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TODAY'S CPA

Texas Society of ... blic Accountants

MEET TXCPA'S 2023-2024 CHAIRMAN TIM PIKE

UNDERSTANDING THE EMPLOYEE RETENTION TAX CREDIT

VALUE CREATION AND OPPORTUNITIES FOR CPAS ON THE METAVERSE

A REVIEW OF THE 88TH SESSION OF THE TEXAS LEGISLATURE

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EVERY MEMBER COUNTS

By TXCPA Chair Tim Pike, CPA-Dallas, CFE

Share Your Thoughts

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

Welcome to the first *Today's CPA* of the 2023-2024 year. We started the new TXCPA year off with celebrations and thoughtful collaboration at the Annual Meeting of Members in Fort Worth. I always enjoy coming together as a community to work on the issues that are facing our profession and our organization.

Part of the work done at the Annual Meeting was focused on launching our strategic planning process. TXCPA's Strategic Plan provides a road map for three years of connecting, protecting and advancing you, our members. To be sure, we have a plan that is reflective of what our membership needs and wants; we strive to gather input, data and feedback from across the state. Every member counts.

I encourage you to add your voice to the process this year. Here are just three of the ways you can chime into what we're doing at TXCPA:

- **Participate in member surveys**. Member research is done throughout the year with surveys landing in members' inboxes each month. When your survey arrives, please take just a few short minutes to tell us about your experience.
- **Join a committee.** With committee opportunities at TXCPA and in the local chapters, there are many ways you can be a part of the conversations that guide the work being done on behalf of the profession. Check out the opportunities in the Get Involved section of www.tx.cpa or contact the TXCPA team for personal assistance.
- **Send us feedback.** We stand ready to assist members with any questions they have or to collect any feedback and insights they want to share. If you have an idea, concern or wish, let us know. You can send an email to membership@tx.cpa, call 800-428-0272 or send me an email at chair@tx.cpa. We would love to hear from you.

Your active engagement – whether it's through survey replies, service in your chapter, involvement on a state-level committee or a variety of other areas – can make an impact on the future of our profession and the future of TXCPA.

I look forward to serving alongside you in 2023-2024 as we continue to move our profession and organization forward!

Understanding the Employee Retention Tax Credit

Preparing Against the Risk of IRS Audit and Tax Litigation

By Juan F. Vasquez, Jr., Victor J. Viser and Tania Albuja

In response to the economic consequences of the COVID-19 pandemic, Congress introduced a series of relief measures, including the Employee Retention Tax Credit (ERC). The ERC is aimed at providing financial relief to employers affected by the pandemic and encouraging them to retain their employees.

As tax and legal professionals navigate the complexities of this credit, it is crucial to understand its application, eligibility criteria, tax treatment and the implication of Circular 230, among other issues. With the infusion of $80 billion to the IRS as part of the *Inflation Reduction Act*, the IRS has apparently trained approximately 400 agents for the review and audit process of the ERC.

Millions of ERC claims for refund have already been filed with the IRS and paid out, many of which are correct and legitimate ERC claims, but a number of such claims are quite questionable at best. The IRS audits are already underway, and the audit process and corresponding ERC litigation will take years to resolve. The ERC is a refundable credit against payroll taxes for certain employers whose operations were fully or partially suspended due to COVID-19-related governmental orders (the Governmental Order Test) or who experienced substantial declines in gross receipts (the Gross Receipts Test).

The ERC was first introduced in the *Coronavirus Aid, Relief, and Economic Security Act* (*CARES Act*); later updated and expanded by the *Taxpayer Certainty and Disaster Tax Relief Act of 2020*; expanded, extended and codified by the *American Rescue Plan Act of 2021*; and finally terminated as of September 30, 2021, for most employers by the *Infrastructure Investment and Jobs Act*.

For CPAs and other practitioners, understanding the ERC is essential to ensure that employers are eligible for the credit, claim the correct amount of credit, and are prepared for an IRS audit and potential litigation. Understanding the nuances of this relief can help businesses take full advantage of available tax credits, while ensuring they are compliant with applicable tax law.

This article will provide an overview of the ERC and discuss key considerations for CPAs and other practitioners in advising employers on this credit.

The Differing Application of the ERC in 2020 and 2021

Certain eligibility rules and calculation rules differ between 2020 and 2021. Therefore, it is important to understand how these differences affect employers' ability to claim the ERC. It is also important to note that when the *CARES Act* initially proposed both the Paycheck Protection Program (PPP) and the ERC, employers were initially eligible only to claim the PPP or the ERC. Subsequent legislation removed that restriction, making the ERC available to the millions of businesses that had previously received the PPP.

2020 ERC

In the 2020 calendar quarters, employers can claim the ERC for qualified wages starting March 13, 2020, if they experienced:

- a full or partial suspension of one or more business operations due to COVID-19-related governmental orders; or
- a 50% decline in gross receipts in a calendar quarter (2Q-4Q 2020) compared to the same 2019 calendar quarter.

The 2020 ERC is equal to 50% of up to $10,000 in qualified wages paid per employee throughout 2020. Because the $10,000 maximum is allocated across all 2020 quarters, the employer may only receive an ERC of up to $5,000 per employee in total for 2020.

2021 ERC: 1Q and 2Q

For the first and second quarters of 2021, employers can claim the ERC if they experienced:

- a full or partial suspension of one or more business operations due to COVID-19-related governmental orders; or
- a 20% decline in gross receipts in a calendar quarter compared to the same 2019 calendar quarter.

Notably, the 2021 ERC makes the Gross Receipts Test easier to satisfy by reducing the required decline from 50% to 20%. Additionally, the 2021 ERC expands significantly the potential credit amount. The 2021 ERC is equal to 70% of up to $10,000 in qualified wages paid per employee, per quarter. The resulting potential credit amount is up to $7,000 per quarter.

2021 ERC: 3Q and 4Q

We distinguish the third and fourth quarters of 2021 from the previous quarters because the third and fourth quarters are separately governed by IRC Sec. 3134.

For the third quarter of 2021, the ERC eligibility requirements are the same as those for the first and second quarters of 2021, except that an additional category is included: recovery startup businesses. A recovery startup business is an employer that:

- does not satisfy the Governmental Order Test and the Gross Receipts Test;
- began carrying on a trade or business after February 15, 2020; and
- averaged annual gross receipts for the three tax years preceding the quarter in which it claims the credit of no more than $1 million.

The requirement that annual gross receipts be averaged over three tax years does not appear to consider that recovery startup businesses will not have three tax years of data given the February 15, 2020 cutoff. The applicable test for recovery startup businesses is then found in IRC Sec. 448(c)(3), which requires the annual gross receipts to be evaluated over the period during which the entity was in existence.

Because 2020 and/or 2021 will be short taxable years, the annual gross receipts are calculated by multiplying the respective 2020 and/or 2021 gross receipts figures by 12 months and then dividing the result by the number of months in each short taxable year. 2020 will be a short taxable year because the employer must have started operations after February 15, 2020. 2021 will be a short taxable year because the period ends June 30, 2021 (for 3Q 2021 ERC) and September 30, 2021 (for 4Q 2021 ERC).

For the fourth quarter of 2021, only recovery startup businesses are eligible for the ERC. Originally, employers that satisfied the Governmental Order Test or the Gross Receipts Test were also eligible, but they were retroactively made ineligible by Congress. Accordingly, particular attention should be paid to an employer that has claimed or intends to claim the 4Q 2021 ERC to ensure that they are indeed eligible as a recovery startup business.

The maximum credit amount available for each employee is the same as the first and second quarters of 2021, 70% of up to $10,000 in qualified wages per employee (in the third quarter only), except that recovery startup businesses are eligible for up to $50,000 in total per quarter.

Eligibility Criteria

To be eligible for the ERC, employers generally must satisfy the Governmental Order Test or the Gross Receipts Test. While a number of employers may qualify under both tests, it is only necessary to qualify for one of the tests to determine eligibility.

Please go to the TXCPA website at tx.cpa/resources/news/articles/employee-retention-tax-credit to read more about the Governmental Order Test and Gross Receipts Test.

Tax Treatment

The ERC can have a significant impact on an employer's tax liability, reducing the amount of taxes owed or potentially resulting in a refund. Nevertheless, employers must understand both federal and state tax consequences of claiming the ERC to accurately report their taxes and avoid the imposition of penalties.

Please go to the TXCPA website at tx.cpa/resources/news/articles/employee-retention-tax-credit to read more about the federal and state tax treatment.

Professional Responsibility

Practitioners who provide advice on the ERC or sign returns that claim the ERC must comply with Circular 230. Circular 230 is the set of rules issued by the IRS that governs the practice of tax professionals. Specifically, in addition to providing guidance related to professional responsibilities and ethical requirements for professionals who practice before the IRS, it requires practitioners to exercise due diligence when preparing their clients' returns.

Please go to the TXCPA website at tx.cpa/resources/news/articles/employee-retention-tax-credit to read more about the issues related to professional responsibility.

Understanding the ERC

The ERC is an important and popular COVID-19 relief measure. Due to the credit's complexity, practitioners must ensure they understand all aspects of the ERC, including its application, eligibility criteria and tax treatment, as well as each practitioner's responsibilities under Circular 230.

With proper understanding, practitioners can help ensure that their clients receive the full benefit of this helpful tax provision and be prepared against a potential IRS audit and tax litigation.

About the Authors:
Juan F. Vasquez, Jr. is a Shareholder in the Houston and San Antonio offices of Chamberlain Hrdlicka and serves as the Chair of the firm's nationwide Tax Controversy Section. He concentrates his practice on federal and SALT controversy matters. He also serves as an Adjunct Professor at the University of Houston Law Center, where he teaches Tax Controversy & Litigation and Tax Procedure & Practice.

