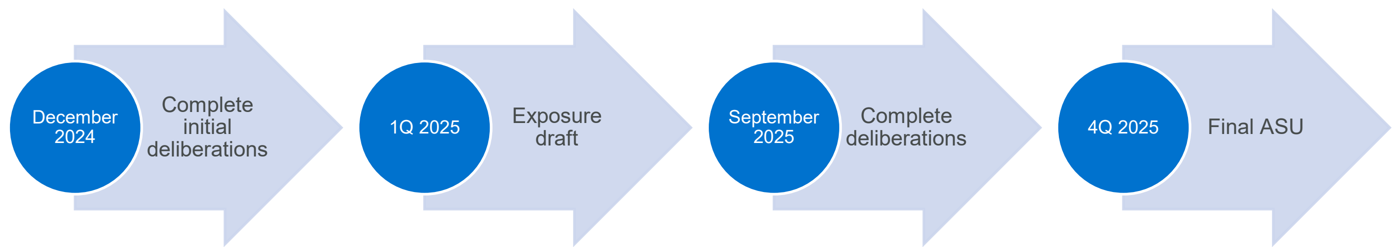
- Require private companies in the construction industry to **present** the amount of each contract's conditional retainage/contract assets and overbilling/contract liabilities on a gross basis in the financial statements.



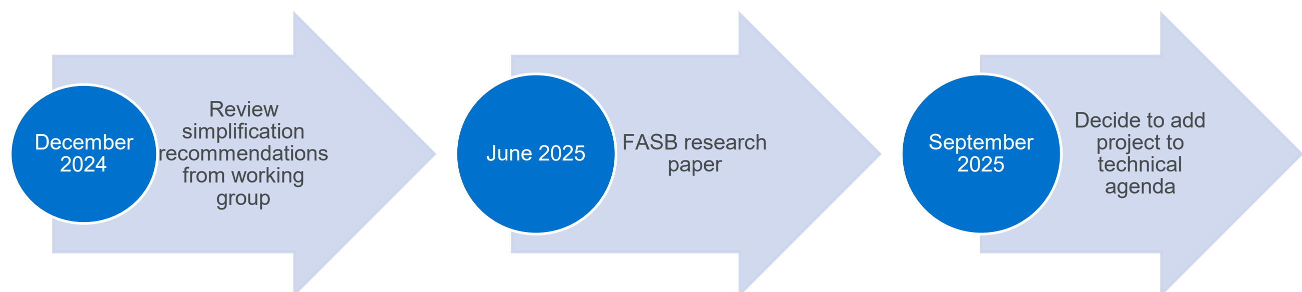
Leases

Although ASC 842, *Leases*, provides multiple practical expedients and accounting elections, the project's PIR process revealed stakeholders supported additional relief for certain areas that are costly and complex to apply:

- Determining the incremental borrowing rate
- Identifying leases, including those in nonlease contracts (embedded leases)
- Lease modifications
- Lessee allocation of fixed and variable payments to lease and nonlease components
- Lease classification test

A working group will be established to identify the most challenging guidance to apply and which simplifications would be most helpful for private companies, starting with the list above. FASB will continue PIR activities through the end of 2024 and also will consider two open agenda requests:

- Accounting for lease costs incurred during a construction period
- When lease classification for a failed sale-leaseback should be reassessed



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Conclusion

The assurance team at Forvis Mazars delivers extensive experience and skilled professionals to assist with your objectives. Our proactive approach includes candid and open communication to help address your financial reporting needs. At the end of the day, we know how important it is for you to be able to trust the numbers; our commitment to independence and objectivity helps provide the security and confidence you desire. Whether you are publicly traded or privately held, Forvis Mazars can help provide an independent and objective view into your financial reporting. We leverage some of the latest technologies and process automation tools to provide companies assurance on their financial statements to help meet stakeholders' needs.

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