

How This Alert Helps You

.01 This alert helps you plan and perform your audits and can be used by an entity's internal management to identify issues significant to the industry. It also provides information to assist you in achieving a more robust understanding of the business, economic, and regulatory environments in which your clients operate. This alert is an important tool to help you identify the risks that may result in the material misstatement of financial statements, including significant risks requiring special audit consideration. For developing issues that may have a significant impact in the near future, the "On the Horizon" section provides information on these topics. Refer to the full text of accounting and auditing pronouncements as well as the full text of any rules or publications that are discussed in this alert.

.02 It is essential that the auditor understand the meaning of *audit risk* and the interaction of audit risk with the objective of obtaining sufficient appropriate audit evidence. Auditors obtain sufficient appropriate audit evidence on which to base their opinion by performing the following:

- Risk assessment procedures
- Further audit procedures that comprise the following:
 - Tests of controls, when required by generally accepted auditing standards (GAAS) or when the auditor has chosen to do so
 - Substantive procedures that include tests of details and substantive analytical procedures

.03 The auditor should develop an audit plan that includes the nature and extent of planned risk assessment procedures, as determined under AU-C section 300, *Planning an Audit*.¹ AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, defines *risk assessment procedures* as "the audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal control, to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and relevant assertion levels." A *relevant assertion*: "has a reasonable possibility of containing a misstatement or misstatements that would cause the financial statements to be materially misstated. The determination of whether an assertion is a relevant assertion is made without regard to the effect of internal controls." As part of obtaining the required understanding of the entity and its environment, paragraph .12 of AU-C section 315 states that the auditor should obtain an understanding of the "industry, regulatory, and other external factors, including the applicable financial reporting framework" relevant to the entity. This alert assists the auditor with this aspect of the risk assessment procedures and further expands the auditor's understanding of other important considerations relevant to the audit.

¹ All AU-C sections can be found in AICPA *Professional Standards*.

Economic and Industry Developments

The Current Economy

.04 The Current Economy Economic conditions not only affect executives' and stakeholders' views of economic growth and profitability, but also challenge auditors' judgment and decision-making regarding risk assessment. When planning an audit or review engagement, auditors need to understand the economic conditions facing the industry and marketplace in which an entity operates, as well as the effects of these conditions on the entity itself. These external factors, such as interest rates, availability of credit, consumer confidence, volatility in capital markets, overall economic expansion or contraction, inflation, and labor market conditions, are likely to have an effect on an entity's business and, therefore, ultimately have financial reporting implications. Obtaining an understanding of the entity and its environment is the very first step in considering the effects of external forces on an entity. Recognizing that economic conditions and other external factors relevant to an entity and its environment constantly change, auditors should determine whether changes have occurred since the previous audit that may affect their reliance on any information obtained from their previous experience with the entity. These changes may affect the risks and risk assessment procedures applicable to the current year's engagement. As complexity and sophistication of environmental factors increase, so does the need for auditors to maintain professional skepticism.

.05 During 2019 and into 2020, U.S. economic growth will moderately continue. The slower pace in 2019 was likely the side effect of trade tensions and Federal Reserve moves. The new tariffs have affected taxes; hence, the slowing of U.S. economic growth. Meanwhile, the market responded to the dissipated Federal Reserve tightening with widened corporate bond spreads. This may affect financial stability when corporate debt market is vulnerable. Although labor market conditions are strong, the U.S. gross domestic product (GDP) fell in the second half of 2019. Consumer spending continues to grow, supported by the labor market and rising income. Also, the impact of budget resolution from Congress will partially offset the impact of the trade war. Because the possibility of a market slowdown and policy uncertainty are anticipated, despite the continued economic expansion, the potential risk of consumer budget constraint requires higher savings in the future.

Key Economic Indicators

.06 The following key economic indicators point out how the economy is functioning during 2019 and into 2020: stock markets, GDP, unemployment, the federal fund rate, and consumer spending. The Dow Jones Industry Average (DJIA) had a rising trend and reached a record high of over 28,000 in November of 2019.² Consumer optimism continues to push the DJIA since 2018. The NASDAQ composite index has had similar movement. It peaked in July and experienced similar volatility in August. As trade uncertainty extended to the stock market, U.S. stocks rebounded accordingly.

.07 Real GDP measures output of goods and services produced by labor and property within the United States. Real GDP increases as the economy

² See www.marketwatch.com/investing/index/djia/charts. Accessed November 20, 2019.

grows and decreases as it slows. According to the Bureau of Economic Analysis, real GDP increased 2.1% in the second quarter of 2019, down from the first quarter's increase of 3.1%. The increase in real GDP in the second quarter, attributed to positive contributions from personal consumption expenditures, federal government spending, and state and local government spending, were partially offset by private inventory investments, exports, and fixed investments.

.08 Unemployment remained low in the third quarter of 2019. According to the Bureau of Labor Statistics (BLS), the unemployment rate declined to 3.5% in September, near its lowest level in 50 years and in line with market expectations. Notable job gains occurred in professional and technical services, health care, social assistance, and financial activities. During that same time period, the number of long-term unemployed (those jobless for 27 weeks or more) increased to 1.3 million and accounted for 22.7% of the unemployed.³ According to the BLS, the number of people employed part-time for economic reasons increased by 397,000 in August to 4.4 million. Over the past 12 months, the number of involuntary part-time workers has declined over 600,000. Together, these aspects of the unemployment rate mirror the economic climate.

.09 The federal funds rate represents the interest rate at which banks trade balances held at the Federal Reserve on an overnight basis. It is the key economic indicator because it affects monetary and financial conditions. The Board of Governors of the Federal Reserve System lowered the target for the federal funds rate to 2% after the Federal Open Market Committee (FOMC) met in July 2019. According to the Federal Reserve's September press release, although the labor market continues to strengthen, the economic condition was more accommodative in the first and second quarters of the year. It has slowed from its fast pace in early 2019, which reflects a market adjustment of weak global economic growth, trade policy uncertainty, and inflation pressure.⁴ The FOMC considers this a sustained expansion of economic activity; however, uncertainties about this outlook remain.

.10 The consumer price index (CPI) measures the change of prices of consumer goods and services purchased by consumers. It reflects spending patterns for each of two population groups — all-urban consumers and urban wage earners and clerical workers. The all-urban consumers represent the majority of the total U.S. population. According to the BLS, the Consumer Price Index for All Urban Consumers (CPI-U) increased 1.7% over the last 12 months ended August 2019. The Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) increased 1.5% over the last 12 months ended August 2019. The index for all items less food and energy rose 2.4% over the last 12 months, and the food index increased 1.7%. The energy index declined 4.4% over the last 12 months. This indicates that consumer confidence remains at a moderately favorable level in the short-term outlook.

.11 Because economic conditions pose unique challenges to the entity's objectives and strategies, it is important to reassess the appropriateness of the planned audit strategy, materiality level, fraud risks. For instance, the auditor may consider whether the entity has established sufficient controls to monitor the market fluctuation, whether the organization is influenced by the inflated consumer confidence, or whether the due diligence measure of a vendor's

³ See www.bls.gov/home.htm. Accessed October 4, 2019.

⁴ 2019 FOMC Meeting Statement, The Federal Reserve (www.federalreserve.gov).

contractual liability under potential economic downturn is different. Economic conditions give rise to many audit considerations, particularly the evaluation of management's assessment of an entity's ability to continue as a going concern.

Executive Review of Top Risks for 2019

.12 The AICPA has partnered with North Carolina State University to conduct an annual survey, *Executive Perspectives on Top Risks*.⁵ The purpose of this survey is to seek executive-level perception of the top risks likely to be on the horizon for organizations. In summary, for 2019, individuals responding to the survey indicated that the overall global business context is slightly more risky, with respondents in most regions of the world sensing an increase in the magnitude of risks and lack of market awareness. Key observations are as follows:

- Most executives feel that uncertainties in business such as regulatory changes, succession challenges, cyber threats, and disruptive innovations are leading to more complex risks that affect existing operations.
- Boards of directors tend to delegate risk oversight to a board committee, rather than retaining it for the full board. To enhance effectiveness and efficiency, or to address specific regulatory requirements, risk oversight responsibilities can be allocated to various committees of the board (finance, strategy), although the full board of directors should retain the risk oversight responsibilities.
- Most organizations do not have a system and correlating process established between risk management activities and management compensation plans. Executives have incentives to meet short-term objectives and ignore the increase of risk exposure if risk management activities and compensation plans are not aligned.
- About half of the organizations engage in risk identification and risk assessment processes. Organizations have established risk management policies and maintained risk inventories. Some organizations already consider the risk appetite aligned with the risk profile and risk exposure associated with activities.
- Some organizations have not implemented risk management processes because they feel that the benefits of risk management do not exceed the costs, especially because the benefits of risk management accrue in the future, whereas the costs are upfront. The cost of mitigating risk can be high, but the cost of the effect of unmitigated risks can be even higher.

Legislative and Regulatory Developments

Tax Cuts & Jobs Act

.13 The Tax Cuts and Jobs Act (TCJA) was enacted in December 2017 and made some large changes to U.S. tax law. The corporate income tax rate was permanently lowered to 21%. TCJA eliminated the corporate alternative

⁵ See the report on the results of the survey, *2019: The State of Risk Oversight*, at www.aicpa.org/interestareas/businessindustryandgovernment/resources/erm.html.

minimum tax (AMT) and lowered the individual income tax rates through 2025. The new top rate is 37%, from 39.6%. The law keeps the same number of brackets as under current law. It also keeps the individual AMT, with a higher exemption than under current law.

.14 Section 199A, enacted in the TCJA, provides a deduction of up to 20% of income from a domestic trade or business operated as a sole proprietorship or through a partnership, S corporation, trust, or estate through December 31, 2025. Section 199A was enacted to provide relief to small businesses that do not operate as C corporations and did not benefit from the corporate income tax rate deduction. Final regulations were issued in January 2019 that provided additional guidance on Section 199A.

.15 FASB revised its original proposal on income tax disclosure requirements due to tax reform. The revised proposal, Proposed Accounting Standards Update (Revised) — *Income Taxes (Topic 740): Disclosure Framework — Changes to the Disclosure Requirements for Income Taxes*, would require additional foreign and domestic disclosures of pretax income (or loss) from continuing operations and before intra-entity eliminations, and other disaggregated disclosure of income tax expense (or benefit) from continuing operations and income tax paid. The proposal also requires public entities to disclose unrecognized tax benefits, valuation allowance recognized, and tax carryforwards. As these are only proposed changes and still subject to change, readers are encouraged to read the full guidance issued by FASB when available.

Inspections of Broker-Dealers

.16 The PCAOB issues an annual report on the interim inspection program for broker-dealers. In the report, the PCAOB conducts inspections to assess firms' compliance with applicable laws, rules, and professional standards when performing audit and attestation engagements for broker-dealers. Although engagements of broker-dealers are inspected by the PCAOB, the findings are similar to those of peer review inspections. Auditors may use these findings to ensure they are following all the applicable guidance when performing audit and attest engagements.

.17 On August 20, 2019, the PCAOB released the 2019 *Annual Report on the Interim Inspection Program Related to Audits of Brokers and Dealers*. This report includes observations from the PCAOB's inspections during 2018, insights into applicable standards, and examples of effective procedures. It also includes information about the selection of firms and engagements for inspection and historical results. The PCAOB is consistently using both risk-based and random selection methods to address deficiencies and independence findings it discovered during its firm inspection in 2018. The deficiencies noted by the PCAOB primarily consist of concerns about the net capital rule, the customer protection rule, revenue, fraud risk, related party transactions, financial statement presentation and disclosure, receivables and payables, and fair value measurements.

Audit and Attestation Issues and Developments

The AICPA Enhancing Audit Quality Areas of Focus

.18 The AICPA supports audit quality by doing the following:

- Attracting highly qualified individuals to enter the profession

- Developing a comprehensive examination for licensure
- Establishing auditing standards for nonpublic entities
- Supporting firms with educational guidance, tools, resources, and implementation materials
- Monitoring the quality of performance while requiring appropriate remedial action where needed
- Establishing and enforcing the AICPA Code of Professional Conduct (the code)

.19 In 2015, the AICPA issued *Enhancing Audit Quality — A 6-Point Plan to Improve Audits*.⁶ This plan is a road map of continued development of the profession designed to enhance audit quality in an increasingly complex business environment. The Enhancing Audit Quality initiative (EAQ) takes a data-driven approach. The AICPA collects audit data from various sources, analyzing data to uncover audit quality trends. Next, it takes targeted actions, such as reviewing auditing standards, to identify where clarification is needed and raising awareness among auditors and auditees. Based on its research, the AICPA then develops free tools and resources such as practice aids, websites, articles, and toolkits.

.20 The following are EAQ areas of focus for 2019.

.21 Internal control. Failure to gain an understanding of an entity's internal control over financial reporting is the most common noncompliance issue with AU-C section 315 and AU-C section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*. The understanding of internal control assists the auditor in designing and implementing procedures for risk assessment. Without proper understanding, the auditor may not be able to identify risk associated with the client's internal control, regardless of the size of the entity.

.22 Auditors sometimes default to control risk assessments at the maximum level without gaining an understanding of the client's internal control. This is not permitted under AU-C section 315, even when the auditor does not intend to rely on controls. Common missteps that have been identified include the following:

- Assuming the client has no controls
- Not understanding which controls are relevant to the audit
- Stopping after determining whether controls exist
- Defaulting control risk assessment to a certain level without evaluating the design and implementation of controls
- Failing to design and perform further audit procedures that effectively mitigate identified risks of material misstatement

.23 Because of the nature and importance of internal control, auditors should focus on avoiding these missteps and obtain a thorough understanding of internal control and perform appropriate procedures in practice.

.24 Risk assessment. Risk assessment is a key element of an audit in accordance with the standards, and it underlies the entire audit process in

⁶ www.aicpa.org/advocacy/state/downloadabledocuments/eaq-6-point-plan-to-improve-audits.pdf

identifying, assessing, and responding to risks of material misstatement. However, a recent survey of peer reviewers indicated over half of 400 audits were noncompliant with the risk assessment standard. The misconception that the auditor can perform a quality audit without properly considering the client's risks of material misstatement is the driver of noncompliance with professional standards.

.25 Professional standards relevant to risk assessment include AU-C section 300, AU-C section 315, and AU-C section 330. Risk assessment procedures are designed to gather and evaluate information about the client and are not specifically designed as substantive procedures or as tests of controls. These procedures may include checking whether corporate culture, digital disruption, cybersecurity, and other key issues are adequately considered in the entity's risk oversight, as well as assessing the components and maturity of the entity's cyber risk assessment. In today's disruptive environment, developing a dynamic audit plan based on the current year's risk assessment is key to a successful audit.

.26 Auditing accounting estimates. Auditing accounting estimates of credit losses, leases, and revenue recognition becomes more challenging following the recent updates of the relevant accounting standards.

.27 Three of the biggest challenges are as follows:

- Determining whether the assumptions underlying those estimates are reasonable. This requires the application of professional skepticism and may include testing whether the underlying data is complete, accurate, and relevant.
- Understanding the relationship between accounting estimates and internal control. Review of accounting estimates by management is an important procedure for internal control over financial reporting. A thorough understanding of what management does when reviewing accounting estimates helps the auditor assess the risk of material misstatements relating to accounting estimates.
- Understanding the data used to develop the accounting estimates, especially when a third-party specialist is involved. It is essential for the auditor to evaluate if the company used information appropriately and whether it provides sufficient appropriate evidence. It is also essential for the auditor to understand the process of gathering the information and any controls over that process and to test the accuracy and completeness of the data provided to the specialist.

The auditor should evaluate the results of audit procedures performed on accounting estimates, and identify whether indicators of possible management bias exist.

.28 Documentation. The AICPA Peer Review Program has found that a lack of documentation is the most common cause of material noncompliance with professional standards in audits. AU-C section 230, *Audit Documentation*, contains the overall documentation requirements, and other AU-C sections include incremental specific requirements. Common missteps include documentation that doesn't link the risk assessment procedures performed with the procedures performed in response to the assessed risk of material misstatement and the results of those procedures, and the audit evidence obtained. The audit program signoff may meet part of the specific requirements; however, it is

insufficient to meet the overall requirements of the standard. Good documentation enables an experienced auditor to understand the following:

- *The nature, timing, and extent of procedures performed.* The auditor should record the characteristics of the specific items tested, who performed the audit work and when such work was completed, who reviewed the audit work, and the date and extent of review.
- *The results of those procedures and evidence obtained.* For audit procedures related to the inspection of significant contracts or agreements, the auditor should include abstracts or copies of those agreements in the audit documentation.
- *Any significant findings, issues identified, or professional judgments made.* The auditor should document discussions of significant findings or issues with management, those charged with governance, and others, including the nature of such discussion and when and with whom the discussion took place.

.29 Audit documentation is the evidence of the auditor's basis for conclusion in an audit report. It is also evidence that the audit was planned and performed in accordance with GAAS and applicable regulatory requirements. Oral explanation by the auditor does not represent sufficient appropriate evidence of the work the auditor performed or conclusions reached; however, it may be used to explain or clarify information contained in the audit documentation.

Help Desk: For additional information on documentation, please visit www.aicpa.org/documentation for free resources, including a working paper template, FAQs, an Internal Inspection aid, and staff training material.

Contact the AICPA A&A Hotline with questions at 877.242.7212.

.30 System and organization controls (SOC).⁷ SOC engagements are a suite of service offerings CPAs can provide in connection with system-level controls of a service organization or entity-level controls of other organizations. SOC for Cybersecurity is the most recent addition to the SOC suite of services.

.31 Many organizations function more efficiently and profitably by outsourcing tasks or entire functions to other organizations (or service organizations) that have the personnel, expertise, equipment, or technology to accomplish these tasks or functions. As a reminder, organizations that use the services of service organizations are known as *user entities*. When a user entity engages a service organization to perform contract activities on behalf of the user entity, the user entity exposes itself to additional risks related to the service organization's system. To assess the risks associated with an outsourced service, management of the user entity needs information about the service organization's controls over its system used to provide the services. For instance, management of a user entity may ask the service organization for a service auditor's report

⁷ In 2017, the AICPA introduced the term system and organization controls (SOC) to refer to the suite of services practitioners may provide relating to system-level controls of a service organization and system or entity-level controls of other organizations. Formerly, SOC referred to service organization controls. By redefining that acronym, the AICPA enables the introduction of new internal control examinations that may be performed (a) for other types of organizations, in addition to service organizations, and (b) on either system-level or entity-level controls of such organizations.

on a description of the service organization's system and the design and operating effectiveness of controls over the service organization's system. Obtaining a service auditor's report from a service organization provides management of the user entity with information that may be useful in assessing risk when carrying out its vendor oversight and due diligence. A SOC 1[®] report addresses internal controls relevant to an audit of a service organization's client's financial statements. A SOC 2[®] report addresses a service organization's controls that are relevant to its operations and compliance. Due to the differences in scope and purpose between SOC 1 and SOC 2 reports, the related risk considerations and controls that address identified risks are different, as well. For a SOC 1 report, the risk considerations would focus on risks affecting the completeness and accuracy (integrity) of financial data; however, in a SOC 2 report, the risk considerations might cover the risks of loss or unauthorized access to systems and data.

.32 Five key components that are assessed in a SOC 1 or SOC 2 engagement are as follows:

- *Infrastructure.* The physical structures, IT, and other hardware
- *Software.* The application programs and supporting IT system software
- *People.* The personnel involved in the governance, operation, and use of a system
- *Processes.* The automated and manual procedures
- *Data.* Transactions, files, databases, and output of the system

Help Desk: For additional information on SOC for Cybersecurity, please visit the AICPA SOC for Cybersecurity website at www.aicpa.org/interestareas/frc/assuranceadvisoryservices/aicpacybersecurityinitiative.html.

Emerging Technologies: What Practitioners Need to Know

Introduction

.33 New technologies are evolving at an exponential rate. This evolution is directly affecting the accounting profession and creating disruption on several levels. Recent technological advances offer both challenges and opportunities that will change the way practitioners operate into the foreseeable future. Evolving the audit of the future toward real-time auditing through a data-driven approach using new technologies and data analytics will help maintain and enhance the relevance and value of the audit profession. Underpinning the achievement of this evolution are technologies such as blockchain, artificial intelligence, and robotic process automation. These technologies may enable the practitioner to perform real-time reporting, real-time analysis, and have continuous access to data. As stated in the article, "Blockchain, machine learning, and a future accounting" in the August 2018 issue of the *Journal of Accountancy*, "When you combine machine learning and blockchain, you get nothing short of a technological revolution. It's possible to envision a world where accounting and auditing happen in real time, with all relevant parties being informed every step of the way — a true continuous audit."

Help Desk: For additional information on how emerging technologies have an effect on the accounting profession, see the *Journal of Accountancy* article, "Blockchain, machine learning, and a future accounting" online at <https://www.journalofaccountancy.com/newsletters/2018/aug/blockchain-machine-learning-future-accounting.html>.

