Special Pullout Report: TXCPA Accounting Industry Outlook

JULY
AUG
2022

TODAY'S CPA

Texas Societ ublic Accountants

INTRODUCING TXCPA'S 2022-2023 CHAIRMAN SHEILA ENRIQUEZ

FASB ESTABLISHES DISCLOSURE REQUIREMENTS FOR BUSINESSES RECEIVING GOVERNMENT ASSISTANCE

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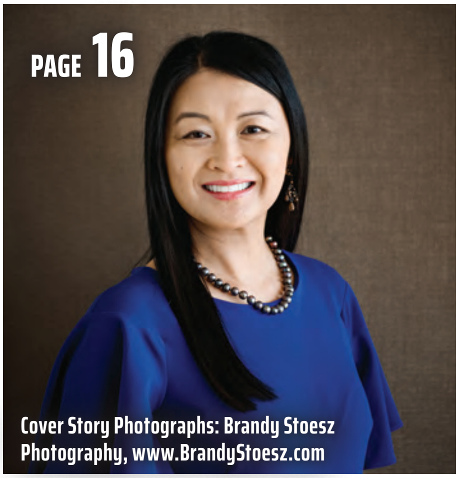

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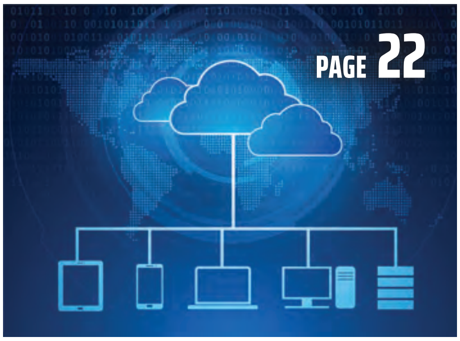

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DEPARTMENTS

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A NEW YEAR OF OPPORTUNITIES

By TXCPA Chairman Sheila Enriquez, JD, CPA-Houston, CFF, CVA

I'd love to hear from you!

Do you have questions or feedback? Drop me a note at chairman@tx.cpa.

It's a new year at the Texas Society of CPAs! I'm honored and excited to serve as your chairman this year. I hope you'll take a few minutes to learn more about what we'll be doing together in the coming year by reading this issue's cover story on page 16. It is with the support of this dynamic community that we will make an impact and best serve, promote and protect our profession.

Your TXCPA leadership has set new goals for 2022-2023 under our three pillars of success: community and connection, professional excellence, and advocacy. In addition to our ongoing delivery of benefits to members, we'll be focused on a few new opportunities.

Under Community and Connection, we plan to grow our community, engage next generation CPAs and deliver an exceptional member experience that will be evident in an increased member satisfaction rating.

Our Professional Excellence goals focus on expanding the number of members who experience our TXCPA CPE programs, and providing valuable and timely new resources for our firms that participate in peer review.

Advocacy is one of the greatest benefits for members. We'll expand the reach of our promotion of the CPA brand, as well as the influence of the CPA-PAC through higher member involvement and support.

YOU are critical to our success as a community, and I encourage you to find your place to get engaged and involved in these and other valuable efforts at the state level and in your local chapter. The TXCPA team stands ready to help you find your fit. We have a place for every member to feel connected and have a voice in how we serve our profession.
If you're not involved yet and want to be, email the TXCPA team at membership@tx.cpa or give them a call at 800-428-0272.

Thank you for your membership and your trust in TXCPA!

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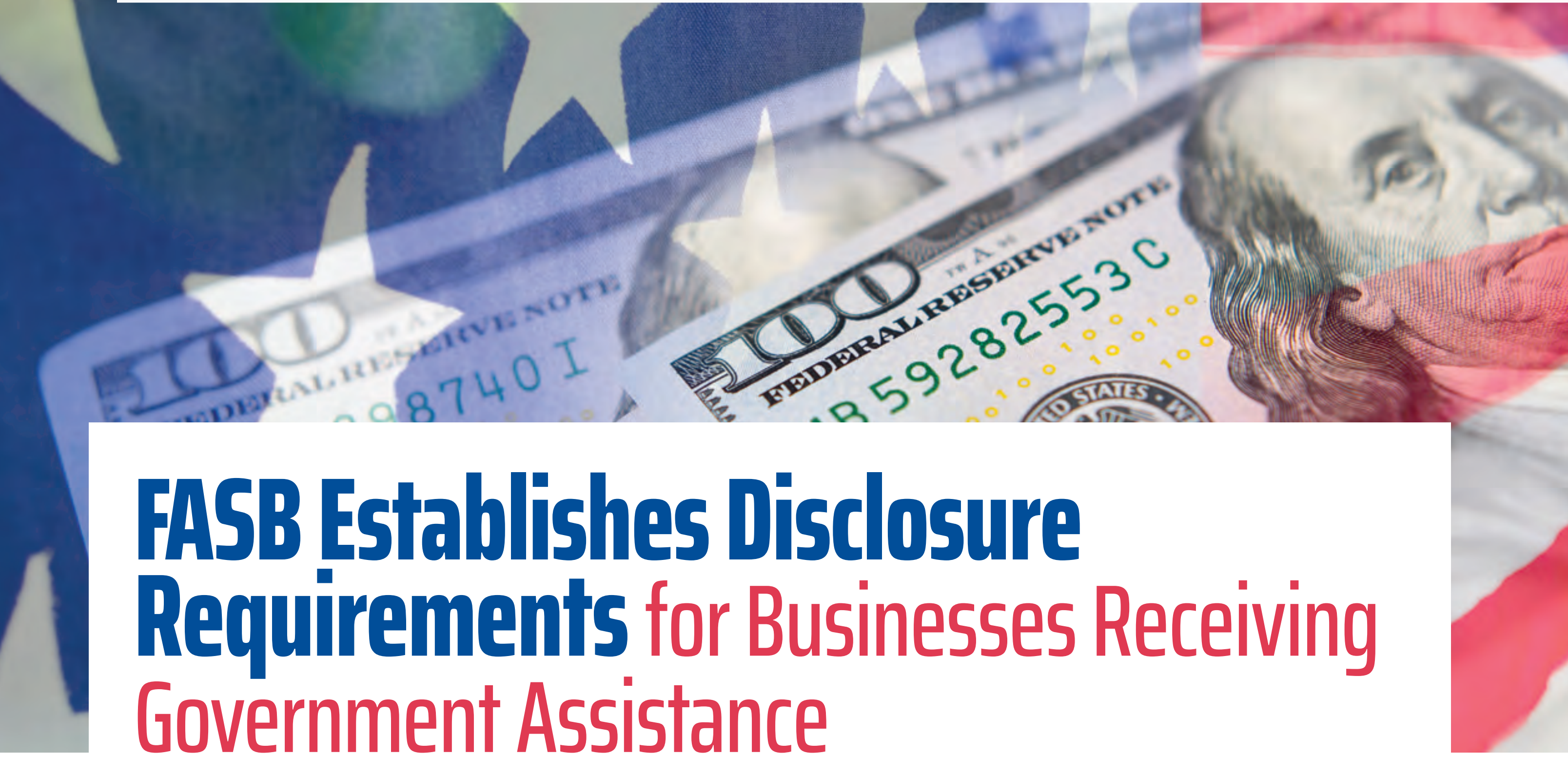

FASB Establishes Disclosure Requirements for Businesses Receiving Government Assistance

By Don Carpenter, MSAcc/CPA

With the harsh economic environment created by the pandemic, governments around the world have been very proactive with regard to assistance provided to businesses in an effort to help them survive and encourage continued employment for the workforce. The extent of this assistance is evident in the $3.5 billion of pandemic support provided by the U.S. federal government in 2020 alone.

Surprisingly, GAAP does not provide direct guidance on how this assistance should be reported by the receiving businesses. To address this deficiency, the Financial Accounting Standards Board (FASB) issued ASU 2021-10 to establish disclosure requirements for business entities receiving government assistance.

