



2025

Accounting Update

ASU 2024-03

Disaggregation of Income Statement Expenses

Purpose of ASU-2024-03 is to improve the disclosures about a public business entity's expenses and address requests from investors for more detailed information about expenses.

Public business entities will be required to disclose more information about the components of expense captions.

ASU 2024-03

Disaggregation of Income Statement Expenses

- Disclose in the notes in a tabular presentation, the following amounts included in each expense caption on the income statement:

Purchases of inventory
Employee compensation
Depreciation
Intangible asset amortization
Depreciation, depletion, and amortization recognized as part of oil and gas producing activities

ASU 2024-03 Disaggregation of Income Statement Expenses

- Include certain amounts that are already required to be disclosed under GAAP in the same disclosure as the other disaggregation requirements.
- Disclose a qualitative description of the amounts remaining in relevant expense captions that are not separately disaggregated quantitatively.
- Disclose the total amount of selling expenses and, in annual reporting periods, an entity's definition of selling expenses.

ASU 2024-03 Disaggregation of Income Statement Expenses

- This Update does not change or remove current expense disclosure requirements.
- Amendment does affect where this information appears in the notes because entities are required to include certain disclosures in the same tabular format disclosure as the other disaggregation requirements in this amendment.

Cost of services*Cost of services*

Employee compensation	\$ 6,598	\$ 5,654	\$ 4,354
Depreciation	763	765	742
Intangible asset amortization	642	670	650
Other cost of services ^(c)	<u>2,493</u>	<u>2,479</u>	<u>3,152</u>
Total cost of services	<u>\$ 10,496</u>	<u>\$ 9,568</u>	<u>\$ 8,898</u>

^(c) Other cost of services consists primarily of operating lease and travel expenses for the years ended December 31, 20X4, 20X3, and 20X2.

Selling, general, and administrative*Selling, general, and administrative (SG&A)*

Employee compensation	\$ 13,242	\$ 11,379	\$ 10,764
Depreciation	1,454	1,755	1,737
Property, plant, and equipment impairment	412	—	—
Intangible asset amortization	523	596	—
Other SG&A ^(d)	<u>5,218</u>	<u>5,141</u>	<u>5,615</u>
Total SG&A	<u>\$ 20,849</u>	<u>\$ 18,871</u>	<u>\$ 18,116</u>

^(d) Other SG&A consists primarily of professional services fees and operating lease expense for the years ended December 31, 20X4, 20X3, and 20X2.

Example 1 from ASU 2024-03

ASU 2024-03

Disaggregation of Income Statement Expenses

- The amendments in this Update are effective for annual reporting periods beginning after December 15, 2026, and interim reporting periods beginning after December 15, 2027. Early adoption is permitted.

ASU 2024-04 Induced Conversions of Convertible Debt

When the terms of a convertible debt instrument are changed to induce conversion of the instrument, current GAAP provides guidance for determining whether the transaction should be accounted for as an induced conversion or a debt extinguishment

Current GAAP was written in the context of share-settled convertible debt before cash convertible instruments became prevalent

Also amendments to the accounting for convertible debt instruments with cash conversion features made in ASU 2020-06

ASU 2024-04 Induced Conversions of Convertible Debt

- Under current GAAP, the guidance applies only to conversions that include the issuance of all equity securities issuable pursuant to the conversion privileges provided in the terms of the debt at issuance.
- Current GAAP does not address how this should be applied to a cash conversion feature
- Current guidance also not clear whether guidance on induced conversions can be applied to the settlement of convertible debt that is not currently convertible.

ASU 2024-04 Induced Conversions of Convertible Debt

- Currently, there are three primary accounting models to recognize settlements of convertible debt that are not accounted for as trouble debt restructurings:

Conversion accounting	Used for convertible debt instruments that have been settled in cash or shares, in accordance with their original contractual conversion terms. Carrying amount of the instrument is transferred to equity without recognition of a gain or loss
Extinguishment accounting	Used for convertible debt instruments settled with terms that differ from the original contractual conversion terms. An extinguishment gain or loss is calculated equal to the difference between (1) the carrying amount of the instrument and (2) the FV of the consideration issued on settlement
Induced conversion accounting	Used when induced debt holders promptly convert convertible debt into equity shares under changed conversion terms that are effective for a limited period and involve additional consideration. Issuer must recognize an inducement expense upon conversion.

