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Viewpoint

Private entities: Preparing for 2021 calendar year-end financial reporting

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The content in this publication is based on information available as of December 31, 2021. We may update this publication for evolving views and as we continue to monitor the standard-setting process and implementation of any ASC amendment. For the latest version, please visit grantthornton.com.

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Introduction

The year 2021 has likely posed unique challenges for private companies. In preparing for their year-end financial reporting, private companies may need to consider the impact of new and evolving challenges triggered by COVID-19 and the government's related response to these challenges, as well as a number of new accounting pronouncements that directly impact nonpublic entities.

In fact, the FASB issued a number of new Accounting Standards Updates in 2021, including six discussed in this document that directly impact financial reporting for nonpublic entities, including revisions to the new leasing guidance; a practical expedient for assessing events that trigger goodwill impairment and one for determining the current price input of an equity-classified share-based payment award; an exception to the recognition and measurement principles in ASC 805; new disclosure requirements for certain types of government assistance received by businesses; and practical expedients and exceptions from applying modification accounting to contracts modified due to reference rate reform.

In addition, private companies should consider the potential for COVID-19-related year-end financial reporting considerations as well as the AICPA's newly effective guidance on auditor's reporting on "key audit matters."

This Viewpoint helps to unravel some of the financial reporting challenges currently facing private companies related to these matters.

1. Goodwill impairment triggering event assessment

1.1 ASU 2021-03 on evaluating impairment triggering events

The amendments in ASU 2021-03, which the FASB issued in March 2021, allow private companies and not-for-profit entities (NFPs) to elect not to monitor for goodwill impairment triggering events during the reporting period, but to consider events and conditions only at the end of the reporting period (both interim and annual reporting periods) to assess whether it is more likely than not that goodwill is impaired. Prior to these amendments, the goodwill impairment guidance in ASC 350 required private companies and NFPs to monitor and evaluate these triggering events throughout the reporting year to determine whether goodwill is more likely than not impaired.

1.2 Background

Under the guidance in ASC 350, a triggering event occurs when either an event transpires or circumstances change indicating that the fair value of the reporting unit may be less than its carrying value (or the fair value of an entity for entities that elected the accounting alternative for amortizing goodwill and made an accounting policy election to test goodwill at the entity level under ASC 350-20). If a triggering event occurs, that guidance requires an entity to perform a goodwill impairment test using the triggering event date as the measurement date, without the use of hindsight.

1.3 Amendments to ASC 350

Under the amendments in ASU 2021-03, private entities and NFPs may now elect to evaluate goodwill impairment triggering events only at the end of each reporting period on either an interim or annual basis. Said differently, an entity that elects this accounting alternative is required to evaluate goodwill impairment triggering events and to measure any related impairment using the facts and circumstances as of the end of each reporting period rather than throughout the year.

The amendments further require private entities and NFPs to disclose their election of the accounting alternative under ASU 2021-03 as a significant accounting policy in the notes to the financial statements. In addition, an entity that has elected to amortize goodwill under the guidance in ASC 350-20 is also allowed to elect the alternative for evaluating impairment triggering events.

Entities that perform the annual goodwill impairment test on a date other than at the end of the reporting period may elect this alternative and should evaluate impairment that might have occurred between their annual testing date and the end of the reporting period only as of the end of the reporting period.

Identifying whether a private company or NFP has interim reporting dates for the purposes of applying this accounting alternative may require significant judgment.

Grant Thornton insight: Identifying interim reporting dates

While the FASB chose not to define what constitutes a “reporting date,” in the Basis for Conclusions to ASU 2021-03, the Board observed that many private companies and NFPs provide some level of financial information that indicates compliance with the recognition and measurement principles in U.S. GAAP more frequently than annually (for example, financial information provided quarterly to lenders, other investors, or regulators). The FASB also observed that when entities provide financial information compliant with U.S. GAAP on an interim basis, it would be misleading to allow these entities to delay evaluating goodwill for impairment until the end of the annual reporting period. Accordingly, if an entity is required or elects to provide financial information on an interim basis in compliance with the recognition and measurement principles of U.S. GAAP, it may conclude that it has an interim reporting period.

We believe that a private entity or NFP should consider whether financial information reported at an interim date would be affected by goodwill impairment when determining whether its reporting requirements create an interim reporting date. If the financial information would not be impacted by goodwill impairment, the entity might not have an interim reporting date for the purposes of applying the accounting alternative.

If a private entity or NFP concludes that it has an interim financial reporting date and elects to apply the accounting alternative, it must perform the goodwill triggering event analysis as of the end of each interim reporting period in addition to the end of the annual reporting period.

