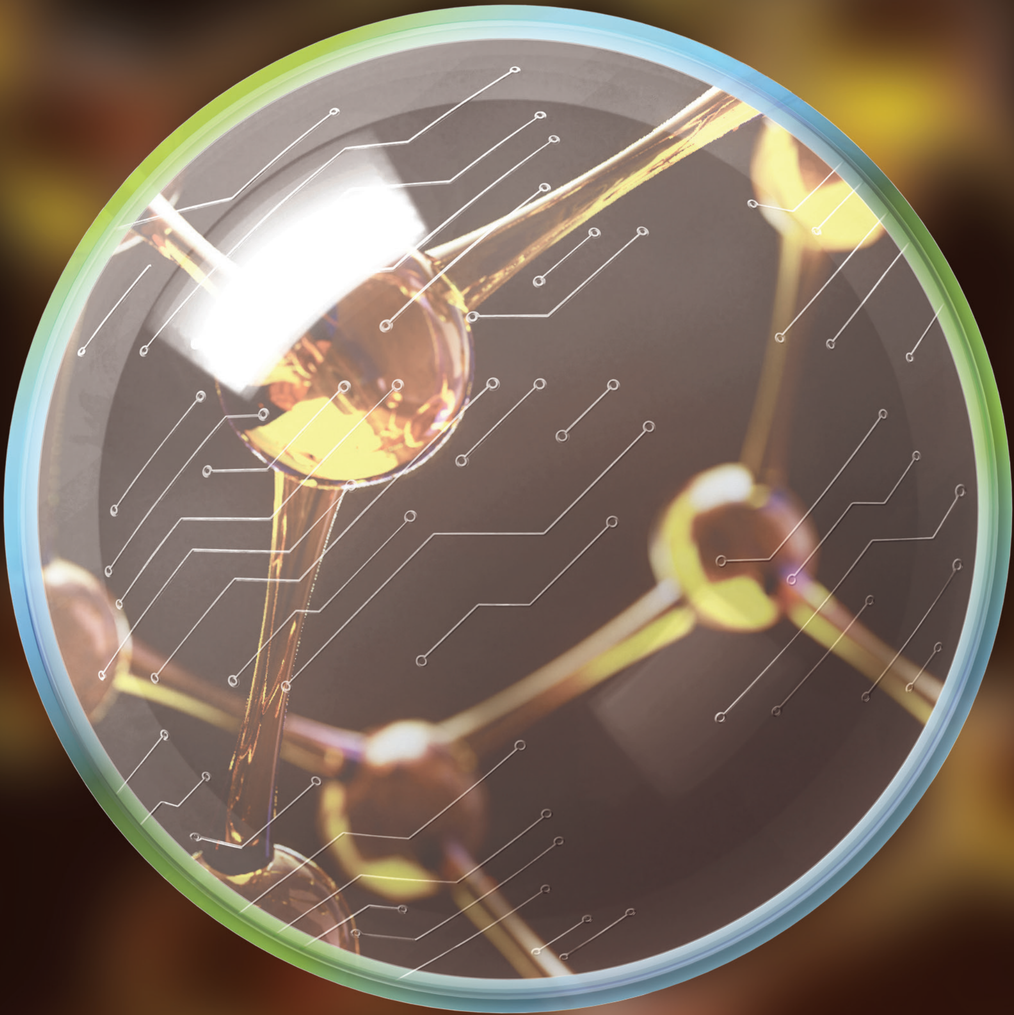
Deloitte.



Life Sciences Industry Accounting Guide

Statement of Cash Flows

March 2024

Other Deloitte Publications

Other Deloitte publications, such as our Roadmap Series, are available on the Deloitte Accounting Research Tool (DART), a comprehensive online library of accounting and financial disclosure literature. The Roadmap series includes titles on the following topics:

Business Acquisitions — SEC Reporting Considerations

Business Combinations

Carve-Out Financial Statements

Comparing IFRS Accounting Standards and U.S. GAAP

Consolidation — Identifying a Controlling Financial Interest

Contingencies, Loss Recoveries, and Guarantees

Contracts on an Entity's Own Equity

Convertible Debt (Before Adoption of ASU 2020-06)

Current Expected Credit Losses

Debt

Derivatives

Distinguishing Liabilities From Equity

Earnings per Share

Environmental Obligations and Asset Retirement Obligations

Equity Method Investees — SEC Reporting Considerations

Equity Method Investments and Joint Ventures

Fair Value Measurements and Disclosures (Including the Fair Value Option)

Foreign Currency Matters

Goodwill

Greenhouse Gas Protocol Reporting Considerations

Guarantees and Collateralizations — SEC Reporting Considerations

Hedge Accounting

Impairments and Disposals of Long-Lived Assets and Discontinued Operations

Income Taxes

Initial Public Offerings

Leases

Noncontrolling Interests

Non-GAAP Financial Measures and Metrics

Revenue Recognition

SEC Comment Letter Considerations, Including Industry Insights

Segment Reporting

Share-Based Payment Awards

Statement of Cash Flows

Transfers and Servicing of Financial Assets

Contents

Preface

The life sciences ecosystem encompasses a wide array of entities that discover, develop, and manufacture health care products. Such entities include pharmaceutical manufacturers; biotechnology companies; medical device, diagnostic, and equipment manufacturers; and service companies such as drug distributors, contract research organizations (CROs), contract manufacturing organizations (CMOs), and health technology companies.

Finance and accounting professionals in the life sciences industry face complex issues and must exercise significant judgment in applying existing rules to matters such as research and development (R&D) costs, acquisitions and divestitures, consolidation, contingencies, revenue recognition, income taxes, financial instruments, and financial statement presentation and disclosure. The 2024 edition of Deloitte's *Life Sciences Industry Accounting Guide* (the "Guide") addresses these and other relevant topics affecting the industry this year. It includes interpretive guidance, illustrative examples, recent standard-setting and rulemaking developments (through March 8, 2024), and key differences between U.S. GAAP and IFRS® Accounting Standards. In addition, this Guide discusses (1) accounting and financial reporting considerations associated with the macroeconomic and geopolitical environment that apply specifically to the life sciences industry, (2) environmental, social, and governance (ESG) matters that have become topics of increased focus, and (3) the impact of the Inflation Reduction Act of 2022 (IRA).

Appendix B lists the titles of standards and other literature we cited, and Appendix C defines the abbreviations we used. Key changes made to this Guide since publication of the 2023 edition are summarized in Appendix D.

We hope the Guide is helpful in navigating the various accounting and reporting challenges that life sciences entities face. We encourage clients to contact their Deloitte team for additional information and assistance.

Contacts

Jeff Ellis
U.S. and Global Audit Leader — Life Sciences
Life Sciences Industry Professional Practice Director
Deloitte & Touche LLP
+1 412 338 7204
jeellis@deloitte.com

Dennis Howell
National Office Senior Communications and Consultation Partner, Accounting and Reporting Services
Life Sciences Deputy Industry Professional Practice Director
Deloitte & Touche LLP
+1 203 761 3478
dhowell@deloitte.com

Chapter 7 — Statement of Cash Flows

7.1 Introduction

While the accounting principles underlying the statement of cash flows have been in place for many years, challenges in interpretation and preparation have consistently made the statement of cash flows one of the leading causes of restatements and comments from the SEC staff for life sciences entities. In Section 7.2 below, we highlight issues commonly encountered by life sciences entities that are associated with the classification of cash flows as operating, investing, or financing. For more information as well as insights into topics not addressed below, see Deloitte's Roadmap *Statement of Cash Flows*.

7.2 Industry Issues

7.2.1 Foreign Currency Cash Flows

The global nature of life sciences entities often gives rise to transactions that are denominated in a foreign currency and to businesses that operate in foreign functional currency environments. For example, the product supply chain structure for many life sciences entities involves the movement of materials and products across international borders throughout the manufacturing life cycle, giving rise to many transactions that are exposed to changes in the exchange rate.

For transactions denominated in a foreign currency, an entity should report the cash flow effects on changes in cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents by using the exchange rates in effect on the date of such cash flows. As noted in ASC 830-230-45-1, instead of using the actual exchange rate on the date of a foreign currency transaction, an entity may use an "appropriately weighted average exchange rate" for translation "if the result is substantially the same as if the rates at the dates of the cash flows were used."

A consolidated entity with operations whose functional currencies are foreign currencies may use the following approach when preparing its consolidated statement of cash flows:

- Prepare a separate statement of cash flows for each foreign entity by using the operation's functional currency.
- Translate the stand-alone cash flow statement prepared in the functional currency of each foreign entity into the reporting currency of the parent entity.
- Consolidate the individual translated statements of cash flows.

The effects of exchange rate changes, or translation gains and losses, are not the same as the effects of transaction gains and losses and should not be presented or calculated in the same manner. Effects of exchange rate changes may directly affect cash receipts and payments but do not directly result in cash flows themselves.

Because unrealized transaction gains and losses arising from the remeasurement of foreign-currency-denominated monetary assets and liabilities on the balance sheet date are included in the determination of net income, such amounts should be presented as a reconciling item between net income and net cash from operating activities (either on the face of the statement under the indirect method or in a separate schedule under the direct method). Subsequently, any cash flows arising from the settlement of the foreign-currency-denominated asset and liability should be presented in the statement of cash flows as an operating, investing, or financing activity on the basis of the nature of such cash flows.

Translation gains and losses, however, are recognized in other comprehensive income (OCI) and are not included in cash flows from operating, investing, or financing activities.

The effects of exchange rate changes on cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents should be shown as a separate line item in the statement of cash flows as part of the reconciliation of beginning and ending cash balances. This issue was discussed in paragraph 101 of the Basis for Conclusions of FASB Statement 95, which stated, in part:

> The effects of exchange rate changes on assets and liabilities denominated in foreign currencies, like those of other price changes, may affect the amount of a cash receipt or payment. **But exchange rate changes do not themselves give rise to cash flows, and their effects on items other than cash thus have no place in a statement of cash flows.** To achieve its objective, a statement of cash flows should reflect the reporting currency equivalent of cash receipts and payments that occur in a foreign currency. Because the effect of exchange rate changes on the reporting currency equivalent of cash held in foreign currencies affects the change in an enterprise's cash balance during a period but is not a cash receipt or payment, the Board decided that **the effect of exchange rate changes on cash should be reported as a separate item in the reconciliation of beginning and ending balances of cash**. [Emphasis added]

In a manner consistent with the implementation guidance in ASC 830-230-55-15, the effect of exchange rate changes on cash and cash equivalents is the sum of the following two components:

1. For each foreign entity, the difference between the exchange rates used in translating functional currency cash flows and the exchange rate at year-end multiplied by the net cash flow activity for the period measured in the functional currency.
2. The fluctuation in the exchange rates from the beginning of the year to the end of the year multiplied by the beginning cash balance denominated in currencies other than the reporting currency.