In addition, for information on how small businesses are using continuous auditing technology, see the *Journal of Accountancy* article, "Highlights of internal audit research" (July 1, 2019) at <https://www.journalofaccountancy.com/issues/2019/jul/internal-audit-research.html>.

The Future Audit: Moving Toward Real-Time Auditing With a Data-Driven Approach

.34 Auditing is currently at a critical juncture. Specifically, advances in technology, in conjunction with real-time approaches to conducting business, are challenging the auditing profession. Given the recent advances in business technologies, it is time to consider whether the way the auditor audits historical financial information continues to be appropriate. Instead, real-time solutions may be more suitable. *Continuous auditing* is a methodology that enables auditors to provide assurance on a subject matter for which an entity's management is responsible by using a continuous opinion schema issued virtually simultaneously with or within a short period of time after the occurrence of events underlying the subject matter. Although the concept of continuous auditing is not new and has been a focus for firms for several years, the emergence of new technologies may make this a reality.

.35 Traditional auditing has changed considerably as a result of changes in technology, including more advanced enterprise resource planning systems, increased use of online transactions with both customers and suppliers, the use of the cloud, and the rapid expansion of data available for use by management and auditors. In addition, the client's use of technologies such as blockchain, artificial intelligence, and robotic process automation affects the overall audit approach. It is important that practitioners understand these new technologies sooner rather than later. The continuously evolving technology landscape leads to a variety of audit challenges that compound over time. However, these new technologies also create opportunities for the introduction of innovative audit tools and methodologies, especially as financial systems have moved toward decentralization, distribution, online posting, real-time (or at least daily) closing of the books, and paperless record keeping.

.36 Firms that successfully explore use of computer-assisted audit tools may eventually consider more advanced programs that contain functionalities resembling the audit of the future. The audit processes need to be designed from the start to make optimal use of today's technology to enable auditors to provide the most effective and efficient service possible within the bounds of economic viability. Many of today's audit procedures can be deconstructed into tasks that can be performed wherever is most effective. Cloud computing is one example of how tasks are deconstructed into separate processes that migrate over the internet to where they can be performed most effectively. It is possible with today's technology to continuously monitor 100% of an entity's transactions in almost real time or at least at frequent intervals. This ability may be used to

assess the operating effectiveness of automated internal controls or to perform substantive tests.

Help Desk: For additional information on the future of audits and continuous auditing, see the AICPA publication, *Audit Analytics and Continuous Audit: Look Toward the Future*.

This book is a compendium of essays written by different subject matter experts that expands upon the 1999 CICA and AICPA research report to discuss topics such as audit analytics, the theory of modern continuous assurance, the current state of continuous auditing and continuous monitoring, the evolution of auditing and what the future could look like, and continuous risk monitoring techniques.

Go online to <https://www.aicpa.org/interestareas/frc/assuranceadvisoryservices/continuousassuranceworkinggroup.html> for more information.

Audit Data Analytics

.37 Data science and related technologies have advanced enormously in recent years, incorporating theories, techniques, and software applications from many fields, including data analysis; business intelligence; mathematics and probability; statistical learning, including pattern recognition; data visualization; gamification; big data analytics; and text and process mining. *Audit data analytics* is the science and art of discovering and analyzing patterns, identifying anomalies, and extracting other useful information in data underlying or related to the subject matter of an audit through analysis, modeling, and visualization for the purpose of planning or performing the audit. Audit data analytics has the potential to transform the way financial statement audits are conducted, making them significantly more effective and possibly more efficient. The emphasis of introducing technology to the audit process has been on improving both effectiveness and efficiency. Although effectiveness has improved, there has not been the quantum leap that technology has the potential to enable. As stated in the article, "What I've learned building a blockchain business," from the August 2019 issue of the *Journal of Accountancy*, "As auditors and accountants, we can now gather and verify information in real time, which further enables improved transparency and better data for analytics and business decisions. Our roles as CPAs will not go away, but they will likely change significantly."

.38 What is different now is that recent advances in fundamental data science, vast increases in computer power, and access to huge amounts of data and information have converged to provide an environment ripe for data analytics that can, and is, transforming industries. The key for auditors now is to leverage these capabilities to increase the effectiveness and efficiencies in their audit processes.

Help Desk: For additional information on first-hand experiences from accounting firms, finance departments, and others putting cutting-edge technologies to work today, see the *Journal of Accountancy* article, "What I've learned building a blockchain business" (August 1, 2019). Online at <https://www.journalofaccountancy.com/issues/2019/aug/blockchain-services-jagruti-solanki-cpa.html>

For additional information on data analytics, see the AICPA's *Guide to Audit Data Analytics*, which is intended to encourage auditors to voluntarily make more use of technology-based audit data analytics. The use of audit data analytics has the potential to enhance traditional audit procedures, contribute to every phase of the audit, and offer a new way of visualizing and analyzing results.

The guide includes various illustrative examples detailing how audit data analytics can be used throughout the financial statement audit.

Go online to www.aicpa.org/interestareas/frc/assuranceadvisoryservices/auditdataanalyticsguide.html for more information.

In addition, the AICPA Assurance Services Executive Committee (ASEC) Emerging Assurance Technologies Task Force established the Audit Data Standard Working Group to develop a standardized data model that facilitates the use of enhanced analytics. During the first quarter of 2019, two informational videos were created and posted on the AICPA website by the working group to promote the development and use of audit data analytics and illustrate how it has the potential to transform and innovate the current financial statement audit.

Audit Data Standards and the Financial Statement Audit

This video showcases the AICPA's Audit Data Standards and some of the other projects and initiatives going on in the area of audit data analytics.

Upgrade the Financial Statement Audit With Audit Data Analytics

This video illustrates how Python, an open source programming language, can be used to apply the AICPA's Audit Data Standard formatting to a data set and how to develop routines to further analyze the Audit Data Standard standardized data set.

To access the two videos and for additional information on the audit data standards, see www.aicpa.org/interestareas/frc/assuranceadvisoryservices/auditdatastandards.html.

Blockchain

.39 Blockchain is another technology that is likely to significantly affect the way practitioners perform audits. A *blockchain* is a digital ledger created to capture transactions conducted among various parties in a network. It is a peer-to-peer, internet-based, distributed ledger that includes all transactions since its creation. All participants using the shared database are "nodes" connected to the blockchain, each maintaining an identical copy of the ledger. Every entry into a blockchain is a transaction that represents an exchange of value between participants.

.40 Blockchain technology offers the potential to affect a wide range of industries. The most promising applications exist when transferring value or assets between parties that are currently cumbersome, expensive, and require one or more centralized organizations. Applications of blockchain technology are being implemented in many industries, including supply chains, health care, and financial services. Blockchain technology offers an opportunity to streamline financial reporting and audit processes. Today, account reconciliations, trial balances, journal entries, subledger extracts, and supporting spreadsheet files are provided to an auditor in a variety of electronic and manual formats. Each

audit begins with different information and schedules that require an auditor to invest significant time when planning an audit. In a blockchain world, the auditor could have near real-time data access via read-only nodes on blockchains. This may allow an auditor to obtain information required for the audit in a consistent, recurring format. However, a caution is necessary here. Before auditors can use information obtained from the blockchain, audit procedures will need to be performed to determine the reliability, accuracy, and completeness of the information contained on the blockchain; in other words, the auditor will need to audit the blockchain technology. Application of healthy professional skepticism is necessary to prevent undue overreliance on untested technology. Although the audit process may become more continuous, auditors will still have to apply professional judgment when analyzing accounting estimates and other judgments made by management in the preparation of financial statements. In addition, for areas that become automated, they will also need to evaluate and test internal controls over the data integrity of all sources of relevant financial information.

.41 Many unknowns still exist with respect to how blockchain will affect the audit and assurance profession, including the speed with which it will do so. Blockchain is already affecting auditors of those organizations using blockchain to record transactions, and the rate of adoption is expected to continue to increase. In addition, auditors should be aware of opportunities to leverage their clients' adoption of blockchain technology to improve data gathering during the audit. As stated in the *Journal of Accountancy* article, "Blockchain, machine learning, and a future accounting": "There's no getting around the fact that technologies like blockchain and machine learning are no longer a tiny dot on the horizon. The future is here, and accounting professionals must be willing to adapt."

Help Desk: For additional information on what blockchain technology is and how it is affecting the profession, see the white paper, "Blockchain Technology and Its Potential Impact on the Audit and Assurance Profession," online at www.aicpa.org/interestareas/frc/assuranceadvisoryservices/blockchain-impact-on-auditing.html

You can also take CPE courses related to blockchain developed by the AICPA. Visit the AICPA Store at www.aicpastore.com/careerpersonaldevelopment/blockchain-fundamentals-for-accounting-and-finance/prdovr~pc-wbclcf18001/pc-wbclcf18001.jsp.

In addition, search for blockchain episodes at our Go Beyond Disruption podcast series at www.aicpa-cima.com/disruption.

Implications of the Use of Blockchain Technology by Service Organizations on SOC for Service Organization Examinations

.42 In August 2018, the Implications of Blockchain on SOC 1 and SOC 2 Working Group was formed under the direction of ASEC. The purpose of the working group is to develop guidance to help service auditors understand the typical risks and other related considerations associated with performing a SOC 1 or SOC 2 examination for a service organization that uses blockchain technology.

.43 The guidance document will address an examination in which the service auditor will issue an opinion on the service organization's system, which

uses blockchain technology; it does not address an examination of a specific blockchain network in accordance with the attestation standards.

Help Desk: Readers are encouraged to be on the lookout for the document developed by the Implications of Blockchain on SOC 1 and SOC 2 Working Group once it is published.

Digital Assets

.44 The AICPA formed the Digital Assets Working Group, a joint working group under the AICPA's Financial Reporting Executive Committee and ASEC, with the objective of developing guidance for financial statement preparers and auditors with a fundamental knowledge of blockchain technology on how to account for and audit digital assets under U.S. generally accepted accounting principles (GAAP) and GAAS, respectively. The working group is split into two subgroups: one focusing on accounting topics, and one focusing on auditing topics.

.45 Each subgroup is developing accounting and auditing papers that will be posted to aicpa.org. The format of each of the accounting and auditing topics will vary based on the context necessary to be provided to the reader. For example, some topics will be addressed in question and answer format, whereas others requiring more context will be presented in a narrative format.

Accounting Subgroup

.46 The Accounting Subgroup is focused on developing nonauthoritative guidance on accounting for digital assets under GAAP. The scope of the content will include those digital assets that are defined broadly as digital records made using cryptography for verification and security purposes on a digital decentralized ledger (referred to as a *blockchain*) that keeps a record of all transactions that take place across a blockchain network. The guidance in this paper will not address the different accounting requirements that may result from differences in the rights and obligations along with other factors such as compliance with laws and regulations.

.47 Although many different terms are generally used in the digital asset ecosystem, a key concept is that the accounting treatment for a digital asset will ultimately be driven by the specific terms, form, underlying rights, and obligations associated with the digital asset.

Auditing Subgroup

.48 The Auditing Subgroup is focused on developing nonauthoritative guidance on auditing financial statements in accordance with GAAS (nonaudit attest engagements are not currently contemplated) that include digital assets. The content for each topic generally will address various participants in the digital asset ecosystem (for example, entities that hold digital assets, custodians or wallet companies, exchanges, funds that invest in digital assets, vendors accepting digital currency, and miners). Each auditing topic will cover the relevant auditing standards, applying those standards within the digital asset ecosystem, challenges specific to the ecosystem, and procedures an auditor may consider to address those unique challenges. Although auditor independence and ethical requirements should be considered prior to the performance of

acceptance or continuance procedures for all engagements, such considerations are not within the scope of this guidance.

Help Desk: For information regarding independence and ethics, see the AICPA Code of Professional Conduct at pub.aicpa.org/codeofconduct/ethics.aspx.

Artificial Intelligence

.49 Artificial intelligence, or AI, is the science of teaching programs and machines to complete tasks that normally require human intelligence. Artificial intelligence is a key technological driver that enables the continuous audit and data analysis — it is changing the future of the auditing. Advances in artificial intelligence technology are automating tasks that previously only humans could perform, including accounting, tax, and audit data gathering. Entities are embracing these technological advances and developing new skill sets. They are getting involved in big data and data analytics, including the use of AI technology. It presents an opportunity to automate systems that involve large amounts of numbers and data and provide new services to customers. Entities are already using AI to improve audit processes and predictive analytics.

.50 As stated in the article, "What's 'critical' for CPAs to learn in an AI-powered world" in the June 2019 issue of the *Journal of Accountancy*,

Artificial intelligence — and the technologies in and around the AI space — was one of the two key issues at the heart of our eighth annual gathering of accounting technology experts. Also taking center stage during the discussion: education — specifically, the types of skills accountants must learn to flourish in a world where AI-powered algorithms automate traditional, time-consuming tasks and data-powered analytics reveal new insights to those who can interpret the numbers.

Help Desk: For additional information on how AI is affecting the profession, see the *Journal of Accountancy* articles, "What's 'critical' for CPAs to learn in an AI-powered world" (June 1, 2019) and "Why patience is important with AI" (July 1, 2019) online at the following links:

<https://www.journalofaccountancy.com/issues/2019/jun/critical-cpa-skills-for-ai-powered-world.html>

<https://www.journalofaccountancy.com/issues/2019/jul/artificial-intelligence-technology-roundtable.html>

.51 In addition, the Chartered Professional Accountants of Canada and the AICPA developed a white paper, "A CPA's Introduction to AI: From Algorithms to Deep Learning, What You Need to Know" to be used as a foundational resource. It explains the buzzwords and terms you have likely been hearing; discusses the evolution of data, AI, and computing power; and helps you to begin to think about AI and how it might affect your work. Future publications dedicated to AI will refer to this resource, as it is the first of a planned series of publications to explore AI and its effect on the CPA profession.

Help Desk: For access to the white paper, see the following link:

www.aicpa.org/content/dam/aicpa/interestareas/frc/assuranceadvisoryservices/downloadabledocuments/cpas-introduction-to-ai-from-algorithms.pdf

.52 A second AI white paper in the series is being developed. Readers are encouraged to be on the lookout for the white paper title "The Data-Driven Audit: How automation and AI are changing the audit and the role of the auditor." This white paper will explore what auditors can expect from an AI-enabled audit in terms of benefits and how the audit and the role of the auditor will evolve.

.53 Although AI presents opportunities for significant advances in the way that audits are performed, auditors should be aware that new skills and expertise may be required and the auditor should not place undue reliance on AI.

Robotic Process Automation

.54 Robotic process automation is a combination of robotics and process automation. Although robotics is used under the artificial intelligence banner, it differs from artificial intelligence because it does not encompass machine learning, it merely automates a manual process. A machine performs work by itself, following a set of rules programmed via computer. Today, this type of automation is much more widely used, such as in the transfer of data or systems speaking to one another. *Process automation* is a virtualized robot that manipulates existing application software in the same way that a person completes the process.

.55 As stated in the article, "How CPAs can prepare for auditing in the future," in the December 2017 issue of the *Journal of Accountancy*:

Robotic process automation (RPA) is already revolutionizing the workplace, as computers take over clerical chores and accounting tasks many professionals would happily hand off.

Automated business process using RPA not only expands auditors' capacity, but also introduces new risks to the control environment. Therefore, designing new testing approaches is the new challenge for auditors.

.56 As is the case with AI, robotics presents opportunities for significant advances in the way that audits are performed; however, auditors should be aware that new skills and expertise may be required and the auditor should not place undue reliance on robotic process automation.

Help Desk: For additional information on how robotic process automation is changing the future of auditing, see the *Journal of Accountancy* article, "How CPAs can prepare for auditing in the future," (December 6, 2017) at the following link:

www.journalofaccountancy.com/news/2017/dec/auditing-in-the-future-201717986.html

For additional information on machine learning, see the *Journal of Accountancy* article, "The robots are not just coming, they are already here," (April 30, 2018) at the following link:

www.journalofaccountancy.com/newsletters/2018/apr/robots-already-here.html

.57 As firms move in the direction of real-time auditing and implement audit data analytics, a strong understanding of the underlying technologies such as blockchain, AI, and robotic process automation, which enable this move toward the future of auditing, must be obtained. The future of the auditing landscape is changing at a rapid pace, with the ultimate goal of implementing more effective and efficient audit processes. Readers are encouraged to stay up to date with rapidly changing technologies by visiting www.aicpa.org/imta.

Help Desk: For additional information on emerging technologies and the effect of the movement toward automated tasks, see the *Journal of Accountancy* article, "Rise of tech requires CPAs to trust in human abilities," (March 25, 2019) at the following link:

<https://www.journalofaccountancy.com/newsletters/2019/mar/tech-requires-cpas-trust-human-abilities.html>

In addition, the AICPA's Information Management and Technology Assurance Section has been carefully crafted to support all members who offer assurance services and information management support to their clients and decision makers within their organization. You will have access to resources that will enable you to understand how the use of data and reporting systems can lead to improved business decisions. In addition, you will be in a unique position to gain understanding about how technical skills and financial acumen can be used to evaluate technology risks in support of business objectives.

Cybersecurity

.58 Malicious cyberattacks against public and private companies and various agencies of the federal government have highlighted the growing cybersecurity risk to organizations of all sizes, in all sectors. As trusted advisers, CPAs play a multifaceted role in cybersecurity risk management:

- *They protect client and customer data.* With cybersecurity attacks on the rise and CPA firms of all sizes having additional risk due to centralizing information for many clients in a single location, CPA firms must increase their awareness of potential internal risks and take proactive steps to safeguard valuable client and customer information.
- *They advise clients.* CPAs, especially those with a specialization in IT internal controls, can share their expertise and best practices with clients and help them address risks associated with cybersecurity.
- *They provide assurance.* As trusted business advisers, CPAs with cybersecurity specialization experience are uniquely positioned to provide an examination of an entity's cybersecurity risk management program to help instill confidence in an entity's efforts to address cybersecurity risks.

Help Desk: A new AICPA attestation guide, *Reporting on an Entity's Cybersecurity Risk Management Program and Controls*, has been developed to assist practitioners. It is available at www.aicpastore.com.

Additional resources are also available at the AICPA Cybersecurity Resource Center at www.aicpa.org/interestareas/frc/assuranceadvisoryservices/pages/cyber-security-resource-center.aspx.

Auditing Standards Board

Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements

.59 In May 2019, the Auditing Standards Board (ASB) issued Statement on Auditing Standards (SAS) No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*, aimed at enhancing the relevance and usefulness of the auditor's report. SAS No. 134 replaces AU-C sections 700, *Forming an Opinion and Reporting on Financial Statements*; 705, *Modifications to the Opinion in the Independent Auditor's Report*; and 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*. SAS No. 134 introduces a new section, AU-C section 701, *Communicating Key Audit Matters in the Independent Auditor's Report*. SAS No. 134, which also amends various other AU-C sections, addresses the auditor's responsibility to form an opinion on the financial statements and the form and content of the auditor's report issued as a result of an audit of financial statements. It also addresses the auditor's responsibilities, and the form and content of the auditor's report, when the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary, and when additional communications are necessary in the auditor's report.

.60 SAS No. 134 was developed in consideration of the following issues:

- Although users value the "pass/fail" nature of the auditor's opinion, they would like the auditor's report to provide greater transparency into the audit.
- Users would like the auditor's report to include more information about areas with higher assessed risks of material misstatement, areas that involve significant judgment by management and the auditor, and areas that relate to significant events or transactions.
- To address the long-standing "expectations gap," users and other stakeholders would like the auditor's report to expand the descriptions of the auditor's responsibilities in financial statement auditing and management's responsibilities in financial statement preparation.

.61 SAS No. 134 is designed to enhance the communicative value of the auditor's report and align GAAS with the standards issued by the IAASB and PCAOB. SAS No. 134 will benefit users of audited financial statements by placing the auditor's opinion at the front of the report for added visibility and providing necessary transparency into the basis for the auditor's opinion and the responsibilities of both entity management and auditors.

.62 SAS No. 134 requires that the "Opinion" precede the "Basis for Opinion" section in the auditor's report, and the "Basis for Opinion" section should include a statement that the auditor is required to be independent of the entity and to meet the auditor's other ethical responsibilities. Key changes made in regard to AU-C section 700 include enhancement of auditor reporting relating to going concern. Also, a description of the auditor's responsibilities has been expanded. These responsibilities include professional judgment and professional skepticism, and the auditor's communication with those charged with governance.

.63 AU-C section 701 addresses the auditor's responsibility to communicate key audit matters (KAMs) in the auditor's report when the auditor is engaged to do so under the terms of the engagement. GAAS does not require the communication of KAMs. When engaged to include KAMs, AU-C section 701 addresses both the auditor's judgment about what to communicate in the auditor's report and the form and content of such communication of KAMs.