The disclosures are intended to give investors insight into the impacts of such financial support and the related constraints or contingencies that may accompany it.

The enhanced disclosures are required for all enterprises except not-for-profit entities as defined by Topic 958 and employee benefit plans under Topic 960, 962 or 965. Affected entities are required to provide annual disclosure for any transactions with governments that are accounted for by applying grant or contribution accounting models. The disclosures must address:

1) The nature of the transaction and the accounting policy used to account for it.
2) The financial statement line items affected by the transactions and the amount involved.
3) Significant terms and conditions of the transactions, including commitments and contingencies.

The definition of what constitutes a governmental counterparty is quite broad. It may be a domestic or foreign government. In addition, the governmental unit can be federal, state, regional or municipal. Even quasi-governmental entities such as the World Trade Organization fall within the definition. Reporting entities would be well-advised to err on the side of inclusion with regard to qualified entities given the broad definition.

Although the definition of the governmental counterparty is quite expansive, FASB took a more limited view regarding what type of assistance would fall within the scope of the ASU. Transactions arising where the government is a customer or is legally required to provide a nondiscretionary level of assistance without specific agreement between the entity and the government are not included. Transactions within the scope of Topic 740 (Income Taxes) are also excluded.

These two exclusions should eliminate assistance structured as purchase/sale transactions or income tax credits. Finally, if the government assistance is accounted for in accordance with existing GAAP (such a contingencies), additional disclosure is not required.

With the above exclusions, the guidance reiterates that the new disclosure requirements apply to assistance that is accounted for under a grant or contribution accounting model. It gives examples of two types of transactions that would require disclosure:

1) A forgivable loan by a government that the business entity accounts for as a grant (such as the Payroll Protection Program).
2) A receipt of cash or other assets that the business entity accounts for as a contribution.

Due to the potential for various reporting entities to reflect similar governmental assistance differently, businesses are required to disclose the amounts received and the various line items in the balance sheet and income statement that are affected. This requirement is intended to allow investors to gain comparability across reporting entities.

The board included in this discussion a carve out for amounts not received but rather structured as reductions in previous arrangements, such as reduced sales taxes or lower interest charges due to loan guarantees. Although it is clear these reductions would impact certain line items in the financial statements, these impacts do not have to be disclosed due to the difficulty in ascertaining the amounts.

Finally, the entity is required to disclose any significant terms and conditions associated with the assistance received. As an example, if an entity is to receive a grant in increments over a period of time, that condition should be disclosed. Likewise, conditions such as maintaining an employee headcount or limitations based on a percentage of gross revenue would also constitute disclosable terms and conditions.

Affected entities raised concerns that disclosure of the amounts and significant terms and conditions may violate confidentiality clauses or require disclosure of proprietary information. In addition, there was concern that disclosure could impact future negotiations with governmental authorities or jeopardize future governmental spending. The board determined after a review of structured assistance programs that these concerns would only arise infrequently. If an entity does not comply with the required disclosures based on these concerns, it must still disclose the general nature of the information omitted and an explanation regarding why it is **legally** prohibited from meeting the requirements.

ASU 2021-10 is effective for annual periods beginning after December 15, 2021. Early application is permitted. The reporting entity is allowed to adopt the provision prospectively, but it must apply the requirements to any arrangements in place at the time of application and to new transactions entered into after the effective date. The disclosures are required to be made annually so interim reports need not include them.

As businesses prepare to comply with these disclosure requirements, they should review any continuing requirements associated with prior assistance where terms and conditions are still in effect and put in place systems for capturing the information across the enterprise prospectively.

About the Author: Don Carpenter is clinical professor of accounting at Baylor University. Contact him at Don_Carpenter@baylor.edu.

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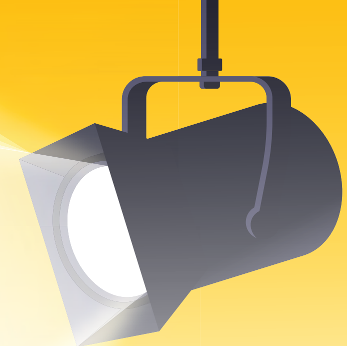
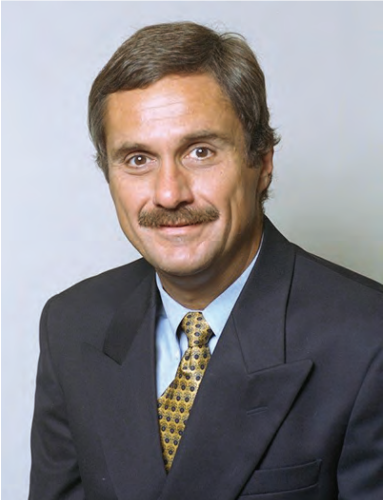


Meet Robert P. Gray – CPA and Expert Author



TXCPA member Robert P. Gray, CPA, ABV, CFF, CGMA, CFE, is Principal at Gray Schrupp & Associates in Dallas. His practice areas include complex commercial litigation, forensic investigations, stakeholder disputes, matrimonial services, business valuations and other forensic accounting consulting services. He serves clients in the United States and internationally.

He has been actively involved in TXCPA's Business Valuations, Forensic and Litigation Services Committee for a number of years and has chaired the subcommittee for their conference. In addition, he is a member of AICPA and the Kentucky Society of CPAs, and he has served in several leadership roles in the niche forensic and valuation services community at AICPA.

Gray is also an expert author. He has co-written a chapter in the book "Lost Profits Damages: Principles, Methods, and Applications" second edition. *Today's CPA* recently caught up with Gray to learn more about his career, his volunteer service and the new book.

Tell us more about your background and career.
I grew up in the Midwest, but I seemed destined to move to Texas at a young age. In December 1976, I graduated from Southern Illinois University – Edwardsville. During my career, I have been a partner and spent over 17 years with two national CPA and advisory services firms working in their national FLVS practices.

Prior to those roles, I spent approximately 15 years with a Big Four firm providing FLVS, assurance and consulting services in several offices throughout the United States. My firm, Gray Schrupp & Associates PLLC, was established in May 2017.

You are Principal at Gray Schrupp & Associates. What are your primary responsibilities at your firm?
At GSA, we are a small firm. I am one of the two principals/owners, and we do forensic and valuation services (FVS) work on a national/global basis. My role is delivering expert reports/testimony on a number of FVS matters that are generally in litigation.

My roles vary from marketing/selling, prosecuting the work, to taking out the garbage. In addition, my partner(s) over the years have allowed me to be very active with AICPA's FVS Community (committees/task forces, etc.). My partner, Elizabeth Schrupp, CPA, keeps me balanced in the activities I get involved with – she is magical and very insightful.

You've served on the TXCPA Business Valuations, Forensic and Litigation Services Committee for a number of years. Why is volunteering or committee service in TXCPA so important to you?
As part of the AICPA FVS community, I recognized that certain states (e.g., California) had great results in establishing networking, CPE and leadership for the FVS community. When I moved to Dallas (from Houston), I approached TXCPA to see what interest there might be in re-establishing a Business Valuations, Forensic and Litigation Services Conference. I joined the Business Valuations, Forensic and Litigation Services Committee and met Trish Fritsche, CPA, CFF, CGMA, CITP, who was chair of the committee. We approached the TXCPA folks, and they agreed to reinstate the conference if we could

get our firms to underwrite the cost and also get national/local quality speakers to donate their cost and time.

The committee has also been involved with producing webinars on relevant topics. We realized the need to bring quality speakers/topics to TXCPA so that younger staff would attend, as well as to develop networking and CPE for FVS folks in Texas.

You recently co-authored a new chapter in a book that is an FVS treatise. What led you to co-write the book? What makes it unique?
I am an economics damages fanatic. Lost profits guidance is a big part of what CPA experts provide to their clients. It is not all of the services we perform for economic damages.