For more information about foreign currency accounting and reporting matters, see Deloitte's Roadmap *Foreign Currency Matters*.

7.2.2 Transactions Associated With Acquisitions

The life sciences industry continues to experience significant M&A activity, and transactions associated with acquisitions affect a company's statement of cash flows in a number of ways.

Cash flows related to the acquisitions of businesses, PP&E, and other productive assets are presented as investing activities in the statement of cash flows. For a business combination, all cash paid to purchase a business is shown as a single line item, net of any cash acquired. After an acquisition, the cash flows of the acquirer and acquiree are combined and presented in a consolidated statement of cash flows.

An entity may also need to consider other financial reporting implications of a business combination, depending on the nature and terms of the transaction. For example, any noncash effects of an acquisition that involves noncash consideration must be disclosed in a narrative format or summarized in a schedule.

For additional considerations related to an entity's accounting for a business combination, see Deloitte's Roadmap *Business Combinations*.

7.2.2.1 Presentation of Acquisition-Related Costs

When consummating a business combination, an acquirer frequently incurs acquisition-related costs such as advisory, legal, accounting, valuation, and professional and consulting fees. Except for certain debt and equity issuance costs, ASC 805 requires that an entity expense all such acquisition-related costs as incurred. The costs of issuing debt or equity securities as part of a business combination are recognized in accordance with other applicable accounting literature.

In the deliberations before the issuance of FASB Statement 141(R) (codified in ASC 805), the FASB determined that acquisition-related costs are not considered part of the fair value exchange between the buyer and seller of the business; rather, they are separate transactions in which the buyer pays for services that it receives. Further, the definition of "operating activities" in the ASC master glossary states, in part, that "[c]ash flows from operating activities are generally the cash effects of transactions and other events that enter into the determination of net income." Because acquisition-related costs accounted for under ASC 805 are expensed and affect net income, these costs should be reflected as operating cash outflows in the statement of cash flows.

7.2.2.2 Debt in a Business Combination

An acquirer may sometimes pay cash to settle all or a portion of the acquiree's outstanding debt on, or shortly after, the acquisition date. Generally, only amounts given to former owners of the acquiree are reported as consideration transferred. However, if the acquiree's preacquisition debt includes a change-in-control provision as described below, cash paid to settle the acquiree's outstanding debt is sometimes presented as consideration transferred rather than as a liability assumed in the acquisition.

An acquiree's preacquisition debt agreement may include a provision that requires, or is at the discretion of the lender, that the debt be repaid upon a change in control of the acquiree so that the acquirer has no discretion regarding whether the debt can remain outstanding after the acquisition date. In that case, the acquirer may consider whether the repayment of the debt could be reported as part of the consideration transferred rather than as a liability assumed in the accounting for the acquisition. If it is determined that the acquiree's debt with the preexisting change-in-control provision was not assumed by the acquirer, the debt repayment may be considered part of the consideration transferred in the accounting for the acquisition (i.e., as if the acquirer repaid the debt on the acquiree's behalf). However, if it is determined that the debt was assumed by the acquirer, the debt is accounted for as a liability assumed in the accounting for the acquisition.

In some cases, there may be a short administrative delay (i.e., one or two days) in the acquirer's repayment of the acquiree's debt when such repayment is required. We believe that in such cases, the cash paid to settle the acquiree's debt might also be reported as consideration transferred if the acquirer is deemed to not have assumed the risks inherent in the debt.

Regardless of whether the repayment of the acquiree's debt is presented as consideration transferred or as a liability assumed, the amount of goodwill reported will not change (see Examples 7-1 and 7-2), but the acquirer should ensure that its financial statements are presented consistently throughout. That is, if the acquirer concludes that it did not assume the acquiree's debt, the amount paid to settle the debt should be accounted for and disclosed as part of the consideration transferred. In addition, in such a case, the acquirer should present the repayment as an investing cash outflow in a manner consistent with how it would present cash consideration paid in a business combination.

By contrast, if the acquirer concludes that it assumed the acquiree's debt, the debt should be accounted for and disclosed as a liability assumed in the acquisition accounting. The acquirer would present the repayment as a financing cash outflow in a manner consistent with how it would present the repayment of its own debt obligations outside of a business combination.

Example 7-1

Acquirer Does Not Assume Acquiree's Debt

Company A acquires Company B in a business combination. Before the acquisition, B had $1 million in outstanding debt owed to a third-party bank that it was required to settle upon a change in control of B. Company A pays the seller $5 million in cash and repays the $1 million directly to the bank at the closing of the business combination. Company A concludes that it did not assume B's debt (i.e., that it repaid the debt on B's behalf). As of the acquisition date, B's net assets recognized in accordance with ASC 805 are $4 million. Company A calculates the goodwill resulting from the acquisition of B as follows:

Cash consideration paid to the seller	$ 5,000,000
Repayment of B's debt	1,000,000
Total consideration transferred to acquire B	6,000,000
Less: B's net assets under ASC 805	(4,000,000)
Goodwill	$ 2,000,000

Because A did not assume B's debt, the total consideration transferred is $6 million in cash. Therefore, A should present the $6 million as an investing outflow in its statement of cash flows.

Example 7-2

Acquirer Assumes Acquiree's Debt

Assume the same facts as in the example above, except that Company A concludes that it assumed Company B's debt. As a result, B's net assets recognized in accordance with ASC 805 are $3 million (i.e., $4 million less $1 million in debt). Company A calculates the goodwill resulting from the acquisition of B as follows:

Consideration transferred to acquire B		$ 5,000,000
Less: B's total net assets under ASC 805:		
B's net assets under ASC 805, excluding debt assumed	$ 4,000,000	
Liability assumed for B's debt	(1,000,000)	
		3,000,000
Goodwill		$ 2,000,000

Because A assumed B's debt, the consideration transferred is $5 million in cash paid to the seller, and the $1 million to repay B's debt is a liability assumed in the acquisition accounting. Therefore, A should present $5 million as an investing outflow and $1 million as a financing outflow in its statement of cash flows.

For additional considerations related to an entity's accounting for debt in a business combination, see Deloitte's Roadmap *Business Combinations*.

7.2.2.3 Contingent Consideration Classified as a Liability

It is common in business combinations entered into by life sciences companies for a portion of the consideration to be contingent on future events. ASC 805 requires the acquirer to recognize the acquisition-date fair value of the contingent consideration arrangement as part of the consideration transferred in exchange for the acquiree. The contingent consideration arrangement is classified either as a liability or as equity in accordance with applicable U.S. GAAP. In transactions involving life sciences companies, contingent consideration is frequently classified as a liability. See Section 4.2.2.2 for further discussion of contingent consideration.

If the acquiring entity determines that the contingent consideration arrangement should be classified as a liability, the initial fair value of the contingent consideration as of the acquisition date should be reflected as a **noncash** investing activity. In accordance with ASC 230-10-50-3, this arrangement should be either disclosed narratively or summarized in a schedule because no cash consideration is transferred on the acquisition date. It should not be reflected in investing activities. In subsequent periods, the contingent consideration liability must be remeasured at fair value as of each reporting date until the contingency is resolved, with the changes recognized as an expense in the determination of earnings (unless the change is the result of a measurement-period adjustment or the arrangement is a hedging instrument for which ASC 815 requires changes to be recognized in OCI). Because the subsequent fair value adjustment enters into the determination of the acquiring entity's net income and is a noncash item, it should be reflected as a reconciling item between net income and cash flows from operating activities in the statement of cash flows.

If the contingent consideration is satisfied in either cash or cash equivalents upon resolution of the contingency, the classification of payments made to settle the contingent consideration liability should be determined on the basis of when such payments are made in relation to the date of the business combination. Essentially, classification of the payments depends on whether they are made soon after the acquisition in a business combination transaction. While ASC 230 does not define the term "soon after," we generally believe that this term would apply to payments made within three months or less of the acquisition date. This view is also consistent with paragraph BC16 of ASU 2016-15, which states, in part, that "some Task Force members believe that a payment for contingent consideration that was made soon after a business combination is an extension of the cash paid for the business acquisition (an investing activity), if that payment for contingent consideration was made within a relatively short period of time after the acquisition date (for example, three months or less)." Therefore, because a payment made on or soon after the business combination date (to settle the liability related to contingent consideration) is viewed as an extension of the business combination, such payments made soon after the date of the business combination are presented as investing activities in the acquirer's statement of cash flows in accordance with ASC 230-10-45-13(d).

Conversely, contingent consideration payments that are not made on the acquisition date or soon after the business combination are not viewed as an extension of the business combination. Therefore, such payments should be separated and presented as:

- *Financing cash flows* — The cash paid to settle the contingent consideration liability recognized at fair value as of the acquisition date (including measurement-period adjustments), less payments made soon after the business combination date, should be reflected as a cash outflow for financing activities in accordance with ASC 230-10-45-15(f).
- *Operating cash flows* — The cash payments not made soon after the business combination date that exceed those classified as financing activities should be reflected as a cash outflow for operating activities in accordance with ASC 230-10-45-17(ee).

As indicated in paragraph BC14 of ASU 2016-15, the separation of contingent consideration payments not made soon after the business combination date is consistent with the approach most entities used before the ASU was issued. Paragraph BC14 further notes that this approach is the one that is most closely aligned with certain principles in ASC 230.

