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Accountants' services on prospective financial statements for internal use only and partial presentations: January 5, 1990

American Institute of Certified Public Accountants. Financial Forecasts and Projections Task Force

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**Statement of
Position**

90-1

**Accountants' Services on
Prospective Financial
Statements for
Internal Use Only
and Partial Presentations**

January 5, 1990

**Issued by the Forecasts and Projections
Task Force, Auditing Standards Board**

**American Institute of
Certified Public Accountants**

AICPA

NOTE

This statement of position presents the recommendations of the Forecasts and Projections Task Force regarding accountants' services on prospective financial statements for internal use only and partial presentations. It represents the considered opinion of the task force on the best practice for such engagements and has been reviewed by members of the AICPA Auditing Standards Board for consistency with existing standards. AICPA members may have to justify departures from the recommendations in this statement if their work is challenged.

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Part I

Guidance on the Accountant's Services and Reports on Prospective Financial Statements for Internal Use Only*

1. An accountant may be engaged to provide services on financial forecasts that are restricted to internal use in a variety of circumstances. For example, he or she may assemble a financial forecast in connection with an evaluation of the tax consequences of future actions or in connection with advice and assistance to a client evaluating whether to buy or lease an asset. When the forecast is to be restricted to internal use,¹ an accountant may perform a compilation, examination, or application of agreed-upon procedures in accordance with AICPA standards² or any of a spectrum of “other services” on it. The accountant need not report on such other services unless requested to by the client.³ This section also suggests procedural and reporting guidance that an accountant might use in providing such other services on a financial forecast for internal use only.

2. In satisfying himself or herself that the forecast will be restricted to internal use, the accountant may rely on either the written or oral representation of the responsible party, unless information comes to his or her attention that contradicts the responsible party's

*Part I of this statement of position replaces section 900 of the AICPA's *Guide for Prospective Financial Statements* (the “Guide”), “Suggested Guidance on the Accountant's Services and Reports on Prospective Financial Statements for Internal Use Only.”

Note: Because financial forecasts and projections are similar in many respects, separate guidance for projections is provided only to the extent that it differs from that for forecasts. Italicized paragraphs in this section show how the guidance presented for forecasts should be modified for projections. Any plain-text paragraph not followed by an italicized paragraph applies to both forecasts and projections even though it uses only the term *forecast*.

¹ In deciding whether a potential use is *internal use*, the accountant should consider the degree of consistency of interest between the responsible party and the user regarding the forecast. If their interests are substantially consistent (for example, both the responsible party and the user are employees of the entity about which the forecast is made), the use would be deemed internal use. On the other hand, where the interest of the responsible party and the user are potentially inconsistent (for example, the responsible party is a nonowner manager and the user is an absentee owner), the use would not be deemed internal use. In some cases, this determination will require the exercise of considerable professional judgment.

² See sections 600 through 620 of the *Guide* for guidance on compilations, 700 through 720 for examinations, and 800 through 820 for application of agreed-upon procedures.

³ However, see paragraph 9.

representation. If the accountant is not satisfied that the financial forecast will be restricted to internal use only, he or she should follow the guidance in section 500.02 of the Guide.

Procedures

3. The accountant's procedures should be consistent with the nature of the engagement. Other sections of the Guide provide useful guidance on the type of procedures an accountant would apply when the nature of the engagement is similar to either a compilation, examination, or application of agreed-upon procedures.

4. When an accountant provides other services on a financial forecast for internal use, he or she should establish an understanding with the client, preferably in writing, regarding the services to be performed and should specify in this understanding that the financial forecast and the report, if any, are not to be distributed to outside users.

Reporting

5. The Statement on Standards for Accountants' Services on Prospective Financial Information, *Financial Forecasts and Projections*, does not require the accountant to report on other services performed on a financial forecast for internal use only. Accordingly, an accountant can submit a computer-generated or manually prepared financial forecast to a client without reporting on it when the forecast is for internal use only.

6. If an accountant decides to issue a report and he or she purports to have compiled, examined, or applied agreed-upon procedures to a financial forecast for internal use only in conformity with AICPA standards, the accountant should follow the reporting guidance in other sections of the Guide.⁴ If the accountant decides to issue a report on other services performed with respect to a financial forecast for internal use only, the report's form and content are flexible. However, the accountant should not report on financial forecasts that exclude a summary of significant assumptions.⁵ The report preferably would—

- a. Be addressed to the responsible party.
- b. Identify the statements being reported on.

⁴See sections 620, 720, and 820 for guidance on reporting on a compilation, examination, or application of agreed-upon procedures, respectively.

⁵See section 410.05 of the Guide for guidance on presentation formats for disclosure of significant assumptions.

- c. Describe the character of the work performed and the degree of responsibility taken⁶ with respect to the financial forecast.
- d. Include a caveat that the prospective results may not be achieved.
- e. Indicate the restrictions as to the distribution of the financial forecast and report.
- f. Be dated as of the date of the completion of his or her procedures.

