Compilation and review; Technical information for practitioners series, 3

Margaret Monaghan

Technical
Information for
Practitioners
Series

3

COMPILATION AND REVIEW

AICPA
American Institute of Certified Public Accountants

NOTICE TO READERS

This book appears as sections 2100 through 2600 in the looseleaf AICPA *Audit and Accounting Manual* (as of December 1988), which is updated quarterly. The Appendix is extracted from AICPA *Technical Practice Aids* (as of January 1989).

This material has not been approved, disapproved, or otherwise acted upon by any senior technical committees of the American Institute of Certified Public Accountants or the Financial Accounting Standards Board and has no official or authoritative status.

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COMPILATION AND REVIEW

Margaret Monaghan, *Senior Technical Advisor*

American Institute of Certified Public Accountants

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PREFACE

Compilation and Review

This book is the third in the Technical Information for Practitioners (TIPS) series. Each book in the series is designed to give practical guidance to one aspect of an accounting or audit engagement. The material herein also appears as sections 2100 through 2600 in the looseleaf AICPA *Audit and Accounting Manual* (as of December 1988), which is updated quarterly. The Appendix is extracted from AICPA *Technical Practice Aids* (as of January 1989). This book includes illustrative checklists, workpapers, client information forms, engagement letters and accountants' reports that can be used by an accountant engaged to perform a compilation or review engagement.

This is a nonauthoritative kit of practice aids. Various formats of checklists, workpapers, client information forms, engagement letters, and accountants' reports are in use; nevertheless, inclusion of the formats in this book in no way means they are preferable. Readers are urged to refer directly to authoritative pronouncements when appropriate.

Illustrative formats of checklists, workpapers, client information forms, engagement letters, and accountants' reports are often helpful in developing a consistent style within a firm. However, no set of illustrative formats can cover all the situations that are likely to be encountered in practice because the circumstances of engagements vary widely.

Readers should consider other sources of illustrative presentations, such as those in authoritative pronouncements and AICPA audit and accounting guides.

The sole responsibility for this material rests with the staff of the Technical Information Division. This material has not been approved, disapproved, or otherwise acted upon by the senior technical committees of the American Institute of Certified Public Accountants or the Financial Accounting Standards Board. Comments and suggestions may be addressed to the following:

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The division gratefully acknowledges the contributions made to the development of this book by Susan Sgromo.

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Director, Technical Services

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AAM Section 2100

Introduction

.01 Statements on Standards for Accounting and Review Services (SSARS) are issued by the American Institute of Certified Public Accountants' (AICPA) Accounting and Review Services Committee (ARSC), the senior technical committee of the AICPA designated by its Council to issue pronouncements in connection with unaudited financial statements and other unaudited financial information of nonpublic entities. A nonpublic entity is defined as any entity other than (*a*) one whose securities trade in a public market either on a stock exchange or over the counter, (*b*) one that files with a regulatory agency in preparation for the sale of any class of its securities in a public market, or (*c*) any entity controlled by an entity covered by (*a*) or (*b*).

.02 As of June 1988, ARSC had issued six Statements on Standards for Accounting and Review Services. They are

- SSARS 1 (12/78) *Compilation and Review of Financial Statements* (AICPA, *Professional Standards,* vol. 2, AR sec. 100)
- SSARS 2 (10/79) *Reporting on Comparative Financial Statements* (AICPA, *Professional Standards,* vol. 2, AR sec. 200)
- SSARS 3 (12/81) *Compilation Reports on Financial Statements Included in Certain Prescribed Forms* (AICPA, *Professional Standards,* vol. 2, AR sec. 300)
- SSARS 4 (12/81) *Communications Between Predecessor and Successor Accountants* (AICPA, *Professional Standards,* vol. 2, AR sec. 400)
- SSARS 5 (7/82) *Reporting on Compiled Financial Statements* (AICPA, *Professional Standards,* vol. 2, AR sec. 500)
- SSARS 6 (9/86) *Reporting on Personal Financial Statements Included in Written Personal Financial Plans* (AICPA, *Professional Standards,* vol. 2, AR sec. 600)

.03 SSARS 1 defines a compilation of financial statements and a review of financial statements and is effective for compilations and reviews of financial statements for periods ending on or after July 1, 1979. A compilation of financial statements is defined as presenting in the form of financial statements information that is the representation of management without expressing any assurance on the statements. A review of financial statements involves performing inquiry and analytical procedures to provide the accountant with a reasonable basis for expressing limited assurance that there are no material modifications to the financial statements necessary for them to be in conformity with generally accepted accounting principles.

.04 SSARS 1, paragraph 4 (AICPA, *Professional Standards,* vol. 2, AR sec. 100.04), defines a financial statement as—

> A presentation of financial data, including accompanying notes, derived from accounting records and intended to communicate an entity's economic resources or obligations at a point in time, or the changes therein for a period of time, in accordance with generally accepted accounting principles or a comprehensive basis of accounting other than generally accepted accounting principles. Financial forecasts, projections and similar presentations, and financial presentations included in tax returns are not financial statements for purposes of this statement. The following presentations are examples of financial statements:
>
> - Balance sheet
> - Statement of income
> - Statement of retained earnings
> - Statement of cash flows
> - Statement of changes in owners' equity
> - Statement of assets and liabilities (with or without owners' equity accounts)
> - Statement of revenues and expenses
> - Summary of operations
> - Statement of operations by product lines
> - Statement of cash receipts and disbursements

.05 SSARS 2 establishes the standards for reporting on comparative financial statements of a nonpublic entity when the statements of one or more periods have been compiled or reviewed under SSARS 1. SSARS 2 is effective for reports on comparative financial statements for periods ending on or after July 1, 1979.

.06 SSARS 3 amends SSARS 1 and 2 to provide an alternative form of compilation report when a prescribed form calls for a departure from generally accepted accounting principles (GAAP). SSARS 3, paragraph 2 (AICPA, *Professional Standards,* vol. 2, AR sec. 300.02), defines a prescribed form as any preprinted form designed or adopted by the body to which it is intended to be submitted (e.g., banks, governmental bodies, etc.). Since this statement contains no effective date, it became effective upon issuance.

.07 SSARS 3 does not prohibit the accountant from issuing a SSARS 1, paragraphs 39–41 (AICPA, *Professional Standards,* vol. 2, AR sec. 100.39–.41) compilation report which identifies GAAP departures in accordance with SSARS 1 (AICPA, *Professional Standards,* vol. 2, AR sec. 100.39–.41). A SSARS 3 report is specifically designed to provide an alternative form of reporting when a prescribed form calls for a GAAP departure.

.08 SSARS 4 provides guidance to a successor accountant who decides to communicate with the predecessor accountant. SSARS 4 does not require a successor accountant to communicate with a predecessor. Further, it deleted a footnote in SSARS 2 suggesting that a successor accountant may wish to consult Statement on Auditing Standards (SAS) No. 7, *Communications Between Predecessor and Successor Auditors* (AICPA, *Professional Standards,* vol. 1, AU sec. 315), in determining what communications would be appropriate. SSARS 4 was issued with no effective date; therefore, it became effective upon issuance.

.09 SSARS 5 amends the reporting standard of SSARS 1 by requiring that for all compilation engagements the accountant's report indicates that a compilation has been performed in accordance with standards established by the AICPA. The first sentence of the standard compilation report was also amended to reflect the amended reporting standard.

SSARS 5 is effective for compilations of financial statements for periods ending on or after December 31, 1982.

.10 SSARS 6 provides an exemption from SSARS 1 for personal financial statements included in personal financial plans. SSARS 6 was issued with no effective date; therefore, it became effective upon issuance.

.11 Under SSARS 6, an accountant may submit a written personal financial plan containing unaudited personal financial statements to a client without issuing a report under SSARS 1, as amended, when—

a. The accountant establishes an understanding with the client that the financial statements (*1*) will be used solely to assist the client and the client's advisors to develop the client's personal financial goals and objectives and (*2*) will not be used to obtain credit or for any purpose other than developing the aforementioned goals and objectives.

b. Nothing comes to the accountant's attention during the engagement that would cause him or her to believe that the financial statements will be used to obtain credit or for any purposes other than developing the client's financial goals and objectives.