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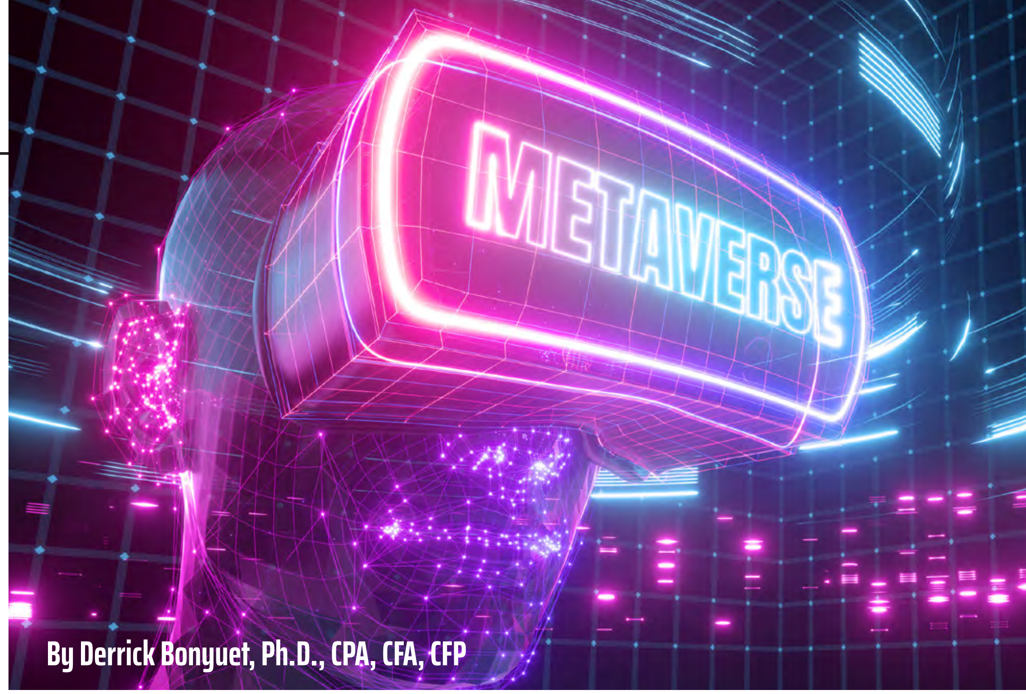
Value Creation and Opportunities for CPAs on the Metaverse



By Derrick Bonyuet, Ph.D., CPA, CFA, CFP

In the last couple of years, there has been a lot of buzz surrounding the metaverse. Metaverse can be seen as the next evolution of the Internet, where users will enjoy a new and different level of experience as they meet people virtually and interact and conduct business in this environment.

As CPAs, we are often seen as advisors by our clients for business-related matters. This is why we need to familiarize ourselves with this term, how this virtual environment can add value to our clients and how CPAs should leverage this technology.

The Next Level

Metaverse is considered the next paradigm in social media. In the same way many people access social media, the metaverse will take these interactions to the next level by incorporating not only shopping but also events, concerts and conferences in a persistent three-dimensional virtual environment that runs continuously. People will be accessing these immersive virtual worlds through different technologies, including VR headsets, AR or even PCs, game consoles and phones.

The metaverse will include elements such as virtual reality, streaming video, mobile gaming, avatars and artificial intelligence to offer users an all-inclusive digital experience. In this digital economy, money will be represented by cryptocurrencies and the metaverse will be supported by the blockchain, which is a digitally distributed public ledger that functions without the need of any intermediaries.

Transactions may include art, music or even real estate, which will be reflected in the form of non-fungible tokens or NFTs. These NFTs are blockchain-based representations of real-world items and serve as proof of ownership.

A McKinsey study found the transition to metaverse is taking place as more than 20% of the population asserts their intention to spend more time online exercising, working, reading and shopping in the future. In fact, study participants confirmed their desire for greater convenience, connectivity and entertainment, which will result in spending about four hours a day in the metaverse. Generation Z and millennials are expecting to spend close to five hours a day. The study also found more popular interests include immersive shopping, booking, learning, traveling and socializing (Aiello, C., Bai, J., Schmidt, J. and Vilchynskyi, Y., 2022).

Consumer Uses

Consumer uses will include most daily activities across five categories:

- Entertainment;
- Socializing;
- Fitness;
- Commerce; and
- Remote learning.

Enterprise Solutions

The metaverse will enable improvement in business operations across the following categories.

- Remote collaboration will be enhanced as online meetings are conducted in a three-dimensional space. By using avatar technology, people will be able to interact with each other in an immersive, meaningful and realistic way from anywhere in the world with information being streamed in real time to enable a more efficient and productive work environment.
- Reimagined learning and development as simulations of real-life settings and situations will be leveraged for a more impactful learning experience. Employees can safely learn how to do tasks virtually in a setting that mirrors the actual environment in which they'll be working.
- Digital twins will enable innovating efficiencies as physical settings and objects are replicated virtually, generating rich data in real time to improve decision making. New revenue streams will emerge. Examples include virtual real estate and setting virtual markets where customers can buy products.

Examples of Use Cases

In its publication "Value creation in the metaverse" (2022), McKinsey iden-

tified several metaverse use cases. They include the following areas.

Product marketing. Coca-Cola launched their brand's first NFT with a winning bid bringing over $575K in an online auction. The auctioning of NFT collectibles supports several marketing campaigns, such as the International Friendship Day, and proceeds will benefit Special Olympics International.

A Market Projected to Grow Exponentially

This emerging virtual market is projected to grow into a fully functioning economy that will generate revenues of between $1trn to $30trn (see www.economist.com/business/2022/01/01/virtual-property-prices-are-going-through-the-roof.) To capitalize on this future trend, investment firms are investing millions in digital land across different metaverse platforms, such as Decentraland and The Sandbox.

Customer engagement. Gucci is building brand awareness by launching Gucci Garden, which is a set of multiple themed rooms aligned with their physical campaigns.

Next-generation commerce. By using game-engine technology, AnamXR has created cloud-based, virtual e-commerce platforms for 3-D immersive shopping experiences.

Brand loyalty. Adidas has made its first incursion into the metaverse by partnering with the Bored Ape Yacht Club, Punk Comics and digital artist Gmoney to release its first NFTs.

Customer service. Helpshift has launched Metashift, the world's first customer support system for the metaverse. It consists of a series of patented technologies designed to support experiences.

Education. The University of California at San Diego's Rady School of Management has partnered with Virbela to deploy a virtual campus for real-time lectures, breakout spaces and outdoor areas.

Recruiting. The Havas Group, a global marketing and communications conglomerate, has launched a village within the Sandbox. Consistent with its purpose, the virtual Havas Village will support recruitment services for improved candidate and onboarding experiences.

Digital twins. BMW has partnered with Nvidia to create the factory of the future, which will combine reality and virtual reality, robotics and AI to deliver digital twins for their entire factories.

Public services. The Seoul Metropolitan Government in Seoul, Korea, will become the first major city to enter the metaverse by launching the pilot of Metaverse Seoul, a virtual version of Seoul's mayor's office.

Virtual tourism. Ariva Digital has launched Ariva Wonderland, a VR and blockchain-based platform that allows users to travel to imagined or recreated destinations.

Opportunities for CPAs

While full adoption of the metaverse is still years away and experts are debating whether the metaverse will become a specialty or a mainstream market, there are elements already in place. More importantly, as listed above, numerous companies are making investments to create a presence in this virtual world.

As a result, CPAs must ensure they can provide the support that clients are expecting. A few areas where CPAs can benefit include:

- Improving client engagement;
- Providing new revenue-generation opportunities;
- Serving as a more efficient training platform;
- Enhancing employee interactions; and
- Transforming commercial operations.

The Next Evolution

It is hard to predict what the future holds, but most people would agree social media is here to stay and the metaverse could well be the next evolution. The reward could be huge, but the risk is high.

In addition, user experience must be improved to ensure mass adoption. CPAs must be ready to support their clients' operations in this virtual environment and the first and best step may be to set up their own presence in the metaverse.

About the Author: Derrick Bonyuet, Ph.D., CPA, CFA, CFP, is a Clinical Professor of Accounting at the University of Texas in Austin. He also teaches accounting at Huston-Tillotson University and Concordia University. Contact him at derrick.bonyuet@mccombs.utexas.edu.

Editor's Note: Read more on this topic on *Today's CPA* online at www.tx.cpa.

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A Review of the 88th Session of the Texas Legislature

That's a Wrap ... For Now

By Kenneth Besserman, JD, Director of Government Affairs and Special Counsel

On May 29, the Texas Senate and House adjourned sine die, ending the 88th Session of the Texas Legislature amidst a whirlwind of unfinished business, a property tax reform standoff, arguments between both chambers and the Big Three, and a historic impeachment of the Attorney General. The session began in January with high expectations from many about the legislature shoring up property taxes, infrastructure investment, development of water projects, and addressing school finance and teacher pay raises.

The optimism was largely the result of an unprecedented budget surplus of over $35 billion. But as we all saw over the last several months, a budget surplus does not solve all problems, but actually makes it more difficult for the legislature to prioritize and negotiate on important issues.

TXCPA accomplished two enormous legislative wins in the session. This year, TXCPA aimed to address the CPA pipeline issue and take some steps toward meeting some of the goals of the TXCPA Pipeline Strategy. Working closely with our legislative partners, TXCPA pushed for a change to allow accounting students the flexibility to begin take the CPA Exam earlier in their education journey.

Senate Bill 159 – allowing students to take the Exam after completion of 120 semester hours and 21 hours of upper-level accounting – passed the legislature unanimously and was signed by Governor Greg Abbott. Texas is now among 48 other states allowing students to test earlier while still maintaining a 150-semester hour requirement for licensure. This legislation is vital to give students the ability to test earlier and continue on their path towards CPA licensure to grow the CPA pipeline.

Another important bill that TXCPA advocated for was House Bill 2217 – expansion of the Texas State Board of Public Accountancy's fifth-year scholarship program. Governor Abbott also signed this bill.

The legislation will make the scholarship available to accounting students who have completed at least 15 semester hours of upper-level accounting, allowing students to earn the scholarship before their fifth year of accounting. Allowing more students access to needed financial support will enable those students to continue their journey towards licensure.

We are extremely proud to have passed these bills that will be instrumental in making some progress towards expanding the CPA pipeline.

The session's other highlights included passing a state budget (HB 1 appropriating over $300 billion) that enabled the legislature to fund some much-needed infrastructure projects like water (SB 28/SJR 75) and broadband (HB 9/HJR 125). The legislature also:

- Extended Medicaid eligibility to 12 months for post-partum mothers (HB 12);
- Cracked down on fentanyl poisoning (HB 6);
- Shored up the electricity grid (HB 1500);
- Established a new economic develop incentive program (HB 5); and
- Endowed another fund for higher ed research institutions (HB 1595).

The session ended with no agreement on how to cut property taxes. At the time of this writing, the House and Senate had reached a deal.

At the conclusion of the session, the House, in an overwhelming bi-partisan vote of 121-23, impeached Attorney General Ken Paxton. Twenty articles of impeachment were presented to the full House on the penultimate day of session. After years of legal and ethical troubles, the House believed it was its duty to impeach the Attorney General. The case was presented to the Senate for an impeachment trial scheduled to occur this summer.

So ended the historic session. TXCPA had an extremely successful session and the great news is that we were able to address issues important to the CPA and accounting professions. Thank you to all who helped in that effort.

