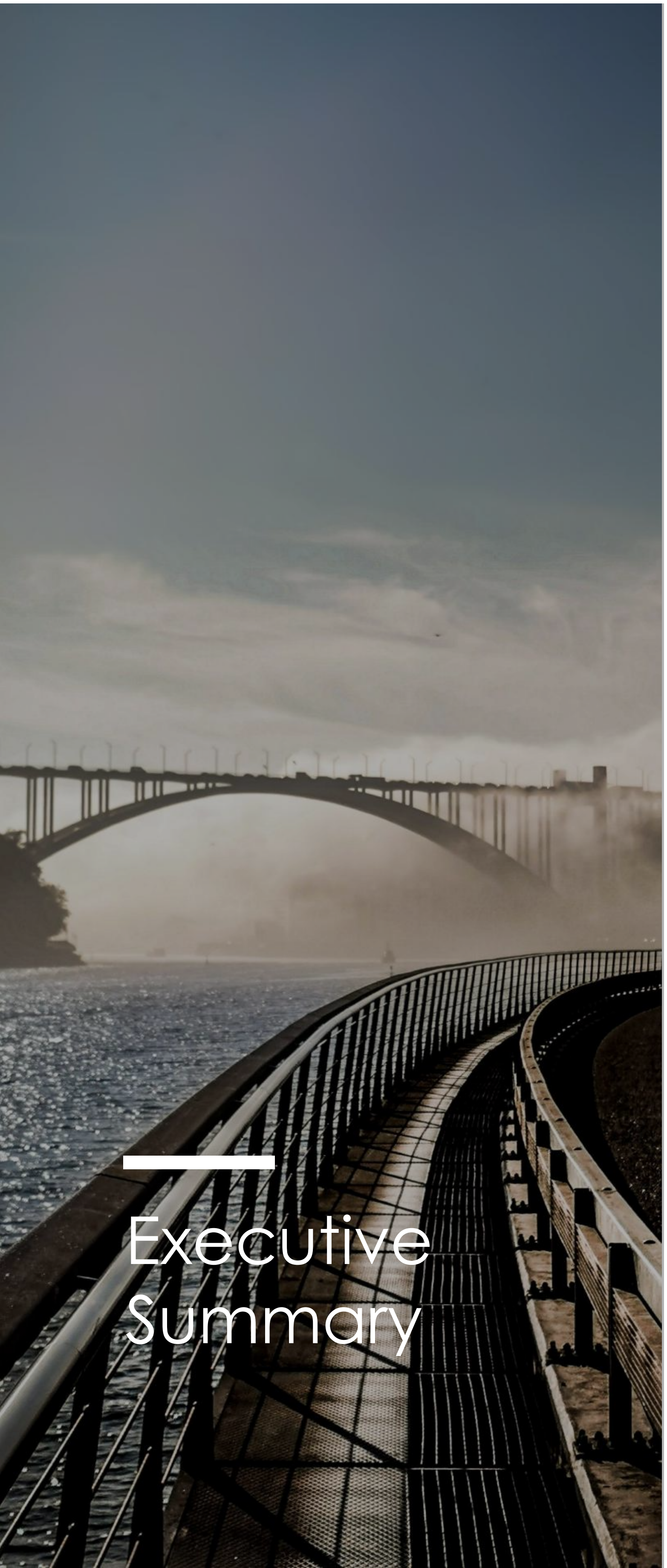
Table of Contents

CNM LLP

INDUSTRY INSIGHTS

Q1 2025 // PREPARED BY CNM PROFESSIONAL PRACTICE GROUP



Q1 2025

Key Insights

Dear Colleagues and Friends,

In this Issue of Industry Insights, we discuss the latest accounting and financial reporting developments for the first quarter of 2025.

Our Accounting and Financial Reporting section covers the upcoming FASB standards that are effective for public and non-public calendar year-end companies for the in 2025, including the new requirements for the accounting and disclosure of income taxes, the scope application of profits interest awards under the guidance of Topic 718, and accounting for investments in tax credit structures using the proportional amortization method.

We then provide an update on some of the proposed accounting standards that are advancing to the final ASU draft stage and expected to be issued by FASB in Q2 of 2025, including determining the accounting acquirer in the acquisition of a VIE, clarifications to share-based consideration payable to a customer and credit losses- Topic 606 receivables (PCC).