If a private company or NFP elects to apply the accounting alternative in ASU 2021-03, it is still required to

- Assess other assets for impairment, such as long-lived assets and indefinite-lived intangibles under existing guidance in ASC 360 and ASC 350, respectively. In other words, the entity must evaluate triggering events not only at the reporting date but also during the reporting period and must test for impairment using the triggering event date as the measurement date.
- Upon disposal of a portion of a reporting unit, assess any portion of goodwill retained for impairment as of the disposal date if goodwill is allocated based on the relative fair value between the portions of a reporting unit disposed of and retained.

Evaluation of goodwill triggering events after adoption of ASU 2021-03

Scenario 1: Entity has no interim reporting date

Entity A, a private company that has previously adopted the accounting alternative to amortize goodwill under ASC 350-20, elects to adopt the accounting alternative in ASU 2021-03 for evaluating goodwill impairment triggering events for its 2021 financial statements during the first quarter of 2021. Entity A determines that it does not have interim reporting periods. In other words, it has only an annual reporting period.

During the second quarter of 2021, Entity A’s main supplier goes out of business, which, absent the adoption of the accounting alternative, would have represented an impairment triggering event in the second quarter. By the fourth quarter of 2021, Entity A is able to secure a new supplier with similar

terms to the arrangement it had in place with its previous supplier, and cash flows are back in line with its previous forecasts.

Entity A evaluates the facts and circumstances existing as of December 31, 2021 (its annual goodwill impairment triggering event evaluation date under the accounting alternative) and concludes that no triggering event exists as of that date. Since Entity A has elected the accounting alternative to amortize goodwill, it is only required to test goodwill for impairment upon the occurrence of a triggering event; since no triggering event has occurred, it is not required to further evaluate goodwill for impairment.

Entity A discloses its election to use the accounting alternative as a significant accounting policy in the notes to the financial statements.

Scenario 2: Entity reports to bank quarterly in compliance with U.S. GAAP

Assume the same facts above, except in this scenario, Entity A provides U.S. GAAP financial statements to its lender at the end of each quarter.

Entity A evaluates the facts and circumstances existing as of the end of each quarterly interim reporting period in 2021. Entity A is required to evaluate whether the loss of its supplier is a triggering event, taking into consideration the facts and circumstances that exist as of June 30, 2021. If Entity A determines that a triggering event has occurred as of June 30, 2021, it is then required to evaluate goodwill for impairment at that date.

1.4 Effective date and transition

The amendments are effective on a prospective basis for fiscal years beginning after December 15, 2019. Early adoption is allowed for both interim and annual financial statements that have not been issued or made available for issuance as of March 30, 2021. Entities may not retroactively adopt the amendments for interim financial statements already issued in the year of adoption.

The amendments also allow for a one-time option to adopt the alternative prospectively after the effective date without assessing preferability under ASC 250.

Grant Thornton insight: Applying the practical expedient

As with any accounting policy available solely to nonpublic business entities, entities that are considering becoming public business entities in the future should carefully consider the implications of adopting the expedient regarding goodwill impairment triggering events. An entity that has applied the expedient to identify goodwill triggering events would be required to “undo” the expedient when preparing financial statements as a public business entity.

This process could be challenging, as it would involve retroactively determining whether goodwill impairment triggering events occurred between reporting dates in prior periods, considering only information that was known or knowable at each potential triggering event date.

2. Adoption of ASC 842

The amendments in ASU 2016-02, which overhaul the existing leasing guidance, have triggered profound financial reporting changes for all entities with leasing contracts. These amendments now require lessees to recognize operating leases on the balance sheet, rather than solely disclosing operating lease commitments in the footnotes to the financial statements. Codified in a new Topic, ASC 842, the amendments do not impact how lease expense is recognized in the income statement, as lessees still classify leases either as operating leases and recognize straight-line rent expense, or as finance leases ("capital" leases under legacy guidance) and recognize interest and amortization expense. The new guidance also changes certain aspects of lessor accounting.

Since the release of the new leasing guidance, the FASB has further clarified and improved this guidance with amendments, including those in ASU 2021-05 and ASU 2021-09, which are the focus of this section. For a comprehensive discussion of the new leasing guidance in ASC 842, refer to Grant Thornton's *Leases: Navigating the guidance in ASC 842*.

2.1 ASU 2021-05 for sales-type or direct financing leases resulting in day-one losses

The amendments in ASU 2021-05 revise the guidance in ASC 842 so that lessors are no longer required to recognize a selling loss upon the commencement of a lease containing variable lease payments that would have been classified as a sales-type or direct financing lease before the amendments were issued.

Under the amended guidance, a lessor must classify as an operating lease any lease that would otherwise be classified as a sales-type or direct financing lease, resulting in the recognition of a selling loss at lease commencement, provided that the lease includes variable lease payments that do not depend on an index or rate.

