



Quarterly Perspectives: Financial Reporting & Beyond / Q2 2025

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Meet the Presenters From Forvis Mazars A&A Professional Standards Group



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Looking Back



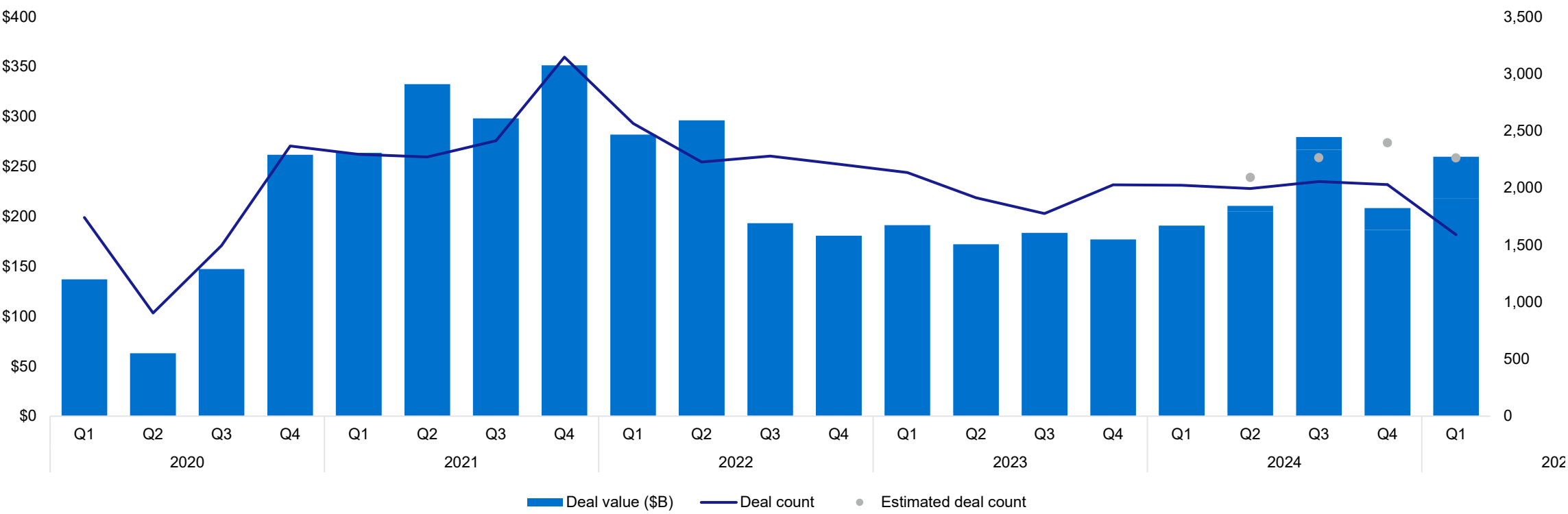
What Has Caught Our Eye

- Continuing SEC activity
 - April 21 – Paul Atkins sworn in as new chair
 - Resetting the SEC's focus on all legs of its three-part mission (investor protection, capital formation, market regulation)
 - Roundtables and/or task forces on crypto, AI, executive compensation
 - PCAOB???
- Private company and private company auditor observations
 - Continued rise in complex transactions requiring sophisticated knowledge of accounting literature
 - Independence issues in fact and appearance and zero tolerance for missteps here

Here & Now



U.S. Private Equity (PE) Deal Activity by Quarter



Source: PitchBook • Q1 2025 US PE Breakdown As of March 31st 2025

Transition & Succession – Strategic Options

- Below are a few of the most common strategic options for key stakeholders to consider when evaluating transition and succession planning. FMCA has vast experience in assisting clients to identify the best strategic option to pursue their goals and objectives.

INTERNAL TRANSITION



Transfer to Family Member(s)

- Multiple financing options
- Gifting subject to federal gift tax exemptions
- Potential to draw income from future profits of the Company



Management Buyout

- Company's management purchases assets and operations of the Company through a leveraged buyout
- Current management team remains in place
- Seller/owner financing can provide income in future years



Employee Stock Ownership Plan (ESOP)

- Granting employees the right to purchase shares in the Company
- Generally, tax advantageous
- Ability to maintain control if desired

STRATEGIC OR FINANCIAL PARTNER



Majority Sale – Private Equity (Up to 100%)

- Sell a controlling interest of the Company to private investors but structure the deal to maintain influence
- Option to roll over equity into the new company and benefit from future liquidity events.
- Provides a partner to grow the business with



Majority Sale – Strategic (Up to 100%)

