

## CBIZ & MHM Executive Education Series™



### Key Issues Facing Public Companies in 2021: SEC and PCAOB Updates Webinar

James Comito, Nate Vander Hamm, and Mark Winiarski  
December 17, 2020

#### About Us

- Together, CBIZ & MHM are a Top Ten accounting provider
- Offices in most major markets
- Tax, audit and attest and advisory services
- Over 4,800 professionals nationwide



A member of Kreston International  
A global network of independent  
accounting firms

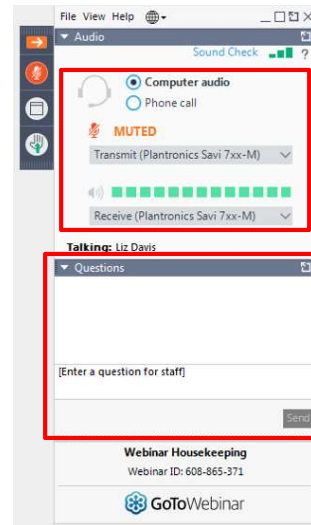
MHM (Mayer Hoffman McCann P.C.) is an independent CPA firm that provides audit, review and attest services, and works closely with CBIZ, a business consulting, tax and financial services provider. CBIZ and MHM are members of Kreston International Limited, a global network of independent accounting firms.

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

2

## Before We Get Started...

- Use the control panel on the right side of your screen to:
  - Change your audio mode between Computer Audio or Phone
  - Submit questions
  - Download handouts
- If you need technical assistance:
  - Call support at 877-582-7011
  - Email us at [cbizmhmwebinars@cbiz.com](mailto:cbizmhmwebinars@cbiz.com)



Questions? Email [cbizmhmwebinars@cbiz.com](mailto:cbizmhmwebinars@cbiz.com)

3

## CPE Credit

This webinar is eligible for CPE credit. To receive credit, participants will need to answer polling questions throughout the webinar.

External participants will receive their CPE certificates via email within 15 business days of the webinar.



Questions? Email [cbizmhmwebinars@cbiz.com](mailto:cbizmhmwebinars@cbiz.com)

4

## Disclaimer

*The information in this Executive Education Series course is a brief summary and may not include all the details relevant to an individual situation.*

*Please contact your service provider to further discuss the impact on your business.*

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

5

## Presenters



**JAMES COMITO, CPA**  
National Director of Professional Standards  
MHM Shareholder

Located in our San Diego office, James serves as our National Director of Professional Standards. James is recognized as a national expert in all aspects of revenue recognition, business combinations, impairment of goodwill and other intangible assets, accounting for stock-based compensation, accounting for equity and debt instruments and other accounting issues. Additionally, he has significant experience with a variety of other regulatory and corporate governance issues pertaining to publicly traded companies, including aspects of internal control.

James frequently speaks on accounting and auditing matters at various events for MHM and is actively involved in our national training programs for all level staff. He is also a frequent external speaker and regular contributor to the firm's publications.

619-938-3573 • [jcomito@cbiz.com](mailto:jcomito@cbiz.com)

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

6

## Presenters



**Nate Vander Hamm, CPA**  
MHM Shareholder

*Nate is based in our Kansas City office and has over 21 years of experience in public accounting working with various clients ranging from Fortune 500 companies to small private entities. As a member of the Professional Standards Group, he provides accounting knowledge and leadership in the areas of business combinations, fresh start accounting, IFRS, accounting for income taxes, foreign currency, fair value and others. Nate also serves as a member of the Audit Resource Group which is responsible for the audit methodologies used for both private and public entities.*

*Prior to joining MHM in 2020, Nate spent 10 years with a Big Four firm and 10 years with another large international firm.*

816.945.5602 • [nate.vanderhamm@cbiz.com](mailto:nate.vanderhamm@cbiz.com)

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

7

## Presenters



**MARK WINIARSKI, CPA**  
MHM Shareholder

Mark is a member of MHM's Professional Standards Group (PSG) and the Attest Practice Leader for the Kansas City office. Mark's role includes monitoring and technical leadership in the implementation of new accounting standards, instructing in national training programs, presenting as a subject matter expert at webinars and conferences, and preparing MHM publications on accounting and auditing issues.

As a PSG member, Mark consults with clients and engagement teams across the country in many areas of accounting and auditing. Mark has served clients as an auditor, consultant and advisor in numerous industries including manufacturing, distribution, mining, retail sales, services and software.

816.945.5614 • [mwiniarski@cbiz.com](mailto:mwiniarski@cbiz.com) • [@KCWini](https://twitter.com/KCWini)

