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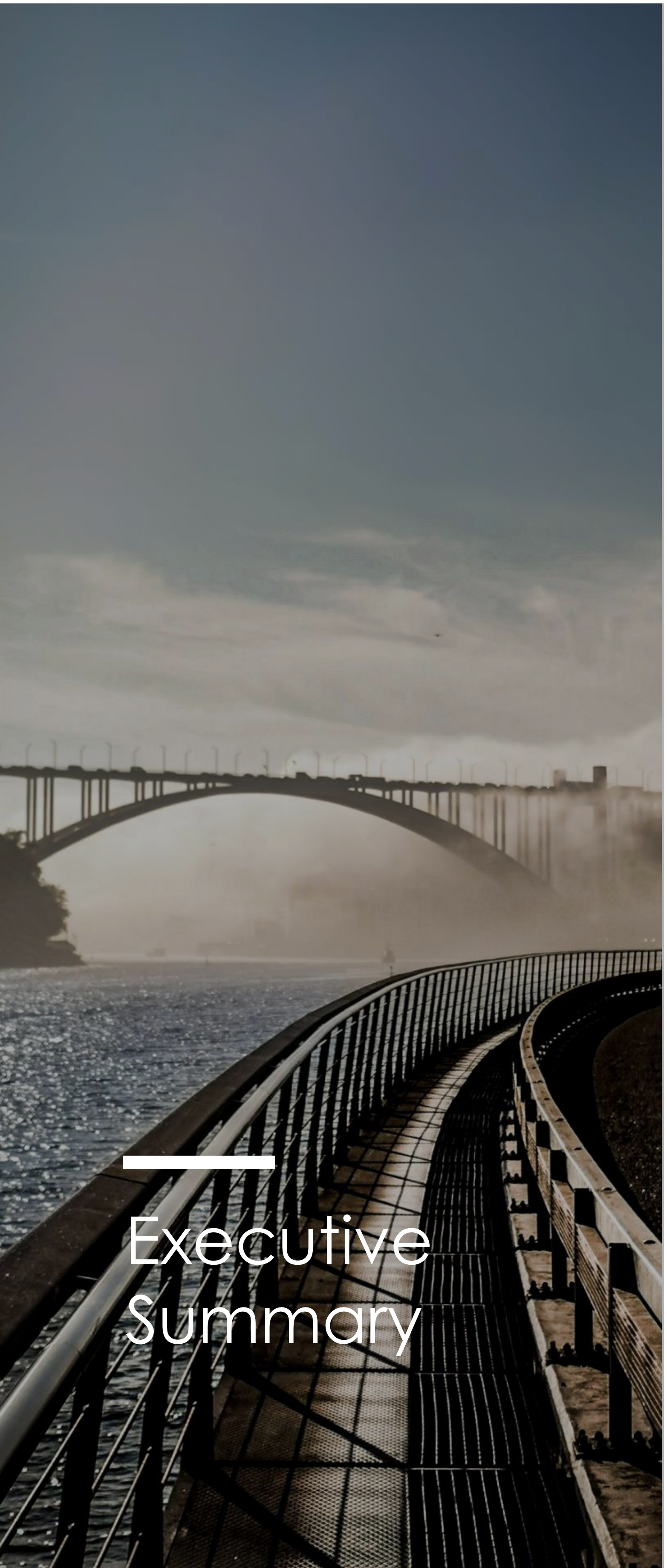
CNM LLP

INDUSTRY INSIGHTS

Q4 2024 // PREPARED BY CNM PROFESSIONAL PRACTICE GROUP



Executive Summary

Q4 2024

Key Insights

Dear Colleagues and Friends,

In this Issue of Industry Insights, we recap the latest accounting and financial reporting developments from 2024 and provide insights and notable reminders as we head into 2025.

Our Accounting and Financial Reporting section covers the upcoming FASB standards that are effective for public calendar year-end companies for 2024 financial reporting. We also highlight key requirements for the new segment reporting disclosures as well income tax disclosures.

We then provide an overview of two recently issued FASB standards, ASU 2024-03, Disaggregation of Income Statement Expenses ("DISE") and ASU 2024-04 Induced Conversion of Convertible Debt Instruments.