2.1.1 Background

To account for a sales-type or direct financing lease under ASC 842, a lessor must derecognize the underlying asset and recognize a net investment in the lease. The net investment in the lease is initially measured, in part, based on the present value of the lease payments not yet received from the lessee. The "lease payments" reflected in the initial measurement of the net investment in the lease exclude variable lease payments that are not based on an index or rate (for example, payments based on future sales of output or future purchases of supplies).

Sales-type and direct financing leases may include substantial variable lease payments that are not based on an index or rate, so that the lessor's initial net investment in the lease is less than the carrying amount of the underlying asset (net of any unguaranteed residual asset). Prior to ASU 2021-05, a lessor in this situation would recognize a selling loss at the lease commencement date, or a "day-one loss."

2.1.2 Amendments to ASC 842

The amendments in ASU 2021-05 revise the lessor's lease classification guidance in ASC 842 for leases that include any amount of variable lease payments that are not based on an index or rate.

The amendments require the lessor to classify a lease as an operating lease if (1) the lease is classified as either a sales-type or direct financing lease under ASC 842-10-25-2 through 25-3, and (2) application of the sale-type lease or direct financing lease guidance results in a selling loss.

For operating leases, a lessor neither derecognizes the underlying asset nor recognizes a net investment in the lease, and instead recognizes the "lease payments" on a straight-line basis over the lease term under ASC 842. Variable lease payments not based on an index or rate are excluded from the "lease payments" at lease commencement and are instead recognized in the period when the facts and circumstances that trigger the variable lease payments occur.

For leases classified as operating leases under the amended guidance, a lessor does not derecognize the leased asset and, therefore, does not recognize a day-one loss that would have been recognized if the lease were classified as a sales-type or direct financing lease.

2.1.3 Effective date and transition

For private companies (except certain NFPs and employee benefit plans) that have adopted ASC 842 as of July 19, 2021, the amendments in ASU 2021-05 are effective for fiscal years beginning after December 15, 2021 and for interim periods within fiscal years beginning after December 15, 2022. Entities that have adopted ASC 842 as of July 19, 2021 are permitted to early adopt the amendments in ASU 2021-05.

For entities that have not adopted ASC 842 as of July 19, 2021, the amendments in ASU 2021-05 are effective as of the same date as the guidance in ASC 842.

Entities that have adopted ASC 842 as of July 19, 2021 may use either of the following transition methods:

- Retrospective application to leases that commenced or were modified (except for modifications that meet the conditions in ASC 842-10-25-8) after the beginning of the period in which ASC 842 was adopted
- Prospective application to leases that commence or are modified (except for modifications that meet the conditions in ASC 842-10-25-8) subsequent to the date the amendments in ASU 2021-05 are first applied

Entities that apply the retrospective transition method must disclose the applicable transition information required by ASC 250, except for the requirements in ASC 250-10-50-1(b)(2) and 50-3. The cumulative effect of applying the amendments in ASU 2021-05 on retained earnings or other components of equity or net assets must be disclosed as of the beginning of the earliest period presented, but not before the date when ASC 842 was adopted.

Entities that apply the prospective transition method must disclose the following information:

- The nature of, and reason for, the change in accounting principle
- The transition method
- A qualitative description of the financial statement line items affected by the change

For entities that have not adopted ASC 842 as of July 19, 2021, the amendments in ASU 2021-05 are subject to the same transition guidance that applies to ASC 842.

2.2 ASU 2021-09 on discount rates for nonpublic entities

The amendments in ASU 2021-09 allow lessees that are not public business entities to apply the existing risk-free discount rate expedient by class of underlying asset rather than to all leases.

2.2.1 Background

Under the existing guidance in ASC 842, a lessee must determine a discount rate for calculating the present value of the lease payments when classifying a lease and measuring the lease liability. A lessee must use the rate implicit in the lease as the discount rate when that rate is readily determinable, but, if that rate is not readily determinable, a lessee is required to use its incremental borrowing rate.

Prior to the issuance of ASU 2021-09, the guidance in ASC 842 provided lessees that are not public business entities with a practical expedient that allows them to use a risk-free rate as the discount rate for ***all*** leases. The FASB intended this expedient to allow lessees that are not public business entities to avoid the costs of estimating the incremental borrowing rate.

But, as part of its post-implementation review of ASC 842, the FASB discovered that eligible entities were reluctant to elect the risk-free rate expedient. Because a risk-free rate (such as the U.S. Treasury rate) is generally lower than the incremental borrowing rate, using a risk-free rate to discount the lease payments would increase the likelihood that a lease is classified as a finance lease instead of an operating lease, resulting in a greater lease liability and corresponding right-of-use asset for lessees. The amendments in ASU 2021-09 are designed to address these concerns by allowing more targeted application of the risk-free rate expedient.

