

ACCOUNTING UPDATE

Mike Cheng



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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.



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)

What's Effective for Public Co. in 2022

Convertible
Instruments &
Debt vs Equity
(ASU 2020-06)

Reference Rate
Reform (ASU 2021-
01)

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

Leases (842)
Lessors Variable
Payments (ASU
2021-05)

Gov't Assistance
(ASU 2021-10)

What's Effective for Public Co. Beyond 2022

Simplifying Goodwill
Impairment (ASU
2017-04)

Business Combinations
– Contract Asset and
Contract Liabilities
(ASU 2021-08)

FV of Equity Securities
w/ Contractual Sale
Restrictions (ASU
2022-03)

Supplier Finance
Programs (ASU 2022-
04)

CECL (ASU 2016-13 &
Various)

Insurance and other
Codification
Improvements

Agenda?

Supplier Finance Arrangements (ASU 2022-04)

Supply Chain or Great Resignation Impact?

Impairment Models

- Long-Lived Asset Impairment
- Can't tell you (Sorry for being cryptic about this)
- Goodwill & Business Combination

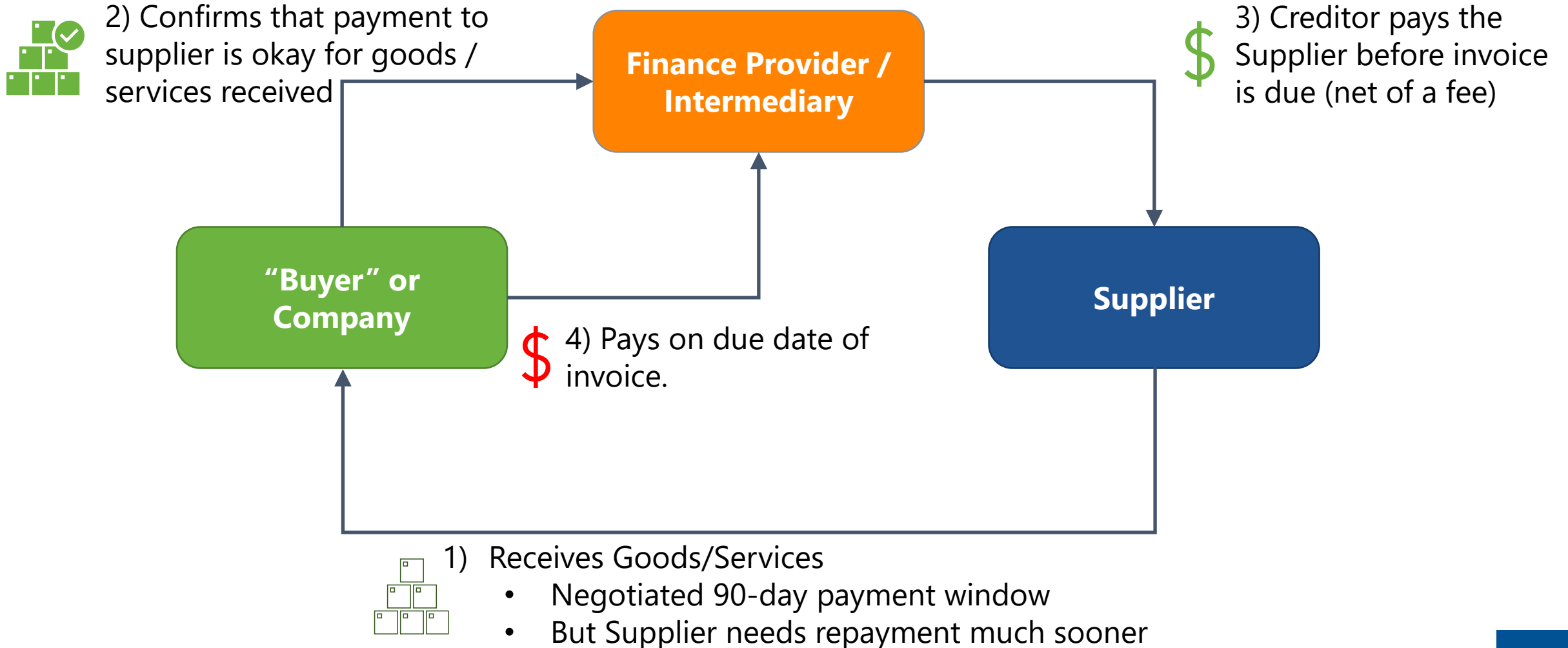
Leases

- Is there a lease?
- Transition
- Leasehold Improvements & Related Parties

Government Assistance (ASU 2021-10)

Supplier Finance Arrangements (ASU 2022-04)

Example Supplier Finance Arrangement



ASU 2022-04 – Scope

All entities with obligations in connection to supplier finance programs that has all the following characteristics:

(405-50-15-2)

- Entity enters into an agreement with finance provider or intermediary
- Entity confirms supplier invoices as valid to finance provider or intermediary
- Entity's supplier has the option to request early payment for invoices that the entity has confirmed as valid

ASU 2022-04 – If in Scope then DISCLOSE

Annual Disclosures (405-50-50-3)

1. The key terms of the program, including a description of the payment terms (including payment timing and basis for its determination) and assets pledged as security or other forms of guarantees provided for the committed payment to the finance provider or intermediary

2. For the obligations that the buyer has confirmed as valid to the finance provider or intermediary:
 - a. The amount outstanding that remains unpaid by the buyer as of the end of the annual period (the outstanding confirmed amount)
 - b. A description of where those obligations are presented in the balance sheet
 - c. A rollforward of those obligations during the annual period, including the amount of obligations confirmed and the amount of obligations subsequently paid.

Interim Disclosures (405-50-50-4)

- Amount of obligations outstanding that the entity has confirmed as valid to the finance provider or intermediary under the supplier finance program at the end of the reporting period.

Rollforward Example (405-50-55-5)

The rollforwards of Entity A's outstanding obligations confirmed as valid under its supplier finance program for years ended December 31, 20X2, and 20X1, are as follows (in thousands):

	<u>20X2</u>	<u>20X1</u>
Confirmed obligations outstanding at the beginning of the year	\$ 733	\$ 712
Invoices confirmed during the year	2,435	2,278
Confirmed invoices paid during the year	<u>(2,315)</u>	<u>(2,257)</u>
Confirmed obligations outstanding at the end of the year	<u>\$ 853</u>	<u>\$ 733</u>

ASU 2022-04 – Transition

Disclosures *except for Rollforward* are effective for *fiscal years beginning after December 15, 2022*, including interim periods within those fiscal years


- During the fiscal year of adoption, the information on the key terms of the programs and the balance sheet presentation of the program obligations, which are annual disclosure requirements, should be disclosed in each interim period.

Rollforward is effective for *fiscal years beginning after December 15, 2023*


Supply Chain or Great Resignation Impact?

Supply-Chain Issues? Or Great Resignation Issues?


NN NewsNation Now
Vendors face supply chain limitations amid wedding boom
Caterers, bakers and florists are also feeling the effects of the supply chain. Marisa Guerrero, a florist in Texas, says securing glassware has...




WSJ The Wall Street Journal
Logistics Companies Move to Snatch Up Supply-Chain Tech Startups
Fueled by an influx of venture capital and strategic shifts, supply-chain startups are in high demand. Danish containership company A.P. Moller-...




★ Chicago Sun-Times
Chicago monument companies feeling impact of global supply chain issues
It's a grave problem: A shortage of materials, months-long backlogs and rising costs are causing holdups in getting monuments and...



NYT The New York Times
The Great Resignation Comes for the C-Suite
At the highest levels of corporate America, top executives are reassessing the role of work in their lives, stepping back and walking away.



FC Fast Company
Is the 4-day workweek the answer to the Great Resignation?
Work has never just happened in an office, from Monday to Friday, and between the hours of 9 to 5. Finally some companies are starting to...
1 day ago






February 11, 2022
8:18 AM EST
Last Updated 5 days ago

Macro Matters

Analysis: World's damaged supply chains brace for painful recovery

By Mark John

5 minute read



A Normal Supply Chain? It's 'Unlikely' in 2022.