.12 An accountant following the exemption under SSARS 6 should issue a written report stating that the unaudited financial statements—

a. Are designed solely to help develop the financial plan.

b. May be incomplete or contain departures from GAAP and should not be used to obtain credit or for any purpose other than developing the plan.

c. Have not been audited, reviewed, or compiled.

.13 Illustrative reports to be issued under the provisions of SSARS 1 through 6 can be found in section 2500.

AAM Section 2200

Engagement Planning and Administration

.01 It is important to remember that when engaged to provide compilation or review services, the accountant must comply with both rules 201 and 202 of the AICPA's Code of Professional Conduct, "General Standards" and "Compliance With Standards," respectively (AICPA, *Professional Standards,* vol. 2, ET secs. 201.01 and 202.01). Rule 201 requires that an AICPA member comply with the following standards and any interpretations thereof by bodies designated by its Council:

a. Professional Competence. Undertake only those professional services that the member or the member's firm can reasonably expect to be completed with professional competence.

b. Due Professional Care. Exercise due professional care in the performance of professional services.

c. Planning and Supervision. Adequately plan and supervise the performance of professional services.

d. Sufficient Relevant Data. Obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations in relation to any professional services performed.

.02 Rule 202 requires that an AICPA member who performs auditing, review, compilation, management advisory, tax, or other professional services comply with standards promulgated by bodies designated by Council.

.03 Prior to accepting an engagement to perform a compilation or review for a prospective client, the accountant should consider if he or she wishes to be associated with the client. Factors such as the ability of the accountant to adequately serve the client, the fee arrangement, client integrity, etc., need to be considered. It is often useful to complete a "Client Acceptance Form" to assist in determining whether or not to accept a client. An illustrative client acceptance form can be found in paragraph .22.

Understanding the Engagement

.04 SSARS 1, paragraph 8 (AICPA, *Professional Standards,* vol. 2, AR sec. 100.08), states that the accountant should establish an understanding with the entity regarding the services to be performed. This understanding should include a description of the nature and limitations of the services to be performed, and a description of the report the accountant expects to render. The understanding should also include an explanation that the engagement cannot be relied upon to disclose errors, irregularities, or illegal acts but should also indicate that if any such matters come to the accountant's attention, the entity will be notified. It is preferable that the understanding be in writing.

.05 It is a requirement of SSARS 1 that an accountant have a knowledge of the entity's business when performing a compilation or review of its financial statements. The accountant should also possess a level of knowledge of the accounting principles and practices in the industry in which the entity operates. Many accountants find it helpful to complete a "Client Information Form" for their workpapers to document their understanding of the client. An illustrative form can be found in paragraph .23.

Engagement Letters

.06 An engagement letter provides a means of formalizing the understanding between the accountant and the client concerning the services to be rendered. An engagement letter may serve to help reduce or eliminate client misunderstanding and potential legal liability. Illustrative engagement letters for compilation and review engagements can be found in paragraphs .24 and .25, respectively.

.07 An engagement letter may cover various services to be rendered. For example, an accountant who performs monthly compilations and a year-end review for a given client may issue only one engagement letter for that client detailing all services to be performed.

Change in Engagement Level of Service

.08 An accountant who has been engaged to perform audit services with respect to financial statements may be requested by his or her client to change the level of service to be performed. SSARS 1, paragraphs 44 through 49 (AICPA, *Professional Standards,* vol. 2, AR sec. 100.44–.49), addresses changing the level of service to a lower level. A request to change the engagement to a review or a compilation may be the result of a change in circumstances affecting the entity's need for an audit, a misunderstanding of the nature of an audit or the alternative compilation and review services originally available, or a restriction on the scope of the audit, whether imposed by the client or caused by the circumstances.

.09 SSARS 1, paragraph 45 (AICPA, *Professional Standards,* vol. 2, AR sec. 100.45), states that before an accountant who was engaged to perform an audit agrees to change the engagement to a compilation or review, at least the following factors should be considered:

a. The reason given for the client's request, particularly the implications of a restriction on the scope of the audit.

b. The additional audit effort required to complete the audit.

c. The estimated additional cost to complete the audit.

.10 A change in circumstances affecting the entity's need for an audit and a misunderstanding of the nature of an audit or the alternative compilation and review services originally available, would normally be viewed as a reasonable basis for requesting a change in the level of service.

.11 The accountant should consider the implications of a restriction on the scope of the audit and should evaluate the possibility that information affected by the scope restriction may be incorrect, incomplete, or otherwise unsatisfactory. SSARS 1, paragraph 47 (AICPA, *Professional Standards,* vol. 2, AR sec. 100.47), describes the following two circumstances as ordinarily precluding the accountant from lowering his or her level of service from an audit to a compilation or review:

a. The accountant has been prohibited by the client from corresponding with the entity's legal counsel.

b. Management (owners) has refused to sign a client representation letter.

.12 SSARS 1, paragraph 48 (AICPA, *Professional Standards,* vol. 2, AR sec. 100.48), states that in all circumstances, if the auditing procedures are virtually complete or the cost to complete such procedures is relatively insignificant, the accountant should consider the propriety of accepting a change in the engagement.

.13 If the accountant agrees to lower the engagement from an audit to a compilation or review, he or she should issue an appropriate compilation or review report. The report should not make reference to the original engagement, any auditing procedures that may have been performed, or any scope limitations that resulted in the changed engagement.

.14 Other situations involving changes in the level of service include changing the level of service from a review to a compilation and also a step-down from full disclosure to omission of substantially all disclosures.

.15 Regarding a change from a review to a compilation, SSARS 1, paragraph 36 (AICPA, *Professional Standards,* vol. 2, AR sec. 100.36), indicates that the accountant should consider the same matters as those discussed in paragraphs .09 and .10 above.

.16 Interpretation 1 of SSARS 1, "Omission of Disclosures in Reviewed Financial Statements" (AICPA, *Professional Standards,* vol. 2, AR sec. 9100.01–.02), prohibits an accountant from issuing a review report of financial statements which omit substantially all disclosures. For a compilation engagement, it is generally acceptable for an accountant to lower the engagement to financial statements that omit substantially all disclosures from a full disclosure compilation when it can be justified that the change in the engagement was not undertaken with the intent to mislead.

.17 The issue of changing the level of an engagement to a higher level of service is not specifically addressed in SSARS 1. It is generally agreed that a change to a higher level of service is acceptable. In such circumstances, the accountant should be certain that it is possible to comply with the applicable standards for the revised level of service. It is also wise to revise his understanding with the client of the changed engagement, preferably by amending the engagement letter.

Predecessor and Successor Accountant

.18 SSARS 4 provides guidance to a successor accountant who decides to communicate with a predecessor accountant. Unlike an audit engagement, there is no requirement that the successor accountant communicate with the predecessor accountant in a compilation or review engagement. However, in accordance with SSARS 4, paragraph 3 (AICPA, *Professional Standards,* vol. 2, AR sec. 400.03), under the following circumstances the accountant may decide to do so:

a. Information about the prospective client and its management and principals is limited or appears to require special attention.

b. The change in accountants takes place substantially after the end of the accounting period for which financial statements are to be compiled or reviewed.

c. There have been frequent changes in accountants.

.19 According to SSARS 4, paragraph 4 (AICPA, *Professional Standards,* vol. 2, AR sec. 400.04), when the successor accountant decides to communicate with the predecessor, he or she should request the client to (*a*) permit him or her to make inquiries of the predecessor and (*b*) authorize the predecessor to fully respond to those inquiries.

.20 The inquiries of the successor accountant will normally include questions concerning (*a*) information that might bear on the integrity of management (owners), (*b*) disagreements with management (owners) about accounting principles or the necessity of performing certain procedures, (*c*) the cooperation of management in providing additional or revised information, when necessary, and (*d*) the predecessor's understanding of the reasons for the change of accountants.

.21 The predecessor accountant is expected to respond both promptly and fully to requests of the type cited in the aforementioned paragraph. Valid business reasons (e.g., unpaid fees) may preclude the predecessor from responding to the inquiries of the successor. The predecessor may also decide, due to unusual circumstances such as impending litigation, not to respond fully to the successor. In such an instance, the predecessor should indicate the response is limited and the successor should consider both the reasons for and implications of such a response in deciding whether to undertake the engagement.