2.2.2 Amendments to ASC 842

Under the amended guidance, a lessee that is not a public business entity may elect the risk-free rate expedient ***by class of underlying asset*** rather than for all leases. For example, a lessee could use the risk-free rate for an asset class with high volume, low dollar leases (for example, equipment) and use the incremental borrowing rate for an asset class with low volume, high dollar leases (for example, real estate). Entities that make this accounting policy election must disclose this election as well as the class (or classes) of underlying assets to which the election has been applied.

The Board also amended ASC 842 to clarify that the risk-free rate is an alternative only to the incremental borrowing rate. In other words, a lessee must use the rate implicit in the lease if that rate is readily determinable, regardless of whether the lessee has elected the risk-free rate expedient.

2.2.3 Effective date and transition

For entities that have not adopted ASC 842 as of November 11, 2021, the amendments in ASU 2021-09 are subject to the same effective date and transition guidance that applies to ASC 842.

Entities that have adopted ASC 842 as of November 11, 2021 are required to apply the amendments for fiscal years beginning after December 15, 2021 and for interim periods within fiscal years beginning after December 15, 2022. Earlier application is permitted as of the beginning of the fiscal year of adoption. Entities are required to apply the amendments on a modified retrospective basis to leases that exist at the beginning of the fiscal year of adoption.

Upon adoption of the amended guidance, an entity that has already adopted ASC 842 may choose to either apply or discontinue the risk-free rate expedient for any class of underlying asset. After remeasuring the lease liabilities for affected leases based on a discount rate and the remaining lease term as of the beginning of the fiscal year of adoption, an entity should adjust the carrying amounts of the affected lease liabilities, with an offsetting adjustment to the corresponding right-of-use assets. If such an

adjustment would either cause a right-of-use asset to become a credit balance or increase the carrying amount of a previously impaired right-of-use asset, then the offsetting adjustment should be recognized in opening retained earnings.

Adopting the amended guidance alone does not require a lessee to remeasure and reallocate the consideration in the contract, to reassess the lease term or the likelihood of exercising a purchase option, to remeasure the lease payments under ASC 842-10-35-4, or to reassess lease classification under ASC 842-10-25-1.

A change in the application of the risk-free rate expedient after an entity adopts the amendments would be considered a change in accounting policy that would require further evaluation under ASC 250.

Grant Thornton insight: Applying the practical expedient

As with any accounting policy available solely to nonpublic business entities, entities that are considering becoming public business entities in the future should carefully consider the implications of adopting the risk-free rate expedient. An entity that has applied the risk-free rate expedient to one or more asset classes would be required to "undo" the expedient when preparing financial statements as a public business entity.

This process could be challenging, as it would involve retroactively estimating the incremental borrowing rate at the later of the lease commencement date or the date at which the lease required remeasurement using an updated discount rate.

3. Other recent FASB accounting standard updates

3.1 ASU 2021-07 on determining current price of equity-classified share-based award

The amendments in ASU 2021-07 offer nonpublic entities a practical expedient to use when determining the "current price input" of an equity-classified share-based payment award issued to employees and nonemployees. The current price input is used when calculating the award's fair value.

3.1.1 Background

Equity-classified share-based payment awards, such as share options, are initially measured at the grant-date fair value and typically are not subsequently remeasured under ASC 718. The most common valuation technique used by nonpublic entities to estimate the grant-date fair value of share options is the Black-Scholes-Merton model. This option-pricing model requires various inputs, including the fair value of the equity shares underlying the option, which is called the *current price input*. If an observable market price for the current price input is not available (which is usually the case with nonpublic entities), the fair value of the share underlying the award is estimated.

Private company stakeholders told the FASB's Private Company Council that private company equity shares are usually not actively traded and, therefore, lack an observable market price. As a result, the current price input is typically complex and costly to estimate.

3.1.2 Amendments to ASC 718

The practical expedient in ASU 2021-07 allows a nonpublic entity to determine the current price input of a share option using the "reasonable application of a reasonable valuation method," which is determined as of the award's measurement date, taking into consideration the following factors:

1. The value of the nonpublic entity's tangible and intangible assets
2. The present value of the entity's anticipated future cash flows
3. The market value of stock or equity interests in similar entities engaged in substantially similar trades or businesses
4. Recent arm's-length transactions involving the sale or transfer of the entity's stock or equity interests
5. Other relevant factors, such as control premiums or discounts for lack of marketability
6. The entity's consistent use of a particular valuation method to determine the value of stock or assets for other purposes

Finally, the amendments state that the "reasonable application of a reasonable valuation method" cannot utilize a value calculated more than 12 months earlier than the measurement date, and that this value must be updated to reflect subsequent information material to the value of the entity.