These principles include the following:

- The cash paid to settle the contingent consideration liability recognized at fair value as of the acquisition date (including measurement-period adjustments) should be reflected as a cash outflow for financing activities in the statement of cash flows. Effectively, the acquiring entity financed the acquisition and the cash outflow therefore represents a subsequent payment of principal on the borrowing and should be reflected in accordance with ASC 230-10-45-15(f).
- The remaining portion of the amount received/paid (i.e., the changes in fair value of the contingent consideration liability after the acquisition date) should be reflected as a cash inflow/outflow from operating activities because the fair value adjustments were recognized in earnings. If the amount paid to settle the contingent consideration liability is less than the amount recorded on the acquisition date (i.e., the fair value of the contingent consideration decreased), the entity would only reflect the portion of the liability that was paid as a cash outflow for financing activities. The difference between the liability and the amount paid is a fair value adjustment. This adjustment enters into the determination of the acquiring entity's net income and is a noncash item, so it should be reflected as a reconciling item between net income and cash flows from operating activities in the consolidated statement of cash flows.

Example 7-3

On December 1, 20X2, Company A (a calendar-year-end private company) acquires 100 percent of Company B for $1 million. The purchase agreement includes a contingent consideration arrangement under which A agrees to pay additional cash consideration if the earnings of B (which will be operated as a separate subsidiary of A) exceed a specified target for the year ended December 31, 20X3. Company A classifies the contingent consideration arrangement as a liability and records the contingent consideration liability at its acquisition-date fair value amount, provisionally determined to be $500,000.

On April 15, 20X3, A finalizes its valuation of the contingent consideration liability. Therefore, A estimates the acquisition-date fair value of the contingent consideration liability to be $600,000 and records a measurement-period adjustment of $100,000 (the measurement-period adjustment related to facts and circumstances that existed as of the acquisition date), with an offsetting adjustment to goodwill.

Company B achieves the performance target for the year ended December 31, 20X3; accordingly, A determines that it must pay $750,000 to B's former owners to settle the contingent consideration arrangement. For the year ended December 31, 20X3, A recognizes $150,000 ($750,000 – $600,000) in earnings to reflect the subsequent remeasurement of the contingent consideration liability to fair value. On January 31, 20X4, A settles the obligation.

No payments to settle the liability for contingent consideration were made soon after the business acquisition date.

Example 7-3 (continued)

Company A would present the following amounts in its statement of cash flows for the years ended:

- *December 31, 20X2* — The provisional accrual of $500,000 would be reflected as a **noncash** investing activity and would be either disclosed narratively or summarized in a schedule.
- *December 31, 20X3* — The adjustment to the provisional accrual of $100,000 would be reflected as a **noncash** investing activity and would be either disclosed narratively or summarized in a schedule. The subsequent remeasurement adjustment to the contingent consideration liability of $150,000 would be reflected as a reconciling item between net income and cash flows from operating activities.
- *December 31, 20X4* — Of the $750,000 paid, $600,000 represents the amount to settle the contingent consideration liability recognized at fair value as of the acquisition date (including measurement-period adjustments) and should be reflected as a cash outflow for financing activities. The remaining portion of the $750,000 paid (i.e., the $150,000 change in fair value of the contingent consideration liability after the acquisition date) should be reflected as a cash outflow for operating activities because the fair value adjustments were recognized in earnings.

Example 7-4

Assume the same facts as in the example above except that when B achieves the performance target for the year ended December 31, 20X3, A determines that it only needs to pay $550,000 to B's former owners to settle the contingent consideration arrangement. For the year ended December 31, 20X3, A recognizes a credit of $50,000 ($550,000 – $600,000) in earnings to reflect the subsequent remeasurement of the contingent consideration liability to fair value.

Company A would present the same amounts as those in the example above in its statement of cash flows for the year ended December 31, 20X2. Company A would then present the following amounts for the years ended:

- *December 31, 20X3* — The adjustment to the provisional accrual of $100,000 would be reflected as a **noncash** investing activity and would be either disclosed narratively or summarized in a schedule. The subsequent remeasurement adjustment to the contingent consideration liability of $50,000 would be reflected as a reconciling item between net income and cash flows from operating activities.
- *December 31, 20X4* — The entire amount of the $550,000 paid represents the amount to settle the contingent consideration liability recognized at fair value as of the acquisition date (including measurement-period adjustments) and should be reflected as a cash outflow for financing activities.

Connecting the Dots

Life sciences companies sometimes acquire intangible assets (e.g., product rights) in transactions accounted for as asset acquisitions that may also provide the buyer extended payment terms for consideration payable that is otherwise fixed. Because these transactions are accounted for as asset acquisitions, the above guidance does not apply. Instead, we believe that entities should look to the guidance in ASC 230-10-45-29, which states that the reconciliation of net income to net cash flows from operating activities must separately report all major classes of reconciling items, "including, at a minimum, changes during the period . . . in payables pertaining to operating activities," and ASC 230-10-45-13(c), which characterizes payments "at the time of purchase or soon before or after purchase to acquire property, plant, and equipment and other productive assets" as cash outflows for investing activities. The SEC staff has informally interpreted the term "soon" in this context as indicating a period of three months or less, which is consistent with the period used for other ASC 230 considerations (e.g., the definition of cash equivalents in ASC 230-10-20, the determination of net or gross presentation in ASC 230-10-45-9, and contingent consideration classified as a liability).

Therefore, the change in accounts payable included in the reconciliation of net income to net cash flows from operating activities should exclude changes in payables related to investing or financing transactions (e.g., the change in payables incurred in the current and previous reporting periods to acquire such assets). Further, in the period in which the payable is settled, the amount paid should be classified as a cash outflow for investing activities or financing activities, depending on the payment terms of the transaction. If the terms of the transaction require payment within three months of the transaction date, the payment would be classified as an investing outflow. Generally, if the payment terms of the transaction extend beyond three months, any payment made after three months would be classified as a financing outflow. However, there may be limited circumstances in which payments made after three months (but less than one year) could be classified as investing outflows — for example, if payment terms extend beyond three months but such terms are consistent with standard industry practice as well as with terms that are customary for the vendor. Entities are encouraged to discuss these circumstances with their accounting advisers. Payments made in connection with terms that require discounting under ASC 835 (i.e., generally of more than one year) should be classified as financing outflows even if the payment terms are consistent with industry practice and considered customary for the vendor.

7.2.2.4 Acquired IPR&D Assets With No Alternative Future Use

The acquisition of IPR&D assets as part of either a business combination or an asset acquisition is common in the life sciences industry. In accordance with ASC 730, IPR&D assets acquired in an asset acquisition rather than in a business combination should be expensed as of the acquisition date unless such assets have an alternative future use, in which case they should be capitalized. All IPR&D assets acquired in a business combination should initially be capitalized regardless of whether they have an alternative future use. See Chapter 4 for additional information.

We have observed diversity in practice related to how cash payments for IPR&D assets acquired in an asset acquisition are reported in the statement of cash flows when such assets have no alternative future use. While some entities classify the cash payments in operating activities, other entities classify them in investing activities. Given the lack of authoritative guidance on this matter and the diversity in practice, we believe that it is acceptable for an entity to present cash payments related to the IPR&D assets acquired in an asset acquisition that have no alternative use as either operating or investing activities. This election is an accounting policy matter that an entity should consistently apply to similar arrangements and disclose if material.

Considerations related to the classification as operating or investing activities include:

- *Operating activities* — Classification in operating activities of cash outflows for IPR&D assets acquired in an asset acquisition that do not have an alternative future use is supported by the following:
    - ASC 230 does not specifically define such cash outflows as investing or financing activities.
    - Since such cash outflows are immediately expensed, they represent "the cash effects of transactions and other events that enter into the determination of net income" in a manner consistent with the definition of operating activities in the ASC master glossary.

- *Investing activities* — Classification in investing activities of cash outflows for IPR&D assets acquired in an asset acquisition that do not have an alternative future use is supported by the following Q&A in paragraph 5.12 of the AICPA Accounting and Valuation Guide *Assets Acquired to Be Used in Research and Development Activities*:

  > *Question 1:* How should an acquiring entity classify in its statement of cash flows an R&D charge associated with the costs of IPR&D projects acquired as part of an asset acquisition that have no alternative future use?
  >
  > *Answer:* Best practices suggest that an acquiring entity should report its cash acquisition of assets to be used in R&D activities as an investing outflow in its statement of cash flows. In this regard, an acquiring entity should treat assets acquired to be used in R&D activities similar to how it reports other acquired assets in the statement of cash flows. Although acquired IPR&D may lack an alternative future use and, therefore, would be expensed immediately, it is still an asset for cash flow statement purposes.
  >
  > When arriving at cash flows from operating activities under the indirect method of reporting cash flows, best practices suggest that an acquiring entity should add back to net income the costs of assets acquired to be used in R&D activities that are charged to expense. That adjustment is necessary to eliminate from operating cash flows those cash outflows of assets acquired to be used in R&D activities that are reflected in investing activities.

  In addition, if the cash outflows are treated as investing activities, the cash flow reporting of IPR&D assets acquired in a business combination would be aligned with that of IPR&D assets acquired in an asset acquisition.

7.2.2.5 Settlement of Acquired Liabilities After a Business Combination

After an acquisition, the acquirer may make payments to settle a liability legally assumed in a business combination. The cash outflow related to the settlement of the liability could be classified as an operating, investing, or financing activity depending on the nature of the payment. The payment should be classified as it would have been in the absence of the business combination. For example:

- If the payment was for inventory purchased on account, it would represent an operating cash outflow.
- If the payment was for PP&E that was purchased on account and was paid within three months of its original purchase date, it would represent an investing cash outflow.
- If the payment was in connection with a debt obligation legally assumed in an acquisition that remained outstanding after the acquisition, it would represent a financing cash outflow. However, as described in Section 7.2.2.2, if the payment is related to debt extinguished in conjunction with a business combination, the entity must consider certain facts and circumstances of the business combination to determine the appropriate presentation in its statement of cash flows.

7.2.3 Stock Compensation

The complexity of stock compensation arrangements often leads to additional presentation issues related to a life sciences entity's statement of cash flows. Two of the more common issues encountered by life sciences entities are addressed below.