.22 Client Acceptance Form

Instructions: *This form should be completed for each prospective client before accepting an engagement.*

Client name:

Address:

Telephone number:

Form of legal entity (partnership, corporation, etc.):

What type of business is the client in?

List management and officers of the client:

How did we become aware of this potential client?

Are the client's accounting services now being performed by another accounting firm? If yes, what is the name of the firm and the client's reason for changing accounting firms?

Have we contacted the client's previous accounting firm? If yes, list their comments. If not, explain why.

Does the client owe fees to the previous accountants?

Did we have prior knowledge of the client? If not, list the names of references checked and any comments.

What services would our firm be expected to perform? What would the timing of these services be?

Estimate the net fees and describe the billing arrangements.

Is there any reason to doubt the client's management or officers' representations or integrity? If yes, describe.

Are we aware of any independence problems between this client and our staff? If yes, describe.

Does our firm have the necessary expertise and staff to perform the engagement properly?

Comments:

Conclusions

____Accept Engagement   ____Not Accept Engagement

Form prepared by______________________________________ Date__________

Engagement Partner____________________________________ Date__________

Concurring Partner____________________________________ Date__________

.23 Client Information Form

Instructions: *This form should be completed for each client before beginning our first engagement. The form should be updated annually.*

Client name:

Form of legal entity
(partnership, corporation, etc.):

What type of business is the client in?

List the sources of authoritative literature which describe any specialized accounting principles that are or should be followed by this client.

Does this client have any accounting principles or policies that are specific to this entity? Please describe.

On what basis of accounting are the financial statements being presented?

List the key members of management.

List the major stockholders of the client and their percentage of ownership, if known.

List all related parties (for example, subsidiaries, affiliated companies).

Describe any transactions between the client and these related parties.

How many employees does the client have?

How many locations does the client have?

List each location, the type of activity (for example, plant, home office, etc.) done at each location and the number of employees at the location.

Location	*Activity*	*Number of Employees*

Describe the client's major assets.

Describe the client's major liabilities.

Describe the client's major sources of revenue.

Describe the client's major expenses.

[*Note:* If the client is in manufacturing, other operating characteristics that should be described are the components of cost of goods sold, any marketing methods, and the production process.]

List key accounting records which are expected to be reviewed and identify the person responsible and the form of the records (manual, computer, service bureau).

Accounting Record	*Person Responsible*	*Form*
General ledger		
Journals		
Cash receipts		
Cash disbursements		
Payroll		
Sales		
Purchases		
Voucher register		
Subsidiary ledgers		
Accounts receivable		
Accounts payable		
Perpetual inventory		
Fixed assets		

Comments:

.24 Illustrative Engagement Letter for a Compilation

SWIFT, MARCH & COMPANY Certified Public Accountants

[*Date*]
Mr. Tom Jones, President
ZYXWV Freight Corporation
648 Crystal Lane
Noplace, Anystate 00000

Dear Mr. Jones:

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.

We will perform the following services:

1. We will compile, from information you provide, the annual and interim balance sheets and related statements of income, retained earnings and cash flows of ZYXWV Freight Corporation for the year 19XX. We will not audit or review such financial statements. Our report on the annual financial statements of ZYXWV Freight Corporation is presently expected to read as follows:

   > We have compiled the accompanying balance sheet of ZYXWV Freight Corporation as of December 31, 19XX, and the related statements of income, retained earnings and cash flows for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants.
   >
   > A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

   Our report on your interim financial statements, which statements will omit substantially all disclosures, will include an additional paragraph that will read as follows:

   > Management has elected to omit substantially all of the disclosures required by generally accepted accounting principles. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the company's financial position, results of operations, and cash flows. Accordingly, these financial statements are not designed for those who are not informed about such matters.

   If, for any reason, we are unable to complete the compilation of your financial statements, we will not issue a report on such statements as a result of this engagement.

2. We will assist your bookkeeper in adjusting the books of account so that he or she will be able to prepare a working trial balance from which financial statements can be compiled. Your bookkeeper will provide us with a detailed trial balance and any supporting schedules we require.

3. We will also prepare the federal and state *[identify states]* income tax returns for ZYXWV Freight Corporation for the fiscal year ended December 31, 19XX.

Our engagement cannot be relied upon to disclose errors, irregularities, or illegal acts, including fraud or defalcations, that may exist. However, we will inform you of any such matters that come to our attention.

Our fees for these services . . .

We shall be pleased to discuss this letter with you at any time.

If the foregoing is in accordance with your understanding, please sign the copy of this letter in the space provided and return it to us.*

Sincerely yours,

. . . .
Swift, March & Company

Acknowledge:
ZYXWV Freight Corporation

. . . .
President

. . . .
[*Date*]

*Some accountants prefer not to obtain an acknowledgment, in which case their letter would omit the paragraph beginning, "If the foregoing . . ." and the spaces for the acknowledgment. The first paragraph of their letter might begin as follows: "This letter sets forth our understanding of the terms and objectives of our engagement. . . ."

.25 Illustrative Engagement Letter for a Review

SWIFT, MARCH & COMPANY — Certified Public Accountants

[*Date*]
Mr. Tom Jones, President
ZYXWV Freight Corporation
648 Crystal Lane
Noplace, Anystate 00000

Dear Mr. Jones:

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.

We will perform the following services:

1. We will review the balance sheet of ZYXWV Freight Corporation as of [*date*], and the related statements of income, retained earnings and cash flows for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants. We will not perform an audit of such financial statements, the objective of which is the expression of an opinion regarding the financial statements taken as a whole, and, accordingly, we will not express such an opinion on them. Our report on the financial statements is presently expected to read as follows:

   > We have reviewed the accompanying balance sheet of ZYXWV Freight Corporation as of December 31, 19XX, and the related statements of income, retained earnings and cash flows for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of ZYXWV Freight Corporation.
   >
   > A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.
   >
   > Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

   If, for any reason, we are unable to complete our review of your financial statements, we will not issue a report on such statements as a result of this engagement.

2. We will provide your chief accountant with such consultation on accounting matters as he or she may require in adjusting and closing the books of account and in drafting financial statements for our review. Your chief accountant also will provide us with a detailed trial balance and any supporting schedules we require.

3. We will also prepare the federal and state *[identify states]* income tax returns for ZYXWV Freight Corporation for the fiscal year ended December 31, 19XX.

Our engagement cannot be relied upon to disclose errors, irregularities, or illegal acts, including fraud or defalcations, that may exist. However, we will inform you of any such matters that come to our attention.

Our fees for these services. . . .

We shall be pleased to discuss this letter with you at any time.

If the foregoing is in accordance with your understanding, please sign the copy of this letter in the space provided and return it to us.*

Sincerely yours,

. . . .
Swift, March & Company

Acknowledge:
ZYXWV Freight Corporation

. . . .
President

. . . .
[*Date*]

*Some accountants prefer not to obtain an acknowledgment, in which case their letter would omit the paragraph beginning, "If the foregoing . . . " and the spaces for the acknowledgment. The first paragraph of their letter might begin as follows: "This letter sets forth our understanding of the terms and objectives of our engagement. . . ."

AAM Section 2300

Working Papers

Compilation Engagements

.01 SSARS 1 does not address workpaper documentation for a compilation engagement. However, many accountants prefer compilation workpapers that include all necessary documentation to verify that compilation procedures were performed. In determining what workpapers the accountant will need, he or she should consider any peer review requirements that the firm will need to meet. The AICPA's *Audit and Accounting Manual,* section 11,000, *Quality Control Forms and Aids,* offers a discussion on compliance with the AICPA's quality control standards.

Compilation Procedures

.02 The following items are generally documented in a CPA's compilation workpapers:

- The accountant's knowledge of the client's business and the accounting principles and practices of the industry in which the entity operates
- The understanding with the client concerning the services to be rendered, usually in the form of an engagement letter
- That the accountant has read the compiled financial statements
- Support for a change in the level of service performed, if necessary
- Working trial balance
- Reasons for omitting substantially all disclosures
- Discussions of unusual items

.03 In addition, if the CPA prepares the financial statements as well as compiles them, he or she should also include in the workpapers the following:

- Support for information in the notes to the financial statements
- Copies of preliminary client records (for example, working trial balance and adjustments) required to arrive at final compiled financial statements

Compilation Checklists

.04 Procedural checklists can serve as the means of documenting in the workpapers that all the necessary procedures have been performed. When completing a procedural checklist, the accountant should refer to the specific workpaper documenting completion of the checklist step. An illustrative procedural checklist for a compilation can be found in paragraph .14.