6P. In addition to the elements listed above, the accountant's report on a financial projection for internal use only preferably would include a description of the limitations on the usefulness of the presentation.

7. In addition to the above, the accountant's report would, where applicable, preferably—

- a. Indicate if the accountant is not independent with respect to an entity on whose financial forecast he or she is providing services. An accountant should not provide any assurance on a financial forecast of an entity with respect to which he or she is not independent.
- b. Describe omitted disclosures that come to his or her attention (for example, the omission of the summary of significant accounting policies discussed in section 400.06 of the Guide), or simply state that there are omissions of disclosures required under the guidelines for presentation of a financial forecast. For example, when a financial forecast is included in a personal financial plan, the description may be worded as follows:

This financial forecast was prepared solely to help you develop your personal financial plan. Accordingly, it does not include all disclosures required by the guidelines established by the American Institute of Certified Public Accountants for the presentation of a financial forecast.

8. The following is an example report, for cases in which the accountant chooses to issue a report, when he or she has assembled a financial forecast for which distribution is limited to internal use:

We have assembled, from information provided by management, the accompanying forecasted balance sheet and the related forecasted statements of income, retained earnings, and cash flows of XYZ Company as of December 31, 19XX, and for the year then ending.

⁶The accountant's assurance on the financial forecast should not be similar to that given for an examination unless he or she complies with the procedures for an examination as described in section 700 of the Guide.

(This financial forecast omits the summary of significant accounting policies.)⁷ We have not compiled or examined the financial forecast and express no assurance of any kind on it. Further, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. In accordance with the terms of our engagement, this report and the accompanying forecast are restricted to internal use and may not be shown to any third party for any purpose.

8P. The following is an example report, for cases in which the accountant chooses to issue a report, when an accountant has assembled a financial projection for which distribution is limited to internal use:

We have assembled, from information provided by management, the accompanying projected balance sheet and the related projected statements of income, retained earnings, and cash flows of XYZ Company as of December 31, 19XX, and for the year then ending. (This financial projection omits the summary of significant accounting policies.)⁸ The accompanying projection and this report were prepared for [state special purpose, for example, “presentation to the Board of Directors of XYZ Company for its consideration as to whether to add a third operating shift”] and should not be used for any other purpose. We have not compiled or examined the financial projection and express no assurance of any kind on it. Further, even if [state hypothetical assumption, for example, “the third operating shift is added”] there will usually be differences between the projected and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. In accordance with the terms of our engagement, this report and the accompanying projection are restricted to internal use and may not be shown to any third party for any purpose.

9. When a financial forecast for internal use only is included with an accountant’s written communication (for example, with a transmittal letter or report), a caveat that the prospective results may not be achieved and a statement that the financial forecast is for internal use only should be communicated in writing. Such caveat and statement should be included in the communication on or in the prospective financial statements.

⁷This sentence would be included, if applicable.

⁸This sentence would be included, if applicable.

Part II

Partial Presentations of Prospective Financial Information*

Introduction

1. Much of the guidance in the AICPA's *Guide for Prospective Financial Statements* (the "Guide") can be applied to partial presentations of prospective financial information. This section —

- Describes how that guidance applies to the unique aspects of partial presentations.
- Discusses the accountant's responsibility for partial presentations when he or she is engaged to issue or does issue a written communication that expresses a conclusion about the reliability of a written partial presentation that is the responsibility of another party (see paragraph 16).

2. A partial presentation is a presentation of prospective financial information that excludes one or more of the items required for prospective financial statements as described in section 400.06 of the Guide.¹ A partial presentation may include either forecasted or

*Part II of this statement of position replaces section 1000 of the AICPA's *Guide for Prospective Financial Statements*, "Partial Presentations."

Note: Because forecasted and projected information is similar in many respects, separate guidance for projected information is provided only to the extent that it differs from that for forecasted information. Italicized paragraphs show how the guidance presented for forecasted information should be modified for projected information. Any plain-text paragraph not followed by an italicized paragraph applies to both forecasted and projected information even though it uses only the term *forecasted*.

¹ Section 400.06 of the Guide indicates that a financial forecast may take the form of complete basic financial statements or may be limited to the following items (where such items would be presented for historical financial statements for the period):

- a. Sales or gross revenues
- b. Gross profit or cost of sales
- c. Unusual or infrequently occurring items
- d. Provision for income taxes
- e. Discontinued operations or extraordinary items
- f. Income from continuing operations
- g. Net income
- h. Primary and fully diluted earnings per share
- i. Significant changes in financial position

When the financial forecast takes the form of basic financial statements, the requirement to disclose significant changes in financial position in *i* above is accomplished by presenting a statement of cash flows and its related note disclosures in accordance with SFAS No. 95, *Statement of Cash Flows*.