Q4 was a very busy quarter for the FASB. Several new exposure drafts were issued, some of which remain in open comment letter status moving into 2025, while others are in board redeliberations. We cover the highlights from these proposed ASUs and provide links to the full documents for your reference.

In our Regulatory Update, we discuss the California Climate laws that were signed into law in Q4 of 2023 and provide an update on the rules and their upcoming effective dates.

We hope you find this publication useful and insightful.

Best regards,
CNM LLP

Q4 2024

Year End Reminders

Public Business Entities (PBEs) to be reporting on the new segment disclosures

We discussed the requirements of ASU 2023-07 which requires companies with one or more segments to report detailed disclosures related to each segment in our Industry Insights Q3 2024. Calendar year-end public companies are required to include these disclosures in the upcoming 2024 10Ks. The additional disclosures are required even for companies with only one reportable segment.

PBEs to expand on their Income Tax disclosures for their 2025 10K Report

FASB issued ASU 2023-09 late in 2023, which expands the income tax disclosures for PBEs. For PBEs, the ASU is effective for annual reporting periods beginning after December 15, 2024. Non-PBEs have an additional year to comply, and early adoption is permitted.

This new standard requires disaggregated information about an entity's effective tax rate reconciliation by percentages and amounts as well as information on income taxes paid by nature and jurisdiction.

The ASU also requires qualitative disclosures of individual reconciling items disclosures, such as nature, effect and underlying causes and the judgement used in categorizing the reconciling items.

Lastly, the ASU removes the existing required disclosures on the nature and estimate of the range of reasonably possible increases or decreases in the unrecognized tax benefits as well as the disclosure of the cumulative amount of each type of temporary difference when a deferred tax liability is not recognized. Additional quantitative and qualitative disclosures may be also be required, depending on specific facts and circumstance of your company.

Additional insights on the requirements of this ASU can be found in our Industry Insights Q4 2023.

Upcoming FASB Standard Effective Dates

ASU	Topic	Effective Date
2022-03	Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions	For PBE's, fiscal years beginning after December 15, 2023 (2024 for all other entities), and interim periods within those fiscal years.
2023-01	Leases (Topic 842): Common Control Arrangements	For all entities, fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted.
2023-02	Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method	For PBEs, fiscal years beginning after December 15, 2023 (2024 for all other entities), including interim periods within those fiscal years.
2023-05	Business Combinations—Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement	For all entities, effective prospectively for all joint venture formations with a formation date on or after January 1, 2025. Early adoption is permitted.
2023-07	Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures	For all PBEs, effective for annual periods beginning after December 15, 2023, and for interim periods beginning after December 15, 2024
2023-08	Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets	For all entities, effective for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years.
2023-09	Income Taxes (Topic 740): Improvements to Income Tax Disclosures	For PBEs, effective for annual periods beginning after December 15, 2024 (2025 for all other entities). Early adoption is permitted.
2024-01	Compensation—Stock Compensation (Topic 718): Scope Application of Profits Interest and Similar Awards	For PBEs, effective for annual periods beginning after December 15, 2024 (2025 for all other entities), and interim periods within those annual periods. Early adoption is permitted.
2024-03	Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses	For all entities, effective for annual periods beginning after December 15, 2026, and interim periods within annual reporting periods beginning after December 15, 2027. Early adoption is permitted.

FASB issued ASU 2024-03 on Disaggregation of Income Statement Expenses (DISE)

FASB issued ASU 2024-03, Disaggregation of Income Statement Expenses ("DISE") in November of 2024. The ASU requires, among other things, for public companies to report at each interim and annual periods on the following:

1. Disclose the amounts of (a) purchases of inventory, (b) employee compensation, (c) depreciation, (d) intangible asset amortization, and (e) depreciation, depletion, and amortization recognized as part of oil and gas-producing activities (DD&A) (or other amounts of depletion expense) included in each relevant expense caption. A relevant expense caption is an expense caption presented on the face of the income statement within continuing operations that contains any of the expense categories listed in (a)–(e).

2. Include certain amounts that are already required to be disclosed under current generally accepted accounting principles (GAAP) in the same disclosure as the other disaggregation requirements.

3. Disclose a qualitative description of the amounts remaining in relevant expense captions that are not separately disaggregated quantitatively.