The chaos at ports, warehouses and retailers will probably persist through the year, and perhaps even longer.

The Port of Los Angeles, one of the busiest ports in the United States, where containers have piled up uncollected. Erin Schattl [The New York Times](#)



What are some of the accounting issues resulting from Supply Chain Issues or the Great Resignation?

Variable Consideration (Step 3 of Topic 606)

Bill and Hold? (Step 5 of Topic 606)

Revenue – Loss Contract?

Inventory Costing Issues?

Overview of Revenue Recognition Model

Core Principle

Recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services

Steps to apply the core principle



Portfolio Approach

Example 20 – Variable Consideration Penalty

> > > Example 20—Penalty Gives Rise to Variable Consideration

- 606-10-55-194 An entity enters into a contract with a customer to build an asset for \$1 million. In addition, the terms of the contract include a penalty of \$100,000 if the construction is not completed within 3 months of a date specified in the contract.
- 606-10-55-195 The entity concludes that the consideration promised in the contract includes a fixed amount of \$900,000 and a variable amount of \$100,000 (arising from the penalty).

What are some of the accounting issues resulting from Supply Chain Issues or the Great Resignation?

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Revenue – Loss Contract?

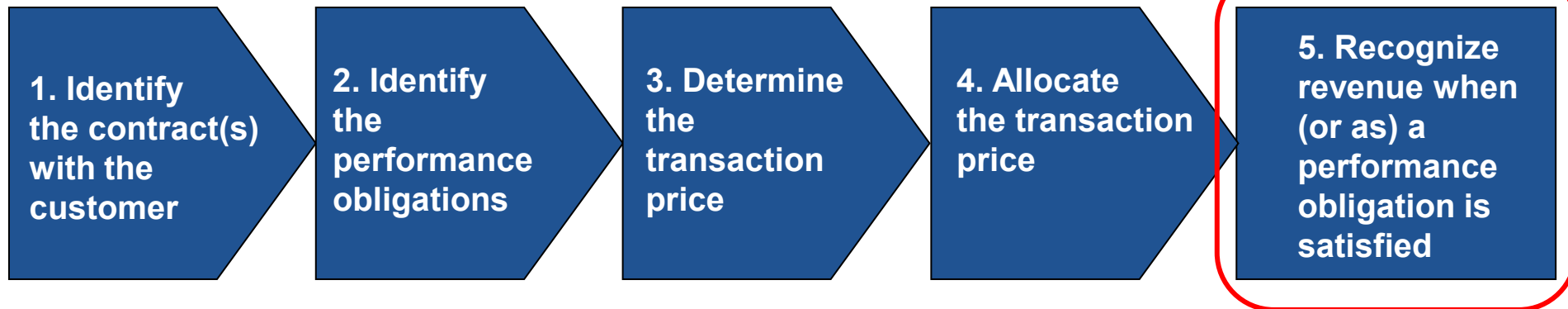
Inventory Costing Issues?

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Steps to apply the core principle



Portfolio Approach

What is a Bill and Hold Arrangement?

> > Bill-and-Hold Arrangements

- 606-10-55-81 A bill-and-hold arrangement is a contract under which an entity bills a customer for a product but the entity retains physical possession of the product until it is transferred to the customer at a point in time in the future. For example, a customer may request an entity to enter into such a contract because of the customer's lack of available space for the product or because of delays in the customer's production schedules.

Criteria for Bill-and-Hold

> > Bill-and-Hold Arrangements

- 606-10-55-83 In addition to applying the guidance in paragraph 606-10-25-30, for a customer to have obtained control of a product in a bill-and-hold arrangement, all of the following criteria must be met:
 - a. The reason for the bill-and-hold arrangement must be substantive (for example, the customer has requested the arrangement).
 - b. The product must be identified separately as belonging to the customer.
 - c. The product currently must be ready for physical transfer to the customer.
 - d. The entity cannot have the ability to use the product or to direct it to another customer.
- 606-10-55-84 If an entity recognizes revenue for the sale of a product on a bill-and-hold basis, the entity should consider whether it has remaining performance obligations (for example, for custodial services) in accordance with paragraphs 606-10-25-14 through 25-22 to which the entity should allocate a portion of the transaction price in accordance with paragraphs 606-10-32-28 through 32-41.

Bill-and-Hold Disclosures

> > Performance Obligations

- 606-10-50-12 An entity shall disclose information about its performance obligations in contracts with customers, including a description of all of the following:
 - a. When the entity typically satisfies its performance obligations (for example, upon shipment, upon delivery, as services are rendered, or upon completion of service) including when performance obligations are satisfied in a bill-and-hold arrangement
 - b. The significant payment terms (for example, when payment typically is due, whether the contract has a significant financing component, whether the consideration amount is variable, and whether the estimate of variable consideration is typically constrained in accordance with paragraphs 606-10-32-11 through 32-13)
 - c. The nature of the goods or services that the entity has promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services (that is, if the entity is acting as an agent)
 - d. Obligations for returns, refunds, and other similar obligations
 - e. Types of warranties and related obligations.

What are some of the accounting issues resulting from Supply Chain Issues or the Great Resignation?

Variable Consideration (Step 3 of Topic 606)

Bill and Hold? (Step 5 of Topic 606)

Revenue – Loss Contract?

Inventory Costing Issues?

Question

True or False: Your company is subject to onerous contract guidance (i.e., booking a loss when a contract is not profitable).

- A. True
- B. False



Revenue – Contract Losses

Is there a
Loss
Contract?

Is it in scope
of legacy
guidance?

If not, don't
book a
LOSS

Index to Existing Contract Loss Guidance

Scope of Loss Contracts

Subtopic 605-20	Subtopic 605-35	Subtopic 985-605	Section 954-440-35	Section 954-450-30	Subtopic 980-350-35	Subtopic 912-20-45
<ul style="list-style-type: none">▪ Separately Priced Extended Warranty and Product Maintenance Contracts	<ul style="list-style-type: none">▪ Construction-Type and Production-Type Contracts	<ul style="list-style-type: none">▪ Software requiring significant production or modification	<ul style="list-style-type: none">▪ Continuing Care Retirement Community	<ul style="list-style-type: none">▪ Prepaid Health Care Services	<ul style="list-style-type: none">▪ Long-Term Power Sales Contracts	<ul style="list-style-type: none">▪ Federal Gov't Contracts

605-35 (Construction-Type and Production-Type Contracts) What IS IN Scope?

> > Contracts Covered

- Contracts covered by this Subtopic include, but are not limited to, the following:
 - a. Contracts in the construction industry, such as those of general building, heavy earth moving, dredging, demolition, design-build contractors, and specialty contractors (for example, mechanical, electrical, or paving). In general the type of contract here under consideration is for construction of a specific project. While such contracts are generally carried on at the job site, this Subtopic also would be applicable in appropriate cases to the manufacturing or building of special items on a contract basis in a contractor's own plant.
 - b. Contracts to design and build ships and transport vessels.
 - c. Contracts to design, develop, manufacture, or modify complex aerospace or electronic equipment to a buyer's specification or to provide services related to the performance of such contracts.
 - d. Contracts for construction consulting service, such as under agency contracts or construction management agreements.
 - e. Contracts for services performed by architects, engineers, or architectural or engineering design firms.
 - f. Arrangements to deliver software or a software system, either alone or together with other products or services, requiring significant production, modification, or customization of software.

605-35 (Construction-Type and Production-Type Contracts) What is NOT IN Scope?