If the omitted applicable item is derivable from the information presented, the presentation would not be deemed to be a partial presentation. Section 400.08 of the Guide states that a summary of significant assumptions and accounting policies and an appropriate introduction should always accompany the forecast.

projected information and may either be extracted from a presentation of prospective financial statements or may be prepared to meet a specific need?² Examples of partial presentations include—

- Sales forecasts.
- Presentations of forecasted or projected capital expenditure programs.
- Projections of financing needs.
- Other presentations of specified elements, accounts, or items of prospective financial statements (for example, projected production costs) that might be part of the development of a full presentation of prospective financial statements.
- Forecasts that present operating income but not net income.
- Forecasts or projections of taxable income that do not show significant changes in financial position.
- Presentations that provide enough information to be translated into elements, accounts, or items of a financial forecast or projection. Examples include a forecast of sales units and unit selling prices and a forecast of occupancy percentage, number of rooms, and average room rates for a hotel. In contrast, if the prospective information only presents units expected to be sold but excludes unit selling prices, it would not be considered a partial presentation.

Uses of Partial Presentations

3. Partial presentations may be appropriate in many “limited use” circumstances.³ For example, a responsible party may prepare a partial presentation to analyze whether to lease or buy a piece of equipment or to evaluate the income tax implications of a given election, since it may only be necessary to assess the impact on one aspect of financial results rather than on the financial statements taken as a whole. However, partial presentations are not ordinarily appropriate for general use. Accordingly, a partial presentation ordinarily should not be distributed to third parties who will not be negotiating directly with the responsible party (for example, in an offering document for an entity’s debt or equity interests). In this context, *negotiating directly* is defined as a third-party user’s ability to ask questions of and negotiate the terms or structure of a transaction directly with the responsible party.

² Partial presentations do not include estimates in historical financial statements and related notes required by generally accepted accounting principles or an other comprehensive basis of accounting. Guidance on auditing accounting estimates is contained in SAS No. 57, *Auditing Accounting Estimates*.

³ See paragraphs 200.13 and 210.04 of the Guide.

4. The responsible party should consider whether a presentation omitting one or more items required for prospective financial statements will adequately present the information given its special purpose. Unless there is agreement between the responsible party and potential users specifying the content of the partial presentation, a partial presentation is inappropriate if it is incomplete for what it purports to present. Examples of partial presentations that might be inappropriate include a statement of forecasted receipts and disbursements that does not include certain existing commitments of the entity or a forecast of net income that does not include disclosure of changes in financial position, when such disclosures would indicate the need for additional capital to sustain operations. A presentation of prospective sales, however, is an example of a presentation that would be appropriate in circumstances where its intended use is to negotiate the terms of a royalty agreement based on sales.

Preparation and Presentation of Partial Presentations

5. Partial presentations omit one or more of the minimum items required in section 400.06 of the Guide for prospective financial statements.⁴ The guidance below describes matters to be considered in the preparation and presentation of partial presentations.

6. *Key Factors.* If the responsible party prepares a partial presentation without preparing prospective financial statements, the responsible party should consider key factors affecting elements, accounts, or items of prospective financial statements that are interrelated with those presented. In a sales forecast, for example, a key factor to be considered is whether productive capacity is sufficient to support forecasted sales. When the prospective information included in the partial presentation is extracted from the prospective financial statements, the effects of interrelationships among elements of the prospective financial statements should have been previously determined.

7. *Titles.* Titles of partial presentations should be descriptive of the presentation and state whether the presentation is of forecasted or projected information. In addition, titles should disclose the

⁴As used here, prospective financial statements include complete basic financial statements or the minimum items described in section 400.06 of the Guide (see note 1).

limited nature of the presentation and should not state that it is a “financial forecast” or a “financial projection.” Examples of appropriate titles are “forecast of production capacity” and “projected operating income assuming a new plant facility.”

8. *Accounting Principles and Policies.* Significant accounting policies relevant to the information presented and its intended purpose should be disclosed.

9. Occasionally, a different basis of accounting is used for preparing a partial presentation than that expected to be used in preparing the historical financial statements covering the same period as the partial presentation. In such circumstances, the presentation should disclose the basis of accounting to be used to prepare the historical financial statements covering the prospective period. Differences resulting from the use of the different basis to prepare the partial presentation should be described but need not be quantified.

10. *Materiality.* The concept of materiality should be related to the partial presentation taken as a whole.

11. *Assumptions.* Assumptions that are significant to a partial presentation include those assumptions having a reasonable possibility of a variation that may significantly affect the prospective results. Such assumptions may be either directly or indirectly related to the presentation. The selling price of a product, for example, is an assumption that could directly affect a sales forecast, whereas a company’s productive capacity is an example of an assumption that could indirectly affect the sales forecast. Frequently, the more indirectly related an assumption is to the partial presentation, the greater the potential variation would have to be to have a material impact on the prospective results presented.