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

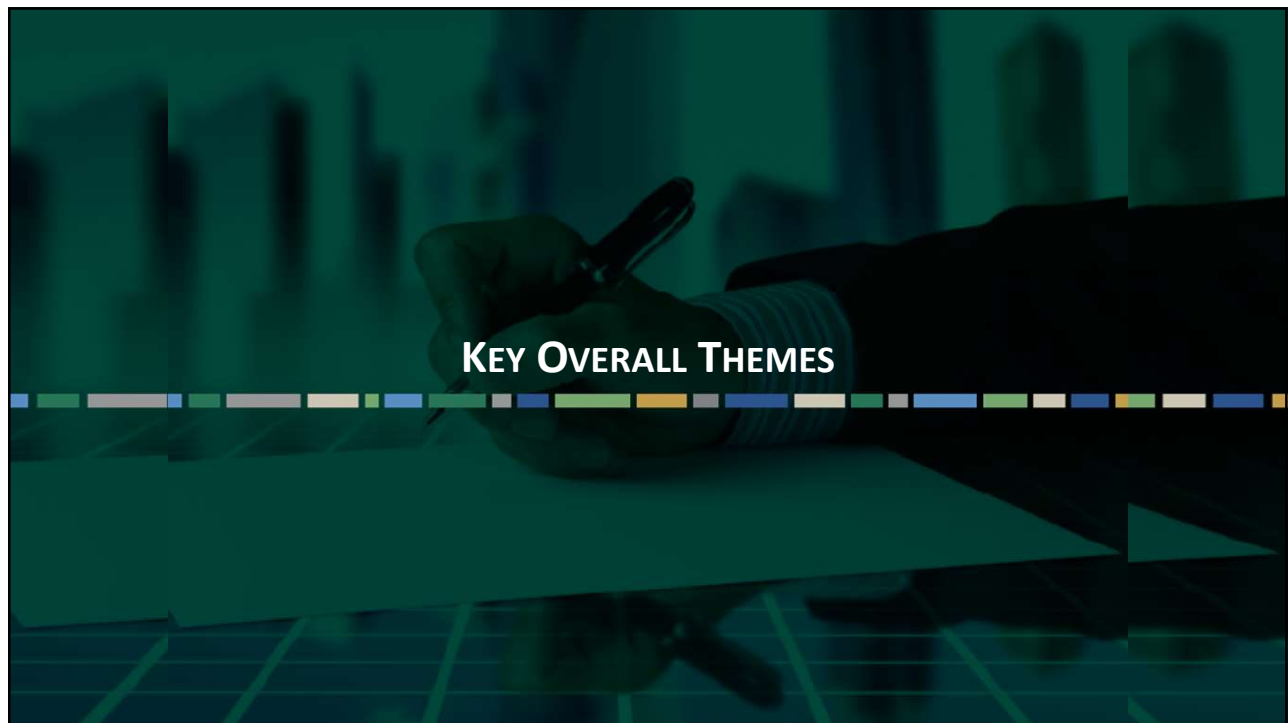
8

## Agenda

- 01 Key Overall Themes
- 02 Perspective of Keynote Speakers
- 03 SEC Practice Issues
- 04 Pandemic Related Financial Reporting and Auditing Challenges
- 05 General Financial Reporting and Auditing Update
- 06 Questions

Questions? Email [cbizhmwebinars@cbiz.com](mailto:cbizhmwebinars@cbiz.com)

9



## Key Overall Themes

- The Global Pandemic and Its Impact on Financial Reporting
- Technology and Its Impact on Financial Reporting
- Audit Matters (Critical Audit Matters (CAMs))
- SEC Rulemaking
- Reference Rate Reform
- Accounting Standard Setting

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

11



**PERSPECTIVE OF KEYNOTE SPEAKERS**

## Organizations Represented – Keynote Speakers

- AICPA
  - Tracey Golden, Vice Chairmen, AICPA
  - Paula Hamric, BDO (CAQ SEC Reg Committee)
- SEC
  - Sagar Teotia, Chief Accountant
  - OCA Initiatives, Diana Stoltzfus, John Vanosdall, Paul Munter
- FASB
  - Richard Jones, Chairman
- IASB
  - Sue Lloyd, Vice Chair
- PCAOB Board
  - William Duhnke III, Chairman
  - J. Robert Brown Jr., Board
  - Duane DesParte, Board
  - Rebekah Jurata, Board
  - Megan Zietsman, Board

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

13

## Tracey Golden – Vice Chair, AICPA

- What trends are shaping the future of work for the profession?
  - Technology
  - Nonfinancial Information
  - Lifelong Learning
  - Diversity and inclusion, flexibility
  - Evolution and purpose
- 4<sup>th</sup> Industrial Revolution
  - Unprecedented pace of change and scope of impact



Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

14

## Tracey Golden – Vice Chair, AICPA

- Opportunities to deliver value
  - Technology
    - Artificial Intelligence (AI)
    - Blockchain
    - Cybersecurity
    - Supply Chain



Questions? Email [cbizhmvwebinars@cbiz.com](mailto:cbizhmvwebinars@cbiz.com)

15

## Tracey Golden – Vice Chair, AICPA

- Nonfinancial Information
  - Sustainability
    - Movement towards a global approach to sustainability standards
    - Profession is uniquely qualified to provide confidence in sustainability related information



Questions? Email [cbizhmvwebinars@cbiz.com](mailto:cbizhmvwebinars@cbiz.com)

16



## Tracey Golden – Vice Chair, AICPA

- Lifelong Learning
  - 44% of the core skills employees need to perform their roles effectively will change by 2025
  - New CPA licensure model (exam expected 2024)
    - Strong core with accounting, audit, tax and technology
      - Deeper knowledge in three primary disciplines
      - Business analysis and reporting
      - Tax compliance and planning
      - Information systems and controls



Questions? Email [cbizhmvwebinars@cbiz.com](mailto:cbizhmvwebinars@cbiz.com)

17

## Tracey Golden – Vice Chair, AICPA

Firm of the future will need to be diverse,  
inclusive and flexible.



Questions? Email [cbizhmvwebinars@cbiz.com](mailto:cbizhmvwebinars@cbiz.com)

18

## Sagar Teotia, SEC

### • 2020 Key Issues

- Impact of COVID-19
  - Public Statements
  - Resolution of complex issues
  - Importance of internal controls
- Engagement with Stakeholders
  - OCA met with stakeholders at numerous meetings, roundtables, speeches and presentations to promote high-quality financial reporting
  - Significant interaction with audit committees



Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

19

## Sagar Teotia, SEC

### • 2020 Key Issues

- Rulemaking
  - Auditor independence amendments
    - In October 2020, the Commission adopted final amendments to certain auditor independence requirements in Rule 2-01 of Regulation S-X
- Oversight of PCAOB
  - Support PCAOB's audit committee outreach to audit committees
  - PCAOB issuance of certain inspection reports in a new streamlined format to enhance readability and understanding
  - Provided oversight of the PCAOB's reaction to the COVID-19, including understanding the changes to auditor's policies, procedures and methodologies as a result of the pandemic
  - Monitoring PCAOB Standard-Setting Initiatives
    - Critical Audit Matters



Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

20

## Sagar Teotia, SEC

- 2020 Key Issues

- Oversight of FASB
  - Transition of FASB Chair (Golden to Jones)
  - Support the FASB in its outreach to stakeholders
  - Working with the FASB on its current agenda
    - Identifiable intangible assets
    - Subsequent accounting for goodwill
    - Distinguishing liabilities from equity
    - Improving the accounting for asset acquisitions and business combinations



Questions? Email [cbizhmvwebinars@cbiz.com](mailto:cbizhmvwebinars@cbiz.com)

21

## Sagar Teotia, SEC

- International Accounting, Audit and Disclosure Matters
  - The Monitoring Group
  - International Organizations of Securities Commissions
  - International Financial Reporting Standards



Questions? Email [cbizhmvwebinars@cbiz.com](mailto:cbizhmvwebinars@cbiz.com)

22

## Richard R. Jones – Chairman, FASB

- Smooth transition at the FASB
  - “It’s a privilege because the FASB must continually earn the right to set standards. We are judged by how well we execute the standard-setting process. And our standards are judged by the quality of information they provide investors and the cost to investors and preparers alike. Lest there be any doubt, independent doesn’t mean unaccountable – we are accountable to our stakeholders.



Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

23

## Richard R. Jones – Chairman, FASB

- Active Listening
  - Every standard or amendment exists because stakeholders alerted the FASB to an issue that needed attention
  - Never prejudge an answer. A priority is to listen and learn from as many stakeholders as possible – internal and external.
- Post Implementation Review
  - “Quality Control” phase of standard setting.
  - Begins after final standard is issued and attempts to understand whether the standard is performing up to expectations and justifies the resources needed to deliver it



Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

24

## Richard R. Jones – Chairman, FASB

- Post Implementation Review
  - Financial Accounting Foundation Board of Trustees formally transferred responsibility for PIR projects to the FASB while retaining oversight
  - FASB conducted first PIR based on feedback received from stakeholders on leasing and current expected credit losses standards

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)



25

## Richard R. Jones – Chairman, FASB

- The Case for Change
  - First, to provide investors with better, more useful information that will directly influence their decisions and behavior
  - Second, to remove unnecessary cost and complexity from the system
  - Third, to maintain and improve the Codification

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)



26

## Richard R. Jones – Chairman, FASB

- FASB and Next Steps
  - Currently includes 33 active and 8 research projects
  - Steady stream of agenda requests
  - FASB seeks robust stakeholder input
    - FASB will conduct an outreach with advisory and other stakeholder groups to understand priority areas
  - Segment Reporting Project
  - FASB is leaning toward a model that stays true to the chief operating decision maker (through the eyes of management principle) that relies on how the top decision maker views segments



Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

27

## Richard R. Jones – Chairman, FASB

- FASB and Next Steps
  - Goodwill project
    - Leaning toward a goodwill amortization with impairment model



Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

28

## William Duhnke & PCAOB Board

- Audit Quality and Inspection Process Changes
  - Overall decline in Part 1 deficiencies related to 2020 inspections, suggests improvement in audit quality
- New Inspection Report
  - Issued for the 2018 inspection period for the six largest US audit firms
  - More visual (charts and graphs)
  - New framework to evaluate whether inspection deficiencies indicate potential deficiencies in a Firm's systems of internal controls
- Targeted Inspection Teams
  - Focus on emerging or significant audit risks across the profession
    - 2019 focus on multi-location audits
    - May target risks associated with the pandemic
      - Upcoming inspections will focus on industries most impacted by pandemic, such as transportation, entertainment, hospitality, MFG and retail



Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

29

## William Duhnke & PCAOB Board

- Upcoming Inspections
  - PCAOB plans to inspect approximately the same number of engagements but plans to significantly increase the percentage of audits selected for inspection at random. Also will focus on nontraditional areas (i.e., those not commonly selected in prior inspections).
    - Believes this randomness will contribute to audit quality as firms will not be able to anticipate selections based on risk characteristics and past PCAOB behavior
- Holding Foreign Companies Accountable Act
  - Prevents foreign companies from listing or trading securities on US markets where the PCAOB has not been able to inspect their auditors for three years in a row
  - Current limitation on PCAOB inspection activities in mainland China and Hong Kong is "ongoing and dynamic"



Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

30

## William Duhnke & PCAOB Board

- Broker Dealers
  - Interim Inspection Program for Auditors of Brokers and Dealers continues to function as designed. PCAOB is considering a permanent version of the program.
  
- Engagement with Stakeholders
  - Continues to be a significant focus of the PCAOB
    - Discussion with Audit Committees (approximately 700 AC chairs contacted between 2019 and 2020 inspections)



Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

31

## Marci Rossell The Economy and the Ripple Effects of COVID 19

- Very different downturn compared to past recessions
  - Not evenly distributed across
    - Industry
    - Geographical locations
    - Income levels
  - Typically an economic shock precedes recession
    - Real estate crash
    - Financial crisis
    - Oil/energy crisis
  - Typically unemployment peaks after the recession, this time job loss was immediate

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

32



## Marci Rossell The Economy and the Ripple Effects of COVID 19

- What to expect as we move past the pandemic
  - “Techceleration”
    - Many technological innovations will be adopted sooner as remote activities accelerated under the pandemic
    - Remote workforce likely to be permanent
      - (loss of productivity off-set by reduced cost)
  - Small business disproportionately harmed. Change in landscape brought on by the pandemic will favor large companies.
  - Housing market initially hurt but then explosive growth as remote activities became necessary
    - Dense “superstar” locations becoming less attractive

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

33

## Marci Rossell The Economy and the Ripple Effects of COVID 19

- Significant pent up demand
  - Savings significantly increased during pandemic as travel and entertainment were severely restricted. Also, fear has motivated some to save.
  - Demand for:
    - Travel
    - Entertainment
    - Concerts
    - Sporting events
- “Fireworks Recovery”!