.64 AU-C section 705 aligns the form and content of the report with the changes in AU-C section 700 when the auditor concludes a clean auditor's opinion in accordance with AU-C section 700 is not appropriate (qualified, adverse, or disclaimer of opinion). AU-C section 705 does not change the existing requirements regarding circumstances in which a modification of the auditor's opinion is required and for determining the type of modification to the auditor's opinion.

.65 AU-C section 706 addresses additional communications in the auditor's report (emphasis-of-matter and other-matter paragraphs). This section clarifies the relationship between emphasis-of-matter paragraphs and the communication of KAMs. When AU-C section 701 applies, the use of an emphasis-of-matter paragraph is not a substitute for including the matter in the KAM section if the matter meets the definition of KAM. This section also requires the auditor to use the appropriate heading for the emphasis-of-matter paragraph.

.66 SAS No. 134 also contains other amendments to certain AU-C sections:

- Amends AU-C section 260, *The Auditor's Communication With Those Charged With Governance*. These amendments require the auditor to communicate with those charged with governance about circumstances that affect the form and content of the auditor's report. The amendments also include application material that provides examples of matters for which communication with those charged with governance may be important prior to issuance of the auditor's report.
- Amends AU-C section 210, *Terms of Engagement*. The amendments modify the application material relating to the form and content of the engagement letter and the example audit engagement letter to be consistent with the changes to the elements of the auditor's report in AU-C section 700.
- Amends AU-C section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*. New amendments require a separate section in the auditor's report when substantial doubt about the entity's ability to continue as a going concern exists (or has even been alleviated by management's plans), but the financial statements do not adequately disclose this matter.

- Amends various AU-C sections to focus auditor attention on disclosures throughout the audit process and to enhance application material to assist auditors in addressing challenges arising from the evolving nature of disclosures.

.67 SAS No. 134 becomes effective for audits of financial statements for periods ending on or after December 15, 2020. Early implementation is not permitted.

Help Desk: New SASs, including SAS No. 134, are available for auditors to read and consider in order to adequately prepare for implementation. They can be viewed on AICPA's website under recently issued standards.

Omnibus Statement on Auditing Standards — 2019

.68 In May 2019, the ASB issued SAS No. 135, *Omnibus Statement on Auditing Standards — 2019*. SAS No. 135 is intended to align ASB guidance more closely with that of the PCAOB. The omnibus SAS includes amendments to AU-C section 550, *Related Parties*; AU-C section 240, *Consideration of Fraud in a Financial Statement Audit*; and AU-C section 260.

.69 The amendments to AU-C section 550 add or amend requirements and application material with a focus on related parties and relationships and transactions with related parties. The amendment accomplishes the following:

- Enhances requirements to identify previously unidentified or undisclosed related parties or significant related party transactions
- Enhances the auditor's response to the risks of material misstatement associated with related party relationships and transactions, including procedures to test the accuracy and completeness of the related party relationships and transactions identified by the entity, taking into account the information gathered during the audit
- Provides application material regarding the enhanced requirements as well as additional examples of significant related party findings and issues that may be communicated to those charged with governance

.70 SAS No. 135 incorporates material from the PCAOB's Auditing Standard (AS) 1301⁸ into AU-C section 260. The amendments require the auditor to communicate with those charged with governance the auditor's reviews of policies and practices that management uses to account for significant unusual transactions and the auditor's understanding of the business purpose for significant unusual transactions. The amendments also add requirements to communicate the potential effects of uncorrected misstatements on future period financial statements under audit.

.71 The amendments to AU-C section 240 include the term *significant unusual transactions* and add requirements related to the potential existence

⁸ All AS sections can be found in *PCAOB Standards and Related Rules*.

of those transactions. SAS No. 135 defines *significant unusual transactions* as "significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual due to their timing, size, or nature." This amendment adds requirements for basic procedures for obtaining information for evaluating significant unusual transactions, and guidance and conforming changes related to significant unusual transactions. As part of the existing requirement to address the risk of management override of controls, SAS No. 135 requires the auditor to evaluate whether the business purpose (or lack thereof) of significant unusual transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets. The procedures should include the following:

- Reading the underlying documentation and evaluating whether the terms and other information about the transaction are consistent with explanations from inquiries and other audit evidence about the business purpose (or lack thereof) of the transaction
- Determining whether the transaction has been authorized and approved in accordance with the entity's established policies and procedures
- Evaluating whether significant unusual transactions that the auditor has identified have been properly accounted for and disclosed in the financial statements

.72 The SAS becomes effective for audits of financial statements for periods ending on or after December 15, 2020. Early implementation is not permitted.

Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA

.73 In July 2019, the AICPA issued SAS No. 136, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA* (AU-C sec. 703), to address the auditor's responsibility to form an opinion on the financial statements of employee benefit plans subject to the Employee Retirement Income Security Act of 1974 (ERISA). It also addresses the form and content of the auditor's report issued as a result of an audit of ERISA plan financial statements.

.74 This SAS applies to an audit of a complete set of general purpose financial statements of employee benefit plans subject to ERISA. Although all AU-C sections apply, this SAS affects the guidance in certain AU-C sections. Therefore, the following AU-C sections are not applicable to an audit of ERISA plan financial statements:

- AU-C section 700
- Paragraph .09 of AU-C section 725, *Supplementary Information in Relation to the Financial Statements as a Whole*

.75 The notable changes of SAS No. 136 include the amendments of SAS No. 119, *Supplementary Information in Relation to the Financial Statements as a Whole*; various sections in SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*, as amended; and SAS No. 132, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*. SAS No. 136 includes new requirements for audits of ERISA plan financial statements related to the following:

- *Engagement acceptance.* SAS No. 136 adds requirements in addition to those already in AU-C section 210 for the auditor to obtain the agreement of management that it acknowledges and understands its responsibility related to the financial statements.
- *Audit risk assessment and response.* SAS No. 136 requires the auditor to obtain and read the most current plan instrument for the audit period, and when designing and performing audit procedures, the auditor should consider relevant plan provisions that affect the risk of material misstatement.
- *Communications with those charged with governance.* The auditor should communicate in writing to those charged with governance, on a timely basis, reportable findings from the audit procedures performed.
- *Special provisions for ERISA Section 103(a)(3)(C) audits.* When management elects to have an ERISA Section 103(a)(3)(C) audit, the auditor should evaluate management's assessment of whether the entity issuing the certification is a qualified institution under Department of Labor rules and regulations.
- *Written representations.* In addition to the written representation requirements in AU-C section 580, *Written Representations*, the auditor should request the required written representation from management in the audit of ERISA plan financial statements.
- *Reporting.* The notable change includes the new form of opinion when an ERISA permitted audit scope limitation exists. However, the limited scope limitation does not exempt the plan from the requirement to have an audit.

.76 Effective for audits of ERISA plan financial statements for periods ending on or after Dec. 15, 2020, SAS No. 136 applies only to audits of employee benefit plans that are subject to ERISA. Early implementation is not permitted.

The Auditor's Responsibilities Relating to Other Information Included in Annual Reports

.77 In July 2019, the ASB issued SAS No. 137, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports* (AU-C sec. 720). SAS No. 137 addresses enhancing transparency relating to the auditor's responsibilities for other information included in annual reports and reducing diversity in practice. It also includes auditor performance and reporting requirements. SAS No. 137 provides that other information is financial or non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report. Other information may include amounts or other items that are intended to be the same as, to summarize, or to provide greater detail about amounts or other items in the financial statements and other amounts or items about which the auditor has obtained knowledge in the audit.

.78 SAS No. 137 supersedes SAS No. 118, *Other Information in Documents Containing Audited Financial Statements*, amended and codified in AU-C section 720, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*. The changes made include the following:

- Clarifying the scope of documents to which the auditor should apply the procedures required in AU-C section 720.

- Clarifying the auditor's responsibility to consider whether a material inconsistency exists between the other information and the audited financial statements and remain alert for indications that a material misstatement of fact exists.
- Requiring the auditor to determine and obtain management's acknowledgment regarding which document or documents compose the annual report.
- Requiring the auditor to remain alert for indications that a material inconsistency exists between the other information and the auditor's knowledge obtained in the audit, or the other information is otherwise misleading.
- Requiring the auditor to include a separate section in the auditor's report with the heading "Other Information," or other appropriate heading, when the auditor has obtained all the other information at the date of the auditor's report.

.79 SAS No. 137 is expected to reduce diversity in practice with regard to other information and documents within the scope. It is effective for audits of financial statements for periods ending on or after December 15, 2020. Early implementation is not permitted.

Accounting and Review Services Committee

New Compilation and Review Report Requirements Issued

.80 In May 2018, the Accounting and Review Services Committee (ARSC) issued Statement on Standards for Accounting and Review Services (SSARS) No. 24, *Omnibus Statement on Standards for Accounting and Review Services — 2018*, which revises reporting requirements for compilations and reviews.

.81 Most significantly, SSARS No. 24 created AR-C section 100, *Special Considerations — International Reporting Issues*,⁹ in *AICPA Professional Standards* to provide requirements and guidance for an accountant engaged to perform a compilation or review when

- the financial statements have been prepared in accordance with a financial reporting framework generally accepted in another country, or
- the compilation or review is to be performed in accordance with both SSARSs and another set of compilation or review standards.

.82 In addition, SSARS No. 24 amends AR-C section 60, *General Principles for Engagements Performed in Accordance With Statements on Accounting and Review Services*, and AR-C section 90, *Review of Financial Statements*. These changes harmonize the requirements and guidance regarding the accountant's consideration of going concern in a review of financial statements with the corresponding requirements and guidance in AU-C section 930, *Interim Financial Information*. The changes also will preclude an accountant from referencing, in an accountant's review report, the review or audit report of other accountants if the accountant's report includes an alert that restricts the use of such report.

⁹ All AR-C sections can be found in *AICPA Professional Standards*.

.83 These provisions take effect for compilations and reviews of financial statements for periods ending on or after June 15, 2019. Early application is permitted.

Hot Topics With Respect to Preparation, Compilation, and Review Engagements

.84 The Accounting & Auditing Technical Hotline receives many questions on preparation, compilation, and review engagements. The following represents some of the more frequent questions that hotline staff has addressed and the responses.

Preparation Versus Bookkeeping Service

.85 Some accountants continue to struggle with the revised applicability of the *Statements on Standards for Accounting and Review Services: Clarification and Recodification*. Pre-SSARS No. 21, the accountant was required to perform an attest service (compilation, review, or audit) whenever the accountant prepared and presented financial statements to his or her client or to third parties. SSARS No. 21 revised the applicability so that the accountant is required to perform an attest service only when engaged to do so. The result is that the accountant can prepare financial statements as part of a bookkeeping or other service and not be required to comply with SSARSs. This would occur, for example, if the accountant is hired by the client to perform bookkeeping services, and the client understands that the accounting software will prepare the financial statements.

.86 The accountant is only required to apply AR-C section 70, *Preparation of Financial Statements*, when the accountant is engaged (in other words, hired) to prepare financial statements. It is important for the accountant to reach an understanding with the client regarding what exactly the accountant will be doing.

Compilation of Financial Statements That Omit Substantially All Disclosures

.87 Many practitioners have questioned whether they can issue a compilation report on financial statements that omit substantially all disclosures when they have previously issued a review or audit report on such financial statements with the inclusion of related notes. The concern is primarily with the statement in the accountant's compilation report that the accountant "did not audit or review the financial statements."

.88 The answer is that the accountant can issue a compilation report on the financial statements that omit substantially all disclosures when the accountant has issued a review or audit report on such financial statements with related notes included. The reason is that the financial statements with disclosures and the financial statements without disclosures are substantially different, and the accountant would look at the financial statements as separate sets that, although obviously related, are not the same. Therefore, the statement that the accountant did not "audit or review the financial statements" that omit substantially all disclosures is an accurate statement.

.89 Although not required, to be transparent, the accountant may consider adding an other-matter paragraph to the accountant's compilation report, which states that corresponding full-disclosure financial statements were

audited or reviewed, including a reference to the auditor's or accountant's review report on those full-disclosure financial statements.

Select Matters Identified in Peer Reviews

.90 In order to be admitted to or retain their membership in the AICPA, CPAs who are engaged in the practice of public accounting in the United States or its territories are required to be practicing as partners or employees of firms enrolled in an approved practice-monitoring program. If practicing in firms that are not eligible to enroll, individuals must enroll in an approved practice-monitoring program if the services performed by such a firm or individual are within the scope of the AICPA's practice-monitoring standards, and the firm or individual issues reports purporting to be in accordance with AICPA professional standards.

.91 The peer review program exists because of the public interest in the quality of the accounting, auditing, and attestation services provided by public accounting firms. In addition, firms indicate that peer review contributes to the quality and effectiveness of their practices. Furthermore, most state boards of accountancy require their licensees to undergo peer review, or compliance assurance, to practice in their state. Other regulators require peer review in order to perform engagements and issue reports under their standards.

.92 Peer reviewers are required to perform peer reviews in accordance with Standards for Performing and Reporting on Peer Reviews (standards), and accordingly, the standards and interpretations are the basis for peer reviews. You can find training and frequently asked questions about the Peer Review Program at www.aicpa.org/interestareas/peerreview/pages/peerreviewhome.aspx.

.93 The following sections discuss matters identified in recent peer reviews. They are organized by audit and attest, compilation, review, and SOC 1 and SOC 2 examinations.

Audit and Attest

.94 *Failure to appropriately address fraud considerations.* AU-C section 240 addresses the auditor's responsibilities relating to fraud in an audit of financial statements. Peer reviewers noted the following fraud consideration matters:

- The engagement team did not obtain sufficient audit evidence to support the conclusions reached with regard to the risk assessment and procedures performed.
- Working papers omitted documentation of fraud discussion among engagement team and auditor's understanding of the entity's IT and its environment.
- The firm did not document audit procedures to reduce the risk of management's override of controls or a conclusion on its decision not to test controls.

.95 *Failure to include audit documentation that demonstrates that sufficient appropriate audit evidence was obtained to support the firm's opinion on the financial statements.* AU-C section 230 addresses the auditor's responsibility to prepare audit documentation for an audit of financial statements.

Examples of documentation matters identified during peer reviews include the following:

- Insufficient documentation existed to determine the nature, timing, and extent of the audit procedures.
- No conclusions were formed as a result of audit procedures.
- Working papers did not include references to where audit procedures were performed.
- There was no evidence of engagement partner review.
- Documentation of the content and conclusions of verbal discussions were missing.

.96 *Failure to appropriately document planning procedures.* AU-C section 300 outlines required planning procedures, and AU-C section 315 includes obtaining an understanding of the client and identifying and evaluating the risk of misstatements. Peer reviewers noted the following areas were not appropriately documented as part of planning procedures:

- Overall audit planning
- Overall engagement risk assessment
- Fraud risk considerations
- Preliminary analytical review as the audit risk assessment procedure
- IT risk assessment
- Overall understanding of the client and its environment

.97 *Failure to adequately document sampling methodology.* AU-C section 530, *Audit Sampling*, provides guidance about how to perform sampling during an audit engagement. The main peer review matter relates to sampling documentation. If the sampling methodology is not documented, the peer reviewer may not be able to evaluate whether the procedure provided appropriate audit evidence.

.98 *Failure to communicate or document required communications with those charged with governance.* AU-C section 260 provides guidance regarding the auditor's responsibility to communicate with those charged with governance regarding the audit. Examples of peer review matters include the following:

- Failure to prepare formal reports to those charged with governance.
- Engagement working papers did not document specific communications that occurred.
- Communications did not include the auditor's reviews of significant accounting practices, including accounting policies, accounting estimates, and financial statement disclosures; significant difficulties encountered during the audit; uncorrected misstatements accumulated by the auditor; and information about the auditor's procedures on supplementary information.

.99 *Failure to obtain appropriate management representation letters, including failure to update the letter in conformity with the auditing standards, date the letter appropriately, include the appropriate financial statement periods, and include required representations.* AU-C section 580 addresses the

auditor's responsibility to obtain written representations from management and, where appropriate, those charged with governance, in an audit of financial statements. Examples of peer review matters include the following:

- The representation letter did not contain an acknowledgment that management has fulfilled its responsibility for preparation and fair presentation of the financial statements and for internal controls relevant to the preparation and fair presentation of the financial statements.
- The representation letter did not contain representations about uncorrected misstatements nor was a summary included or attached to the written representations.

Compilation

.100 *Failure to prepare reports in accordance with professional standards.* AR-C section 80, *Compilation Engagements*, addresses the requirements of the compilation report, including the following:

- Properly specifying the date or period covered by the report
- A separate paragraph or separate report when supplementary information accompanies the financial statements and the accountant's report
- A separate paragraph in the accountant's compilation report that includes the required elements when reporting on financial statements that omit substantially all disclosures required by the financial reporting framework

.101 Examples of peer review matters include the following:

- The engagement letter did not include required components in accordance with AR-C section 80.
- The required supplementary information was not covered in the written representation.
- The engagement letter was not signed by all required parties.

Review

.102 *Failure to prepare reports in accordance with professional standards.* Paragraphs .39–.54 of AR-C section 90 addresses the requirements of the accountant's report when completing a review. Examples of peer review matters include the report was missing the required components, and the report was not updated in conformity with the applicable professional standard.

.103 *Failure to request that management provide specific written representations.* Paragraphs .32–.35 of AR-C section 90 address the requirements related to written representations. For example, the requesting representations should be dated as of the date of the accountant's review report, and management's responsibility should be stated. The major peer review matter includes that specific written representations were not in conformity with the standard in terms of date and financial reporting framework.

.104 *Failure to properly prepare review documentation.* Paragraphs .19–.20 of AR-C section 90 address the requirements for analytical procedures performed during a review. The lack of documentation of expectations prior to

performing the analytical procedure and the lack of proper documentation of conclusions have been identified matters during peer reviews.

.105 *Failure to obtain an engagement letter or failure to have all the required elements within the engagement letter.* Paragraphs .09–.12 of AR-C section 90 address the requirements for the engagement letter. Examples of identified matters include engagement letters lack the nature and timing of review procedures, as well as required signatures.

SOC 1 and SOC 2 Examinations

.106 *Failure to possess the appropriate competence required under the attestation standards to properly perform a SOC for service organizations engagement.* Engagement personnel should be familiar with and be able to apply the appropriate professional standards and guidance to examination engagements being performed as requested by the client. To perform high-quality SOC engagements, engagement team members need to possess the appropriate competence and skills to perform these highly specialized engagements. Such competencies include an understanding of the service organization's industry and business, systems used to provide services, and business and IT processes and controls, as well as experience evaluating the suitability of design and operating effectiveness of relevant controls.

.107 *Failure to prepare reports in accordance with professional standards.* Reports should contain all necessary elements as required by the professional standards for the engagement requested by the client.

.108 *Failure to describe the service auditor's tests of controls and results of tests in accordance with professional standards.* Adequate detail of tests performed and results thereof, including disclosure of deviations, should be presented in the examination report.

.109 *Failure to adequately document the nature, timing, and extent of procedures performed.* Working paper documentation should be detailed enough to provide an experienced practitioner, having no previous connection with the engagement, with an understanding of the work performed and the basis of the principal decisions made.

.110 *Failure to adequately document sampling methodology.* AT-C section 205, *Examination Engagements*, AICPA Audit Guide *Audit Sampling*, as well as paragraphs 4.111–.112 of AICPA Guide *Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting (SOC 1)*, and paragraphs 3.142–.146 of AICPA Guide *SOC 2 Reporting on an Examination of Controls at a Service Organization Relevant to Security, Availability, Processing Integrity, Confidentiality, or Privacy* provide requirements and guidance related to sampling performed. Working paper documentation should include the following:

- Whether the sample sizes were appropriate and items selected were representative of the population
- The service auditor's consideration of the impact of identified deviations on conclusions reached about the operating effectiveness of controls
- Specific items tested

- Consistency between the number of sample items actually tested and the number of sample items that should have been tested per the sampling methodology

.111 *Failure to adequately document materiality considerations.* Working paper documentation should cover quantitative and qualitative considerations, including how materiality was considered with respect to the following:

- The presentation of the system description
- The suitability of the design of controls
- The operating effectiveness of controls

.112 *Failure to adequately document procedures relating to risk assessment and the linkage of risks to the procedures performed.* Working paper documentation should include the following:

- Risks identified for SOC 1 engagements that threaten the achievement of the control objectives and, for SOC 2 engagements, that threaten the achievement of the service organization's service commitments and system requirements based on the applicable trust services criteria
- Assessment procedures performed, such as review of management's description, inquiry of management, and walk-through of applicable controls

.113 *Failure to adequately document the service auditor's conclusions about whether the subject matter of the engagement is appropriate and the criteria used for preparation and evaluation are suitable.* Working paper documentation should cover the consideration and conclusion related to suitability of the criteria. For a SOC 1 engagement, working papers should indicate whether the control objectives were reasonable in the circumstances if no IT general controls were identified.