12. In some situations, the disclosure of assumptions deemed to be significant to the partial presentation of prospective financial information would be virtually the same as those disclosures that would be necessary if a full presentation of prospective financial statements were to be made. For example, in a partial presentation of forecasted operating results, it is likely that most assumptions that would be significant with respect to a full presentation would also be significant with respect to the presentation of forecasted operating results. Thus, those assumptions should be disclosed.

13. In other, more limited partial presentations of prospective financial information, however, there may be few assumptions having a reasonable possibility of a variation that would significantly affect the presentation. In a presentation of forecasted sales, for example, it would only be necessary to disclose those assumptions relating directly to the sales forecast, such as future demand and pricing, unless other assumptions—such as marketing and advertising programs, productive capacity and production costs, financial stability or working capital sufficiency—have a reasonable possibility of a variation significant enough to have a material impact on the sales forecast.

14. The introduction preceding the summary of assumptions for a partial presentation should include a description of the purpose of the presentation and any limitations on the usefulness of the presentation.

15. The following is an example of the introduction for a partial presentation of forecasted sales:

This sales forecast presents, to the best of management's⁵ knowledge and belief, expected sales during the forecast period. Accordingly, the sales forecast reflects its judgment as of (date), the date of this forecast, of the expected conditions and its expected course of action. The sales forecast is for use in negotiating the Company's lease override provisions and should not be used for any other purpose. The assumptions disclosed herein are those that management believes are significant to the sales forecast. There will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

15P. The following is an example of the introduction preceding the summary of assumptions for a schedule of projected production at a maximum productive capacity:

This projection of production by product line presents, to the best of management's⁶ knowledge and belief, the Company's expected production for the period if management chooses to operate its plant at maximum capacity. Accordingly, the projection of production by product line reflects its judgment as of (date), the date of this projection, of the expected conditions and its expected course of action if the plant were operated at maximum capacity. The projected statement is designed to provide information to the Company's board of directors concerning the

⁵If the responsible party is other than management, this reference should be to the party who assumes responsibility for the assumptions.

⁶See note 5.

maximum production that might be achieved and related costs if current capacity were expanded through the addition of a third production shift. Accordingly, this projected statement should not be used for any other purpose. The assumptions disclosed herein are those that management believes are significant to the projected statement; however, management has not decided to operate the plant at maximum capacity. Even if the plant were operated at maximum capacity, there will usually be differences between projected and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

Accountant's Involvement With Partial Presentations

16. An accountant who is engaged to issue or does issue a written communication⁷ that expresses a conclusion about the reliability⁸ of a written partial presentation⁹ that is the responsibility of another party should examine or apply agreed-upon procedures to the presentation.¹⁰ An accountant may also be engaged to compile a partial presentation. When an accountant compiles, examines, or applies agreed-upon procedures to a partial presentation, he or she should perform the engagement in accordance with the guidance in paragraphs 20 and 21.¹¹

17. This section does not provide standards or procedures for engagements involving partial presentations used solely in connection with litigation services, although it provides helpful guidance for many aspects of such engagements and may be referred to as useful guidance in such engagements. *Litigation services* are engagements

⁷An accountant should not report on a partial presentation that excludes disclosure of the summary of significant assumptions or, for a projection, excludes identification of the hypothetical assumptions.

⁸Reliability, as it applies to a partial presentation, does not relate to the achievability of the prospective results.

⁹This statement covers only a partial presentation presented in written form by the party responsible for it. Consistent with the attestation standards, oral assertions about prospective results are not addressed by this statement.

¹⁰Examples of professional services that may involve partial presentations not covered by this section are included in paragraph 2 of the Statements on Standards for Attestation Engagements (AICPA, *Professional Standards*, vol. 1, AT sec. 100). In addition, paragraphs 71–73 of that section contain guidance that an accountant should follow when he or she provides an attest service as part of an MAS engagement.

¹¹If the accountant provides services on a partial presentation restricted to internal use only, he or she may apply the guidance in paragraphs 1–9 of Part I of this statement of position.

involving pending or potential formal legal or regulatory proceedings before a “trier of fact” in connection with the resolution of a dispute between two or more parties, for example, in circumstances where an accountant acts as an expert witness. This exception is provided because, among other things, the accountant’s work in such proceedings is ordinarily subject to detailed analysis and challenge by each party to the dispute.¹²

18. The accountant should consider whether it is appropriate to report on a partial presentation.¹³

19. Occasionally, an accountant may be engaged to prepare a financial analysis of a potential project where the engagement includes obtaining the information, making appropriate assumptions, and assembling the presentation. In such circumstances, the accountant is the assertor and the analysis is not, and should not be characterized as, forecasted or projected information as defined in paragraph 2. Such analysis would not be appropriate for general use.¹⁴

Compilation and Examination Procedures

20. The procedures for compilations and examinations of prospective financial statements are generally applicable to partial presentations.¹⁵ However, the accountant’s procedures may be affected by the nature of the information presented. As described in paragraph 6, many elements of prospective financial statements are interrelated. The accountant should give appropriate consideration to whether key factors affecting elements, accounts, or items that are interrelated with those in the partial presentation he or she has been engaged to examine or compile have been considered, including key factors that may not necessarily be obvious from the partial presentation (for example, productive capacity relative to a sales forecast), and

¹²See section 500.03 of the Guide.