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

34



### Highlights from OCA

- Oversight of PCAOB
  - Pleased with enhanced outreach at PCAOB
  - CAM's (OCA remains very interested and involved)
  - Inspection Reports – New Spotlight Reports
- Accounting Standards
  - Overall, OCA is very pleased with its collaborative effort with the FASB and IASB
  - Provides feedback on standard updates
  - Transition of the FASB Chair has been excellent

## Highlights from OCA

- COVID 19
  - A key focus of OCA
    - Engagement with FASB and Treasury
    - Aid on accounting matters and financial reporting related to CARES act
- Revenue Recognition Topic 606
  - Significant number of SEC consultations and preclearance
    - OCA reiterated that it respects well reasoned conclusions.
  - Significant areas of focus
    - Determining performance obligations
    - Principle vs. Agent

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

37

## Highlights from OCA

- Leases
  - Significant focus areas
    - Scope
    - Transition
    - Costs
    - Impact of COVID 19 (lease concessions)
- Independence
  - Rule 201 SX (October 2020 final rules)
    - Modernize
      - Relationships and services
      - Recurring relationships

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

38

## Highlights from OCA

- Current Expected Credit Losses (CECL)
  - Significant number of SEC consultations
  - Available for consultation and dialogue
- International
  - Foreign entities comprise 1/6 of American investor portfolios
  - OCA participates in a variety of international groups that focus on financial reporting, auditing, independence and other matters
    - Monitoring Group
      - Responsible for the oversight of the international audit and ethics standard setting process

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

39



## PANDEMIC RELATED FINANCIAL REPORTING AND AUDITING CHALLENGES

## Managing During the Pandemic – Four Recurring Challenges

Inventory Observations

Personnel Issues

Internal Controls

Remote Work

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

41

## Center for Audit Quality

- Center for Audit Quality noted significant changes to the profession in 2020
  - Not being on site at clients
  - Remote inventory observations
  - Machine learning
  - New audit risks created by COVID
    - Impairments, restructuring, and going concern
    - Fraud risks
- ESG
  - Increasing number of company's providing ESG information
  - Rule SK 101(c) on Human Capital
  - Frameworks are still being developed
  - Some companies are seeking auditor assurance on ESG reports

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

42

## Center for Audit Quality

- Personnel changes to the profession
  - Personnel need new skills
    - Data Analytics
    - AI and Machine Learning
    - Cyber Security
  - 2% of CPA's are African American
  - 1% of Partners in CPA firms are African American
  - CAQ believes the 150 hour requirement is a deterrent to diversity in the profession – Seeking alternatives

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

43

## Division of Corporation Finance Response to Coronavirus

- Themes from 2020 reviews will continue into 2021
  - Disclosure of the impacts of LIBOR transition
  - COVID disclosure issues
    - What does management expect?
    - How is management responding?
    - What plans are being made for the future?
    - Should continue to be updated
  - Overall positive opinion of issuers COVID disclosures
  - Areas of improvement in COVID disclosures
    - Limited disclosure of the long-term impacts
    - Some in-depth discussions of plans in investor presentations or earnings calls
    - Avoid boilerplate disclosures

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

44

## Division of Corporation Finance

- Non-GAAP Adjustments
  - 25% of Company's provided COVID related non-GAAP measures
  - COVID did not change non-GAAP guidance
    - Is the adjustment incremental to the business?
    - Is the adjustment factual or hypothetical?
- Examples
  - Lost revenue due to COVID – Not factual
  - Incremental cleaning costs due to COVID – Factual and incremental
  - Paying employees "hazard pay" – Facts and circumstances
  - Paying idled employees – Not incremental
  - Rent on idled facilities – Not incremental
- Non-GAAP Revenue adjustments
  - Naming is important as "revenue is special"
  - Reconciliation in some instances is more comparable to gross margin

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

45

## FASB Response to the Coronavirus

- Recurring board meetings were halted through July
- Focused on addressing technical issues
- Deferred effective dates:
  - Revenue recognition
  - Leasing
  - Long-duration insurance
- Staff Q&As & educational materials
  - Lease concessions
  - Hedge accounting
  - Debt restructuring and modifications
  - Application of the taxonomy to COVID-19 disclosures

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

46

## General Reminders on Accounting Challenges

- Revenue Recognition
  - Variable Consideration
  - Contract modifications
  - Collectability
- Inventory reserves & utilization
- Restructuring transactions
- Stock options
  - Cannot exclude market volatility from COVID-19
  - Modifications
- Financing Transactions
  - Troubled debt restructuring
  - Modification vs extinguishment
  - Hedge accounting

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

47

## Forecasting and Impairment in Uncertainty

- Significant valuation challenges in COVID
  - Accounting and auditing standards don't have a pandemic exception
  - Company's are struggling with uncertainty from customers and employees
  - The impact is very different across industries and locations
  - How long will it last?
  - What will the recovery look like? V shaped, U shaped, S shaped?
- Valuation uncertainty increases the focus on multiple scenario tests
  - Consider various customer changes that impact demand
  - Consider various cost structure changes
    - Potential for less office space in the future
    - Potential for employees working remotely from less expensive labor markets
    - Will the lower cost structure options be as effective?
    - How will working remotely impact newly hired employees

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

48



## Forecasting and Impairment in Uncertainty

- Challenging assumptions
  - Management will be challenged by auditors and board members
  - Key questions for any valuation
    - What are the subjective inputs?
    - Which ones are materially sensitive?
    - What competitor or industry data was considered?
    - Why is this assumption the best of many possible alternatives?
  - Management's responsibility for establishing controls around assumptions and valuations
- Opportunities using machine learning for forecasting
  - Consistently outperforms management's forecasting
  - Identifies relationships and correlations with other data that improve accuracy

