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## Amendment to statement on auditing standards no. 50, reports on the application of accounting principles; Statement on auditing standards, 097

American Institute of Certified Public Accountants. Auditing Standards Executive Committee

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# Statement on Auditing Standards

# 97

Issued by the Auditing Standards Board

AICPA

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

## Amendment to Statement on Auditing Standards No. 50, *Reports on the Application of Accounting Principles*

*(Amends Statement on Auditing Standards No. 50, Reports on the Application of Accounting Principles, AICPA, Professional Standards, vol. 1, AU sec. 625.)*

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# Amendment to Statement on Auditing Standards No. 50, Reports on the Application of Accounting Principles

*Amends Statement on Auditing Standards No. 50, Reports on the Application of Accounting Principles (AICPA, Professional Standards, vol. 1, AU sec. 625)*

1. This amendment revises Statement on Auditing Standards (SAS) No. 50, *Reports on the Application of Accounting Principles* (AICPA, *Professional Standards*, vol. 1, AU sec. 625), to prohibit an accountant from providing a written report on the application of accounting principles not involving facts and circumstances of a specific entity. The new language is shown in boldface italics and deleted language is shown by strikethrough.

## Introduction

1. ***There may be differing interpretations as to whether and, if so, how existing accounting principles apply to new transactions and financial products.*** ~~Accounting principles evolve in response to changing economic conditions and new transactions and financial products.<sup>1</sup> Agreement frequently does not exist about how accounting principles should be applied to those transactions and products. Management, accountants, and intermediaries **others** often consult with professionals, including other accountants, on the application of accounting principles to those transactions and products, or to increase their knowledge of specific financial reporting issues.<sup>2</sup> Such consultations are often useful because they may provide **relevant** information and insights not otherwise available.~~

2. ***For purposes of this Statement, reporting accountant refers to an accountant in public practice<sup>2</sup> who prepares a written***

1. Accounting principles include generally accepted accounting principles and other comprehensive bases of accounting. See Statement on Auditing Standards (SAS) No. 62, *Special Reports* (AICPA, *Professional Standards*, vol. 1, AU sec. 623.04), for a description of other comprehensive bases of accounting.

2. ~~“Intermediaries” refers to those parties who may advise one or more principals to a transaction, and may include, but are limited to, attorneys and investment, merchant, and commercial bankers.~~

2.2- See the AICPA Code of Professional Conduct (AICPA, *Professional Standards*, vol. 2, ET sec. 92.23) for a definition of “practice of public accounting.”

*report<sup>3</sup> or provides oral advice on the application of accounting principles to specified transactions involving facts and circumstances of a specific entity, or the type of opinion that may be rendered on a specific entity's financial statements. Continuing accountant refers to an accountant who has been engaged to report on the financial statements of a specific entity.<sup>4</sup>*

### **Applicability**

32. This Statement provides guidance that ~~a an accountant in public practice~~ (“reporting accountant<sup>2</sup>”), either in connection with a proposal to obtain a new client or otherwise, should apply<sup>3</sup> *when preparing a written report on—*

- a. ~~When preparing a written report on t~~ The application of accounting principles to specified transactions, either completed or proposed, *involving facts and circumstances of a specific entity* (“specific transactions”).
- b. ~~When requested to provide a written report on t~~ The type of opinion that may be rendered on a specific entity's financial statements.
- e. ~~When preparing a written report to intermediaries on the application of accounting principles not involving facts or circumstances of a particular principal~~ (“hypothetical transactions”).