¹³See paragraphs 3 and 4.

¹⁴If the responsible party reviews and adopts the assumptions and presentation, the presentation might be a partial presentation. See paragraphs 2 and 3 for the definition and uses of partial presentations.

¹⁵See sections 600 and 700 of the Guide.

whether all significant assumptions have been disclosed. The accountant may find it necessary for the scope of his or her examination or compilation of some partial presentations to be similar to that for his or her examination or compilation of a presentation of prospective financial statements. For example, the scope of an accountant's procedures when he or she examines forecasted results of operations would likely be similar to those for his or her examination of prospective financial statements since the accountant would likely need to consider the interrelationships of all accounts in the examination of results of operations.

Applying Agreed-Upon Procedures to Partial Presentations

21. An accountant may accept an engagement to apply agreed-upon procedures to a partial presentation provided (a) the specified users involved have participated in establishing the nature and scope of the engagement and take responsibility for the adequacy of the procedures to be performed, (b) distribution of the report is to be restricted to the specified users involved, and (c) the partial presentation includes a summary of significant assumptions. The guidance in section 800 of the Guide is generally applicable to such engagements.

Standard Accountant's Compilation, Examination, and Agreed-Upon Procedures Reports

22. The accountant's standard report on a partial presentation should include—

- An identification of the partial presentation reported on.
- A caveat that the forecasted results may not be achieved.
- A statement that the accountant assumes no responsibility to update the report for events and circumstances occurring after the date of the report.
- A description of any limitations on the usefulness of the presentation.
- For a compilation
 - A statement that the accountant has compiled the partial presentation in accordance with guidelines established by the American Institute of Certified Public Accountants.
 - A statement that a compilation is limited in scope and does not enable the accountant to express an opinion or any other form of assurance on the partial presentation or the assumptions.

- For an examination
 - A statement that the examination of the partial presentation was made in accordance with AICPA standards and a brief description of the nature of such an examination.
 - For forecasted information, the accountant’s opinion that the partial presentation is presented in conformity with AICPA presentation guidelines and that the underlying assumptions provide a reasonable basis for the forecast.
 - *For projected information, the accountant’s opinion that the partial presentation is presented in conformity with AICPA presentation guidelines and that the underlying assumptions provide a reasonable basis for the projection given the hypothetical assumptions.*
- For an agreed-upon procedures engagement
 - A statement that the report is intended solely for the specified users, and should not be used by others.
 - An enumeration of the procedures performed and a reference to conformity with the arrangements made with the specified users.
 - If the agreed-upon procedures are less than those performed in an examination, a statement that the work performed was less in scope than an examination of a partial presentation in accordance with AICPA standards, and
 - For forecasted information, a disclaimer of opinion on whether the presentation is in conformity with AICPA presentation guidelines and on whether the underlying assumptions provide a reasonable basis for the forecast.
 - *For projected information, a disclaimer of opinion on whether the presentation is in conformity with AICPA presentation guidelines and on whether the underlying assumptions provide a reasonable basis for the projection given the hypothetical assumptions.*
 - A statement of the accountant’s findings.¹⁶

23. Sections 620 and 720 of the Guide describe circumstances where the accountant’s standard report on a financial forecast may require modification. The guidance for modifying the accountant’s standard reports included in those sections is generally applicable to partial presentations. Also, depending on the nature of the presentation,

¹⁶The accountant may wish to state in his or her report that he or she makes no representation about the sufficiency of the procedures for the specified users’ purposes.

the accountant may decide to disclose that the partial presentation is not intended to be a forecast of financial position, results of operations, or cash flows. The following are the forms of the accountant's standard report when he or she has compiled, examined, or applied agreed-upon procedures to a partial presentation.¹⁷

Compilation Report on a Partial Presentation of Forecasted Information

We have compiled the accompanying forecasted statement of net operating income before debt service, depreciation, and income taxes of AAA Hotel for the year ending December 31, 19X1 (the forecasted statement) in accordance with guidelines established by the American Institute of Certified Public Accountants.

The accompanying forecasted statement presents, to the best of management's knowledge and belief, the net operating income before debt service, depreciation, and income taxes of AAA Hotel for the forecast period. It is not intended to be a forecast of financial position, results of operations, or cash flows. The accompanying forecasted statement and this report were prepared for the ABC Bank for the purpose of negotiating a proposed construction loan to be used to finance expansion of the hotel and should not be used for any other purpose.