.114 *Failure to adequately document nonattest services the firm performed when determining the effect on the service auditor's independence.* Independence impairment considerations should be documented in the working papers as follows:

- Documentation of management and service auditor responsibilities related to nonattest services, including
 - the management-level individuals responsible for overseeing, reviewing, and accepting such services
 - the skills, knowledge, and experience of the management-level individuals
- Determination that performing the nonattest service would not impair independence

.115 *Failure to properly document the agreed-upon terms of the engagement with the engaging party.* Obtain and retain an engagement letter to indicate scope of work. For changes in scope, the engagement letter should be amended.

.116 *Failure to obtain written representation letters and improper dating of representation letters.* Obtain and retain a representation letter from management. Ensure that it is dated the same as the service auditor's report.

Revenue Recognition

Overview

.117 On May 28, 2014, the International Accounting Standards Board (IASB) and FASB issued a joint accounting standard on revenue recognition to address a number of concerns regarding the complexity and lack of consistency surrounding the accounting for revenue transactions. Consistent with each board's policy, FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and the IASB issued International Financial Reporting Standard (IFRS) 15, *Revenue from Contracts with Customers*. ASU No. 2014-09 amended FASB Accounting Standards Codification® (ASC) by creating FASB ASC 606, *Revenue from Contracts with Customers*, and 340-40, *Other Assets and Deferred Costs — Contracts with Customers*. The guidance in ASU No. 2014-09 provides what FASB describes as a framework for revenue recognition and supersedes or amends several of the revenue recognition requirements in FASB ASC 605, *Revenue Recognition*, as well as guidance within the 900 series of industry-specific topics.

.118 As part of the boards' efforts to converge U.S. GAAP and IFRS, the ASU updates the transaction- and industry-specific revenue recognition guidance under current U.S. GAAP and replaces it with a principles-based approach for revenue recognition. The intent is to avoid inconsistencies in accounting treatment across different geographies and industries. In addition to improving comparability of revenue recognition practices, the new guidance provided more useful information to financial statement users through enhanced disclosure requirements. FASB and the IASB essentially achieved convergence with these standards, with some minor differences related to the collectibility threshold, interim disclosure requirements, early application and effective date, impairment loss reversal, and nonpublic entity requirements.

.119 The ASU applies to any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards (for example, insurance or lease contracts).

Effective or Applicability Date

.120 On August 12, 2015, FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, to allow entities additional time to implement systems, gather data, and resolve implementation questions. This update allows for public business entities, certain not-for-profit entities, and certain employee benefit plans to apply the new requirements to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period.

.121 All other entities will now apply the guidance in ASU No. 2014-09 to annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. Application is permitted earlier only as of an annual reporting period beginning after December 15, 2016, including interim reporting periods within that reporting period, or an annual reporting period beginning after December 15, 2016, and interim reporting periods within annual reporting periods

beginning one year after the annual reporting period in which an entity first applies the guidance in ASU No. 2014-09.

Overview of the New Guidance

.122 The core principle of the revised revenue recognition standard is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

.123 To apply the proposed revenue recognition standard, ASU No. 2014-09 states that an entity should follow these five steps:

1. Identify the contract(s) with a customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations in the contract.
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

.124 Under the ASU, revenue is recognized when a company satisfies a performance obligation by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). See the following discussion of the five steps involved when recognizing revenue under the guidance.

Understanding the Five-Step Process

Step 1: Identify the Contract(s) With a Customer

.125 ASU No. 2014-09 defines a *contract* as "an agreement between two or more parties that creates enforceable rights and obligations." The standard affects contracts with customers that meet the following criteria:

- It has the approval (in writing, orally, or in accordance with other customary business practices) and commitment of the parties.
- The rights of the parties are identified.
- The payment terms are identified.
- The contract has commercial substance.
- It is probable that the entity will collect substantially all the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

.126 A contract does not exist if each party to the contract has the unilateral enforceable right to terminate a wholly unperformed contract without compensating the other party or parties.

Step 2: Identify the Performance Obligations in the Contract

.127 A *performance obligation* is a promise in a contract with a customer to transfer a good or service to the customer.

.128 At contract inception, an entity should assess the goods or services promised in a contract with a customer and identify as a performance

obligation (possibly multiple performance obligations) each promise to transfer to the customer either

- a good or service (or bundle of goods or services) that is distinct or
- a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer.

.129 A good or service that is not distinct should be combined with other promised goods or services until the entity identifies a bundle of goods or services that is distinct. In some cases, that would result in the entity accounting for all the goods or services promised in a contract as a single performance obligation.

Step 3: Determine the Transaction Price

.130 The transaction price is the amount of consideration (fixed or variable) the entity expects to receive in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. To determine the transaction price, an entity should consider the effects of

- variable consideration,
- constraining estimates of variable consideration,
- the existence of a significant financing component,
- noncash considerations, and
- the consideration payable to the customer.

.131 If the consideration promised in a contract includes a variable amount, then an entity should estimate the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer. An entity would then include in the transaction price some or all of an amount of variable consideration only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

.132 An entity should consider the terms of the contract and its customary business practices to determine the transaction price.

Step 4: Allocate the Transaction Price to the Performance Obligations in the Contract

.133 The transaction price is allocated to separate performance obligations in proportion to the stand-alone selling price of the promised goods or services. If a stand-alone selling price is not directly observable, then an entity should estimate it. Reallocation of the transaction price for changes in the stand-alone selling price is not permitted. When estimating the stand-alone selling price, entities can use various methods, including the adjusted market assessment approach, expected cost plus a margin approach, and residual approach (only if the selling price is highly variable and uncertain).

.134 Sometimes, the transaction price includes a discount or a variable amount of consideration that relates entirely to one of the performance obligations in a contract. Guidance under the standard specifies when an entity should allocate the discount or variable consideration to one (or some) performance obligation or obligations, rather than to all the performance obligations in the contract.

Step 5: Recognize Revenue When (or as) the Entity Satisfies a Performance Obligation

.135 The amount of revenue recognized when transferring the promised good or service to a customer is equal to the amount allocated to the satisfied performance obligation, which may be satisfied at a point in time or over time. *Control of an asset* refers to the ability to direct the use of and obtain substantially all the remaining benefits from the asset. Control also includes the ability to prevent other entities from directing the use of and obtaining the benefits from an asset.

.136 When a performance obligation is satisfied over time, the entity should select an appropriate method for measuring its progress toward complete satisfaction of that performance obligation. The standard discusses methods of measuring progress, including input and output methods, and how to determine which method is appropriate.

Additional Guidance Under the Standard

.137 In addition to the five-step process for recognizing revenue, ASU No. 2014-09 also addresses the following areas:

- Accounting for incremental costs of obtaining a contract as well as costs incurred to fulfill a contract
- Licenses
- Warranties

.138 Lastly, the guidance enhances disclosure requirements by requiring entities to include more information about specific revenue contracts entered into, including performance obligations and the transaction price.

Latest Developments

.139 Subsequent to the issuance of ASU No. 2014-09, FASB issued updates to clarify guidance on performance obligations, licensing, principal versus agent considerations, and other narrow-scope improvements and practical expedients.

.140 ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, was issued in March 2016 to clarify the guidance in FASB ASC 606, with respect to principal versus agent. There is little disagreement that an entity who is a principal recognizes revenue in the gross amount of consideration when a performance obligation is satisfied. An entity who is an agent (collecting revenue on behalf of the principal) recognizes revenue only to the extent of the commission or fee that the agent collects. With this ASU, FASB's aim was to eliminate the potential diversity in practice when determining whether an entity is a principal or an agent by clarifying the following:

- An entity determines whether it is a principal or an agent for each distinct good or service.
- An entity determines the nature of each specified good or service (including whether it is a right to a good or service).
- When an entity is a principal, it obtains control of the following:
 - A good or another asset from another party that it then transfers to the customer

- A right to a service that will be performed by another party, which gives the entity the ability to direct that party to provide the service to the customer on the entity's behalf
 - A good or service from another party that the entity combines with other goods or services to provide the specified good or service to the customer
- Indicators in the assessment of control may be more or less relevant or persuasive, or both, to the control assessment, depending on the facts and circumstances.

.141 Additional illustrative examples are provided in ASU No. 2016-08 to further assist practitioners in applying this guidance. The effective date of this update is the same as the effective date for the guidance in ASU No. 2014-09, as amended by ASU No. 2015-14.

.142 ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, was issued in April 2016 to reduce potential for diversity in practice at initial application of FASB ASC 606 as well as to reduce the cost and complexity of applying FASB ASC 606 at transition and on an ongoing basis. When identifying promised goods and services in a contract, this ASU states that entities

- are not required to assess whether promised goods or services are performance obligations if they are immaterial to the contract, and
- can elect to account for shipping and handling activities as an activity to fulfill promises within the contract, rather than as an additional promised service.

.143 When assessing whether promised goods or services are distinct, this ASU emphasizes the need to determine whether the nature of the promise is to transfer

- each of the goods or services, or
- a combined item (or items) to which the promised goods or services are inputs.

.144 With regard to licensing, ASU No. 2016-10 clarifies whether revenue should be recognized at a point in time or over time, based on whether the license provides a right to use an entity's intellectual property or a right to access the entity's intellectual property, specifically, in the following cases:

- If the intellectual property has significant stand-alone functionality, the license does not include supporting or maintaining that intellectual property during the license period. Therefore, the performance obligation would be considered satisfied at a point in time. Examples of this type of intellectual property include software, biological compounds or drug formulas, and media.
- Licenses for symbolic intellectual property include supporting or maintaining that intellectual property during the license period and, therefore, are considered to be performance obligations satisfied over time. Examples of symbolic intellectual property include brands, team or trade names, logos, and franchise rights.

.145 Lastly, ASU No. 2016-10 provides clarification on implementation guidance on recognizing revenue for a sales-based or usage-based royalty promised in exchange for a license of intellectual property. The effective date of this ASU is the same as the guidance in ASU No. 2014-09, as amended by ASU No. 2015-14.

.146 In addition to ASU Nos. 2016-08 and 2016-10, ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*, was issued in May 2016. Topics covered in this ASU include the following:

- *Clarification on contract modifications.* This amendment permits an entity to determine and allocate the transaction price on the basis of all satisfied and unsatisfied performance obligations in a modified contract as of the beginning of the earliest period presented in accordance with the guidance in FASB ASC 606. An entity would not be required to separately evaluate the effects of each contract modification. An entity that chooses to apply this practical expedient would apply the expedient consistently to similar types of contracts.
- *How to assess the collectibility criterion.* The amendment introduces new criteria to meet the collectibility requirement. An entity should assess the collectibility of the consideration promised in a contract for the goods or services that will be transferred to the customer, rather than assessing the collectibility of the consideration promised in the contract for all the promised goods or services.
- *How to report sales taxes and similar taxes.* This amendment states that an entity may make an accounting policy election to exclude from the measurement of the transaction price all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected by the entity from a customer (for example, sales, use, value added, and some excise taxes). Taxes assessed on an entity's total gross receipts or imposed during the inventory procurement process should be excluded from the scope of the election. An entity that makes this election should exclude from the transaction price all taxes in the scope of the election and should comply with the applicable accounting policy guidance, including disclosure requirements.
- *When to measure noncash consideration.* This amendment clarifies that the measurement date for noncash consideration is contract inception. If the fair value of the noncash consideration varies because of the form of the consideration and for reasons other than the form of the consideration, an entity should apply the guidance on variable consideration only to the variability resulting from reasons other than the form of the consideration.
- *How to apply transition guidance.* This amendment clarifies that, for purposes of transition, a *completed contract* is a contract for which all (or substantially all) the revenue was recognized under legacy GAAP before the date of initial application. Accounting for elements of a contract that do not affect revenue under legacy GAAP is irrelevant to the assessment of whether a contract is complete. In addition, the amendment permits an entity to

apply the modified retrospective transition method either to all contracts or only to contracts that are not completed contracts.

.147 The effective date of this ASU is the same as the revised effective date of the guidance in ASU No. 2014-09, as amended by ASU No. 2015-14.

.148 In December 2016, FASB issued ASU No. 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*. The proposed amendments affect narrow aspects of guidance in ASU No. 2014-09, including guidance on the following:

- *Impairment testing.* When performing impairment testing, an entity should consider expected contract renewals and extensions. In addition, the assessment should include both the amount of consideration it already has received but has not yet recognized as revenue and the amount it expects to receive in the future.
- *Additional scope exceptions.* The term *insurance* is removed from the scope exceptions of FASB ASC 606 to clarify that all contracts within the scope of FASB ASC 944, *Financial Services — Insurance*, are excluded.
- *Provisions for losses on construction-type and production-type contracts.* Such provisions should be determined at least at the contract level; however, an entity can make an accounting policy election to determine the provision for losses at the performance obligation level.
- *Disclosure of remaining performance obligations.* Optional exemptions from the disclosure requirement are provided for remaining performance obligations when an entity is not required to estimate variable consideration to recognize revenue.

.149 Consistent with the other ASUs, the effective date of ASU No. 2016-20 is the same as the effective date for the guidance in ASU No. 2014-09, as amended by ASU No. 2015-14.

.150 In February 2017, FASB issued ASU No. 2017-05, *Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*. The amendments in this ASU include the following:

- *A definition of the term in substance nonfinancial asset, to clarify the scope of FASB ASC 610-20.* An in substance nonfinancial asset is, in part, a financial asset promised to a counterparty in a contract if substantially all of the fair value of the assets (recognized and unrecognized) that are promised to the counterparty in the contract is concentrated in nonfinancial assets. An in substance nonfinancial asset also includes a financial asset that is held in an individual consolidated subsidiary within a contract if substantially all the fair value of the assets (recognized and unrecognized) that are promised to the counterparty in that subsidiary is concentrated in nonfinancial assets.
- *A clarification that nonfinancial assets within the scope of FASB ASC 610-20 may include nonfinancial assets transferred within a legal entity to a counterparty.* For example, a parent may transfer control of nonfinancial assets by transferring ownership interests

in a consolidated subsidiary. A contract that includes the transfer of ownership interests in one or more consolidated subsidiaries is within the scope of FASB ASC 610-20 if substantially all the fair value of the assets that are promised to the counterparty in a contract is concentrated in nonfinancial assets.

- *Removal of the scope exception for transfers of equity method investment that were considered in substance nonfinancial assets.* All transfers of equity method investments will be accounted for in accordance with FASB ASC 860, *Transfers and Servicing*.
- *Derecognition of each distinct nonfinancial asset or in substance nonfinancial asset promised to a counterparty.* Each asset will be derecognized when a counterparty obtains control of it. The amendments also clarify that an entity should allocate consideration to each distinct asset by applying the guidance in FASB ASC 606 on allocating the transaction price to performance obligations.
- *Partial sales transactions.* An entity will derecognize a distinct nonfinancial asset or distinct in substance nonfinancial asset in a partial sale transaction when it (a) does not have (or ceases to have) a controlling financial interest in the legal entity that holds the asset in accordance with FASB ASC 810, *Consolidation*, and (b) transfers control of the asset in accordance with FASB ASC 606. Once an entity transfers control of a distinct nonfinancial asset or distinct in substance nonfinancial asset, it is required to measure any noncontrolling interest it receives (or retains) at fair value. If an entity transfers ownership interests in a consolidated subsidiary and continues to have a controlling financial interest in that subsidiary, it does not derecognize the assets and liabilities of the subsidiary and accounts for the transaction as an equity transaction. Therefore, no gain or loss is recognized.
- *Contributions of nonfinancial assets to a joint venture or other non-controlled investee.* These contributions will be within the scope of FASB ASC 610-20, and an entity will recognize a full gain or loss on transfers of nonfinancial assets to equity method investees.

.151 Consistent with the other ASUs, the effective date of ASU No. 2017-05 is in line with the guidance in ASU No. 2014-09, as amended by ASU No. 2015-14.

.152 In September 2017, FASB issued ASU No. 2017-13, *Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842): Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017 EITF Meeting and Rescission of Prior SEC Staff Announcements and Observer Comments*. The amendments state that public entities that do not meet the definition of a public business entity except for a requirement to include or the inclusion of its financial statements or financial information in another entity's filing with the SEC may adopt the effective date for nonpublic entities.

Conclusion

.153 Upon implementation of the new standard, consistency of revenue recognition principles across geography and industries will be enhanced, and financial statement users will be provided better insight through improved disclosure requirements. To provide CPAs with guidance during this time of

transition, the Financial Reporting Center (FRC) offers resources on the topic, including a roadmap to ensure that companies take the necessary steps to prepare themselves for the new standard. In addition, the FRC includes a list of conferences, webcasts, and other products to keep you informed on upcoming changes in revenue recognition. To stay updated on the latest information available on revenue recognition, refer to www.aicpa.org/interestareas/frc/accountingfinancialreporting/revenuerecognition.html.

Reporting Under the New Leases Standard

Issuance and Objective

.154 On February 25, 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The objective of this ASU is to increase transparency and comparability in financial reporting by requiring balance sheet recognition of leases and note disclosure of certain information about lease arrangements. This ASU codifies FASB ASC 842, *Leases*, and makes conforming amendments to other FASB ASC topics. FASB ASU No. 2016-02 was subsequently amended by the following updates:

- ASU No. 2018-01, *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*
- ASU No. 2018-10, *Codification Improvements to Topic 842, Leases*
- ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*
- ASU No. 2018-20, *Leases (Topic 842): Narrow-Scope Improvements for Lessors*
- ASU No. 2019-01, *Leases (Topic 842): Codification Improvements*

.155 FASB ASC 842 consists of the following subtopics:

- Overall
- Lessee
- Lessor
- Sale and Leaseback Transactions
- Leveraged Lease Arrangements

Applicability and Effective Dates

.156 ASU No. 2016-02 is applicable to any entity that enters into a lease and is effective as follows:

	<i>Fiscal Years Beginning After</i>	<i>Interim Periods Within Fiscal Years Beginning After</i>
Public companies, which include public business entities, certain not-for-profit entities with conduit financing arrangements, and employee benefit plans	December 15, 2018	December 15, 2018
All other entities	December 15, 2019	December 15, 2020

.157 FASB ASC 842 applies to all leases and subleases of property, plant, and equipment; it specifically does not apply to the following nondepreciable assets accounted for under other FASB ASC topics:

- Leases of intangible assets
- Leases to explore for or use nonregenerative resources, such as minerals, oil, and natural gas
- Leases of biological assets, such as timber
- Leases of inventory
- Leases of assets under construction

Main Provisions

Identifying a Lease

.158 Key changes in the guidance are illustrated by comparing the definition of a *lease* in FASB ASC 840, *Leases*, (extant GAAP) with that of FASB ASC 842.

<i>FASB ASC 840</i>	<i>FASB ASC 842</i>
An agreement conveying the right to use property, plant, or equipment (land and/or depreciable assets), usually for a stated period of time.	A contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration.

.159 The identification of a lease under FASB ASC 842 should be based on the presence of key elements in the definition; that is, (a) the contract must depend on the use of an identified asset; (b) the customer has to have the right to substantially all of the economic benefits from use of the asset; and (c) the customer has to have the right to direct the use of the asset.

Separating Components of a Lease Contract

.160 Under FASB ASC 842, a contract that contains a lease should be separated into lease and nonlease components. Separation should be based on the right to use; each underlying asset should be considered to be separate from other lease components when both of the following criteria are met:

- The lessee can benefit from the right of use of the asset (either alone or with other readily available resources).
- The right of use is neither highly dependent on nor highly interrelated with other underlying assets in the contract.

.161 The consideration in the contract should be allocated to the separate lease and nonlease components in accordance with provisions of FASB ASC 842.

.162 Lessees can make an accounting policy election by class of underlying asset to treat associated lease and nonlease elements as a single lease component.

.163 Lessors can similarly make an accounting policy by class of underlying asset to not separate lease and associated nonlease components when

certain conditions are met. No such accounting policy election was available for lessors until FASB issued ASU No. 2018-11.

Lease Classification

.164 When a lease meets any of the following specified criteria at commencement, the lease should be classified by the lessee and lessor as a finance lease and a sales-type lease, respectively. These criteria can be summarized as follows:

- Ownership of the asset transfers to the lessee at the end of the lease term.
- The lease includes a purchase option that the lessee is reasonably certain to exercise.
- The lease term is for the major portion of the asset's remaining economic life.
- The present value of lease payments and residual value guaranteed by the lessee equals or exceeds substantially all of the fair value of the underlying asset.
- The specialized nature of the underlying asset results in no expectation of alternative use after the lease term.

.165 If none of the preceding criteria are met, the lease should be classified as follows:

- *Lessee* — Classify as an operating lease
- *Lessor* — Classify as an operating lease unless both of the following criteria are met: (a) the present value of the lease payments and any residual value guarantee equals or exceeds substantially all of the fair value of the underlying asset, and (b) it is probable that the lessor will collect the lease payments plus any residual value guarantee.

.166 If both of these summarized criteria from FASB ASC 842-10-25-3 are met, the lessor should classify the lease as a direct financing lease.