The amendments specifically acknowledge that a valuation performed in accordance with Treasury Regulation §1.409A-1(b)(5)(iv)(B) would comprise a "reasonable application of a reasonable valuation method."

Grant Thornton insight: Fair value measurement

It is important to keep in mind that the practical expedient does not change the fair value measurement objective for the current price input of the option pricing model, nor does it affect existing audit requirements around management's judgments and estimates.

The practical expedient may be elected on a measurement date–by–measurement date basis, meaning that if it is elected, a nonpublic entity must apply the expedient to all share-based payment awards with the same underlying share and the same measurement date. Nonpublic entities must also disclose their use of the practical expedient.

3.1.3 Effective date and transition

Entities may early apply the practical expedient, including in an interim period, for any financial statements that have not yet been issued or made available for issuance as of October 25, 2021, which is the date when the ASU was issued.

Otherwise, the practical expedient may be applied prospectively for all equity-classified awards granted or modified during fiscal years beginning after December 15, 2021 and during interim periods within fiscal years beginning after December 15, 2022.

Grant Thornton insight: Applying the practical expedient

As with any accounting policy available solely to nonpublic business entities, entities that are considering becoming public business entities in the future should carefully consider the implications of adopting the practical expedient related to the current price input to an option pricing model for an equity-classified share-based payment award. An entity that has applied the expedient would be required to "undo" the expedient when preparing financial statements as a public business entity.

This process could be challenging, as it would involve retroactively estimating the current price input as of the grant date of each equity-classified share-based payment award to which the expedient had been applied.

3.2 ASU 2021-08 on contract assets and liabilities from customer contracts

The amendments in ASU 2021-08 create an exception to the recognition and measurement principles in ASC 805 by requiring an acquirer to use the guidance in ASC 606 rather than using fair value when recognizing and measuring contract assets and contract liabilities related to customer contracts assumed in a business combination.

3.2.1 Background

After the issuance of ASC 606, entities struggled with differing views over whether to use the concept of a performance obligation under ASC 606 or the concept of a legal obligation under ASC 805 to measure a contract liability. In response to the diverse accounting practices that ensued, the FASB issued ASU 2021-08 to clarify that an acquirer should apply the concept of a performance obligation in this situation.

3.2.2 Amendments to ASC 805

The amendments clarify that all revenue contracts acquired in a business combination should be measured using the guidance in ASC 606 as if the acquirer had originated the contract. Contract assets and contract liabilities related to customer contracts within the scope of ASC 606, as well as contract liabilities derived from the sale of nonfinancial assets within the scope of ASC 610-20, fall within the scope of these amendments.

The amendments do not affect the accounting for other assets or liabilities arising from revenue contracts with customers in a business combination, such as customer-related intangible assets and contract-based intangible assets, including off-market contract terms.

Grant Thornton insight: Differences resulting from adoption of ASU 2021-08

The amendments in ASU 2021-08 clarify that an acquirer should apply the concept of a performance obligation rather than fair value when measuring a contract liability in a business combination. As a result, the contract assets and contract liabilities recognized by the acquirer as of the acquisition date will generally be the same as the amount presented in the acquiree's financial statements immediately prior to the acquisition date, unless, for example, any one of the following conditions exists:

- The acquiree and acquirer have different revenue recognition policies;
- The acquiree does not follow U.S. GAAP; or
- There were errors in how the acquiree applied the guidance in ASC 606.

In certain circumstances, the amendments may result in different contract liability balances and, therefore, different goodwill under the amendments than under the existing fair value guidance.

Because the amendments require the acquirer to measure contract assets and contract liabilities as if they had originated with the contract, acquirers are now allowed to apply the following practical expedients in ASC 606 consistently to all contracts acquired in the same business combination on an acquisition-by-acquisition basis:

- If a contract modification has occurred prior to the acquisition date, the acquirer may reflect the aggregate of all modifications prior to the acquisition date for the following steps in the revenue recognition process:
  - Identifying satisfied and unsatisfied performance obligations
  - Determining the transaction price
  - Allocating the transaction price to satisfied and unsatisfied performance obligations

- For all contracts with customers, the acquirer may determine the stand-alone selling price at the acquisition date, rather than at contract inception, for each performance obligation when allocating the transaction price among performance obligations.

Entities are required to disclose practical expedients that have been used and, if reasonably possible, a qualitative assessment of the effect of each practical expedient on the financial statements.

3.2.3 Effective date and transition

For nonpublic companies, the amendments in ASU 2021-08 are effective for fiscal years beginning after December 15, 2023 and for interim periods within those fiscal years.

