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# FASB Issues Educational Paper for Borrowers with Debt Modifications

The effects of the COVID-19 pandemic on the economy have resulted in a greater number of changes to outstanding debt agreements. On October 28, FASB released an educational paper, *Topic 470 (Debt): Borrower's Accounting for Debt Modifications*, about the accounting for debt restructurings and debt modifications. This paper doesn't provide new guidance but is aimed at helping borrowers apply existing guidance to their loan modifications.

## Two Models

The relevant accounting guidance is contained in FASB ASC 470-50, *Debt—Modifications and Extinguishments*, and FASB ASC 470-60, *Debt—Troubled Debt Restructurings by Debtors*. The accounting effects on the statements of operations and financial condition can be very different under these two models, so all the specific facts and circumstances must be evaluated to choose the correct model. The FASB paper provides guidance on determining which model to apply. It also includes eight illustrative examples of different types of debt restructurings that could potentially occur and the required accounting for each.

**FASB ASC 470-50.** This ASC subtopic explains how to determine if an exchange of debt with the same lender or a modification of debt (nontroubled) is accounted for as an extinguishment of the existing debt and issuance of new debt or a modification and continuation of the existing debt. A modification or exchange of debt with the same lender with substantially different terms is accounted for as a debt extinguishment. If the terms aren't substantially different from the original debt terms, the debt is not extinguished but is modified, with a new effective interest rate based on the carrying amount of the original debt. If a borrower satisfies its existing debt and at the same time enters into a new debt agreement with a different lender, the transaction is accounted for as extinguishment of the existing debt and issuance of new debt. The FASB paper provides guidance on how to determine whether a substantial modification has occurred for term debt. It also indicates how to apply the guidance to lines-of-credit and revolving debt.

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**FASB ASC 470-60.** This ASC subtopic states a troubled debt restructuring (TDR) is a situation where a lender makes concessions to a borrower in financial difficulties for economic or legal reasons that it wouldn't consider under normal circumstances. The lender grants the concession to obtain more money or value from the borrower than it would otherwise likely receive. For TDRs resulting in modification of the debt terms, the accounting depends on whether the undiscounted future cash payments of the new debt are greater or less than the carrying amount of the original debt. The FASB paper provides a general summary of these accounting outcomes. If a modification or exchange of debt is not a TDR, FASB ASC 470-50 applies. The paper also provides detailed clarification on how to determine whether a borrower is experiencing financial difficulties and whether a lender is granting a concession, which are the prerequisites for applying TDR accounting.

### Practical Consideration:

The FASB paper is available on the FASB's website at **www.fasb.org/cs/Satellite?c=Document_C&cid=1176175502209&pagename=FASB%2FDocument_C%2FDocumentPage**.

# COVID-19 Audit Resource

For many of your audit clients, the effects of the COVID-19 pandemic on their operations will significantly increase your audit risk. To help you assess the risk of material misstatement of your client's financial statements, we have developed a practice aid with a listing of factors to consider related to the COVID-19 pandemic. This practice aid is a reference tool for your identification of risks related to COVID-19 and includes factors to consider that may be relevant to performing an audit in an evolving work environment. (It isn't necessary to include this practice aid in your final engagement documentation.)

This practice aid includes two parts. Part I lists factors to consider and may serve as a helpful discussion aid in planning meetings with the engagement team and/or client. Part II includes a more detailed discussion on certain factors, as applicable, and can serve as a reference tool for use throughout the engagement.

This practice aid will be included in your 2021 editions of PPC audit guides/practice aids. To assist you in planning and performing your audits before those editions are published, we will include the practice aid on our support site at **http://thomsonreuterstaxsupport.force.com/pkb/articles/Installation_Updates/COVID-19-Audit-Considerations/**.

# New Auditing Standard on Accounting Estimates

In July 2020, the AICPA issued SAS 143, *Auditing Accounting Estimates and Related Disclosures*. SAS 143, which is now codified at AU-C 540, supersedes *Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures*, which is now codified at AU-C 540A (or AU-C 540B prior to the amendments in SASs 134–141), and amends various other AU-Cs. It is effective for audit periods ending on or after December 15, 2023, with early implementation permitted.

SAS 143 aims to improve audit quality by enabling auditors to address the increasingly complex estimates, including fair value accounting estimates, in new accounting standards. It requires the auditor to evaluate, based on audit procedures performed and audit evidence obtained, whether accounting estimates and related financial statement disclosures are reasonable.

The standard retains the requirement that the auditor's further procedures should include one or more of three approaches: (a) obtain evidence from events occurring up to the audit report date, (b) test how management made the estimate, or (c) develop the auditor's own point estimate or range. The "Application and Explanatory Material" provides guidance and examples of additional procedures and considerations for certain estimates or situations, including estimates of fair value and management's use of models.