Lease Term and Measurement

.167 The lease term is the noncancelable period of the lease together with all of the following:

- Periods covered by an option for the lessee to extend the lease if the lessee is reasonably certain to exercise that option
- Periods covered by an option for the lessee to terminate the lease if the lessee is reasonably certain not to exercise that option
- Periods covered by an option to extend (or not to terminate) the lease in which exercise of the option is controlled by the lessor

Lease Payments

.168 Lease payments relating to use of the underlying asset during the lease term include the following at the commencement date:

- Fixed payments (including in-substance fixed payments) less incentives paid or payable to lessee
- Variable lease payments based on an index or other rate

- Exercise price of an option to purchase the underlying asset if it is reasonably certain to be exercised
- Payments for penalties for terminating a lease if the lease term reflects exercise of lessee option
- Fees paid by the lessee to the owners of a special purpose entity for structuring the lease
- For lessee only, amounts probable of being owed under residual value guarantees

.169 Lease payments specifically exclude the following:

- Certain other variable lease payments
- Any guarantee by the lessee of the lessor's debt
- Certain amounts allocated to nonlease components

.170 Reassessment of the lease term and purchase options and subsequent remeasurement by either the lessee or lessor are limited to certain specified circumstances.

Lessee

Recognition and Measurement

Commencement Date

.171 At the commencement date of the lease, a lessee should recognize a right-of-use asset and a lease liability; for short-term leases, an alternative accounting policy election is available.

.172 The lease liability should be measured at the present value of the unpaid lease payments. The right-of-use asset should consist of the following: the amount of the initial lease liability, any lease payments made to lessor at or before the commencement date minus any incentives received, and initial direct costs.

.173 A *short-term lease* is defined by the FASB ASC Master Glossary as a lease that, at the commencement date, has a lease term of 12 months or less and does not include an option to purchase the underlying asset that the lessee is reasonably certain to exercise. The accounting policy election for short-term leases should be made by class of underlying asset. The election provides for recognition of the lease payments in profit or loss on a straight-line basis over the lease term and variable lease payments in the period in which the obligation for those payments is incurred.

After the Commencement Date

.174 After the commencement date, the lessee should recognize in profit or loss (unless costs are included in the carrying amount of another asset) the following:

- Finance leases
 - Amortization of the right-of-use asset and interest on the lease liability
 - Variable lease payments not included in the lease liability in the period in which the obligation is incurred
 - Any impairment

- Operating leases
 - A single lease cost calculated such that the remaining cost is allocated on a straight-line basis over the remaining lease term (unless another allocation is more representative of the benefit from use of the asset)
 - Variable lease payments not included in the lease liability in the period in which the obligation is incurred
 - Any impairment

Subsequent Measurement

.175 FASB ASC 842-20-35 provides detailed guidance for lessee subsequent measurement.

Presentation and Disclosure

.176 Key presentation matters include the following:

- Statement of financial position
 - Separate presentation of right-of-use assets and lease liabilities from finance leases and operating leases
- Statement of comprehensive income
 - *Finance leases.* Interest expense on the lease liability and amortization of right-of-use asset in a manner consistent with how the entity presents other interest expense and depreciation or amortization of similar assets
 - *Operating leases.* Expense to be included in the lessee's income from continuing operations
- Statement of cash flows
 - *Presentation within financing activities.* The repayment of the principal portion of the lease liability arising from finance leases
 - *Presentation within operating activities.* Payments arising from operating leases; interest payments on the lease liability; variable lease payments and short-term lease payments not included in lease liability

.177 Disclosure requirements include qualitative and quantitative information for leases, significant judgments, and amounts recognized in the financial statements, including certain specified information and amounts.

.178 The assessment of whether a service arrangement contains an embedded lease may be more critical under the new leases standard because most leases will be recorded on the balance sheet, whereas service arrangements will not. Under FASB ASC 840, the accounting for service arrangements and operating leases is similar. Entities need to consider the financial statement impact and update processes and controls to identify contracts that could contain embedded leases.

Lessor**Recognition and Measurement**

.179 FASB ASC 842 provides recognition guidance for sales-type leases, direct financing leases, and operating leases. The following table summarizes the guidance:

Sales-Type Leases	
At the commencement date	After the commencement date
Lessor should derecognize the underlying asset and recognize the following: <ul style="list-style-type: none"> • Net investment in the lease (lease receivable and unguaranteed residual asset) • Selling profit or loss arising from the lease • Initial direct costs as an expense 	Lessor should recognize all of the following: <ul style="list-style-type: none"> • Interest income on the net investment in the lease • Certain variable lease payments • Impairment
Direct Financing Leases	
At the commencement date	After the commencement date
Lessor should derecognize the underlying asset and recognize the following: <ul style="list-style-type: none"> • Net investment in the lease (lease receivable and unguaranteed residual asset reduced by selling profit) • Selling loss arising from the lease, if applicable 	Lessor should recognize all of the following: <ul style="list-style-type: none"> • Interest income on the net investment in the lease • Certain variable lease payments • Impairment
Operating Leases	
At the commencement date	After the commencement date
Lessor should defer initial direct costs.	Lessor should recognize all of the following: <ul style="list-style-type: none"> • The lease payments as income in profit or loss over the lease term on a straight-line basis (unless another method is more representative of the benefit received) • Certain variable lease payments as income in profit or loss • Initial direct costs as an expense over the lease term on the same basis as lease income

.180 FASB ASC 842-30-35 provides detailed guidance for lessor subsequent measurement.

Presentation and Disclosure

.181 Key presentation matters include the following:

- For sales-type and direct financing leases
 - *Statement of financial position*
 - Separate presentation of lease assets (that is, aggregate of lessor's net investment in sales-type leases and direct financing leases) from other assets
 - Classified as current or noncurrent based on same considerations as other assets
- *Statement of comprehensive income*
 - Presentation of income from leases in the statement of comprehensive income or disclosure of income from leases in the notes with a reference to the corresponding line in the statement of comprehensive income
 - Presentation of profit or loss recognized at commencement date in a manner appropriate to lessor's business model
- *Statement of cash flows*
 - Presentation within operating activities
 - Cash receipts from leases

For operating leases

- Statement of financial position
 - Presentation of an underlying asset subject to an operating lease, in accordance with other FASB ASC topics
- Statement of cash flows
 - For presentation within operating activities, cash receipts from leases

.182 Disclosure requirements include qualitative and quantitative information for leases, significant judgments, and amounts recognized in the financial statements, including certain specified information and amounts.

Sale and Leaseback Transactions

.183 FASB ASC 842 provides guidance for both the transfer contract and the lease in a sale and leaseback transaction (a transaction in which a seller-lessee transfers an asset to a buyer-lessor and leases that asset back). Determination of whether the transfer is a sale should be based on provisions of FASB ASC 606. FASB ASC 842-40-25 provides measurement guidance for a transfer that is either determined to be a sale or determined not to be a sale.

.184 FASB ASC 842-40 provides guidance for subsequent measurement, financial statement presentation, and disclosures.

Leveraged Lease Arrangements

.185 The legacy accounting model for leveraged leases continues to apply to those leveraged leases that commenced before the effective date of FASB ASC 842. There is no separate accounting model for leveraged leases that commence after the effective date of FASB ASC 842.

Subsequent Developments

ASU No. 2018-01

.186 In January 2018, FASB issued ASU No. 2018-01. This ASU permits an entity to elect a practical expedient for transition. That practical expedient permits the entity to not evaluate under FASB ASC 842 existing or expired land easements not previously accounted for as leases under FASB ASC 840.

.187 The effective date of FASB ASU No. 2018-01 is in line with the guidance in ASU No. 2016-02.

ASU No. 2018-10

.188 In July 2018, FASB issued ASU No. 2018-10. The amendments in this ASU affect narrow aspects of FASB ASC 842 and address the following 16 areas of improvement:

- Residual value guarantees
- Rate implicit in the lease
- Lessee reassessment of lease classification
- Lessor reassessment of lease term and purchase option
- Variable lease payments that depend on an index or a rate
- Investment tax credits
- Lease term and purchase option
- Transition guidance for amounts previously recognized in business combinations
- Certain transition adjustments
- Transition guidance for leases previously classified as capital leases under FASB ASC 840
- Transition guidance for modifications to leases previously classified as direct financing or sales-type leases under FASB ASC 840
- Transition guidance for sale and leaseback transactions
- Impairment of net investment in the lease
- Unguaranteed residual asset
- Effect of initial direct costs on rate implicit in the lease
- Failed sale and leaseback transaction

.189 For entities that have not early adopted FASB ASC 842, the effective date and transition requirements are the same as ASU No. 2016-02. For entities that early adopted FASB ASC 842, the amendments were effective upon issuance of the ASU.

ASU No. 2018-11 Improvements

.190 In July 2018, FASB issued ASU No. 2018-11. The amendments in this ASU can be organized into the following two areas:

- Transition: Comparative reporting at adoption
- Separating components of a contract for lessors

Transition: Comparative Reporting at Adoption

.191 The amendments to transition guidance related to comparative reporting at adoption apply to all entities with lease contracts that choose the additional transition method provided by this ASU. This ASU amends FASB ASC 842-10-65-1 to permit an entity to elect an optional transition method to initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.

Separating Components of a Contract for Lessors

.192 The amendments related to separating components of a contract apply only to lessors whose lease contracts qualify for the practical expedient provided by this ASU. This ASU amends FASB ASC 842-10-15-42 to permit lessors to use a practical expedient, by class of underlying asset, to not separate nonlease components from the associated lease component and, instead, to account for those components as a single component if the nonlease components otherwise would be accounted for under FASB ASC 606 and both of the following conditions are met: (a) The timing and pattern of transfer of the nonlease component(s) and associated lease component are the same, and (b) the lease component, if accounted for separately, would be classified as an operating lease.

.193 This ASU makes related amendments to FASB ASC 842 that affect the implementation guidance and illustrations in the subtopic "Overall" and the disclosure requirements in the subtopic "Lessors."

.194 The effective dates are as follows:

- For entities that have not adopted FASB ASC 842 before the issuance of this ASU, the effective date and transition requirements are the same as those in ASU No. 2016-02. Amendments in ASU No. 2016-02 are not yet effective but can be early adopted.
- For entities that have adopted FASB ASC 842 before the issuance of this ASU, the election and application of the practical expedient is specified in the ASU.

.195 All entities electing the practical expedient should apply the guidance by class of underlying asset to all existing lease transactions that qualify for the expedient at the date elected.

ASU No. 2018-20

.196 In December 2018, FASB issued ASU No. 2018-20 to address implementation issues related to lessor accounting. The amendments in this ASU affect narrow aspects of FASB ASC 842 and address the following three specific areas for improvement:

- Sales taxes and other similar taxes collected from lessees
- Certain lessor costs
- Recognition by lessors of variable payments for contracts with lease and nonlease components

.197 The effective dates are as follows:

- For entities that have not adopted FASB ASC 842 before the issuance of this ASU, the effective date and transition requirements are the same as those in ASU No. 2016-02. Amendments in ASU No. 2016-02 are not yet effective but can be early adopted.
- For entities that have adopted FASB ASC 842 before the issuance of this ASU, the entity should apply the amendments at the original effective date of FASB ASC 842 for the entity. Alternatively, the entity may elect to apply the amendments in either the first reporting period ending after the issuance of the ASU or in the first reporting period beginning after the issuance of the ASU. An entity may apply the amendments either retrospectively or prospectively.

ASU No. 2019-01

.198 In March 2019, FASB issued ASU No. 2019-01 to address implementation issues related to the new lease accounting standard. The amendments in this ASU affect narrow aspects of FASB ASC 842 and address the following three specific areas for improvement:

- Determining the fair value of the underlying asset by lessors that are not manufacturers or dealers
- Presentation on the statement of cash flows — sales-type and direct financing leases
- Transition disclosures related to FASB ASC 250, *Accounting Changes and Error Corrections*

.199 For the first two issues, the ASU is effective as follows:

- *For public business entities, certain not-for-profit entities, and certain employee benefit plans*, the ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years.
- *For all other entities*, the ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted for all entities. If an entity early adopts, the ASU will be applied as of the date the entity first applies FASB ASC 842 (that is, when it adopts the new leasing standard in accordance with ASC 842-10-65-1(c)).

.200 The third issue is effective immediately as it only affects transition guidance.

Accounting for Financial Instruments

Overview

.201 On January 5, 2016, FASB issued ASU No. 2016-01, *Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, to enhance the reporting model for financial instruments and provide users of financial statements with more decision-useful information. The amendments in the ASU are intended to improve certain

aspects of recognition, measurement, presentation, and disclosure of financial instruments.

.202 The new guidance will accomplish the following:

- Require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value, with changes in fair value recognized in net income.
- Replace the impairment model for equity investments without readily determinable fair values with a qualitative impairment assessment.
- Eliminate the requirement to disclose the fair values of financial assets and financial liabilities measured at amortized cost for entities that are not public business entities.
- Eliminate the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial assets and financial liabilities measured at amortized cost on the balance sheet.
- Require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes.
- Require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments.
- Require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements.
- Clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale debt securities in combination with an entity's other deferred tax assets.
- Eliminate an entity's ability to estimate the disclosed fair values of financial assets and financial liabilities on the basis of entry prices.

Applicability and Effective Date

.203 ASU No. 2016-01 affects all entities that hold financial assets or have financial liabilities and is effective as follows:

	<i>Fiscal Years Beginning After</i>	<i>Interim Periods Within Fiscal Years Beginning After</i>
Public business entities	December 15, 2017	December 15, 2017
All other entities, including not-for-profit entities and employee benefit plans within the scope of FASB ASC 960–965 on plan accounting	December 15, 2018	December 15, 2019

.204 All entities that are not public business entities may adopt the amendments in this ASU earlier, as of the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years.

.205 Early application by public business entities to financial statements of fiscal years or interim periods that have not yet been issued or, by all other entities that have not yet been made available for issuance of the following amendments in this ASU, is permitted as of the beginning of the fiscal year of adoption:

- An entity should present separately in other comprehensive income the portion of the total change in fair value of a liability resulting from a change in the instrument-specific credit risk, if the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments.
- Nonpublic business entities are not required to apply the fair value of financial instruments disclosure guidance in the "General" subsection of FASB ASC 825-10-50.

.206 Except for what is stated in this guidance, early adoption of the amendments in this ASU is not permitted.

Latest Developments

ASU No. 2018-03, Technical Corrections and Improvements to Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities

.207 In February 2018, FASB issued ASU No. 2018-03 to clarify certain aspects of the guidance issued in ASU No. 2016-01 as follows:

- *Equity securities without a readily determinable fair value — discontinuation.* The amendments in this ASU clarify that an entity measuring an equity security using the measurement alternative may change its measurement approach to a fair value method in accordance with FASB ASC 820, *Fair Value Measurement*, through an irrevocable election that would apply to that security and all identical or similar investments of the same issuer.
- *Equity securities without a readily determinable fair value — adjustments.* The amendment in this ASU clarifies that adjustments made under the measurement alternative are intended to reflect the fair value of the security as of the date that the observable transaction for a similar security took place.
- *Forward contracts and purchased options.* The amendment clarifies that remeasuring the entire value of forward contracts and purchased options is required when observable transactions occur on the underlying equity securities.
- *Presentation requirements for certain fair value option liabilities.* The amendment clarifies that when the fair value option is elected for a financial liability, the guidance in paragraph 5 of FASB ASC 825-10-45 should be applied, regardless of whether the fair value option was elected under either FASB ASC 815, *Derivatives and Hedging*, or 825-10.
- *Fair value option liabilities denominated in a foreign currency.* The amendments clarify that for financial liabilities for which the

fair value option is elected, the amount of change in fair value that relates to the instrument-specific credit risk should first be measured in the currency of denomination when presented separately from the total change in fair value of the financial liability. Then, both components of the change in the fair value of the liability should be remeasured into the functional currency of the reporting entity using end-of-period spot rates.

- *Transition guidance for equity securities without a readily determinable fair value.* The amendment clarifies that the prospective transition approach for equity securities without a readily determinable fair value in the amendments in ASU No. 2016-01 is meant only for instances in which the measurement alternative is applied. An insurance entity subject to the guidance in FASB ASC 944 should apply a prospective transition method when applying the amendments related to equity securities without readily determinable fair values. An insurance entity should apply the selected prospective transition method consistently to the entity's entire population of equity securities for which the measurement alternative is elected.

.208 ASU No. 2018-03 is effective as follows:

	Fiscal Years Beginning After	Interim Periods Within Fiscal Years Beginning After
Public business entities	December 15, 2017	June 15, 2018
All other entities	December 15, 2018	December 15, 2019

.209 Public business entities with fiscal years beginning between December 15, 2017 and June 15, 2018 are not required to adopt these amendments until the interim period beginning after June 15, 2018, and public business entities with fiscal years beginning between June 15, 2018 and December 15, 2018 are not required to adopt these amendments before adopting the amendments in ASU No. 2016-01. All entities may adopt these amendments early for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, as long as they have adopted ASU No. 2016-01.

ASU No. 2019-04, Codification Improvements to Topic 326, Financial Instruments — Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments

.210 In April 2019, FASB issued ASU No. 2019-04 to clarify, correct, and improve various aspects of the guidance in ASU Nos. 2016-01; 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*; and 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities* related to financial instruments.

.211 ASU No. 2019-04 clarifies certain aspects of the amendments in ASU No. 2016-01 as follows:

- *Scope clarifications for FASB ASC 320-10 and FASB ASC 321-10.* The amendments clarify the scope of FASB ASC 320-10 and FASB ASC 321-10 by specifically naming health and welfare

plans accounted for in accordance with FASB ASC 965, *Plan Accounting — Health and Welfare Benefit Plans*, in the paragraphs limiting the scope of those subtopics.

- *Held-to-maturity debt securities fair value disclosures.* The amendments to the disclosure requirements addressed in FASB ASC 320-10-50-5 and FASB ASC 942-320-50-3 and the additions of paragraphs 5A–5B of FASB ASC 320-10-50 and paragraph 3A of FASB ASC 942-320-50 clarify FASB's intent to exempt entities other than public business entities from fair value disclosure requirements for financial instruments not measured at fair value on the balance sheet.
- *Applicability of FASB ASC 820 to the measurement alternative.* The amendments specifically require that an entity remeasure an equity security without readily determinable fair value at fair value when an orderly transaction is identified for an identical or similar investment of the same issuer in accordance with FASB ASC 820. That is, the amendments clarify that the measurement alternative is a nonrecurring fair value measurement. Additionally, the amendments clarify that an entity should adhere to the applicable disclosure requirements in FASB ASC 820 for a nonrecurring fair value measurement.
- *Remeasurement of equity securities at historical exchange rates.* The amendments clarify that equity securities without readily determinable fair values accounted for under the measurement alternative in accordance with FASB ASC 321-10-35-2 are required to follow FASB ASC 830-10-45-18, which requires remeasurement at historical exchange rates. In addition, the amendments clarify that the rate used should be the historical exchange rate as of the later of the acquisition date or the most recent date on which the equity security was adjusted to fair value in accordance with paragraphs 2–3 of FASB ASC 321-10-35, if applicable. In addition, the amendments to FASB ASC 830-10-45-18 are not intended to change items that should be remeasured at historical exchange rates.

.212 The amendments in ASU No. 2019-04 related to ASU No. 2016-01 are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted in any interim period following the issuance of ASU No. 2019-04, as long as the entity has adopted all the amendments in ASU No. 2016-01.

Impairment

Overview

.213 On June 16, 2016, FASB issued ASU No. 2016-13 to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. Upon the effective date of this ASU, the incurred loss impairment methodology in current GAAP is replaced with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates.

Assets Measured at Amortized Cost

.214 ASU No. 2016-13 eliminates the probable initial recognition threshold under current GAAP and requires entities that measure financial assets (or a group of financial assets) at amortized cost basis to present such assets at the net amount expected to be collected. The amendments in this ASU broaden the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually. In addition to past events and current conditions, entities should also consider reasonable and supportable forecasts that affect the collectibility of the reported amount. However, an entity may revert to historical loss information that is reflective of the contractual term (considering the effect of prepayments) for periods that are beyond the time frame for which the entity is able to develop reasonable and supportable forecasts.

.215 An entity may apply any method for measuring expected credit losses as long as the method reasonably reflects its expectations of the credit loss estimate.

Purchased Financial Assets With Credit Deterioration

.216 ASU No. 2016-13 defines *purchased financial assets with credit deterioration* (PCD assets) as acquired individual financial assets (or acquired groups of financial assets with similar risk characteristics) that, as of the date of acquisition, have experienced a more-than-insignificant deterioration in credit quality since origination, as determined by the acquirer's assessment. The allowance for credit losses for PCD assets that are measured at amortized cost basis is determined in a similar manner to other financial assets measured at amortized cost basis. The initial allowance for credit losses is added to the purchase price, rather than being reported as a credit loss expense. Entities record only subsequent changes in the allowance for credit losses as a credit loss expense for PCD assets. Furthermore, an entity should recognize interest income for PCD assets based on the effective interest rate, excluding the discount embedded in the purchase price that is attributable to the acquirer's assessment of credit losses at acquisition.