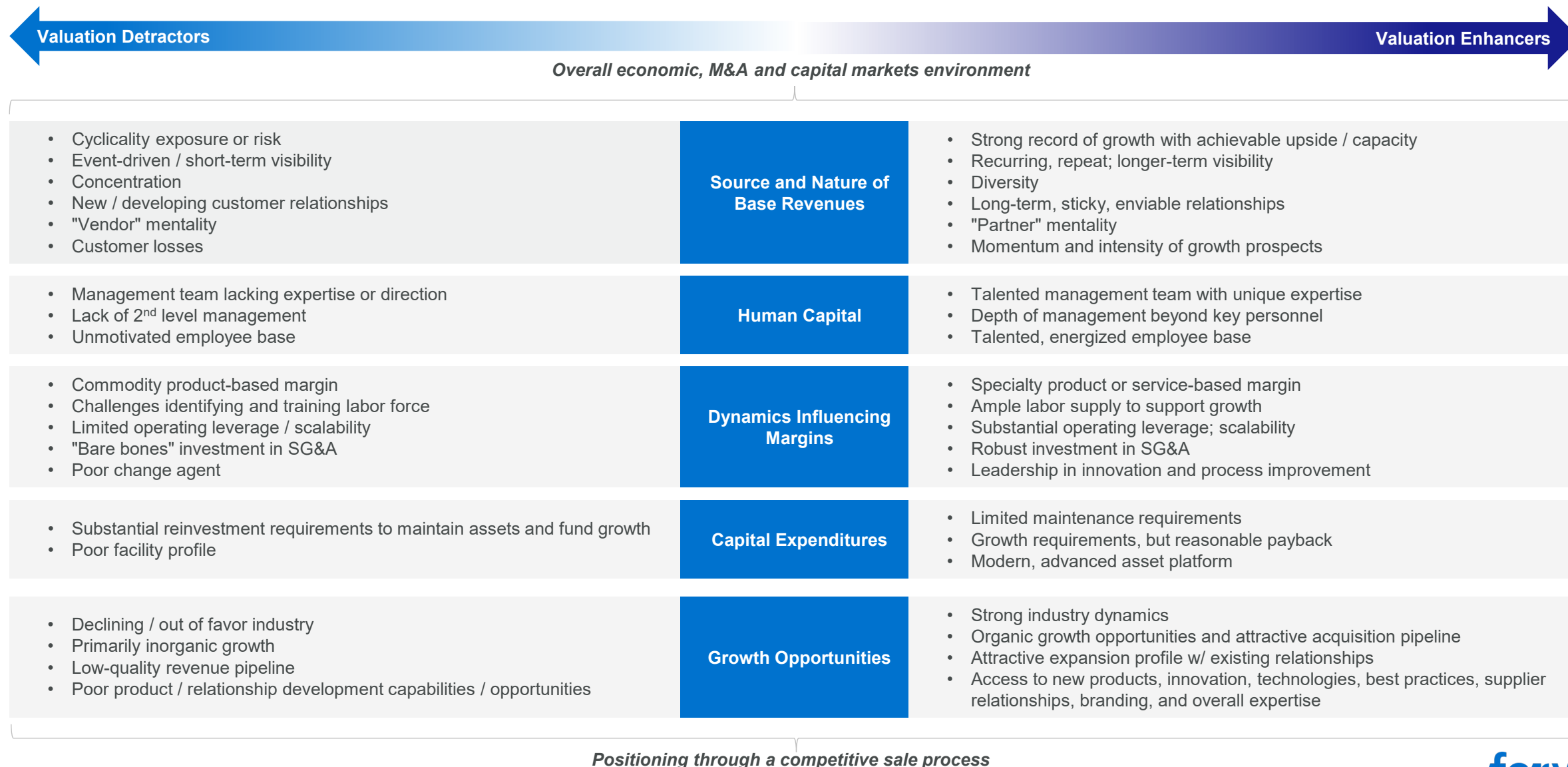
- Approach strategic buyers to participate in transaction as a 100% buyer or control (majority) investor
- Incremental synergies and/or market share opportunities can potentially drive incremental value



Recapitalization With Debt or Equity

- Liquidity event opportunity for current shareholders
- Minority recapitalization through the use of debt (bank and/or private debt) and/or equity capital
- Amount of liquidity may be limited to the amount of leverage the Company can support

General Factors That Often Influence Value



Accounting Considerations When a PE Relationship Occurs

Many complex accounting issues can occur when PE firm enters an investment relationship with an entity as a portfolio company. The company may need accounting assistance.

