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(supersedes paragraph 6 of chapter 10 of Statement on auditing
procedure no. 33); Statement on auditing procedure, No. 50**

American Institute of Accountants. Committee on Auditing Procedure

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Reporting on the Statement of Changes in Financial Position

(Supersedes paragraph 6 of Chapter 10 of Statement
on Auditing Procedure No. 33)

1. In March 1971 the Accounting Principles Board issued Opinion No. 19, "Reporting Changes in Financial Position," that generally requires profit-oriented business entities to present a statement summarizing periodic changes in financial position (referred to herein as a statement of changes) as a basic financial statement. The purpose of this Statement on Auditing Procedure is to revise the recommended short-form auditor's report in order to foster uniformity of language in giving recognition to the provisions of APB Opinion No. 19 in reporting on financial statements that purport to present financial position and results of operations.

2. In paragraph 7 of Opinion No. 19, the Accounting Principles Board (a) concluded that ". . . information concerning the financing and investing activities of a business enterprise and the changes in its financial position for a period is essential for financial statement users. . . ." and (b) declared that "when financial statements purporting to present both financial position (balance sheet) and results of operations (statement of income

*Issued by the Committee on Auditing Procedure
American Institute of Certified Public Accountants*

and retained earnings) are issued, a statement summarizing changes in financial position should also be presented as a basic financial statement for each period for which an income statement is presented.”

Short-Form Report

3. The following short form of independent auditor’s report is recommended to replace the report set forth in Statement on Auditing Procedure No. 33, Chapter 10, paragraph 6:

We have examined the balance sheet of X Company as of December 31, 19____ and the related statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of X Company at December 31, 19____, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Variations in Format and Presentation Between Periods

4. In paragraph 8 of APB Opinion No. 19, the Board concluded that “. . . the statement summarizing changes in financial position should be based on a broad concept embracing all changes in financial position. . . .” In paragraph 9 of that Opinion, however, the Board recognized “. . . the need for flexibility in form, content, and terminology . . .” of the statement of changes. Accordingly, variations between periods in the format of the statement of changes, such as changing to or from a balanced form, are deemed to be reclassifications. If such variations materially affect comparability, they should be disclosed in the financial statements and ordinarily will not be referred to in the independent auditor’s report.¹

¹ See Statement on Auditing Procedure No. 33, Chapter 8, paragraph 13.

5. However, variations between periods in the terms used to express changes in financial position, such as changing from cash to working capital, constitute a change in the application of accounting principles and involve the consistency standard. When such a change occurs, and the independent auditor deems it to be material, he should express in his opinion an exception as to consistency. An entity making such a change in the current period may present comparative financial statements for a prior period that have been restated to conform with those of the current period. Such a restatement places both periods on the same basis with respect to the use and application of accounting principles. The restatement should be disclosed and the auditor should refer to it in his report as described in Statement on Auditing Procedure No. 33, Chapter 8, paragraphs 24 through 28.

**Omission of Information Considered Essential
for a Fair Presentation**

6. APB Opinion No. 19 sets forth various types of information that should be disclosed in the statement of changes.² When the auditor believes that information essential for a fair presentation has been omitted from the statement of changes, he should provide that information in his report and appropriately qualify his opinion, as discussed in Statement on Auditing Procedure No. 33, Chapter 10, paragraph 41.

Omission of Statement of Changes

7. If an entity issues financial statements that purport to present financial position (balance sheet) and results of operations (statement of income and retained earnings) but omits the related statement of changes, and if the omission is not sanctioned by Opinion No. 19 of the Accounting Principles Board, the omission should be treated in accordance with the provisions of the Special Bulletin of the American Institute of Certified Public Accountants issued in October 1964 relating to disclosures of departures from Opinions of the Accounting Principles Board. Accordingly, the auditor normally will conclude that the omission requires qualification of his opinion as discussed in paragraph 8 below.

² See Accounting Principles Board Opinion No. 19, paragraphs 10 through 14.

8. An entity's failure to disclose required information normally results in the auditor including that information in his report.³ Although this procedure is appropriate with respect to specific disclosures relating to financial statements that are presented, the committee has concluded that it is not appropriate to require the auditor to prepare a basic financial statement (a statement of changes for one or more years) and include it in his report when the client's management has declined to present such a statement. Accordingly, in these cases the auditor should qualify his report, ordinarily in the following manner:

We have examined the balance sheet of X Company as of December 31, 19____ and the related statements of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The company declined to present a statement of changes in financial position for the year ended December 31, 19____. Presentation of such a statement summarizing the company's financing and investing activities and other changes in its financial position is required by Opinion No. 19 of the Accounting Principles Board.