We hope you find this publication useful and insightful.

Best regards,
CNM LLP

Q1 2025

Q1 Reminders

<u>PBEs to expand on their income tax disclosures for their 2025 annual 10K report</u>

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, underlying causes and judgements used in categorizing 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
2025-02	Liabilities (405): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 122	For all entities, effective immediately and on a fully retrospective basis to annual periods beginning after December 15, 2024.
2024-04	Debt—Debt with Conversion and Other Options (Subtopic 470-20): Induced Conversions of Convertible Debt Instruments	For all entities, effective for annual periods beginning after December 15, 2025, and interim periods within those annual reporting 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 PBEs, 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.
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.
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.
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.
2023-07	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.
2023-05	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.
2022-05	Financial Services—Insurance (Topic 944): Transition for Sold Contracts	For all other entities, LDTI effective for fiscal years beginning after December 15, 2024, and interim periods with fiscal years beginning after December 15, 2025. Early application is permitted.

ASU 2024-01 on Scope Application of Profits Interest and Similar Awards is Effective for PBEs

In March 2024, FASB issued ASU 2024-01, Stock Compensation–Scope Application of Profits Interest and Similar Awards. The ASU added an illustrative example that includes four fact patterns to demonstrate how an entity should apply the scope guidance to determine whether a profits interest award should be accounted for in accordance with Topic 718 or is not a share-based payment arrangement, and therefore, is within the scope of other Topics, focusing on the scope conditions in paragraph 718-10-15-3. The Update provides that a profits interest award is a share-based payment arrangement when the entity as a grantor is either issuing, or offering to issue, its shares, share options, or other equity instruments to the grantee; or incurring liabilities to the grantee where the amounts are based on the price of the entity's shares or other equity instruments or require settlement by issuing the entity's equity shares or other equity instruments.

The ASU is effective for PBEs for annual reporting periods beginning after December 15, 2024, and interim periods within those annual periods. For all other entities, the ASU is effective for annual reporting periods beginning after December 15, 2025, and interim periods within those annual periods.

ASU 2023-02 on Investments- Equity Method and Joint Ventures (Topic 323) is Effective for all entities

In March 2023, FASB issued ASU 2023-02, on accounting for investments in tax credit structures using the proportional amortization method which will allow reporting entities to consistently account for equity investments made primarily for the purpose of receiving income tax credits and other income tax benefits.

The amendments in this Update apply to all reporting entities that hold (1) tax equity investments that meet the conditions for and elect to account for them using the proportional amortization method or (2) an investment in a low-income-housing tax credit (LIHTC) structure through a limited liability entity that is not accounted for using the proportional amortization method and to which certain LIHTC-specific guidance removed from Subtopic 323-740 has been applied.

The amendments in this Update permit reporting entities to elect to account for their tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if the following conditions are met:

1. The income tax credit expected to benefit the tax equity investor are considered probable and available.
2. The tax equity investor does not have significant influence over the project's operating or financial decisions.
3. Substantially all of the projected benefits are from tax-related incentives, calculated on a discounted basis aligned with investor assumptions.
4. The expected yield from just the income tax credits and other tax benefits is positive.
5. The tax equity investor is a limited liability investor, with limited liability to their capital contributions.

A reporting entity makes an accounting policy election to apply the proportional amortization method on a tax-credit-program-by-tax-credit-program basis rather than electing to apply the proportional amortization method at the reporting entity level or to individual investments.

For public business entities, the amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years. Early adoption is permitted for all entities in any interim period.

Update on FASB's various previously proposed standards

Determining the Acquirer in the Acquisition of a VIE

We discussed in our Industry Insights Q4 2024 the highlights of this proposed update.

During the FASB meeting held on March 5, 2025, FASB reaffirmed several tentative board decisions following discussions on the feedback received regarding the proposed updates, including:

- To require an entity to assess all of the following conditions for determining the accounting acquirer in the acquisition of a VIE: (1) the legal acquiree is a VIE; (2) the legal acquiree VIE meets the definition of a business; and (3) the transaction was effected primarily by exchanging equity interests
- To require prospective application of the ASU and that an entity disclose the nature of and reason for the change in accounting principle in the period of adoption.