I was a contributing editor of the first edition of the book. The editors approached me about doing a chapter on lost profits for new businesses. That topic was not in the first edition. I sought out one of my former partners, Dave Duffus, HKA in Pittsburgh, and also Ira Bowman, Attorney, Godwin, Bowman, Martinez in Dallas, as co-authors for help and assistance.

The book is unique. The second edition would be a wise addition to any business litigator and experts who deal with lost profits (e.g., breach of contract matters or tort-related economic damages claims). It deals with topics and issues not found in other lost profit treatises.

The added chapter in the second edition titled "Lost Profits for New Businesses" really provides some history of how we got to where we are today in the court rooms. At some point, most seasoned financial experts who provide expert witness services for economic damages measurement will encounter matters that deal with the challenges of estimating lost profits for "new business" – that is, a business that has little or no financial history on which to base projections. This chapter addresses how and to what extent a new business can, in appropriate circumstances, credibly claim damages for lost profits for these types of entities.

The book "Lost Profits Damages: Principles, Methods, and Applications" is available on Jim Hitchner's Valuation Products and Services website

Building on the success of the acclaimed first edition, "Lost Profits Damages: Principles, Methods, and Applications," the second edition includes four new chapters, 12 additional expert authors and over 100 pages of further meaningful guidance. It was written by 56 nationally recognized experts in 27 practical, easy-to-use chapters.

Purchase your copy today! TXCPA members receive a 20% discount. The book is available on Jim Hitchner's Valuation Products and Services website at www.valuationproducts.com/lost-profits.

From a financial perspective, there is no prohibitive or hard-and-fast rule of law that precludes a new business from obtaining lost profits or any other commonly accepted measures of economic damages.

The new business rule has essentially been replaced with the recognition that recovery of lost profits can be obtained if evidence establishing lost profits to a reasonable degree of certainty is presented. It is typically more difficult to obtain the sufficient relevant data to credibly support lost profits for a new business than a profitable entity.

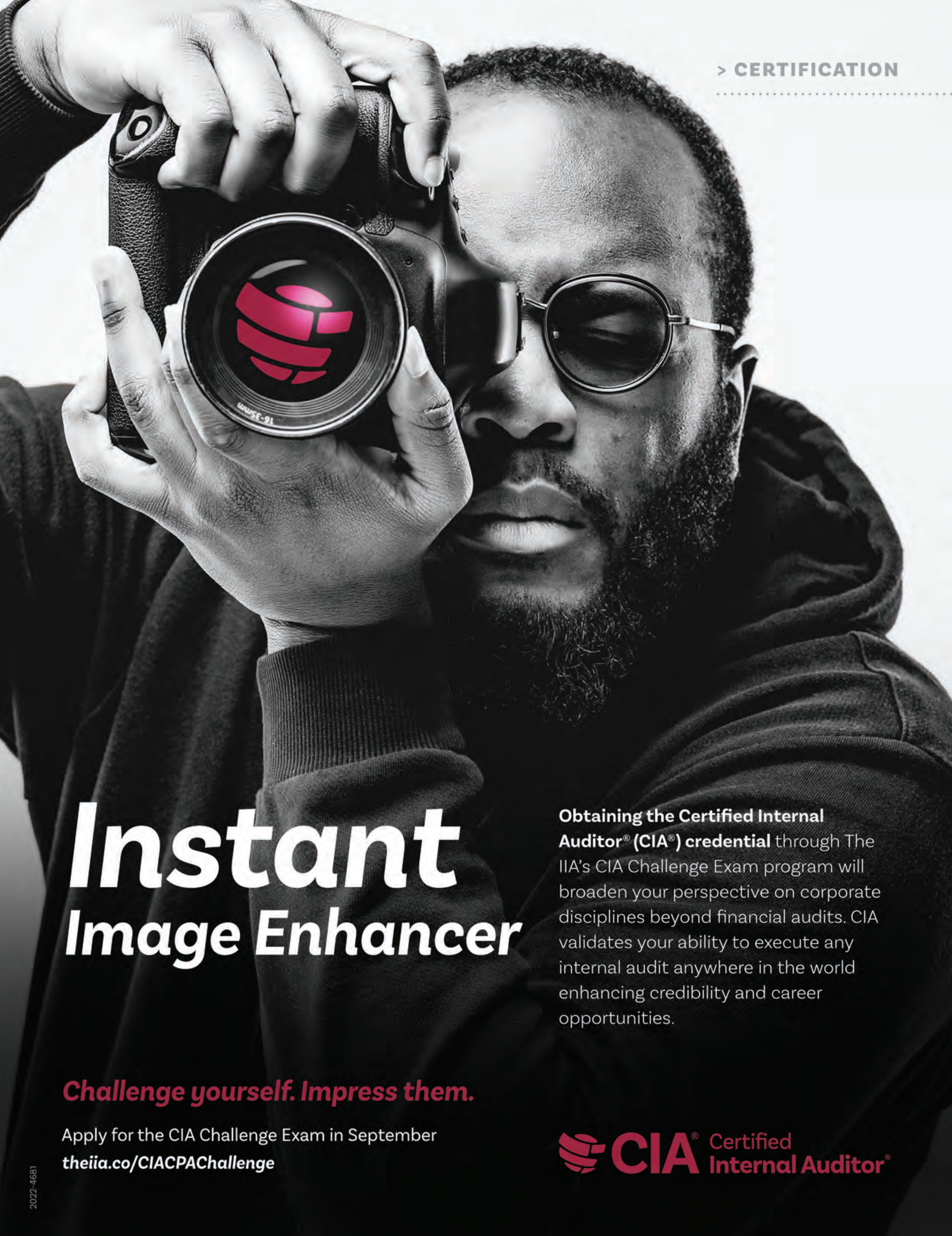
What do you find to be the most rewarding aspects of developing this chapter?
It was rewarding to work on a new chapter/topic and start fresh with no preconceived ideas of what we wanted to communicate to the readers.

I enjoyed working with my co-authors and the book's editors – all well respected in the FVS community. In working with them, I get to learn from the best. Our goal with the book is to help/assist financial experts do their job better.

What advice would you give other CPAs who are interested in writing their own book or pursuing this type of work like you did?
Start out small – get involved with the FVS section of TXCPA and AICPA. I recommend volunteering to write and assist, even if its articles or social media.

Be sure to read treatises and cases involving the topics you want to write about so you know your stuff. Also, speak at FVS conferences so you can get recognition (and maybe acceptance).

Editor's Note: Join TXCPA virtually on **August 31** for the **Business Valuation, Forensic and Litigation Services Conference webcast.** You'll hear discussions on timely topics from expert speakers. Go to the Education area of our website at www.tx.cpa to learn more and register.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TXCPA Recognizes 2021-2022 Award Recipients

TXCPA congratulates our 2021-2022 award recipients. The following members were recognized with an award.