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

49

## Accounting Challenges – Leasing

- Is there a reassessment?
  - Actions taken in response to the outbreak
  - Contractual contingencies
  - Changes in estimated residual value
- Is there an impairment?
  - Triggering event (under ASC Topic 360)
  - Changes in projections and assumptions
- Is a lease abandoned?
  - Plan to cease use/ceased using the lease
  - Changes in the assessment of the opportunity or intent to sublease
- Other leasing challenges:
  - Lease costs continue to be recognized when temporarily idling a plant
  - Lessee discount rates are not reassessed for changes in interest rates or credit issues
  - Fair value of ROU asset when determining impairment
  - Lessor collectability constraint

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

50

## Accounting for PPP Loans by For-Profit Entities

### Debt

### Recognize forgiveness when the bank approves

- Classify cash received as debt until forgiven
- Calculate interest expense
- Amounts forgiven are recognized as a gain (i.e. other income)

### IAS 20

### Recognize forgiveness as conditions are met

- Amounts *reasonably assured* to be forgiven are recognized as expenses are incurred
  - Amounts not meeting the threshold are classified as debt
  - Forgiveness amounts not yet recognized are classified as deferred income
  - Recognition straight-line over 8 or 24 weeks is often acceptable
- Choose to present forgiven amounts net against the expense **or** on a gross basis

#### Potential Acceptable Alternative Models

Gain Contingency Model  
(Most Similar to Debt)

Not-for-Profit Model  
(Most Similar to IAS 20)

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

51

## PCAOB Response to the Coronavirus

- Performed 100% remote inspections in 2020
- All planned inspections of US firms successfully completed
- Some non-US firms inspections were not completed as planned
- Changes to review plans as a result of COVID
  - Extended the period of review to 6/30/2020
  - Performed inspections of interim reviews for the first time
  - Industries impacted by COVID were a focus in 2020
  - Focused more on the systems of quality controls for the firms reviewed
- Auditors must understand how internal controls may have changed due to the pandemic.
  - Additional procedures
  - Performing procedures differently
  - Quarter to quarter changes require flexibility

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

52



### Reference Rate Reform

- Recent FASB Proposal to refine the scope of ASC Topic 848 to include the discounting transition
- Tentative decision: Derivative instruments subject to the discounting transition as a result of reference rate reform are eligible for the optional contract modification and hedge accounting expedients
- Applies even when the transition does not reference a rate expected to be discontinued

**Discounting transition:**  
Market-wide change in the interest rate used for margining, discounting, or contract price alignment for derivative instruments

## SEC Simplification of the Significance Test for Acquisitions

### Asset Test

- Unchanged

### Income Test

- Revised to include the lower of income or revenue

### Investment Test

- Replaces assets with world wide market value prior to the transaction

#### Dispositions:

Increase the significant threshold from 10% to 20%

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

55

## Presentation and Disclosure Changes

### Financial Statement Requirement

- One year if significance test is greater than 20% but less than 40%
- Two years if significance test is greater than 40%
- Eliminates three year requirement

### Abbreviated Financial Statements

- Total assets and total revenues of the acquired business constitute 20% or less of the seller
- Separate financial statements have not previously been prepared
- Business was not a separate entity, subsidiary, operating segment or division requiring financial statements
- Seller has not maintained distinct and separate accounts and its impracticable to prepare financial statements

### Other Changes

- Eliminate required separate financial statements once the business has been included in the post-acquisition audited annual financial statements for nine or twelve months
- Permit reconciliation to IFRS in certain circumstances
- Modify required disclosures of aggregate effect of acquisition for which financial statements are not required or are not yet required

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

56

## SEC Changes for Pro Forma Financial Information – Transaction Adjustments

### Prior Guidance

Adjustments must be directly related to the transaction

Adjustments must have continuing impact

### Revised Guidance

#### Transaction Accounting Adjustments

- Does not require the adjustment to have a continuing impact

#### Autonomous Entity Adjustments

- Required for spin off transactions

#### Management Adjustments - Optional

- Not actual adjustments to pro-formas, just note disclosures of synergies and dis-synergies that include reconciliations
- Must have a “reasonable basis”

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

57

## Revenue Recognition

- Is software and support a single performance obligation?
  - Registrant sells one year licenses to data analytics software
  - Software license is bundled with periodic updates
    - Periodic updates address changes to the clients internal system and 3<sup>rd</sup> party vendor changes to software
    - Updates are necessary to retain the functionality of the software

The registrant performed a detailed assessment of each update to identify those critical to maintaining the utility of the software

**OCA Staff did not object to the conclusion that the contract contained a single performance obligation**

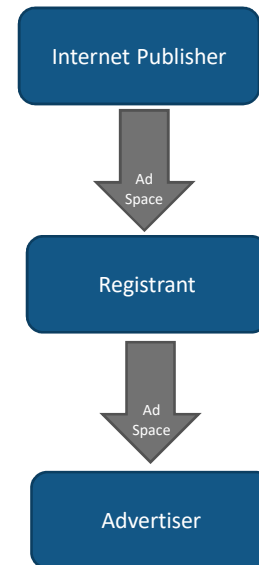
Based on Dec. 7<sup>th</sup> Speech by Kevin Cherrstrom  
Professional Accounting Fellow, Office of the Chief Accountant

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

58

## Revenue Recognition

- Is the Registrant acting as a principal or an agent?
  - Registrant operates a platform for auctioning ad space
  - Prior to purchasing the ad space they pre-designate a customer's ad that will be placed
  - When winning the ad space the registrant received exclusive rights to the ad space
  - Registrant immediately loads an ad
  - Revenue is earned when the ad is displayed to a user