4. Disclose the total amount of selling expenses and, in annual reporting periods, an entity's definition of selling expenses.

Following the issuance of the ASU, the FASB also issued a Proposed ASU to clarify that the effective date for PBEs is annual reporting periods beginning after December 15, 2026 and interim periods within annual reporting periods beginning after December 15, 2027. Early adoption is permitted.

FASB issued a Final ASU on Induced Conversions of Convertible Debt Instruments

FASB issued ASU 2024-04 to enhance the relevance and consistency of the induced conversion guidance within Subtopic 470-20, which addresses convertible debt with options. The existing guidance was designed for share-settled convertible debt, predating the widespread use of cash convertible instruments. This mismatch, combined with amendments introduced in ASU 2020-06, led to stakeholder questions about whether settlements of convertible debt instruments—particularly cash convertible ones—should be treated as induced conversions or debt extinguishments. The Update clarifies these determinations, emphasizing that an inducement offer must provide, at a minimum, the original conversion terms' consideration and includes additional provisions to address scenarios such as recent modifications to the debt terms or the incorporation of volume-weighted average price (VWAP) formulas.

The ASU specifies that induced conversion guidance applies to convertible debt with substantive conversion features at issuance and when the inducement offer is accepted, even if the debt is not currently convertible. Changes to VWAP formulas, by themselves, do not necessitate extinguishment accounting; rather, entities must assess whether the fair value of the conversion consideration is preserved.

The ASU is effective for all entities for annual reporting periods beginning after December 15, 2025, and interim periods within those annual periods. Early adoption is permitted in some circumstances. The Update allows prospective or retrospective application. Retrospective application involves adjustments to prior periods but excludes settlements before adopting ASU 2020-06.

FASB Issued various proposed accounting standards that are currently open for public feedback

During Q4 2024, the FASB issued several proposed accounting standards, some of which are still open for public comment and others in board redeliberations, that we would like to discuss and highlight in this publication as they may impact your organization:

Accounting for and Disclosure of Software Costs

The FASB issued a proposed update to modernize the accounting for internal-use software. The stakeholders raised concern that the current guidance does not align with modern, agile, software development practices. The proposed revisions would eliminate the references to the linear project stages in ASC 350-40, *Intangibles-Goodwill and Other- Internal use Software,* and replace them with a software capitalization start date when both of the following conditions are met:

(1) Management has authorized and committed to funding the software project.

(2) It is probable that the project will be completed, and the software will be used to perform the function intended.

Additionally, companies would need to classify cash paid for capitalized internal-use software costs as cash outflows from investing activities on the statement of cash flows, separately from other investing cash outflows.

Accounting for Government Grants

The FASB issued proposed updates to government grants that is now open for public comments. The amendments would require a consistent initial recognition threshold for all government grants . A government grant would be initially recognized when it is probable that (1) a business entity will comply with the conditions attached to the grant and (2) the grant will be received.

The proposed update also includes presentation and disclosure requirements depending on the type of the grant (asset vs. income).

Comments on this proposal are due on March 31, 2025.

Determining the Acquirer in the Acquisition of a VIE

The FASB issued proposed updates for identifying the accounting acquirer in a business combination where the transaction is primarily affected by exchanging equity interests and the legal acquiree is a VIE that meets the definition of a business. The proposed amendments would require an entity to consider the same factors applicable for other business combination transactions in determining the acquirer, as opposed to current GAAP which results in concluding that the primary beneficiary is always the accounting acquirer.

Comments on this proposal were due on December 16, 2024.

Share-Based Consideration Payable to a Customer

The FASB issued proposed updates to share-based payments payable to a customer that are not in exchange for distinct goods and services. The amendments in the update would revise the definition of the term “performance condition” for share-based consideration payable to customer and the revised definition would incorporate conditions (including vesting conditions) that are based on the volume, monetary amount, or timing of a customer’s purchases of good or services from the grantor.

The amendments would also eliminate the policy election to account for forfeitures as they occur for those awards that have service conditions, and instead require companies to estimate forfeitures when share-based payment is awarded, allowing for more timely recognition of revenue when service conditions are present.

This proposed update is currently in ongoing board redeliberations.