Meritorious Service to the Accounting Profession
Jim Oliver - San Antonio

Outstanding Committee Chair
Ben Simiskey - Houston

Distinguished Members
Rene Pena - El Paso Chapter
Steve Phillips - East Texas Chapter
Fred Timmons - San Antonio Chapter
Donna Wesling - Austin Chapter

Distinguished Public Service
Larry P. Begnaud - Southeast Texas
Larry Edgerton - Permian Basin

Young CPA of the Year
Jeremy Myers - Austin
Abraham Valenzuela - El Paso

Business and Industry (B&I) Award
Bryan Edwards - San Antonio Chapter
Tracie L. Miller-Nobles - Austin Chapter

Rising Stars
Joshua Audi - Fort Worth Chapter
Tara Blasor - Brazos Valley Chapter
Anat Borodyansky - Dallas Chapter
Rebecca Buell - Dallas Chapter
Sarah Burgess - Austin Chapter
Samuel Cooper - Houston Chapter
Emily Do - San Antonio Chapter
AJ Evans - East Texas Chapter
Derby Gallo - Permian Basin Chapter
Sara Grenier - Fort Worth Chapter
Benjamin Johns - Fort Worth Chapter
Jordan Johnston - San Antonio Chapter
Kristie Jumper - Permian Basin Chapter
Rebecca Manrriquez - Dallas Chapter
Andrew Merryman - Victoria Chapter
Renee Prince - Fort Worth Chapter
Andrea Rosillo - Dallas Chapter
Julie Sigety - Austin Chapter
Alba Soltero - Permian Basin Chapter
Julie Zamora - San Antonio Chapter

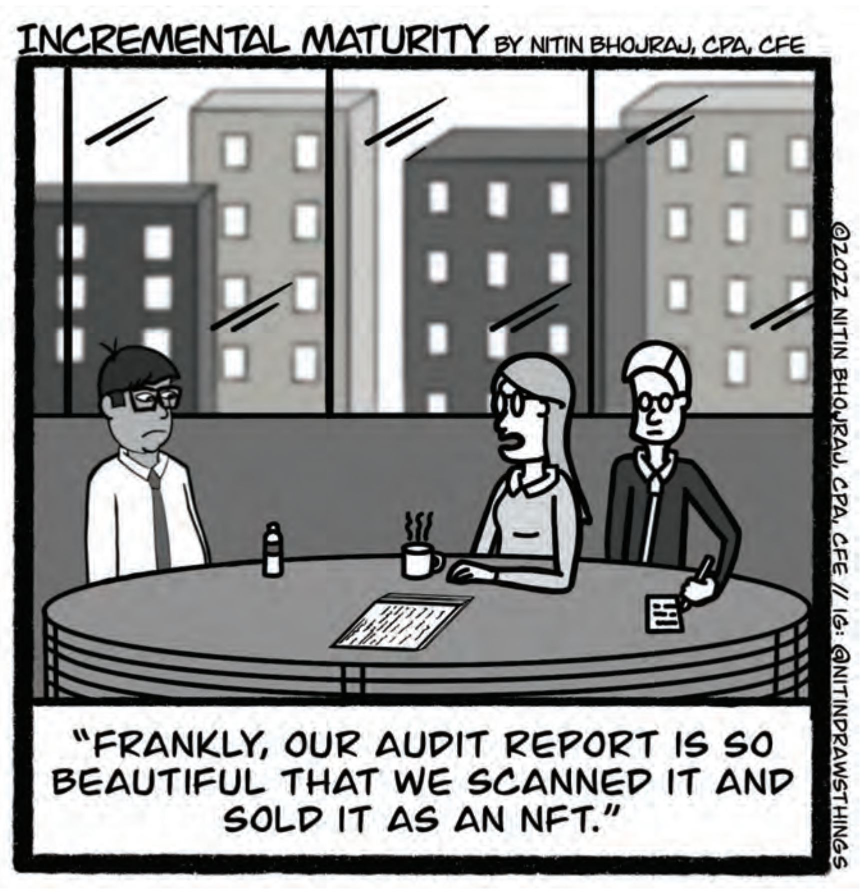
Outstanding Accounting Educator Awards

Larry Stephens, JD/LLM, CPA
Category: Community College
School: Austin Community College

Giorgio Gotti, Ph.D.
Category: Large Four-Year College or University
School: University of Texas at Rio Grande Valley

Renee Olvera, CPA
Category: Medium Four-Year College or University
School: Texas Christian University

Laci Richardson, Ph.D.
Category: Small Four-Year College or University
School: Lubbock Christian University



Leadership Nominations

The nominations process is one of the most important activities affecting the success and future of TXCPA. Leadership nominations for 2023-2024 are currently being accepted for the following positions: Chairman-elect; Treasurer-elect; Secretary; Executive Board; Board of Directors; Nominations Committee; and AICPA Council. The deadline for nominations is **August 15, 2022**.

Please keep in mind that TXCPA continues to strive to have our leadership reflect the diverse makeup of our members on all levels including gender, age, ethnicity, location and industry type. Nominate a member today at https://txcpa-nominations.secure-platform.com/a/.

Submit an Article to *Today's CPA* Magazine

The editors of *Today's CPA* are seeking article submissions for the magazine. *Today's CPA* is a peer-reviewed publication with an Editorial Board consisting of highly respected CPA practitioners.

The publication features articles and columns that focus on issues, trends and developments affecting CPAs in all facets of business. If you would like to submit an article for consideration or to learn more, please contact Managing Editor DeLynn Deakins at ddeakins@tx.cpa or Technical Editor Brinn Serbanic, CPA, CFP™, at technicaleditor@tx.cpa.

Post or Find a Job on the TXCPA Career Center

Whether you're looking for a new career opportunity or seeking candidates to fill an open position, be sure to take advantage of TXCPA's online Career Center! It's your go-to resource to find your perfect job and TXCPA members receive exclusive savings on postings, as well as enhanced visibility of their postings for CPA job seekers.

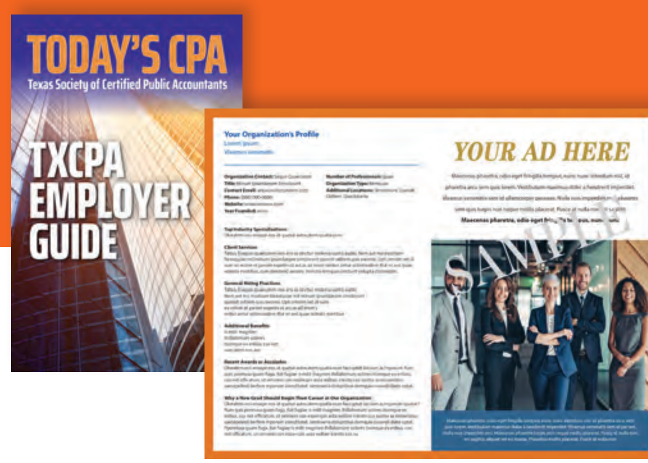
In addition, internship postings are always free and members seeking jobs always have free access to post a Job Seeker Profile. Simply use your TXCPA log in credentials to get started today!

TXCPA Passport: On-demand Webcast Subscription

The TXCPA Passport is an easy, affordable and convenient way to get your CPE. For only $199, the one-year subscription gives you unlimited access to more than 100 total CPE hours with programs of varying length. Hours and titles are constantly added, and the one- and two-hour programs cover a variety of topics, including accounting and auditing, tax, technology, ethics, finance, personal development, fraud, and more.

Go to the Education area of TXCPA's website at tx.cpa/education/passport to purchase your Passport.

TXCPA EMPLOYER GUIDE



New Benefit for TXCPA Members Only!

Showcase your organization in the all-new TXCPA Employer Guide! It's your opportunity to share your organization's highlights with educators, university career centers, students, future CPAs and others in this tight job market for hiring top, high-quality talent.

The Employer Guide will also include editorial content highlighting accounting careers and how to become a CPA in Texas.

Two sponsorship packages are available:

OPTION ONE -
Profile Page Only: $495

Each organization will have the opportunity to purchase a listing with information about their organization.

OPTION TWO -
Profile Page with Full Page Ad: $995

Enhance your listing by purchasing a full-page ad to run next to your listing.

***Note: Listing is free with purchase of a full-page ad.**

Are you ready to stand out from the crowd and find your next super hire? Highlight your organization's benefits and accolades in the TXCPA Employer Guide.

Go to TXCPA's website at **bit.ly/TXCPAEmployerGuide** today to learn more.

A CHANCE TO MAKE A DIFFERENCE –

INCOMING TXCPA CHAIRMAN SHEILA ENRIQUEZ BELIEVES WE CAN ALL IMPACT THE PROFESSION, ONE PERSON AT A TIME

In June, Sheila Enriquez, JD, CPA-Houston, CFF, CVA, began her term as the 2022-2023 chairman of the Texas Society of CPAs (TXCPA). Sheila is the Texas Market Leader and office managing partner at Crowe in Houston. She is also a partner in their advisory group.