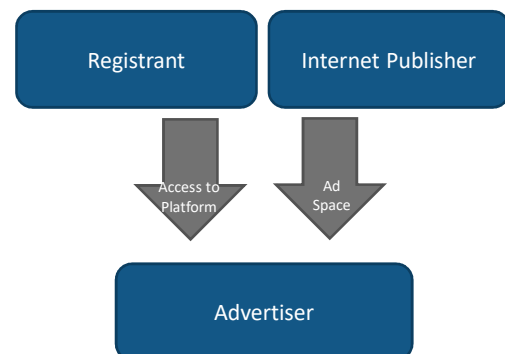
Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

59

## Revenue Recognition

- Registrant concluded it:
  - Has pricing discretion
  - Does not have primary responsibility for fulfillment
  - Does not have inventory risk

**OCA Staff did not object to the conclusion that the registrant is an agent**



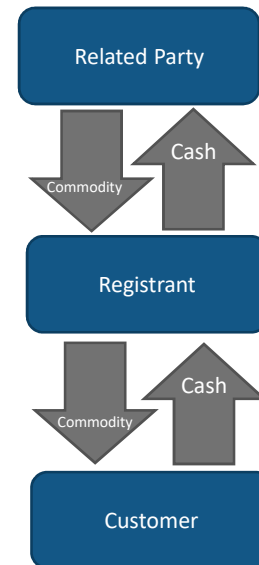
Based on Dec. 7<sup>th</sup> Speech by Geoff Griffin  
Professional Accounting Fellow, Office of the Chief Accountant

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

60

## Revenue Recognition

- Is the Registrant acting as a principal or an agent?
  - Registrant purchases 100% of commodity produced by related party, produces its own commodity, and sources commodity from others
  - When sourced from related party registrant took possession and legal title of the product, then transported it to the customer
  - Customer's price was based on market prices
  - Registrant retained a fixed percentage on the sale price to the customer



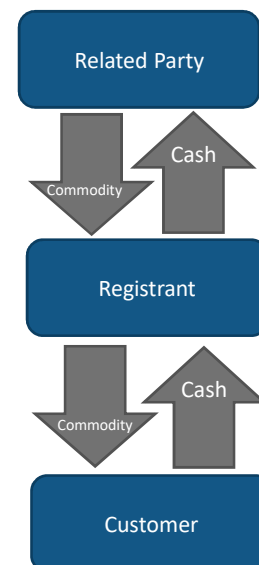
Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

61

## Revenue Recognition

- Registrant concluded:
  - None of the indicators of control were determinative
  - It did not receive substantially all of the benefits from the sale due to its fixed commission

**OCA Staff OBJECTED to the conclusion that the registrant is an agent**



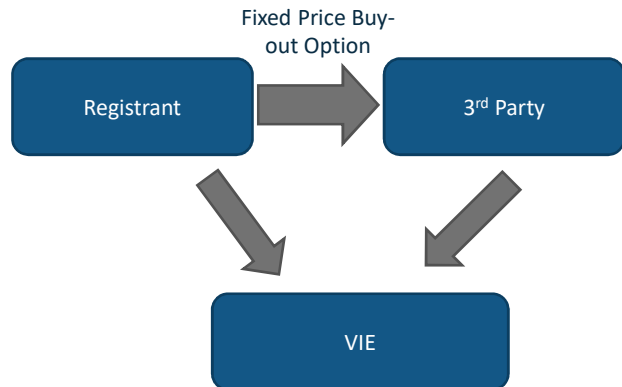
Based on Dec. 7<sup>th</sup> Speech by Jillian Pearce  
Professional Accounting Fellow, Office of the Chief Accountant

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

62

## Variable Interest Entities

- Is the Registrant the primary beneficiary?
  - Registrant and another entity jointly operate a VIE
  - VIE is winding down operations
  - Registrant agrees to buy out the 3<sup>rd</sup> party upon cessation of operations at a fixed price
- Is the 3<sup>rd</sup> Party a de facto agent of the registrant?



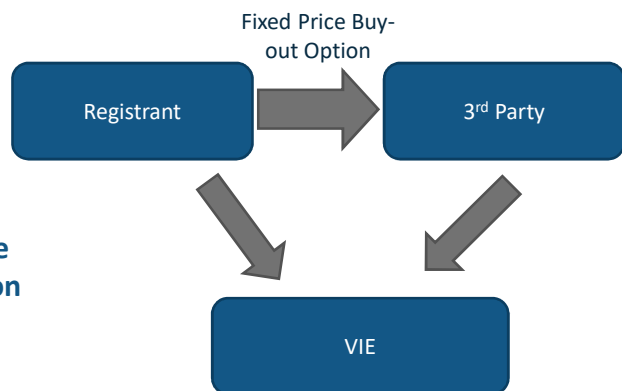
Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

63

## Variable Interest Entities

- Registrant concluded:
  - The buy-out option is not economically equivalent to a loan and the 3<sup>rd</sup> party is not a de facto agent of the registrant
  - Power was shared and the registrant is not the primary beneficiary

**OCA Staff did not object to the conclusion that the registrant is not the primary beneficiary and no consolidation is required**



Based on Dec. 7<sup>th</sup> Speech by Damon Romano  
Professional Accounting Fellow, Office of the Chief Accountant

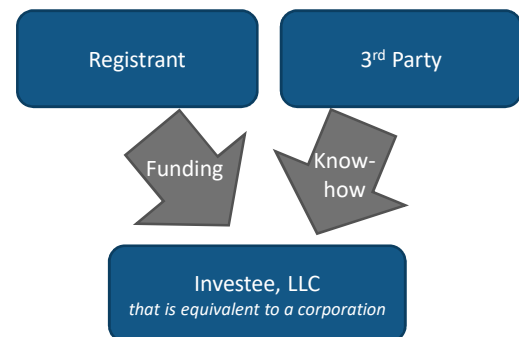
Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