7.2.3.1 Settlement of Equity-Classified Share-Based Payment Awards

When settling an equity-classified share-based payment award, an entity presents the settlement in its statement of cash flows on the basis of whether the amount paid to settle the award is greater than or less than the fair-value-based measure of the award on the settlement date:

- *Amount paid to settle the award does not exceed the fair-value-based measure of the award on the settlement date* — In accordance with ASC 718-20-35-7, if the cash paid to repurchase the equity-classified award does not exceed the fair-value-based measure of the award on the repurchase date, the cash paid to repurchase the award is charged to equity. That is, repurchase of the equity-classified award is viewed as reacquisition of the entity's equity instruments. Accordingly, the cash paid to reacquire the entity's equity instruments is presented as a cash outflow for financing activities under ASC 230-10-45-15(a), which indicates that payments of dividends or other distributions to owners, including outlays to reacquire the entity's equity instruments, are cash outflows for financing activities.
- *Amount paid to settle the award exceeds the fair-value-based measure of the award on the settlement date* — If the cash paid to repurchase the equity-classified award exceeds the fair-value-based measure of the award on the repurchase date, the cash paid in excess of the fair-value-based measure of the award is viewed as compensation for additional employee services and is recognized as additional compensation cost. Accordingly, if the equity-classified award is repurchased for an amount in excess of the fair-value-based measure, the portion of the cash paid to reacquire the entity's equity instruments that equals the fair-value-based measure of the award is presented as a cash outflow for financing activities under ASC 230-10-45-15(a). The portion of the cash paid in excess of the fair-value-based measure, for additional employee services, is presented as a cash outflow for operating activities under ASC 230-10-45-17(b), which notes that cash payments to employees for services are cash outflows for operating activities.

Example 7-5

Company A is making a tender offer to repurchase $20 million of common stock in the aggregate (the stock was originally distributed as share-based compensation awards) from its current employees. On the basis of an independent third-party valuation, A concludes that the purchase price paid to the employees for the common stock exceeds the fair value of the common stock by a total of $4.5 million. In accordance with ASC 718-20-35-7, the amount paid to employees up to the fair value of common stock acquired should be recognized in equity as a treasury stock transaction and should therefore be presented as a cash outflow for financing activities. The $4.5 million that was paid in excess of the fair value of the common stock constitutes compensation expense and is therefore presented as a cash outflow for operating activities.

7.2.3.2 Settlement of Liability-Classified Share-Based Payment Awards

In accordance with ASC 718-30, the grant-date fair-value-based measure and any subsequent changes in the fair-value-based measure of a liability-classified award through the date of settlement are recognized as compensation cost. Accordingly, the cash paid to settle the liability-classified award is effectively payment for employee services and is presented as a cash outflow for operating activities under ASC 230-10-45-17(b).

Note that an entity may enter into an agreement to repurchase (or offer to repurchase) an equity-classified award for cash. Depending on the facts and circumstances, the agreement to repurchase (or offer to repurchase) may be accounted for as either (1) a settlement of the equity-classified award or (2) a modification of the equity-classified award that changes the award's classification from equity to liability, followed by a settlement of the now liability-classified award.

If the agreement to repurchase (or offer to repurchase) is considered a settlement of an equity-classified award, the cash paid to reacquire the entity's equity instruments is presented in a manner consistent with the equity awards discussed in Section 7.2.3.1. If the agreement to repurchase (or offer to repurchase) is considered a modification of the equity-classified award that changes the award's classification from equity to liability, the cash paid to settle the liability-classified award should be presented in the statement of cash flows in a manner similar to the conclusion above. That is, under ASC 230-10-45-17(b), the cash paid to settle the liability-classified award is effectively payment for employee services and is presented as a cash outflow for operating activities.

7.2.4 Government Grants

Government grants are a form of government assistance that may be granted to entities, either to encourage those entities to fulfill certain objectives (e.g., providing a financial grant to an entity to fund cancer research) or to assist them during times of crisis (e.g., the Coronavirus Aid, Relief, and Economic Security Act [the "CARES Act"]). Generally, a recipient of a government grant is not expected to repay the grant provided that the recipient complies with the grant's conditions.

Not all government assistance is provided to a recipient in the form of a cash payment. For example, a government grant could be in the form of tax credits. In these situations, an entity must determine whether the tax credits are refundable.

Refundable tax credits (e.g., qualifying R&D credits in certain countries and state jurisdictions and alternative fuel tax credits for U.S. federal income tax) do not depend on an entity's ongoing tax status or tax position, allowing an entity to receive a refund despite being in a taxable loss position. Consequently, the refundable tax credits are similar to government grants and are generally accounted for similarly. This section discusses such tax credits as well as other government grants. For more information on the accounting for refundable tax credits, see Section 2.7 of Deloitte's Roadmap *Income Taxes*.

Tax credits whose realization ultimately depends on taxable income (e.g., investment tax credits and R&D) are not refundable. Such tax credits are recognized as a reduction of income tax, should be accounted for in accordance with ASC 740, and are not discussed in this section. Entities are encouraged to consult with their accounting advisers when it is not clear whether tax credits are refundable.

In determining the appropriate cash flow presentation of government grants (that are not tax credits recognized as a reduction of income tax and accounted for in accordance with ASC 740), it is important to consider the nature of the grants since government assistance can take many different forms. We consider government grants related to long-lived assets to be capital grants and grants related to income to be income grants, as discussed below. However, some government grants may have aspects of both capital grants and income grants (i.e., the grant may be intended to subsidize the purchase of long-lived assets and certain operating costs). Therefore, entities subject to multiple conditions should carefully assess the grant received and should consider the guidance in Section 7.2.6.1 of this Guide.

7.2.4.1 Capital Grant

The classification of a capital grant in the statement of cash flows depends on the timing of the cash receipt compared with the timing of the associated costs to which the grant is related. If an entity receives the cash from the grant after it has incurred the capital costs, it would be appropriate to present the cash inflow from the government in the same category (i.e., investing) as the original payment for the associated long-lived asset.

However, if the grant funding is received before the expenditures have been incurred, it would be appropriate for the entity to present that cash inflow as a financing activity, because receiving the cash before incurring the related cost would be similar to receiving a refundable loan advance or to an NFP's receipt of a contribution of a refundable advance that, according to the donor's stipulation, is restricted for capital investment. ASC 230-10-45-14(c) requires that the following be classified as cash inflows from financing activities:

> Receipts from contributions and investment income that by donor stipulation are restricted for the purposes of acquiring, constructing, or improving property, plant, equipment, or other long-lived assets or establishing or increasing a donor-restricted endowment fund.

In addition, when the entity incurs the costs in accordance with the conditions of the government grant, it should disclose the existence of a noncash financing activity resulting from the fulfillment of the grant requirements.

Example 7-6

Entity C is entitled to receive $100 million in tax credits upon completing a new manufacturing facility and obtaining a certificate of occupancy from the local authority. Because C does not need to incur a tax liability to collect the tax credits, the tax credits are refundable and are not within the scope of ASC 740.

On December 31, 20X1, C starts the construction of the facility and presents the capital expenditures as an investing activity in its statement of cash flows. On December 31, 20X2, C completes the manufacturing facility and pays the remaining total construction costs. On January 1, 20X3, C obtains the certificate of occupancy and receives the $100 million in tax credits.

In this example, because the construction costs are classified as an investing activity in C's statement of cash flows and the payments are made before the receipt of the grant, C would present the grant monies as an investing activity in its statement of cash flows for 20X3.

Example 7-7

Assume the same facts as in the example above except that the grant monies are received before any capital expenditures are incurred. Entity C would record the grant monies as an asset with a corresponding liability on the balance sheet. The receipt of the grant would be reflected as a financing cash inflow in the statement of cash flows in accordance with ASC 230-10-45-14(c).

Connecting the Dots

When a for-profit entity applies the IAS 20 framework, the classification of cash flows associated with a capital grant is generally determined on the basis of when the entity receives the grant. The entity should classify cash received for a capital grant as a financing cash inflow if the entity receives the cash before incurring the cost of the long-term construction project to which the grant is related. In contrast, the entity should classify the cash proceeds from a capital grant as an investing cash inflow if the entity receives the grant after incurring the cost of the project.

However, in accordance with ASC 958-605, an NFP must recognize all government grants as contributions received. Therefore, we believe that such an entity should apply the guidance in ASC 230-10-45-14(c), which states that the entity should present as a financing cash inflow any "[r]eceipts from contributions and investment income that by donor stipulation are restricted for the purposes of acquiring, constructing, or improving property, plant, equipment, or other long-lived assets or establishing or increasing a donor-restricted endowment fund." Accordingly, an NFP applying this guidance would classify the cash received from a government grant contribution as a financing cash inflow, without regard to the timing of when it receives the grant proceeds.

Although NFPs are required to apply the guidance above, for-profit entities can also apply the framework in ASC 958-605 — and, accordingly, the guidance in ASC 230-10-45-14(c) — by analogy in accounting for capital grants.

7.2.4.2 Income Grant

Similarly, if an entity receives an income grant as reimbursement for qualifying operating expenses, the grant would be presented in the statement of cash flows as an operating activity if it was received after the operating expenses were incurred. However, some entities may believe that when cash is received before the qualifying operating expenses are incurred, it would be appropriate to present the cash inflow as a financing activity for the advance in a manner consistent with the guidance for capital grants above. Alternatively, others may believe that it is acceptable to present the cash inflow as an operating activity if the entity expects to comply with the terms of the grant (e.g., an advance on future payroll taxes credit) so that both the inflow and outflow are presented in the operating category. Given the absence of explicit guidance, we believe that either approach is acceptable. An entity's election of one of the above approaches is a matter of accounting policy that the entity should disclose and apply consistently in similar arrangements.

Example 7-8

Entity P is awarded a government grant to receive up to $50 million of aggregate funding for certain R&D activities. The intent of the government grant is for P to perform R&D activities to achieve the grant's stated objectives. Grant funding is provided after qualifying R&D costs are incurred by P.

Entity P records R&D expenses as period expenses and classifies the cash outflows for the R&D expenses as an operating activity in its statement of cash flows. Therefore, P should classify the cash inflows from receipt of grant monies as an operating activity in its statement of cash flows.

7.2.5 Cash Proceeds From Insurance Claims

ASC 230-10-45-21B states that "[c]ash receipts resulting from the settlement of insurance claims, excluding proceeds received from corporate-owned life insurance policies and bank-owned life insurance policies, shall be classified on the basis of the related insurance coverage (that is, the nature of the loss)." In addition, for lump-sum settlements, "an entity shall determine the classification on the basis of the nature of each loss included in the settlement." The purpose of such clarifications is to provide financial statement users with more relevant information.