An acquirer should apply the amended guidance on a prospective basis to business combinations that occur on or after the adoption date.

Early adoption of the amendments in ASU 2021-08 is permitted, including in an interim period. Entities that early adopt in an interim period should apply the amendments to all business combinations that have occurred since the beginning of the fiscal year.

3.3 ASU 2021-10 on government assistance disclosures

U.S. GAAP does not have guidance that directly addresses the accounting and disclosure for most forms of government assistance that may be received by business entities. While this has been the case historically, the prevalence of government assistance in response to COVID-19 has raised the urgency of addressing this issue. The amendments in ASU 2021-10 are designed to provide increased transparency by requiring business entities to disclose information about certain types of government assistance they receive in the notes to the financial statements. ASU 2021-10 also adds a new Topic to the FASB's Codification: ASC 832.

3.3.1 Scope of ASC 832

The disclosure requirements in ASU 2021-10 apply to all entities, except for NFPs within the scope of ASC 958 and employee benefit plans within the scope of ASC 960, ASC 962, and ASC 965.

The disclosure requirements in ASC 832 only apply to transactions with a government that are accounted for by analogizing to either a grant model (for example, in International Accounting Standard 20) or a contribution model (for example, in ASC 958-605). The disclosure requirements do not apply to transactions with a government that are accounted for in accordance with other Codification Topics, such as ASC 450, ASC 470, ASC 606, or ASC 740.

The FASB broadly defined "government assistance" in ASC 832 to ensure that assistance received from most types of government entities or other related organizations would be disclosed. Government assistance within the scope of ASC 832 includes assistance that is administered by domestic, foreign, local (such as city, town, county, or municipality), regional (such as state, provincial, or territorial), and national (federal) governments, as well as entities related to those governments (such as departments, independent agencies, boards, commissions, or component units). ASC 832 also includes government assistance from intergovernmental organizations (for example, global organizations such as the United Nations, regional organizations such as the European Union, and economic organizations such as the World Trade Organization).

3.3.2 Disclosure requirements of ASC 832

ASC 832 requires the following disclosures about government assistance transactions in the notes to the annual financial statements:

- Information about the nature of the transactions, including a general description and the form (cash or other assets, for example) in which the assistance has been received
- The accounting policies used to account for the transactions
- Line items on the balance sheet and income statement affected by the transactions and the amounts applicable to each financial statement line item in the current reporting period

Furthermore, an entity is required to disclose information about the significant terms and conditions of transactions with a government, which may include

- The duration or period of the agreement
- Any commitments made by the parties
- Provisions for recapture, including the conditions that allow recapture
- Other contingencies

If an entity is legally prohibited from disclosing any of the information required by ASC 832, the entity should instead disclose a description of the general nature of the transaction and indicate that the omitted disclosures are legally prohibited from being disclosed.

3.3.3 Transition and effective date

Entities are required to provide the new disclosures prospectively for all transactions with a government entity accounted for under either a grant or a contribution accounting model that are (1) reflected in the financial statements as of the date when the amendments are initially applied or (2) entered into after that date. Retrospective application of the guidance is permitted.

The guidance in ASU 2021-10 is effective for the financial statements of all entities, including private companies, for annual periods beginning after December 15, 2021, with early application permitted.

Application of ASU 2021-10

Paragraph 32 in the Basis for Conclusions of ASU 2021-10 states that the guidance in ASC 832 requires disclosures of only significant terms and conditions, including amounts that are readily available in an agreement with the government. Further, an entity is not required to estimate amounts or any contingencies for disclosure purposes.

For example, if an entity is entitled to receive a grant in the amount of $100,000 for the next five years ($20,000 per year) and that transaction is within the scope ASC 832, that information should be disclosed. Alternatively, if an entity is entitled to receive an amount that is based on 5 percent of gross revenue for the next five years and that transaction is within the scope of ASC 832, an entity should disclose those terms, but is not required to estimate and disclose a dollar amount.

4. Reference rate reform

Regulators in various jurisdictions around the world have initiated reference rate reforms to identify interest-rate benchmark rates that are more observable or transaction-based (and are therefore less susceptible to manipulation) than certain interest-rate benchmark reference rates that are commonly used, including the most prominent of them all, the London Interbank Offered Rate (LIBOR). Most regulators have phased out the old rates as of December 31, 2021. The discontinuation of benchmark reference rates now requires entities to modify contracts that use those rates by replacing the old rates with new rates.

In response to these developments, the FASB issued ASU 2020-04, which adds Topic 848 to the Codification for a limited period of time, offering entities certain practical expedients and exceptions from applying modification accounting under U.S. GAAP to contracts modified for reference rate reform if certain criteria are met. The guidance in ASC 848 is designed to reduce operational challenges that entities face in applying modification accounting to contracts that need to be revised due to reference rate reforms.