Review Engagements

.05 As noted in section 2100, a review of financial statements involves performing inquiry and analytical procedures. SSARS 1, paragraph 30 (AICPA, *Professional Standards,* vol. 2, AR sec. 100.30), discusses workpaper documentation for review engagements. SSARS 1 does not specify the form or content of the working papers in connection with a review engagement, but paragraph 30 does state that the working papers should describe the following:

a. The matters covered in the accountant's inquiry and analytical procedures

b. Unusual matters that the accountant considered during the performance of the review, including their disposition

Review Procedures—Inquiry

.06 SSARS 1, paragraph 27 (AICPA, *Professional Standards,* vol. 2, AR sec. 100.27), states that the accountant's inquiries should generally consist of the following:

a. Inquiries concerning the entity's accounting principles and practices and the methods followed in applying them

b. Inquiries concerning the entity's procedures for recording, classifying, and summarizing transactions, and accumulating information for disclosure in the financial statements

c. Inquiries concerning actions taken at meetings of stockholders, board of directors, committees of the board of directors, or comparable meetings that may affect the financial statements

d. Inquiries of persons having responsibility for financial and accounting matters concerning (1) whether the financial statements have been prepared in conformity with generally accepted accounting principles consistently applied, (2) changes in the entity's business activities or accounting principles and practices, (3) matters as to which questions have arisen in the course of applying the foregoing procedures, and (4) events subsequent to the date of the financial statements that would have a material effect on the financial statements

.07 Appendix A of SSARS 1 (AICPA, *Professional Standards,* vol. 2, AR sec. 100.52) contains illustrative inquiries in connection with a review engagement. These illustrative inquiries appear in paragraph .15. These inquiries do not necessarily apply to all engagements, nor are they meant to be all-inclusive.

Review Procedures—Analytical

.08 SSARS 1, paragraph 27c (AICPA, *Professional Standards,* vol. 2, AR sec. 100.27), states that analytical procedures consist of the following:

a. Comparison of the financial statements with statements for a comparable prior period(s) *b.* Comparison of the financial statements with anticipated results, if available

c. Study of the relationship of the elements of the financial statements that would be expected to conform to a predictable pattern based on the entity's experience

.09 Three common forms of analytical procedures are ratio analysis, trend analysis, and tests for reasonableness of data. Once the accountant performs his analytical procedures, he or she must evaluate the results, usually against past historical results or industry averages. Illustrative analytical procedures workpapers can be found in paragraphs .16 and .17.

.10 SSARS 1, paragraph 27 (AICPA, *Professional Standards,* vol. 2, AR sec. 100.27), also suggests that the following review procedures be performed:

a. Reading the financial statements to consider, on the basis of information coming to the accountant's attention, whether the financial statements appear to conform with generally accepted accounting principles

b. Obtaining reports from other accountants, if any, who have been engaged to audit or review the financial statements of significant components of the reporting entity, its subsidiaries, and other investees

.11 The following items are usually included in the workpapers for a review engagement:

- Documentation of the accountant's knowledge of the client's business and the accounting principles and practices of the industry in which it operates
- An engagement letter
- Support for a change in the level of service, if any
- Documentation of all inquiries and respective responses
- Documentation of all analytical procedures
- A representation letter
- Documentation of discussions of unusual matters
- Copies of reports of other accountants who have performed services with respect to a subsidiary or other significant investee

Representation Letters

.12 SSARS 1, paragraph 31 (AICPA, *Professional Standards,* vol. 2, AR sec. 100.31), states that the accountant may wish to obtain a representation letter from the owner, manager, or chief executive officer. Many accountants believe that the "may" is not as optional as it sounds and that representation letters *should* be obtained for all review engagements, as is the case in audit engagements. An illustrative representation letter for a review engagement can be found in paragraph .18.

Review Checklists

.13 In the same way that procedural checklists are suggested for compilation engagements, it is wise to prepare such a checklist for a review engagement. An illustrative procedural checklist for a review engagement can be found in paragraph .19.

.14 Short-Form Checklist for a Compilation Engagement

Done by

1. Obtain an engagement letter. (AR sec. 100.08) ________
2. Acquire the necessary knowledge of client's industry accounting principles and practices. (AR sec. 100.10) ________
3. Acquire a general understanding of the client's business transactions, the form of the accounting records, the stated qualifications of the accounting personnel, the accounting basis used, and the form and content of the financial statements. (It is not necessary to make inquiries or perform other procedures unless the information supplied is questionable.) (AR sec. 100.11–.12) ________
4. Read the financial statements and determine if they are appropriate in form and free from obvious material error. (AR sec. 100.13) ________
5. Consider whether all disclosures required by generally accepted accounting principles (GAAP) or an acceptable comprehensive basis of accounting are provided. If they are not, go to step 6. If they are, go to step 7. (AR sec. 100.19) ________
6. If substantially all disclosures required by GAAP or another comprehensive basis of accounting are omitted, indicate this in a separate paragraph in your report; if a comprehensive basis of accounting other than GAAP is used, disclose this basis either in the financial statements or in your report. If the statement of cash flows is also omitted in GAAP statements, modify the scope paragraph and disclosure deficiency paragraph accordingly. If most, but not all disclosures are omitted, notes to the financial statements should be labeled "Selected Information—Substantially All Disclosures Required by Generally Accepted Accounting Principles Are Not Included." (AR sec. 100.19–.21) ________
7. Consider whether the financial statements contain measurement departures from GAAP or another comprehensive basis of accounting. If they do, go to step 8. If they do not, go to step 9. (AR sec. 100.39) ________
8. Get client to revise the financial statements. Failing that, consider modifying your report by adding a separate paragraph or paragraphs. If the impact of the departure has been determined by management or is known by you, disclose the dollar effects in your report. (However, uncertainties and inconsistencies are not measurement departures if they are properly disclosed. See step 5 above.) Withdraw from the engagement if the GAAP departures are designed to mislead statement users. (AR sec. 100.39–.40) ________
9. Determine whether the firm is independent. If the firm is not, go to step 10. If the firm is, go to step 11. (AR sec. 100.22) ________
10. If the firm is not independent, add a separate paragraph to your report: "I am (we are) not independent with respect to XYZ Company." (AR sec. 100.22) ________

11. If the financial statements are accompanied by information presented for supplementary analysis purposes, include such other data in the compilation report. (AR sec. 100.43) ________

12. Mark each page of the financial statements, including any supplemental data, "See accompanying notes and accountant's report." (AR sec. 100.16) ________

13. Date your report using the date the compilation was completed. (AR section 100.15) ________

14. Issue the financial statements and related compilation report. (AR section 100.14) ________

15. If subsequent to the date of the report, facts that would possibly cause the financial statements to be misleading are discovered (and were in existence at the report date), consult SAS No. 1, section 561 (AICPA, *Professional Standards,* vol. 1, AU section 561), Interpretation No. 4 of SSARS 1 (AR sec. 9100.13–.15), and your attorney. (AR sec. 100.42) ________

Completed By____ Date____________

Note: All the AR sections listed in this checklist refer to SSARS 1 (AICPA, *Professional Standards,* vol. 2).

.15 Review of Financial Statements—Illustrative Inquiries

1. *General*
   a. What are the procedures for recording, classifying, and summarizing transactions (relates to each section discussed below)?
   b. Do the general ledger control accounts agree with subsidiary records (for example, receivables, inventories, investments, property and equipment, accounts payable, accrued expenses, noncurrent liabilities)?
   c. Have accounting principles been applied on a consistent basis?
2. *Cash*
   a. Have bank balances been reconciled with book balances?
   b. Have old or unusual reconciling items between bank balances and book balances been reviewed and adjustments made where necessary?
   c. Has a proper cutoff of cash transactions been made?
   d. Are there any restrictions on the availability of cash balances?
   e. Have cash funds been counted and reconciled with control accounts?
3. *Receivables*
   a. Has an adequate allowance been made for doubtful accounts?
   b. Have receivables considered uncollectible been written off?
   c. If appropriate, has interest been reflected?
   d. Has a proper cutoff of sales transactions been made?
   e. Are there any receivables from employees and related parties?
   f. Are any receivables pledged, discounted or factored?
   g. Have receivables been properly classified between current and noncurrent?
4. *Inventories*
   a. Have inventories been physically counted? If not, how have inventories been determined?
   b. Have general ledger control accounts been adjusted to agree with physical inventories?
   c. If physical inventories are taken at a date other than the balance sheet date, what procedures were used to record changes in inventory between the date of the physical inventory and the balance sheet date?
   d. Were consignments in or out considered in taking physical inventories?
   e. What is the basis of valuation?
   f. Does inventory cost include material, labor, and overhead where applicable?
   g. Have write-downs for obsolescence or cost in excess of net realizable value been made?
   h. Have proper cutoffs of purchases, goods in transit, and returned goods been made?
   i. Are there any inventory encumbrances?