TXCPA Recognizes 2022-2023 Award Recipients

TXCPA congratulates our 2022-2023 award recipients. The members include:

Meritorious Service to the Accounting Profession

C. Jeff Gregg, CPA - Wichita Falls

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Christina A. Mondrik, J.D., CPA - Austin

Distinguished Fellow

David D. Duree, CPA, CGMA - Permian Basin

Distinguished Public Service

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Manuel Cavazos IV, Esq., CPA - Austin

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Honorary Member

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Outstanding Accounting Educators

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Medium

Jennifer Reynolds, MST, CPA - East Texas - The University of Texas at Tyler

Large

Saleha B. Khumawala, Ph.D.,CPA, CGMA - Houston - Bauer College of Business, University of Houston

Community College

Denise White - Austin - Austin Community College

Chair's Special Recognition Award Recipients

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Lisa Ong, CPA – Dallas
Josh LeBlanc, CPA – Southeast Texas
Tracie Miller, Ph.D., CPA – Austin

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Amanda Bobeck, CPA - Houston
Drew Chumley, CPA, CGMA - Fort Worth
Mackenzie Craft, CPA - Permian Basin
Miranda Curtis, CPA - Dallas
DMyrian Frederick, CPA - Dallas
Dahlia Garcia, CPA - El Paso
Adam Hallmark, CPA - San Angelo
Christopher Hes, CPA - Dallas
Alexandra Holder, CPA - Southeast Texas
James Jones, CPA - Permian Basin
Lindsey Kennimer, CPA - Fort Worth
Katherine Kirk, CPA - Permian Basin
Kevan Kirksey, CPA - East Texas
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Jessica Traw, CPA - Wichita Falls
Joshua Wagner, CPA - San Antonio
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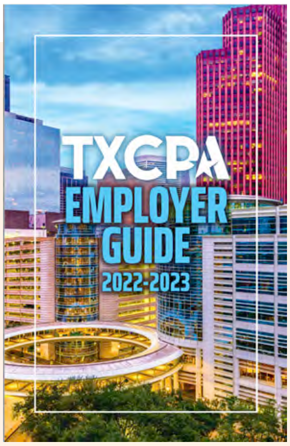
Each year, the nominations process is one of the most important activities impacting the success and future of the Texas Society of CPAs. TXCPA leadership nominations for 2024-2025 are currently being accepted for the following positions: Chair-elect, Treasurer-elect, Secretary, Board of Directors, Leadership Council Members-at-Large, Nominations and Board Development Committee Members-at-Large, Nominations Council Members-at-Large and AICPA Council. The deadline for nominations is **August 15, 2023**. 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 on our website at https://txcpa-nominations.secure-platform.com/a/.



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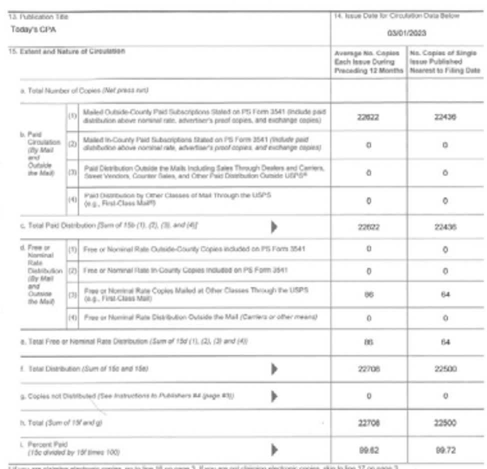

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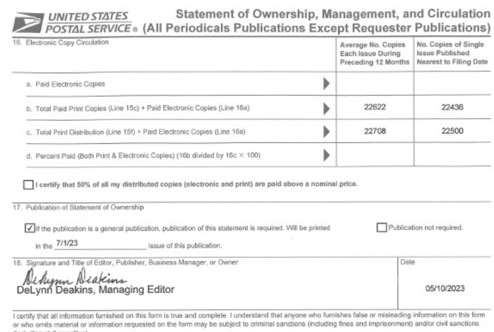

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MEET TIM PIKE
CPA, CFE, CGMA

BY JODI ANN RAY, CAE
TXCPA PRESIDENT AND CEO

TXCPA President and CEO Jodi Ann Ray, CAE, recently connected with 2023-2024 TXCPA Chair Tim Pike, CPA-Dallas, CFE, CGMA, to talk about his journey as a CPA and how volunteer service has enriched his life. Read on to learn more about his personal career path, how TXCPA is working to address the shrinking CPA pipeline and how his running habit helps him problem solve.

Q. You're the Managing Partner at Howard LLP, where you direct the firm's assurance practice in addition to developing and implementing firm growth strategies and performing peer reviews on other CPA firms. How did you begin your career and why did you choose the accounting profession?

I have no idea why I chose this profession! I'm not joking either. I do not remember a conscious decision to be in accounting. I was in my junior year in college, and I finished a nine-month internship in a health care related profession and did not enjoy it. I am thankful I did not simply "finish my degree" knowing I didn't want to follow that path while at the same time, I was frustrated and uncertain what to do. My father had a couple of master's degrees, one was in accounting, and he did work in industry. I mentally shrugged my shoulders and decided to "try it out." From that point, I did what many of my fellow CPAs did when switching degree plans. I worked my tail off for two years taking all of my accounting courses in that short span.

If anything, I was originally attracted to the finance side of things. I was already saving and investing in college and enjoyed learning about the leadership of companies and thinking about living the high life one day due to some savvy investing. I noticed some mutual fund managers who were CPAs and thought to myself that it made a lot of sense because they would understand and could explain tax consequences to their clients.

It's pure luck that I didn't end up following the finance route. I had a really bad interview with a financial advising firm that made it clear that their goal was only to earn fees from the client and never once spoke in a way that advocated for their customers. I was a disillusioned college student who assumed that one interview represented the whole industry. After that, feeling I didn't have a lot of ideas left, I casually thought that I might as well try audit while I figure out what to do with my life. I recognize the irony of "trying" out assurance having just completed a two-year term serving as the chair of the peer review committee.

Interesting Facts About

Tim Pike, CPA, CFE, CGMA

TXCPA's 2023-2024 Chairman Tim Pike:

- Started out to be a physical therapist and switched tracks in his junior year in school
- Ended up in audit simply because he liked the people he interviewed with; he always assumed he would go into tax
- Started in a small firm before going to Grant Thornton

He has actively served in the following organizations:

- Texas Society of CPAs
- TXCPA Dallas, Leadership Development Academy and Legislative Affairs Committees
- American Institute of CPAs - Advisory Council
- Association of Certified Fraud Examiners
- Speaker for CPE Programs

Q. What aspects of your work interest you the most?

There are two main drivers. The first is feeling like I am assisting someone. I absolutely love feeling like I made a significant difference for a client, something that they can feel, something that is tangible. Whether it's assisting them through some litigation support, providing a unique solution to a problem or simply reducing anxiety, I absolutely make a difference. I would guess I'm not that unique in that respect!!

The second driver is developing the team around me. I spend a significant amount of my days having coaching conversations. There is nothing more encouraging than seeing team members and colleagues being successful in areas that once intimidated them. I think sometimes we get deterred or discouraged when coaching others because the payoff is so rarely immediate. It's also difficult to quantify. It's not as if we could say "as a result of my coaching, my team's leadership skills improved 31%" or something like that.

Q. If you could change anything about your career, what would it be?

I'm a relatively patient person with one significant exception … I am not patient with myself. I do expect immediate results from myself. We all know that in order to grow in an area, we need experience in it and the more complicated the area, the more experience we need. Despite knowing this, I'm very poor at applying it to myself. If I were to go back in time, I would tell myself to relax and be more patient. Allow yourself to grow. There's no trophy; there's no finish line.

Q. Attracting the next generation of CPAs is a critical issue for the accounting profession. How has TXCPA helped address the pipeline concerns we face and what is planned?

You aren't kidding that it's critical. I think we are quite blessed to have so many areas that TXCPA and its volunteer leaders have moved the needle (and continue to do so). The first thing that sticks out in my mind is that we mobilized. We didn't sit back and simply agree that it's a problem. One thing that often occurs in any organization is the thought that there needs to be full agreement on the cause and the actions to address the cause. The truth is that there is no one cause and no one action that will sufficiently address the pipeline. The mobilization of a task force was critical, to take action together with the best available information at that moment. I believe the inclusion of our contemporaries in other state CPA societies also ultimately accelerated our pace, as well as the pace of the national discussion and strategy.

Our plans are multifaceted and include things like advancing legislative change, reducing the financial burden to becoming a CPA, and increasing outreach and visibility across Texas. We've already seen successes in things like the legislation in Texas to allow candidates to sit for the CPA Exam upon attaining 120 credit hours. There has been a significant push to meet with educators at various colleges and universities to educate those in front of our students on the possibilities and opportunities in our profession to incrementally improve an understanding of what we as CPAs really do.

Q. When and why did you become an active volunteer leader in TXCPA and your chapter? What are the most meaningful areas of service to you?

This profession has given to me. This is a profession that I didn't even fully get into on purpose, but it has enriched my life so incredibly much. I believe very deeply in being a "net giver." It's simply a question of whether I give to others more than I take from others. We all know individuals who tend to want things from us and then disappear when they get what they want. To the extent that I can, I want to provide others the incredible opportunities that I've experienced. I have seen the effect that one person or one piece of information can have on someone's path and it keeps me engaged both locally and statewide.

When I think of things that have been meaningful to me, I think of those who have the greatest opportunity for impact. I think about all the students I've spoken to over the years at various student organizations. I think about speaking at the Leadership Development Academy in the Dallas Chapter. I think about the times that I pull someone aside and have a conversation to both encourage them, but also to coach them to think about what the next step will be and to challenge them. TXCPA has certainly provided those opportunities!

Q. Who is the person you most admire and why?

Seems like it might almost be insulting to name just one individual! I suppose the person I admire most is someone I've never met but followed for a while now. I absolutely love what I learn from Brene Brown. If you are unfamiliar with her, she will say that she is a guilt and shame researcher. Sounds pretty sexy, I know. However, when you break down human behavior like she does, it assists us with knowing who we are fundamentally.

One of the things she points out is that there has never been an act of courage that did not require vulnerability. We cannot grow without taking risks and we cannot take risks without being vulnerable. She also talks about how we all as humans make up stories in our heads to explain the world around us and many of those stories are negative. But when I wake up in the morning, I do not often think about how I want to make someone's life more difficult. I think about what I need to accomplish that day. We do not always assume positive intent. Brene's work really has influenced the way I think about and approach conversations and how I enact change within Howard.

Q. Tell us about your family and other interests. What do you like to do on the weekends and after work?

I'm relatively recently married, so a big part of my available time is simply exploring and doing new things with Kristin. We're really big on finding new experiences to explore and always have a date night on Saturday nights. My kids are 16 and 12, and when my 16-year-old son started driving, it was somewhat of a game changer! His first car is a stick shift and where I live in Dallas definitely afforded him the challenge of learning to drive in a hilly area! My daughter's main interest is volleyball, a sport I never played well myself. She recently went to a week-long leadership camp and I especially enjoyed her recounting to me what she learned and, in her words, how she became more confident.

As far as individual interests, most of those who know me know I'm a runner. There's a joke that goes "How do you know if someone is a runner?" and the punchline is "they will tell you." I certainly went through a cycle that my life revolved more around running and races than it does now; however, I always find a way to fit in a run five days a week no matter where I am. Running is my meditation and it gives me time to solve problems. I can really get lost in my thoughts and it gives me dedicated time to focus those thoughts better.