A compilation is limited to presenting forecasted information that is the representation of management and does not include evaluation of the support for the assumptions underlying such information. We have not examined the forecasted statement and, accordingly, do not express an opinion or any other form of assurance on the accompanying statement or assumptions. Furthermore, there will usually be differences between forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Compilation Report on a Partial Presentation of Projected Information

We have compiled the accompanying sales projection of XYZ Company for each of the years in the three-year period ending December 31, 19X1 in accordance with guidelines established by the American Institute of Certified Public Accountants.

¹⁷These report forms are appropriate whether the presentations are based on generally accepted accounting principles or on an other comprehensive basis of accounting.

The accompanying sales projection presents, to the best of management's knowledge and belief, the Company's expected sales during the projection period that would result if the Company achieved a 15 percent market share of the electric toaster market, as disclosed in items b and c of the summary of significant assumptions. The sales projection and this report were prepared for presentation to the Board of Directors of XYZ Company for its consideration of a new marketing program and should not be used for any other purpose.

A compilation is limited to presenting projected information that is the representation of management and does not include evaluation of the support for the assumptions underlying such information. We have not examined the sales projection and, accordingly, do not express an opinion or any other form of assurance on the accompanying sales projection or assumptions. Furthermore, even if the Company attained the 15 percent market share of the electric toaster market, there will usually be differences between projected and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Examination Report on a Partial Presentation of Forecasted Information

We have examined the accompanying forecasted statement of net operating income before debt service, depreciation, and income taxes of the AAA Hotel for the year ending December 31, 19X1 (the forecasted statement). Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the forecasted statement.

The accompanying forecasted statement presents, to the best of management's knowledge and belief, the expected net operating income before debt service, depreciation, and income taxes of AAA Hotel for the forecast period. It is not intended to be a forecast of financial position, results of operations, or cash flows. The accompanying forecasted statement and this report were prepared for ABC Bank for the purpose of negotiating a proposed construction loan to be used to finance expansion of the hotel and should not be used for any other purpose.

In our opinion, the forecasted statement referred to above is presented in conformity with the guidelines for presentation of forecasted information established by the American Institute of Certified Public Accountants, and the underlying assumptions provide a

reasonable basis for management's forecasted statement. However, there will usually be differences between forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Examination Report on a Partial Presentation of Projected Information

We have examined the accompanying sales projection of XYZ Company for each of the years in the three-year period ending December 31, 19X1. Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the sales projection.

The accompanying sales projection presents, to the best of management's knowledge and belief, the Company's expected sales during the projection period that would result if the Company achieved a 15 percent market share of the electric toaster market, as disclosed in items b and c of the summary of significant assumptions. The sales projection and this report were prepared for presentation to the Board of Directors of XYZ Company for its consideration of a new marketing program and should not be used for any other purpose.

In our opinion, the sales projection referred to above is presented in conformity with the guidelines for presentation of projected information established by the American Institute of Certified Public Accountants, and the underlying assumptions provide a reasonable basis for management's projection of expected sales during the period assuming the Company were to achieve a 15 percent market share of the electric toaster market. However, even if the Company achieves a 15 percent market share, there will usually be differences between projected and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Agreed-Upon Procedures Report on a Partial Presentation of Forecasted Information

At your request, we have performed certain agreed-upon procedures, as enumerated below, with respect to the sales forecast of XYZ Company for the year ending December 31, 19X1. These procedures,

which were specified by the Boards of Directors of XYZ Company and ABC Corporation, were performed solely to assist you, and this report is solely for your information and should not be used by those who did not participate in determining the procedures.

- a. We assisted the management of XYZ Company in assembling the sales forecast.
- b. We read the sales forecast for compliance in regard to format with the AICPA presentation guidelines for a partial presentation of forecasted information.
- c. We tested the sales forecast for mathematical accuracy.

Because the procedures described above do not constitute an examination of a presentation of forecasted information in accordance with standards established by the American Institute of Certified Public Accountants, we do not express an opinion on whether the sales forecast is presented in conformity with AICPA presentation guidelines or on whether the underlying assumptions provide a reasonable basis for the presentation.

In connection with the procedures referred to above, no matters came to our attention that caused us to believe that the format of the sales forecast should be modified or that the presentation is mathematically inaccurate. Had we performed additional procedures or had we made an examination of the sales forecast in accordance with standards established by the American Institute of Certified Public Accountants, matters might have come to our attention that would have been reported to you. Furthermore, there will usually be differences between forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.¹⁸

Effective Date

24. The provisions of this statement are effective for engagements to provide services on prospective financial statements for internal use only and partial presentations beginning on or after July 1, 1990.

¹⁸See note 13.

APPENDIX

Illustrations of Partial Presentations

A1. The illustrative partial presentations of prospective financial information included in the following pages are presented in conformity with the presentation guidelines of the Guide, although other presentation formats could also be consistent with the Guide. For example, it may be appropriate to present the summary of significant assumptions and accounting policies in a less formal manner than that illustrated, such as computer-printed output (indicating data and relationships) from “electronic worksheets” and general purpose financial modeling software, as long as the responsible party believes that the disclosures and assumptions presented can be understood by users.