5. *Prepaid Expenses*
   a. What is the nature of the amounts included in prepaid expenses?
   b. How are these amounts amortized?
6. *Investments, Including Loans, Mortgages, and Intercorporate Investments*
   a. Have gains and losses on disposal been reflected?
   b. Has investment income been reflected?
   c. Has appropriate consideration been given to the classification of investments between current and noncurrent, and the difference between the cost and market value of investments?
   d. Have consolidation or equity accounting requirements been considered?
   e. What is the basis of valuation of marketable equity securities?
   f. Are investments unencumbered?
7. *Property and Equipment*
   a. Have gains or losses on disposal of property or equipment been reflected?
   b. What are the criteria for capitalization of property and equipment? Have such criteria been applied during the fiscal period?
   c. Does the repairs and maintenance account only include items of an expense nature?
   d. Are property and equipment stated at cost?
   e. What are the depreciation methods and rates? Are they appropriate and consistent?
   f. Are there any unrecorded additions, retirements, abandonments, sales, or trade-ins?
   g. Does the entity have material lease agreements? Have they been properly reflected?
   h. Is any property or equipment mortgaged or otherwise encumbered?
8. *Other Assets*
   a. What is the nature of the amounts included in other assets?
   b. Do these assets represent costs that will benefit future periods? What is the amortization policy? Is it appropriate?
   c. Have other assets been properly classified between current and noncurrent?
   d. Are any of these assets mortgaged or otherwise encumbered?
9. *Accounts and Notes Payable and Accrued Liabilities*
   a. Have all significant payables been reflected?
   b. Are all bank and other short-term liabilities properly classified?
   c. Have all significant accruals, such as payroll, interest, and provisions for pension and profit-sharing plans been reflected?
   d. Are there any collateralized liabilities?
   e. Are there any payables to employees and related parties?
10. *Long-Term Liabilities*
   a. What are the terms and other provisions of long-term liability agreements?
   b. Have liabilities been properly classified between current and noncurrent?
   c. Has interest expense been reflected?

d. Has there been compliance with restrictive covenants of loan agreements?

e. Are any long-term liabilities collateralized or subordinated?

11. *Income and Other Taxes*

a. Has provision been made for current and prior-year federal income taxes payable?

b. Have any assessments or reassessments been received? Are there tax examinations in process?

c. Are there timing differences? If so, have deferred taxes been reflected?

d. Has provision been made for state and local income, franchise, sales and other taxes payable?

12. *Other Liabilities, Contingencies and Commitments*

a. What is the nature of the amounts included in other liabilities?

b. Have other liabilities been properly classified between current and noncurrent?

c. Are there any contingent liabilities, such as discounted notes, drafts, endorsements, warranties, litigation, and unsettled asserted claims? Are there any unasserted potential claims?

d. Are there any material contractual obligations for construction or purchase of real property and equipment and any commitments or options to purchase or sell company securities?

13. *Equity*

a. What is the nature of any changes in equity accounts?

b. What classes of capital stock have been authorized?

c. What is the par or stated value of the various classes of stock?

d. Do amounts of outstanding shares of capital stock agree with subsidiary records?

e. Have capital stock preferences, if any, been disclosed?

f. Have stock options been granted?

g. Has the entity made any acquisitions of its own capital stock?

h. Are there any restrictions on retained earnings or other capital?

14. *Revenue and Expenses*

a. Are revenues from the sale of major products and services recognized in the appropriate period?

b. Are purchases and expenses recognized in the appropriate period and properly classified?

c. Do the financial statements include discontinued operations or items that might be considered extraordinary?

15. *Other*

a. Are there any events that occurred after the end of the fiscal period that have a significant effect on the financial statements?

b. Have actions taken at stockholder, board of directors, or comparable meetings that affect the financial statements been reflected?

c. Have there been any material transactions between related parties?

d. Are there any material uncertainties? Is there any change in the status of material uncertainties previously disclosed?

(*Source:* SSARS 1, Appendix A [AICPA, *Professional Standards,* vol. 2, AR sec. 100.52])

.16 Illustrative Ratio Analysis Worksheet

Below you will find thirty-four financial ratios that include all the key ratios in the *Robert Morris Associates Annual Statement Studies* (published by Robert Morris Associates, Philadelphia, PA) and Dun and Bradstreet's *Key Business Ratios* (published by Dun and Bradstreet Credit Services, Murray Hill, NJ). A column is set aside for the reader's calculations.

Ratio Name		*Formula for Ratio*		*Calculations*
1. Current Ratio	=	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	=	
2. Quick Ratio	=	$\frac{\text{Quick Assets}}{\text{Current Liabilities}}$	=	
3. Days Sales in Accounts Receivable	=	$\frac{\text{Accounts Receivable (net)}}{\text{Net Sales}}$	=	
4. Allowance for Bad Debts as a % of A/R	=	$\frac{\text{Allowance for Bad Debts}}{\text{Accounts Receivable}}$	=	
5. Bad Debt Exp. as a Percentage of Net Sales	=	$\frac{\text{Bad Debt Expense}}{\text{Net Sales}}$	=	
6. Inventory Turnover	=	$\frac{\text{Cost of Sales} \times \text{(Days/Year)}}{\text{Inventory} \times \text{(Days/Period)}}$	=	
7. Net Sales to Inventory	=	$\frac{\text{Net Sales} \times \text{(Days/Year)}}{\text{Inventory} \times \text{(Days/Period)}}$	=	
8. Days Inventory	=	$\frac{\text{Inventory} \times \text{(Days/Period)}}{\text{Cost of Sales}}$	=	
9. Net Fixed Assets to Net Worth	=	$\frac{\text{Net Fixed Assets}}{\text{Net Worth}}$	=	
10. Current Liabilities to Net Worth	=	$\frac{\text{Current Liabilities}}{\text{Net Worth}}$	=	
11. Current Liabilities to Inventory	=	$\frac{\text{Current Liabilities}}{\text{Inventory}}$	=	

12. Accounts Payable to Net Sales	=	$\dfrac{\text{Accts Payable} \times \text{(Days/Period)}}{\text{Net Sales} \times \text{(Days/Year)}}$	=
13. Total Liabilities to Net Worth	=	$\dfrac{\text{Total Liabilities}}{\text{Net Worth}}$	=
14. Net Worth to Total Liabilities	=	$\dfrac{\text{Net Worth}}{\text{Total Liabilities}}$	=
15. Net Sales to Working Capital	=	$\dfrac{\text{Net Sales} \times \text{(Days/Year)}}{\text{Working Capital} \times \text{(Days/Period)}}$	=
16. Total Assets to Net Sales	=	$\dfrac{\text{Total Assets} \times \text{(Days/Period)}}{\text{Net Sales} \times \text{(Days/Year)}}$	=
17. Return on Total Assets	=	$\dfrac{\text{Net Income} \times \text{(Days/Year)}}{\text{Total Assets} \times \text{(Days/Period)}}$	=
18. Return on Net Worth	=	$\dfrac{\text{Net Income} \times \text{(Days/Year)}}{\text{Net Worth} \times \text{(Days/Period)}}$	=
19. Return on Net Sales	=	$\dfrac{\text{Net Income}}{\text{Net Sales}}$	=
20. Net Sales to Accounts Receivable	=	$\dfrac{\text{Net Sales} \times \text{(Days/Year)}}{\text{A/R (Net)} \times \text{(Days/Period)}}$	=
21. Net Sales To Net Fixed Assets	=	$\dfrac{\text{Net Sales} \times \text{(Days/Year)}}{\text{Fixed Assets} \times \text{(Days/Period)}}$	=
22. Net Sales to Total Assets	=	$\dfrac{\text{Net Sales} \times \text{(Days/Year)}}{\text{Total Assets} \times \text{(Days/Period)}}$	=
23. Net Sales to Net Worth	=	$\dfrac{\text{Net Sales} \times \text{(Days/Year)}}{\text{Net Worth} \times \text{(Days/Period)}}$	=
24. Days Payable in Cost of Sales	=	$\dfrac{\text{Accts Payable} \times \text{(Days/Period)}}{\text{Cost of Sales}}$	=
25. Income Before Tax to Net Worth	=	$\dfrac{\text{Inc Before Tax} \times \text{(Days/Year)}}{\text{Net Worth} \times \text{(Days/Period)}}$	=
26. Income Before Tax to Total Assets	=	$\dfrac{\text{Inc Before Tax} \times \text{(Days/Year)}}{\text{Total Assets} \times \text{(Days/Period)}}$	=