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CPE ARTICLE

Private Company Accounting Alternatives and Practical Expedients

By Steve Grice, Ph.D., CPA, and Josh McGowan, DBA, CPA

Curriculum: Accounting and Auditing

Level: Basic

Designed For: CPAs in industry, private entities and management

Objectives: To provide an overview of the accounting alternatives and practical expedients that have been issued as a result of the joint effort between FASB and the PCC to address private company accounting concerns and when recognition and measurement differences exist between public and private companies.

Key Topics: Accounting alternative for goodwill; practical expedient for hedge accounting; accounting alternative for identifiable intangible assets, variable interest entities and triggering events; valuing share-based awards; and transition guidance and effective dates.

Prerequisites: None

Advanced Preparation: None

Over a decade ago, the Financial Accounting Standards Board (FASB) established the Private Company Council (PCC) to address accounting concerns associated with private companies. The PCC proposes either an accounting alternative or a practical expedient when it is deemed that recognition and measurement differences between public and private companies are warranted. An accounting alternative is a different accounting method for recognizing or measuring a specific transaction or event. A practical expedient is not a different accounting method, but rather, it is a less costly and less complex way to apply the certain accounting guidance.

FASB has issued several Accounting Standards Updates (ASU) in response to recommendations of the PCC. This guidance is based on the Private Company Decision-Making Framework: *A Guide to Evaluating Financial Accounting and Reporting for Private Companies* that focuses on user-relevance and cost-benefit considerations associated with private company accounting guidance. The purpose of this article is to provide an understanding of the accounting alternatives and practical expedients that have been issued as a result of the joint effort between FASB and the PCC.

Accounting Alternative for Goodwill

FASB issued ASU 2014-02, entitled *Accounting for Goodwill,* to provide private entities with an **accounting alternative** related to goodwill accounting. Initially, this accounting alternative was available to all entities except public entities, not-for-profit entities and employee benefit plans. Subsequently, FASB issued ASU 2019-06, entitled *Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities,* to extend the accounting alternative to not-for-profit entities (NFP).

Prior to ASU 2014-02, all entities were required to annually evaluate goodwill for impairment using a qualitative or quantitative approach. The provisions of ASU 2014-02 allow private entities to elect an accounting alternative related to the subsequent accounting for goodwill. Pursuant to the accounting alternative, entities **may elect to amortize goodwill** over a 10-year period or less, if a shorter period is deemed more appropriate. This accounting alternative may be elected for the goodwill that exists at the beginning of the annual period in which the accounting alternative is elected, as well as for the goodwill that arises subsequent to the election.

The goodwill accounting alternative also includes a **simplified impairment test** for goodwill. Though entities now have the option to amortize goodwill, all entities that elect this accounting alternative must also establish an accounting policy to test goodwill for impairment when a triggering event indicates that the carrying value of the reporting unit may be below its fair value.

When a triggering event occurs, entities must assess whether it is more-likely-than-not (MLTN) that the fair value of the reporting unit is less than its carrying amount, including goodwill. For years, reporting entities have used the two-step impairment test discussed in ASC 350, entitled *Intangibles-Goodwill and Other*, to determine the amount of impaired goodwill.

Step one of the two-step impairment test requires the reporting entity to compare the fair value of the reporting unit with its carrying amount, including goodwill. Step two requires the reporting entity to compare the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. The **simplified impairment test** in the accounting alternative **eliminates** step two of the impairment test model.[1] By eliminating step two, entities that elect the goodwill accounting alternative are no longer required to perform the hypothetical application of the acquisition method to calculate the impairment loss. That is, the impairment loss is the amount in which the carrying amount of the reporting unit exceeds its fair value including goodwill. The amount of the goodwill impairment loss cannot exceed the carrying amount of goodwill.

Private entities that elect the goodwill accounting alternative presented in ASU 2014-02 are generally required to provide the same disclosures as before (see disclosures in ASC 350-20-50). One exception is that entities are no longer required to provide a reconciliation of changes in goodwill in a tabular format when this accounting alternative is elected.

Practical Expedient for Hedge Accounting

FASB issued ASU 2014-03, entitled *Accounting for Certain Receive-Variable, Pay-fixed Interest Rate Swaps-Simplified Hedge Accounting Approach*, to provide a **practical expedient** for private companies referred to as the simplified hedge accounting approach. Pursuant to the provisions of ASU 2014-03, private entities may elect to apply a simplified hedge accounting approach when they enter into a receive-variable, pay-fixed interest rate swap to economically convert a variable-rate borrowing to a fixed-rate borrowing. Prior to this ASU, all private entities were required to comply with the complex, and often cumbersome, provisions of Topic 815, entitled *Derivatives and Hedging*, with limited resources which made compliance difficult.

This practical expedient is available to all entities except public entities, not-for-profit entities, employee benefit plans, and financial institutions (which includes banks, savings and loans, savings banks, insurance entities, credit unions, and finance companies).

The simplified hedge accounting approach serves as a practical expedient to qualify for cash flow hedge accounting. The practical expedient allows entities to assume no ineffectiveness for qualifying interest rate swaps that are designated in a hedging relationship with a variable-rate borrowing. Paragraph 815-20-25-131D has the conditions that must be met in order to apply the simplified hedge accounting approach to a cash flow hedge involving a receive-variable, pay-fixed interest rate swap, and a variable-rate borrowing. Those conditions are shown in Exhibit 1.

The simplified hedge accounting approach allows private entities to **measure** the interest rate swap at the settlement value as opposed to the fair value, which requires consideration of nonperformance risk. According to ASU 2014-03, one approach to determining the settlement value of a receive-variable, pay-fixed interest rate swap is to calculate the present value of the remaining cash flows using a valuation technique not adjusted for nonperformance risk.

The fair value measurement disclosures continue to apply to interest-rate swaps under the simplified hedging accounting approach. ASU 2014-03 says that the **disclosures** for amounts shown at settlement value are the same as those required for amounts shown at fair value.

A significant difference in the **documentation** requirements relates to the timing of the documentation. Prior to ASU 2014-03, the formal documentation required by Topic 815 relating to the hedging relationship, the entity's risk management objective and strategy for undertaking the hedge and other items specific to cash flow hedges were required to be in place at the inception of the

EXHIBIT 1.

Qualifying Conditions - Simplified Hedge Accounting Approach

Variable rates on the swap and the borrowing are based on the same index and reset period (e.g., three-month LIBOR). Further, an entity is not limited to benchmark interest rates described in paragraph 815-20-25-6A.
The swap is considered to be a "plain-vanilla" swap and there is no floor or cap on the variable interest rate of the swap unless the variable-rate borrowing has a comparable floor or cap.
The repricing and settlement dates for the swap and the variable-rate borrowing match (or differ by no more than a few days).
The fair value of the swap is at (or near) zero at the time it was executed to hedge the interest rate risk of the variable-rate borrowing.
The notional amount of the swap matches the principal amount of the variable-rate borrowing being hedged. The amount of the variable-rate borrowing may be less than the total principal amount of the borrowing.
All interest payments occurring on the variable-rate borrowing during the term of the swap (or the effective term of the swap underlying the forward starting swap) are designated as hedged, whether in total or in proportion, to the principal amount of the variable-rate borrowing being hedged.

hedge (see ASC 815-20-25-3) in order to qualify for hedge accounting.

According to ASU 2014-03, the formal documentation must be completed by the date on which the first annual financial statements are available to be issued following the hedge inception. This amendment to the documentation requirement will allow private entities more time to prepare the required documentation for new hedging relationships entered during an accounting period.

It should be noted that ASU 2014-03 specifically states that an interest rate swap subject to a simplified hedge accounting approach is not considered a derivative instrument for purposes of determining whether the fair value disclosures required by Topic 825, entitled *Financial Instruments*, are required.

Accounting Alternative for Identifiable Intangible Assets

FASB issued ASU 2014-18, entitled *Accounting for Identifiable Intangible Assets in a Business Combination*, to provide an **accounting alternative** for private entities when accounting for identifiable intangible assets in a business combination. Initially, this accounting alternative was available to all entities except public entities and NFP entities. Subsequently, ASU 2019-06 extended this accounting alternative to NFP entities.

Prior to ASU 2014-18, reporting entities were required to recognize certain identifiable intangible assets separately from goodwill. Before the intangible asset accounting alternative was issued by FASB, ASC 805-20-25-10 required reporting entities to recognize certain identifiable assets acquired in a business combination separately from goodwill. The intangible assets are deemed to be identifiable when those assets meet either the separability criterion or the contractual-legal criterion described in the definition of identifiable.

Essentially, an asset meets the separability criterion when it is capable of being sold, transferred, licensed, rented, or exchanged and the contractual legal criterion when it arises from contractual or other legal rights.

The intangible asset accounting alternative is applicable when an entity within the scope of the guidance is required to recognize (or consider the fair value of) intangible assets as a result of the:

- Application of acquisition method pursuant to ASC Topic 805, entitled *Business Combinations*;
- Assessment of the nature of the difference between the carrying amount and the underlying equity in net assets related to an equity method investment pursuant to ASC Topic 323, entitled *Investments-Equity Method and Joint Ventures*;
- Adoption of fresh-start accounting pursuant to ASC Topic 852, entitled *Reorganizations*.

ASC 805-20-55-13 uses the following categories to describe the types of intangibles that must be evaluated for separate recognition apart from goodwill:

- Marketing-related intangible assets (which include non-competition agreements);
- Customer-related intangible assets;
- Artistic-related intangible assets;
- Contract-based intangible assets;
- Technology-based intangible assets.

The intangible asset accounting alternative allows entities to no longer recognize certain intangible assets separately from goodwill. Specifically, the guidance indicates that intangible assets related to (1) customer-related intangible assets that are not capable of being sold or independently licensed and (2) non-compete agreements should not be recognized separately from goodwill when an NFP entity elects the intangible asset accounting alternative.

Examples of customer-related intangible assets shown in ASC 805-20-55-20 include customer lists, order backlogs, customer contracts and noncontractual customer relationships. According to ASU 2014-18, when an entity elects the intangible asset accounting alternative, it must also apply the goodwill accounting alternative to amortize goodwill. However, an entity may elect the goodwill accounting alternative without electing to apply the intangible asset accounting alternative.

ASU 2014-18 stipulates that when an entity elects the intangible asset accounting alternative, it must apply the accounting alternative to all subsequent transactions that are within the scope of ASU 2014-18.

Accounting Alternative for Variable Interest Entities

FASB issued ASU 2014-07, entitled *Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements*, to provide an **accounting alternative** for private companies related to accounting for variable interest entities (VIE). Subsequently, ASU 2018-17, entitled *Targeted Improvements to Related Party Guidance for Variable Interest Entities*, superseded the guidance in ASU 2014-07 and expanded the accounting alternative related to the application of the VIE consolidation model.[2] The common scenario for private entities that triggers the issues associated with VIE accounting is one where a common owner establishes a lessor entity separate from the private entity.