> > Types of Contracts Not Covered

- 605-35-15-6 Contracts not covered by this Subtopic include, but are not limited to, the following:
 - a. Sales by a manufacturer of goods produced in a standard manufacturing operation, even if produced to buyers' specifications, and sold in the ordinary course of business through the manufacturer's regular marketing channels, if such sales are normally recognized as the sale of goods and if their costs are accounted for in accordance with generally accepted principles of inventory costing.
 - b. Sales or supply contracts to provide goods from inventory or from homogeneous continuing production over a period of time.
 - c. Contracts included in a program and accounted for under the program method of accounting. For accounting purposes, a program consists of a specified number of units of a basic product expected to be produced over a long period in a continuing production effort under a series of existing and anticipated contracts.
 - d. Service contracts of health clubs, correspondence schools, and similar consumer-oriented entities that provide their services to their clients over an extended period.
 - e. Magazine subscriptions.
 - f. Contracts of not-for-profit entities (NFPs) to provide benefits to their members over a period of time in return for membership dues.
 - g. Contracts for which other Topics in the Codification provide special methods of accounting, such as leases.
 - h. Cost-plus-fixed-fee government contracts, which are discussed in Topic 912, other types of cost-plus-fee contracts, or contracts such as those for products or services customarily billed as shipped or rendered.
 - i. Federal government contracts within the scope of that Topic.
 - j. Service transactions between a seller and a purchaser in which, for a mutually agreed price, the seller performs, agrees to perform at a later date, or agrees to maintain readiness to perform an act or acts, including permitting others to use entity resources that do not alone produce a tangible commodity or product as the principal intended result (for example, services, not plans, are usually the principal intended result in a transaction between an architect and the customer of an architect).

Subtopic 605-35 Loss Contract Model

****Policy Election at Contract or Performance Obligation Level****

Book Entire Anticipated Loss when Evident

Estimate of **Transaction Price** (Step 3) is **LESS THAN** current estimate of **Total Cost**

Subtopic 605-35 Loss Contract Model – Compared to Old GAAP

Legacy GAAP Except for:

- Variable Consideration
- Policy Election at Contract vs Performance Obligation Level

What are some of the accounting issues resulting from Supply Chain Issues or the Great Resignation?

Variable Consideration (Step 3 of Topic 606)

Bill and Hold? (Step 5 of Topic 606)

Revenue – Loss Contract?

Inventory Costing Issues? (FIFO)

Inventory – Initial Measurement

> Cost Basis

- **330-10-30-1** The primary basis of accounting for inventories is cost, which has been defined generally as the price paid or consideration given to acquire an asset. As applied to inventories, cost means in principle the sum of the applicable expenditures and charges directly or indirectly incurred in bringing an article to its existing condition and location. It is understood to mean acquisition and production cost, and its determination involves many considerations.
- **330-10-30-3** For example, variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities. However, the allocation of fixed production overheads to the costs of conversion is based on the normal capacity of the production facilities. Normal capacity refers to a range of production levels. Normal capacity is the production expected to be achieved over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. Some variation in production levels from period to period is expected and establishes the range of normal capacity.

Inventory – Initial Measurement

> Cost Basis

- **330-10-30-4** The range of normal capacity will vary based on business- and industry-specific factors. Judgment is required to determine when a production level is abnormally low (that is, outside the range of expected variation in production).
- **330-10-30-5** Examples of factors that might be anticipated to cause an abnormally low production level include significantly reduced demand, labor and materials shortages, and unplanned facility or equipment downtime.
- **330-10-30-6** The actual level of production may be used if it approximates normal capacity. In periods of abnormally high production, the amount of fixed overhead allocated to each unit of production shall be decreased so that inventories are not measured above cost. The amount of fixed overhead allocated to each unit of production shall not be increased as a consequence of abnormally low production or idle plant.
- **330-10-30-7** Unallocated overheads shall be recognized as an expense in the period in which they are incurred. Other items such as abnormal freight, handling costs, and amounts of wasted materials (spoilage) require treatment as current period charges rather than as a portion of the inventory cost.

Inventory – Simple Example w/ Capacity

Fact Pattern – Manufacturer:

- Plant A normally produces ~1,000,000 units per production cycle
- Direct materials cost is \$10 per unit
- Total Fixed Production Overhead during the production cycle is \$5,000,000.
- There are no other costs (e.g., variable overhead, etc.)
- Assume none the inventory in this cycle is sold, what should the balance of inventory be if the plant produces:
 - 1,000,000 Units?
 - 500,000 Units?

Inventory – At Normal Capacity

Units Produced:		
	1,000,000	
	<u>Total</u>	<u>Per Unit</u>
Direct Cost	10,000,000.00	10.00
Overhead	5,000,000.00	5.00
Total Inventory	15,000,000.00	15.00
Unallocated Overhead	-	

- Because plant is operating at normal capacity all fixed production overhead is allocated
- At normal capacity expected overhead is \$5 per unit
- Inventory is measured at \$15,000,000 (because none have been sold)
- Cost of Sale is recognized when each unit is sold

Inventory – Below Capacity

Units Produced:		
	500,000	
	<u>Total</u>	<u>Per Unit</u>
Direct Cost	5,000,000.00	10.00
Overhead	2,500,000.00	5.00
Total Inventory	7,500,000.00	15.00
Unallocated Overhead/COGS	2,500,000.00	

- Plant is significantly below capacity of 1,000,000 units
- Fixed production overhead allocation would yield \$5 per unit at normal capacity (\$5,000,000 divided by 1,000,000 units)
- As such inventory balance should be at \$7,500,000
- Unallocated fixed production overhead of 2,500,00 is expensed

Long-Lived Asset Impairment

Question – Is this impaired?

Fact Pattern – building

- The Company purchased a building to construct a manufacturing facility for \$20 million a year ago.
- Property values have crashed! Recently the building is appraised at \$14 million while the carrying value is \$19.5 million.

Question:

- The impairment charge on the building is likely...

Question – Building Impairment?

Question:

- The impairment charge on the building is likely...

Answer?:

- a) An impairment charge of \$5.5MM (Carry Value of \$19.5MM LESS Fair Value of \$14 MM)
- b) No impairment on the building
- c) More information is needed

What model are we talking about?

Various Asset Impairment Models in GAAP (for example)				
Receivables (ASC 310)	Inventory (ASC 330-10)	Long-Lived Assets (360-10)	Indefinite- lived intangibles (350-30)	Goodwill (ASC 350-20)



Long-lived Asset Impairment

Long-lived Asset

Held and Used

Assets Held for Sale

Long-lived Asset Impairment – Held and Used

Long-Lived Asset Impairment

PP& E

- Buildings
- Vehicles
- Equipment

Amortizable Intangibles

- Patents
- Internally-developed software
- Customer Relationships

Held and Used

Unit of Account:

- Asset Group

Test:

- Step 1 – Recoverability
- Step 2 – Impairment Loss

When?

- Triggering Event

Long-lived Asset Impairment – Asset Group

360-10-35-23

- For purposes of recognition and measurement of an impairment loss, a long-lived asset or assets shall be grouped with other assets and liabilities **at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities.**

Long-lived Asset Impairment – Test & Measure

Step 1 – Recoverability Test

- **Undiscounted cash flows** generated by **Asset Group** and its ultimate disposal **exceeds carrying value**
- If not recoverable then proceed to Step 2

Step 2 – Measurement of Impairment

- Impairment Equals:
 - [**Carrying Value** of Asset Group] **LESS** [**Fair Value** of Asset Group]
- Difference is Allocated **pro-rata** based on Long-Lived Assets
- Individual asset cannot be written below its Fair Value

Long-lived Asset Impairment – When?

360-10-35-21

- Significant decrease in the market price
- Significant adverse change in the extent or manner of use
- Significant adverse change in legal factors or in the business climate
- Accumulation of costs significantly in excess of the amount originally expected for the acquisition
- Current-period operating/cash flow loss combined with a history of operating/cash flow losses or a projection or forecast that demonstrates continuing losses
- Expectation that, more likely than not, a long-lived asset will be sold/disposed of significantly before the end of its estimated useful life.

Asset Group?

Fact Pattern – Real Estate Company:

- Owns 10 commercial properties (i.e., office buildings)
- Primarily leases out office space to earn revenue
- Each location consists of: land, parking garage, building, equipment, etc.

Question:

- What's the asset group?
- What if this was a manufacturing Company with 3 different facilities each manufacturing a critical component that goes into a forklift? None of the facilities produce anything that can be individually sold.

Asset Group?

Fact Pattern – Large Multinational Company

- Previous nice HQ building scenario
- The Company purchased a \$1 billion HQ building 1 year ago.
- The HQ building is just a cost center.