27. Retained Earnings to Net Income	=	$\frac{\text{Ret. Earn.} \times \text{(Days/Period)}}{\text{Net Income} \times \text{(Days/Year)}}$	=
28. Gross Profit Percentage	=	$\frac{\text{Net Sales} - \text{Cost of Sales}}{\text{Net Sales}}$	=
29. Operating Expenses as a % of Net Sales	=	$\frac{\text{Operating Expenses}}{\text{Net Sales}}$	=
30. Times Interest Earned	=	$\frac{\text{Inc Before Interest and Taxes}}{\text{Interest Expense}}$	=
31. Interest Expense to Net Sales	=	$\frac{\text{Interest Expense}}{\text{Net Sales}}$	=
32. Amort/Deprec Expense to Net Sales	=	$\frac{\text{Amort and Deprec Expense}}{\text{Net Sales}}$	=
33. Officers Compensation to Net Sales	=	$\frac{\text{Officers Compensation}}{\text{Net Sales}}$	=

34. Altman Z Score = The Altman Z Score, developed by Edward I. Altman, is a composite formula that is widely used to measure the financial "health" of a company. The formula takes four financial ratios and multiplies each by a specific constant. The amounts so computed are added together to obtain an overall score. This score is then compared to scores from other companies to rate relative financial health. The formula is as follows:

$\frac{\text{Working Capital}}{\text{Total Assets}}$	×	6.56	=
$\frac{\text{Retained Earnings}}{\text{Total Assets}}$	×	3.26	=
$\frac{\text{Income Before Int \& Tax}}{\text{Total Assets}}$	×	6.72	=
$\frac{\text{Net Worth}}{\text{Total Liabilities}}$	×	1.05	=
		Altman Z Score	

.17 Illustrative Analytical Procedures Comparative Report

Prepared by ________
Received by ________

Sample Services, Inc.

Analytical Procedures Comparative Report
For the period ended December 31, 1988

Account Name	*Account #*	*Prior*	*Ending*	*Net Change*	*%*
Cash - Operating	110				
Cash - Savings	115				
Petty Cash	118				
Accounts Receivable	120				
Prepaid Insurance	130				
Prepaid Dues	131				
Prepaid Interest	132				
Supplies Inventory	140				
Land	200				
Buildings	210				
Accum. Depr. Buildings	215				
Equipment	220				
Accum. Depr. Equipment	225				
Other Assets	250				
Notes Payable	310				
Accounts Payable	330				
Accrued Liabilities	340				
Long-term Debt	390				
Common Stock	400				
Paid-in Capital	410				
Retained Earnings	450				
Sales	510				
Interest Income	520				
Other Revenue	530				
Automobile	700				
Bad Debts	705				
Depreciation	710				
Donations	715				
Insurance	720				
Interest	725				
Licenses & Dues	730				
Medical Insurance	735				
Payroll Taxes	740				
Postage	745				

Professional Fees	750			
Profit Sharing	755			
Repairs & Maintenance	760			
Salaries - Employees	765			
Salaries - Officers	767			
Supplies	770			
Telephone	775			
Travel	780			
Utilities	785			
Miscellaneous	790			
Net Balance				

.18 Review of Financial Statements—Illustrative Representation Letter

[*Date of Accountant's Report*]

[*To the Accountant*]

In connection with your review of the [*identification of financial statements*] of [*name of client*] as of [*date*] and for the [*period of review*] for the purpose of expressing limited assurance that there are no material modifications that should be made to the statements in order for them to be in conformity with generally accepted accounting principles, we confirm, to the best of our knowledge and belief, the following representations made to you during your review.

1. The financial statements referred to above present the financial position of [*name of client*] in conformity with generally accepted accounting principles. In that connection, we specifically confirm that—

   a. The company's accounting principles, and the practices and methods followed in applying them, are as disclosed in the financial statements.

   b. There have been no changes during the [*period reviewed*] in the company's accounting principles and practices.

   c. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

   d. There are no material transactions that have not been properly reflected in the financial statements.

   e. There are no material losses (such as from obsolete inventory or purchase or sales commitments) that have not been properly accrued or disclosed in the financial statements.

   f. There are no violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, and there are no material liabilities or gain or loss contingencies that are required to be accrued or disclosed.

   g. The company has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged.

   h. There are no related party transactions or related amounts receivable or payable that have not been properly disclosed in the financial statements.

   i. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

   j. No events have occurred subsequent to the balance sheet date that would require adjustment to, or disclosure in, the financial statements.

2. We have advised you of all actions taken at meetings of stockholders, board of directors, and committees of the board of directors (or other similar bodies, as applicable) that may affect the financial statements.

3. We have responded fully to all inquiries made to us by you during your review.

. . . .
[*Name of Owner or Chief Executive Officer and Title*]

. . . .
[*Name of Chief Financial Officer and Title, where applicable*]

.19 Short-Form Checklist for a Review Engagement

Done by

1. Obtain an engagement letter. (AR sec. 100.08) ________
2. Determine whether your firm is independent; if the firm is not, go to step 3. If the firm is, go to step 4. (AR sec. 100.38) ________
3. Stop. Do not issue a review report. (However, it may be possible to issue a compilation report.) (AR sec. 100.38) ________
4. Acquire the necessary knowledge of client's industry accounting principles and practices. (AR sec. 100.24) ________
5. Acquire a general understanding of the nature of the client's business, including: ________
   a. its operating characteristics, and ________
   b. the nature of its assets, liabilities, revenues, and expenses. (AR sec. 100.26) ________
6. Apply appropriate inquiry and analytical procedures in order to obtain a reasonable basis for expressing limited assurance that there are no material modifications that should be made to the financial statements. (AR sec. 100.24 & .27) ________
7. Read the financial statements to determine whether, based on the information presented, they appear to conform to generally accepted accounting principles (GAAP) or an other comprehensive basis of accounting. Obtain reports of other accountants for subsidiaries, investee, etc., if any. Indicate division of responsibility if reference is made to other accountants. (AR sec. 100.27) ________
8. Perform additional procedures if information appears to be incorrect, incomplete, or otherwise unsatisfactory. (AR sec. 100.29) ________
9. Document in your workpapers matters covered in aforementioned steps 6 and 7. Also describe unusual matters that were considered and how they were resolved (step 8). (AR sec. 100.30) ________
10. Determine whether the inquiry and analytical procedures considered necessary to achieve limited assurance are incomplete or restricted in any way. If they are, go to step 12. (AR sec. 100.36) ________
11. Consider whether a compilation report should be issued rather than a review report. (A review that is incomplete or restricted is not an adequate basis for issuing a review report.) If the client has refused to provide additional or revised information, the accountant should withdraw from the engagement. (AR sec. 100.12 & .36) ________
12. Consider whether the financial statements contain known departures from GAAP or an other comprehensive basis of accounting, including disclosure departures. If they do, go to step 13. If they do not, go to step 14. (AR sec. 100.39) ________

13. Get client to revise the financial statements. Failing that, consider modifying your report by adding a separate paragraph or paragraphs. If the impact of the departure has been determined by management or is known by you, disclose the dollar effects in your report. (However, uncertainties and inconsistencies should not cause the report to be modified if they are properly disclosed.) Withdraw from the engagement if the departures are designed to mislead financial statement users. (AR sec. 100.39–.40) ________