For example, insurance settlement proceeds received as a result of a claim made in connection with the destruction of productive assets should be classified as cash inflows from investing activities because the settlement proceeds could be analogous to proceeds received on the sale of such assets. However, proceeds received as a result of claims related to a business interruption should be classified as operating activities.

7.2.6 Classification of Certain Cash Receipts and Cash Payments

7.2.6.1 More Than One Class of Cash Flows

Certain cash receipts and payments may have aspects of more than one class of cash flows. Paragraph BC39 of ASU 2016-15 provides guidance on "when an entity should separate cash receipts and cash payments and classify them into more than one class of cash flows . . . and when an entity should classify the aggregate of those cash receipts and payments into one class of cash flows based on predominance." The classification of cash receipts and payments that have aspects of more than one class of cash flows should be determined by first applying specific guidance in U.S. GAAP. When such guidance is not available, financial statement preparers should separate each identifiable source or use of cash flows within the cash receipts and cash payments on the basis of the nature of the underlying cash flows. Each separately identified source or use of cash receipts or payments should then be classified on the basis of its nature. Classification based on the activity that is most likely to be the predominant source or use of cash flows is only appropriate when the source or use of cash receipts and payments has multiple characteristics and is not separately identifiable.

In accordance with ASC 230, the classification of cash flows with characteristics of more than one class of cash flows is a three-step process and, as noted above, an entity should not default to classification based on predominance. Unless an entity can conclude that sources or uses of cash payments or receipts are not separately identifiable, the entity must first allocate amounts of each cash receipt or payment that has aspects of more than one class of cash flows on the basis of the nature of the underlying cash flows for each separately identifiable source or use of cash. However, because the guidance does not define the term "separately identifiable," entities must use judgment when applying the guidance.

For additional information on the application of this three-step approach, see Section 6.4 of Deloitte's Roadmap *Statement of Cash Flows*.

7.2.6.2 Classification of Cash Flows of Repayments of Zero-Coupon Bonds and Other Debt Instruments With Coupon Interest Rates That Are Insignificant in Relation to the Effective Interest Rate of the Borrowing

An entity that issues zero-coupon bonds to an investor records the proceeds from the bonds' issuance as a financing cash inflow. The bonds are accreted to their redemption value in accordance with the "interest" method,[1] as described in ASC 835 (i.e., the carrying amount of the bonds increases from issuance until maturity [or earlier if prepayment is allowed] for the accrued interest to arrive at the bonds' redemption value). On the maturity date (or earlier if prepayment is allowed), the entity repays (1) the original proceeds (the principal amount of the bonds) and (2) the accrued interest from the date of issuance. Before the bonds' maturity (or the date of prepayment, if earlier), the interest expense is presented in the statement of cash flows as a reconciling item between net income and cash flows from operating activities, since no interim cash payments are made for the periodic accrual of interest.

At redemption, the cash paid to settle the interest component is reflected as a cash outflow from operating activities in the statement of cash flows in accordance with ASC 230-10-45-17 and ASC 230-10-45-25 as the accrued interest is recognized in earnings. The cash paid to settle the principal is reflected as a cash outflow from financing activities in the statement of cash flows in accordance with ASC 230-10-45-15.

In addition to zero-coupon bonds, the guidance in ASC 230-10-45-15, ASC 230-10-45-17, and ASC 230-10-45-25 also applies to other debt instruments "with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing that is attributable to the principal." The objective of including these other debt instruments (rather than all debt instruments) is to improve comparability related to entities' presentation of economically similar transactions.

[1] ASC 835-30-35-4 states that "[o]ther methods of amortization may be used if the results obtained are not materially different from those that would result from the interest method."

Connecting the Dots

ASC 230 does not define the term "insignificant" or otherwise provide guidance on what would constitute insignificant coupon rates. Consequently, entities that issue other debt instruments with coupon rates that are insignificant in relation to the effective interest rate attributable to the principal will most likely need to exercise greater judgment in evaluating the portion of the rates that is insignificant. We generally believe that an entity should determine whether an interest rate is insignificant by looking to the market. For example, a 1 percent coupon rate may not be insignificant if the market rate is 2 percent. However, an entity may conclude that a 1 percent coupon rate is insignificant compared with a market rate of 10 percent and that the 1 percent rate is therefore within the scope of ASC 230-10-45-15, ASC 230-10-45-17, and ASC 230-10-45-25.

While the guidance in ASC 230-10-45-15, ASC 230-10-45-17, and ASC 230-10-45-25 specifically addresses only the debtor's cash flow statement classification, we believe that it is also relevant to the investor's cash flow statement classification. Therefore, we think that the following payments should be classified as operating activities: (1) the portion of payments received upon settlement of zero-coupon debt instruments that is attributable to accreted interest and (2) the portion of payments received upon settlement of other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing that is attributable to accreted interest (including debt instruments that contain periodic interest coupons that are payable in kind). The principal portion received on these debt instruments would continue to be classified as investing activities.

7.2.6.3 Distributions From Equity Method Investments

ASC 230 distinguishes between returns of investment, which should be classified as cash inflows from investing activities (see ASC 230-10-45-12(b)), and returns on investment, which should be classified as cash inflows from operating activities (see ASC 230-10-45-16(b)). Accordingly, to make the appropriate classification in the statement of cash flows, entities must determine whether distributions received from an equity method investee represent a "return on" or a "return of" the related investment.

ASC 230-10-45-21D indicates that there are two acceptable methods for determining whether distributions from equity method investments are returns on investment or returns of investment. Under the first method (the "cumulative earnings" approach), distributions are presumed to be returns on investment. When classifying the related cash flows under this approach, an entity should compare cumulative (i.e., since inception) distributions received by the investor, less distributions received in prior periods that were determined to be returns of investment, with the investor's cumulative equity in earnings. Cumulative distributions received that do not exceed cumulative equity in earnings represent returns on investment and should be classified as cash inflows from operating activities. Cumulative distributions received in excess of the investor's cumulative equity in earnings represent returns of investment and therefore should be classified as cash inflows from investing activities.

Under the second method (the "nature-of-the-distribution" approach), an entity evaluates the specific facts and circumstances of each distribution to determine its nature. Unlike the cumulative earnings approach, the nature-of-the-distribution approach does not presume that a distribution is a return on investment; rather, an entity using this approach must conduct an analysis to determine the nature of each distribution and may be required to use significant judgment in making this determination. Examples of distributions that may represent returns of investment include, but are not limited to, liquidating dividends and dividends representing proceeds from the sale of PP&E. These distributions should be classified as cash inflows from investing activities to the extent that they are considered to represent returns of investment.

An entity can elect to apply either of these approaches as an accounting policy and must select a single method for all of its equity method investments. Under either approach, an entity should comply with the disclosure requirements in ASC 235-10-50-1 through 50-6. However, if an entity selects the nature-of-the-distribution approach for its equity method investments but cannot obtain the information it needs to evaluate the nature of the distributions for any individual equity method investment, the entity must report a change in accounting principle retrospectively by applying the "cumulative earnings" approach to any such equity method investment. In other words, an entity is not required to apply the cumulative earnings approach to all of its equity method investments when it is unable to obtain adequate information for certain equity method investments; rather, this approach must only be applied to the equity method investments for which the information could not be obtained.

Connecting the Dots

Although entities are permitted to elect the approach under which distributions may be evaluated, it does not remove the requirement for entities to evaluate whether each distribution from an equity method investment represents a return on investment or a return of investment, particularly when entities elect the nature-of-the-distribution approach. In other words, because the nature-of-the-distribution approach does not presume that a distribution is a return on investment, it requires that an entity analyze each distribution to determine its nature. Further, entities that elect the cumulative earnings approach may generally presume distributions to represent a return on investment, unless such distributions represent returns of investment (i.e., they exceed the investor's cumulative equity in earnings).

In addition, because ASC 230 does not provide guidance on how much information (e.g., the type and sufficiency of investee information) an entity needs to determine the nature of a distribution, an entity that applies the nature-of-the-distribution approach will most likely need to use significant judgment in making this determination. We generally believe that such information should be sufficiently reliable and that the degree of reliability is likely to increase in proportion to the materiality of the distribution.

7.2.6.4 Contracts With Customers That Include Both Revenue and Nonrevenue Elements

Life sciences entities may enter into contracts with customers that include both revenue and nonrevenue elements. Example 2-2 illustrates a life sciences entity's accounting for a contract that includes (1) performance obligations accounted for under ASC 606 and (2) an equity component within the scope of other authoritative literature.

As discussed in Section 2.2.4, ASC 606-10-15-4(a) provides that when a contract includes both revenue and nonrevenue elements, some of which are within the scope of other standards, any separation and initial measurement requirements of the other standards are applied first and the deliverables within the scope of the revenue model are ascribed any residual amount. In accordance with ASC 606-10-15-4(b), if there are no separation or initial measurement requirements in those other standards, the requirements in ASC 606 are applied.

In a manner consistent with ASC 606-10-15-4 and ASC 230-10-45-22, when an entity enters into a contract with a customer that contains both revenue and nonrevenue elements, the entity should present the cash received from the customer in the statement of cash flows on the basis of the underlying nature of the transactions.

Example 7-9

Biotech X enters into two contemporaneous arrangements with Pharmaceutical Company Y: (1) a license and collaboration arrangement and (2) a share purchase arrangement whereby X sells shares of its common stock to Y for $14 million.

The total consideration for the arrangements is $50 million, which X collects in full. Biotech X determines that the license and collaboration arrangement is within the scope of ASC 606. In addition, X determines that the common stock purchased by Y should be accounted for under other authoritative literature (i.e., the shares should be accounted for at fair value as of their issuance date). The fair value of the shares on their issuance date was $15 million.

The fair value of the common shares should be excluded from the consideration that is allocated to the revenue unit of account. To the extent that the contractual consideration for the common shares is higher or lower than their fair value on the issuance date, the difference, positive or negative, should be allocated to the revenue unit of account. Accordingly, $15 million of the total consideration for the two arrangements is allocated to the sale of the common stock to Y for accounting purposes even though the legal contract price of the shares is $14 million. The remaining $35 million is allocated to the revenue unit of account and accounted for under ASC 606.