Disclosures

.217 In an effort to increase users' understanding of underwriting standards and credit quality trends, ASU No. 2016-13 requires the current disclosure on credit quality indicators in relation to the amortized cost of financing receivables to be further disaggregated by year of origination (or vintage). Entities that are not public business entities are not required to disclose the disaggregation by year of origination.

Available-for-Sale Debt Securities

.218 Entities will now be required to present credit losses on available-for-sale debt securities as an allowance, rather than as a permanent write-down.

.219 An entity will now be able to record reversals of credit losses on debt securities (in situations in which the estimate of credit declines) in current period net income, thus, aligning the income statement recognition of credit losses with the reporting period when changes occur. However, an entity may not record an allowance for credit losses exceeding the amount by which fair value is below amortized cost.

Purchased Debt Securities With Credit Deterioration

.220 The allowance for credit losses for purchased available-for-sale debt securities with a more-than-insignificant amount of credit deterioration since origination is also determined in a similar manner to other available-for-sale debt securities. However, ASU No. 2016-13 requires an entity to add the initial allowance for credit losses to the purchase price, rather than reporting it as a credit loss expense. Entities record only subsequent changes in the allowance for credit losses as a credit loss expense. Furthermore, an entity should recognize interest income based on the effective interest rate, excluding the discount embedded in the purchase price that is attributable to the acquirer's assessment of credit losses at acquisition.

Troubled Debt Restructurings

.221 ASU No. 2016-13 does not change the definition or derecognition guidelines for troubled debt restructurings (TDRs) but, rather, changes the impairment recognized on restructuring. Credit losses for TDRs now will be measured using the current expected credit loss model. The ASU eliminates the current GAAP requirement to use a discounted cash flow technique. Credit losses, including concessions given to a borrower under a TDR, will be recognized through an allowance account.

Applicability and Effective Date

.222 ASU No. 2016-13 affects entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. It also affects loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash.

.223 Because there is diversity in practice in applying the incurred loss methodology, ASU No. 2016-13 will affect entities to varying degrees depending on the credit quality of the assets held by the entities, their duration, and how the entity applies current GAAP.

.224 ASU No. 2016-13 is effective as follows:

	<i>Fiscal Years Beginning After</i>	<i>Interim Periods Within Fiscal Years Beginning After</i>
Public business entities that are SEC filers	December 15, 2019	December 15, 2019
All other public entities	December 15, 2020	December 15, 2020
All other entities, including not-for-profit entities and employee benefit plans, within the scope of FASB ASC 960–965 on plan accounting	December 15, 2020	December 15, 2021

.225 All entities may adopt the amendments in this ASU earlier, as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.

Transition Resource Group

.226 Due to the potential for significant changes that may result from the issuance of ASU No. 2016-13, FASB formed the Transition Research Group (TRG) for Credit Losses with the following goals:

- To solicit, analyze, and discuss stakeholder issues arising from the implementation of the new guidance
- To inform FASB about those implementation issues, which will help FASB determine what, if any, action will be needed to address those issues
- To provide a forum for stakeholders to learn about the new guidance from others involved with the implementation

.227 The TRG will meet to discuss and share its views on potential implementation issues raised by concerned parties and, subsequent to each meeting, FASB will determine what actions, if any, will be taken on each issue. Refer to the page "Transition Resource Group for Credit Losses" on FASB's website for more information on this group and the status of their efforts, including meeting materials and meeting summaries.

Latest Developments

ASU No. 2018-19, Codification Improvements to Topic 326, Financial Instruments — Credit Losses

.228 In November 2018, FASB issued ASU No. 2018-19 to amend the transition and effective date for nonpublic business entities as well as clarify guidance surrounding operating receivables.

.229 The amendments in ASU No. 2018-19 mitigate transition complexity by requiring that for nonpublic business entities, the amendments in ASU No. 2016-13 are effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. In addition, the amendments clarify that receivables arising from operating leases are not within the scope of FASB ASC 326-20. Instead, impairment of receivables arising from operating leases should be accounted for in accordance with FASB ASC 842.

.230 The effective date and transition requirements for ASU No. 2018-19 are the same as the effective dates and transition requirements in ASU No. 2016-13, as amended by ASU No. 2018-19.

ASU No. 2019-04 amendments related to ASU No. 2016-13

.231 In April 2019, FASB issued ASU No. 2019-04 to clarify, correct, and improve various aspects of the guidance in ASU Nos. 2016-01, 2016-13, and 2017-12 related to financial instruments. The discussion herein will address only those amendments related to ASU No. 2016-13. ASU No. 2019-04 clarifies certain aspects of the amendments in ASU No. 2016-13 as follows:

- *Accrued interest.* The amendments to FASB ASC 326-20 allow an entity to do the following:

- Measure the allowance for credit losses on accrued interest receivable balances separately from other components of the amortized cost basis of associated financial assets.
 - Make an accounting policy election not to measure an allowance for credit losses on accrued interest receivable amounts if an entity writes off the uncollectible accrued interest receivable balance in a timely manner and makes certain disclosures.
 - Make an accounting policy election to present accrued interest receivable balances and the related allowance for credit losses for those accrued interest receivable balances separately from the associated financial assets on the balance sheet. If the accrued interest receivable balances and the related allowance for credit losses are not presented as a separate line item on the balance sheet, an entity should disclose the amount of accrued interest receivable balances and the related allowance for credit losses and where the balance is presented.
 - Elect a practical expedient to disclose separately the total amount of accrued interest included in the amortized cost basis as a single balance to meet certain disclosure requirements.
- *Transfers between classification or categories for loans and debt securities.* The amendments require that an entity reverse in earnings any allowance for credit losses or valuation allowance previously measured on a loan or debt security, reclassify and transfer the loan or debt security to the new classification or category, and apply the applicable measurement guidance in accordance with the new classification or category.
 - *Recoveries.* The amendments clarify that an entity should include recoveries when estimating the allowance for credit losses. In addition, expected recoveries of amounts previously written off and expected to be written off should be included in the valuation account and should not exceed the aggregate of amounts previously written off and expected to be written off by the entity. For collateral-dependent financial assets, an allowance for credit losses that is added to the amortized cost basis of the financial assets should not exceed amounts previously written off.
 - *Conforming amendments.* Correction of incorrect cross-referencing and further clarification surrounding the equity method losses allocation guidance.
 - *Clarification that reinsurance recoverables are within the scope of FASB ASC 326-20.* The amendment clarifies FASB's intent to include all reinsurance recoverables within the scope of FASB ASC 944 within the scope of FASB ASC 326-20, regardless of the measurement basis of those recoverables.
 - *Projections of interest rate environments for variable-rate financial instruments.* The amendments clarify FASB's intent to provide flexibility in determining the allowance for credit losses by removing the prohibition of using projections of future interest

rate environments when using a discounted cash flow method to measure expected credit losses on variable-rate financial instruments.

- *Consideration of prepayments in determining the effective interest rate.* The amendments permit an entity to make an accounting policy election to adjust the effective interest rate used to discount expected future cash flows for expected prepayments on financial assets within the scope of FASB ASC 326-20 and on available-for-sale debt securities within the scope of FASB ASC 326-20 to appropriately isolate credit risk in determining the allowance for credit losses. Furthermore, an entity should not adjust the effective interest rate used to discount expected cash flows for subsequent changes in expected prepayment if the financial asset is restructured in a troubled debt restructuring.
- *Consideration of estimated costs to sell when foreclosure is probable.* The amendments clarify the guidance in FASB ASC 326-20-35-4 by specifically requiring that an entity consider the estimated costs to sell if it intends to sell, rather than operate the collateral when the entity determines that foreclosure on a financial asset is probable. Additionally, when an entity adjusts the fair value of collateral for the estimated costs to sell, the estimated costs to sell should be undiscounted if the entity intends to sell, rather than operate the collateral.
- *Vintage disclosures — line-of-credit arrangements converted to term loans.* The amendments require that an entity present the amortized cost basis of line-of-credit arrangements that are converted to term loans in a separate column.
- *Contractual extensions and renewals.* The amendments clarify that an entity should consider extension or renewal options (excluding those that are accounted for as derivatives in accordance with FASB ASC 815) that are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the entity.

.232 For entities that have not yet adopted the amendments in ASU No. 2016-13, the effective dates and transition requirements for the amendments related to ASU No. 2019-04 are the same as the effective dates and transition requirements in ASU No. 2016-13. The transition adjustment includes adjustments made as a result of an entity developing or amending its accounting policy upon adoption of the amendments in ASU No. 2019-04 for determining when accrued interest receivables are deemed uncollectible and written off.

.233 For entities that have adopted the amendments in ASU No. 2016-13, the amendments in ASU No. 2019-04 are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted in any interim period after issuance of ASU No. 2019-04 as long as the entity has adopted the amendments in ASU No. 2016-13.

ASU No. 2019-05, Financial Instruments — Credit Losses (Topic 326): Targeted Transition Relief

.234 In May 2019, FASB issued ASU No. 2019-05 to provide entities that have certain instruments within the scope of FASB ASC 326-20 with an

option to irrevocably elect the fair value option applied on an instrument-by-instrument basis for certain financial assets upon the adoption of FASB ASC 326. The fair value option election does not apply to held-to-maturity debt securities. An entity that elects the fair value option should subsequently apply the guidance in FASB ASC 820-10 and 825-10.

.235 For entities that have not yet adopted the amendments in ASU No. 2016-13, the effective date and transition methodology for the amendments in ASU No. 2019-05 are the same as in ASU No. 2016-13.

.236 For entities that have adopted the amendments in ASU No. 2016-13, the amendments in ASU No. 2019-05 are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted in any interim period after the issuance of ASU No. 2019-05, as long as an entity has adopted the amendments in ASU No. 2016-13.

Hedge Accounting

Overview

.237 In August 2017, FASB issued ASU No. 2017-12 to better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. To meet that objective, the amendments expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements.

.238 The amendments in this ASU also make certain targeted improvements to simplify the application of hedge accounting guidance and ease the administrative burden of hedge documentation requirements and assessing hedge effectiveness.

.239 First, in terms of risk component hedging, current GAAP contains limitations on how an entity can designate the hedged risk in certain cash flow and fair value hedging relationships. To address those current limitations, the amendments in this ASU permit hedge accounting for risk components in hedging relationships involving nonfinancial risk and interest rate risk.

.240 Second, current GAAP contains limitations on how an entity can designate the hedged item in the fair value hedge of interest rate risk. In other cases, current GAAP contains limitations on how an entity can measure changes in fair value of the hedged item attributable to interest rate risk in certain fair value hedging relationships. Those limitations may not align with an entity's risk management strategies or the way in which interest rate risk can be hedged in the cash flow hedging model. To resolve those issues, the amendments in this ASU change the guidance for designating fair value hedges of interest rate risk and for measuring the change in fair value of the hedged item in fair value hedges of interest rate risk.

.241 Finally, the amendments in this ASU align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements to increase the understandability of the results of an entity's intended hedging strategies. The amendments in this ASU require an

entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. This presentation enables users of financial statements to better understand the results and costs of an entity's hedging program. Also, relative to current GAAP, this approach simplifies the financial statement reporting for qualifying hedging relationships.

.242 The amendments in this ASU continue to allow an entity to exclude those components of a hedging instrument's change in fair value from the assessment of hedge effectiveness. Additionally, the amendments permit an entity to exclude the portion of the change in fair value of a currency swap that is attributable to a cross-currency basis spread from the assessment of hedge effectiveness.

.243 The amendments in this ASU also alter effectiveness testing and disclosures.

.244 ASU No. 2017-12 applies to any entity that elects to apply hedge accounting in accordance with current GAAP and is effective as follows:

	<i>Fiscal Years Beginning After</i>	<i>Interim Periods Within Fiscal Years Beginning After</i>
Public business entities	December 15, 2018	December 15, 2018
All other entities	December 15, 2019	December 15, 2020

.245 Early application is permitted in any interim period after issuance of this ASU. All transition requirements and elections should be applied to hedging relationships existing on the date of adoption (that is, hedging relationships in which the hedging instrument has not expired, been sold, terminated, or exercised, or the entity has not removed the designation of the hedging relationship). The effect of adoptions should be reflected as of the beginning of the fiscal year of adoption (that is, the initial application date).

Latest Developments

ASU No. 2019-04 amendments related to ASU No. 2017-12

.246 In April 2019, FASB issued ASU No. 2019-04 to clarify, correct, and improve various aspects of the guidance in ASU Nos. 2016-01, 2016-13, and 2017-12 related to financial instruments. The discussion herein will address only those amendments related to ASU No. 2017-12.

.247 ASU No. 2019-04 clarifies certain aspects of the amendments in ASU No. 2017-12 as follows:

- *Partial-term fair value hedges of interest rate risk.* The amendments clarify that an entity may measure the change in fair value of a hedged item using an assumed term only for changes attributable to interest rate risk.
- *Amortization of fair value hedge basis adjustments.* The amendments clarify that an entity may, but is not required to, begin to amortize a fair value hedge basis adjustment before the fair value hedging relationship is discontinued.

- *Consideration of the hedged contractually specified interest rate under the hypothetical derivative method.* The amendment clarifies that an entity should consider the contractually specified interest rate being hedged when applying the hypothetical derivative method.
- *Scope for not-for-profit entities.* The amendments clarify that a not-for-profit entity that does not separately report earnings may not elect the amortization approach for amounts excluded from the assessment of effectiveness for fair value hedging relationships.
- *Hedge accounting provisions applicable to certain private companies and not-for-profit entities.* The amendments clarify that a private company that is not a financial institution should document the analysis supporting a last-of-layer hedge designation concurrently with hedge inception. Not-for-profit entities qualify for the same subsequent quarterly hedge effectiveness assessment timing relief for which certain private companies qualify in accordance with FASB ASC 815-20-25-142.
- *Application of a first-payments-received cash flow hedging technique to overall cash flows on a group of variable interest payments.* The amendments clarify that the application of the first-payments-received cash flow hedging technique to changes in overall cash flows on a group of variable interest payments continues to be permitted.
- *Transition guidance update.* The amendment to FASB ASC 815-20-65-3(e)(1) clarifies that transition adjustments to amend the measurement methodology of the hedged item in a fair value hedge of interest rate risk should be made as of the date of initial application of ASU No. 2017-12.

.248 For entities that have not yet adopted the amendments in ASU No. 2017-12 as of the issuance date of ASU No. 2019-04, the effective dates and transition requirements for the amendments to FASB ASC 815 are the same as the effective dates and transition requirements in ASU No. 2017-12.

.249 For entities that have adopted the amendments in ASU No. 2017-12 as of the issuance date of ASU No. 2019-04, the effective date is as of the beginning of the first annual period beginning after the issuance date of ASU No. 2019-04. For those entities, early adoption is permitted, including adoption on any date on or after the issuance of ASU No. 2019-04.

Conclusion

.250 The extent of the effect of the new financial instruments standards will depend upon the relative significance of financial instruments to an entity's operations and financial position as well as the entity's business strategy. To provide CPAs with guidance during this time of transition, the FRC offers invaluable resources on the topic. In addition, the FRC includes a list of conferences, webcasts, and products to keep you informed on the latest developments in accounting for financial instruments.

Other Accounting Issues and Developments

.251 Because the financial reporting standards are in a constant state of change, it may be challenging to keep up with all the new standards as they

are issued. The following section highlights the latest developments in financial reporting and alerts you to some important considerations.

ASU No. 2018-17, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities*

.252 The amendments in ASU No. 2018-17 affect reporting entities that are required to determine whether they should consolidate a legal entity under the guidance within the "Variable Interest Entities" (VIE) subsections of FASB ASC 810-10.

.253 The main provisions include the following:

- *Private company accounting alternative.* A private company (reporting entity) may elect not to apply variable interest entity guidance to legal entities under common control (including common control leasing arrangements) if both the parent and the legal entity being evaluated for consolidation are not public business entities. The accounting alternative provides an accounting policy election that a private company will apply to all current and future legal entities under common control that meet the criteria for applying this alternative. If the alternative is elected, a private company should continue to apply other consolidation guidance, particularly the voting interest entity guidance, unless another scope exception applies.
- *Decision-making fees.* Indirect interests held through related parties in common control arrangements should be considered on a proportional basis for determining whether fees paid to decision makers and service providers are variable interests. This is consistent with how indirect interests held through related parties under common control are considered for determining whether a reporting entity must consolidate a variable interest entity.

.254 When ASU No. 2018-17 is adopted, ASU No. 2014-07, *Consolidation (Topic 810): Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements (a Consensus of the Private Company Council)*, will be superseded and no longer available. For entities other than private companies, the amendments in this ASU are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The amendments in this ASU are effective for a private company for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. All entities are required to apply the amendments in this ASU retrospectively with a cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented. Early adoption is permitted.

ASU No. 2018-18, *Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606*

.255 The amendments in this ASU clarify the interaction between FASB ASC 808, *Collaborative Arrangements*, and FASB ASC 606 by (a) clarifying that certain transactions between collaborative arrangement participants should be accounted for under FASB ASC 606 when the collaborative arrangement participant is a customer in the context of a unit of account, (b) adding unit-of-account guidance in FASB ASC 808 to align with the guidance in FASB ASC

606, and (c) clarifying presentation guidance for transactions with a collaborative arrangement participant that are not accounted for under FASB ASC 606.

.256 For public business entities, the amendments in this ASU are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted.

Recent AICPA Independence and Ethics Developments

AICPA Professional Ethics Division: Information System Services

.257 In June 2019, the Professional Ethics Executive Committee (PEEC) adopted a revised interpretation, "Information System Services," formerly "Information Systems Design, Implementation, or Integration" (ET sec. 1.295.145) under the "Independence Rule." The revised interpretation provides more explicit guidance on information system services, especially the types of implementation and system and network maintenance services that impair independence.

.258 The revised interpretation addresses the following nonattest services involving an attest client's information system or network:

- Design and development
- Implementation (which includes installation, customization, integration, interfacing, configuration, and data translation)
- System and network maintenance, support, and monitoring

.259 The revision incorporates several defined terms, most notably *financial information system*, proper application of which is key to avoiding self-review threats that impair independence. However, the interpretation also applies to attest services when the subject matter is not a client's financial statements.

.260 The revised interpretation is effective January 1, 2021, and early implementation is allowed.

AICPA Professional Ethics Division: State and Local Government Client Affiliates

.261 In June 2019, PEEC issued a revised interpretation, "State and Local Government Client Affiliates," formerly "Entities Included in State and Local Government Financial Statements," (ET sec. 1.224.020) under the "Independence Rule."

.262 The interpretation helps members identify the entities related to a state or local government (SLG) (such as component units or funds) that are "affiliates" of the SLG for independence purposes. Affiliates of SLG financial statement attest clients are subject to independence provisions in the code, except for nonattest services that the member (or member's firm) provides to the affiliate if the services do not create a self-review threat. Independence applies even if the member (or member's firm) does not provide attest services to the affiliate.

.263 The revised interpretation is effective for years beginning after December 15, 2020.

.264 A toolkit is also being developed to help practitioners identify the related entities and will be released in 2020.

Independence Interpretation on Hosting Services

.265 In June 2017, PEEC adopted the "Hosting Services" interpretation (ET sec. 1.295.143), which appears in the AICPA Code of Professional Conduct's "Independence Rule" under "Nonattest Services." The interpretation became effective July 1, 2019. The interpretation follows the fundamental principle in the independence rules that CPAs should not perform any activities for their clients that are management's responsibility. This interpretation to the independence rule explains that a CPA's independence will be impaired when taking responsibility for hosting an attest client's data or records or acting as the sole host for a financial or nonfinancial information system of an attest client.

.266 The PEEC has released new FAQs on hosting services. The FAQs can be found at: www.aicpa.org/interestareas/professionalethics/resources/tools/downloadabledocuments/nonattestservicesfaqs.pdf

.267 In addition, professional judgment is required to determine reasonable period of time. For more information, please visit the AICPA website for the "Ethically Speaking" podcast. There are two episodes devoted to hosting services.

www.aicpa.org/interestareas/professionalethics/ethically-speaking.html

Recent Pronouncements at a Glance

Recent Auditing and Attestation Pronouncements and Guidance

.268 The following table presents a list of recently issued audit and attestation pronouncements and related guidance.

<i>Recent Auditing and Attestation Pronouncements and Related Guidance</i>	
Statement on Auditing Standards (SAS) No. 137 (July 2019)	<i>The Auditor's Responsibilities Relating to Other Information Included in Annual Reports</i>
SAS No. 136 (July 2019)	<i>Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA</i>
SAS No. 135 (May 2019)	<i>Omnibus Statement on Auditing Standards — 2019</i>
SAS No. 134 (May 2019)	<i>Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements</i>

Recent Accounting and Financial Reporting Guidance

.269 The following table presents, by codification area, a list of recently issued ASUs through the issuance of ASU No. 2019-11, *Codification Improvements to Topic 326, Financial Instruments — Credit Losses*. However, this table does not include ASUs that are SEC updates or technical corrections to various topics. FASB ASC does include SEC content to improve the usefulness of FASB ASC for public companies, but content labeled as "SEC staff guidance" does not constitute rules or interpretations of the SEC, nor does such guidance bear official SEC approval.