14. Consider obtaining a representation letter from the client. (AR sec. 100.31) ________

15. Determine whether the basic financial statements are accompanied by information presented for supplementary analysis purposes. If they are, go to step 16. If they are not, go to step 17. (AR sec. 100.43) ________

16. Indicate the responsibility assumed for the supplementary information in your review report or in a separate report. The report should disclose whether *(a)* the supplemental information has been reviewed (as part of the basic financial statement review) and you are not aware of any needed material modification or *(b)* the supplemental information has not been reviewed but only compiled. (AR sec. 100.43) ________

17. Mark each page of the financial statements, including any supplemental data, "See accompanying notes and accountant's report." (AR sec. 100.34) ________

18. Date your report using the date the inquiry and analytical procedures were completed. (AR sec. 100.33) ________

19. Issue the financial statements and related review report. (AR sec. 100.32) ________

20. If subsequent to the date of the report, facts that would possibly cause the financial statements to be misleading are discovered (and were in existence at the report date), consult SAS No. 1 (AICPA, *Professional Standards,* vol. 1, AU sec. 561), SSARS 1, Interpretation No. 4 (AR sec. 9100.13–.15), and your attorney (SSARS 1 [AR sec. 100.42]). ________

Completed By____ Date__________

Note: All the AR sections listed in this checklist refer to SSARS 1 (AICPA, *Professional Standards,* vol. 2).

AAM Section 2400

Form and Content of Financial Statements

Statements Prepared

.01 The basic financial statements for a company that presents its financial statements in accordance with generally accepted accounting principles (GAAP) are:

- Balance sheet
- Income statement
- Statement of cash flows (either direct or indirect method)
- Statement of changes in stockholders' equity

Examples of financial statement presentations can be found in the AICPA Disclosure Checklist Series or the looseleaf service *Financial Statement Preparation Manual.*

.02 The description of accounting policies and the notes to the financial statements are considered part of the basic financial statements.

.03 Each financial statement presented should include the name of the company, the applicable statement title, and the date or time period covered. SSARS 1, paragraph 16 (AICPA, *Professional Standards,* vol. 2, AR sec. 100.16), states that each page of financial statements compiled by the accountant should contain a reference such as "See Accountant's Compilation Report." Each page of reviewed financial statements should refer to the accountant's review report, as required by SSARS 1, paragraph 34 (AICPA, *Professional Standards,* vol. 2, AR sec. 100.34).

.04 When the financial statements are either compiled or reviewed, some accountants prefer to follow the statement title with the word "unaudited." SSARS 1 does not require use of the word "unaudited" when associated with compiled or reviewed statements, nor does it prohibit its use.

Comparative Financial Statements

.05 There is no requirement to prepare comparative financial statements. However, Accounting Research Bulletin (ARB) No. 43, *Restatement and Revision of Accounting Research Bulletins,* chapter 2, paragraph 1, states that comparative statements in annual and other reports enhance the usefulness of such reports. ARB No. 43 also states that footnotes of the prior year should be repeated, or referred to, to the extent that they continue to be of significance.

.06 When comparative financial statements are presented, the accountant should issue an appropriate report for each period presented in accordance with SSARS 2. Comparative financial statements may contain statements for which the level of service provided in each period is different. Many times the level of service is indicated in the statement title as follows:

ABC COMPANY

BALANCE SHEETS

As of December 31, 19X2 (Reviewed) and 19X1 (Compiled)

.07 Illustrative reports on comparative financial statements can be found in section 2500, paragraphs .38–.39 and .46–.47.

Notes to Financial Statements

.08 The notes to the financial statements, as a part of the basic statements, are the responsibility of management. The accountant should explain the statements and the footnotes to the client so that the client understands the statements in sufficient depth to take full responsibility for them. The practitioner who assists the client in preparing the financial statements or who totally prepares them must be careful in the wording of the notes. The accountant should avoid wording the notes in such a way as would imply that they are the responsibility of the accountant. For example, words such as "we," "our," and "the client," should be avoided. When referring to the client, some accountants prefer to use the terms "the Company" or "Management."

.09 All of the disclosures required by GAAP should be made either on the face of the financial statements or in the notes thereto. In a compilation engagement, the client may elect to omit substantially all disclosures. (A more detailed discussion of this appears in section 2500.) For a list of required disclosures, the accountant and the client may wish to review the applicable AICPA Disclosure Checklists.

Supplementary Information

.10 The accountant's report on supplementary information is discussed in SSARS 1, paragraph 43 (AICPA, *Professional Standards,* vol. 2, AR sec. 100.43), which states that when the basic financial statements are accompanied by information presented for supplementary analysis purposes, the accountant should clearly indicate the degree of responsibility he or she is taking regarding the other information. The supplementary information is generally separated from the basic financial statements and many accountants believe it should be presented after the basic statements.

.11 When the accountant compiles both the basic financial statements and the other data presented for supplementary analysis purposes only, his or her compilation report should include the supplementary information.

.12 When the accountant has reviewed the basic financial statements, the accountant may indicate the degree of responsibility he or she is taking with respect to the other information by an explanation in his or her review report or in a separate report on the other data, that the review has been made for the purpose of expressing limited assurance that there are no material modifications that should be made to the financial statements for them to be in conformity with GAAP, and either—

a. The other data accompanying the financial statements are presented for supplementary analysis purposes only and have been subjected to the inquiry and analytical procedures applied in the review of the financial statements, and the accountant did not become aware of any material modifications that should be made to such data, or

b. The other data accompanying the financial statements are presented for supplementary analysis purposes and have not been subjected to the inquiry and analytical procedures applied in the review of the financial statements, but were compiled from information that is the representation of management, without audit or review, and the accountant does not express an opinion or any other form of assurance on such data.

.13 Illustrative accountants' reports on supplementary information accompanying compiled and reviewed financial statements can be found in section 2500, paragraphs .40 and .48–.49, respectively.

Subsequent Discovery of Facts

.14 Subsequent to the report date for compiled or reviewed financial statements, the accountant may become aware of facts that may have existed at the report date which might have caused the accountant to believe that information supplied by the client was incorrect, incomplete, or otherwise unsatisfactory. SSARS 1, paragraph 42 (AICPA, *Professional Standards,* vol. 2, AR sec. 100.42), states that in those circumstances, the accountant may wish to consider the guidance in SAS No. 1, section 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* (AICPA, *Professional Standards,* vol. 1, AU sec. 561), in determining the proper course of action.

.15 Interpretation 4 of SSARS 1, *Discovery of Information After the Date of the Accountant's Report* (AICPA, *Professional Standards,* vol. 2, AR sec. 9100.13–.15), discusses two factors the accountant might consider when determining the appropriate course of action regarding the subsequent discovery. The two factors discussed are (1) the reliability of the information and (2) the existence of persons known to be relying on or likely to rely on the financial statements. If the accountant determines that the information is reliable and there are persons known to be relying on or likely to rely on the information, the accountant would ordinarily conclude that those individuals should be notified in an appropriate manner.

.16 Both SSARS 1, paragraph 42, and SSARS 1, Interpretation 4, indicate that because of the legal implications involved in actions contemplated under SAS No. 1 section 561 (AICPA, *Professional Standards,* vol. 1, AU sec. 561), and Interpretation 4 discussed in paragraphs .14 and .15, the accountant should consider consulting an attorney.

AAM Section 2500

Accountants' Reports

.01 The users of financial statements should be able to easily identify the degree of responsibility that an accountant is taking with respect to a specific set of financial statements. The usual method of conveying the amount of responsibility taken is the written accountant's report. Therefore, whenever an accountant reviews or compiles financial statements, he or she should issue a report prepared in accordance with the statements on standards for accounting and review services.

.02 According to SSARS 1, paragraph 6 (AICPA, *Professional Standards,* vol. 2, AR sec. 100.06), an accountant should not consent to the use of his or her name in a document or written communication containing unaudited financial statements unless—

a. He or she has compiled or reviewed the financial statements and his or her report accompanies them, or

b. The financial statements are accompanied by an indication that the accountant has not compiled or reviewed the financial statements and that he or she assumes no responsibility for them.

.03 If an accountant becomes aware that his or her name has been improperly used in a client-prepared document containing unaudited financial statements, he or she should advise his or her client that use of his or her name is inappropriate. The accountant should consider what other courses of action need to be taken, including consulting with his or her attorney.