A2. The following is a brief summary of the illustrative partial presentations presented below:

- a. Example 1 illustrates a sales forecast prepared for the purpose of negotiating a retail company’s lease override provisions.
- b. Example 2 illustrates a forecasted statement of net operating income before debt service and depreciation in connection with the contemplated construction of a new sports arena.

Example 1

ABC Retail Company Statement of Forecasted Sales for Each of the Three Years Ending December 31, 19X3*

	<i>Years Ending December 31,</i>		
	<u>19X1</u>	<u>19X2</u>	<u>19X3</u>
Forecasted Sales	<u>\$629,000</u>	<u>\$679,000</u>	<u>\$726,000</u>

This sales forecast presents, to the best of management’s knowledge and belief, expected sales during the forecast period. Accordingly, the sales forecast reflects its judgment as of February 14, 19X1, the date of this forecast, of the expected conditions and its expected course of action. The sales forecast is for use in negotiating the Company’s lease override provisions and should not be used for any other purpose. The assumptions disclosed herein are those that management believes are significant to the

**Note:* The summary of significant accounting policies is not illustrated.

sales forecast. There will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

This sales forecast is based upon an expected average rate of overall increase in market demand for the Company's products, sporting goods equipment, of 3 percent per year. During the past five years, market demand for sporting goods equipment has increased approximately 3 percent per year and the Company expects this rate of industry growth to remain steady throughout the forecast period. The sales forecast is also based upon an expected increase in the Company's market share in its geographical selling region to 23 percent by 19X3, which represents a 6 to 7 percent increase in market share over the forecast period. The Company's market share during the past three years has increased one to two percentage points each year and the Company expects this rate of increase to continue during the forecast period. The sales forecast is also based upon an expected 4 to 5 percent increase in the rate of inflation for each of the next three years. The Company expects that it will be able to increase the prices of its products to cover increased costs due to inflation.

The Company plans to maintain its advertising and marketing programs at current levels and has retail-floor space available to provide for the increase in the number of products it expects to sell.

Example 2

**MARS Arena
Forecasted Statement of Net Operating Income Before
Debt Service and Depreciation
for Years Ending December 31, 19X1 and 19X2
(In thousands)**

	<i>Reference</i>	<i>19X1</i>	<i>19X2</i>
Operating revenues	C	\$2,700	\$2,600
Operating expenses			
Salaries and wages	D	1,050	1,100
Office and general	E	700	650
Utilities	F	500	510
Operations and maintenance	G	150	160
Total operating expenses		2,400	2,420
Net operating income before debt service and depreciation		\$ 300	\$ 180

See Accompanying Summary of Significant Forecast Assumptions and Accounting Policies.

MARS Arena
Summary of Significant Forecast
Assumptions and Accounting Policies
for Years Ending December 31, 19X1 and 19X2

The accompanying forecasted statement presents, to the best of management's knowledge and belief, MARS Arena's expected net operating income before debt service and depreciation for the two-year period ending December 31, 19X2. Accordingly, the forecasted statement reflects management's judgment as of August 29, 19X0, the date of this forecasted statement, of the expected conditions and its expected course of action. This presentation is intended for use by the City of MARS in evaluating financing alternatives in connection with the contemplated construction of the new arena and should not be used for any other purpose. The assumptions disclosed herein are those that management believes are significant to the forecasted statement. There will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

The forecasted statement presents net operating income before debt service and depreciation. Accordingly, it is not intended to be a forecast of financial position, results of operations, or cash flows.

A. Description of the Project

The City of MARS plans to build a new 10,000-seat arena at the southeast intersection of Maxwell Road and Rugby Road to replace their existing 8,000-seat arena (the City's existing arena). MARS Arena will have 3,000 available parking spaces.

B. Summary of Significant Accounting Policies

[not illustrated]

C. Operating Revenues

There are four basic types of events forecasted to generate operating income: sporting events, family shows (for example, circus, ice shows), concerts, and exhibitions. The significant sources of revenue for each type of event include arena rental, parking fees, food and beverage concessions, novelty and souvenir income, and advertising. Attendance during the initial year of operations is forecasted to be greater than the second year based on the "bonus" a new arena can enjoy as patrons come to see the new facility as well as to see the event. A summary of operating revenue by type of event follows.

<u>Year 1</u>	<u>Event Days</u>	<u>Average Attendance</u>	<u>Total Attendance</u>	<u>Total Revenue</u>
Sporting events	70	4,000	280,000	\$ 860,000
Family shows	45	4,500	202,500	515,000
Concerts	30	8,500	255,000	1,025,000
Exhibitions	25	2,500	62,500	180,000
Advertising				120,000
Totals	<u>170</u>		<u>800,000</u>	<u>\$2,700,000</u>

<u>Year 2</u>	<u>Event Days</u>	<u>Average Attendance</u>	<u>Total Attendance</u>	<u>Total Revenue</u>
Sporting events	70	3,900	273,000	\$ 835,000
Family shows	45	4,300	193,500	490,000
Concerts	30	8,200	246,000	990,000
Exhibitions	25	2,200	55,000	160,000
Advertising				125,000
Totals	<u>170</u>		<u>767,500</u>	<u>\$2,600,000</u>

The bases for the significant income assumptions are discussed below.