Recent Accounting Standards Updates	
FASB Accounting Standards Updates (ASU) — Broad Scope	
ASU No. 2019-06 (May 2019)	<i>Intangibles — Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958): Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities</i>
ASU No. 2019-03 (March 2019)	<i>Not-for-Profit Entities (Topic 958): Updating the Definition of Collections</i>
ASU No. 2018-17 (October 2018)	<i>Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities</i>
FASB ASU Narrow Scope	
ASU No. 2019-08 (November 2019)	<i>Compensation — Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Codification Improvements — Share-Based Consideration Payable to a Customer</i>
ASU No. 2019-02 (March 2019)	<i>Entertainment — Films — Other Assets — Film Costs (Subtopic 926-20) and Entertainment — Broadcasters — Intangibles — Goodwill and Other (Subtopic 920-350): Improvements to Accounting for Costs of Films and License Agreements for Program Materials (a consensus of the Emerging Issues Task Force)</i>
ASU No. 2018-20 (December 2018)	<i>Leases (Topic 842): Narrow-Scope Improvements for Lessors</i>
Transaction Area — Revenue Recognition, Lease and Financial Instruments	
ASU No. 2019-10 (November 2019)	<i>Financial Instruments — Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates</i>
ASU No. 2019-09 (November 2019)	<i>Financial Services — Insurance (Topic 944): Effective Date</i>
ASU No. 2019-05 (May 2019)	<i>Financial Instruments — Credit Losses (Topic 326): Targeted Transition Relief</i>

(continued)

Recent Accounting Standards Updates — continued	
ASU No. 2019-01 (March 2019)	<i>Leases (Topic 842): Codification Improvements</i>
ASU No. 2018-16 (October 2018)	<i>Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes</i>
ASU No. 2018-18 (November 2018)	<i>Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606</i>
Other	
ASU No. 2019-11 (November 2019)	<i>Codification Improvements to Topic 326, Financial Instruments — Credit Losses</i>
ASU No. 2019-04 (April 2019)	<i>Codification Improvements to Topic 326, Financial Instruments — Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments</i>
ASU No. 2018-19 (November 2018)	<i>Codification Improvements to Topic 326, Financial Instruments — Credit Losses</i>

Recently Issued Technical Questions and Answers

.270 The following table presents a list of recently issued nonauthoritative audit, attest, and accounting technical questions and answers issued by the Association. Recently issued questions and answers can be accessed at www.aicpa.org/interestareas/frc/pages/recentlyissuedtechnicalquestionsandanswers.aspx.

Recently Issued Technical Questions and Answers	
Not-for-Profit Entities	
Q&A 6140.01	Inventory Valuation for a Not-for-Profit (NFP) Scientific Entity
Q&A 6140.02	Income Recognition of Membership Dues by an NFP
Q&A 6140.03	Lapsing of Time Restrictions on Receivables That Are Uncollected at Their Due Date
Q&A 6140.04	Lapsing of Restrictions on Receivables if Purpose Restrictions Pertaining to Long-Lived Assets Are Met Before the Receivables Are Due
Q&A 6140.06	Functional Category of Cost of Sales of Contributed Inventory
Q&A 6140.07	Functional Category of Costs of Special Events
Q&A 6140.08	Functional Category of the Costs of Direct Donor Benefits
Q&A 6140.09	Reporting Bad Debt Losses
Q&A 6140.10	Consolidation of Political Action Committee

<i>Recently Issued Technical Questions and Answers — continued</i>	
Q&A 6140.11	Costs of Soliciting Contributed Services and Time That Do Not Meet the Recognition Criteria in FASB ASC 958
Q&A 6140.12	Nondiscretionary Assistance Programs
Q&A 6140.13	Note to Q&A section 6140.14–.18 — Implementation of FASB ASC 958 — Classification of a Beneficiary's Interest in the Net Assets of a Financially Interrelated Fundraising Foundation (in the Beneficiary's Financial Statements)
Q&A 6140.14	Application of FASB ASC 958 — Classification of a Beneficiary's Interest in the Net Assets of a Financially Interrelated Fundraising Foundation (The beneficiary can influence the operating and financial decisions of the foundation to such an extent that the beneficiary can determine the timing and amount of distributions from the foundation.)
Q&A 6140.15	Application of FASB ASC 958 — Classification of a Beneficiary's Interest in the Net Assets of a Financially Interrelated Fundraising Foundation (The beneficiary cannot influence the operating and financial decisions of the foundation to such an extent that the beneficiary can determine the timing and amount of distributions from the foundation.)
Q&A 6140.16	Application of FASB ASC 958 — Classification of a Beneficiary's Interest in the Net Assets of a Financially Interrelated Fundraising Foundation (More Than One Beneficiary — Some Contributions Are Designated)
Q&A 6140.17	Application of FASB ASC 958 — Classification of a Beneficiary's Interest in the Net Assets of a Financially Interrelated Fundraising Foundation (The beneficiary makes an expenditure that meets a purpose restriction on net assets held for its benefit by the recipient entity — The beneficiary can influence the operating and financial decisions of the recipient to such an extent that the beneficiary can determine the timing and amount of distributions from the recipient.)
Q&A 6140.18	Application of FASB ASC 958 — Classification of a Beneficiary's Interest in the Net Assets of a Financially Interrelated Fundraising Foundation (The beneficiary makes an expenditure that is consistent with a purpose restriction on net assets held for its benefit by the recipient entity — The beneficiary cannot influence the operating and financial decisions of the recipient to such an extent that the beneficiary can determine the timing and amount of distributions from the recipient.)

(continued)

Recently Issued Technical Questions and Answers — continued	
Q&A 6140.19	Application of FASB ASC 958 — Classification of Distributions From a Financially Interrelated Fundraising Foundation (Recipient Entity) to a Health Care Beneficiary
Q&A 6140.20	NFPs Reporting No Fundraising Expenses
Q&A 6140.21	Should an NFP Report Amounts Charged to the NFP by a Professional Fund-Raiser Gross, as Fundraising Expenses, or Net, as a Reduction of Contributions?
Q&A 6140.22	In Circumstances in Which the Reporting NFP Undertakes a Transaction in Which Another NFP (Fundraising NFP) Raises Contributions on Behalf of the Reporting NFP, and the Reporting NFP Compensates the Fundraising NFP for Raising Those Contributions (Compensation Including, But Not Limited to, an Administrative Fee), Should the Reporting NFP Report the Fundraising NFP's Compensation Gross, as Fundraising Expenses, or Net, as a Reduction of Contributions?
Q&A 6140.23	Changing Net Asset Classifications Reported in a Prior Year
Q&A 6140.24	Contributions of Certain Nonfinancial Assets, Such as Fundraising Material, Informational Material, or Advertising, Including Media Time or Space for Public Service Announcements or Other Purposes
Q&A 6140.25	Multiyear Unconditional Promises to Give — Measurement Objective and the Effect of Changes in Interest Rates
Q&A 6140.27	Definition of <i>Direct Care</i> of Collection Items
Health Care Entities	
Q&A 6400.04	Hospital as Collecting Agent for Physicians [Amended]
Q&A 6400.17	Elimination of Profit on Intra-Entity Sales
Q&A 6400.20	Format of Combined or Consolidated Financial Statements
Q&A 6400.36	Application of FASB ASC 958 — Classification of a Beneficiary's Interest in the Net Assets of a Financially Interrelated Fundraising Foundation (The beneficiary can influence the operating and financial decisions of the foundation to such an extent that the beneficiary can determine the timing and amount of distributions from the foundation.)

<i>Recently Issued Technical Questions and Answers — continued</i>	
Q&A 6400.37	Application of FASB ASC 958 — Classification of a Beneficiary's Interest in the Net Assets of a Financially Interrelated Fundraising Foundation (The beneficiary cannot influence the operating and financial decisions of the foundation to such an extent that the beneficiary can determine the timing and amount of distributions from the foundation.)
Q&A 6400.38	Application of FASB ASC 958 — Classification of a Beneficiary's Interest in the Net Assets of a Financially Interrelated Fundraising Foundation — Does Common Control Lead to the Conclusion That the Beneficiary Can Determine the Timing and Amount of Distributions from the Recipient?
Q&A 6400.39	Application of FASB ASC 958 — Classification of a Beneficiary's Interest in the Net Assets of a Financially Interrelated Fundraising Foundation (More Than One Beneficiary — Some Contributions Are Designated)
Q&A 6400.40	Application of FASB ASC 958 — Classification of a Beneficiary's Interest in the Net Assets of a Financially Interrelated Fundraising Foundation (The beneficiary makes an expenditure that meets a purpose restriction on net assets held for its benefit by the recipient entity — The beneficiary can influence the operating and financial decisions of the recipient to such an extent that the beneficiary can determine the timing and amount of distributions from the recipient.)
Q&A 6400.41	Application of FASB ASC 958 — Classification of a Beneficiary's Interest in the Net Assets of a Financially Interrelated Fundraising Foundation (The beneficiary makes an expenditure that is consistent with a purpose restriction on net assets held for its benefit by the recipient entity — The beneficiary cannot influence the operating and financial decisions of the recipient to such an extent that the beneficiary can determine the timing and amount of distributions from the recipient.)
Q&A 6400.42	Application of FASB ASC 958 — Classification of a Beneficiary's Interest in the Net Assets of a Financially Interrelated Fundraising Foundation (Recipient Entity) — Accounting for Unrealized Gains and Losses on Investments Held by the Foundation

On the Horizon

.271 To remain competent, auditors need to keep abreast of accounting developments and upcoming guidance that may affect their engagements. The following sections present brief information about some ongoing projects that have particular significance. Remember that exposure drafts are nonauthoritative and cannot be used as a basis for changing current practice.

.272 Information on and copies of outstanding exposure drafts may be obtained from the various standard-setters' websites. These websites contain in-depth information about proposed standards and other projects in the pipeline. Many more accounting and auditing projects exist in addition to those discussed here.

Auditing and Attestation Pipeline — Nonissuers

Proposed SAS Auditing Accounting Estimates and Related Disclosures

.273 The proposed *SAS Auditing Accounting Estimates and Related Disclosures* was issued on August 22, 2019, and the comment deadline was November 22, 2019. It is intended to address the challenges auditors face in auditing accounting estimates and provide auditors with enhanced guidance on further audit procedures.

Background

.274 In October 2018, the IAASB issued International Standard on Auditing (ISA) 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, to address the auditor's responsibilities relating to accounting estimates and related disclosures in an audit of financial statements. At the same time, the PCAOB was undergoing a project to strengthen and enhance the requirements for auditing accounting estimates. In December 2018, the PCAOB adopted AS 2501 (Revised), *Auditing Accounting Estimates, Including Fair Value Measurements*, and Amendments to PCAOB Auditing Standards (PCAOB Release No. 2018-005). The ASB has considered the revisions to auditing accounting estimates resulting from the IAASB and PCAOB projects in developing the changes to GAAS described in this exposure draft. The ASB believes the proposed change will help auditors to perform appropriate audit procedures and exercise professional skepticism, thereby improving audit quality.

Proposed Changes

.275 The following list summarizes the proposed changes:

- The proposed SAS explains the nature of accounting estimates by discussing the concept of estimation uncertainty and also provides information on the scalability of the proposed SAS.
- The proposed SAS is intended to be scalable for all types of accounting estimates.
- The proposed SAS requires a separate assessment of inherent risk and control risk for purposes of assessing the risks of material misstatement at the assertion level for accounting estimates.
- The proposed SAS is intended to address the challenges that auditors face when auditing accounting estimates by providing risk assessment requirements that are more specific to estimates and that address the increasingly complex business environment and complexity in financial reporting frameworks.
- The proposed SAS emphasizes that the auditor's further audit procedures need to be responsive to the reasons for the assessed risks of material misstatement at the assertion level, taking into account the effect of one or more inherent risk factors and the auditor's assessment of control risk.

- The proposed SAS emphasizes the importance of exercising professional skepticism.
- The proposed SAS requires the auditor to evaluate whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework or are misstated.

.276 If issued as final, the proposed SAS would be effective for audits of financial statements for periods ending on or after December 15, 2022.

Proposed SAS Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes From SAS No. 134

.277 The proposed SAS *Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes From SAS No. 134* was issued on August 28, 2019, and the comment deadline was October 28, 2019. It is intended to align three sections of the clarified auditing standards with the new auditor reporting standard — SAS No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements* — which the ASB issued earlier this year.

Background

.278 In May 2019, ASB issued SAS No. 134. The overall objective of SAS No. 134 was to update the form and content of auditors' reports on the financial statements of nonissuers to be more consistent with standards of the IAASB and recent updates to PCAOB standards. This proposed SAS aligns the AU-C section 800 series with the relevant auditor reporting standards in SAS No. 134.

.279 In 2015, the IAASB issued new and revised ISAs related to reporting on audited financial statements. In 2016, the IAASB made limited amendments to the ISA 800 series. Rather than converging with the IAASB's changes to the ISA 800 series at that time, the ASB decided to reconsider revisions to the AU-C section 800 series after it had made further progress.

.280 When the ASB first converged with ISA 800 with the issuance of SAS No. 122 in 2011, the ASB did not include the concept of a compliance framework, believing that all financial reporting frameworks in the United States are fair presentation frameworks. The ASB considered incorporation of the concept of a compliance framework for certain types of special purpose frameworks; after discussion, however, the ASB reaffirmed its 2011 position with respect to this matter and acknowledged that the topic of compliance frameworks may be revisited in a future ASB project.

.281 Accordingly, the ASB identified auditor reporting changes that would be needed to conform with the revisions to the AU-C section 700 series in SAS No. 134. In doing so, a limited number of revisions to converge with ISA 800 (Revised) are also proposed, such as identifying the various types of special purpose frameworks in the application material, rather than including them as part of the definition of the term *special purpose frameworks*.

Proposed Changes

.282 The following subsections summarize the major changes.

.283 Changes to AU-C section 800, *Special Considerations*

- The designation of the cash, tax, regulatory, contractual, and other bases of accounting as examples of special purpose frameworks, rather than as part of the definition of *special purpose framework*
- The addition of an introductory paragraph stating that AU-C section 570 applies to audits of special purpose financial statements
- Clarification that, in all audits of special purpose financial statements (irrespective of whether the going concern basis of accounting is relevant to the preparation of the special purpose financial statements), the auditor is required to do the following:
 - Conclude whether substantial doubt exists about the entity's ability to continue as a going concern for a reasonable period of time
 - When substantial doubt exists, evaluate the adequacy of the financial statement disclosures as required by the applicable financial reporting framework
- For special purpose financial statements prepared in accordance with a contractual or other basis of accounting, a new requirement that the emphasis-of-matter paragraph in the auditor's report states that the financial statements may not be suitable

.284 Changes to AU-C section 805, *Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*

- There are circumstances that indicate the applicable financial reporting framework may not have a requirement for management to assess going concern for a single financial statement or element (or going concern may not be relevant at all to the framework). In those circumstances, the required statements in the auditor's report regarding management's and the auditor's responsibility for going concern would need to be adapted as necessary (or omitted if not relevant).
 - Examples of factors that may be relevant in considering whether a matter included in the auditor's report on a complete set of financial statements is relevant in the context of an engagement to report on a single financial statement or a specific element, account, or item of a financial statement.

.285 Changes to AU-C section 810, *Engagements to Report on Summary Financial Statements*

- Amendment to paragraph .15e — which addresses the paragraph in the auditor's report describing the auditor's responsibilities — that deletes the description of procedures performed by the auditor

.286 The proposed SAS is expected to be effective for audits of financial statements for periods ending on or after December 15, 2020. Early implementation is not permitted.

Proposed SAS Audit Evidence

.287 The proposed SAS *Audit Evidence* was issued on June 20, 2019, and the comment deadline is September 18, 2019. It explains what constitutes audit evidence in an audit of financial statements and addresses how an auditor evaluates audit evidence in the evolving nature of business and audit services since the existing audit evidence standard (codified in AU-C section 500, *Audit Evidence*) was issued. If issued as final, this proposed SAS will supersede SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*, as amended, section 500, *Audit Evidence* (AU-C section 500).

Background

.288 The ASB issued SAS No. 122 in October 2011 to apply the clarity drafting conventions to all outstanding SASs issued by the ASB through SAS No. 121, *Revised Applicability of Statement on Auditing Standards No. 100*, Interim Financial Information, including AU-C section 500.

.289 In August 2017, the ASB began a project to assess whether revisions of AU-C section 500 are necessary to address the evolving nature of business and audit services and issues that have arisen during the standard-setting activities of the ASB. These issues include the following:

- Preparers' and auditors' use of emerging technologies and audit data analytics (ADA)
- Preparers' and auditors' application of professional skepticism
- Preparers' and auditors' external information sources as audit evidence

.290 More broadly, the project considered the accuracy, completeness, and reliability of audit evidence.

.291 In September 2016, the IAASB issued a Request for Input, *Exploring the Growing Use of Technology in the Audit, With a Focus on Data Analytics*. The Request for Input sought feedback from stakeholders about various aspects of the use of automated tools and techniques. In response to the Request for Input, the IAASB received over 55 comment letters. In January 2018, the IAASB's Data Analytics Working Group published a Feedback Statement that summarized the input received from responders to the Request for Input, which provided broad support for the project's direction.

.292 Given issues identified in the profession related to professional skepticism, the ASB has taken an approach to weave concepts surrounding professional skepticism throughout the proposed SAS and explain ways in which the auditor would demonstrate the application of professional skepticism when obtaining and assessing the sufficiency and appropriateness of audit evidence.

Proposed Changes

.293 Proposed changes are summarized as follows:

- *Additional content articulates the relationship between the proposed SAS and other AU-C sections, including AU-C sections 315, 330, and 700.* The ASB believes that the proposed SAS would assist the auditor in forming those conclusions by providing the attributes and factors that the auditor would consider in concluding whether the auditor has obtained sufficient appropriate audit evidence for the auditor's intended purpose.

- *Expanded guidance on evaluating whether sufficient appropriate audit evidence has been obtained.* This change in focus of the proposed SAS is intended to be accomplished by establishing attributes and factors to consider in evaluating audit evidence.
- *Several examples of the use of automated tools and techniques in the application material of the proposed SAS.* The additional examples illustrate how auditors may use automated tools and techniques and the implications and role of automated tools and techniques in the current audit environment.
- *Addresses professional skepticism as set out in AU-C section 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards.*
- *Interweaves concepts surrounding professional skepticism throughout the proposed SAS.*
- *Explains auditor performance that would demonstrate the application of professional skepticism when obtaining and evaluating sufficient appropriate audit evidence.*

.294 If issued as final, the proposed SAS will be effective for audits of financial statements for periods beginning on or after June 15, 2021.

Proposed SSARS Materiality in a Review of Financial Statements, Adverse Conclusions, and Special Purpose Frameworks

.295 Proposed *SSARS Materiality in a Review of Financial Statements, Adverse Conclusions, and Special Purpose Frameworks* was issued on June 19, 2019, and the comment deadline was September 20, 2019.

Background

.296 Subsequent to ARSC issuing SSARS No. 21, ARSC issued SSARS Nos. 22–24 to further clarify the requirements and guidance for preparation, compilation, and review engagements. In developing and issuing SSARS No. 24, ARSC determined that further convergence with International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*, was appropriate and in the public interest.

.297 Although there are significant differences between an audit engagement and an engagement performed in accordance with SSARSs, certain concepts related to the financial statements are consistent regardless of the level of service performed on those financial statements.

Proposed Changes

.298 If adopted, the proposed SAS would amend the following sections of SSARS No. 21 (as amended):

- AR-C section 60
- AR-C section 70
- AR-C section 80
- AR-C section 90

.299 If adopted, the revised AR-C sections would be effective for engagements performed in accordance with SSARSs on financial statements for periods ending on or after June 15, 2021. Early implementation would be permitted.

Auditing and Attestation Pipeline — Issuers

Quality Control Standards, Including Assignment and Documentation of Firm Supervisory Responsibilities

.300 The PCAOB is proposing a renewed focus on audit firm's systems of quality control in order to enhance audit quality. The objective of a system of quality control is to provide the firm with reasonable assurance that its personnel comply with applicable professional standards and the firm's standards of quality.

.301 The PCAOB is proposing a concept release for consideration in the fourth quarter of 2019. The proposal is intended to strengthen the risk-based approach to inspect the firm's quality control systems. For more information, please visit the PCAOB website regarding quality control standards: pcaobus.org/standards/research-standard-setting-projects/pages/quality-control.aspx.