The Board expects to issue a final ASU in Q2 of 2025.

Share-based Consideration Payable to a Customer

During the FASB meeting held on February 5, 2025, FASB reaffirmed several tentative board decisions following discussions on the feedback received regarding the proposed updates, as we have discussed and highlighted in our Industry Insights Q4 2024 published last quarter. The Board affirmed the following decisions:

1. The definition of the term performance condition for share-based consideration payable to a customer should be revised to explicitly incorporate conditions that relate to achieving a specified performance target that is defined by reference to the grantee's purchases of goods or services from the grantor.

2. The definition of the term performance condition should include performance targets based on purchases by parties that purchase the grantor's goods or services from its customer.

3. The entity-wide policy election permitting an entity to account for forfeitures as they occur should be eliminated for any remaining customer awards that would continue to have service conditions.

4. The variable consideration constraint in Topic 606 should not apply to share-based consideration payable to customers either before or after the grant date.

The Board also decided to make clarifications to the following areas of the proposed amendments:

1. Conditions relating to "potential purchases" should be included in the definition of performance conditions.

2. When the grant-date fair value of share-based consideration payable to a customer exceeds the fair value of distinct goods or services received (and is accounted for as both a reduction to the transaction price and the purchase of a distinct good or service), the entire award is subject to the guidance for awards granted to customers on performance conditions and forfeitures.

3. Before the grant date, the fair value of share-based consideration payable to a customer should be measured under the guidance in Topic 718.

The final ASU is expected to be issued in Q2 of 2025.

Credit Losses—Topic 606 Receivables

The Private Company Council (PCC) met on March 6, 2025, to discuss comment letter feedback on the proposed Update and reaffirmed its decision related to the practical expedient and accounting policy election, as we have discussed and highlighted in our Industry Insights Q4 2024 published last quarter. PCC also affirmed its decision related to the asset scope and disclosure as follows:

1. The proposed Update should apply to current account receivables and contract assets arising from transactions under Topic 606 or acquired in a transaction under Topic 805 and;

2. Require entities to disclose their election of the practical expedient and accounting policy election, including disclosure for entities that have elected the accounting policy to disclose the date through which subsequent cash collections were evaluated

The proposed amendments allow prospective application, without a preferability assessment in accordance with Topic 250, *Accounting for Changes and Error Corrections* upon initial adoption. Early adoption is permitted. The proposed Update is effective for all entities with annual periods beginning after December 15, 2025, and interim periods within those annual periods.

FASB will redeliberate based on PCC's recommendations and comment letters on the proposed Update. The final ASU is expected to be issued in Q2 of 2025.

FASB Technical Agenda* as of March 26, 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 Hedge Accounting Statement of Cash Flows
BOARD DELIBERATIONS	Statement of Cash Flows Targeted Improvements
EXPOSURE DRAFT	Accounting for Debt Exchanges Accounting for Environmental Credit Programs Codification Improvements(Evergreen)
BOARD REDELIBERATIONS	Accounting for and Disclosure of Software Costs Accounting for Government Grants Financial Instruments—Credit Losses(Topic 326)—Purchased Financial Assets Interim Reporting—Narrow-Scope Improvements Topic 815——Derivatives Scope Refinements
EXPECTED FINAL ASU	Determining the Acquirer in the Acquisition of a VIE Share-Based Consideration Payable to a Customer Credit Losses—Topic 606 Receivables (PCC) Topic 815—Hedge Accounting Improvements
FINAL ASU	ASU 2025-01: Income Statement- Reporting Comprehensive Income- Expense Disaggregation Disclosures: Clarifying Effective Date

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

www.cnmllp.com

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.

CNM LLP
Technical Advisory Firm

Los Angeles

A | 6320 Canoga Avenue
Suite 150
Woodland Hills, CA 91367
O | 818.999.9501

Orange County

A | 15635 Alton Parkway
Suite 450
Irvine, CA 92618
O | 949.299.5582

San Diego

A | 12544 High Bluff Drive
Suite 300
San Diego, CA 92130

New York City

A | 264 West 40th Street
19th Floor
New York, NY 10018

Malaysia

A | Suite 19-01, GTower,
199, Jalan Tun Razak,
50400 Kuala Lumpur