

# ACCOUNTING UPDATE

**Mike Cheng**



# Michael Cheng

## National Professional Practice Partner



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Mike Cheng joined Frazier & Deeter in 2019 as the Partner who oversees the firm's professional practices related to accounting and audit. As part of this role, he specializes in assisting clients with complex accounting and financial reporting issues.

Prior to joining the firm, Mike was a Senior Project Manager at the Financial Accounting Standards Board (FASB). At the FASB, he served as the Private Company Council (PCC) coordinator, where he was responsible for all PCC related matters. In addition, Mike led projects to simplify the accounting for non-employee share-based payments, help shape the future of the FASB technical agenda and improve consolidations guidance (VIE guidance). Most recently, he worked on the FASB's implementation team on revenue recognition (ASC Topic 606) and lease accounting (ASC Topic 842).

Prior to joining the FASB, Mike held various management positions with PricewaterhouseCoopers. He was an Audit Senior Manager, Private Company Services, in the firm's Stamford, CT office. From 2003-2011, he also held roles of increasing responsibility in PwC's Core Assurance divisions in Buffalo and Rochester, NY.



# Agenda

## Leases – This is the year!

- Is there a lease?
- Transition into Topic 842
- Allocation between leasing and nonleasing

## Business Combinations

Can't tell you (Sorry for being cryptic about this)

Government Assistance

# What's Effective for Nonpublic Co. in 2022

Leases (ASC 842)

Gov't Assistance  
(ASU 2021-10)

Reference Rate  
Reform (ASU 2021-  
01)

Simplifying  
Accounting for  
Income Taxes (ASU  
2019-12)

Modification of  
equity-classified  
call options (ASU  
2021-04)

NFP Contributed  
Nonfinancial Assets  
(ASU 2020-07)

Receivables –  
nonrefundable fees  
and other costs  
(ASU 2020-08)

Equity-classified  
share-based awards  
(ASU 2021-07)

# Topic 842 (Leases)

# Using land?

## Fact Pattern:

- Company signs a contract to let the customer to use land for 10 years
- Payment equals \$1MM per year
- Owner grants access to the land on 12/31/2020 to the customer
- Cancellation of a contract incurs a significant penalty from either party

## Questions:

- Is this a lease?
- On 12/31/2020 does the Company have a liability to the Landlord?

# Landscaping Service

## Fact Pattern:

- Signed a 3-year commitment for landscaping service because of favorable pricing on 12/31/2020
- Termination before 3 years will result in a significant penalty

## Questions:

- On 12/31/2020 does the Company have a liability to the Landscaper?

**Am I in scope?  
Is there a lease?**



# Scope and Scope Exceptions

Scope: All leases, including subleases

Topic 842 does not apply to:

Leases of  
intangible assets  
(Topic 350)

Leases of assets  
under  
construction  
(Topic 360)

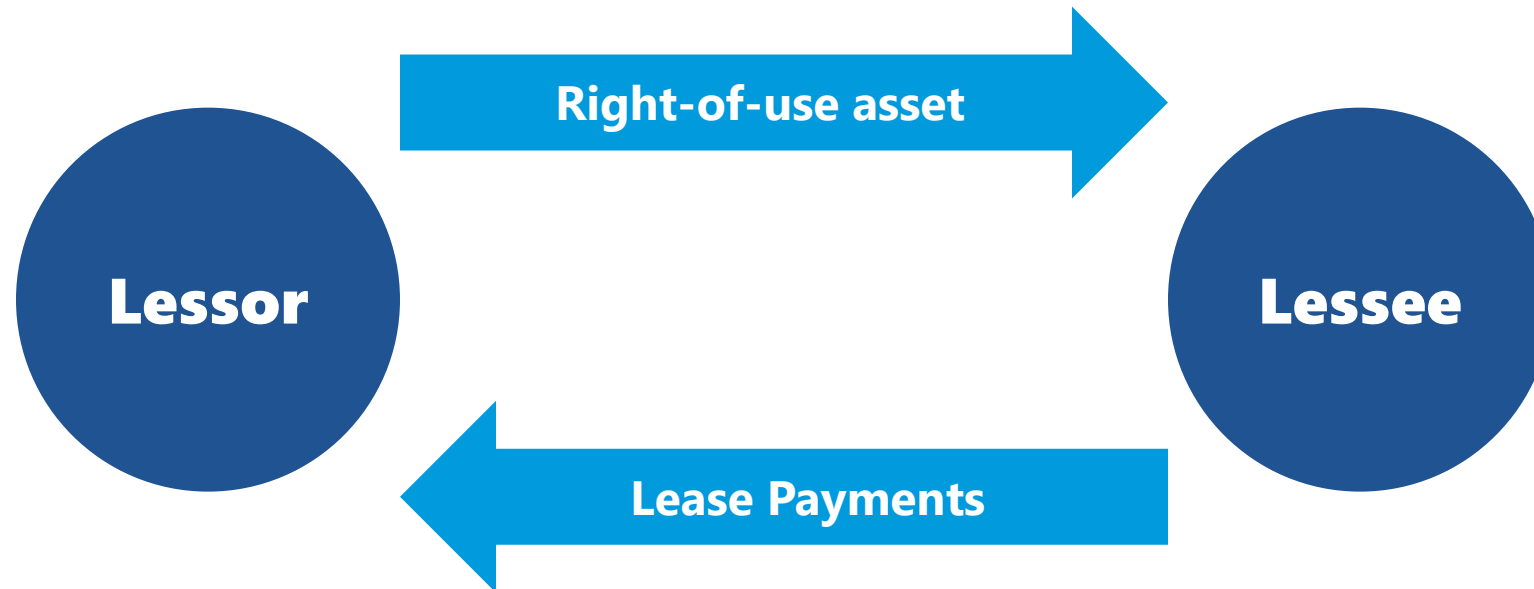
Leases of  
biological assets  
(Topic 905)

Leases to explore  
for or use  
nonregenerative  
resources  
(Topics 930 and  
932)

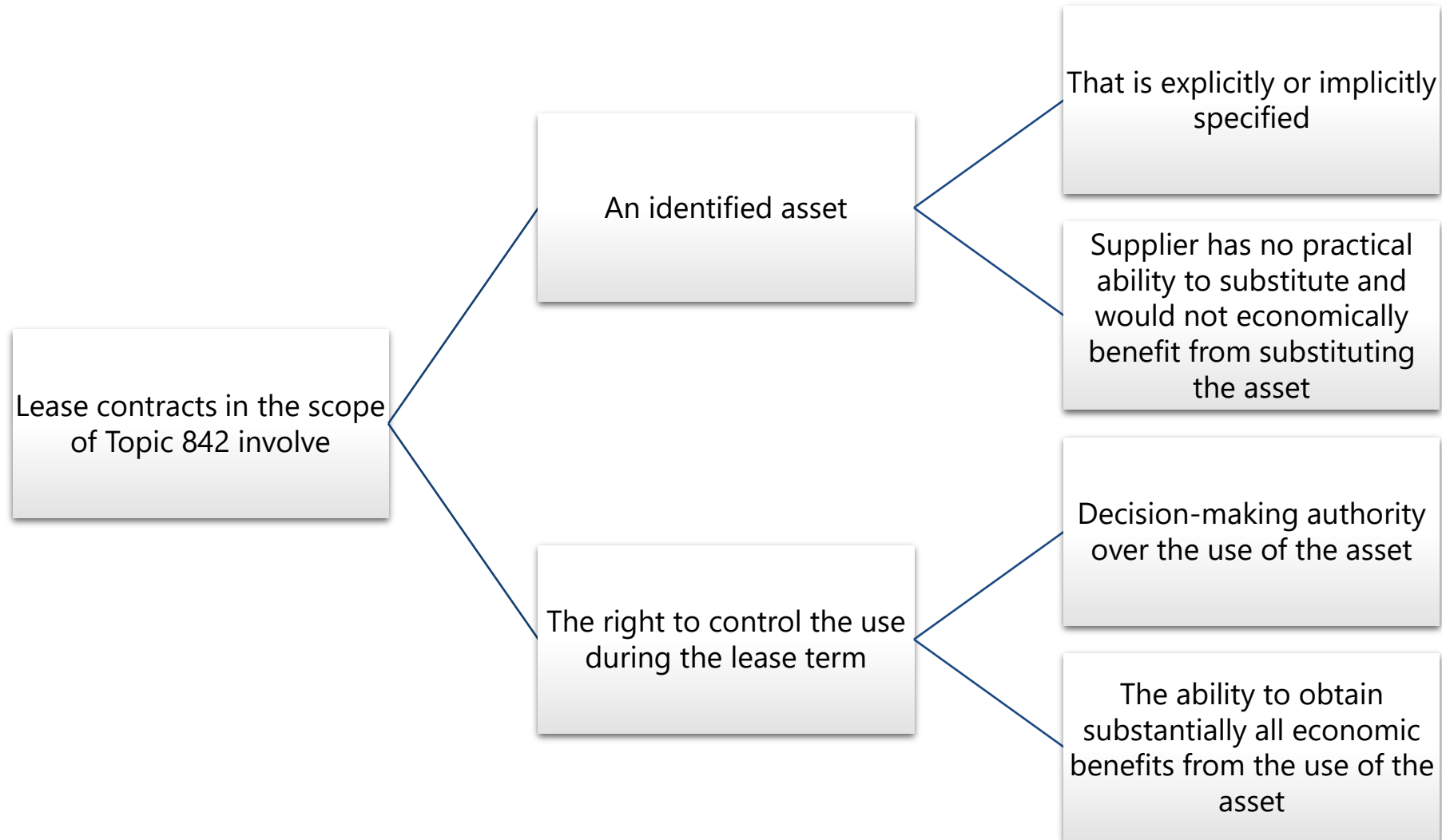
Leases of  
inventory  
(Topic 330)