Typical accounting issues

- Is it a business combination? A change in control? Or just an investment? Is it a step acquisition? Are there tax implications?
- At what level is the financial reporting to be performed? What does the organizational structure look like upstream and downstream?
- Is pushdown accounting being considered?
- Is black-line reporting needed – predecessor/successor entities?
- Is the consideration paid properly identified?
- Was the seller offered “rollover equity” as part of that consideration?
- Was the rollover equity properly valued? Does it have the exact same rights as other equity holders?
- Was a valuation expert utilized by the company?
- How have intangibles been identified and valued?
- What Private Company Council elections have been made?

Have you considered independence?

- How has the fair value of asset/liabilities been determined and are they complete?
- Have payments to the seller been properly examined to determine if part of the transaction, or something else such as a compensation agreement.
- Who is doing the bookkeeping for the transaction?
 - Do they have the bandwidth?
 - Do they have the competency?
- Has the audit firm been put in a compromising situation with regard to independence?
- The auditor cannot make decisions, take ownership of results, or value items that have any subjective inputs
 - Often the elements of the transaction contain many values based on assumptions some of which are considered subjective.

ASU 2024-03 – Expense Disaggregation Disclosures

(a.k.a. Disaggregation of Income Statement Expenses or “DISE”)

Overview

Applicable To	Effective	Transition
<ul style="list-style-type: none">Public Business Entities (as defined by the FASB)	<ul style="list-style-type: none">Annual period beginning after December 15, 2026Interim periods within the annual periods beginning after December 15, 2027	<ul style="list-style-type: none">Prospective, orRetrospective to any or all comparative periodsEarly adoption permitted

Objectives	<ul style="list-style-type: none">Provide more detailed disclosures in the notes to financial statements for certain expenses included in commonly presented expense captions.The objective is to improve investors’ understanding of a company’s performance and cost structure, ultimately enhancing the decision-usefulness of income statements. <u>This amendment does not change any current income statement presentation requirement.</u>
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Disaggregation of Income Statement Expenses

Key Provisions

Tabular disclosure Requirement

- Entities are required to provide tabular disclosure that disaggregates relevant expense captions in the notes to financial statements.
- A “relevant expense caption” is one that includes any of the following five required categories of expenses, and, therefore, must be disaggregated:
 1. Purchase of inventory (cost-incurred or expense-incurred basis)
 2. Employee compensation
 3. Depreciation
 4. Intangible asset amortization
 5. Depreciation, depletion, and amortization (DD&A) as part of oil and gas producing activities or other amounts of depletion expense
- The disclosure must clearly break down each relevant expense caption to reflect the amount attributable to these categories.

Disaggregation of Income Statement Expenses

Key Provisions

Other Disclosures & Provisions

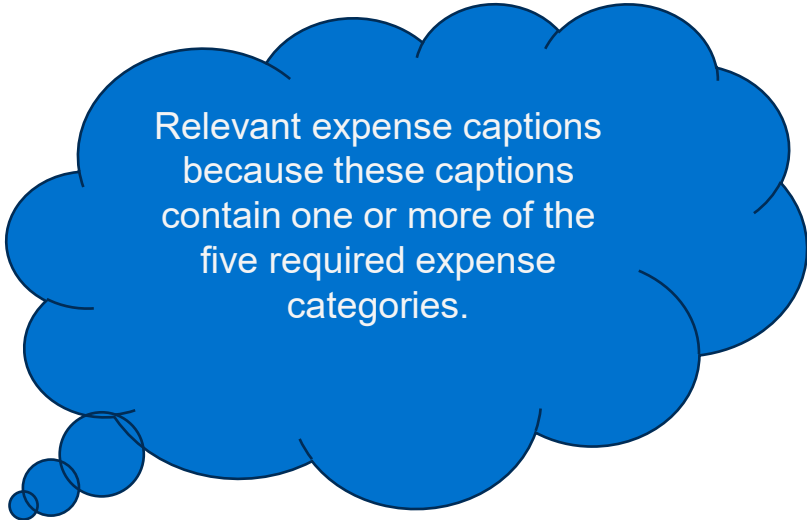
- Integration with other existing required disclosures
 - Tabular disclosure will include the amount recognized of 13 specific expenses/gains/losses if any portion is included in the relevant expense caption
 - Tabular disclosure will include the amount recognized of 21 specific items if that item is included in its entirety in the relevant expense caption
- Qualitative description of “other” remaining expenses: For any portion of a relevant expense caption not attributed to the five required categories, a high-level qualitative description is required
- Expense reimbursement: Disclose details related to cost-sharing and cost-reimbursement
- Selling expenses: Disclose the total amount of selling expenses (annual and interim), including a clear definition of selling expenses on an annual basis