As a first-generation immigrant, Sheila understands the power of education and hard work. She strives to cultivate the growth of others and continue to pay it forward. As she began her new role at TXCPA, she sat down with TXCPA President and CEO Jodi Ann Ray, CAE, to talk about her personal and professional journeys, the issues facing the accounting profession, and the opportunity for all Texas CPAs to make a positive difference.

Q. You have more than 26 years of experience in external and internal audit services, forensic accounting, and valuation and litigation support. When did you know you wanted to be a CPA?

I actually did not plan on becoming a CPA. My original plan was to go to medical school. I graduated as valedictorian of my high school class in Baguio City, my hometown in the Philippines, and had a full scholarship to attend the medical school at the University of the Philippines.

Just a few months before graduating from high school in 1990, I also applied for and was one of 10 students selected by a Japanese philanthropist to receive a full scholarship to attend a two-year Associates in Business program with SUNY/Sullivan County Community College (SUNY/SCCC) in its campuses in Toyama, Japan and Loch Sheldrake, New York. It was an opportunity of a lifetime to travel and live in Japan and the U.S. with all expenses covered, while receiving a degree from a U.S. college institution, which would be a major advantage in the Philippines.

After receiving my associates degree from SUNY/SCCC, I was fortunate to receive another scholarship to pursue my bachelor's degree in business from Mercy College in Dobbs Ferry, New York.

My journey to becoming a CPA was due to a serendipitous event and advice that I received from someone who would turn out to be my greatest mentor. As I approached my last semester pursuing a business degree with a major in management in December 1993, I met with the Dean of the MBA program at LIU-Westchester, which was affiliated with Mercy College in Dobbs Ferry, New York, to ask his permission to take a graduate level class for my remaining three-credit elective. Dean Wayne Cioffari, after noticing that I had a 4.0 GPA, offered me a graduate assistantship to work for him for 20 hours a week in exchange for a free tuition to attend the MBA program at LIU.

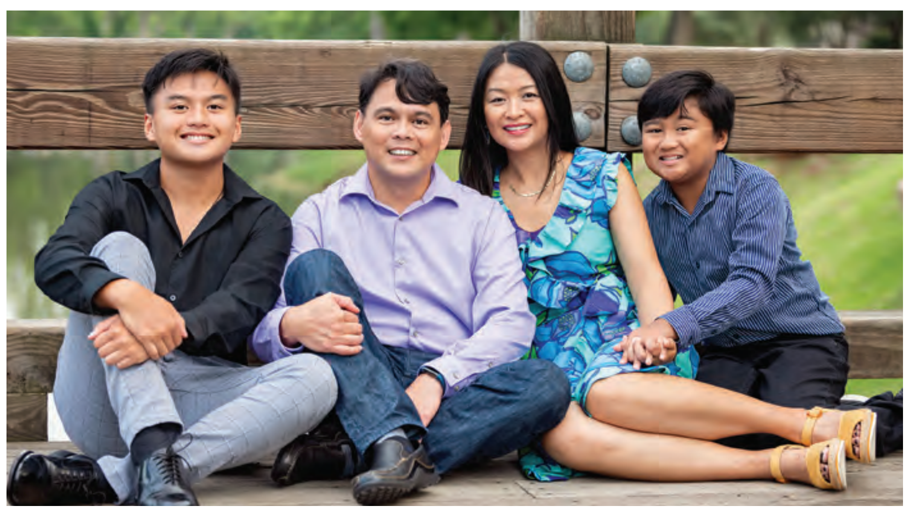
During that meeting, he also asked me if I knew anything about the CPA profession and counseled me to pursue my CPA license because as a woman and a minority, it would open doors for me. I found out later that he started a 4+1 MBA/CPA Program for LIU in partnership with Mercy College, whereby I could get an MBA and qualify to sit for the CPA Exam at the same time.

Wayne was way ahead of the times, as this was back in 1993. Although he was not a CPA himself – he was a marketing professor – he was just so focused on helping students rise. Instead of hiring a full-time secretary, he offered high-achieving students the position in exchange for free tuition. It's amazing what one individual can do to change a person's life! Through Wayne's offer, I was able to continue my studies and stay in the U.S., which set me up nicely for future success.

Long story short, I took accounting classes while pursuing my MBA at the same time and graduated with my BS in Public Accounting degree in May 1996 and my MBA degree in September 1996. I sat for the CPA Exam in November 1996 and found out in February 1997 that I passed all four parts!

As an international student, I had limited employer prospects and Wayne once again opened a door for me by recommending me to the managing partner of a financial and management consulting firm, Brenner, McDonagh & Tortolani (BMT). The firm hired me and sponsored me for my H-1B working visa. The process related to international students is challenging for students and companies that choose to sponsor them, but BMT took a chance on me. I started at the New York office and moved to Rhode Island after a partner retired there.

I then moved to a local CPA firm in Rhode Island, Sparrow, Johnson & Ursillo, to get the required audit



hours to finally get licensed. I discovered that public accounting was the right place for me and throughout my eight-year tenure at the firm, I was able to get exposure to audit, tax and consulting work.

Taking a leap of faith, my husband and I decided to move with our then three-year old son, Anthony, to Houston in 2006 for personal reasons and was fortunate to have found Briggs & Veselka, where I started as a manager in 2007 and took over as CEO/managing partner in 2018. I have been blessed with great

employers and Briggs & Veselka, in particular, was the right fit for me.

I thrived and developed quickly within Briggs & Veselka, under the guidance and tutelage of the partners, especially John Flatowicz, who recognized my potential before I even did. Briggs & Veselka also lived up to its promise to give me the flexibility to raise a family, attend law school in the evenings from 2007-2008, and provide growth and development opportunities throughout my tenure. With its inclusive culture, I was able to bring my whole self to work.

We recently joined Crowe and I am optimistic that we have joined the right firm, as we share the same purpose and values that put our people first.

Q. As you have progressed in your career, what aspects have been the most rewarding and most challenging?

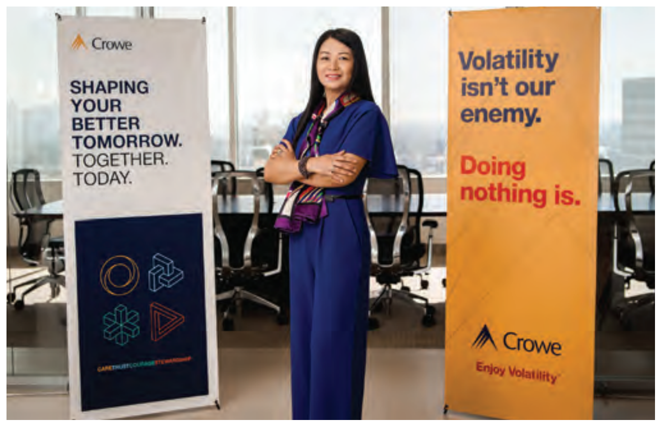
The most challenging aspects have also been the most rewarding. Throughout my career journey, I've had leaders who saw my potential and encouraged me to stretch and challenge myself by taking on new engagements and roles.

There were numerous times when I was offered roles that I did not know I was ready for, but through the support of my mentors, I challenged myself to step up and learn and thrive. These experiences and roles have given me the opportunity to make a difference, work with amazing people, and develop, inspire and be an example to others. The profession has been so good to me and I am so grateful! I am, therefore, committed to mentoring and helping others achieve their potential, as well.

Q. What person or people have been the biggest influence(s) or role model(s) for you and why?

They would have to be my parents. Growing up, I saw them live their values of faith, love and charity. I was one of six kids, and we were raised to believe there are no limits, but we should always look for ways to help others.

My father passed away last year and in his 85 years of life, he was so generous to everyone and never turned away anyone in need. He treated each person equally with respect and care. In his job as a teaching professional golfer, he mingled with presidents and very influential people, but he always treated his caddies and the serving staff the same way.



My mom is a serial entrepreneur and is a great example of a woman who defies limits. She is very enterprising and a problem solver. I learned resilience from her.