# Topic 842 Lease Accounting

A lease contract conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration



# Identifying a Lease under Topic 842



# Example – Fiber Optic Cable

## Is there a Lease?

- Customer enters into a 15-year contract for the right to use 3 specified fibers within a larger cable connecting Hong Kong to Tokyo.
- Customer makes decisions about the use of the fibers (e.g., decides what data and how much those fibers will transmit)
- Supplier is responsible for repairs and maintenance.

## Is there a Lease?

- Customer enters into a 15-year contract with Supplier for the right to use a specified amount of capacity within a cable connecting Hong Kong to Tokyo.
- Capacity is equivalent to the full use of 3 strands within a cable (the cable has 15 fibers with similar capacities).
- Supplier makes decisions about the transmission of data (e.g., which fibers are used and electronic equipment used to operate the cable).

# Example – Concession Space

## Is there a Lease?

- Coffee Company (Customer) enters into a contract with an airport (Supplier) to sell its goods for a 3-year period.
- Contract states the amount of space required and the space may be located at any one of the several boarding areas.
- Supplier has the right to change the Customer's location at any time.
- There are minimal costs to relocate the kiosk owned and operated by the Customer.
- Many areas in the airport meet the space specifications.

# Example - Detergent purchases

## Is there a lease?

- Cleaning supply company sells cleaning agents and dishwashing detergent
- Pricing is extremely favorable but requires a 3-year commitment
- Annual minimum purchase requirements must be met by customer
- A commercial-grade dishwasher is included during the 3-year term

# Group Exercise – Let's take this a little further

## Can you identify potential leasing arrangements?

- Construction Company
- Pretend you work for a national restaurant chain
  - Segments consist of
    - casual dining,
    - sports/bar concept
    - fast food

# What about this arrangement?

## Is there a lease?

- Green office decorating and management
  - Live plants
  - No fuss because service provider takes care of everything (e.g., watering, pruning, etc.)
  - 2-year term



# Leases – A focus on Lessee transition...

# Lessee – Simple Operating Lease Under 840

- 5-year retail store lease entered at end of 2019
- Lessee takes (or has the right to take) possession of or controls the physical use of the retail location on 12/31/2019
- Rent payment equals \$1,000 the first year and increases \$100 each year thereafter. Total payments over 5 years is \$6,000
- Assume this is an operating lease

Year	(Expense) St. Line Rent	(Cash) Lease Payments	(Asset/Liability) Deferred Lease Liability	
			Current Year	Cumulative
2019	-	-		-
2020	1,200	1,000	200	200
2021	1,200	1,100	100	300
2022	1,200	1,200	-	300
2023	1,200	1,300	(100)	200
2024	1,200	1,400	(200)	-
	<b>6,000</b>	<b>6,000</b>	<b>-</b>	

# Example - Lessee – Operating Lease - JEs

End of 2019 when access is granted to Lessee:

- No entries

End of 2020

- DR Rent Expense 1,200
- CR Cash/AP 1,000
- CR Deferred Lease Liability 200

# Lessee – Simple Operating Lease Under 842

- 5-year retail store lease entered at end of 2019
- Rent payment equals \$1,000 the first year and increases \$100 each year thereafter. Total payments over 5 years is \$6,000
- Incremental Borrowing Rate is 6% on December 31, 2019
- No initial direct costs recognized
- Assume this is an operating lease

Year	Rent Expense (a)	Lease Liability				Right of Use Asset		
		Beg	Int. (6%) (b)	Payment	End	Beg	Amort. =(a)-(b)	Ending
2019	-	-	-	-	(5,006)	-	-	5,006
2020	1,200	(5,006)	(300)	1,000	(4,306)	5,006	(900)	4,106
2021	1,200	(4,306)	(258)	1,100	(3,465)	4,106	(942)	3,165
2022	1,200	(3,465)	(208)	1,200	(2,472)	3,165	(992)	2,172
2023	1,200	(2,472)	(148)	1,300	(1,321)	2,172	(1,052)	1,121
2024	1,200	(1,321)	(79)	1,400	-	1,121	(1,121)	-
5	6,000			6,000				

# Example - Lessee – Operating Lease - JEs

End of 2019 – Transfer Control of location and establish lease liability and ROU asset

- DR ROU Asset 5,006 (NPV of payments)
- CR Lease Liability 5,006

# Example - Lessee – Operating Lease - JEs

## End of 2020

- DR Lease Cost \$300 (Interest :  $\$5,006 * 6\%$ )
- CR Lease Liab \$300
  
- DR Lease Cost \$900 (Amort:  $1200 - 300$ )
- CR ROU Asset \$900
  
- DR Lease Liab. \$1000
- CR Cash \$1000 (payment per contract)

# Highlights on Transitioning to Topic 842



## Nonpublic Entities

Fiscal years beginning after December 15, 2021



## Transition method

Assuming Modified retrospective (rather than comparative)



## Initial Application

Adjust the beginning of the reporting period in the year the Topic 842 is first applied



## Package of Practical Expedients (All or Nothing)

ID of Lease (under 840)  
Lease classification (under 840)  
Initial Direct Cost (under 840)

# Lessee – Simple Operating Lease Transition to Topic 842

- Assume the Company transitions for fiscal year ending December 31, 2022
- Company elects the following:
  - Modified retrospective
  - Use of package of practical expedients

Year	(Expense) St. Line Rent	(Cash) Lease Payments	(Asset/Liability) Deferred Lease Liability	
			Current Year	Cumulative
2019	-	-		-
2020	1,200	1,000	200	200
2021	1,200	1,100	100	300
2022	1,200	1,200	-	300
2023	1,200	1,300	(100)	200
2024	1,200	1,400	(200)	-
	<b>6,000</b>	<b>6,000</b>	-	



# “Simple” Operating Lease - Transitioning



Overall approach

Present value the remaining lease payments at transition date to determine transition lease liability (i.e., minimum lease payments on your 5-year and thereafter commitment schedule)



What are my remaining lease payments on January 1, 2022

\$3,900  
( $\$1,200 + \$1,300 + \$1,400$ )



What discount rate do I use?

Can I use 6%?  
Do I determine a new rate at transition date?  
Is it over the remaining lease term or the original term?



What do I do with the balances under Topic 840?

On January 1, 2022 there's a deferred rent balance of \$300.  
How do I deal with this balance?