Illustrative Example of Disclosures – Manufacturing & Service Operations

(Source: FASB)

Entity X
Consolidated Income Statement
For the Years Ended December 31, 20X4, 20X3, and 20X2

	<u>20X4</u>	<u>20X3</u>	<u>20X2</u>
Revenues:			
Products	\$ 82,144	\$ 79,137	\$ 75,180
Services	26,132	23,146	21,989
Total revenues	108,276	102,283	97,169
Operating expenses:			
Cost of products sold	63,456	60,898	57,244
Cost of services	10,496	9,568	8,898
Selling, general, and administrative	20,849	18,871	18,116
Total operating expenses	94,801	89,337	84,258
Operating income	13,475	12,946	12,911
Interest expense	4,971	4,213	4,297
Income before income taxes	8,504	8,733	8,614
Income tax expense	1,786	1,834	1,809
Net income	<u>\$ 6,718</u>	<u>\$ 6,899</u>	<u>\$ 6,805</u>



Relevant expense captions because these captions contain one or more of the five required expense categories.

Illustrative Example of Disclosures – Manufacturing & Service Operations (cont'd)

Disaggregation of Relevant Expense Captions

	20X4	20X3	20X2
Cost of products sold			
<i>Cost of products sold</i>			
Purchases of inventory	\$ 20,213	\$ 19,199	\$ 16,319
Employee compensation	17,578	16,539	14,078
Depreciation	10,190	9,989	9,650
Intangible asset amortization	3,914	4,050	3,929
Warranty expense	4,394	3,952	3,894
Other cost of products sold ^(a)	7,552	7,606	7,993
Changes in inventories	157	(861)	843
Other adjustments and reconciling items ^(b)	(542)	424	538
Total cost of products sold	\$ 63,456	\$ 60,898	\$ 57,244

- (a) Other cost of products sold consists primarily of amounts paid to carriers for outbound freight services related to contract fulfillment and amounts related to the measurement of a liability for an environmental obligation for the years ended December 31, 20X4, 20X3, and 20X2. Year ended December 31, 20X4, also includes inventory amounts recognized as part of a business combination.
- (b) Other adjustments and reconciling items consist of reconciling adjustments attributable to differences in the foreign exchange rates used to translate beginning inventory, ending inventory, and costs incurred from various functional currencies into the reporting currency for the years ended December 31, 20X4, 20X3, and 20X2.

Cost of services

<i>Cost of services</i>			
Employee compensation	\$ 6,598	\$ 5,654	\$ 4,354
Depreciation	763	765	742
Intangible asset amortization	642	670	650
Other cost of services ^(c)	2,493	2,479	3,152
Total cost of services	\$ 10,496	\$ 9,568	\$ 8,898

- (c) Other cost of services consists primarily of operating lease and travel expenses for the years ended December 31, 20X4, 20X3, and 20X2.

Illustrative Example of Disclosures – Manufacturing & Service Operations (cont'd)

Selling, general, and administrative

Selling, general, and administrative (SG&A)

Employee compensation	\$ 13,242	\$ 11,379	\$ 10,764
Depreciation	1,454	1,755	1,737
Property, plant, and equipment impairment	412	-	-
Intangible asset amortization	523	596	-
Other SG&A ^(d)	5,218	5,141	5,615
Total SG&A	<u>\$ 20,849</u>	<u>\$ 18,871</u>	<u>\$ 18,116</u>

(d) Other SG&A consists primarily of professional services fees and operating lease expense for the years ended December 31, 20X4, 20X3, and 20X2.

Selling Expenses

During the years ended December 31, 20X4, 20X3, & 20X2, selling expenses were \$13,425, \$12,123, & \$11,585, respectively. The entity’s selling expenses include those expenses related to marketing & promotional activities & client relationship management.

Conversations You Should Be Having



What Is on the Horizon

- Private company and private company auditor activity:
 - AICPA attention to CPA firm quality management
 - Group Audit standard coming (2026) requiring component materiality and consideration of components when establishing audit plan
 - Peer review comments on independence, lease accounting, client internal control evaluations/risk assessment, and complex accounting
- ASU 2023-09 – *Improvements to Income Tax Disclosures*, is effective for annual periods beginning after December 15, 2024 for public business entities and annual periods beginning after December 15, 2025 for other entities

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Thank you!

Please join us again October 16, 2025 for the third installment of the 2025 Quarterly Perspective webinar series, as well as the following remaining date for the 2025 series:

- January 8, 2026

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