ASC 848 does not apply to any contract modifications made after December 31, 2022 or to any hedging relationships entered into or evaluated after December 31, 2022, except for those hedging relationships existing as of December 31, 2022 for which an entity elects certain optional expedients that are retained through the end of the hedging relationship.

The FASB also clarified in ASU 2021-04 that certain expedients available under ASC 848 for contract modifications and hedge accounting apply to derivatives that use an interest rate for margining, discounting, or aligning a contract price that is modified as a result of reference rate reform, even if the derivative instrument does not explicitly reference a rate that is expected to be discontinued.

Refer to NDS 2020-08, "Reference rate reform," for further discussion of the amendments under ASU 2020-04.

The following table shows a summary of certain expedients under ASC 848 by Codification Topic.

ASC Topic	Expedient under ASC 848
ASC 310, *Receivables*	The modification is considered minor in accordance with ASC 310-20-35-10 and the effective interest rate is adjusted prospectively.
ASC 470, *Debt*	The modification is considered not substantial and is accounted for prospectively by adjusting the effective interest rate in accordance with ASC 470-50.
ASC 842 and ASC 840, both titled *Leases*	The modification does not require lessees or lessors to reassess lease classification and the discount rate, to remeasure lease

ASC Topic	Expedient under ASC 848
	payments, or to make other reassessments or remeasurements that are required for a contract modification that is not accounted for as a separate contract. The lease is accounted for as a continuation of the existing lease.
ASC 815-15, *Derivatives and Hedging: Embedded Derivatives*	The modification does not require entities to reassess whether the contract contains an embedded derivative that is clearly and closely related to the economic characteristics and risks of the host contract under ASC 815-15-25-1(a).
ASC 815-10, *Derivatives and Hedging: Overall*	The modification does not require entities to reassess whether the modified instrument is a hybrid instrument and whether it includes a financing element (ASC 815-10-45-11 through 45-15). The post-modification instrument continues to be accounted for and presented in the same manner as the pre-modification instrument.
ASC 944, *Financial Services – Insurance*	The modification does not require entities to reassess whether the contract is substantially unchanged in accordance with ASC 944-30. The post-modification contract continues to be accounted for and presented in the same manner as the pre-modification contract.
ASC 606, *Revenue from Contracts with Customers*	The modification does not require entities to apply the contract modification guidance in ASC 606-10-25-10 through 25-13. The change in cash flows resulting from variability in the new reference rate is accounted for in the same manner as the variability that resulted from the original reference rate.
ASC 810, *Consolidation*	The modification is not a reconsideration event and, therefore, does not require a reporting entity to reconsider whether the counterparty to the contract is a variable-interest entity.

Grant Thornton insight: Disclosure of expected impact of reference rate reform

Private companies should consider disclosing the impact of reference rate reform on their financial statements. Even if a private company has not completed a quantitative estimate of the impact of reference rate reform on its affected contracts, qualitative disclosures—including the types of contracts that might be impacted, the nature of that impact, and the status of the company’s project to identify impacted contracts—may be warranted.

5. Year-end reminders

5.1 AICPA KAMs

The AICPA issued AU-C 701, *Key Audit Matters,* which allows auditors to include in the standard audit opinion “key audit matters” (KAMs), as defined below. This guidance is effective for fiscal years ended after December 15, 2021, so entities might want to engage their auditors to present KAMs in their audit opinion for the fiscal year ended December 31, 2021.

AU-C 701.07

For purposes of generally accepted auditing standards (GAAS), the following term has the meaning attributed as follows:

> **Key audit matters.** Those matters that, in the auditor’s professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance.

Auditors determine KAMs by evaluating matters communicated with those charged with governance that require significant auditor attention, including areas of higher risk of material misstatement; significant risks that involve auditor judgment, including estimates with high estimation uncertainty; and events or transactions that significantly impact the audit approach.

Inclusion of KAMs in the audit opinion is not required, so entities should discuss with their auditors as early as possible if they want to engage the auditor to include KAMs in the opinion.

5.2 Going concern evaluation

Under the guidance in ASC 205-40, entities are required to evaluate at each annual and interim reporting date whether events and conditions, considered in aggregate, raise substantial doubt about their ability to continue as a going concern within one year after the financial statements are either issued or made available to be issued. “Substantial doubt” exists when facts and conditions indicate that it is probable the entity will be unable to meet its obligations as they become due. If an entity concludes that there is substantial doubt about its ability to continue as a going concern or that substantial doubt would exist except for its plans to alleviate that doubt, it must provide disclosures to that effect in the financial statements.