Arena Rental. Management estimates that the new arena will schedule approximately 170 event days in a representative year consisting of seventy sporting events, forty-five family shows, thirty concerts, and twenty-five exhibitions. Event days were forecasted based on discussions with users (such as sporting teams and event sponsors) and market research and analysis performed by an independent consultant. Also, the City of MARS recently obtained a commitment from the local minor league hockey team to play their home games in MARS Arena.

MARS Arena will be rented out on the basis of a percentage of the dollars generated by ticket sales (called a “percentage of gross receipts”) or a fixed rent (called a “flat rate”). The percentage of gross gate receipts accruing to the facility are based on current average percentages retained by the City’s existing arena. These percentages range from 10 to 50 percent depending on the type of event. Management expects ticket prices to increase between 5 and 15 percent over prices at the City’s existing arena, depending on the type of event, as a result of the new modernized facility. Ticket prices forecasted for each type of event have been compared with those received by other facilities for similar events. Flat rate rentals are usually

negotiated by users who do not charge an admission price or have a series of events. The flat rate rental for MARS Arena is forecasted to be between \$1,000 and \$4,000 and is based on an analysis of rates charged by other comparable arenas for the types of events forecasted. Management does not anticipate an increase in ticket prices or flat rate rentals during the second year of operations.

Parking Fees. Management will operate and maintain the parking facility and, accordingly, all revenues accrue to MARS Arena. Consistent with experience at the City's existing arena, management estimates that 75 percent of all patrons will arrive by car for each event. The forecasted information assumes each car will carry an average of 2.7 persons and average parking rates will be \$3.50 per car.

Food and Beverage Concessions. Management has negotiated a contract with ABC Company to supply and manage the food and beverage concessions. Concession income is forecasted to be 30 percent of gross concession revenue generated at each event, based on the contractual agreement with ABC Company. MARS Arena will provide all equipment and personnel necessary to operate the concessions. Patron's forecasted average expenditure per type of event ranges from \$0.75 to \$3.00 and is based on an analysis of data for comparable events and facilities, including the City's existing arena.

Novelty and Souvenir Income. Similar to food and beverage concessions, management has negotiated a contract with ABC Company to supply and manage the novelty and souvenir concessions. Novelty and souvenir income is forecasted to be 30 percent of gross novelty revenue based on the contractual agreement. MARS Arena will provide all equipment and personnel necessary to operate the novelty and souvenir stands. Patron's forecasted average expenditure per type of event ranges from \$0.00 to \$5.25 and is based on an analysis of data for comparable events and facilities.

Advertising. Advertising income will be generated primarily from signage on the interior and exterior of MARS Arena. Revenues included in the forecasted information are based on the signage capacity of MARS Arena, contract negotiations to date, and advertising revenues at the City's existing arena.

D. Salaries and Wages

The forecasted information assumes that management will make maximum use of full-time staff rather than subcontract out services, such as facility management and security. Personnel requirements are based on

staffing organizations at similar sports arenas and public assembly facilities. Pay for hourly workers is based on local wage levels and wage rates being paid to employees of the City's existing arena. Wage levels are expected to increase approximately 4 percent in the second year.

Salaries are forecasted on an individual by individual basis using expected salary rates during the forecast period. Part-time salaries and wages are assumed to be event-related expenses and passed through to tenants, except for 15 percent, which is absorbed by MARS Arena.

E. Office and General Expenses

Office and general expenses consist of insurance, advertising, fees for services, and other office and general expenses. Insurance expense is based on costs at the City's existing arena and a review of insurance coverage proposals that include estimates of general liability, fire, workers' compensation, auto-business, liquor liability and boiler-machinery coverage. Advertising expenses are based on costs incurred by the City's existing arena, the number and type of forecasted events, and expected price increases from advertising agencies. Advertising expenses are expected to be higher in the first year of operations in order to promote the new facility. Fees for services include, but are not limited to, consulting fees, legal fees, and accounting and auditing fees. These fees are estimated based on expenses of the City's existing arena and plans by management to engage consultants to assist in starting up operations. Other office and general expenses are based on experience at comparable facilities and on costs incurred by the City's existing arena.

F. Utilities

Utility expense has been estimated by the project team architects and engineers. Utilities expense includes fuel and gas, electricity, water, and sewer costs.

G. Operations and Maintenance Expenses

Operations and maintenance expenses were estimated based on the requirements of facilities similar in construction and design, age, and intended use.

Forecasts and Projections Task Force
(1989)

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