This Statement also applies to oral advice *that the reporting accountant concludes is intended to be used by a principal to the transaction as an important factor considered in reaching a decision* on the application of accounting principles to a specific transaction, or the type of opinion that may be rendered on ~~an~~ *specific* entity's financial statements, ~~when the reporting accountant concludes the advice is intended to be used by a principal to the transaction as an important factor considered in reaching a decision.~~

*4. Because of the nature of a transaction not involving facts or circumstances of a specific entity (“hypothetical transaction”), a reporting accountant cannot know, for example, whether the continuing accountant has reached a different conclusion on the application of accounting principles for the same or a similar transaction, or how the specific entity has accounted for similar transactions in the past. Therefore an accountant should not*

3. *Written report, for purposes of this Statement, includes any written communication that expresses a conclusion on the appropriate accounting principle(s) to be applied or the type of opinion that may be rendered on an entity's financial statements.*

4. *An accountant engaged by the entity to perform services other than reporting on the entity's financial statements is not considered to be a continuing accountant.*

***undertake an engagement to provide a written report on the application of accounting principles to a hypothetical transaction.***

53. This Statement does not apply to ~~a an accountant~~ (“continuing accountant”) ***with respect to the specific entity whose financial statements he or she who*** has been engaged to report on ~~financial statements~~, to engagements either to assist in litigation involving accounting matters or to provide expert testimony in connection with such litigation, or to professional advice ~~given~~ ***provided*** to another accountant in public practice.

64. This Statement also does not apply to communications such as position papers prepared by an accountant for the purpose of presenting views on an issue involving the application of accounting principles or the type of opinion that may be rendered ~~on an entity’s financial statements~~. Position papers include newsletters, articles, speeches and texts thereof, lectures and other forms of public presentations, and letters for the public record to professional and governmental standard-setting bodies. However, if communications of the type discussed in this paragraph are intended to provide guidance on the application of accounting principles to a specific transaction, or on the type of opinion that may be rendered on a specific entity’s financial statements, the provisions of this Statement should be followed.

## **Performance Standards**

75. The reporting accountant should exercise due professional care in performing the engagement and should have adequate technical training and proficiency. The reporting accountant should also plan the engagement adequately, supervise the work of assistants, if any, and accumulate sufficient information to provide a reasonable basis for the professional judgment described in the report. The reporting accountant should consider ~~who is the requester of the report,~~ the circumstances under which the ***written report or oral advice is requested is made***, the purpose of the request, and the ~~requester’s~~ intended use of the ***written report or oral advice***.

86. To aid in forming a judgment, the reporting accountant should perform the following procedures: (a) obtain an understanding of the form and substance of the transaction(s); (b) review applicable generally accepted accounting principles (see SAS No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles* [AICPA, *Professional Standards*, vol. 1, AU sec. 411]); (c) if appropriate, consult with other professionals or experts; and (d) if appropriate, perform research or other procedures to ascertain and consider the existence of creditable precedents or analogies.

97. When evaluating accounting principles *that relate to a specific transaction* or determining the type of opinion that may be rendered on ~~an a specific~~ entity's financial statements ~~at the request of a principal, or an intermediary acting for a principal, that relate to a specific transaction, or to a specific entity's financial statements,~~ the reporting accountant should consult with the continuing accountant of the **principal entity** to ascertain all the available facts relevant to forming a professional judgment. The continuing accountant may provide information not otherwise available to the reporting accountant regarding, for example, the following: the form and substance of the transaction; how management has applied accounting principles to similar transactions; whether the method of accounting recommended by the continuing accountant is disputed by management; or whether the continuing accountant has reached a different conclusion on the application of accounting principles or the type of opinion that may be rendered on the entity's financial statements. The reporting accountant should explain to the ~~principal or intermediary~~ **entity's management** the need to consult with the continuing accountant, request permission to do so, and request the ~~principal~~ **entity's management** to authorize the continuing accountant to respond fully to the reporting accountant's inquiries. The responsibilities of ~~a principal's~~ **an entity's** continuing accountant to respond to inquiries by the reporting accountant are the same as the responsibilities of a predecessor auditor to respond to inquiries by a successor auditor. See SAS No. 84, *Communications Between Predecessor and Successor Auditors* (AICPA, *Professional Standards*, vol. 1, AU sec. 315.10).