64



## Voting Interest Entity

- Should an investee be consolidated under the voting model?
  - Investee makes investments and manages the investments
  - Registrant receives the bulk of economic returns until a stated return is achieved
  - Registrant had more than half the voting rights
  - Other investor consent required for the budget
  - Fair value buy/sell clause in event of disagreement



**OCA Staff OBJECTED to the conclusion that registrant should consolidate the investee under the voting interest entity model**

Based on Dec. 7<sup>th</sup> Speech by Jeffrey Nick  
Professional Accounting Fellow, Office of the Chief Accountant

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

65

## Statement of Cash Flows

- Is it acceptable to present cash outflows to a vendor net of cash inflows from the vendor?
  - Registrant purchased fixed assets from a vendor
  - Registrant had commitments to make additional purchases in the near term in excess of the cash inflows

**OCA Staff OBJECTED to the conclusion that the cash receipts from the vendor be presented net of cash payments made to the vendor**

Based on Dec. 7<sup>th</sup> Speech by Kevin Cherrstrom  
Professional Accounting Fellow, Office of the Chief Accountant

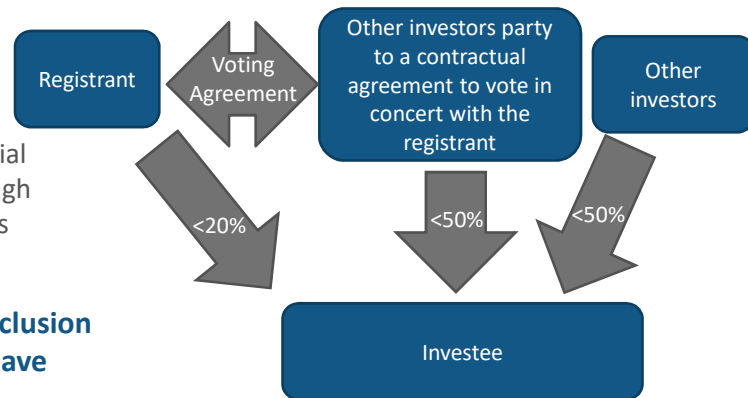
Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

66

## Equity Method Investments

- Does an investor have significant influence over an investee?

- Registrant obtains board representation due to its voting agreement
- Registrant shared at-will managerial personnel with the investee through separate employment agreements



**OCA Staff OBJECTED to the conclusion that the registrant did not have significant influence**

Based on Dec. 7<sup>th</sup> Speech by Jeffrey Nick  
Professional Accounting Fellow, Office of the Chief Accountant

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

67

## Right of Use Asset

- How should the abandonment of a lease be accounted for under ASC 842?
  - Registrant identified leases that would be abandoned prior to expiration of the lease term
  - The asset group that contained the leases was not impaired

**OCA Staff did not object to the conclusion that the right-of-use asset should be amortized over the period between identification of abandonment and the actual abandonment date**

Based on Dec. 7<sup>th</sup> Speech by Geoff Griffin  
Professional Accounting Fellow, Office of the Chief Accountant

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

68

## LIBOR

- Are certain interest rate reset features embedded derivatives that require bifurcation and separate accounting?
  - The purpose of these SOFR interest-rate features is to provide a market based solution to the discontinuation of LIBOR;
  - These features are not meant to provide leveraged returns to investors, nor are the counterparties seeking to add complex basis swaps; and
  - Certain of these reset features will be required for specific lending products due to consumer protection laws that require lenders and servicers to provide advance notice of interest rate changes to borrowers.

### Reset conventions considered:

- Term SOFR
- Compounded SOFR “in-arrears”
- Compounded SOFR “in-advance”
- Average SOFR “in-advance”

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

69

## LIBOR

- Registrant asserted:
  - Each of the features was a normal market convention
  - Therefore, the “double-double” test did not apply
  - The features were part of the host debt contract

**OCA Staff did not object to the conclusion that the features were part of the host contract, *based on current expectations of how markets for commercial and consumer based SOFR products will develop***

Based on Dec. 7<sup>th</sup> Speech by Jillian Pearce  
Professional Accounting Fellow, Office of the Chief Accountant

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

70

## PCAOB Activities

- PCAOB believes audit quality is continuing to improve
  - 2020 has seen an overall decline in part 1 deficiencies
  - Good practices identified by inspections
    - Early involvement of the EQR
    - Increased early partner involvement in testing, including internal controls
- Areas that can continue to improve
  - Revenue
  - Estimates
  - ICFR
  - Independence
- 2020 year ends - New standard for estimates
  - Auditors must understand the methods, data, and assumptions used
  - Testing management's controls over selections of assumptions and methods
  - Evaluation of both positive and negative evidence

Questions? Email [cbizhmwebinars@cbiz.com](mailto:cbizhmwebinars@cbiz.com)

71

## PCAOB

- 2021 Inspections
  - Focus on issuers impacted by COVID
    - Transportation, Retail, Entertainment, Hospitality, Manufacturing
  - Increases in random issuer selections
  - Audit areas impacted by COVID
    - Impairment
    - Going Concern
    - Inventories
    - Fraud
  - Increase in non-traditional inspection areas to be less predictable

Questions? Email [cbizhmwebinars@cbiz.com](mailto:cbizhmwebinars@cbiz.com)

72

## PCAOB

- Critical Audit Matters (CAM's)
  - Reviewed approximately 200 audit reports with CAM's
  - Some feedback indicated that CAM's are not providing value
    - Indicates the CAM communicated wasn't actually critical
    - CAM may have been generic or boilerplate
- Average number of CAM's – 1.7 per issuer
  - The most common
    - Revenue
    - Business Combination
    - Goodwill
    - Taxes
  - Some of the most specific – 3 CAM's mention climate change assumptions in valuations
- 2/3rds of investors knew of CAM's, but less than 1/3 had read CAMs