# “Simple” Operating Lease - Transitioning

IBR at transition is 5% (1-1-2022)

**\$3,900 of payments left**

Deferred Rent Balance of \$300

- \$1,200 in 2022
- \$1,300 in 2023
- \$1,400 in 2024



Year	Rent Expense (a)	Lease Liability				Right of Use Asset		
		Beg	Int. (5%) (b)	Payment	End	Beg	Amort. =(a)-(b)	Ending
2021	-	-	-	-	(3,531)	-	-	3,531
2022	1,300	(3,531)	(177)	1,200	(2,508)	3,531	(1,123)	2,408
2023	1,300	(2,508)	(125)	1,300	(1,333)	2,408	(1,175)	1,233
2024	1,300	(1,333)	(67)	1,400	-	1,233	(1,233)	-
	<b>3,900</b>			<b>3,900</b>				

# “Simple” Operating Lease - Transitioning

\$3,531 PV of  
remaining lease  
payments

Deferred Rent  
Balance of \$300

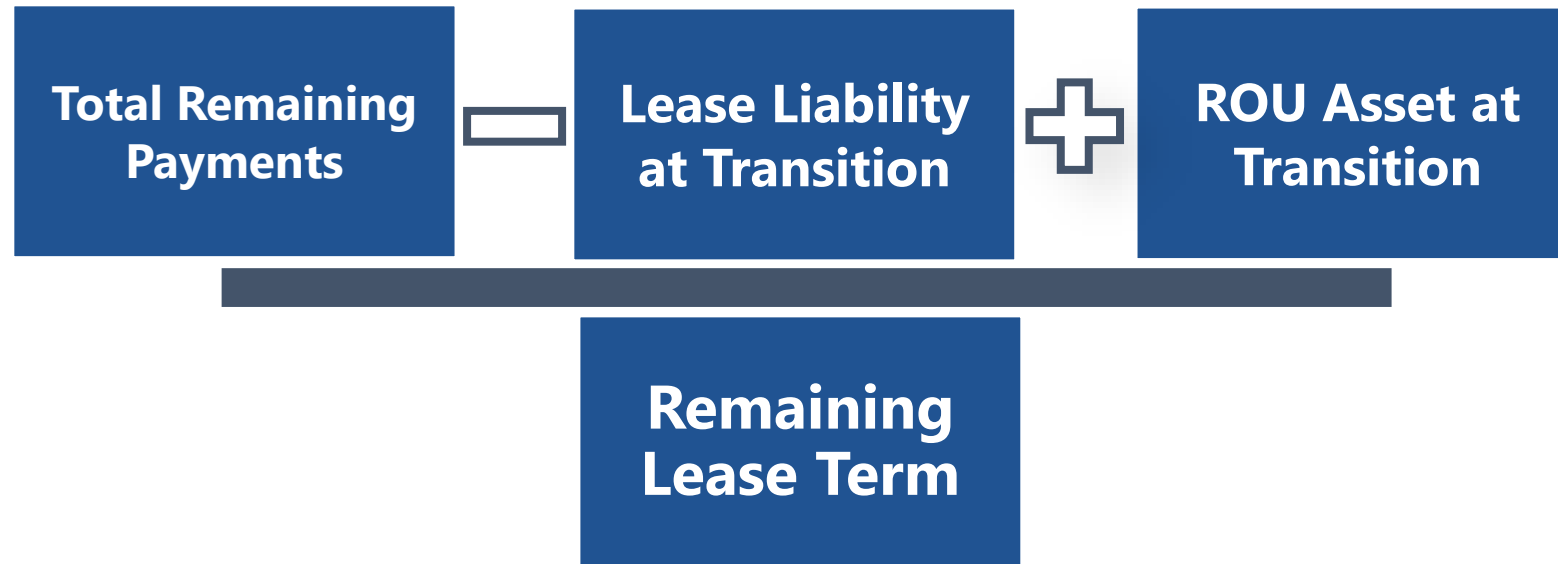
**At transition (January 1, 2022) here are the journal entries:**

- |                      |         |
|----------------------|---------|
| ▪ DR ROU Asset       | \$3,231 |
| ▪ DR Deferred Rent   | \$300   |
| ▪ CR Lease Liability | \$3,531 |

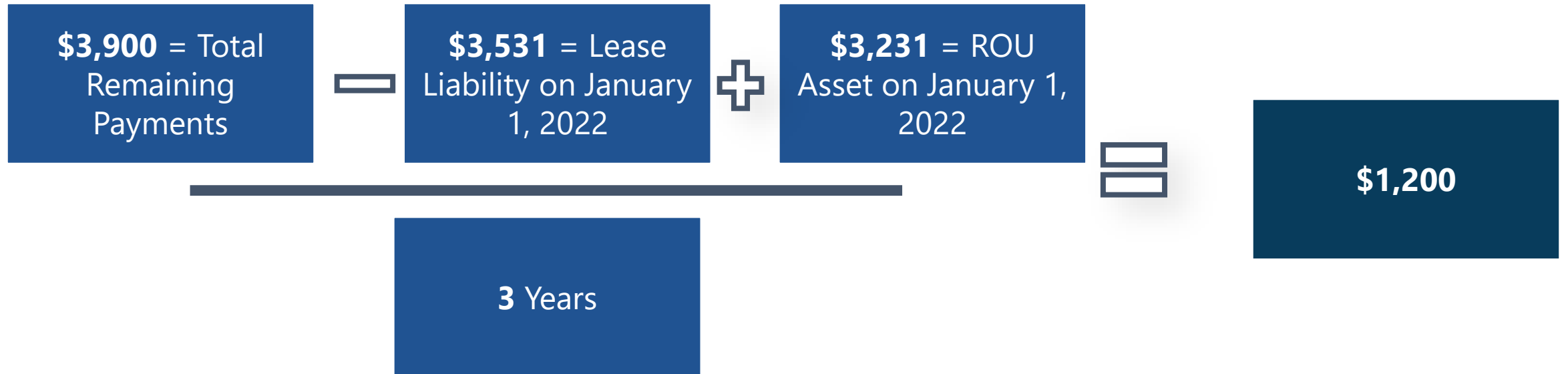
*(All Topic 840 balances are now cleared)*

# How to Determine Straight-Lined Rent at Transition

Straight-Lined Rent at Transition Equals:



# Operating Lease Example – Straight-Lined Rent at Transition



# Lessee – Simple Operating Lease Transition to Topic 842

- Assume the Company transitions for fiscal year ending December 31, 2022
- Company elects the following:
  - Modified retrospective
  - Use of package of practical expedients
- Transition IBR is 5%
- Deferred Rent Balance at Transition equaled \$300

Year	Rent Expense (a)	Lease Liability				Right of Use Asset		
		Beg	Int. (5%) (b)	Payment	End	Beg	Amort. =(a)-(b)	Ending
2021	-	-	-	-	(3,531)	-	-	3,231
2022	1,200	(3,531)	(177)	1,200	(2,508)	3,231	(1,023)	2,208
2023	1,200	(2,508)	(125)	1,300	(1,333)	2,208	(1,075)	1,133
2024	1,200	(1,333)	(67)	1,400	-	1,133	(1,133)	-
	<b>3,600</b>			<b>3,900</b>				

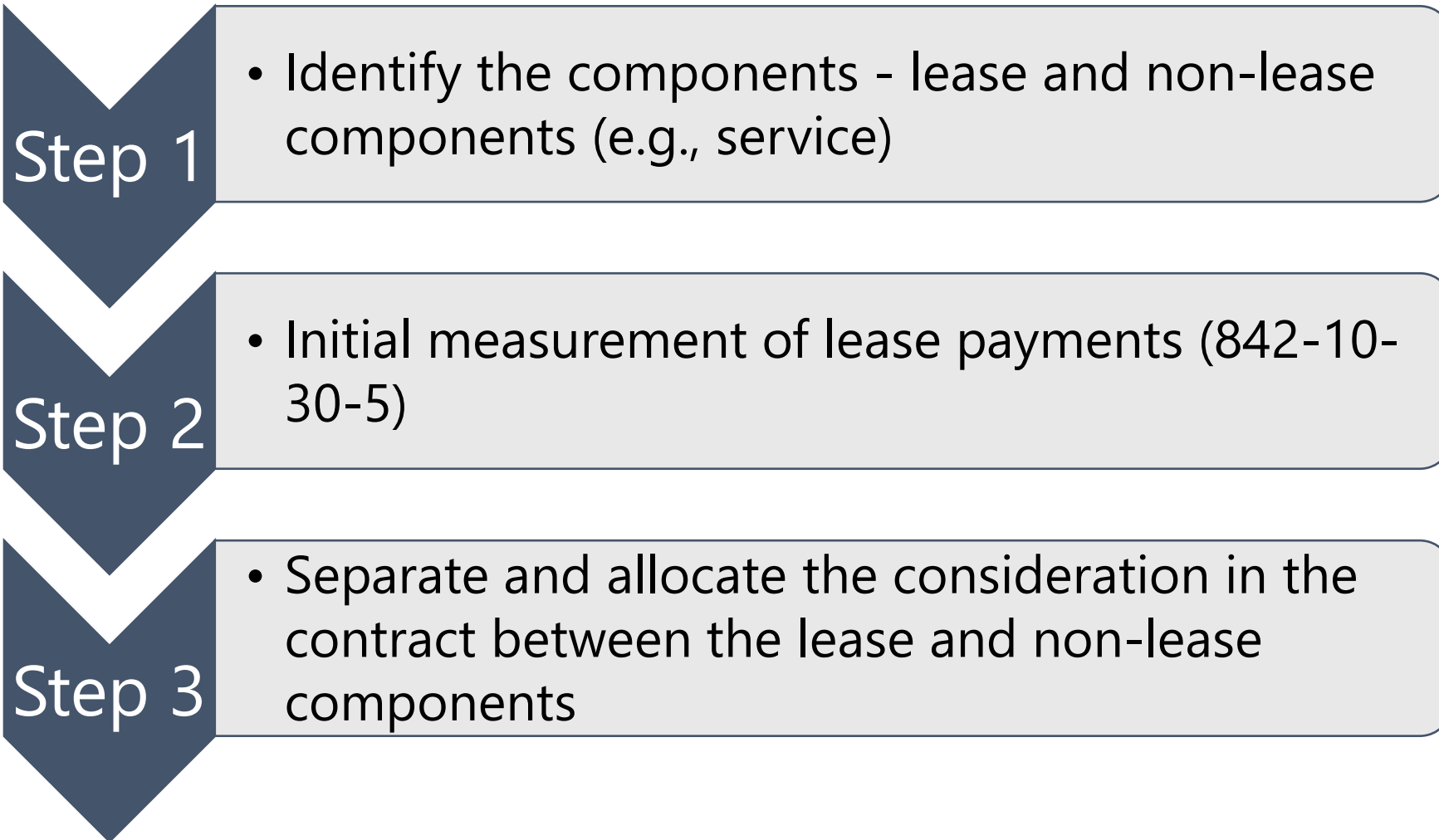
# Fundamentals of Transitioning to Topic 842 for Operating Leases