Question:

- What is the asset group?

Step 1 - Recoverability Cash Flows

- Undiscounted cash flows from the use and eventual disposal or sale of the asset group:
 - *Cash Inflows* over the remaining useful life of asset group
 - Consider output capacity
 - Do not consider future expansion
 - *Cash Outflows* necessary to operate the asset group.
 - Include costs to maintain the asset group (e.g., repairs & maintenance, roof replacement)
 - Cash flow from eventual disposition or sale
 - Value the company derive from disposal (e.g., salvage, residual, fair value)
 - Less cost to dispose or sale

Step 1 – Recoverability Test Considerations

- Duration of Cash Flows:
 - 360-10-35-31
 - [T]he primary asset is the principal long-lived tangible asset being depreciated or intangible asset being amortized that is the most significant component asset from which the asset group derives its cash-flow-generating capacity.
 - Primary asset cannot be land or indefinite-lived asset (e.g., brand)
- Generally financial obligations (e.g., debt or financing leases) not included in the asset group
 - If debt is included in the asset group then only include cash outflows from principal payments
- Generally done on pretax basis (but GAAP is silent on this)

Long-lived Asset Impairment – Measure

Step 2 – Measurement of Impairment

- Impairment Equals:
 - [**Carrying Value** of Asset Group] **LESS** [**Fair Value** of Asset Group]
- Difference is Allocated *pro-rata* based on Long-Lived Assets
- Individual asset cannot be written below its Fair Value

Long-lived Asset Impairment – Measure - Example

Asset Group GAAP Value

Building (+750)

Parking Garage (+200)

Equipment (+60)

A/R (+50)

A/P (-60)

Total GAAP NBV of 1,000

Asset Group Fair Value

Building (+500)

Parking Garage (+150)

Equipment (+60)

A/R (+50)

A/P (-60)

Group Fair Value of 800

Long-lived Asset Impairment - Measure

- What will the total impairment charge be?
- Is it an issue that the fair value of the asset group does not reconcile to the sum of FV for each asset and liability in the group?
 - What could cause this to happen?
- Which assets do I write down and how?

Long-lived Asset Impairment - Measure

Fair Value of Long-Lived Assets

Building = 500

Parking Garage = 150

Equipment = 60

Total Impairment to Allocate **200.00**

		<u>Initial NBV</u>	<u>Pro-Rata Allocation</u>	<u>Allocation of Impairment</u>	<u>Adj Carrying Value</u>	<u>Pro-Rata Reallocation</u>	<u>Reallocation of Excess Impairment</u>	<u>Final NBV</u>
Long Lived Assets	Building	750.00	74.26%	(148.51)	601.49	78.95%	(9.38)	592.11
	Parking Garage	200.00	19.80%	(39.60)	160.40	21.05%	(2.50)	157.89
	Equipment	60.00	5.94%	-				60.00
		1,010.00	100%	11.88	761.88	100%	(11.88)	810.00

Difference Between Initial NBV and Final NBV: **(200.00)**

Question – Impairment

True/False:

- After an asset group is impaired, the carrying value of an individual asset within the asset group cannot exceed its fair value.

Answer?:

- a) True
- b) False

Long-lived Asset Impairment – Held and Used - Recap

Long-Lived Asset Impairment

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- Equipment

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Held and Used

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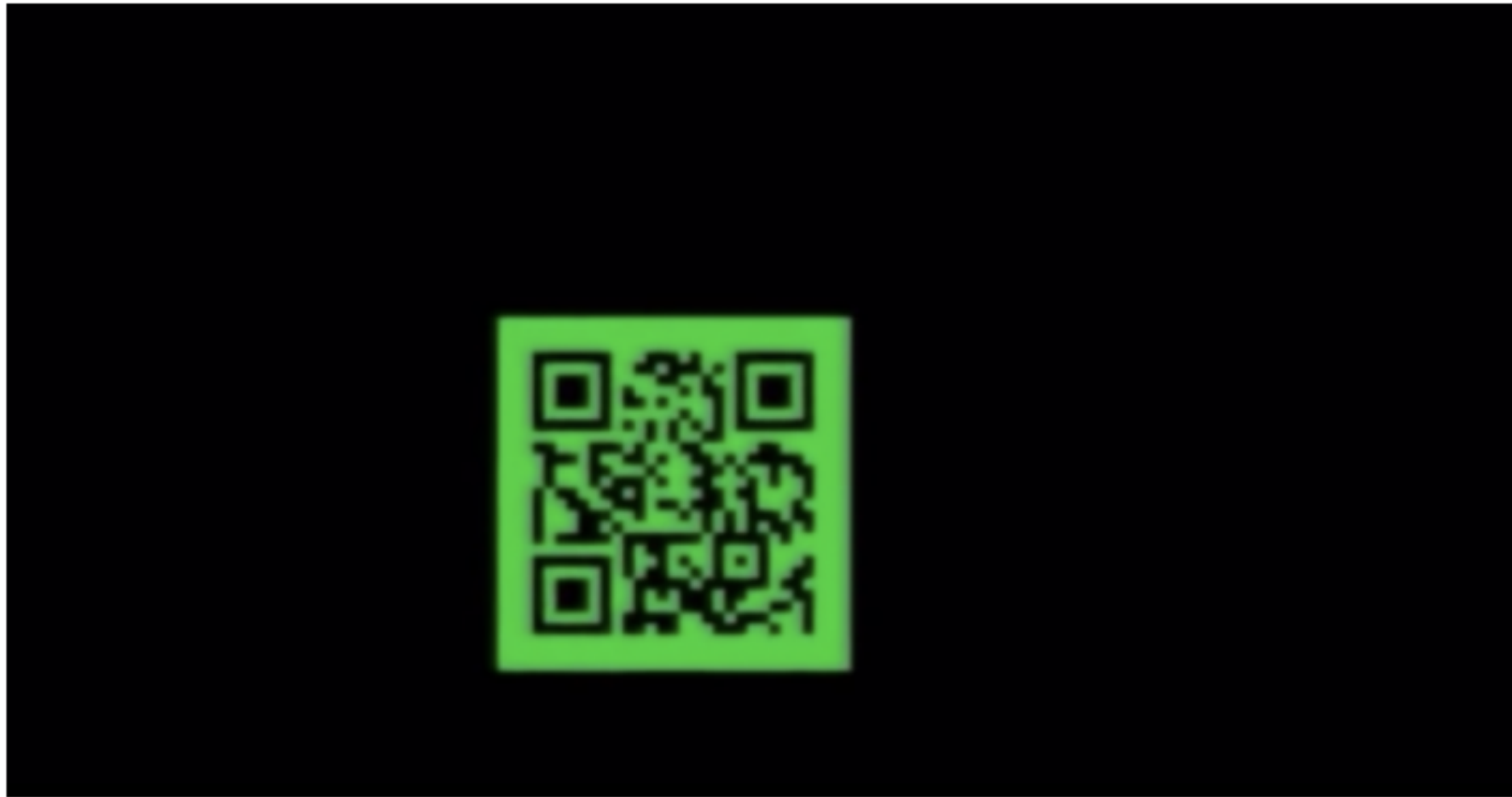
Test:

- Step 1 – Recoverability
- Step 2 – Impairment Loss

When?

- Triggering Event

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



Accounting for Cryptocurrencies

You'll see why I'm covering this 😊

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.