Q. In our current environment, what issues do you see facing TXCPA and the accounting profession in the next several years?

No question, the most important and challenging issue we face is our pipeline. We must change our image and how the public perceives us. We have an amazing profession – one that is purpose-driven and helps businesses/organizations thrive, fulfill their mission and help the economy.

We need to do a better job of sharing that purpose by telling our own personal stories so that young kids and their parents see that becoming a CPA and being part of this profession are at the level of being a doctor, lawyer or public servant. I am a lawyer myself, but I consider myself a CPA first.

Other issues are remaining relevant and being nimble and agile to meet the changing demands of our various constituencies.

I believe we have to build an ecosystem that requires us to partner with organizations and other professionals that share our mission. Our profession will continue to be a CPA-led profession if we remain proactive and nimble, even as we welcome non-CPAs in our ranks, but we must be able to articulate the value of our profession in a clear, concise way that resonates with our audience.

Q. You have been involved with TXCPA and TXCPA Houston as a volunteer leader. Why is volunteering so important to you?

I am paying it forward because I truly believe in this profession and I want others to know just how amazing this profession is. I am a great example of someone who enjoys a fulfilling career without giving up my personal life in the process because of my CPA designation.

Q. What other types of activities are you involved in as a professional?

In addition to my active involvement in the CPA profession (at the state, local Houston Chapter and national level as a member of the AICPA Governing Council), I am on the board of University of St. Thomas, the only Catholic college in Houston.

My faith and family come first, but in addition to the profession, I am deeply passionate about education because I believe it to be the great equalizer that lifts up generations of people. My involvement with UST enables me to cultivate my faith while being involved in an institution that is changing lives as we speak. As the beneficiary of a scholarship myself, which allowed me to attend college, be the first in my family to graduate from college and reach the success that I enjoy today, I am committed to paying things forward.

I am also a member of the State Bar of Texas and the American Cancer Society's CEOs Against Cancer Houston Chapter.

Q. Tell us about your family. What do you enjoy doing when you're not working?

I have an amazing husband, Jose, who is the wind beneath my wings. We met 32 years ago when we were both scholars studying at SUNY/SCCC in its campuses in Toyama, Japan and Loch Sheldrake, New York.

We just celebrated our 22nd wedding anniversary in May and we have been blessed with two boys, Anthony and Jacob.

Anthony is 19 and just completed his freshman year at The University of Texas at Austin's McCombs School of Business. I'm thrilled that he has recently decided to pursue accounting as his major and will minor in MIS! Jacob is 12 and finishing up 7th grade. We also have a new addition to our family, Doc, an Australian labradoodle we adopted in May. He has already stolen our hearts!

We love to travel and see the world! Traveling has helped me broaden my perspective and I have come to recognize that no matter what country we live in, we are more alike than different.

During my spare time, I also love to play golf and tennis. Golf is near and dear to me as my father taught golf for a living for 50 years and instilled the love of the game to all his children and grandchildren.

Interesting Facts About

Sheila Enriquez, JD, CPA-Houston, CFF, CVA

TXCPA's 2022-2023 Chairman Sheila Enriquez:

- Was born and raised in the Philippines
- Received a full scholarship in 1990 and completed her A.S. in Business with High Honors at SUNY/SCCC's Toyama, Japan and Loch Sheldrake, New York campuses
- Attended Mercy College on a merit scholarship and graduated summa cum laude with a B.S. Degree in Public Accounting
- Received her MBA with Distinction from Long Island University and her JD from the University of Houston Law Center
- Enjoys golf, tennis, and traveling in the U.S. and abroad

She has actively served in the following organizations:

- TXCPA – Chairman, Board Member, Executive Board Member, TXCPA Houston Past President
- American Institute of CPAs – Governing Council
- National Association of Certified Valuators and Analysts – Member
- The State Bar of Texas – Member
- University of St. Thomas – Executive Board Member
- American Cancer Society CEOs Against Cancer Gulf Coast – Chapter Member

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CPE ARTICLE

Acquisitions of Cloud-Based Services and Products

By Josef Rashty

CURRICULUM: Accounting and auditing

LEVEL: Basic

DESIGNED FOR: Public practitioners and business and industry

OBJECTIVES: To discuss and summarize the accounting treatments for cloud-based arrangements and explain the accounting issues from an acquirer's perspective, focusing on expense rather than revenue recognition of cloud-based arrangements

KEY TOPICS: Guidance on accounting treatments for different types of cloud-based arrangements; issues for acquirers; cloud-based service arrangements; internal-use software; lease arrangements; and multi-element arrangements

PREREQUISITES: None

ADVANCED PREPARATION: None

Accounting issues of cloud-based arrangements have become complicated due to different accounting treatments of their multiple components such as internal-use software, leases and service arrangements. These components often require different revenue and expense recognition patterns and balance sheet presentations.

Cloud-based arrangements are usually structured as either service arrangements or internal-use software, but they may also involve a combination of both internal-use software and service arrangements. This article is a compendium of accounting treatments for different types of cloud-based arrangements. It explicates the accounting issues from an acquirer's perspective; in other words, it focuses on expense rather than revenue recognition of cloud-based arrangements.

Cloud-Based Service Arrangements

It is common for cloud software to be hosted on the platform or infrastructure of a third party rather than that of the customer. If the software is hosted on the customer's cloud instance, the customer has possession of the software and the arrangement would be subject to GAAP licensing guidance (discussed in the next section).

By contrast, if the software is hosted on the vendor's cloud instance and the customer cannot otherwise obtain possession of the software without significant penalty, the arrangement is a cloud-based service arrangement.

If so, GAAP views the cost of services as operating expenses similar to other executory service contracts. If companies have paid the cost of arrangement in advance, they classify them as prepaid expenses and ratably amortize them as expenditures over the life of the service arrangement.

Accounting for costs of implementation follows the guidance in ASC 350-40. The guidance requires that companies expense the following expenses as incurred:

- Preliminary stage expenses of the project (e.g., project planning activities);
- Post-implementation activities costs (e.g., maintenance activities);
- Training activities expenses;
- Costs of data conversion and related activities.

However, costs of application development (e.g., configuration and customization of software) are eligible for capitalization.

ASU 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement*, aligned the accounting for implementation costs incurred by a customer in a hosting arrangement that does not include a license with one that does.

This ASU requires companies to capitalize potentially significant implementation costs incurred in a cloud-based arrangement, which were often expensed as incurred under the legacy GAAP and amortize them to expense over the term of the hosting arrangement. This term includes the noncancellable period of the contract plus any optional renewal periods that are reasonably certain that the customer may exercise or the vendor has the control to exercise the renewal option.

Companies generally amortize the capitalized implementation costs of a cloud-based service arrangement over the term of the agreement on a straight-line basis, unless there is a more appropriate systematic and rational basis that is a better representative to reflect the benefit that companies receive from the hosted technology.