### Reporting Standards

108. The accountant's written report should be addressed to the ~~principal to the transaction~~ **requesting entity (for example, management or the board of directors of the entity)** ~~or to the intermediary,~~ and should ordinarily include the following:<sup>4,5</sup>

- a. A brief description of the nature of the engagement and a statement that the engagement was performed in accordance with applicable AICPA standards.
- b. **Identification of the specific entity,** ~~a~~ description of the transaction(s), a statement of the relevant facts, circumstances, and assumptions, and a statement about the source of the information. ~~Principals to specific transactions should be identified, and hypo-~~

<sup>4-5</sup>. Although the reporting standards in this Statement apply only to written reports, accountants may find this guidance useful in ~~presenting~~ **providing** oral advice.

thetical transactions should be described as involving nonspecific principals (for example, Company A, Company B).

- c. A statement describing the appropriate accounting principle(s) (**including the country of origin**) to be applied or type of opinion that may be rendered on the entity's financial statements, and, if appropriate, a description of the reasons for the reporting accountant's conclusion.
- d. A statement that the responsibility for the proper accounting treatment rests with the preparers of the financial statements, who should consult with their continuing accountants.
- e. A statement that any difference in the facts, circumstances, or assumptions presented may change the report.
- f. **A separate paragraph at the end of the report that includes the following elements:**<sup>6</sup>
  - **A statement indicating that the report is intended solely for the information and use of the specified parties;**
  - **An identification of the specified parties to whom use is restricted; and**
  - **A statement that the report is not intended to be and should not be used by anyone other than the specified parties.**

**119.** The following is an illustration of sections of the report described in paragraph **108**.

### **Introduction**

We have been engaged to report on the appropriate application of ~~generally accepted~~ accounting principles **generally accepted in [country of origin of such principles]** to the specific (~~hypothetical~~) transaction described below. This report is being issued to the ABC Company (~~XYZ Intermediaries~~) for assistance in evaluating accounting principles for the described specific (~~hypothetical~~) transaction. Our engagement has been conducted in accordance with standards established by the American Institute of Certified Public Accountants.

### **Description of Transaction**

The facts, circumstances, and assumptions relevant to the specific (~~hypothetical~~) transaction as provided to us by the management of the ABC Company (~~XYZ Intermediaries~~) are as follows:

**6. See SAS No. 87, Restricting the Use of an Auditor's Report (AICPA, Professional Standards, vol. 1, AU sec. 532). Although restricted, this is not intended to preclude distribution of the report to the continuing accountant.**



### **Appropriate Accounting Principles**

*[Text discussing generally accepted accounting principles]*

### **Concluding Comments**

The ultimate responsibility for the decision on the appropriate application of ~~generally accepted~~ accounting principles **generally accepted in [country of origin of such principles]** for an actual transaction rests with the preparers of financial statements, who should consult with their continuing accountants. Our judgment on the appropriate application of ~~generally accepted~~ accounting principles **generally accepted in [country of origin of such principles]** for the described specific (~~hypothetical~~) transaction is based solely on the facts provided to us as described above; should these facts and circumstances differ, our conclusion may change.

### **Restricted Use**

*This report is intended solely for the information and use of the board of directors and management of ABC Company and is not intended to be and should not be used by anyone other than these specified parties.*

## **Effective Date**

2. This Statement is effective for written reports issued or oral advice provided on or after June 30, 2002. Earlier application of the provisions of the Statement is permissible.

*This Statement titled Amendment to Statement on Auditing Standards No. 50, Report on the Application of Accounting Principles was unanimously adopted by the assenting votes of the fourteen members of the board.*

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**Note:** *Statements on Auditing Standards (SASs) are issued by the Auditing Standards Board (ASB), the senior technical body of the Institute designated to issue pronouncements on auditing matters. Rule 202, Compliance With Standards, of the Institute's Code of Professional Conduct requires an AICPA member who performs an audit (the auditor) to comply with standards promulgated by the ASB. The auditor should have sufficient knowledge of the SASs to identify those that are applicable to his or her audit and should be prepared to justify departures from the SASs.*