For example, assume that the owner of Sigma Co. forms Gamma LLC to hold the operating real estate and that Sigma Co. enters into a lease with Gamma LLC. In this situation, Sigma Co. must determine (1) whether it holds a variable interest in Gamma LLC, (2) whether Gamma LLC is a VIE, and (3) whether it is the primary beneficiary of Gamma LLC. The VIE model requires consolidation if Sigma Co. holds a variable interest in Gamma Co., Gamma Co. qualifies as a VIE, and Sigma Co. is the primary beneficiary of Gamma Co.

The initial VIE accounting alternative in ASU 2014-07 allowed private entities an election to not apply the VIE model to commonly owned lessor and lessee entities such as Sigma Co. and Gamma Co. in the example above. ASU 2018-17 expanded the alternative to all legal entities under common control, not just common controlled leasing arrangements. ASU 2018-17 establishes criteria that, if met, would allow a private company to elect the accounting alternative to not apply the VIE consolidation guidance. The criteria for the election of the accounting alternative to the VIE guidance is shown in Exhibit 2 (all four criteria must be met).

EXHIBIT 2.

Criteria for VIE Accounting Alternative

1. The reporting entity and the legal entity are under common control.
2. The reporting entity and the legal entity are not under common control of a public business entity.
3. The legal entity under common control is not a public business entity.
4. The reporting entity does not directly or indirectly have a controlling financial interest in the legal entity when considering the general subsections of ASC Topic 810.

The accounting alternative in ASU 2018-17 is an accounting policy election and must be applied to all current and future legal entities under common control that meet the criteria. The required **disclosures** are significantly reduced when a private entity elects the accounting alternative. The required disclosures are shown in ASC 810-10-50-2AG, ASC 810-10-50-2AH, and ASC 810-10-50-2AI. ASU 2018-17 indicates that the reporting entity should consider exposure through implicit guarantees (e.g., the reporting entity has an economic incentive to serve as a guarantor) when preparing the disclosures. Importantly, the disclosures required by other ASC Topics are still applicable. For example, disclosures related to guarantees, leases, related parties, and other relevant disclosures are required.

Accounting Alternative for Triggering Events

FASB issued ASU 2021-03, entitled *Accounting Alternative for Evaluating Triggering Events*, to address the cost and complexity associated with evaluating triggering events and measuring the impairment of goodwill. Prior to ASU 2021-03, all entities were required to evaluate triggering events during the reporting period. Triggering events include relevant events and circumstances that could indicate that the fair value of the reporting unit is less than its carrying value. ASC 350-20-35-3C provides numerous examples of these events and circumstances (e.g., deterioration in general economic conditions, increased competitive environment, etc.).

ASU 2021-03 provides a triggering event accounting alternative to allow a reporting entity to evaluate the triggering events that could potentially impair goodwill as of the end of the reporting period. Thus, entities that elect this accounting alternative no longer have to monitor goodwill impairment triggering events during the reporting period. Essentially, the triggering event evaluation date and the reporting date are aligned under the ASU 2021-02 accounting alternative.

Valuing Share-Based Awards

FASB issued ASU 2021-07, entitled *Determining the Current Price of an Underlying Share for Equity-Classified Share-Based Awards*, to provide private entities a **practical expedient** associated with valuing share-based awards classified as equity. ASC Topic 718, entitled *Compensation-Stock Compensation*, requires that share-based awards be recognized at the grant date fair value. Paragraph 718-10-30-9 indicates that the fair value of these share-based awards should be estimated using a valuation technique such as an option-pricing model.

For example, the Black-Scholes option-pricing model is specifically identified as a potential valuation technique in the Topic 718 implementation guidance. The inputs required by the Black-Scholes model are shown in Exhibit 3.

The Black-Scholes model, as well as other option-pricing models, requires inputs that may be difficult to identify for private companies. Specifically, the inputs include the current share price of the equity shares underlying the option. The PCC noted that the current share price input is perhaps the most difficult input for private entities to determine because the shares are not actively traded.
The practical expedient in ASU 2021-07 allows private companies to estimate the current share price input using the **reasonable application of a reasonable valuation method** for share-based awards classified as equity. Importantly, the practical expedient may not be used for share-based awards classified as liabilities. The reasonable application of a reasonable valuation method is the same method that is mentioned in the Internal Revenue Code regulations of the U.S. Treasury Department related to Section 409A (see 26 CFR § 1.409A-1- *Definitions and covered plans*). ASU 2021-07 indicates that a valuation performed pursuant to U.S. Internal Revenue Code at 26 CFR § 1.409A-1-(b)(5)(iv)(B) is an example of a valuation that is reasonable under the practical expedient.

EXHIBIT 3.
Black Scholes Model Inputs

1.	Exercise price
2.	Expected term (in years)
3.	Expected volatility of the share price
4.	Expected dividend yield on the shares
5.	Risk-free interest rate for the expected term
6.	**Current share price**

ASU 2021-07 requires that the facts and circumstances, as of the measurement date, be the bases for determining whether a valuation is reasonable or whether an application of a valuation method is reasonable. ASC 718-10-30-20D provides the following list of factors that should be considered under a reasonable valuation method:

- Value of tangible and intangible assets;
- Present value of anticipated future cash flows;
- Market value of equity interests in similar entities engaged in substantially similar trades or businesses; the value of which can be readily determined through nondiscretionary, objective means (e.g., through trading prices on an established securities market or an amount paid in an arm's-length private transaction);
- Recent arm's-length transactions involving the sale or transfer of the private entity's equity interests;
- Other relevant factors such as control premiums or discounts for lack of marketability and whether the valuation method is used for other purposes that have a material economic effect on the private entity, its stockholders or its creditors;
- The private entity's consistent use of a valuation method to determine the value of its stock or assets for other purposes, including for purposes unrelated to compensation of service providers.

These factors are similar to those provided in the U.S. Internal Revenue Code at 26 CFR § 1.409A-1-(b)(5)(iv)(B), which provides guidance for determining stock value for income tax purposes when the stock is not readily tradable on an established securities market.

ASU 2021-07 indicates that a valuation method is not reasonable if it does not take into account all available information that is material to the private entity's value. Also, guidance related to a private entity's use of previously calculated values is provided in ASC 718-10-30-20F. Specifically, a previously calculated value is no longer reasonable at a later date if either of the following conditions is met:

- The calculation fails to reflect all available information after the date of the original calculation that is material to the private entity's value (e.g., resolution of material litigation or issuance of a patent);
- The value was calculated more than 12 months earlier than the date for which the valuation is being used.

The guidance indicates that the population of valuations that would be appropriate for the practical expedient (i.e., considered the reasonable application of a reasonable valuation) is not limited to an independent appraisal. For example, internal valuations may exhibit the characteristics of valuations that are appropriate under the practical expedient. However, ASU 2021-07 indicates that it is expected that an independent appraisal will likely be the most common method used when the practical expedient is elected.

Transition Guidance and Effective Dates

FASB issued ASU 2016-03, entitled *Effective Date and Transition Guidance,* to remove the effective dates and indefinitely extended the transition guidance for ASUs 2014-02, 2014-03, 2014-07 (subsequently superseded by ASU 2018-17), and 2014-18. Essentially, this allows private entities to forgo an initial preferability assessment upon adoption, which was previously required if an entity adopted the guidance after the effective date. Exhibit 4 summarizes the transition provisions for the accounting guidance discussed in this article.

About the Authors: Steve Grice, Ph.D., CPA, is a Scholar-in-Residence at Troy University. Josh McGowan, DBA, CPA, is Assistant Professor Troy University. Contact him at jmcgowan@troy.edu.

EXHIBIT 4.
Transition Provisions

Guidance	Transition Provisions
Goodwill (ASU 2014-02)	**Prospective approach** for new goodwill. For existing goodwill, the guidance is effective as of the beginning of the fiscal year the accounting alternative is adopted.
Hedge accounting (ASU 2014-03)	**Modified retrospective approach** with adjustments made to assets, liabilities and opening balances of equity accounts of the current period presented to show application of hedge accounting from the date the swap was entered into by the entity. **Full retrospective approach** with adjustments made to assets, liabilities and opening balances of equity accounts of the earliest period presented to show application of hedge accounting from the date the swap was entered into by the entity. Under this approach, the period-specifics are reflected in the financial statements.
Identifiable intangible assets (ASU 2014-18)	**Prospective approach** for the first transaction that is within the scope of this accounting alternative after adoption.
Variable interest entities (ASU 2018-17)	**Retrospective approach** with a cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented. Effective for fiscal years beginning after December 15, 2020.
Triggering events (ASU 2021-03)	**Prospective approach.** Effective for fiscal years beginning after December 15, 2019.
Share-based awards ASU 2021-07	**Prospective approach** for awards granted or modified during fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022.

[1] ASU 2017-04, entitled *Simplifying the Test for Goodwill Impairment* extended this simplified impairment test to public entities and all other entities that have not elected the private company accounting alternative. ASU 2017-04 is effective for fiscal years beginning after December 15, 2021, for NFP entities that do not elect the goodwill accounting alternative.

[2] Interpretation No. 46 entitled, *Consolidation of Variable Interest Entities an interpretation of ARB No. 51*, and subsequently, Interpretation No. 46(R) entitled, *Consolidation of Variable Interest Entities,* ushered in the VIE consolidation model.

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CPE ARTICLE: PRIVATE COMPANY ACCOUNTING ALTERNATIVE AND PRACTICAL EXPEDIENTS

By Steve Grice, Ph.D., CPA, and Josh McGowan, DBA, CPA

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. According to ASU 2019-06, which of the following entities are allowed to utilize the accounting alternative related to testing goodwill for impairment?

a. Private companies
b. Not-for-profit entities
c. Employee benefit plans
d. Both A and B

2. According to ASU 2014-03, an entity that elects the practical expedient related to simplified hedge accounting is required to provide the formal documentation by the:

a. Hedge inception date
b. Issuance date of the first annual financial statements after hedge inception
c. End of the annual reporting period
d. No formal documentation is required

3. Pursuant to ASU 2014-02, entities that utilize the accounting alternative related to the testing of goodwill impairment are not required to:

a. Establish a policy related to testing goodwill for impairment
b. Assess whether it is more-likely-than-not that the fair value of the reporting unit is less than its carrying amount, including goodwill
c. Perform the two-step quantitative goodwill impairment test that is discussed in ASC 350, entitled *Intangibles-Goodwill and Other*
d. Provide disclosures related to goodwill

4. If an entity elects the accounting alternative for intangible assets in a business combination, according to ASU 2014-18, the entity is also required to:

a. Recognize non-compete agreements separately from goodwill
b. Apply goodwill accounting alternative to amortize goodwill
c. Recognize customer lists separately from goodwill
d. Recognize customer contracts separately from goodwill

5. ASU 2019-06 extended the accounting alternative related to accounting for identifiable intangible assets in a business combination to which type of entity?

a. Not-for-profits
b. Banks/financial institutions
c. Public entities
d. Employee benefit plans

6. Which of the following is included in the criteria set forth by ASU 2018-17 that allows a private company to not apply the VIE consolidation guidance?