Key changes, additions, and notable features covered by SAS 143 are as follows:

- Separate assessments of inherent risk and control risk are required.
- Assessment of inherent risk requires the auditor to take into account the degree of complexity, subjectivity, or other inherent risk factors, in addition to the degree to

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# The PPC Technology Update

by Roman H. Kepczyk, CPA.CITP, CGMA

## 2021 CES Trends Impacting Your Future

Each January over 170,000 consumer electronic technologists flock to the International CES (Consumer Electronics Show) in Las Vegas to experience the announcements of the latest trends and technologies that will be rolling out in the year ahead. Every year, that is, except this year.

Due to COVID-19, the 2021 CES was restructured into an entirely digital event with hundreds of product pitches packed into three full days of keynotes, panel discussions, and press briefings, which we perused to identify key trends that could impact thinking within accounting firms and for their clients. Below we list six key trends and some representative products that highlighted this year's virtual CES.

### Personal Safety

Consumer electronics manufacturers specifically addressed COVID-19 concerns, developing products both for personnel safety and for sanitizing commercial environments. Robots such as the LG CLOi and Ubtech Adibot utilize UV lighting operating on a "Roomba-like" platform to quickly disinfect a hotel room, gym, or classroom. Personal UV sanitation devices were featured, such as the Targus UV-C LED light that could disinfect your keyboard and smartphone at the touch of a button.

The unobtrusive face mask also received the CES treatment with vendors integrating a variety of technologies, including wearable air purifiers (LG PuriCare), ear buds with sound control (MaskFone), and air quality sensors that would notify you via an app when to change the filter (AirPop Smart Mask).

### 5G Is Much More Than Just Another "G"

While 5G digital cellular service roll outs are significantly increasing bandwidth and lowering latency for consumers, multiple vendors touted that its transformative capabilities to innovate industries were "beyond revolutionary." They believed this would be especially true in commercial environments where *private 5G products* are accelerating development of connected processes

in manufacturing, retail, autonomous vehicles/delivery, and EDGE computing. While most consumers have roughly five devices connected to the Internet today (phone, computer, TV, doorbell, car, etc.), 5G solutions are expected to make that number jump to between *forty* and *sixty* within the next ten years.

### Robotics

Robotics are impacting every industry, such as personal delivery via air (Wing drones) and personalized shopping (via self-driving Starship delivery carts). These robots are already being utilized on college campuses for "contactless" food delivery. Consumer grade robots have also made a significant jump in capabilities. Samsung's JetBot 90 AI+ floor vacuum integrates high precision LiDAR radar (found in autonomous cars) with 3D object recognition to clean floors, avoid problems, and integrate a camera that can be accessed through your smart phone so you can see what is going on in your house. Samsung also displayed their BotHandy robot, which has an articulating arm that can set the dinner table, pour you a drink, and put the dishes in the dishwasher afterwards. Companion robots such as the CareClever Cutii and Bot Care from Samsung are being marketing to seniors that may be particularly vulnerable during the pandemic. These robots learn their owner's daily routine, provide reminders (i.e. appointments, medication time), as well as help to make video calls to family members and emergency services.

## Cloud Adoption

COVID-19 accelerated the adoption of cloud technologies for most organizations as they pivoted to having remote employees and customers that suddenly needed to interact virtually. Multiple panelists identified competitive advantages in connectivity, collaboration, scalability, disaster recovery, and security that cloud solutions provided over legacy solutions. A "State of the Cloud" report done by Flexera in April 2020 found 59% of global enterprises are already exceeding their cloud adoption plans.

## Remote Work

Companies had significantly different remote work experiences with those not already cloud enabled seeing decreases in productivity and wanting to return to the office. Those that had remote work programs and were cloud enabled saw the exact opposite and plan to continue remote usage. COVID-19 forced over 100,000 of Dell's traditionally office-bound personnel to work remotely over a weekend. Management identified that working from home was not about work/life balance, but an integrated "homebody" experience that combined immersive and nonimmersive work projects, personal computing needs (shopping, bill paying), and entertainment/exercise needs interspersed throughout the day. Along with upgrades to the Latitude 9420 to optimize video calls, Dell touted a 34 inch curved monitor designed specifically for video conferencing and optimized for Microsoft Teams collaboration. On the topic of remote displays, Lenovo featured their ThinkReality A3 Virtual Smart Glasses, which allows the user to "see" up to five other displays at 1080p definition when connected to their laptop. This appeared to be a significant jump along the lines of Microsoft's HoloLens smartglasses.