- Principle – present value minimum lease payments (i.e., 5-year and thereafter schedule)
- Reality:
  - Leases are usually paid at the beginning of the month (not once a year)
  - There could be other 840 balances related to initial direct costs or prepaid rent, etc.
  - Exit and disposal obligations from lease abandonment
  - This can get complicated very quickly when you have numerous leases

# Allocation between Leasing and Nonleasing Components



# ID Units and Allocating Consideration



# Separate Lease Components

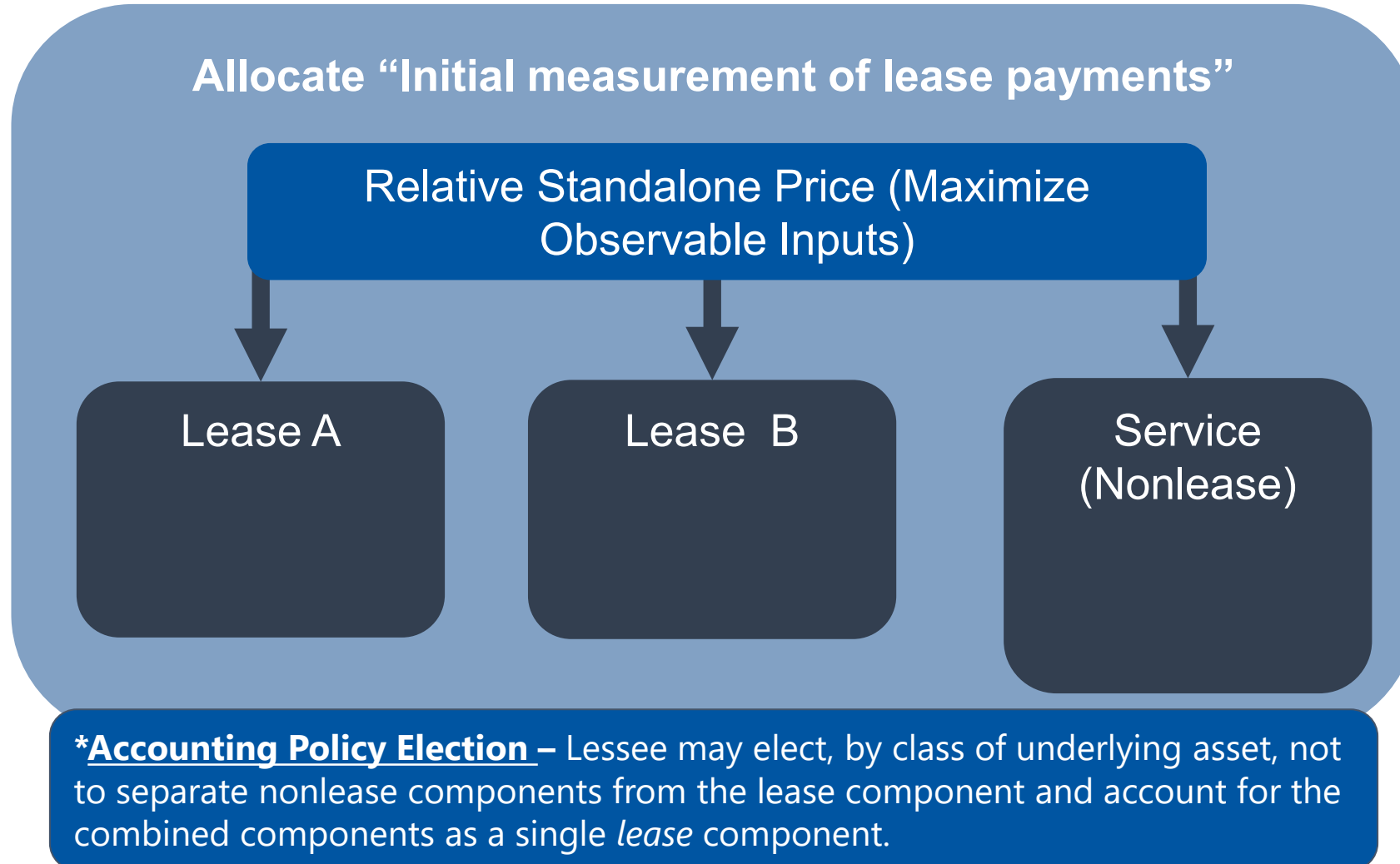
A right to use an underlying asset is a separate lease component if both:

- Lessee can benefit from use of the asset on its own or together with other readily available resources
- The underlying asset is neither dependent on, nor highly interrelated with, the other underlying assets in the contract.

Rights to use two or more underlying assets may be a single lease component

Similar to the distinct guidance in Topic 606 (the new revenue recognition standard).

# Lease Allocation



# Lessee – Operating Lease w/ CAM (No Election to Combine)

- 5 year retail store lease entered at end of 2020
- The contract states that the lease payment will be \$1000 the first year and increase 100 each year thereafter for a total of \$6000.
- Lessee also pays common area maintenance (CAM) charges to approximate \$300 each year. Lessor will bill the Lessee based on actual costs once a year.
- Discount rate is 6%
- Assume this is an operating lease
- Standalone price:
  - For the lease are the fixed payments in the lease contract (\$6,000 in total)
  - For CAM is expected to approximate \$300 each year (\$1,500 in total).

# Is this what you would do?

- Fixed - Rent payment equals \$1,000 the first year and increases \$100 each year thereafter. Total payments over 5 years is \$6,000
- CAM – Variable Payments based on actual (expected to be approximate \$300 per year or 1,500 in total)
- Discount rate is 6%

Year	Rent Expense (a)	Lease Liability				Right of Use Asset		
		Beg	Int. (6%) (b)	Payment	End	Beg	Amort. =(a)-(b)	Ending
2020	-	-	-	-	(5,006)	-	-	5,006
2021	1,200	(5,006)	(300)	1,000	(4,306)	5,006	(900)	4,106
2022	1,200	(4,306)	(258)	1,100	(3,465)	4,106	(942)	3,165
2023	1,200	(3,465)	(208)	1,200	(2,472)	3,165	(992)	2,172
2024	1,200	(2,472)	(148)	1,300	(1,321)	2,172	(1,052)	1,121
2025	1,200	(1,321)	(79)	1,400	(0)	1,121	(1,121)	-
	<b>6,000</b>							