a. The lessee and the lessor entities are under common control
b. A lease arrangement between the private entity lessee and the lessor entity exists
c. Substantially all of the activities between the lessee and lessor entities relate to leasing activities between those two entities
d. The legal entity under common control is not a public business entity

7. Entities that elect the accounting alternative for evaluating triggering events are required to evaluate triggering events that might impair goodwill:

a. As of the end of the reporting period
b. During the reporting period
c. Entities electing accounting alternative do not have to evaluate triggering events that might impair goodwill
d. At quarterly intervals throughout the reporting period

8. When considering the inputs related to the Black Scholes option-pricing model, which of the following did the Private Company Council state is typically the most difficult input for private entities? ASU 2021-17 was issued to help alleviate this issue.

a. Exercise price
b. Current share price
c. Expected dividend yield on shares
d. Expected term (in years)

9. According to ASU 2021-07, which of the following factors should be considered when entities utilize the reasonable application of a reasonable valuation method for share-based awards classified as equity.

a. Value of tangible and intangible assets
b. Present value of anticipated future cash flows
c. Recent arm's-length transactions involving the sale or transfer of the private entity's equity interests
d. All of the above

10. An entity that applies the alternative goodwill accounting guidance (ASU 2014-02) is required to utilize which approach for new goodwill?

a. Full retrospective approach
b. Modified retrospective approach
c. Prospective approach
d. Restatement

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PRACTICES FOR SALE

$149,000 gross. North Collin County CPA practice. Growing, boutique CPA practice. Desirable client base made up of businesses and their owners. Structured to provide year-round income with over 70% income derived from monthly maintenance service agreements. Strong cash flow of over 65%. TXN1627

$228,000 gross. Midlothian CPA practice. Growing practice in desirable DFW suburb caters to loyal client base composed largely of businesses and business owners. Continued referral and expanding opportunities. Solid fee structure and cash flow is over 50% gross income. TXN1628

$555,000 gross. Tyler-Longview metro area CPA practice. Established and reputable firm caters to high quality, loyal clientele. Large business base offers opportunities for expansion. 70% tax work and 30% accounting. Over half of accounting work is derived from businesses and provides year-round income. TXN1629

$1,013,900 gross. SW Houston CPA firm. Desirable location and cash flow. Well-trained support staff already in place. Services desirably mixed 67% tax, 12% accounting, 15% reviews and 5% audits. Seller-assisted transition. TXS1295

$477,000 gross. NW Houston CPA firm. Revenues made up of accounting 74%, tax 24% and other 2%. Year-round cash flow and knowledgeable staff. Owner willing to assist smooth transition. TXS1300

$1,040,000 gross. South Texas CPA firm. Nicely mixed revenues 43% accounting, 38% tax and 19% other services. Year-round cash flow and knowledgeable staff. TXS1298

$354,000 gross. NW Houston CPA firm. Predominately made up of complex tax returns. Nice cash flow and high-income quality clients. Excellent staff ready and able to assist. TXS1296

$316,000 gross. Galveston County CPA. Service mix includes 67% tax, 14% audit/review and 6% other. Year-round work provides excellent cash flow. Prime location with loyal clients. TXS1287

$95,000 gross. Conroe CPA firm. Owner transition available. Service mix 75% tax and 25% other for year-round income. TXS1311

$296,000 gross. West Houston tax firm. Services mixed 93% tax and 7% other services. Year-round cash flow and knowledgeable bilingual staff in place to support transition. TXS1306

$115,000 gross. Matagorda County tax and accounting. 60% tax work and 40% accounting. Many referrals for growth. TXS1308

$172,000 gross. Houston Galleria area tax firm. Owner transition available. 83% tax and 17% accounting. Great reputation and constant referrals. TXS1310

$150,000 gross. Katy CPA firm. Service mix tax (96%) and other (4%). Loyal, long-term clients with many referrals for growth. Owner transition available. TXS1305

$650,000 gross. West Houston accounting firm. Service mix 93% accounting and bookkeeping and 7% tax. Nice location for the buyer with extra room to bring in additional staff. TXS1297

$2,201,000 gross. West Texas firm. Highly motivated multi-owner CPA firm. Revenue mix is 14% accounting services, 29% tax preparation (49% individual, 41% business, 10% other and 57% attest services). Large tenured staff and long assisted transition by owner. TXW1030

$480,000 gross. Houston CPA practice. Reputable firm with constant referrals provides year-round income made up of 57% tax work, 42% accounting and 1% other. TXS1315

$250,000 gross. Southwest Houston CPA practice. Wonderful, community centered firm composed of 71% tax work and 29% accounting. Firm has excellent cash flow to the owner and the owner is willing to assist in transition. TXS1314

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TODAY'S CPA

Texas Society of Certified Public Accountants

TXCPA ACCOUNTING INDUSTRY OUTLOOK

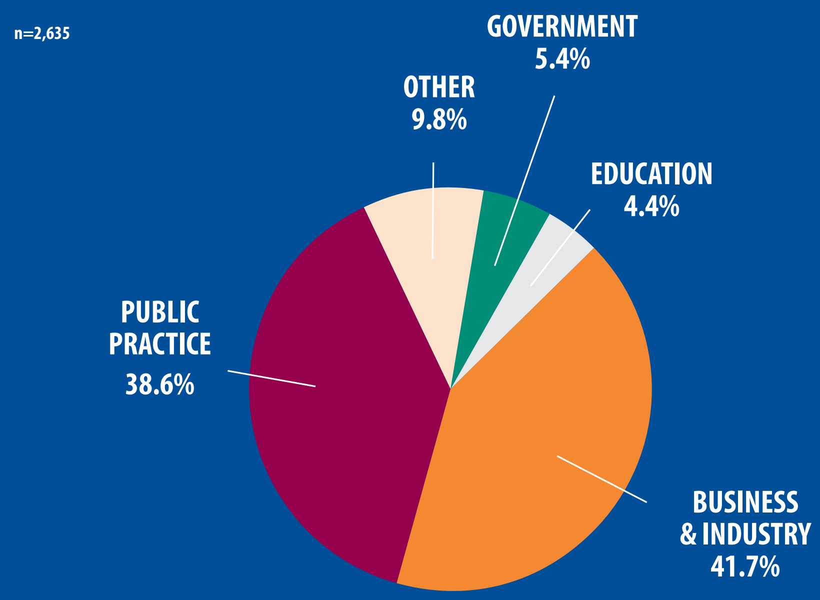
New Accounting Industry Outlook Report reveals trends in organizational culture and other issues impacting the profession

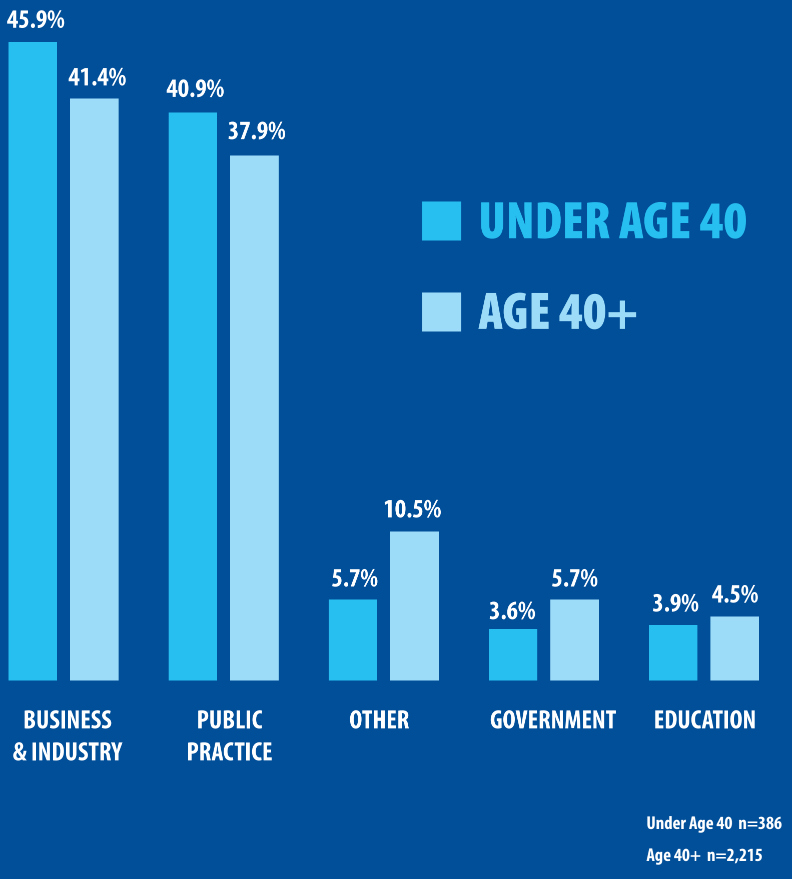
This special report is easily removed for future use.

Consider this – what is the most important intangible element of your business that sets you apart from every other business in the world? Organizational culture should be right at the top of the list. **A positive culture is considered to be the single most important competitive advantage for an organization** and it can have a major impact on your bottom line.

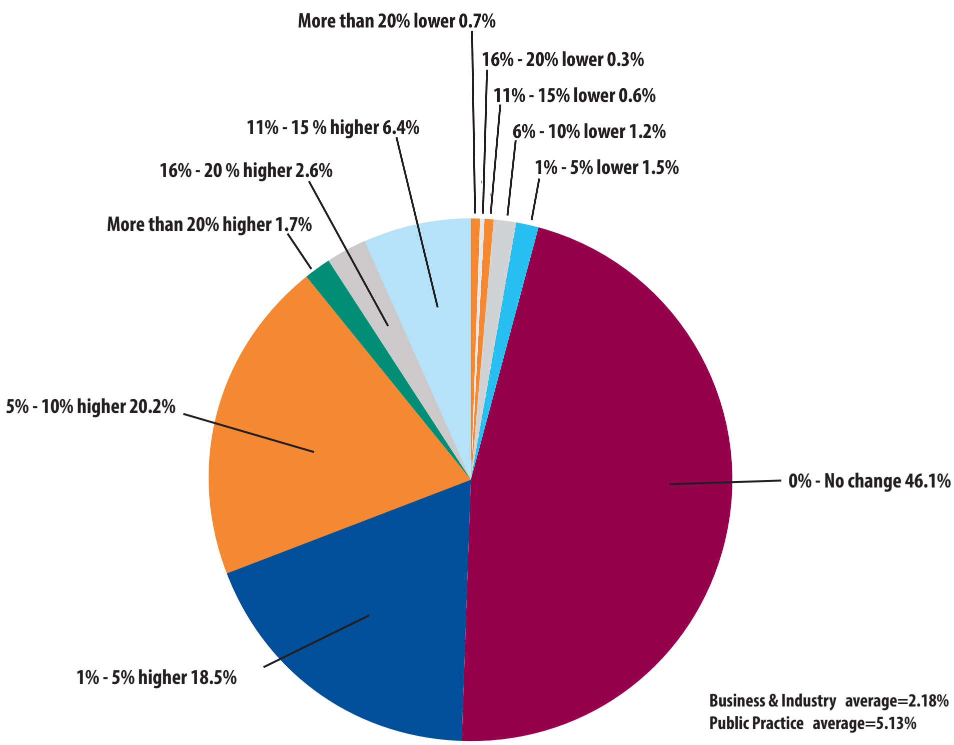
By DeLynn Deakins, *Today's CPA* Managing Editor