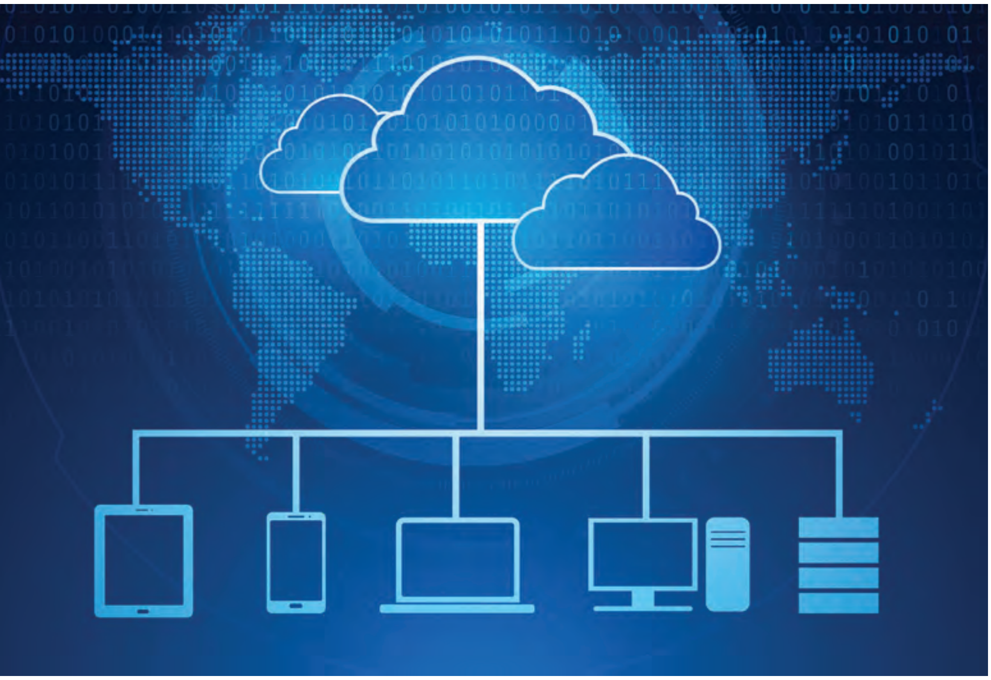
Companies should assess the capitalized implementation costs of service arrangements for impairment based on ASC 360-10-35.

FASB's guidance provides the following examples of events or circumstances that may result in impairment of capitalized implementation costs (ASC 350-40-35-11):

- The service arrangement no longer provides any substantial service;
- There is a significant change in the extent or manner in which the hosting arrangement is expected to be used;
- The service arrangement is expected to be discontinued.

Cloud-Based Internal-Use Software

Even though it is often more common for companies to use a host platform, they can also implement the software on their own hardware rather than a third-party platform. If so, GAAP views the acquisition of the software as a capital expenditure and requires its classification as an internal-use software (an intangible asset) on acquirers' balance sheets.



ASC 350, *Intangibles – Goodwill and Other*, provides the guidance for software developed or purchased for internal use and it is not that different than the guidance for the acquisition of any other long-lived assets. ASC 350-40-30-1 states that the costs of computer software developed or obtained for internal use include the following:

- External direct costs of materials and services consumed in developing or obtaining internal-use computer software (e.g., costs to obtain the computer software, development fees to third parties and travel expenses);
- Payroll and payroll-related costs related to internal development, enhancement and testing of software;
- Interest costs incurred for the development of the internal-use software (ASC 835-20).

GAAP allows for capitalization of these costs; however, certain costs are usually expensed as incurred (e.g., training costs, data conversion costs, and administrative and overhead costs).

Companies amortize the cost of the capitalized software ratably based on its useful life (usually the duration of the cloud-based arrangement). Companies should periodically assess the estimated useful life over which they should amortize the costs that they have incurred for the development of internal-use software by taking into account factors such as technological obsolescence and any other economic factors (ASC 350-40-35-5).

The amortization begins when the software is ready for its internal use, regardless of whether the software has been in service. It is feasible that companies acquire additional hardware and other supplies to implement the software. If so, the costs of equipment and supplies are capitalized or expensed according to GAAP guidance.

Companies should test internal-use software for impairment like any other long-lived assets (ASC 360-10-35). A triggering event may also require impairment testing (ASC 360-10-35-21). For example, there may be an instance that a company does not expect its internal-use computer software to have a substantive service potential due to economic factors (ASC 350-40-35-1).

Lease Arrangements

Cloud-based arrangements may become more complicated if multiple components (e.g., a server and software) and leases are involved in the arrangement. ASC 842, *Leases*, requires that if a cloud computing arrangement contains a lease of the equipment used to provide the related services, the company recognizes a right-to-use (ROU) asset and a liability for the lease payments on its balance sheet.

The November/December 2016 issue of *Today's CPA* magazine included an article written by Josef Rashty and John O'Shaughnessy titled "An Introduction to Lessee Accounting (Topic 842, *Leases*)." This article expounded on some of the more technical implications of lessee accounting under ASC 842 (https://josefrashty.com/uploads/3/4/1/9/34190589/2016-11_lessee_tcpa.pdf).

ASC 842 provides for three different lease models: capital leases, operating leases and short-term leases. GAAP requires lessees to recognize a right-of-use (ROU) asset and a lease liability on their

Table 1.

Summary of Guidance - Accounting Treatment of Different Elements of Cloud-based Arrangements on the Financial Statements

	Statement of Operations	Balance Sheet	Statement of Cash Flows (SCF)
Cloud-based arrangements	Cloud-based payments	None, unless companies have made prepayments to the vendors	Cloud-based payments impact the net income
Implementation costs of cloud-based arrangements	Amortization and impairment of implementation costs	An asset net of amortization and any impairment	Payments are classified consistent with hosting services as operating activities Adjustments to net income for non-cash expenditures
Internal-use software	Amortization and impairment of internal-use software	An asset net of accumulated amortization and any impairment	Payments for acquisition are classified as investment activities Adjustments to net income for non-cash expenditures
Cloud hardware	Depreciation and impairment of cloud hardware	An asset net of accumulated depreciation and any impairment	Payments for acquisition are classified as investment activities Adjustments to net income for non-cash expenditures
Short-term leases (less than 12-month leases)	Lease payments	None	Lease payments are reflected as operating activities
Operating leases	Lease payments	ROU and lease liability	Lease payments are reflected as operating activities Reduction in ROU and lease liability are disclosed as footnotes (but not reflected) in SCF
Finance leases	Amortization expense and finance charges	ROU and lease liability	Amortization is added back to net income as non-cash expenditures Finance charges appear as operating activities Principal payments are reflected as financing activities

balance sheets for virtually all lease obligations (except for short-term leases). Under the new guidance, a lessee can elect (by asset class) not to reflect on its balance sheet a lease whose term is 12 months or less and that does not contain a purchase option that the lessee is reasonably certain to exercise.

A lease contract principally gives a customer the right to control the use of the underlying asset in exchange for consideration (ASC 842-10-15-3). In a lease contract, a lessee has both of the following characteristics (ASC 842-10-15-4):

- The right to obtain substantially all of the economic benefits from the use of the underlying asset;
- The right to direct the use of the underlying asset.

GAAP requires a company to assess at the outset if its cloud-based arrangement is a lease contract or contains a lease component, and to further reassess its status only in the event of modifications to the contract. A cloud-based arrangement that is a lease could significantly impact the financial statements of the company.

The following agreements are not within the scope of the lease guidance (ASC 842-10-15-1):

- Leases of intangible assets*;
- Leases to explore for, or for the use of, minerals;
- Leases of biological assets;
- Leases of inventory;
- Leases of assets under construction.

* Companies that acquire internal-use software under cloud-based arrangements cannot classify it as a lease under ASC 842.

The previous guidance (ASC 840) required that lessees consider whether a lease meets any of the following criteria as part of classifying the lease at its inception into capital or operating lease:

1. The lease transfers ownership of the lease item to the lessee by the end of the leased term.
2. The lease contains a bargain purchase option.
3. The lease term is equal to 75 percent or more of the estimated economic life of the leased item.
4. The present value of the minimum lease payments (with certain exceptions) at the beginning of the lease term equals or exceeds 90 percent of the excess of the fair value of the leased item to the lessor at lease inception (with certain exceptions).

ASC 842 eliminated the bright-line criteria in (3) and (4) above and replaced the above criteria with the following five subjective guidelines (ASC 842-10-25-2):

1. The lease agreement transfers ownership of the underlying asset to the lessee by the end of the lease term.
2. The lease grants the lessee an option to purchase the underlying asset and the lessee is reasonably certain that it will exercise the option.
3. The lease term covers the major remaining economic life of the underlying asset.
4. The present value of the sum of the lease payments and any residual value guaranteed by the lessee equals or exceeds substantially all of the fair value of the underlying asset.
5. The underlying asset has such a specialized nature that it is expected to have no alternative use to the lessor at lease end.