- Book entire payment based on actual CAM charges entirely as CAM Expense

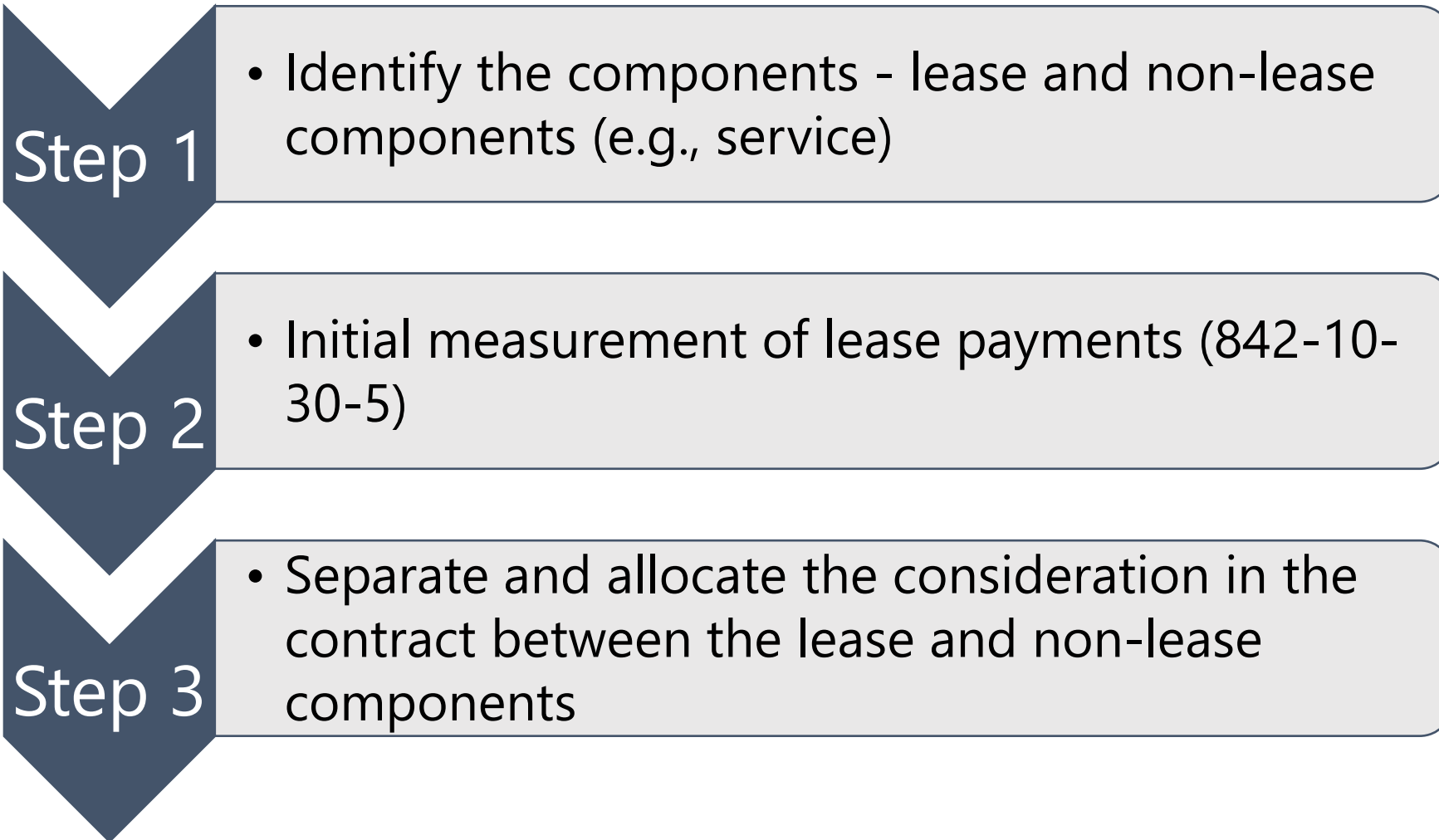
# Is this what you would do?

- Fixed - Rent payment equals to ... increases \$100 each year thereafter. Total payments ...
- CAM - Variable Payment ... rate \$300 per year or 1,500 in total ...
- Discount rate ...

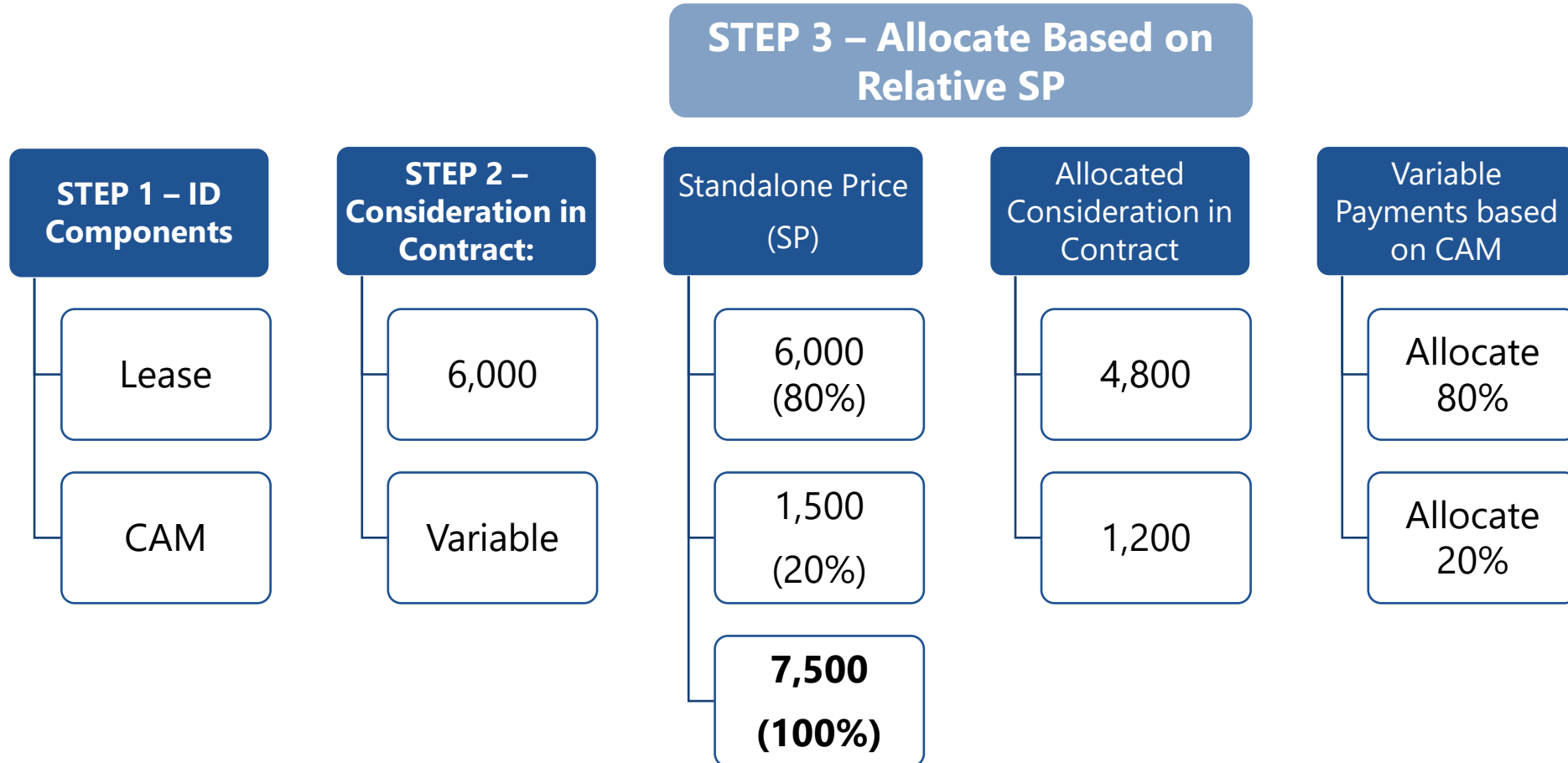
Year	Liability			Residual		Net
	Beg	Payment	End	Beg	Ending	
2020	-	-	(96)	-	06	
2021	(5,006)	(300)		5,006	06	
2022	(4,306)	(258)	1,100	1,006	165	
2023	(3,465)	(208)	1,200		1,172	
2024		(148)	1,300	(1,300)	1,121	
2025	1,200	(70)	1,400	(1,400)	-	
	<b>6,000</b>					

- Book entire payment ... as CAM Expense

# ID Units and Allocating Consideration



# Lessee – Allocate Consideration in Contract (“Fixed”)





# Topic 842 Lessee Allocation

- Fixed - Rent payment equals \$1,000 the first year and increases \$100 each year thereafter. Total payments over 5 years is \$6,000
- CAM – Variable Payments based on actual (expected to be approximate \$300 per year or 1,500 in total)
- Discount rate is 6%