Interim Reporting- Narrow-Scope Improvements

The FASB issued proposed update related to interim reporting (Topic 270). The amendments in this proposed update would result in a comprehensive list of interim disclosures that are required by GAAP. The amendments would also include a disclosure principle that would require entities to disclose events and changes since the end of the last annual reporting period that have a material impact on the entity.

Comments on this proposal are due on March 31, 2025.

Credit Losses- Topic 606 Receivables

The FASB issued [proposed updates] on measurement of credit losses for accounts receivable and contract assets for private companies and certain not-for profit entities. The amendments in this proposed update would provide private companies and certain not-for-profit entities with a practical expedient and an accounting policy election when estimating expected credit losses for current accounts receivable and current contract assets arising from transactions accounted for under Topic 606:

1. Practical expedient: In developing reasonable and supportable forecasts, an entity may elect a practical expedient that assumes that current conditions as of the balance sheet date persist throughout the forecast period.
2. Accounting policy election: An entity that elects the practical expedient would be eligible to make an accounting policy election to consider collection activity after the balance sheet date when estimating expected credit losses.

Comments on this proposal are due January 17, 2025.

FASB Technical Agenda* as of January 6, 2025

FASB Next Milestone	Project
RESEARCH PROJECTS	Accounting for and Disclosure of Intangibles Accounting for Commodities Accounting for Derivatives Agenda Consultation Consolidation for Business Entities Financial Key Performance Indicators for Business Entities Statement of Cash Flows
BOARD DELIBERATIONS	Statement of Cash Flows Targeted Improvements
EXPOSURE DRAFT	Accounting for and Disclosure of Software Costs Accounting for Debt Exchanges Accounting for Environmental Credit Programs Accounting for Government Grants Codification Improvements (Evergreen) Credit Losses – Topic 606 Receivables (PCC) Interim Reporting – Narrow-Scope Improvements Presentation of Contract Assets and Contract Liabilities for Construction Contractors (PCC)
BOARD REDELIBERATIONS	Determining the Acquirer in the Acquisition of a VIE Financial Instruments – Credit Losses (Topic 326) – Purchased Financial Assets Share-Based Consideration Payable to a Customer Topic 815 – Derivatives Scope Refinements Topics 815 – Hedge Accounting Improvements
EXPECTED FINAL ASU	
FINAL ASU	ASU 2025-01: Income Statement- Reporting Comprehensive Income- Expense Disaggregation Disclosures: Clarifying Effective Date ASU 2024-04: Induced Conversions of Convertible Debt Instruments ASU 2024-03: Disaggregation – Income Statement Expenses

* https://www.fasb.org/technicalagenda

Q4 2024

Update and Reminder on California Climate Laws

During Q4 of 2023, California signed into law 3 new senate bills that requires entities, both public and non-public that do business in California to report on climate related financial risks as well as scope 1, 2 and 3 greenhouse gas emissions. We covered the details of these requirements in our Industry Insights Q4 2023 publication.

Over the next few months following the execution of these laws, various groups challenged these laws in court, but they have not been stayed, and therefore the reporting requirements remain consistent with the initial requirements of the bills which begin in 2026, for applicable businesses.

As a reminder, companies with more than $1 billion in total annual revenues are required to report on Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions. Companies with more than $500 million in total annual revenues are required to provide disclosures on 1) climate-related financial risks and 2) measures adopted by the company to reduce and adapt to climate-related financial risks. This reporting requirement is biennial.

We will continue to monitor regulatory and standard setting updates in this area and bring you relevant updates in future publications.

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Who is CNM?

Founded in 2003, CNM LLP is recognized as one of the premier technical advisory firms in Southern California with Big 4 experience that provides the responsive customer service of a boutique firm. And we're a dynamic team that enlists all our energy to help transform the way your company does business – carefully evaluating your needs, simplifying your financial processes, and passionately solving problems in the most cost-effective way.

Our extensive knowledge of US GAAP, ICFR and SEC reporting skills has given us the ability to assist our clients with transactions that are not only multifaceted, but the capability to implement new or complex accounting standards. We have over 200 global professionals in our Los Angeles, Orange County, San Diego, New York City, and Kuala Lumpur offices. Many of our clients are developed from direct referrals from the Big 4 accounting firms, speaking to the level of quality services we provide.

To learn more about how we can help, visit our website at www.cnmllp.com.

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