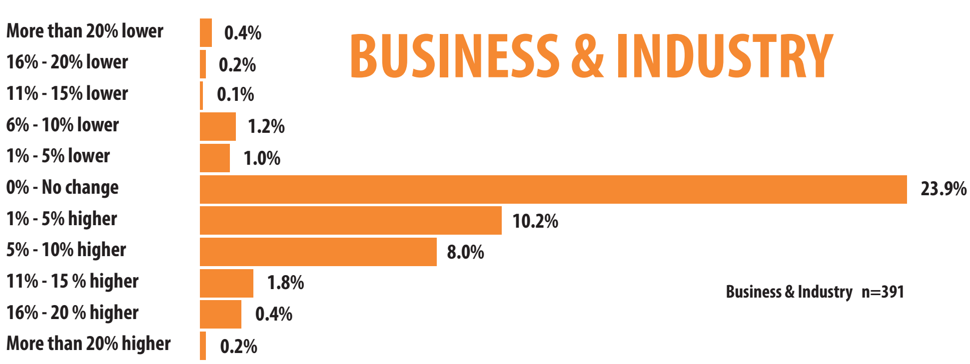
Which of the following most closely reflects your area of work?

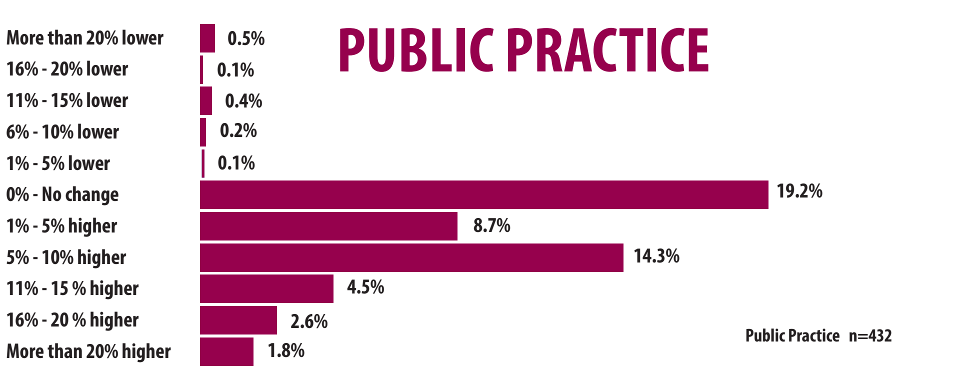




To what degree is your organization adjusting the starting pay for new CPAs?







Every organization has a unique culture. It's the most powerful force people experience, setting the tone and context for everything an organization does. It tells people how to behave, what values to adhere to, and what matters most.

According to Brighton Leadership, culture enables strategy. When culture and strategy are aligned, companies can show as much as a 50% differential in performance. To energize a culture into a competitive advantage, an emotional connection is needed between the enterprise and its employees. It is culture that shapes an employee's experience. Employees say organizational culture is a top priority for potential jobs.

This spring, TXCPA continued our series of research surveys designed to examine the accounting industry outlook and we discovered some interesting trends related to organizational culture and other far-reaching issues. The survey respondents were made up of TXCPA members and non-members and they were professionals in business and industry (41.7%), public practice (38.6%), government (5.4%), education (4.4%) and other professionals (9.8%).

Hiring and Salaries

Having ample staff resources to meet organizational objectives can positively impact the culture by minimizing burnout and preventing disproportionate responsibilities across team members. The accounting profession is facing a shrinking pipeline of new talent, which is critical for replacing retiring staff and growing business. As firms and companies continue to face heavy competition to attract and hire CPAs, the survey revealed a shift toward hiring more non-CPAs to fill the void. The rate of employment of full-time, in-house

CPAs has statistically declined from 2022 to 2023, while the rate of projected employment of full-time, in-house non-CPA professionals has statistically increased during that time. In addition, the rate of projected employment of administrative staff has statistically declined from May 2022.

To help attract top talent, a majority of respondents in public practice predict an increase in the starting pay for new CPAs. Many of the respondents working in business and industry organizations (23.9%) predicted no change in the starting pay.

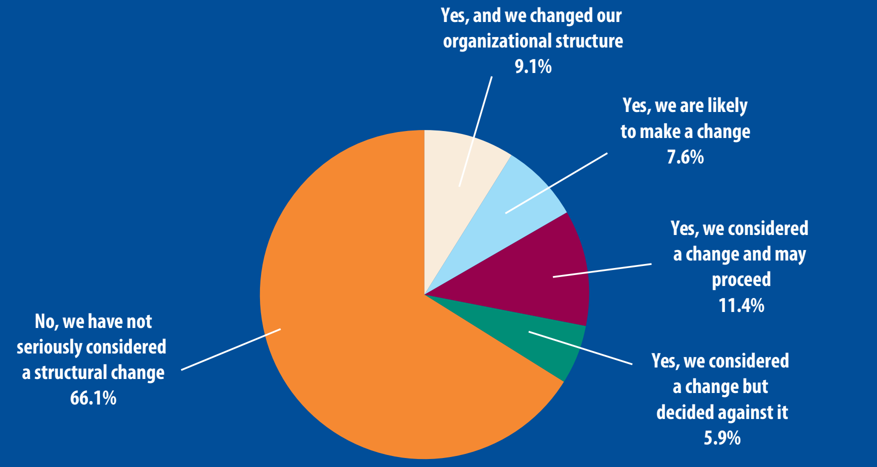
Structural Change – Mergers and Acquisitions

When two organizations merge, their cultural aspects must also come together. If cultures clash, it can lead to tension and conflict. This can disrupt productivity and even cause the deal to fail. In fact, it has been reported in the past that around 70-90% of mergers and acquisitions fail to deliver their anticipated benefits because of "cultural issues." Organizations need to recognize the cultural differences as influences that can affect the merger's success and take steps to address the issues that impact their people.

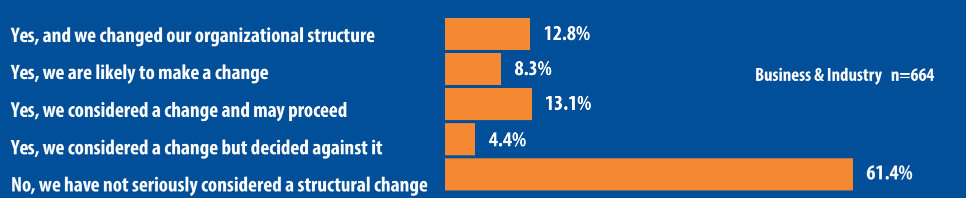
Within the accounting profession, business and industry companies are statistically more likely to have considered a structural change in the past 12 months compared to public practice firms.

Taking a closer look at the size of the organizations that seriously considered a structural change within the last 12 months, they were organizations with at least 15 CPAs and at least $30 million in accounting-related annual revenue. Further, the most likely organizations to have actually changed their structure employ at least 75 CPAs and at least $30 million in accounting-related annual revenue.

Has your firm seriously considered an organizational structure change (i.e., mergers and acquisitions) within the last 12 months?



BUSINESS & INDUSTRY



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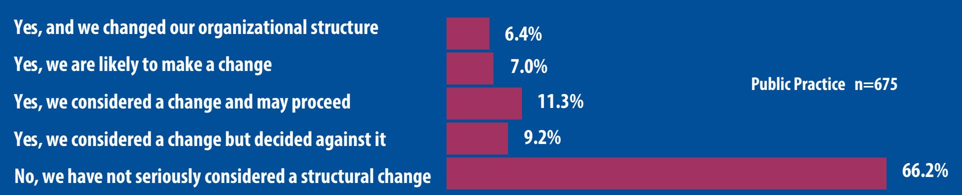
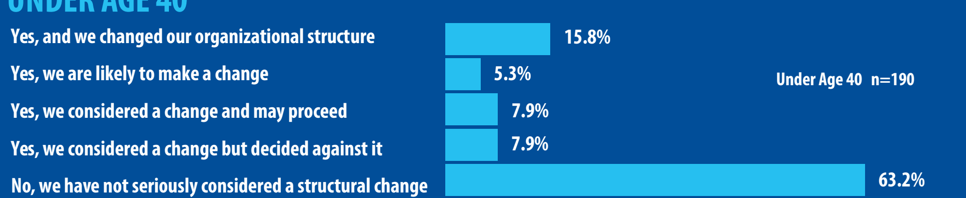
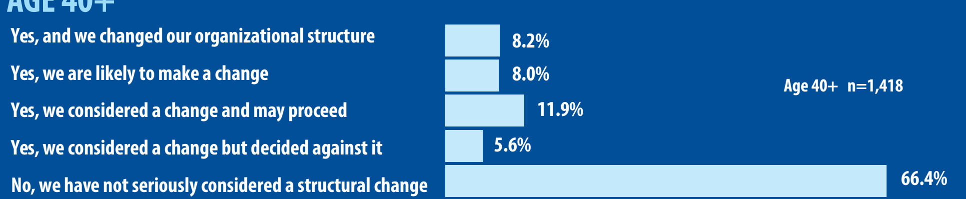


UNDER AGE 40

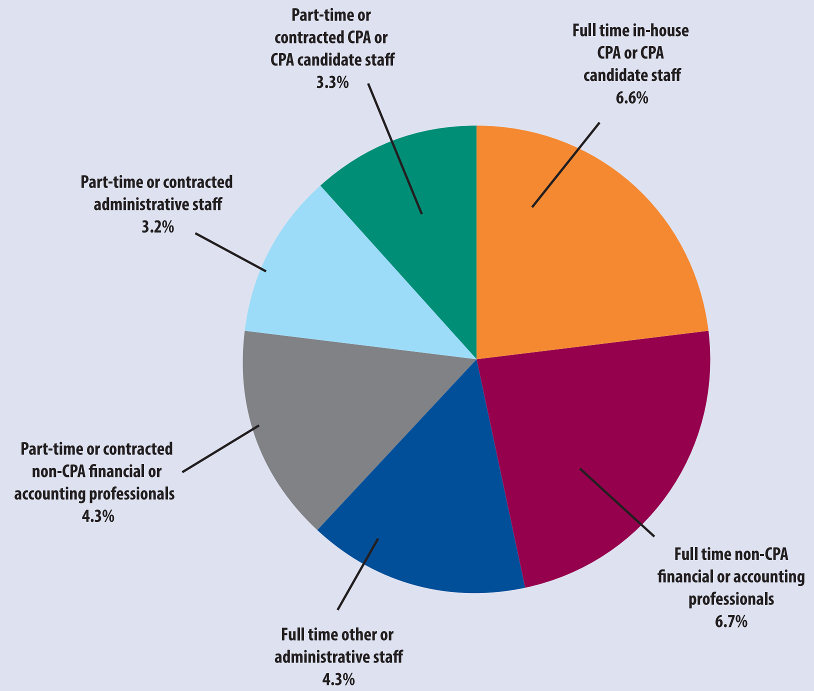


AGE 40+



How much do you project employment will change within your organization, overall, over the next 12 months?