Regarding the presentation in the statement of cash flows of cash receipts and cash payments that have aspects of more than one class of cash flows, ASC 230-10-45-22 states, in part, that "[i]n the absence of specific guidance, a reporting entity shall determine each separately identifiable source or each separately identifiable use within the cash receipts and cash payments on the basis of the nature of the underlying cash flows" and "shall then classify each separately identifiable source or use within the cash receipts and payments on the basis of their nature in financing, investing, or operating activities." Accordingly, in X's statement of cash flows, X should recognize (1) the consideration allocated to the sale of common stock ($15 million) as a financing cash inflow and (2) the consideration allocated to the ASC 606 revenue contract ($35 million) as an operating cash inflow.

7.2.7 Restricted Cash

7.2.7.1 Balance Sheet Presentation of Restricted Cash

Cash available for general operations is distinguishable from cash restricted in accordance with third-party special-purpose agreements. When a cash account is restricted, the ability of the account's owner to withdraw funds at any time is contractually or legally restricted. Since an entity cannot withdraw restricted cash without prior notice or penalty, the entity should not present such cash in cash and cash equivalents. While the terms "restricted cash" and "restricted cash equivalents" are not defined in U.S. GAAP, SEC Regulation S-X, Rule 5-02(1), requires registrants to separately disclose account balances whose withdrawal or usage is restricted. As a result, registrants typically present restricted cash and restricted cash equivalents separately from cash and cash equivalents on their balance sheet, and many nonpublic entities elect similar balance sheet presentation. However, entities may include restricted cash and restricted cash equivalents in other balance sheet line items. Accordingly, an entity's definition of restricted cash and restricted cash equivalents is typically an accounting policy matter. Such a policy should be applied consistently and will need to take into account the nature of both the financial instruments and the restrictions.

Paragraph BC9 of ASU 2016-18 indicates that the Board's clarifications related to presenting restricted cash and restricted cash equivalents in the statement of cash flows were not intended to change an entity's practice for identifying and reporting restricted cash or restricted cash equivalents. Specifically, paragraph BC9 states:

> Although the Master Glossary does not include specific definitions of restricted cash or restricted cash equivalents, some Task Force members believe that only those financial instruments that first meet the definition of cash or cash equivalents before considering the restrictions that exist in a separate provision outside those financial instruments should be included in the beginning-of-period and end-of-period reconciliation of the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents on the statement of cash flows. Other Task Force members believe that the nature of the restrictions on cash or cash equivalents should be considered and that in certain cases the restrictions could be so severe that the financial instrument would not meet the definition of cash or cash equivalents, thereby preventing those balances from being included in the beginning-of-period and end-of-period reconciliation of total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents on the statement of cash flows. The Task Force considered defining restricted cash; however, it ultimately decided that the issue resulting in diversity in practice is the presentation of changes in restricted cash on the statement of cash flows. The Task Force's intent is not to change practice for what an entity reports as restricted cash or restricted cash equivalents.

Further, paragraph BC19 of ASU 2016-18 notes that (1) an entity should apply the guidance on a change in an accounting principle in ASC 250 "if [the] entity is considering changing its accounting policy for determining restricted cash and restricted cash equivalents" and (2) "[s]uch evaluation would be separate from adoption of the amendments in [ASU 2016-18]."

In addition, in accordance with ASC 230-10-50-7, an entity should disclose information about the nature of restrictions on its cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Further, when cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents are presented in more than one line item in the statement of financial position, an entity should also apply the requirements in ASC 230-10-50-8, as discussed below.

7.2.7.2 Presentation of Restricted Cash in the Statement of Cash Flows

In a manner consistent with the guidance in ASC 230-10-45-4, an entity should include in the beginning and ending cash and cash-equivalent balances of the statement of cash flows those amounts that are generally described as restricted cash and restricted cash equivalents, regardless of where such amounts may be included on an entity's balance sheet (e.g., cash, restricted cash, other assets, collections from servicing). The concept of reconciling "total cash" in the statement of cash flows is discussed in paragraph BC5 of ASU 2016-18, which states:

> The Task Force reached a consensus that a statement of cash flows should explain the change during the period in the **total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents**. That is, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows under the amendments in this Update. The Task Force recognizes that some entities present cash and cash equivalents with restrictions in multiple line items on the statement of financial position and that in some cases those line items are titled something other than restricted cash or restricted cash equivalents; therefore, the phrase *amounts generally described as restricted cash or restricted cash equivalents* is used throughout this Update. This consensus requires that those amounts also be included in the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. [Emphasis added]

Changes in restricted cash and restricted cash equivalents that result from transfers between cash, cash equivalents, and restricted cash and restricted cash equivalents should not be presented as cash flow activities in an entity's statement of cash flows. This stipulation is consistent with paragraph BC8 of ASU 2016-18, which states, in part:

> The Task Force believes that internal transfers between cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents do not represent a cash inflow or outflow of the entity because there is no cash receipt or cash payment with a source outside of the entity that affects the sum of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents.

7.2.7.3 Reconciliation of Cash, Cash Equivalents, and Amounts Generally Described as Restricted Cash or Restricted Cash Equivalents for an Interim Reporting Period

ASC 230 requires the reconciliation of (1) the ending cash, cash equivalents, and amounts generally described as restricted cash or the restricted cash equivalents balance presented in the statement of cash flows to (2) the statement of financial position when such amounts are presented in more than one line item in the statement of financial position. Such information must be provided on the face of the statement of cash flows or disclosed in the notes to the financial statements and can be in narrative or tabular form. However, ASC 230 does not specify how to apply this requirement to comparative periods when interim periods presented in the statement of cash flows do not correspond to the periods presented in the statement of financial position. Specifically, while ASC 230-10-50-8 states, in part, that the reconciliation is required for "each period that a **statement of financial position** is presented" (e.g., as of March 31, 20X1, and December 31, 20X0), ASC 230-10-50-8 then goes on to indicate that those amounts "shall sum to the total amount of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents at the end of the corresponding period shown in the **statement of cash flows**" (e.g., March 31, 20X1, and March 31, 20X0). [Emphasis added]

The lack of specific guidance on this matter has led to diversity in how entities have applied this reporting requirement for interim reporting periods. We believe that it is acceptable for an entity to use one of the following alternatives to meet ASC 230's reconciliation requirement for interim reporting periods (for illustrative purposes, we have assumed that in the interim financial statements, the statements of financial position are as of March 31, 20X1, and December 31, 20X0, and the three months ended March 31, 20X1, and March 31, 20X0, for the statement of cash flows):

- Provide the reconciliation for each period presented in the statement of financial position (e.g., March 31, 20X1, and December 31, 20X0).
- Provide the reconciliation for each period presented in the statement of cash flows (e.g., March 31, 20X1, and March 31, 20X0).
- Provide the reconciliation for each period presented in the statement of financial position as well as each period presented in the statement of cash flows (e.g., March 31, 20X1; December 31, 20X0; and March 31, 20X0).

7.3 SEC Reporting Considerations

At the 2023 AICPA & CIMA Conference on Current SEC and PCAOB Developments, several speakers commented on statement of cash flow matters. For example, SEC Chief Accountant Paul Munter discussed his December 4, 2023, statement regarding the statement of cash flows, in which he highlighted the need for preparers and auditors to apply the same level of scrutiny to the statement of cash flows as they do to the other primary financial statements. Mr. Munter noted that investors, when evaluating an entity's future cash flows, emphasize the statement of cash flows to better understand the cash-generating activities from the entity's operations as well as the entity's financing and investing activities during the period. Further, he emphasized the importance of classification within the statement of cash flows. For instance, he indicated that when correcting errors in classification among the various types of cash flows and determining the materiality of those errors, an entity should evaluate both quantitative and qualitative factors. Mr. Munter noted that the evaluation of a classification error's materiality would be expected to be similar to that for other errors in the financial statements.

For more information about statement of cash flow matters discussed at the 2023 AICPA & CIMA Conference on Current SEC and PCAOB Developments, see Deloitte's December 10, 2023, *Heads Up*.

Appendix B — Titles of Standards and Other Literature

AICPA Literature

Accounting and Valuation Guides

Assets Acquired to Be Used in Research and Development Activities

Valuation of Privately-Held-Company Equity Securities Issued as Compensation

Clarified Statements on Auditing Standards

AU-C Section 501, "Audit Evidence — Specific Considerations for Selected Items"

AU-C Section 620, "Using the Work of an Auditor's Specialist"

FASB Literature

ASC Topics

ASC 105, *Generally Accepted Accounting Principles*

ASC 205, *Presentation of Financial Statements*

ASC 210, *Balance Sheet*

ASC 220, *Income Statement — Reporting Comprehensive Income*

ASC 230, *Statement of Cash Flows*

ASC 235, *Notes to Financial Statements*

ASC 250, *Accounting Changes and Error Corrections*

ASC 260, *Earnings per Share*

ASC 270, *Interim Reporting*

ASC 275, *Risks and Uncertainties*

ASC 280, *Segment Reporting*

ASC 310, *Receivables*

ASC 320, *Investments — Debt Securities*

ASC 321, *Investments — Equity Securities*

ASC 323, *Investments — Equity Method and Joint Ventures*

ASC 326, *Financial Instruments — Credit Losses*

ASC 330, *Inventory*

ASC 340, *Other Assets and Deferred Costs*

ASC 350, *Intangibles — Goodwill and Other*

ASC 360, *Property, Plant, and Equipment*

ASC 405, *Liabilities*

ASC 410, *Asset Retirement and Environmental Obligations*

ASC 420, *Exit or Disposal Cost Obligations*

ASC 440, *Commitments*

ASC 450, *Contingencies*

ASC 460, *Guarantees*

ASC 470, *Debt*

ASC 480, *Distinguishing Liabilities From Equity*

ASC 505, *Equity*

ASC 605, *Revenue Recognition*

ASC 606, *Revenue From Contracts With Customers*

ASC 610, *Other Income*

ASC 705, *Cost of Sales and Services*

ASC 710, *Compensation — General*

ASC 712, *Compensation — Nonretirement Postemployment Benefits*

ASC 715, *Compensation — Retirement Benefits*

ASC 718, *Compensation — Stock Compensation*

ASC 720, *Other Expenses*

ASC 730, *Research and Development*

ASC 740, *Income Taxes*

ASC 805, *Business Combinations*

ASC 808, *Collaborative Arrangements*

ASC 810, *Consolidation*

ASC 815, *Derivatives and Hedging*

ASC 820, *Fair Value Measurement*

ASC 825, *Financial Instruments*

ASC 830, *Foreign Currency Matters*

ASC 832, *Government Assistance*

ASC 835, *Interest*

ASC 840, *Leases*

ASC 842, *Leases*

ASC 845, *Nonmonetary Transactions*

ASC 848, *Reference Rate Reform*

ASC 855, *Subsequent Events*

ASC 860, *Transfers and Servicing*

ASC 905, *Agriculture*

ASC 915, *Development Stage Entities*

ASC 930, *Extractive Activities — Mining*

ASC 944, *Financial Services — Insurance*

ASC 946, *Financial Services — Investment Companies*

ASC 948, *Financial Services — Mortgage Banking*

ASC 954, *Health Care Entities*

ASC 958, *Not-for-Profit Entities*

ASC 960, *Plan Accounting — Defined Benefit Pension Plans*

ASC 970, *Real Estate — General*

ASC 985, *Software*

ASUs

ASU 2010-27, *Other Expenses (Topic 720): Fees Paid to the Federal Government by Pharmaceutical Manufacturers* — a consensus of the FASB Emerging Issues Task Force