Year	Fixed Payments			Lease Cost Straight Line [a]	Lease Liability				Right of Use Asset		
		Lease	CAM		Beg	Int. (6%)	Payment	End	Beg	Amort.	Ending
		80%	20%			[b]				= [a] - [b]	
2020	-	-	-	-	-	-	-	(4,005)	-	0	4,005
2021	1,000	800	200	960	(4,005)	(240)	800	(3,445)	4,005	(720)	3,285
2022	1,100	880	220	960	(3,445)	(207)	880	(2,772)	3,285	(753)	2,532
2023	1,200	960	240	960	(2,772)	(166)	960	(1,978)	2,532	(794)	1,738
2024	1,300	1,040	260	960	(1,978)	(119)	1,040	(1,057)	1,738	(841)	897
2025	1,400	1,120	280	960	(1,057)	(63)	1,120	0	897	(897)	(0)
	<b>6,000</b>	<b>4,800</b>	<b>1,200</b>	<b>4,800</b>							

# Lessee – Let's do the Journal Entries

End of 2020 – Transfer Control of location and establish lease liability and ROU asset

- DR ROU Asset \$4,005 (NPV of allocated fixed payments)
  - CR Lease Liability \$4,005

# Lessee – Let's do the Journal Entries

End of 2021 – Accounting for fixed payments

- DR Lease Cost                   \$240 (*Interest : \$4,005 \* 6%*)
- CR Lease Liab.                                 \$240
  
- DR Lease Cost                   \$720 (*Amort: 960 - 240*)
- CR ROU Asset                                 \$720
  
- DR Lease Liab.                   \$800 (*\$1000 \* 80%*)
- DR CAM Expense                 \$200(*\$1000 \* 20%*)
- CR Cash   \$1000 (payment per contract)

# Lessee – Let's do the Journal Entries

End of 2021 – Accounting for Variable Payments

Actual CAM charges come in at \$298

- DR Lease Cost                    \$238 ( $\$298 * 80\%$ )
- DR CAM Expense                \$60 ( $\$298 * 20\%$ )
- CR Cash                                \$298

# Open Discussion on Leases?

- For example...
  - Related party leases?
  - ....

# Business Combinations

# Notable changes in the past decade...

ASU 2021-08*	<b><i>Accounting for Contract Assets and Contract Liabilities from Contracts with Customers</i></b>
ASU 2021-03	<b>Accounting Alternative for Evaluating Triggering Events (Nonpublic Only)</b>
ASU 2017-04	Simplifying the Test for Goodwill Impairment (Removing Step 2)
ASU 2017-01	Clarifying the Definition of a Business
ASU 2014-18	<b>Accounting for Identifiable Intangible Assets in a Business Combination (a consensus of the Private Company Council)</b>
ASU 2014-17	Pushdown Accounting (a consensus of the FASB Emerging Issues Task Force)
ASU 2014-02	<b>Accounting for Goodwill (a consensus of the Private Company Council)</b>
ASU 2011-08	Testing Goodwill for Impairment (Step 0)

# BEFORE ASU 2021-08 (Contract Assets and Contract Liabilities in Bus Comb)

## Contract Liability Recognized at FV

- Not the amount per Topic 606

## Bottoms Up Approach

- Cost to fulfill performance obligation
- Reasonable profit for fulfilling

## Top Down (usually for software arrangements)

- Expected Revenue for open performance obligation
- LESS: Cost of sell effort and margin associated with selling effort



# AFTER - Summary of ASU 2021-08 (Contract Assets and Contract Liabilities in Bus Comb)

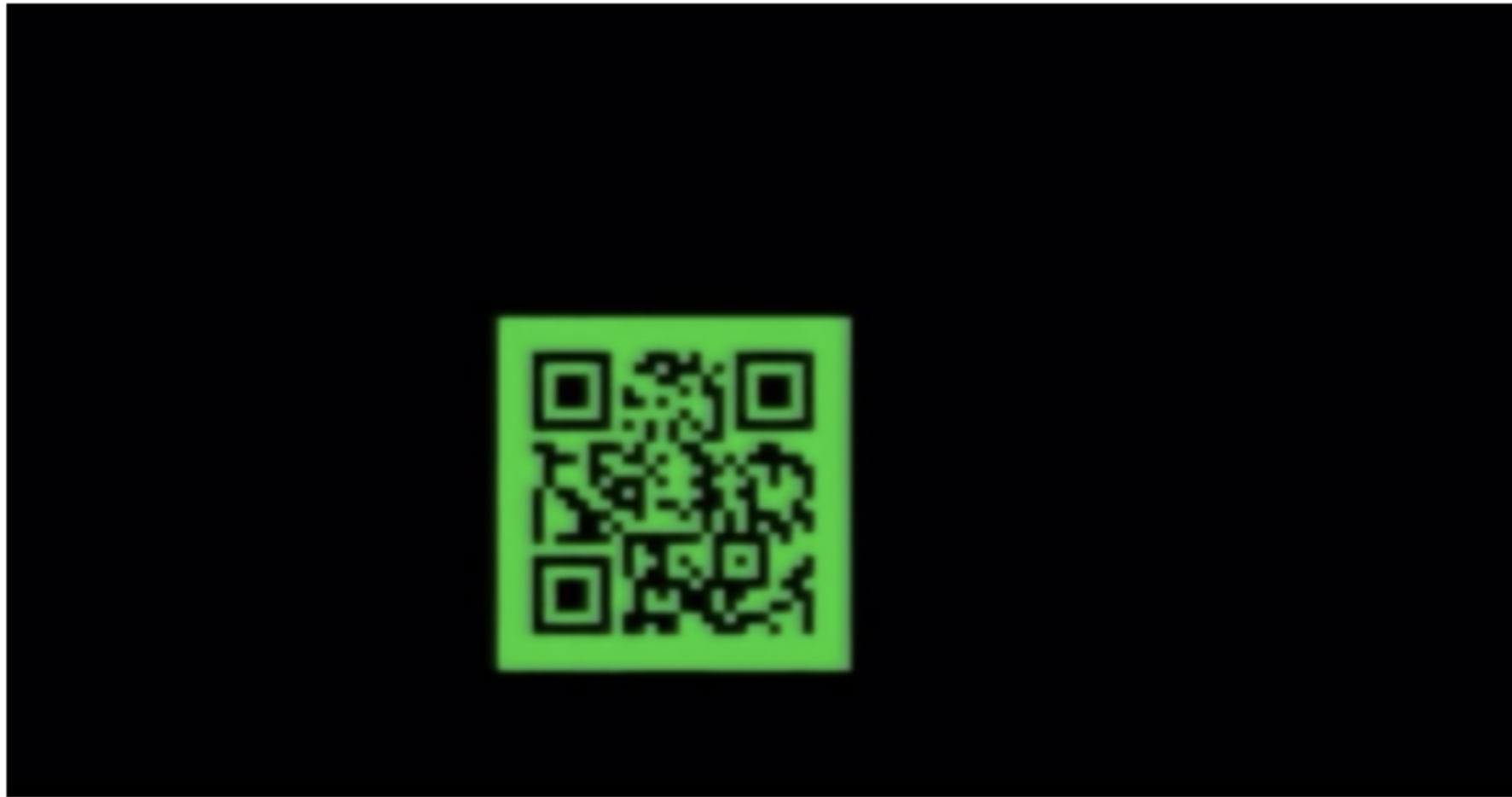
## After ASU 2021-08

- Acquirer should measure contract asset and liabilities as if it had originated the contracts under Topic 606

## Transition & Effective Date

- Prospective application
- Public - FY beg after 12/15/2022
- Everybody else – FY beg after 12/15/2023
- Early Adoption permitted

# What's our next topic? Hint Below...



# Accounting for Cryptocurrencies

# What is Bitcoin?

## Bitcoin: A Peer-to-Peer Electronic Cash System

Satoshi Nakamoto  
satoshin@gmx.com  
www.bitcoin.org

**Abstract.** A purely peer-to-peer version of electronic cash would allow online payments to be sent directly from one party to another without going through a financial institution. Digital signatures provide part of the solution, but the main benefits are lost if a trusted third party is still required to prevent double-spending. We propose a solution to the double-spending problem using a peer-to-peer network. The network timestamps transactions by hashing them into an ongoing chain of hash-based proof-of-work, forming a record that cannot be changed without redoing the proof-of-work. The longest chain not only serves as proof of the sequence of events witnessed, but proof that it came from the largest pool of CPU power. As long as a majority of CPU power is controlled by nodes that are not cooperating to attack the network, they'll generate the longest chain and outpace attackers. The network itself requires minimal structure. Messages are broadcast on a best effort basis, and nodes can leave and rejoin the network at will, accepting the longest proof-of-work chain as proof of what happened while they were gone.