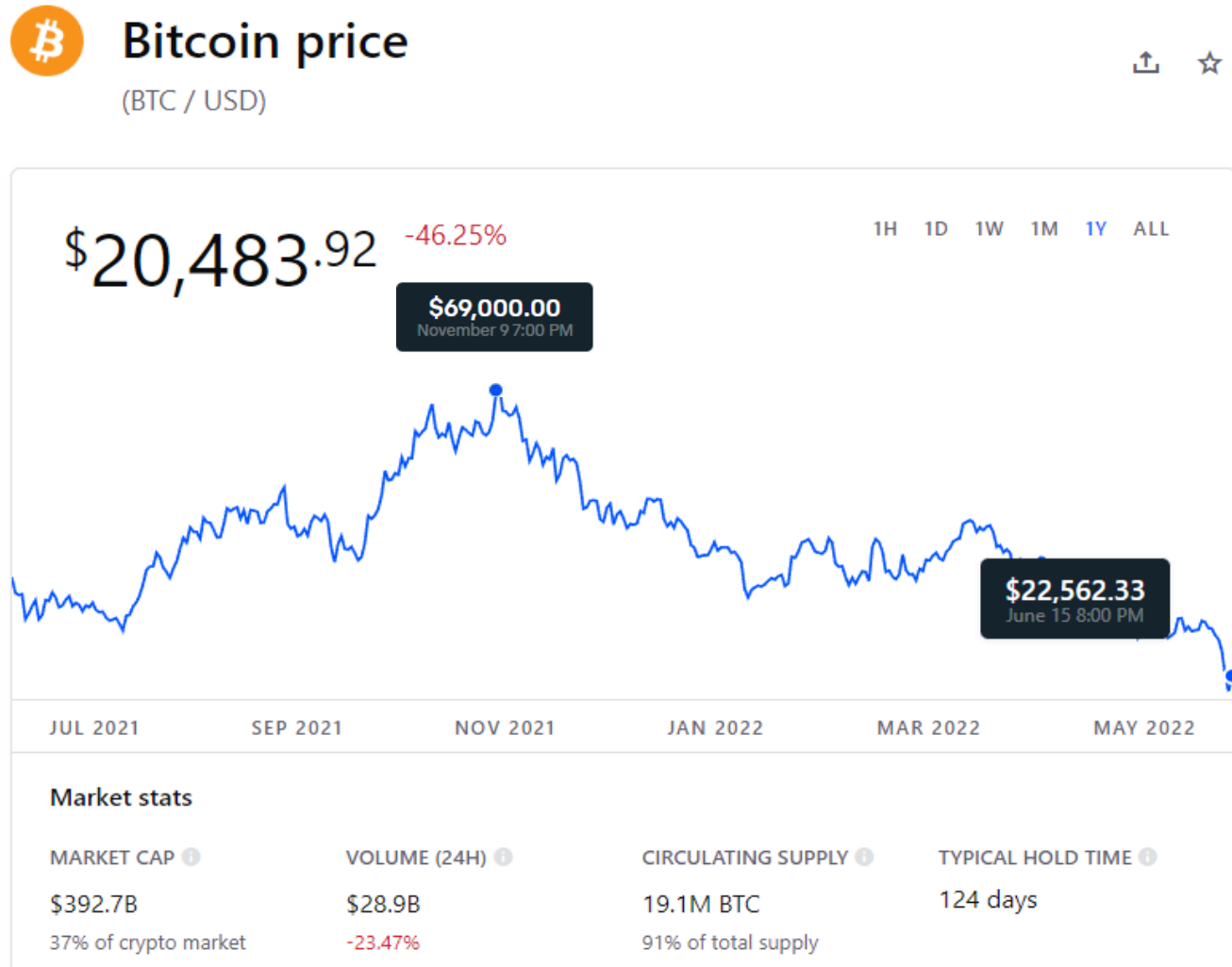
<https://bitcoin.org/bitcoin.pdf>

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What is Bitcoin worth?

Price Points:

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



<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>Unit of Account:<ul style="list-style-type: none">▪ Indefinite-Life Asset</td><td>How?<ul style="list-style-type: none">▪ Amount ABOVE Fair Value▪ Optional Qualitative Assessment</td><td>When?<ul style="list-style-type: none">▪ Annual▪ Triggering Event</td><td>Reversal?<ul style="list-style-type: none">▪ Never</td></tr></table>				Unit of Account: <ul style="list-style-type: none">▪ Indefinite-Life Asset	How? <ul style="list-style-type: none">▪ Amount ABOVE Fair Value▪ Optional Qualitative Assessment	When? <ul style="list-style-type: none">▪ Annual▪ Triggering Event	Reversal? <ul style="list-style-type: none">▪ Never
Unit of Account: <ul style="list-style-type: none">▪ Indefinite-Life Asset					How? <ul style="list-style-type: none">▪ Amount ABOVE Fair Value▪ Optional Qualitative Assessment	When? <ul style="list-style-type: none">▪ Annual▪ Triggering Event	Reversal? <ul style="list-style-type: none">▪ Never	
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
Balance at June 30, 2020		\$ 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)		
Balance at September 30, 2020		\$ 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)		
Balance at December 31, 2020		\$ 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)		
Balance at March 31, 2021		\$ 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)		
Balance at June 30, 2021		\$ 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)		
Balance at September 30, 2021		\$ 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

MicroStrategy (MSTR) – Bitcoin Accounting


	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2021	2020	2021	2020
Reconciliation of non-GAAP income from operations:				
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

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>

Goodwill Impairment & Business Combinations

Notable changes in the past decade...

ASU 2021-08* ***Accounting for Contract Assets and Contract Liabilities from Contracts with Customers***

ASU 2021-03 **Accounting Alternative for Evaluating Triggering Events (Nonpublic Only)**

ASU 2017-04 ***Simplifying the Test for Goodwill Impairment (Removing Step 2)***

ASU 2017-01 Clarifying the Definition of a Business

ASU 2014-18 **Accounting for Identifiable Intangible Assets in a Business Combination (a consensus of the Private Company Council)**

ASU 2014-17 Pushdown Accounting (a consensus of the FASB Emerging Issues Task Force)

ASU 2014-02 **Accounting for Goodwill (a consensus of the Private Company Council)**

ASU 2011-08 Testing Goodwill for Impairment (Step 0)

Some Background - Overview of Business Combinations

Broad Steps in Business Combination Accounting

Definition of a Business

ID the Acquirer

Determine the Acquisition Date

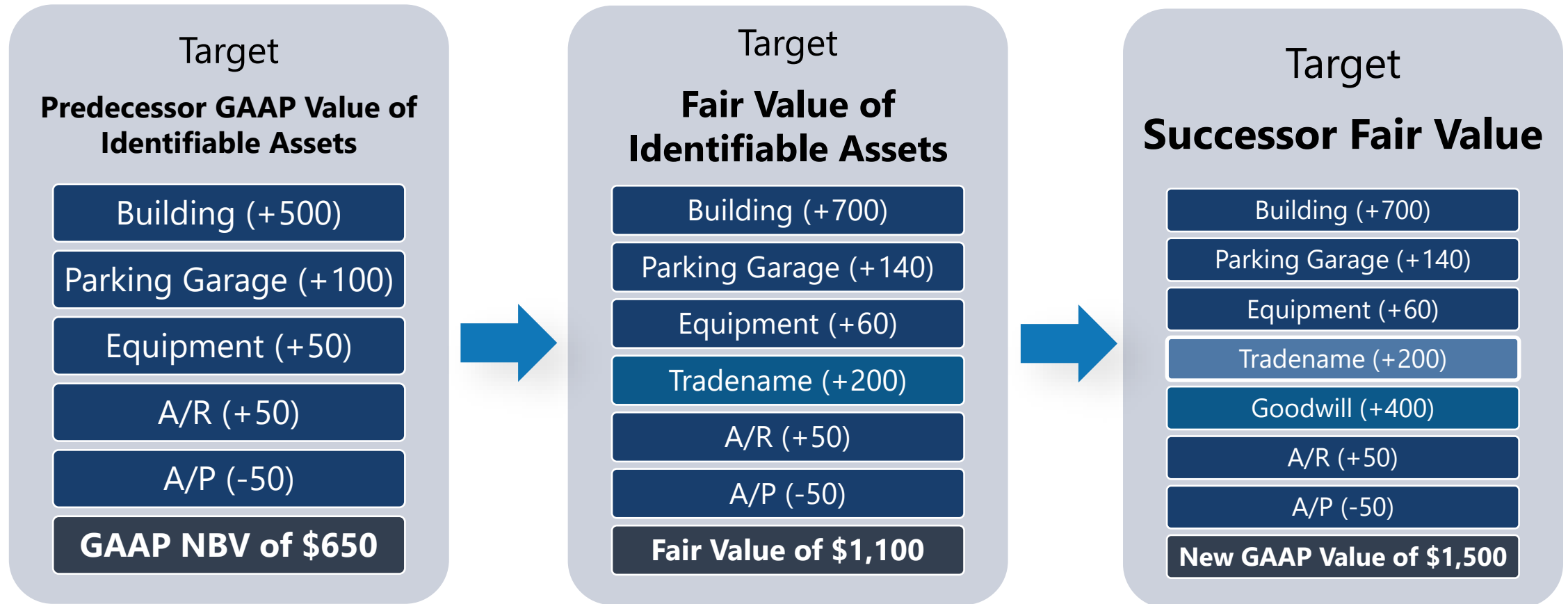
ID and Measure Consideration Transferred

Generally Recognize FV of Identifiable Assets and Liabilities
Assumed

Goodwill or Bargain Purchase

Simple Business Combination Example

Company A acquires Target's assets (and assumption of liabilities) for Purchase Consideration of \$1,500 on December 31, 20X0:



Goodwill – Impairment Test

Goodwill Asset Impairment - Public

Unit of Account?