ASU 2011-06, *Other Expenses (Topic 720): Fees Paid to the Federal Government by Health Insurers* — a consensus of the FASB Emerging Issues Task Force

ASU 2014-09, *Revenue From Contracts With Customers (Topic 606)*

ASU 2014-10, *Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810,* Consolidation

ASU 2014-15, *Presentation of Financial Statements — Going Concern (Subtopic 205-40): Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern*

ASU 2014-16, *Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity* — a consensus of the FASB Emerging Issues Task Force

ASU 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments*

ASU 2016-01, *Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*

ASU 2016-02, *Leases (Topic 842)*

ASU 2016-10, *Revenue From Contracts With Customers (Topic 606): Identifying Performance Obligations and Licensing*

ASU 2016-12, *Revenue From Contracts With Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*

ASU 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*

ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* — a consensus of the FASB Emerging Issues Task Force

ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*

ASU 2016-17, *Consolidation (Topic 810): Interests Held Through Related Parties That Are Under Common Control*

ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* — a consensus of the FASB Emerging Issues Task Force

ASU 2016-20, *Technical Corrections and Improvements to Topic 606,* Revenue From Contracts With Customers

ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*

ASU 2017-04, *Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*

ASU 2017-11, *Earnings per Share (Topic 260); Distinguishing Liabilities From Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments With Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests With a Scope Exception*

ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*

ASU 2018-07, *Compensation — Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*

ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*

ASU 2018-10, *Codification Improvements to Topic 842,* Leases

ASU 2018-11, *Leases (Topic 842): Targeted Improvements*

ASU 2018-17, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities*

ASU 2018-18, *Collaborative Arrangements (Topic 808): Clarifying the Interaction Between Topic 808 and Topic 606*

ASU 2019-01, *Leases (Topic 842): Codification Improvements*

ASU 2019-04, *Codification Improvements to Topic 326,* Financial Instruments — Credit Losses*, Topic 815,* Derivatives and Hedging*, and Topic 825,* Financial Instruments

ASU 2019-05, *Financial Instruments — Credit Losses (Topic 326): Targeted Transition Relief*

ASU 2019-10, *Financial Instruments — Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*

ASU 2019-11, *Codification Improvements to Topic 326,* Financial Instruments — Credit Losses

ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*

ASU 2020-01, *Investments — Equity Securities (Topic 321), Investments — Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions Between Topic 321, Topic 323, and Topic 815* — a consensus of the FASB Emerging Issues Task Force

ASU 2020-02, *Financial Instruments — Credit Losses (Topic 326) and Leases (Topic 842): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02*, Leases (Topic 842)

ASU 2020-03, *Codification Improvements to Financial Instruments*

ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*

ASU 2020-05, *Revenue From Contracts With Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*

ASU 2020-06, *Debt — Debt With Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging — Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*

ASU 2021-01, *Reference Rate Reform (Topic 848): Scope*

ASU 2021-04, *Earnings per Share (Topic 260), Debt — Modifications and Extinguishments (Subtopic 470-50), Compensation — Stock Compensation (Topic 718), and Derivatives and Hedging — Contracts in Entity's Own Equity (Subtopic 815-40): Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options* — a consensus of the FASB Emerging Issues Task Force

ASU 2021-05, *Leases (Topic 842): Lessors — Certain Leases With Variable Lease Payments*

ASU 2021-07, *Compensation — Stock Compensation (Topic 718): Determining the Current Price of an Underlying Share for Equity-Classified Share-Based Awards* — a consensus of the Private Company Council

ASU 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities From Contracts With Customers*

ASU 2021-09, *Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities*

ASU 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities About Government Assistance*

ASU 2022-01, *Derivatives and Hedging (Topic 815): Fair Value Hedging — Portfolio Layer Method*

ASU 2022-02, *Financial Instruments — Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*

ASU 2022-03, *Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*

ASU 2022-04, *Liabilities — Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations*

ASU 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*

ASU 2023-01, *Leases (Topic 842): Common Control Arrangements*

ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*

Concepts Statements

No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises*

No. 8, *Conceptual Framework for Financial Reporting — Chapter 4*, Elements of Financial Statements

Invitation to Comment

No. 2022-002, *Accounting for Government Grants by Business Entities: Potential Incorporation of IAS 20,* Accounting for Government Grants and Disclosure of Government Assistance*, Into Generally Accepted Accounting Principles*

Proposed ASUs

No. 2017-280, *Consolidation (Topic 812): Reorganization*

No. 2019-500, *Income Taxes (Topic 740): Disclosure Framework — Changes to the Disclosure Requirements for Income Taxes (Revision of Exposure Draft Issued July 26, 2016)*

No. 2019-800, *Codification Improvements*

Other

FASB Staff *Revenue Recognition Implementation Q&As*

IFRS Literature

IFRS 2, *Share-Based Payment*

IFRS 3, *Business Combinations*

IFRS 9, *Financial Instruments*

IFRS 10, *Consolidated Financial Statements*

IFRS 11, *Joint Arrangements*

IFRS 12, *Disclosure of Interests in Other Entities*

IFRS 15, *Revenue From Contracts With Customers*

IFRS 16, *Leases*

IAS 1, *Presentation of Financial Statements*

IAS 7, *Statement of Cash Flows*

IAS 10, *Events After the Reporting Period*

IAS 12, *Income Taxes*

IAS 17, *Leases*

IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*

IAS 21, *The Effects of Changes in Foreign Exchange Rates*

IAS 27, *Separate Financial Statements*

IAS 32, *Financial Instruments: Presentation*

IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*

IAS 38, *Intangible Assets*

IAS 40, *Investment Property*

IRC

Section 78, "Gross Up for Deemed Paid Foreign Tax Credit"

Section 162(a), "Trade or Business Expenses; General"

Section 163(j), "Interest; Limitation on Business Interest"

Section 174, "Amortization of Research and Experimental Expenditures"

Section 197, "Amortization of Goodwill and Certain Other Intangibles"

Section 382, "Limitation on Net Operating Loss Carryforwards and Certain Built-In Losses Following Ownership Change"

Section 409A "Inclusion in Gross Income of Deferred Compensation Under Nonqualified Deferred Compensation Plans"

Section 422, "Incentive Stock Options"

Section 423, "Employee Stock Purchase Plans"

PCAOB Literature

Release No. 2017-001, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion and Related Amendments to PCAOB Standards*

Auditing Standard 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*

SEC Literature

CF Disclosure Guidance

Topic No. 9, "Coronavirus (COVID-19)"

Topic No. 9A, "Coronavirus (COVID-19) — Disclosure Considerations Regarding Operations, Liquidity, and Capital Resources"

Final Rule Releases

No. 33-10786, *Amendments to Financial Disclosures About Acquired and Disposed Businesses*

No. 33-10890, *Management's Discussion and Analysis, Selected Financial Data, and Supplementary Financial Information*

No. 33-11126, *Listing Standards for Recovery of Erroneously Awarded Compensation*

No. 33-11275, *The Enhancement and Standardization of Climate-Related Disclosures for Investors*

No. 34-95607, *Pay Versus Performance*

FRM

Topic 1, “Registrant’s Financial Statements”

Topic 3, “Pro Forma Financial Information”

Topic 5, “Smaller Reporting Companies”

Topic 7, “Related Party Matters”

Topic 10, “Emerging Growth Companies”

Topic 12, “Reverse Acquisitions and Reverse Recapitalizations”

Interpretive Releases

No. 33-9106, *Commission Guidance Regarding Disclosure Related to Climate Change*

No. 33-10403, *Updates to Commission Guidance Regarding Accounting for Sales of Vaccines and Bioterror Countermeasures to the Federal Government for Placement Into the Pediatric Vaccine Stockpile or the Strategic National Stockpile*

Proposed Rule Release

No. 33-11048, *Special Purpose Acquisition Companies, Shell Companies, and Projections*

Regulation S-K

Item 101, “Description of Business”

Item 103, “Business; Legal Proceedings”

Item 201, ”Market Price of and Dividends on the Registrant’s Common Equity and Related Stockholder Matters”

Item 302, “Supplementary Financial Information”

Item 303, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”

Item 305, “Quantitative and Qualitative Disclosures About Market Risk”

Item 308, “Internal Control Over Financial Reporting”

Item 402, “Executive Compensation”

Item 404, “Transactions With Related Persons, Promoters and Certain Control Persons”

Item 407, “Corporate Governance”

Item 503, “Prospectus Summary”

Regulation S-X

Rule 1-02(w), “Definitions of Terms Used in Regulation S-X (17 CFR part 210); Significant Subsidiary”

Article 2, “Qualifications and Reports of Accountants”

Rule 3-01, “Consolidated Balance Sheet”

Rule 3-02, “Consolidated Statements of Comprehensive Income and Cash Flows”

Rule 3-05, “Financial Statements of Businesses Acquired or to Be Acquired”

Rule 3-09, "Separate Financial Statements of Subsidiaries Not Consolidated and 50 Percent or Less Owned Persons"

Rule 3-10, "Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered"