In our opinion, except that the omission of a statement of changes in financial position results in an incomplete presentation as explained in the preceding paragraph, the aforementioned financial statements present fairly the financial position of X Company at December 31, 19____, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

9. A certified public accountant may be associated with unaudited financial statements that purport to present financial position (balance sheet) and results of operations (statement of income and retained earnings), but omit the related statement of changes. In such a case, the accountant is not required to prepare a statement of changes and include it in his accompanying report. However:

- (a) When such statements are restricted to internal use by the client, the accountant normally will conclude that the

³ See Statement on Auditing Procedure No. 33, Chapter 9, paragraph 4.

omission requires him to add to his accompanying disclaimer of opinion, in addition to other required information,⁴ an indication that the statement of changes has been omitted.

- (b) When such statements are not so restricted, the accountant normally will conclude that the omission requires him to add to his accompanying disclaimer of opinion, in addition to other information that may be required,⁵ an indication that such financial statements do not conform to generally accepted accounting principles because the related statement of changes is not presented.

The Statement entitled "Reporting on the Statement of Changes in Financial Position" was adopted by the assenting votes of eighteen members of the Committee of whom Messrs. Chapin, Holton, Kist and Magill assented with qualifications. Messrs. Gomprecht, Johnson and Kell dissented.

Mr. Chapin assents to the issuance of the Statement but believes that paragraph 8 should require the auditor to report financing and investing transactions not determinable from the financial statements presented.

Mr. Holton qualifies his assent with respect to paragraph 8. While he agrees that an independent auditor should not be expected to include a statement of changes in financial position in his report when management refuses to present such a statement, he disagrees with the implication in paragraph 8 of this Statement that this represents an exception to generally accepted auditing standards. He believes that paragraph 9, Chapter 10 of Statement on Auditing Procedure No. 33 makes it clear that the disclosure required when an auditor qualifies his report because of omitted information relates only to the effect on what a statement purports to present and does not relate to an omitted statement. Thus,

⁴ See Statement on Auditing Procedure No. 38, paragraph 5.

⁵ See Statement on Auditing Procedure No. 38, paragraph 6.

Mr. Holton believes that disclosure of the omission as suggested in paragraph 8 of this Statement complies fully with generally accepted auditing standards.

Mr. Kist assents to the issuance of this Statement, but dissents to paragraph 8 insofar as it relates to the form of auditor's report when the statement of changes in financial position has been omitted. Although he agrees that the independent auditor should report specifically on the financing and investing activities of an entity as contemplated by the term "changes in financial position," he believes that the recommended reporting set forth in that paragraph impugns the entity's financial position and results of operations, which individually are presented fairly by the balance sheet and related statements of income and retained earnings.

Mr. Magill assents to the issuance of this Statement, but dissents to the provisions of paragraph 8 which specify the form of the auditor's report in the event that a required statement of changes in financial position is not presented. He believes that disclosure of the omitted information should be made in the auditor's report. In his view, the Committee has adopted an untenable position when it requires disclosure of information omitted from the statements presented but does not require disclosure of changes in financial position deemed by the Accounting Principles Board to be essential for financial statement users. In other words, if a necessary part of a required financial statement is omitted, the auditor should disclose the omitted data in his report; but, if the entire required statement is omitted, no disclosure of this omitted data is necessary.

Messrs. Gomprecht, Johnson and Kell dissent to issuance of this Statement because it does not require the auditor to disclose in his report information concerning his client's financing and investing activities and other changes in its financial position when that information is called for and is omitted from the financial statements on which the auditor reports. APB Opinion No. 19, "Reporting Changes in Financial Position," characterizes this information as being "essential for financial statement users, particularly owners and creditors, in making economic decisions." Generally accepted auditing standards include a reporting standard that states: "Informative disclosures in the financial state-

ments are to be regarded as reasonably adequate unless otherwise stated in the auditor's report." When the client fails to present a statement of changes in financial position, Messrs. Gomprecht, Johnson and Kell believe that generally accepted auditing standards require, as a minimum, the auditor to disclose the essential data that would have been included in such a statement and is not otherwise available from the financial statements presented.

Therefore, Messrs. Gomprecht, Johnson, and Kell conclude that this statement conflicts with the profession's own generally accepted auditing standards and that it is also inconsistent with the intent of APB Opinion No. 19 which, in their opinion, is to enhance the usefulness of financial reporting.

NOTE

Statements on Auditing Procedure present the considered opinion of the Committee on Auditing Procedure, which is the senior technical committee of the Institute designated to issue pronouncements on auditing matters. Departures from the Committee's recommendations must be justified by those who do not follow them.

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