- Reporting Unit

Impairment?

- NBV ABOVE FV (ASU 2017-04)
- Optional Qualitative Assessment

When?

- Annual
- Triggering Event

Goodwill Asset Impairment – PCC Alternative

Unit of Account?

- Reporting Unit or Entity Level

Impairment?

- NBV ABOVE Fair Value
- Qualitative Assessment

When?

- Triggering Event Only

US GAAP - Goodwill Triggering Events

350-20-35-3C

- In evaluating whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, an entity shall assess relevant events and circumstances. Examples of such events and circumstances include the following:
 - a. Macroeconomic conditions such as a deterioration in general economic conditions, limitations on accessing capital, fluctuations in foreign exchange rates, or other developments in equity and credit markets
 - b. Industry and market considerations such as a deterioration in the environment in which an entity operates, an increased competitive environment, a decline in market-dependent multiples or metrics (consider in both absolute terms and relative to peers), a change in the market for an entity's products or services, or a regulatory or political development
 - c. Cost factors such as increases in raw materials, labor, or other costs that have a negative effect on earnings and cash flows
 - d. Overall financial performance such as negative or declining cash flows or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods
 - e. Other relevant entity-specific events such as changes in management, key personnel, strategy, or customers; contemplation of bankruptcy; or litigation
 - f. Events affecting a reporting unit such as a change in the composition or carrying amount of its net assets, a more-likely-than-not expectation of selling or disposing of all, or a portion, of a reporting unit, the testing for recoverability of a significant asset group within a reporting unit, or recognition of a goodwill impairment loss in the financial statements of a subsidiary that is a component of a reporting unit
 - g. If applicable, a sustained decrease in share price (consider in both absolute terms and relative to peers).

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

Topic 842 (Leases)

**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)

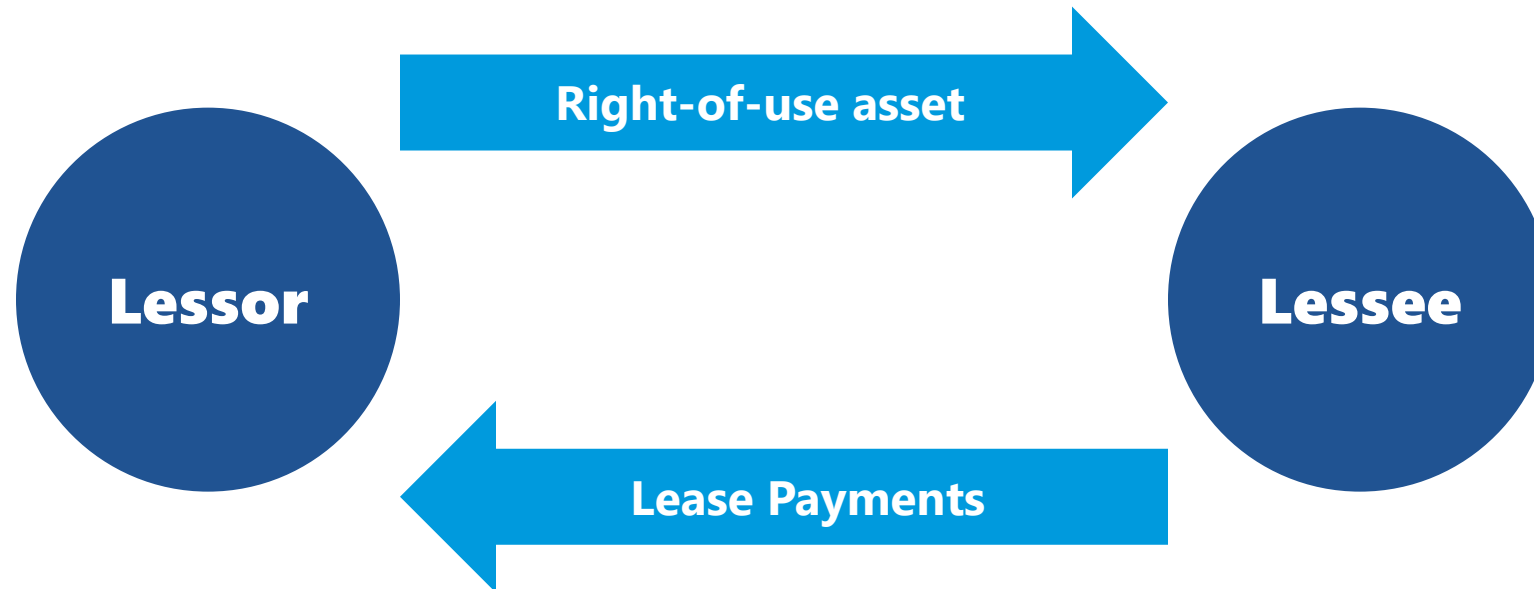
Leases of
biological assets
(Topic 905)

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

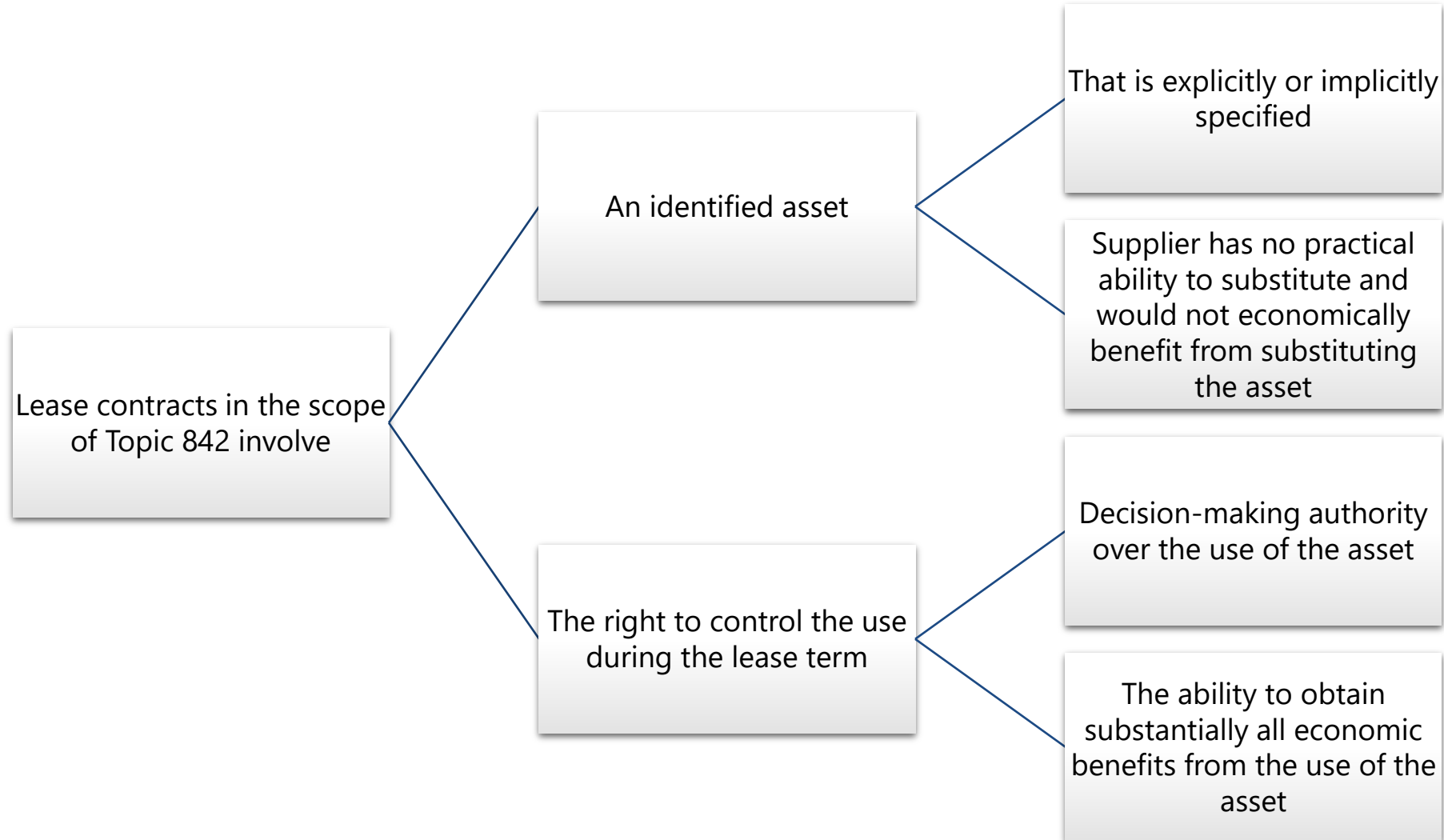
Leases of
inventory
(Topic 330)