Rule 3-12, "Age of Financial Statements at Effective Date of Registration Statement or at Mailing Date of Proxy Statement"

Rule 3-14, "Special Instructions for Financial Statements of Real Estate Operations Acquired or to Be Acquired"

Rule 3-16, "Financial Statements of Affiliates Whose Securities Collateralize an Issue Registered or Being Registered"

Rule 4-08(g), "General Notes to Financial Statements; Summarized Financial Information of Subsidiaries Not Consolidated and 50 Percent or Less Owned Persons"

Rule 4-08(n), "General Notes to Financial Statements; Accounting Policies for Certain Derivative Instruments"

Rule 5-02, "Commercial and Industrial Companies; Balance Sheets"

Rule 5-03, "Commercial and Industrial Companies; Statements of Comprehensive Income"

Article 8, "Financial Statements of Smaller Reporting Companies"

Rule 10-01(b), "Interim Financial Statements; Other Instructions as to Content"

Article 11, "Pro Forma Financial Information"

Rule 11-01 "Presentation Requirements"

Rule 11-02(a), "Preparation Requirements; Form and Content"

Article 15, "Acquisitions of Businesses by a Shell Company (Other Than a Business Combination Related Shell Company)"

SAB Topics

No. 1.B.3, "Financial Statements; Allocation of Expenses and Related Disclosure in Financial Statements of Subsidiaries, Divisions or Lesser Business Components of Another Entity: Other Matters"

No. 1.M, "Financial Statements; Materiality"

No. 5.A, "Miscellaneous Accounting; Expenses of Offering"

No. 5.Y, "Miscellaneous Accounting; Accounting and Disclosures Relating to Loss Contingencies"

No. 14.B, "Share-Based Payment; Transition From Nonpublic to Public Entity Status"

No. 14.D, "Share-Based Payments; Certain Assumptions Used in Valuation Methods"

- No. 14.D.1, "Expected Volatility"
- No. 14.D.2, "Expected Term"

Securities Act of 1933

Rule 144, "Persons Deemed Not to be Engaged in a Distribution and Therefore Not Underwriters — General Guidance"

Securities Exchange Act of 1934

Rule 17a-5, "Reports to Be Made by Certain Brokers and Dealers"

Section 3(a)(80), "Definitions and Application of Title; Emerging Growth Company"

Section 13(a), "Periodical and Other Reports"

Section 15(d), "Supplementary and Periodic Information"

TRG Agenda Papers

TRG Agenda Paper 6, *Customer Options for Additional Goods and Services and Nonrefundable Upfront Fees*

TRG Agenda Paper 11, *October 2014 Meeting — Summary of Issues Discussed and Next Steps*

TRG Agenda Paper 41, *Measuring Progress When Multiple Goods or Services Are Included in a Single Performance Obligation*

TRG Agenda Paper 44, *July 2015 Meeting — Summary of Issues Discussed and Next Steps*

TRG Agenda Paper 48, *Customer Options for Additional Goods and Services*

TRG Agenda Paper 54, *Considering Class of Customer When Evaluating Whether a Customer Option Gives Rise to a Material Right*

TRG Agenda Paper 55, *April 2016 Meeting — Summary of Issues Discussed and Next Steps*

Superseded Literature

AICPA Accounting Interpretation

AIN-APB 25, *Accounting for Stock Issued to Employees: Accounting Interpretations of APB Opinion No. 25*

AICPA Accounting Statement of Position

96-1, *Environmental Remediation Liabilities*

EITF Abstracts

Issue No. 00-21, "Revenue Arrangements With Multiple Deliverables"

Issue No. 01-8, "Determining Whether an Arrangement Contains a Lease"

Issue No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)"

Issue No. 01-10, "Accounting for the Impact of the Terrorist Attacks of September 11, 2001"

Issue No. 03-17, "Subsequent Accounting for Executory Contracts That Have Been Recognized on an Entity's Balance Sheet"

Issue No. 08-6, "Equity Method Investment Accounting Considerations"

Issue No. 09-2, "Research and Development Assets Acquired in an Asset Acquisition"

Issue No. 09-4, "Seller Accounting for Contingent Consideration"

FASB Concepts Statement

No. 6, *Elements of Financial Statements* — a replacement of FASB Concepts Statement No. 3 (incorporating an amendment of FASB Concepts Statement No. 2)

FASB Interpretation

No. 14, *Reasonable Estimation of the Amount of a Loss* — an interpretation of FASB Statement No. 5

FASB Statements

No. 5, *Accounting for Contingencies*

No. 52, *Foreign Currency Translation*

No. 95, *Statement of Cash Flows*

No. 114, *Accounting by Creditors for Impairment of a Loan* — an amendment of FASB Statements No. 5 and 15

No. 123(R), *Share-Based Payment*

No. 133, *Accounting for Derivative Instruments and Hedging Activities*

No. 141, *Business Combinations*

No. 141(R), *Business Combinations*

No. 160, *Noncontrolling Interests in Consolidated Financial Statements* — an amendment of ARB No. 51

Other

California Climate Legislation

AB-1305, *Voluntary Carbon Market Disclosures*

SB-253, *Climate Corporate Data Accountability Act*

SB-261, *Greenhouse Gases: Climate-Related Financial Risk*

IFRS® Sustainability Disclosure Standards

IFRS S1, *General Requirements for Disclosure of Sustainability-Related Financial Information*

IFRS S2, *Climate-Related Disclosures*

Appendix C — Abbreviations

Abbreviation	Description
AETR	annual effective tax rate
AFS	available for sale
AFSI	adjusted financial statement income
AI	artificial intelligence
AICPA	American Institute of Certified Public Accountants
AIN	AICPA Accounting Interpretation of an APB Opinion
AMT	alternative minimum tax
ANDA	abbreviated new drug application
APB	Accounting Principles Board
API	active pharmaceutical ingredient
ARO	asset retirement obligation
ASC	FASB Accounting Standards Codification
ASR	accelerated share repurchase
ASU	FASB Accounting Standards Update
AUD	Australian dollar
BCF	beneficial conversion feature
BEAT	base erosion anti-abuse tax
BEMTA	base erosion minimum tax amount
BPD	branded prescription drug
C&DIs	Compliance and Disclosure Interpretations
CAM	critical audit matter
CAQ	Center for Audit Quality
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
CCF	cash conversion feature

Abbreviation	Description
CECL	current expected credit loss
CFC	controlled foreign corporation
CIMA	Chartered Institute of Management Accountants
CMO	contract manufacturing organization
CRO	contract research organization
CSRD	Corporate Sustainability Reporting Directive
DTA	deferred tax asset
DTL	deferred tax liability
EBITDA	earnings before interest, taxes, depreciation, and amortization
ED	exposure draft
EDGAR	SEC electronic data gathering, analysis, and retrieval system
EGC	emerging growth company
EITF	Emerging Issues Task Force
ELOC	equity line of credit
EPS	earnings per share
ESA	energy service agreement
ESG	environmental, social, and governance
ESPP	employee stock purchase plan
ESRS	European Sustainability Reporting Standards
EUR	euros
Exchange Act	Securities Exchange Act of 1934
FASB	Financial Accounting Standards Board
FAST Act	Fixing America's Surface Transportation Act

Abbreviation	Description
FDA	U.S. Food and Drug Administration
FDII	foreign-derived intangible income
FOB	free on board
FPI	foreign private issuer
FRM	SEC Division of Corporation Finance Financial Reporting Manual
FVO	fair value option
FVTOCI	fair value through other comprehensive income
GAAP	generally accepted accounting principles
GenAI	generative artificial intelligence
GHG	greenhouse gas
GILTI	global intangible low-taxed income
GloBE	Global anti-Base Erosion
GPO	group purchasing organization
HAFWP	how and for what purpose
HFI	held for investment
HFS	held for sale
HVAC	heating, ventilation, and air conditioning
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IBNR	incurred but not reported
ICFR	internal control over financial reporting
IFRIC	IFRS Interpretations Committee
IFRS	International Financial Reporting Standard
IIR	investigator-initiated research
IP	intellectual property
IPO	initial public offering
IPR&D	in-process research and development
IRC	Internal Revenue Code
IRS	Internal Revenue Service
ISO	incentive stock option

Abbreviation	Description
ISSB	International Sustainability Standards Board
IT	information technology
ITC	invitation to comment
JOBS Act	Jumpstart Our Business Startups Act
LCD	liquid-crystal display
LIBOR	London Interbank Offered Rate
LIFO	last in, first out
M&A	merger and acquisition
MD&A	Management's Discussion & Analysis
MNE	multinational enterprise
MSL	medical science liaison
NDA	new drug application
NFP	not-for-profit (entity)
NIH	National Institutes of Health
NOL	net operating loss
NOPA	notice of proposed adjustment
NQSO or **NSO**	nonqualified stock option
OCA	SEC's Office of the Chief Accountant
OCI	other comprehensive income
OECD	Organisation for Economic Co-operation and Development
OEM	original equipment manufacturer
PBE	public business entity
PCAOB	Public Company Accounting Oversight Board
PCC	Private Company Council
PIPE	private investment in public equity
PP&E	property, plant, and equipment
PRV	priority review voucher
PTRS	probability of technical and regulatory success
Q&A	question and answer
QIP	qualified improvement property

Abbreviation	Description
R&D	research and development
R&E	research and experimental
REC	renewable energy certificate
REMS	risk evaluation and mitigation strategy
RIM	retail inventory method
ROU	right of use
SaaS	software as a service
SAB	Staff Accounting Bulletin
SEC	U.S. Securities and Exchange Commission
Securities Act	Securities Act of 1933
SEPA	standby equity purchase agreement
SOX	Sarbanes-Oxley Act of 2002
SPAC	special-purpose acquisition company

Abbreviation	Description
SPPI	solely payments of principal and interest
SRC	smaller reporting entity
S&P 500	Standard & Poor's 500 Index
TD	Treasury Decision
TDR	troubled debt restructuring
TRG	transition resource group
TRWG	IFRS Foundation Technical Readiness Working Group
TSA	transition services agreement
USD	U.S. dollars
UTB	unrecognized tax benefit
VIE	variable interest entity
VWAP	volume-weighted average daily market price
XBRL	eXtensible Business Reporting Language

Follow us @DeloitteAcctg