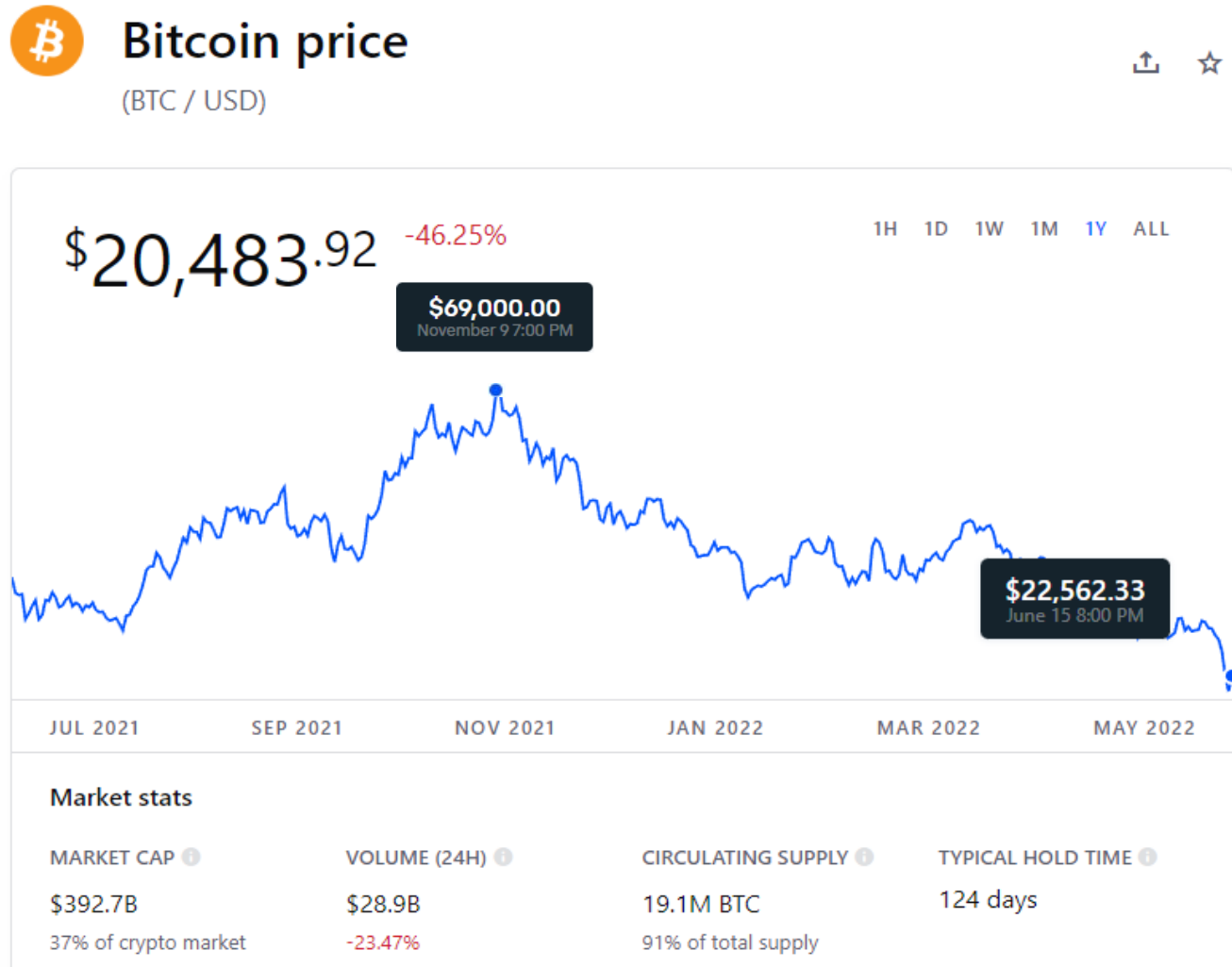
<https://bitcoin.org/bitcoin.pdf>

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# What is Bitcoin worth?

## Price Points:

<b>3/13/2020</b>	<b>\$5,631</b>
<b>11/9/2021</b>	<b>\$69,000</b>
<b>6/15/2022</b>	<b>\$22,562</b>



<https://www.coinbase.com/price/bitcoin>

# Question

The accepted GAAP model in accounting for Bitcoin is:

- A. A Financial Instrument that is marked to fair value with changes going through the income statement
- B. An Intangible Asset at historical cost subject to impairment. Reversal of impairment NOT permitted!
- C. Policy Election - either are acceptable



# Bitcoin/Digital Currency - Where does it fit in GAAP?

## Cash (as defined by GAAP)?

- Probably not...
  - “Includes not only currency on hand but demand deposits with banks or other financial institutions”
  - Not backed by a sovereign government and do not represent legal tender

## Financial Instrument / Financial Asset (as defined by GAAP)?

- Probably Not...
  - Not “cash, evidence of an ownership interest in an entity, or a contract that conveys to one entity a right to do either receive cash or another financial instrument from a second entity; or exchange other financial instruments on potentially favorable terms with the second entity.”

## Intangible Asset?

- Assets (not including financial assets) that lack physical substance.
- Most likely indefinite

# Indefinite-Lived Asset Impairment

Indefinite-Lived Asset

Held and Used

Assets Held for Sale



# Indefinite-Lived Asset Impairment

## Indefinite-Lived Asset Impairment

Brands	<h3>Held and Used</h3> <table border="1"><tr><td><b>Unit of Account:</b><ul style="list-style-type: none"><li>▪ Indefinite-Life Asset</li></ul></td><td><b>How?</b><ul style="list-style-type: none"><li>▪ Amount ABOVE Fair Value</li><li>▪ Optional Qualitative Assessment</li></ul></td><td><b>When?</b><ul style="list-style-type: none"><li>▪ Annual</li><li>▪ Triggering Event</li></ul></td><td><b>Reversal?</b><ul style="list-style-type: none"><li>▪ Never</li></ul></td></tr></table>				<b>Unit of Account:</b> <ul style="list-style-type: none"><li>▪ Indefinite-Life Asset</li></ul>	<b>How?</b> <ul style="list-style-type: none"><li>▪ Amount ABOVE Fair Value</li><li>▪ Optional Qualitative Assessment</li></ul>	<b>When?</b> <ul style="list-style-type: none"><li>▪ Annual</li><li>▪ Triggering Event</li></ul>	<b>Reversal?</b> <ul style="list-style-type: none"><li>▪ Never</li></ul>
<b>Unit of Account:</b> <ul style="list-style-type: none"><li>▪ Indefinite-Life Asset</li></ul>					<b>How?</b> <ul style="list-style-type: none"><li>▪ Amount ABOVE Fair Value</li><li>▪ Optional Qualitative Assessment</li></ul>	<b>When?</b> <ul style="list-style-type: none"><li>▪ Annual</li><li>▪ Triggering Event</li></ul>	<b>Reversal?</b> <ul style="list-style-type: none"><li>▪ Never</li></ul>	
Tradenames								
Certain Licensing Rights								
Certain Digital Currencies								

# MicroStrategy (MSTR) – Bitcoin Accounting

	Source of Capital Used to Purchase Bitcoin	Digital Asset Original Cost Basis (in thousands)	Digital Asset Impairment Losses (in thousands)	Digital Asset Carrying Value (in thousands)	Approximate Number of Bitcoins Held	Approximate Average Purchase Price Per Bitcoin
<b>Balance at June 30, 2020</b>		\$ 0	\$ 0	\$ 0	0	n/a
Digital asset purchases	(a)	425,000		425,000	38,250	11,111
Digital asset impairment losses			(44,242)	(44,242)		
<b>Balance at September 30, 2020</b>		\$ 425,000	\$ (44,242)	\$ 380,758	38,250	\$ 11,111
Digital asset purchases	(b)	700,000		700,000	32,219	21,726
Digital asset impairment losses			(26,456)	(26,456)		
<b>Balance at December 31, 2020</b>		\$ 1,125,000	\$ (70,698)	\$ 1,054,302	70,469	\$ 15,964
Digital asset purchases	(c)	1,086,375		1,086,375	20,857	52,087
Digital asset impairment losses			(194,095)	(194,095)		
<b>Balance at March 31, 2021</b>		\$ 2,211,375	\$ (264,793)	\$ 1,946,582	91,326	\$ 24,214
Digital asset purchases	(d)	529,231		529,231	13,759	38,464
Digital asset impairment losses			(424,774)	(424,774)		
<b>Balance at June 30, 2021</b>		\$ 2,740,606	\$ (689,567)	\$ 2,051,039	105,085	\$ 26,080
Digital asset purchases	(e)	419,865		419,865	8,957	46,876
Digital asset impairment losses			(65,165)	(65,165)		
<b>Balance at September 30, 2021</b>		\$ 3,160,471	\$ (754,732)	\$ 2,405,739	114,042	\$ 27,713