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...

Leases - Topic 842 Effective Date

Make sure we're ready for Leases
(Topic 842)

FY Beg after December 15, 2021

December 31, 2022 for Calendar YE

Lessee – Simple Operating Lease Under 840

- 5-year retail store
- Lessee takes (or has the right to take) possession of or controls the physical use of the retail location on 1/1/2020
- 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)	(Cash)	(Asset/Liability)	
	St. Line Rent	Lease Payments	Deferred Lease Liability	Deferred Lease Liability
			Current Year	Cumulative
Beg	-	-		-
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)	-
	6,000	6,000	-	

Example - Lessee – Operating Lease - JEs

On 1/1/2020 when access is granted to Lessee:

- No entries

By the 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
- Lessee takes (or has the right to take) possession of or controls the physical use of the retail location on 1/1/2020
- 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 1/1/2020
- No initial direct costs recognized
- Assume this is an operating lease

Year	Rent Expense (a)	Lease Liability				Right of Use Asset		
		Beg	Int. (6%)	Payment	End	Beg	Amort.	Ending =(a)-(b)
Beg	-	-	-	-	(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				

How to Transition into Topic 842

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 Transition

	Existing Capital Leases	Existing Operating Leases
Recognize the lease liability	Measured at the carrying amount of the capital lease obligation under Topic 840	Measured at the PV of the <i>remaining minimum lease payments</i> Discount rate determined at transition point rather than lease commencement
Recognize the ROU asset	Measured at the carrying amount of the capital lease asset under Topic 840; Qualified unamortized IDCs not included under Topic 840 should be subsumed into ROU asset	Should equal the lease liability, adjusted for any prepaid or accrued rent, lease incentives, or qualified unamortized IDCs

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)	(Cash)	(Asset/Liability)	
	St. Line Rent	Lease Payments	Deferred Lease Liability	
			Current Year	Cumulative
Beg	-	-		-
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)	-
	6,000	6,000	-	

“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?

Cannot use 6% (rate at original inception of lease)
Use rate as of transition date
Rate based on 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)	-
	3,900			3,900				

“Simple” Operating Lease - Transitioning

\$3,531 PV of
remaining lease
payments

Deferred Rent
Balance of \$300

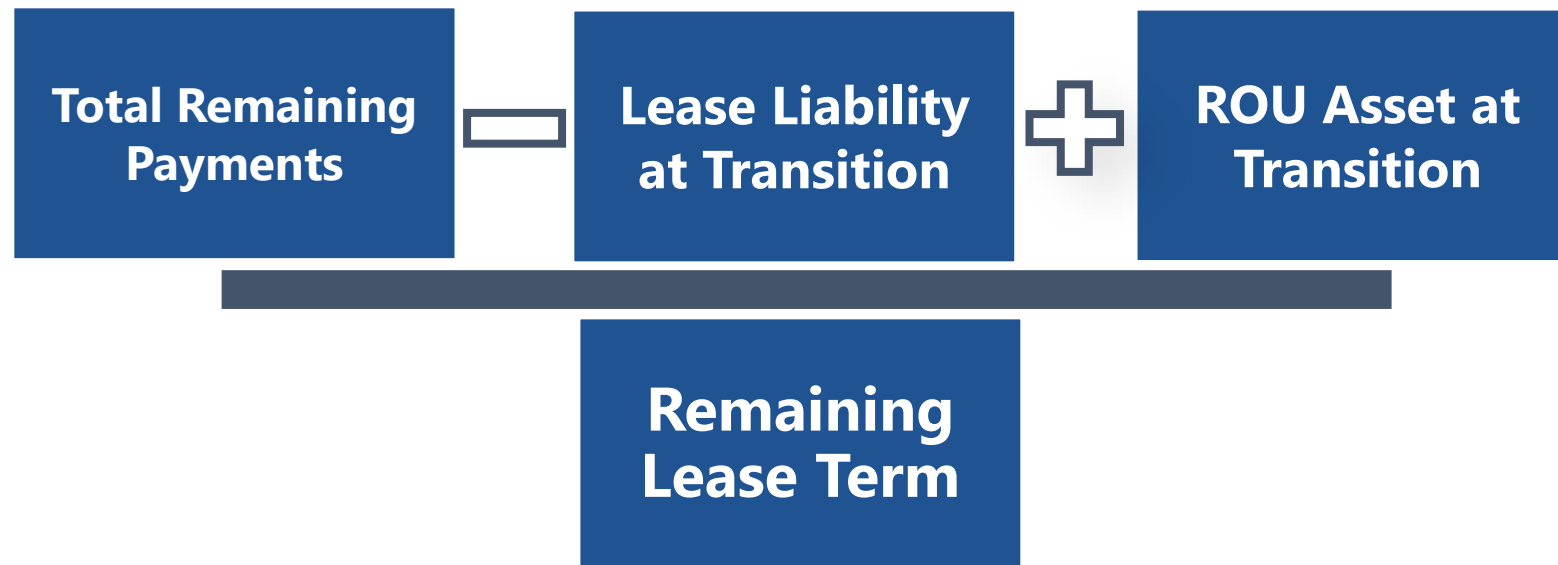
At transition (January 1, 2022) here are the journal entries:

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

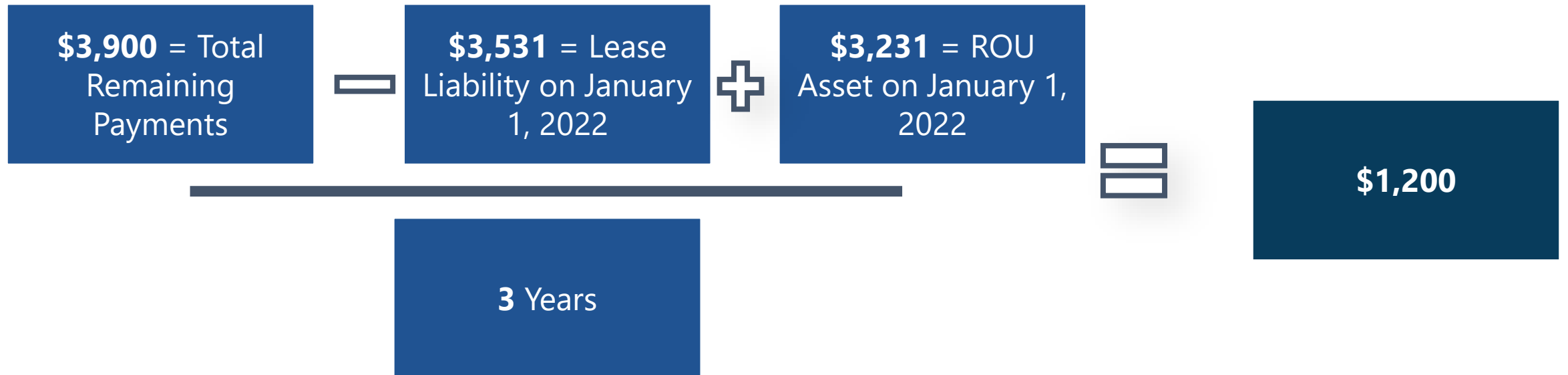
(All Topic 840 balances are now cleared)