n=1,688



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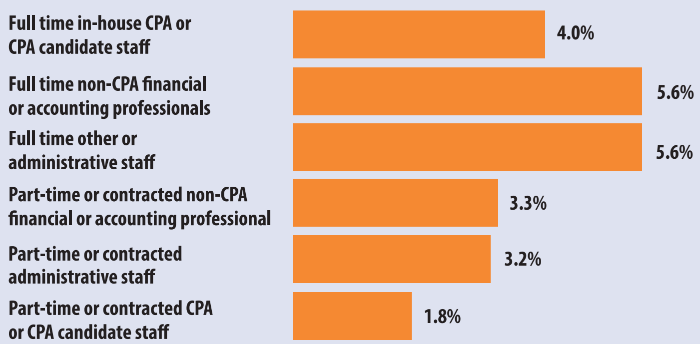

Business & Industry n=709

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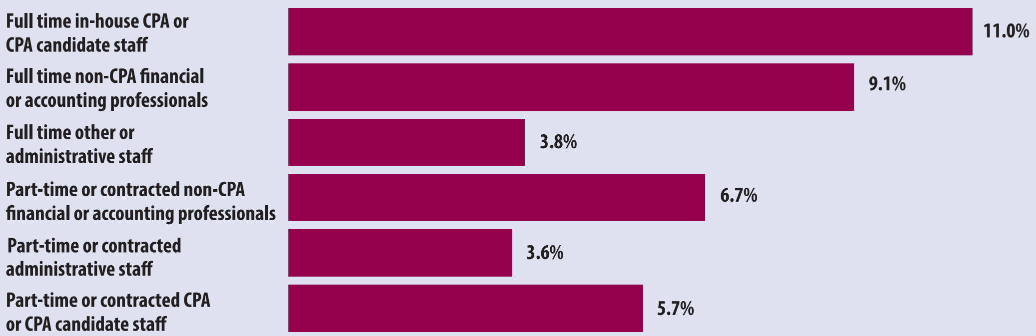


Public Practice n=712

Trends in Levels of Business

Organizational culture can also thrive in times of growth, which can come about through expanded business opportunities or with a positive outlook on the future of the organization's current business. The survey explored the predicted levels of business in the accounting industry over the next 12 months. Respondents in public practice expect higher business levels than CPAs in business and industry.

When considering tax vs. audit work, respondents in tax predicted statistically lower levels of business in the year to come, while CPAs in audit predicted statistically higher levels of business during the same time period.

It is culture that shapes an employee's experience. Employees say organizational culture is a top priority for potential jobs.

Managing Your Culture

In an ever-evolving profession, it is critical that organizations are continuously reviewing and supporting a culture that will provide a steady foundation and help them thrive in times of change. Knowing the trends related to hiring, pay, mergers and growing areas of business will help you prepare your organization for what's to come so

Strengthening the CPA Pipeline

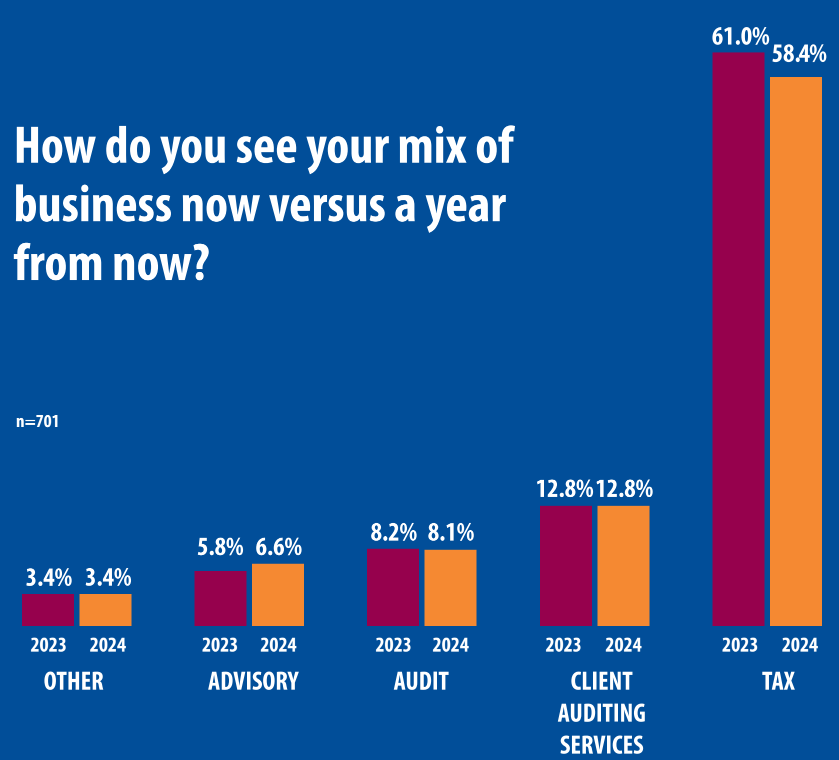
Addressing the challenges employers continue to face attracting new CPAs to the profession, TXCPA along with our 20 local chapters, our member volunteers, and Texas firms and companies have done significant work to provide student outreach and promote accounting as a career, and specifically the CPA license. TXCPA's Pipeline Task Force developed a **statewide strategy** to guide our work and help measure the impact of our collective efforts.

During the 2023 Texas legislative session, the legislature and TXCPA took some major steps in addressing the CPA pipeline. TXCPA and our partners in the legislature advocated for two bills that passed. They were signed by Governor Greg Abbott and are now the law.

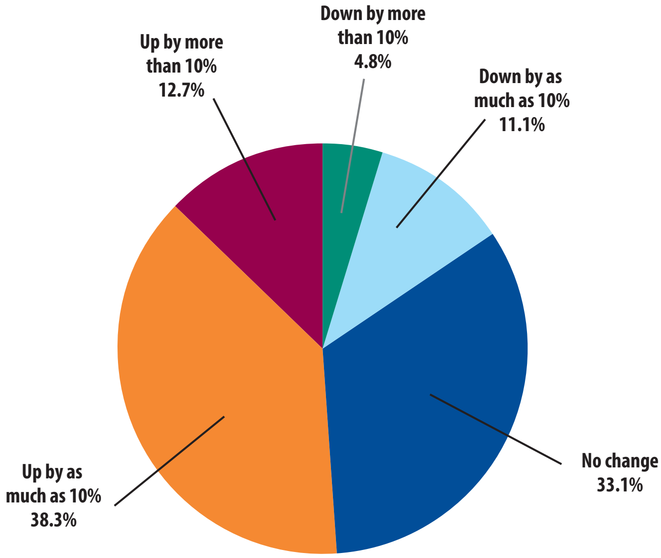
SB 159 allows students to begin to take the CPA Exam after completion of 120 hours of education and 21 hours of upper-level accounting. This was a big change for Texas, and TXCPA is working to make sure the rules work for students, educators and the Texas State Board of Public Accountancy.

The second bill, **HB 2217**, includes an expansion of the State Board's Fifth-Year Scholarship Program. The legislation will expand the number of students who would be eligible to receive a scholarship to include accounting students who have completed at least 15 hours of upper-level accounting.

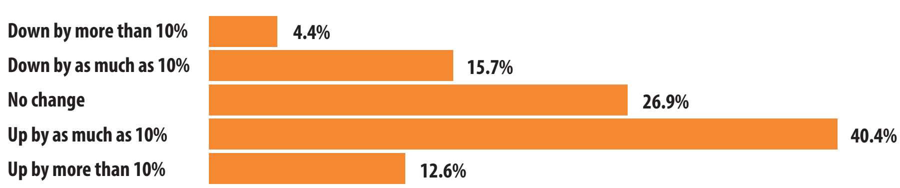
In the coming months, TXCPA will be providing more information on both of these bills and how students can take advantage of the legislation in their path to CPA licensure.



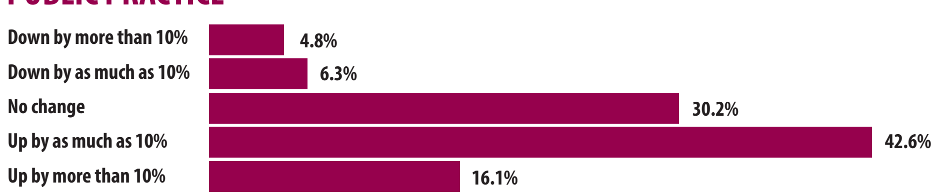
How do you predict your overall level of business to change over the next 12 months?



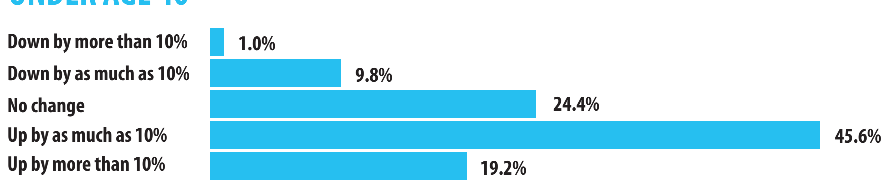
BUSINESS & INDUSTRY



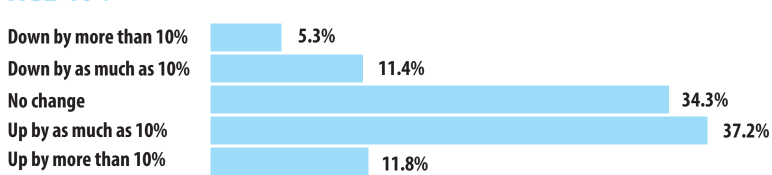
PUBLIC PRACTICE



UNDER AGE 40



AGE 40+



you can manage your culture for positive results.

TXCPA thanks those who participated in the spring 2023 accounting industry outlook survey and provided important data on the direction the profession is headed over the next year. We look forward to sharing future reports with you, where we'll continue to identify key trends that will impact Texas businesses and accounting organizations.

Endnotes

[1] "What is Corporate Culture, Why It Matters and How to Build It." Haiilo, Jan 13, 2023, https://haiilo.com/blog/corporate-culture-definition-importance-best-practices/

[2] "What is Corporate Culture, Why It Matters and How to Build It." Haiilo, Jan 13, 2023, https://haiilo.com/blog/corporate-culture-definition-importance-best-practices/

[3] "Cultural Integration in Mergers and Acquisitions." Technicali, Aug 30, 2022, https://technicali.com/cultural-integration-in-mergers-and-acquisitions/