Accounting and Financial Reporting Pipeline

Proposed ASU (Revised) Debt (Topic 470): Simplifying the Classification of Debt in a Classified Balance Sheet (Current vs. Noncurrent)

.302 On September 12, 2019, FASB issued a proposed ASU to replace the guidance on debt classifications within a classified balance sheet. The amendments aim to identify, evaluate, and improve areas of GAAP with simplification initiative. The amendments in this proposed ASU would apply to all entities that enter into a debt arrangement and present a classified balance sheet. The proposed amendments also would apply to convertible debt instruments, liability-classified mandatorily redeemable financial instruments, and lease liabilities.

.303 The amendments in this proposed ASU would require entities that present a classified balance sheet to classify an instrument as noncurrent if either of the following criteria are met as of the balance sheet date:

- The liability is contractually due to be settled more than one year (or operating cycle, if longer) after the balance sheet date.
- The entity has the contractual right to defer settlement of the liability for a period greater than one year (or operating cycle, if longer) after the balance sheet date.

.304 The current guidance on determining when debt should be classified as a current liability or a noncurrent liability in the balance sheet can be difficult for preparers and auditors to navigate and for financial statement users to understand. The amendments in this proposed ASU would reduce the cost and complexity associated with determining whether debt would be classified as current or noncurrent in a classified balance sheet. As a result, the proposed amendments would provide (a) greater transparency and consistency about the nature and types of debt arrangements that are classified as noncurrent and (b) more understandable information for financial statement users. Therefore, the existing classification guidance would be superseded by a principle that may result in a classification that differs from the classification produced under existing rules.

.305 The following is the summary of proposed amendments to FASB ASC:

- *Scope and scope exceptions.* Classification of current and noncurrent liabilities that arise from a debt arrangement are addressed, and examples of debt arrangements are added.
- *Other presentation matters.* Added debt classification principle and guidance on unused financing arrangements in place at the balance sheet date; also added and amended guidance on how to determine the classification of debt subject to a covenant violation.
- *Disclosure.* Added disclosures about events of default triggers of a subjective acceleration clause, and grace period. The proposed amendments address a long-term debt arrangement that provides a grace period to waive a debt covenant violation.
- *Implementation guidance and illustration.* The proposal removed illustrations on subjective acceleration clauses, classification by the issuer of redeemable instruments, classification of debt when a financing arrangement exists, refinancing of debt, and classification of a short-term obligation repaid before being replaced by a long-term security.

.306 The proposed ASU states that an entity would apply the proposed amendments on a prospective basis to debt that exists at the date of adoption and all arrangements entered into after that date. Early adoption of the proposed amendments would be permitted. FASB will determine the effective date of the amendments based on stakeholder feedback.

Proposed ASU Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting

.307 On September 5, 2019, FASB published a proposed ASU, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, to establish a temporary optional guidance to ease the potential burden in accounting (or recognizing the effect of) reference rate reform on financial reporting. Stakeholder comments are due October 7, 2019.

.308 Stakeholders raise questions in accounting for contract modifications and hedge accounting due to reference rate reform. Some of those challenges relate to the significant volume of contracts and other arrangements, such as debt agreements, lease agreements, and derivative instruments, which will need to be modified to replace references to discontinued rates with references to replacement rates. Stakeholders raised additional accounting issues specific to hedge accounting. Specifically, changes in a reference rate could disallow the application of certain hedge accounting guidance, and certain hedging relationships may not qualify as highly effective during the period of the market-wide transition to a replacement rate. Stakeholders indicated that the inability to apply hedge accounting because of reference rate reform would result in financial reporting outcomes that do not reflect entities' intended hedging strategies when those strategies continue to operate as effective hedges.

.309 The amendments in this proposed ASU would provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments in this proposed ASU would apply only to contracts and hedging relationships that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. The proposed expedients and

exceptions provided by the amendments would not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022.

.310 The amendments in this proposed ASU would be effective for all entities upon issuance of a final ASU. Upon adoption, an entity may elect to apply the proposed amendments prospectively to contract modifications made and to hedging relationships existing as of or entered into on or after the date of adoption and through December 31, 2022. The proposed ASU is intended for use during the reference rate transition period, so it would not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022.

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

.311 The board is proposing the update of effective dates for the following ASUs (including amendments issued after the issuance of the original update):

1. ASU No. 2016-13
2. ASU No. 2017-12
3. ASU No. 2016-02

.312 The board also will address the application of this change in philosophy to ASU No. 2018-12, *Financial Services — Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*, as part of a separate project.

Effective Dates

.313 ASU No. 2016-13 currently is not effective for any entities; early application is permitted for fiscal years beginning after December 15, 2018. Its mandatory effective dates are as follows:

1. Public business entities that meet the definition of an SEC filer for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years
2. All other public business entities for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years
3. All other entities (private companies, NFP organizations, and employee benefit plans) for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years.

.314 Under the revised effective date philosophy, the mandatory effective dates for credit losses in this proposed update would be amended to the following:

1. Public business entities that meet the definition of an SEC filer, excluding entities eligible to be smaller reporting companies (SRCs) as defined by the SEC, for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years
2. All other entities for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years

.315 ASU No. 2017-12 currently is effective for some entities. Its effective dates are as follows (early application is allowed):

1. Public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years
2. All other entities for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020

.316 Because ASU No. 2017-12 already is effective for all public business entities, the board retained the effective date for public business entities, including SRCs. The board also decided to defer the mandatory effective date for this ASU for all other entities by an additional year. Therefore, the ASU would be effective for entities other than public business entities for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early application would continue to be allowed.

.317 ASU No. 2016-02 currently is effective for some entities. Its effective dates are as follows (early application is allowed):

1. Public business entities; NFP entities that have issued or are conduit bond obligors for securities that are traded, listed, or quoted on an exchange or an over-the-counter market; and employee benefit plans that file or furnish financial statements with or to the SEC for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years
2. All other entities for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020

.318 Because this ASU already is effective for entities within (1), the board retained the effective date for those entities, including SRCs. The board also decided to defer the effective date for all other entities by an additional year. Therefore, the ASU would be effective for entities within (2) for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early application would continue to be allowed.

Proposed ASU Deb: — 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

.319 On July 31, 2019, FASB issued a proposed ASU to simplify the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity's own equity. Out of the simplification initiative, the board focused on amending guidance on convertible instruments and the guidance on the derivatives scope exception for contracts in an entity's own equity.

.320 For convertible instruments, those that would primarily be affected would be (a) convertible debt issued with substantial premiums, (b) convertible instruments with beneficial conversion features, or (c) convertible instruments with cash conversion features because the accounting models for those specific features would be removed. As a result, no embedded conversion features will be presented as equity under FASB ASC 470-20. Convertible preferred stock

also is required to be assessed under similar models, that is, convertible preferred stock would be accounted for wholly as preferred stock. All entities that issue convertible instruments would be affected by the amendments to the disclosure requirements in this proposed ASU.

.321 For contracts in an entity's own equity, the contracts primarily affected would be freestanding instruments and embedded features that are accounted for as derivatives under the current guidance because of form-over-substance-based accounting conclusions. Furthermore, FASB has simplified the settlement assessment by removing the requirements to consider whether the contract would be settled in registered shares, to consider whether collateral is required to be posted, and to assess shareholder rights. Those amendments also would affect the assessment of whether an embedded conversion feature in a convertible instrument would qualify for the derivatives scope exception.

.322 The proposed ASU would require expanded disclosure of convertible instruments. The proposed updates include disclosure objective, terms and features of conversion, controlling party, disclosure requirement for contingency, and fair value disclosure at the individual level, rather than in aggregate. The proposed ASU would also amend certain guidance related to the diluted *earnings-per-share* (EPS) calculation under FASB ASC 260, *Earnings Per Share*, for convertible instruments and contracts on an entity's own equity.

.323 The effective date will be determined after FASB considers stakeholders' feedback on the amendments in this proposed ASU. FASB also will consider whether to allow for early adoption of the amendments.

Other

.324 At FASB's September board meeting, it addressed four potential projects for consideration on the technical agenda and completed re-deliberation of some issues identified in the comment letters. These four projects include the following:

- Accounting for warrant modifications
- Initial recognition and measurement of nonmonetary assets in a joint venture
- C5CL: Accounting for acquired financial assets in a business combination that do not meet the definition of *purchased financial assets with credit deterioration*
- Interest income recognition and measurement

.325 For more information, please visit the FASB website for the most recent developments and emerging issues in financial reporting.

Independence and Ethics Pipeline

Proposed Nonattest Services Revision

.326 In the August PEEC meeting, new proposed projects were developed. Standard-setting projects include the following:

- *Business relationships.* The AICPA Code of Professional Conduct includes "Business Relationships" (ET sec. 1.265) under the "Independence Rule." However, it has evolved since the "Cooperative Arrangements with Attest Clients" interpretation (ET sec.

1.265.010) under the "Independence Rule" was first adopted. Further, business relationship firms with nonattest clients (for example, finance and accounting outsourcing) may raise integrity and objectivity consideration. The code may need to be updated to avoid circumstances in which objectivity and professional skepticism are compromised when CPA firms perform their practice.

- *Definition of office.* The definition of *office* is used to identify which individuals need to remain independent of attest clients. The current definition is a reasonably distinct subgroup within a firm in which personnel who make up the subgroup generally serve the same group of clients or work on the same categories of matters and need to remain independent of attest clients. However, there have been many changes to how businesses practice that may blur how offices are viewed. Accordingly, the code may need to be updated to better reflect the change in practice.
- *Artificial intelligence.* As artificial intelligence (for example, automation, machine learning, robotics, and other intelligent agents) were initially perceived as a tool, rather than autonomous agent, ethical consideration became the focus of research and development (for instance, how the code of conduct, standards, and certification process that ensures the integrity of developers differ for member in business and member in public practice). Unique challenges beyond the "Integrity and Objectivity Rule" (ET sec. 1.100.001) are currently the focus of much attention.

Resource Central

.327 The following are various resources that practitioners may find useful.

Publications

.328 Practitioners may find the following publications useful. Visit www.aicpastore.com and choose the format best for you — print, ebook, or online. Although the most current editions available as of the writing of this alert are subsequently identified, you will want the newest edition available at the time of purchase:

- Audit Guide *Analytical Procedures* (2017) (product no. AUDANP17HI [paperback], AAGANP17E [ebook], or WAN-XX [online])
- *Guide to Audit Data Analytics* (2017) (product no. ADATA17P [paperback], ADATA17E [ebook], or ADATAO [online])
- Audit Guide *Special Considerations in Auditing Financial Instruments* (2016) (product no. AAGAFI16E [ebook], or AAGAFIO [online])
- *Guide Preparation, Compilation, and Review Engagements* (2019) (product no. AAGCRV19P [paperback], AAGCRV19E [ebook], or WRC-XX [online])
- Audit Guide *Assessing and Responding to Audit Risk in a Financial Statement Audit* (2016) (product no. AAGARR16P [paperback], AAGARR16E [ebook], or WRA-XX [online])

- Audit Guide *Audit Sampling* (2017) (product no. AAGSAM17P [paperback], AAGSAM17E [ebook], or WAS-XX [online])
- Audit and Accounting Guide *Revenue Recognition* (2019) (product no. AAGREV19P [paperback], AAGREV19E [ebook], or WAR-XX [online])
- Guide *Reporting on an Entity's Cybersecurity Risk Management Program and Controls* (2017) (product no. AAGCYB17P [paperback], AAGCYB17E [ebook], or AAGCYBO [online])
- *U.S. GAAP Financial Statements — Best Practices in Presentation and Disclosure* (2019) (product no. ATTATT19P [paperback] or ABPPDO [online])
- *Audit and Accounting Manual* (2019) (product no. AAMAAM19P [paperback] or WAM-XX [online])
- *AICPA Professional Standards and Technical Questions and Answers Set* (2019) (product no. APT19PHI [paperback])
- *The Auditor's Report: Comprehensive Guidance and Examples* (product no. APAARMO [online])
- *The Engagement Letter: Best Practices and Examples* (product no. APAEGLO [online])

Continuing Professional Education

.329 The Association offers a number of continuing professional education (CPE) courses that are valuable to CPAs working in public practice and industry, including the following:

- *Annual Accounting and Auditing Workshop* (product no. 736195 [text] or 156565 [on-demand]). Whether you are in industry or public practice, this course keeps you current and informed and shows you how to apply the most recent standards.
- *Integrating Audit Data Analytics Into the Audit Process* (product no. 165891). This course provides a brief overview of what audit data analytics (ADA) is and illustrates how ADA tools can be integrated into the current audit process.
- *Audit Workpapers: Reviewing Field Work Documentation* (product no. 163234). This course explores typical working paper deficiencies and addresses common misconceptions found by peer reviewers.
- *IFRS Certificate Program* (product no. 167900). Using a scenario-based series of courses with audio, video, and interactive exercises and case studies, this program will guide you through the concepts of each area of IFRS.
- *Internal Control and COSO Essentials for Financial Managers, Accountants, and Auditors* (product no. 731909 [text] or 159825 [on-demand]). This course will provide you with a solid understanding of systems and control documentation at the significant process level.
- *U.S. GAAP: Review for Business and Industry* (product no. 163975 [on-demand]). Comprehensive coverage of recent FASB pronouncements geared to the specific interests of the CPA in corporate management.

- *Core Forensic Accounting Certificate* (product no. 166570 [text] or 166500 [on-demand]). Composed of required education and the respective Certified in Financial Forensics (CFF) credential's Specialized Forensics Knowledge exam, this certificate program was developed to assist you in customizing your professional development goals.
- *SOC for Cybersecurity Certificate Program* (product no. 162260 [text] or 162270-CSATT [on-demand]). This certificate will enable you to understand how to perform SOC for cybersecurity attestation examinations using the Association's new cybersecurity risk management reporting framework.
- *Cybersecurity Advisory Services Certificate Program* (product no. 162250 [text] or 162270-CSADV [on-demand]). Learn how you can help your clients navigate threats by becoming a trusted business adviser for their organization's cybersecurity risk management program.
- *Blockchain Fundamentals for Accounting and Finance Professionals Certificate* (product no. WCBLCF1907 or WCBLCF1908). This certificate offers a foundation toward becoming a strategic business partner within your organization and with your clients.
- *Robotic Process Automation Fundamentals for Accounting and Finance Professionals Certificate Program* (product no. WCRPAFAFP19100B or WCRPAFAFP19120B). This certificate program focuses on robotic process automation benefits and how the use of software robots can help your business or clients become more competitive.

.330 Visit www.aicpastore.com for a complete list of CPE courses.

Online CPE

.331 CPEExpress, offered exclusively through www.aicpastore.com, is the Association's flagship online learning product. Divided into 1-credit and 2-credit courses that are available 24 hours a day, 7 days a week, CPEExpress offers over 600 credit hours of training in a wide variety of topics. Subscriptions are available at www.aicpastore.com/ast/main/cpa2biz_primary/prdovr~pc-byf-xx/pc-byf-xx.jsp (product no. BYT-XX). Some topics of special interest may include the following:

- Accounting and Auditing Update
- Small Business Accounting and Auditing Update
- Fair Value Accounting
- Accounting for Goodwill and Other Intangibles
- Uncertainty in Income Taxes
- Revenue Recognition
- Fraud and the Financial Statement Audit
- Public Company Update
- SEC Reporting

.332 To register for individual courses or to learn more, visit www.aicpastore.com.

Webcasts

.333 Stay current on new developments and earn CPE credit right from your desktop. AICPA webcasts are high-quality CPE programs that bring you the latest topics from the profession's leading experts. Broadcast live, they allow you to interact with the presenters and join in the discussion. If you cannot make the live event, each webcast is archived and available for viewing. For additional details on available webcasts, please visit www.aicpastore.com/ast/aicpa_cpa2biz_nav/responsive_top_nav/webcasts.jsp.

Member Service Center

.334 To order Association products, receive information about Association activities, and get help with your membership questions, call the Member Service Center at 888.777.7077.

Hotlines

Accounting and Auditing Technical Hotline

.335 Do you have a complex technical question about GAAP, other comprehensive bases of accounting, or other technical matters? If so, use the AICPA's Accounting and Auditing Technical Hotline. Staff will research your question and call you back with the answer. The hotline is available from 9 a.m. to 8 p.m. ET on weekdays. You can reach the Technical Hotline at 877.242.7212 or online at www.aicpa.org/research/technicalhotline.html.

.336 Members can also email questions to aahotline@aicpa.org. Additionally, members can submit questions by completing a technical inquiry form found on the same website.

Ethics Hotline

.337 In addition to the Technical Hotline, there is also an Ethics Hotline. Members of the AICPA's Professional Ethics Team answer inquiries concerning independence and other behavioral issues related to the application of the AICPA code. You can reach the Ethics Hotline at 888.777.7077 or by email at ethics@aicpa.org.

Center for Plain English Accounting

.338 The Center for Plain English Accounting (CPEA) is a service available to Private Companies Practice Section member firms. It provides expertise and resources in a straightforward and clear style. Written responses to technical inquiries, webcasts on hot topics, and monthly A&A reports and alerts help practitioners understand and implement authoritative professional literature when they are auditing, reviewing, preparing, and compiling financial statements. To join the CPEA and take advantage of these valuable resources, visit the CPEA website at www.aicpa.org/interestareas/centerforplainenglishaccounting.html.

AICPA Online Professional Library: Accounting and Auditing Literature

.339 The Association has created your core accounting and auditing library online. The Online Professional Library is now customizable to suit your preferences or your firm's needs. You can sign up for access to the entire library. Get access — anytime, anywhere — to FASB ASC; the latest AICPA *Professional Standards, Technical Questions and Answers*, AICPA Audit and

Accounting Guides, Audit Risk Alerts, *Best Practices in Presentation and Disclosure*; and more. To subscribe to this essential online service for accounting professionals, visit www.aicpastore.com.

AICPA Financial Reporting Center (FRC)

.340 CPAs face unprecedented changes in financial reporting. As such, the AICPA has created the FRC to support you in the execution of high-quality financial reporting. This center provides exclusive member-only resources for the entire financial reporting process and can be accessed at www.aicpa.org/frc.

.341 The FRC provides timely and relevant news, guidance, and examples supporting the financial reporting process. You will find resources for accounting, preparing financial statements, and performing various types of engagements, including compilation and review, audit and attest, and assurance and advisory.

.342 For example, the FRC offers a section dedicated to the FASB revenue recognition standard. For the latest resources available to help you implement the revenue recognition standard, visit the "Revenue Recognition" page at www.aicpa.org/interestareas/frc/accountingfinancialreporting/revenue-recognition/pages/default.aspx.

Industry Websites

.343 The internet covers a vast amount of information that may be valuable to auditors, including current industry trends and developments. Some of the more relevant sites for auditors include those shown in the following table:

<i>Website Name</i>	<i>Content</i>	<i>Website</i>
AICPA	Summaries of recent auditing and other professional standards, as well as other AICPA activities	aicpa.org www.aicpastore.com www.ifrs.com
FinREC (Financial Reporting Executive Committee, formerly known as the Accounting Standards Executive Committee)	Summaries of recently issued guides, white papers, and technical questions and answers containing financial, accounting, and reporting recommendations, among other things	www.aicpa.org/interestareas/frc/accountingfinancialreporting/pages/finrec.aspx
Accounting and Review Services Committee	Summaries of preparation, review, and compilation standards and interpretations	www.aicpa.org/research/standards/compilationreview/arsc/pages/default.aspx

Website Name	Content	Website
Committee of Sponsoring Organizations of the Treadway Commission	Information about the committee and the internal control framework developed by the committee	www.coso.org
Moody's Analytics	Source for analyses, data, forecasts, and information on the U.S. and world economies	www.economy.com
The Federal Reserve Board	Source of key interest rates	www.federalreserve.gov
Financial Accounting Standards Board (FASB)	Summaries of recent accounting pronouncements and other FASB activities	www.fasb.org
International Accounting Standards Board	Summaries of International Financial Reporting Standards and International Accounting Standards	www.ifrs.org
International Auditing and Assurance Standards Board	Summaries of International Standards on Auditing	www.iaasb.org
International Federation of Accountants	Information on standard-setting activities in the international arena	www.ifac.org
Private Company Council	Information on the initiative to further improve FASB's standards-setting process to consider needs of private companies and their constituents of financial reporting	www.accountingfoundation.org/jsp/foundation/page/fafsectionpage&cid=1176158985794
PCAOB	Information on accounting and auditing activities of the PCAOB and other matters	www.pcaob.org

(continued)

<i>Website Name</i>	<i>Content</i>	<i>Website</i>
SEC	Information on current SEC rulemaking and the Electronic Data Gathering, Analysis, and Retrieval database	www.sec.gov
USA.gov	Portal through which all government agencies can be accessed	www.usa.gov

<http://www.pbookshop.com>

<http://www.pbookshop.com>

<http://www.pbookshop.com>

<http://www.pbookshop.com>

<http://www.pbookshop.com>

<http://www.pbookshop.com>

<http://www.pbookshop.com>