The objective of ASC 842 is to ensure that the control of the underlying asset is transferred to the lessee, and the lessee has the risks and rewards of ownership. Even though FASB has eliminated the bright lines in ASC 840, it does not necessarily prohibit an entity from applying them within the framework of the new guidance.

Multi-Element Arrangements

The acquirer of a cloud-based multi-element arrangement may account for each element of the arrangement separately or account for them on a lump-sum basis.

For example, an arrangement may include cloud services, hardware (e.g., a server) and software. In this example, the acquirer may account for software as an internal-use software, capitalize the hardware and reflect the cloud services expenses as an ongoing operating expense. As an alternative, it can record the whole arrangement as a single performance obligation and account for them as a single unit.

The accounting treatment depends on the contract and the obligations of the buyers and sellers. However, the author believes that the buyer can rely by analogy on the guidance that sellers follow (e.g., ASC 606, *Contracts with Customers*) to determine the accounting treatment.

ASC 606 guidance requires that the seller identify if performance obligations in contracts containing software, hardware and cloud services are capable of being distinct and whether they are distinct within the context of the contract (ASC 606-10-25-21). For example, if the cloud software requires the hardware, and neither of them is capable of functioning without the seller's services, then the elements of the contracts are not distinct. Another example is that the contract obligates the acquirer to buy the cloud software, hardware and services as a bundle. If so, the elements of the contract cannot be considered as distinct.

ASC 606 requires that companies assess the relevant facts and circumstances to determine whether the elements of a contract are separate performance obligations. Companies can view related software, hardware and cloud-based services as a single performance obligation (based on ASC 606), if and only if they can demonstrate that they augment each other's functionality significantly. Otherwise, they may conclude that they have separate performance obligations. In summary, acquirers of cloud-based arrangements account for contracts by analogy to sellers' accounting policies and decisions.

Summary of Cloud-Based Arrangements Accounting

The schedule in Table 1 on page 25 is a summary of accounting guidance for the accounting treatment of different elements of cloud-based arrangements on the financial statements, which this article covered earlier.

Accounting Issues of Cloud-based Arrangements From an Acquirer's Perspective

This article expounded on some of the accounting issues related to the acquisition of cloud-based arrangements. Most of the accounting literature focuses on the revenue recognition of cloud-based services, whereas this article focused on the expense recognition of these contracts from the acquirers' perspective.

Several FASB standards guide the accounting classification and disclosures of these contracts. Like many other areas of accounting, management needs to exercise judgment for capitalization and impairment of expenditures.

About the Author:

Josef Rashty, CPA, Ph.D. (Candidate), is a member of the Texas Society of CPAs and provides consulting services in Silicon Valley, Calif. He can be reached at j_rashty@yahoo.com.

Please note that when registration is complete, a confirmation email will be sent and provide a hyperlink to access the quiz.

CPE ARTICLE: ACQUISITIONS OF CLOUD-BASED SERVICES AND PRODUCTS

By Josef Rashty

Today's CPA offers the self-study exam for readers to earn one hour of continuing professional education credit. The questions are based on technical information from the preceding article. If you score 70 or better, you will receive a certificate verifying you have earned one hour of CPE credit – granted as of the date the test arrived in the TXCPA office – in accordance with the rules of the Texas State Board of Public Accountancy (TSBPA). If you score below 70, you will receive a letter with your grade.

1. Cloud-based arrangements are usually structured as:
a. Either service arrangements or internal-use software
b. Only as an internal-use software
c. Only as a service arrangement
d. None of the above

2. In a cloud-based service arrangement:
a. The software is hosted on the customer's cloud instance
b. The customer has possession of the software
c. The software is hosted on the vendor's cloud instance
d. All of the above

3. In cloud-based arrangement implementations, companies expense the following items as incurred:
a. Preliminary stage expenses of the project (e.g., project planning activities)
b. Post-implementation activities costs (e.g., maintenance activities)
c. Neither a nor b
d. Both a and b

4. FASB's guidance provides the following examples of events or circumstances that may result in impairment of capitalized implementation costs for cloud-based arrangements:
a. The service arrangement no longer provides any substantial service
b. There is a significant change in the extent or manner in which the hosting arrangement is expected to be used
c. The service arrangement is expected to be discontinued
d. All of the above

5. In cloud-based arrangements, GAAP views the acquisition of the internal-use software:
a. As a capital expenditure and requires its classification as an internal-use software (an intangible asset)
b. As a prepaid expense
c. As a current operating expenditure
d. All of the above

6. ASC 842 provides for _______ different lease models.
a. Two
b. Three
c. Four
d. Five

7. Companies should test internal-use software for impairment _______________:
a. Based on their judgment
b. Like any other long-lived assets
c. When they acquire new hardware
d. None of the above

8. Which of the following cloud-based acquisition arrangements is not within the scope of the ASC 842, *Leases* guidance?
a. Computer servers for cloud-based arrangements
b. Computer equipment to support cloud-based arrangements
c. Intangible assets (internal-use software)
d. Printer equipment supporting cloud-based arrangements

9. The acquirer of a cloud-based multi-element arrangement, depending on circumstances, may account for each element of the arrangement:
a. Separately
b. On a lump-sum basis
c. Both a and b
d. Neither a nor b

10. The author believes that the buyer can rely by analogy on the guidance that sellers follow in ________ to determine the accounting for multiple arrangements contracts.
a. ASC 842
b. ASC 606
c. Both a and b
d. Neither a nor b

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$1,078,687 gross. Heart of Texas CPA firm. 83% tax (65% individuals, 30% business, 5% other), 11% accounting, 5% audits, 1% other, cash flow 45%. TXC1077

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$510,000 gross. NW of Dallas CPA firm. Tax 72%, accounting 28%, strong fees, solid cash flow, experienced staff in place, turn-key location in desirable DFW community. TXN1526

$634,000 gross. Wichita Falls CPA firm. 70% tax, 30% accounting, strong cash flow with 70% of revenues from business clients, experienced staff in place and owner available to assist with transition. TXN1557

$307,000 gross. North Texas CPA practice. Tax 65%, accounting 35%, solid fee structure, experienced staff, and the perfect size starter or add-on practice. TXN1558

$839,000 gross. Fort Worth CPA firm. Highly profitable firm with cash flow to sole owner of approx. 60%. 76% tax and 24% accounting services. Premium client base includes many businesses. Experienced staff and seller available to work in transition. TXN1580

$439,000 gross. DFW Mid-Cities (NE Tarrant County) CPA firm. Tax 64%, 36% accounting. Strong fee structure, tax manager available for smooth transition. TXN1584

$730,000 gross. Northeast Texas CPA firm. Tax 55% and 45% accounting, solid fee structure, experienced staff, and exceptional client base. Lots of room for growth, 80% total revenues from businesses. TXN1587

$480,000 gross. Fort Worth CPA tax practice. Strong cash flow to owner 55%, quality clientele, year-round income, and amazing expansion ability with individual and business referrals. TXN1588

$1,125,000 gross. W. Houston CPA firm. 66% tax, 22% audit/review, 12% bookkeeping. Excellent cash flow to owner, premium clientele and experienced staff in place. TXN1246

$283,000 gross. Southeast Texas CPA firm. 60% tax and 40% bookkeeping. Building available for lease or purchase. Friendly and loyal clients, growth opportunities and owner-assisted transition available. TXS1232.

$1,700,000 gross. N. Houston CPA practice. Great service mix to provide year-round revenue with heavier workload during Sept/Oct deadlines. Strong, experienced staff in place. TXS1264

$116,000 gross. The Woodlands area CPA firm. Operates remotely from anywhere in Houston. Excellent cash flow, high-income clients. TXS1291

$567,000 gross. NE of Houston CPA firm. Owner looking to semi-retire and will assist buyer as agreed. Great service mix of tax, bookkeeping and payroll/consulting. Turn-key opportunity with experienced staff in place and office available for lease. TXS1283

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