ASU 2024-04 Induced Conversions of Convertible Debt

- This Update allows for a settlement of a convertible debt instrument to be accounted for as an induced conversion, when an inducement offer is provided to the debt holder with, at a minimum, the consideration (in form and amount) issuable under the conversion privileges provided in the terms of the instrument.
- Under the amendment, the incorporation, elimination, or modification of a volume-weighted average price formula does not automatically cause a settlement to be accounted for as an extinguishment
- Also clarifies that the induced conversion guidance applies to a convertible debt instrument that is not currently convertible as long as it had a substantive conversion feature as of both its issuance date and the date the inducement offer is accepted.

ASU 2024-04

Induced Conversions of Convertible Debt

Update is effective for all entities for annual reporting periods beginning after December 15, 2025, and interim reporting periods within those annual reporting periods.

Early adoption is permitted.

ASU 2025-02 Liabilities

In 2022, the SEC issued SAB 121 in response to increase in entities that safeguard crypto assets

SAB 121 was a significant change for some entities that required the fair value of the crypto assets being safeguarded to be recorded as a liability (with a corresponding asset) when an entity does not control the crypto assets

ASU 2025-02 Liabilities

- SAB 122 rescinded SAB 121 in 2024
- This Update rescinds the codification of SAB 121 from ASC 405 Liabilities
- After these updates, an entity with an obligation to safeguard crypto-assets for others should recognize a liability related to the risk of loss under such obligations using the contingent liability guidance in ASC 450-20 Loss Contingencies

ASU 2025-02 Liabilities

- As a result of ASU 2025-02, the expectation is that most entities will no longer recognize the crypto assets of their users unless a loss contingency exists under ASC 450-20
- Full retrospective application of SAB 122 is required for annual periods beginning after December 15, 2024. Early adoption is permitted.

ASU 2025-03 Business Combinations and Consolidation

- In a business combination, the determination of the accounting acquirer and acquiree can significantly affect the carrying amounts of the combined entity's assets and liabilities

Accounting Acquiree	Assets and liabilities are initially measured at fair value
Accounting Acquirer	Assets and liabilities are not remeasured

ASU 2025-03

Business Combinations and Consolidation

In a business combination, an entity may be required to consider certain factors to identify the accounting acquirer.

In some situations, an entity may determine that a transaction is a reverse acquisition

In other situations, a transaction may not even be accounted for as a business combination

In a business combination in which a VIE is acquired, current guidance requires that the primary beneficiary always is the accounting acquirer



ASU 2025-03 Business Combinations and Consolidation

- Under this ASU, a reporting entity involved in a business combination effected primarily by the exchange of equity interests must consider the factors in ASC 805-10-55-12 through 55-15 to determine which entity is the accounting acquirer...

...regardless of whether the legal acquiree is a VIE

- Effective for fiscal years beginning after December 15, 2026, including interim periods within those fiscal years. Early adoption is permitted.
- Applied prospectively to any business combination that occurs after the initial adoption date.

ASU 2025-04 Share-Based Compensation Payable to a Customer

- Some entities offer to provide consideration to a customer to incentivize the customer to purchase goods and services, usually in the form of cash or credit.
- Consideration payable to a customer can also take the form of equity instruments
- When share-based consideration is granted to a customer, it often vests upon the grantee purchasing a specified volume or monetary amount of goods and services

ASU 2025-04

Share-Based Compensation Payable to a Customer

Topic 606

Requires that an entity account for consideration payable to a customer as a reduction of the transaction price and, therefore, as a reduction of revenue, unless the payment is in exchange for a distinct good or service

ASU 2025-04

Share-Based Compensation Payable to a Customer

ASU
2019-08

Requires that a seller apply the guidance in Topic 718 to measure and classify share-based consideration payable to a customer

Requires that if share-based consideration payable to a customer contains vesting conditions, the seller must determine whether the vesting conditions represent service conditions or performance conditions

ASU 2025-04 Share-Based Compensation Payable to a Customer

- Revenue may be recognized upon the forfeiture of warrants that were not expected to vest several reporting periods after the seller satisfied the performance obligation
- Current guidance can increase differences in financial reporting outcomes between share-based consideration payable to a customer and other forms of consideration payable to a customer
- Diversity in practice in determining whether certain conditions are service conditions or performance conditions
- No guidance in ASC 606 about whether constraining estimates of variable consideration applies to share-based consideration payable to a customer

ASU 2025-04

Share-Based Compensation Payable to a Customer

ASU 2025-04

Revised definition of *performance condition* for share-based consideration payable to a customer incorporates:

Conditions (such as vesting conditions) that are based on the volume or monetary amount of a customer's purchases

Performance targets based on purchases made by other parties that purchase the seller's goods or services from the seller's customers

ASU 2025-04 Share-Based Compensation Payable to a Customer

- Entities are expected to conclude that fewer awards contain service conditions
- For awards that are determined to have service conditions, this Update eliminates the policy election permitting accounting for forfeitures as they occur
- Clarification that a grantor should not apply the guidance in ASC 606 on constraining estimates of variable consideration to share-based consideration payable to a customer

ASU 2025-04

Share-Based Compensation Payable to a Customer

Update is effective for all entities for annual reporting periods beginning after December 15, 2026, and interim reporting periods within those annual reporting periods.

Early adoption is permitted.

ASU 2025-05 Credit Losses

Addresses challenges encountered when applying ASC 326 Financial Instruments – Credit Losses to current accounts receivable and contract assets

Initiated by the Private Company Council in response to concerns from private company stakeholders

ASU 2025-05 Credit Losses

- Identifying, analyzing, and documenting macroeconomic data to develop forecasts for estimating expected credit losses can be **costly, complex**, and **no material effect** for short-term assets
- Not considering subsequent collection activity results in credit losses recorded that are not as decision-useful to financial statement users

ASU 2025-05 Credit Losses

Practical Expedient

In developing forecasts, may elect to assume that current conditions as of the balance sheet date do not change for the remaining life of the asset.

All entities may elect

Accounting policy election

If elect the practical expedient, may make an accounting policy election to consider collection activity after the balance sheet date when estimating expected credit losses

Only available to entities other than a public business entity

ASU 2025-05

Credit Losses

Update is effective for annual reporting periods beginning after December 15, 2025, and interim reporting periods within those annual reporting periods.

Early adoption is permitted.

ASU 2025-06 Internal-Use Software

- General consensus from stakeholders that the accounting for internal-use software is outdated and not relevant given the evolution of software development
- Challenges in determining when to begin capitalizing internal-use software costs
- Amendment applies to internal-use software and website development costs
- Expectation is that capitalization costs generally will not change significantly for most types of software under the amendments

ASU 2025-06 Internal-Use Software

- Entity is required to start capitalizing software costs when both of the following occur:

Management has authorized and committed to funding the software project.

It is probable that the project will be completed and the software will be used to perform the function intended

ASU 2025-06 Internal-Use Software

- In evaluating the “probable-to-complete” recognition threshold, must consider whether there is significant uncertainty associated with the development activities.
- Factors to consider in determining whether there is significant development uncertainty are whether:

The software has technological innovations or unique features and uncertainty related to those features has not been resolved through coding and testing

The entity has determined what it needs the software to do, including if the entity is substantially revising the software’s significant performance requirements

ASU 2025-06 Internal-Use Software

Disclosures in Topic 360
*Property, Plant, and
Equipment* are required
for all capitalized internal-
use software costs

Intangible disclosures in
Topic 350 *Intangibles* are
not required for
capitalized internal-use
software costs

ASU 2025-06

Internal-Use Software

Update is effective for annual reporting periods beginning after December 15, 2027, and interim reporting periods within those annual reporting periods.

Early adoption is permitted.

ASU 2025-06 Internal-Use Software

**Prospective
Transition
Approach**

**Modified
Transition
Approach**

**Retrospective
Transition
Approach**

ASU 2025-07 Derivatives and Hedging

- Stakeholder concerns that the application of the definition of a derivative is too broad and should not apply to certain contracts
- Amendment expands scope exceptions from Topic 815 for certain contracts not traded on an exchange to include contracts for which settlement is based on operations or activities specific to one of the parties to the contract

ASU 2025-07 Share-Based Noncash Consideration from a Customer

- Stakeholder concerns that there is lack of clarity about which guidance an entity should apply to recognize share-based noncash consideration received from a customer that is consideration for the transfer of goods or services
- Amendment clarifies that an entity should apply the guidance of Topic 606 to a contract with share-based noncash consideration from a customer for the transfer of goods or services
- Guidance in other topics does not apply unless and until the entity's right to receive or retain the share-based noncash consideration is unconditional under Topic 606

ASU 2025-07

Update is effective for annual reporting periods beginning after December 15, 2026, and interim reporting periods within those annual reporting periods.

Early adoption is permitted.



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