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%)	Payment	End	Beg	Amort.	Ending =(a)-(b)
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)	-
	3,600			3,900				

Fundamentals of Transitioning to Topic 842 for Operating Leases

- Caution:
 - Leases are usually paid at the beginning of the month (not once a year)
 - Pay attention to the signs of a deferred lease asset/liability when inputting this into your lease calculator
- Audit Considerations:
 - St. Line Lease Expense under ASC 840 and ASC 842 should be very close to each other
 - Ensure completeness of leases:
 - Reconcile 5-Year and thereafter to leases recognized
 - For example, compare locations on a website to leases recognized

Leasehold Improvements & Related Party Leases

Leasehold Improvements

842-20-35-12 (Leasehold Improvement Amortization)

- Leasehold improvements shall be amortized over the shorter of the useful life of those leasehold improvements and the remaining lease term, unless the lease transfers ownership of the underlying asset to the lessee or the lessee is reasonably certain to exercise an option to purchase the underlying asset, in which case the lessee shall amortize the leasehold improvements to the end of their useful life.

Assume the leasehold improvement will last 10 years.

Questions:

- Q1 - If my lease term is 10 years what is the amortization period of the leasehold improvement?
- Q2 - If my lease term is 5 years what is the amortization period of the leasehold improvement?
- Q3 – If my lease term is 5 years but the entity keeps the underlying asset due to a bargain purchase option what is the amortization period?

Related Party Lease

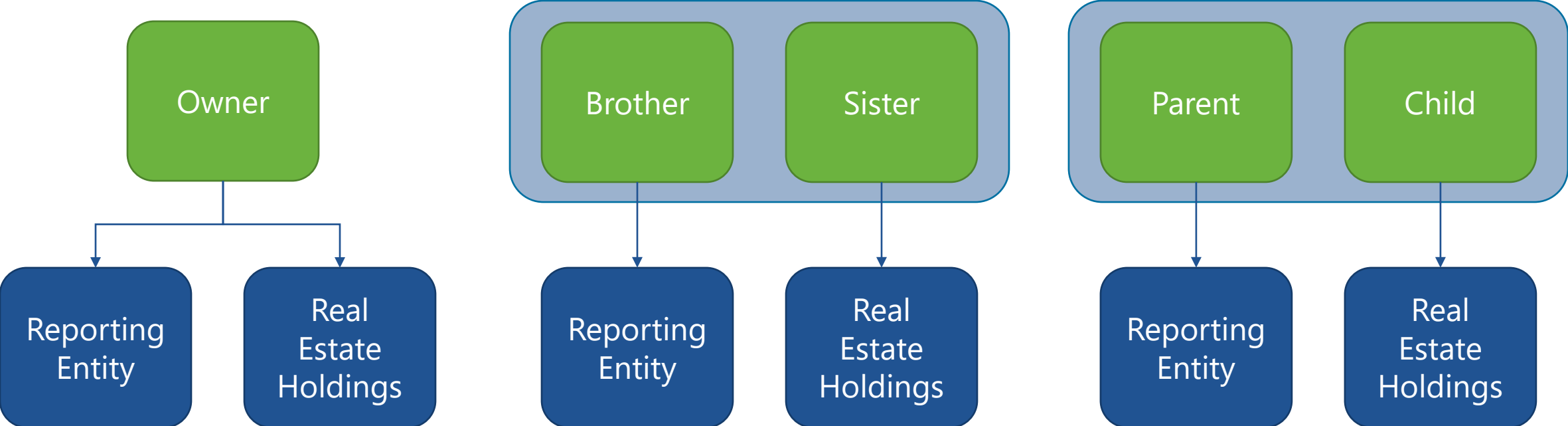
842-10-55-12 (Related Party Guidance)

- [Leases](#) between related parties should be classified in accordance with the lease classification criteria applicable to all other leases on the basis of the legally enforceable terms and conditions of the lease. In the separate financial statements of the related parties, the classification and accounting for the leases should be the same as for leases between unrelated parties.

Opposite guidance from ASC Topic 840

Consider ASC Topic 850 (Related Party Disclosures)

What are Related Party Leases under Common Control?



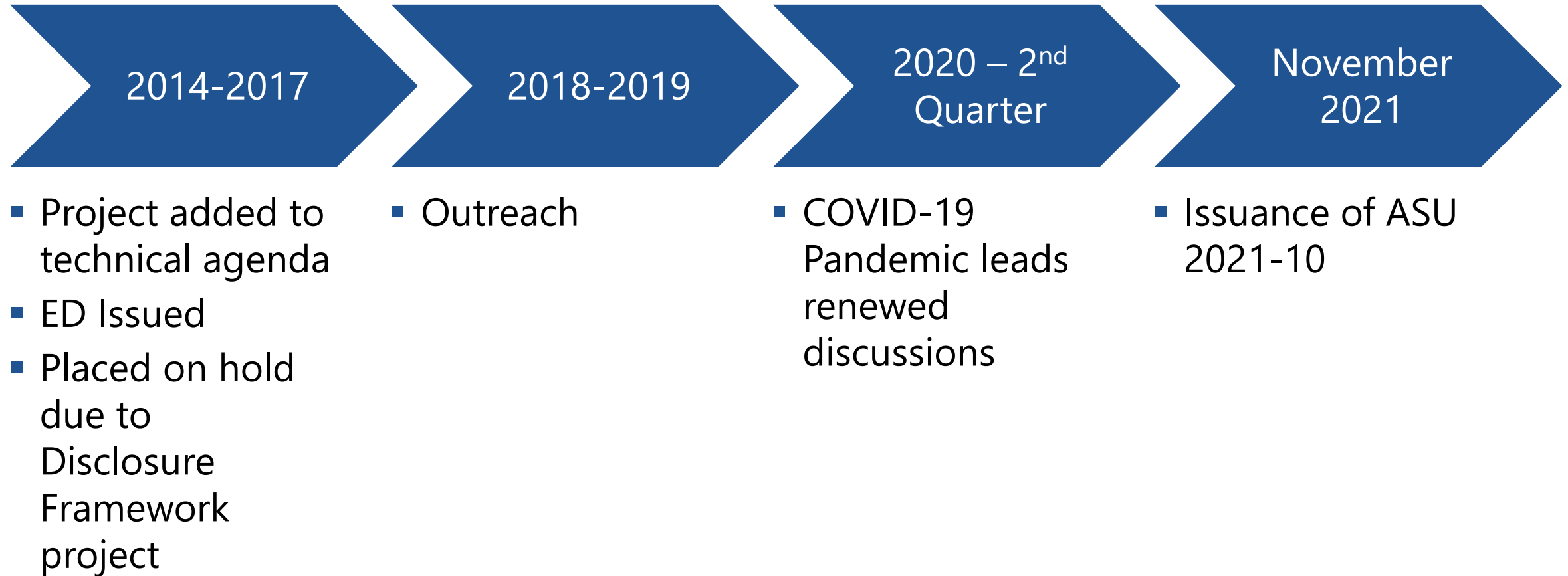
How do we account for related-party leases?

Questions:

- Q1 – How do I account for leases without an agreement?
- Q2 – What about month-to-month leases?
- Q3 – What about leasehold improvements? What issue does this cause now?
- Q4 – Any way to structure around this?

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?