In the current environment, an entity particularly needs to consider for one year after the date of the financial statements whether the impact of COVID-19 casts substantial doubt about its ability to continue as a going concern or whether its plans alleviate existing substantial doubt.

5.3 Disclosures related to the impact of COVID-19

Entities need to consider the implications of COVID-19 when preparing disclosures to include in their financial statements. The degree of disclosure required depends on the nature, duration, and extent of COVID-19’s impact on the entity. Entities need to continue monitoring developments related to COVID-19 and to evaluate the appropriateness of their disclosures in light of changes caused by COVID-19.

For a detailed discussion of the potential financial reporting impact of COVID-19, see NDS 2020-04.

Contingent losses

The guidance on contingencies in ASC 450-20-25-2 requires an entity to recognize a contingent loss if (a) it is probable that the liability has been incurred as of the balance-sheet date, and (b) the amount of the loss can be reasonably estimated (as either a point estimate or a range of loss). Additionally, ASC 450-20-50-2 requires entities to disclose contingent losses that are at least reasonably possible, even if the amount of the loss is not reasonably estimable.

Entities need to consider whether events related to COVID-19 indicate that it is reasonably possible they have incurred a contingent loss and to make disclosures as appropriate. For instance, an entity that provides for self-insurance for medical claims by its employees might need to consider whether it is reasonably possible that, at the measurement date, its employees have had exposure to COVID-19, which would result in additional medical claims.

Risks and uncertainties

Under ASC 275, entities are required to make qualitative disclosures about risks and uncertainties that could significantly impact the amounts reported in the financial statements in the near term (that is, within one year from the date of the financial statements). Entities may need to evaluate whether it is necessary to include specific disclosures related to risks and uncertainties introduced by COVID-19, including disclosures for significant accounting estimates and vulnerabilities due to concentrations in vendors or customers, such as supply and employment constraints.

5.4 Environmental, social, and governance reporting

In March 2021, the FASB staff issued an educational paper titled "Intersection of Environmental, Social, and Governance Matters with Financial Accounting Standards." While there are no changes to current U.S. GAAP as a result of this paper, the FASB staff does state that an entity may consider the effects of certain material environmental, social, and governance (ESG) matters when applying financial accounting standards, in a manner that is consistent with how the entity considers other changes in its business and operating environment that have a material direct or indirect effect on the financial statements and notes. How an entity considers the effect of ESG matters will likely vary based on the accounting standard being applied, the particular ESG matter, and the industry in which the entity conducts business.

Appendix A: Cited Guidance

The following table contains the titles of guidance cited in this publication from both the FASB's Accounting Standards Codification (ASC) and relevant Accounting Standards Updates (ASUs), as well as guidance from other standard setters.

Quick reference	Title
ASC 205-40	*Presentation of Financial Statements – Going Concern*
ASC 250	*Accounting Changes and Error Corrections*
ASC 275	*Risks and Uncertainties*
ASC 450	*Contingencies*
ASC 450-20	*Contingencies: Loss Contingencies*
ASC 470	*Debt*
ASC 606	*Revenue from Contracts with Customers*
ASC 610-20	*Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets*
ASC 718	*Compensation – Stock Compensation*
ASC 740	*Income Taxes*
ASC 805	*Business Combinations*
ASC 832	*Government Assistance*
ASC 842	*Leases*
ASC 848	*Reference Rate Reform*
ASC 958	*Not-for-Profit Entities*
ASC 958-605	*Not-for-Profit Entities – Revenue Recognition*

ASC 960	*Plan Accounting – Defined Benefit Pension Plans*
ASC 962	*Plan Accounting – Defined Contribution Pension Plans*
ASC 965	*Plan Accounting – Health and Welfare Benefit Plans*
ASU 2016-02	*Leases (Topic 842)*
ASU 2020-04	*Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*
ASU 2021-01	*Reference Rate Reform (Topic 848): Scope*
ASU 2021-03	*Alternative for Evaluating Goodwill Triggering Events*
ASU 2021-07	*Compensation – Stock Compensation (Topic 718): Determining the Current Price of an Underlying Share for Equity-Classified Share-Based Awards (a consensus of the Private Company Council)*
ASU 2021-08	*Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*
ASU 2021-09	*Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities*
ASU 2021-10	*Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*
AU-C 701	*Key Audit Matters*
IAS 20	*Accounting for Government Grants and Disclosure of Government Assistance*

Appendix B: Grant Thornton publications

The following list contains the titles of Grant Thornton publications cited in this document.

Leases: Navigating the guidance in ASC 842

New Developments Summary 2020-04, "COVID-19: Accounting and Financial Reporting Considerations"

New Developments Summary 2020-08, "Reference rate reform"

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