## Security

Microsoft President Brad Smith highlighted the critical awareness and focus that all companies must have on Information Security as one of the key challenges they will face in the future. The scope and breadth of the recent Solar Winds attack was unlike any seen before; it was a mass indiscriminate global assault on the information technology supply chain and impacted the medical infrastructure, hospitals, first responder and medical supply providers. Companies must build safeguards around their (and their partners) data and infrastructure while increasingly addressing privacy and information bias within artificial intelligence.

While this year's CES was effective at creating a digital experience that allowed for the safe exposure to hundreds of leading experts and technologies, the virtual format punctuated the differences in energy and expanded awareness generated when physically immersed amongst thousands of vendors and technology explorers

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which the accounting estimate is subject to estimation uncertainty.

- Scalability is incorporated by providing examples of how the requirements can be applied to simpler and smaller businesses with accounting estimates that generally have less inherent risk.
- Communications with those charged with governance about accounting estimates are enhanced.
- Requirements and guidance are provided on how other AU-Cs, particularly AU-Cs 315 and 330, are to be applied with respect to accounting estimates.
- New documentation requirements for accounting estimates are added.
- A new more robust requirement has been added, requiring the auditor to evaluate whether management has included disclosures beyond those specifically required by the financial reporting framework.

# Accounting for Digital Assets

The AICPA's Digital Assets Working Group originally published a Practice Aid, *Accounting for and Auditing Digital Assets*, in December 2019 with 10 questions and answers (Q&As). The Practice Aid was updated in July 2020 with five client acceptance and continuance Q&As, and was updated again in October 2020 with 13 more Q&As. This guidance is nonauthoritative. It is intended to provide support to financial statement preparers and auditors relating to accounting for and auditing digital assets under GAAP and GAAS for nongovernmental entities.

## Definitions

*Digital assets* are defined as digital records, made using cryptography for purposes of security and verification, on a distributed ledger (a *blockchain*). Accounting for digital assets will be determined by the terms, form, rights, and obligations of the digital asset. Digital assets and technologies are evolving.

*Crypto assets* are digital assets that, according to the Practice Aid, function as a medium of exchange, are not issued by a jurisdictional authority, do not create a contract between the holder and another party, and are not considered a security under federal securities laws. Crypto assets may meet the definition of intangible assets rather than cash or cash equivalents under GAAP definitions.

*Stablecoins* is a type of cryptocurrency increasingly used for a variety of payments. Stablecoins are designed to have more stable values than other types of cryptocurrencies that experience significant volatility by linking their values to the value of other more traditional assets like flat currencies or commodities.

## October 2020 Update

The Practice Aid includes the following new guidance in its October 2020 Update:

**Meeting the Definition of an Investment Company When Engaging in Digital Asset Activities.** Entities participating in digital asset activities (buying and selling and mining) can be disqualified from being classified as an investment company in the scope of FASB ASC 946, *Financial Services—Investment Companies*. An entity must determine whether the digital asset activities are consistent with those of an investment company. Selling assets for capital appreciation would be consistent, while mining would be considered "other than investing" and inconsistent with activities of an investment company and would need to be evaluated to see if the activity is substantive.

**Accounting by an Investment Company for Digital Assets.** Investment companies should determine whether digital assets are debt securities, equity securities, or other investments and apply the appropriate guidance in FASB ASC 946. Investments in digital assets are required to initially be measured at their transaction price, including commissions and other purchase charges. Subsequent measurement is based on fair value in accordance with FASB ASC 946 guidance, unless equity method accounting or consolidation applies.

**Recognition, Measurement, and Presentation of Digital Assets Specific to Broker-Dealers.** There are three questions on recognition, measurement, and presentation of digital assets specific to broker-dealers in the scope of FASB ASC 940 and the AICPA's *Audit and Auditing Broker-Dealer Guide*. These include presentation of assets held or received on behalf of customers, recognition of revenue for purchases and sales of digital assets on behalf of customers, and measurement of digital assets owned by broker-dealers as part of proprietary trading portfolios.

**Considerations for Crypto Assets That Require Fair Value Measurement.** There are six questions in this area. They include, for the purpose of determining fair

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value under FASB ASC 820, how to determine the principal market in which crypto assets trade, how to assess the characteristics of the markets in which they trade, how to apply criteria on the levels of the fair value hierarchy, and how to adjust fair value measurements for premiums and discounts based on the size of the entity's holding.

**Accounting for Stablecoin Holdings.** There are two questions on what relevant facts and circumstances to consider in determining the appropriate accounting for a holding in a stablecoin. There are significant differences in underlying rights and obligations among different stablecoins. Based on considerations including the stablecoin's purpose, issuer, legal form, redemption and collateral features, and rights and obligations of the holder, the relevant GAAP would be applied.

## Practical Consideration:

The Practice Aid is available on the AICPA's website at **www.aicpa.org/interestareas/informationtechnology/resources/blockchain/digitalassets.html**.