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

73

## SEC Enforcement

- New EPS initiative – First case was brought in 2020
  - Risk based data analytics
    - Assisting in identifying earnings management
    - Deviations from industry
    - Accounting adjustments near period end
    - Accounts requiring judgement
    - Results in meeting or beating EPS guidance
  - Indicates greater focus should be placed on quarter end subjective adjustments

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

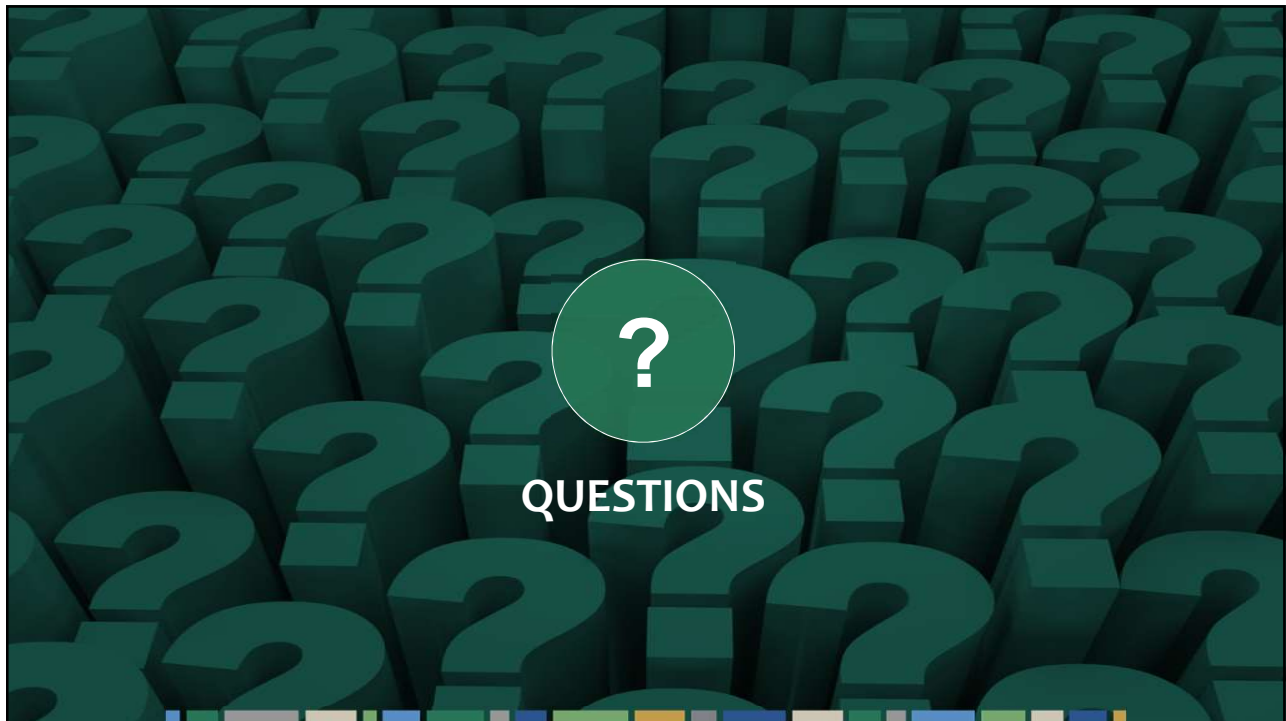
74

## SEC Enforcement

- Study conducted on SEC enforcement actions from 2014 to 2019
  - 204 cases related to financial statement fraud
  - 140 unique schemes identified
    - Revenue
    - Reserve manipulation
    - Expense misclassification
    - Inventory
    - Loan impairment deferral
  - Frequently end of quarter adjustments
  - Importance of culture – Tone at the top and middle

Questions? Email [cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

75



## Connect with Us

### MHM

[linkedin.com/company/  
mayer-hoffman-mccann-p.c.](https://www.linkedin.com/company/mayer-hoffman-mccann-p.c.)

[@mhmcpa](https://twitter.com/mhmcpa)

[youtube.com/  
mayerhoffmanmccann](https://www.youtube.com/mayerhoffmanmccann)

[slideshare.net/mhmcpa](https://www.slideshare.net/mhmcpa)



### CBIZ

[linkedin.com/company/  
cbiz-mhm-llc](https://www.linkedin.com/company/cbiz-mhm-llc)

[@cbizmhm](https://twitter.com/cbizmhm)

[youtube.com/  
BizTipsVideos](https://www.youtube.com/BizTipsVideos)

[slideshare.net/CBIZInc](https://www.slideshare.net/CBIZInc)

Questions? Email [cbizmhmwebinars@cbiz.com](mailto:cbizmhmwebinars@cbiz.com)

77

## If You Enjoyed This Webinar...



### Upcoming Courses:

- [1/7/21: Quarterly Accounting and Financial Reporting Issues Update Q4 2020](#)
- [1/21/21: Eye on Washington Quarterly Update Q4 2020](#)



### Recent Publications:

- [Updated Section 163\(j\) Guidance for Private Equity and Venture Capital Funds](#)
- [2 Foreign Account Focal Points for Private Equity and Venture Capital Firms to Monitor](#)
- [SPACs Are in the Headlines: What Do Private Company CFOs Need to Know?](#)

Questions? Email [cbizmhmwebinars@cbiz.com](mailto:cbizmhmwebinars@cbiz.com)

78



**THANK YOU**  
CBIZ & Mayer Hoffman McCann P.C.  
[cbizmhwebinars@cbiz.com](mailto:cbizmhwebinars@cbiz.com)