	Approximate Number of Bitcoins Held at End of Quarter	Lowest Market Price Per Bitcoin During Quarter (f)	Market Value of Bitcoin Held at End of Quarter Using Lowest Market Price (in thousands) (g)	Highest Market Price Per Bitcoin During Quarter (h)	Market Value of Bitcoin Held at End of Quarter Using Highest Market Price (in thousands) (i)	Market Price Per Bitcoin at End of Quarter (j)	Market Value of Bitcoin Held at End of Quarter Using Market Price (in thousands) (k)
June 30, 2020	0	n/a	n/a	n/a	n/a	n/a	n/a
September 30, 2020	38,250	\$ 8,905.84	\$ 340,648	\$ 12,486.61	\$ 477,613	\$ 10,706.00	\$ 409,505
December 31, 2020	70,469	\$ 10,363.76	\$ 730,324	\$ 29,321.90	\$ 2,066,285	\$ 29,181.00	\$ 2,056,356
March 31, 2021	91,326	\$ 27,678.00	\$ 2,527,721	\$ 61,788.45	\$ 5,642,892	\$ 58,601.28	\$ 5,351,820
June 30, 2021	105,085	\$ 28,800.00	\$ 3,026,448	\$ 64,899.00	\$ 6,819,911	\$ 34,763.47	\$ 3,653,119
September 30, 2021	114,042	\$ 29,301.56	\$ 3,341,609	\$ 52,944.96	\$ 6,037,949	\$ 43,534.56	\$ 4,964,768

[https://www.microstrategy.com/content/dam/website-assets/collateral/financial-documents/financial-document-archive/form-10-q\\_10-28-2021.pdf](https://www.microstrategy.com/content/dam/website-assets/collateral/financial-documents/financial-document-archive/form-10-q_10-28-2021.pdf)

# MicroStrategy (MSTR) – Bitcoin Accounting


	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2021	2020	2021	2020
<b>Reconciliation of non-GAAP income from operations:</b>				
Loss from operations	\$ (49,661)	\$ (20,271)	\$ (647,060)	\$ (14,015)
Share-based compensation expense	12,166	2,560	30,973	7,897
Digital asset impairment losses	65,165	44,242	684,034	44,242
Non-GAAP income from operations	<u>\$ 27,670</u>	<u>\$ 26,531</u>	<u>\$ 67,947</u>	<u>\$ 38,124</u>

- [https://www.microstrategy.com/content/dam/website-assets/collateral/financial-documents/financial-document-archive/form-10-q\\_10-28-2021.pdf](https://www.microstrategy.com/content/dam/website-assets/collateral/financial-documents/financial-document-archive/form-10-q_10-28-2021.pdf)

## Recent Articles

- <https://www.forbes.com/sites/shehanchandrakera/2022/01/31/sec-objects-to-microstrategy-accurately-valuing-its-billion-dollar-bitcoin-stash/?sh=13409272158e>
- <https://www.bloomberg.com/news/articles/2022-01-21/microstrategy-plummets-as-sec-rejects-its-bitcoin-accounting>

# MicroStrategy (MSTR) – What did the SEC Say?

  
DIVISION OF  
CORPORATION FINANCE

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

December 3, 2021

Phong Le  
President & Chief Financial Officer  
Microstrategy Incorporated  
1850 Towers Crescent Plaza  
Tysons Corner, VA 22182

**Re: Microstrategy Incorporated**  
**Form 10-K for Fiscal Year Ended December 31, 2020**  
**Filed February 12, 2021**  
**Form 10-Q for the Quarter Ended September 30, 2021**  
**Filed October 22, 2021**  
**File No. 000-24435**

Form 10-Q for the Quarterly Period Ended September 30, 2021  
Non-GAAP Financial Measures, page 29

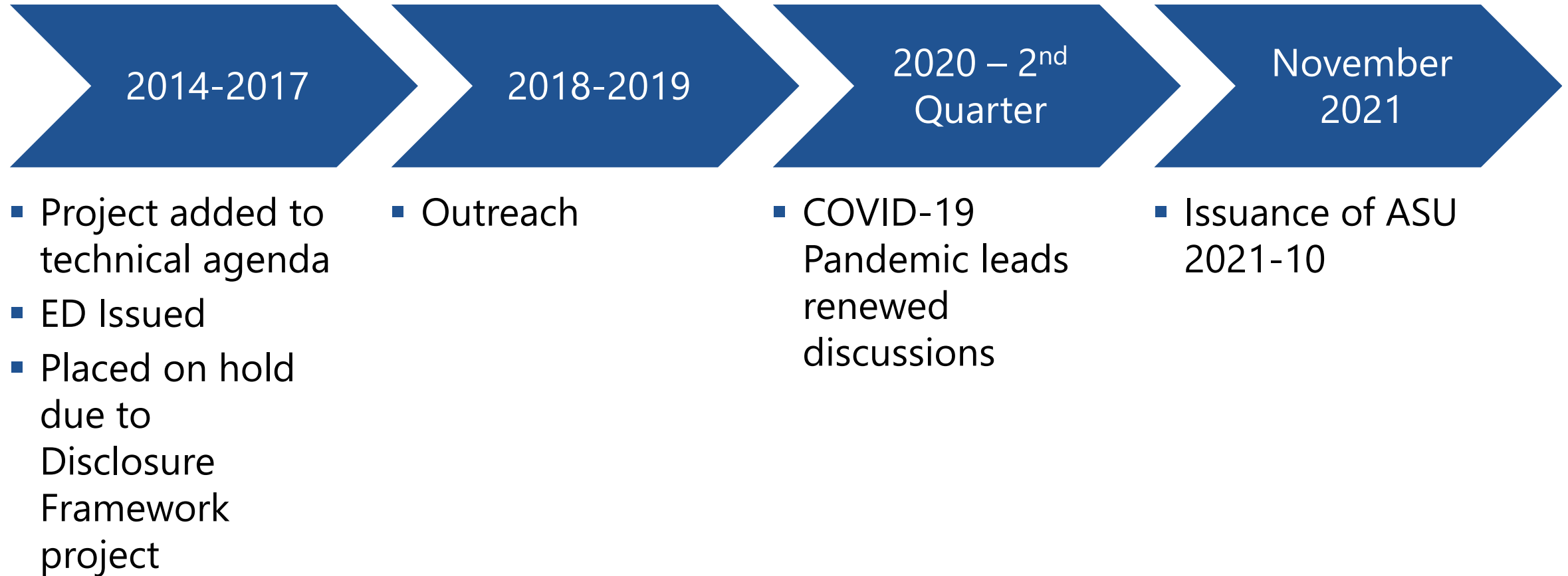
1. We note your response to prior comment 5 and we object to your adjustment for bitcoin impairment charges in your non-GAAP measures. Please revise to remove this adjustment in future filings. Refer to Rule 100 of Regulation G.

We remind you that the company and its management are responsible for the accuracy and adequacy of their disclosures, notwithstanding any review, comments, action or absence of action by the staff.

<https://www.sec.gov/Archives/edgar/data/1050446/000000000021014605/filename1.pdf>

# **Government Assistance Disclosures (ASU 2021-10)**

# Timeline/History of Gov't Assistance



# ASU 2021-10 – Gov't Assistance

## Scope

- Business Entities that account for a transaction with a government by applying a grant or contribution accounting model by analogy (e.g., IAS 20 or Subtopic 958-605)

### Example Transactions **IN** Scope

- Forgivable loan from the government in which a business entity concludes that the transaction is accounted for as a grant by applying IAS 20 by analogy
- Receipt of cash or other assets from the government that is accounted for as a contribution applying Subtopic 958-605 by analogy

### Examples **NOT IN** Scope

- Income tax credits under the scope of Topic 740 (Income Taxes)
- Contract with the government in which the government is a customer within the scope of Topic 606
- A forgivable or below-market interest rate loan from the government under the scope of Topic 470

# ASU 2021-10 – Gov't Assistance

## Disclose (Topic 832 Requirements)

- **Nature** of the transaction and related **accounting policy** used to account for the government assistance
- Line items on the **balance sheet and income statement that are affected** by the transactions
- **Significant terms and conditions** of the transactions
  - e.g., duration, commitments, contingencies, provisions for recapture
- If disclosure is legally prohibited provide description of the general nature of the information omitted and the specific source of prohibition

## When is it effective?

- Effective for all entities for financial statements issued for annual periods beginning after **December 15, 2021**
- Early application of the amendments is permitted



# Questions?