.04 An accountant should not submit unaudited financial statements to the client or third parties unless, as a minimum service, he or she has compiled the financial statements in accordance with statements on standards for accounting and review services.

.05 If the accountant has performed more than one service, he or she should issue the report which is appropriate for the highest level of service performed. For example, if an accountant performs both a compilation and an audit of financial statements, the appropriate report to issue would be the audit report.

Compilation Report

.06 SSARS 1, paragraph 14 (AICPA, *Professional Standards,* vol. 2, AR sec. 100.14), states that financial statements compiled by an accountant should be accompanied by a report that states—

a. A compilation has been performed in accordance with standards established by the American Institute of Certified Public Accountants.

b. A compilation is limited to presenting in the form of financial statements information that is the representation of management.

c. The financial statements have not been audited or reviewed and, accordingly, the accountant does not express an opinion or any other form of assurance on them.

Any other procedures performed by the accountant either before or during the compilation engagement should not be described in the accountant's report. An example of the accountant's standard compilation report can be found in paragraph .33.

.07 Each page of the financial statements compiled by the accountant should include a reference to the accountant's report, such as, "See Accountant's Compilation Report."

.08 The date of the completion of the compilation should be used as the date of the accountant's report.

.09 An accountant may be asked to issue a compilation report on only one financial statement and not on the other related financial statements. For example, reporting on the balance sheet, but not on the related statements of income, retained earnings, and cash flows. SSARS 1 does not prohibit the accountant from performing such a service.

.10 If an accountant is not independent, he or she may still issue a compilation report, provided that he or she has followed the appropriate authoritative literature during the engagement. The accountant should disclose his or her lack of independence, however the reason should not be described. The following statement should be included as the last paragraph of the report:

I am (we are) not independent with respect to XYZ Company.

Review Report

.11 SSARS 1, paragraph 32 (AICPA, *Professional Standards,* vol. 2, AR sec. 100.32), states that financial statements reviewed by an accountant should be accompanied by a report which states—

a. A review has been performed in accordance with standards established by the American Institute of Certified Public Accountants.

b. All information included in the financial statements is the representation of management of the entity.

c. A review consists principally of inquiries of company personnel and analytical procedures applied to financial data.

d. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements taken as a whole and, accordingly, no such opinion is expressed.

e. The accountant is not aware of any material modifications that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles (GAAP), other than those modifications, if any, indicated in his or her report.

Any other procedures performed by the accountant either before or during the review engagement should not be described in the accountant's report. An example of the accountant's standard review report can be found in paragraph .42.

.12 Each page of the financial statements reviewed by the accountant should include a reference to the accountant's report, such as, "See Accountant's Review Report."

.13 The date of the completion of the accountant's inquiry and analytical procedures should be used as the date of the accountant's report.

.14 If an accountant is unable to perform the necessary inquiry and analytical procedures to achieve the limited assurance which is contemplated by a review, then the review is incomplete. Therefore, he or she would not have an adequate basis for issuing a review report. If this is the case, then the accountant should consider whether in this situation the incomplete review also precludes him or her from issuing a compilation report on the financial statements. A change in the level of service is discussed in section 2200, paragraphs .08 through .17.

.15 An accountant may be asked to issue a review report on only one financial statement and not on the other related financial statements. For example, reporting on the balance sheet, but not on the related statements of income, retained earnings and cash flows. According to SSARS 1, paragraph 37 (AICPA, *Professional Standards,* vol. 2, AR sec. 100.37), the accountant may do so as long as the scope of the analytical procedures has not been limited.

.16 SSARS 1, paragraph 38 (AICPA, *Professional Standards,* vol. 2, AR sec. 100.38), precludes the accountant from issuing a review report for an entity with respect to which the accountant is not independent.

Modifications to Standard Report

Omission of Substantially All Disclosures

.17 SSARS 1, paragraphs 19 through 21 (AICPA, *Professional Standards,* vol. 2, AR sec. 100.19–.21), discusses reporting on financial statements that omit substantially all disclosure. An accountant may compile financial statements that omit substantially all disclosure required by GAAP, provided that this omission is clearly indicated in his or her report, and is not, to the accountant's knowledge, undertaken with the intention to mislead the user of the financial statements. Examples of the appropriate reports under these circumstances can be found in paragraphs .34 and .35.

.18 If the entity wants to include disclosures about only a few matters in the form of notes to the financial statements, then that information should be clearly labeled as selected information (for example, "Selected Information—Substantially All Disclosures Required by Generally Accepted Accounting Principles Are Not Included").

.19 If the financial statements are compiled in accordance with a comprehensive basis of accounting other than GAAP and disclosure is not made of the basis used, then the basis should be disclosed in the accountant's report.

Omission of Statement of Cash Flows

.20 FASB Statement No. 95, *Statement of Cash Flows,* paragraph 3, requires that a business enterprise that provides a set of financial statements that reports both financial position and results of operations should include a statement of cash flows for each period for which results of operations are reported. Therefore, omitting this statement is a departure from GAAP. A GAAP departure must be disclosed in a separate paragraph of the accountant's report. If the statement of cash flows is omitted, then the following paragraph should be added to the accountant's compilation or review report:

> A statement of cash flows for the year ended December 31, 19XX, has not been presented. Generally accepted accounting principles require that such a statement be presented when financial statements purport to present financial position and results of operation.

The first paragraph of the report should also be modified accordingly. Examples of the full accountant's reports, both compilation and review, can be found in paragraphs .35 and .43, respectively.

GAAP Departures

.21 An accountant who is engaged to compile or review financial statements may become aware of a GAAP departure which is material to the financial statements taken as a whole. The accountant should ask management to revise the financial statements. If management refuses to revise the financial statements, then the accountant should consider whether modification of his or her standard report is sufficient to disclose the departure.

.22 SSARS 1, paragraph 40 (AICPA, *Professional Standards,* vol. 2, AR sec. 100.40), states that if the accountant decides that modification of the standard report is appropriate, then the departure should be disclosed in a separate paragraph of the report. This disclosure should include the effects of the departure on the financial statements if management has determined these effects, or as part of the procedures performed, the accountant has been able to determine the effects. The accountant is not required to determine the effects if management has not done so and this is clearly stated in the report. Examples of both compilation and review reports can be found in paragraphs .36–.37 and .43–.45, respectively.

.23 If the accountant believes that modification of the standard compilation or review report is not sufficient to indicate the deficiencies of the financial statements taken as a whole, then according to SSARS 1, paragraph 41 (AICPA, *Professional Standards,* vol. 2, AR sec. 100.41), the accountant should withdraw from the engagement and provide no further services with respect to that set of financial statements. The accountant may also want to contact his or her attorney.

Scope Limitations

.24 According to SSARS 1, paragraph 36 (AICPA, *Professional Standards,* vol. 2, AR sec. 100.36), if an accountant is unable to perform the necessary inquiry and analytical procedures to achieve the limited assurance which is contemplated by a review, then the review is incomplete. Therefore, he or she would not have an adequate basis for issuing a review report. If this is the case, then the accountant should consider whether in this situation the incomplete review also precludes him or her from issuing a compilation report on the financial statements.

.25 The decision to issue a compilation report under these circumstances is a matter of professional judgment. Interpretation No. 14 of SSARS 1 "Reporting on Financial Statements When the Scope of the Accountant's Procedures Has Been Restricted" (AICPA, *Professional Standards,* vol. 2, AR sec. 9100.50–.53), offers guidance on making this judgment.

.26 Interpretation No. 14 states that the accountant should consider whether the client has refused to provide additional information or make requested revisions, or the client is unable to provide such information because of circumstances beyond his or her control. If a client *refuses* to furnish this additional information, then according to SSARS 1, paragraph 12 (AICPA, *Professional Standards,* vol. 2, AR sec. 100.12), the accountant should withdraw from the engagement.

.27 If the client is unable to provide the information because of circumstances beyond his or her control, the accountant should consider the reasons for the limitation. Before deciding to issue a compilation report he or she should also consider the impact of the limitation on the usefulness of the financial statements. If the accountant decides to issue a compilation report under these circumstances, he or she should consider adding an explanatory paragraph that describes the nature of the limitation.

Uncertainties

.28 Interpretation No. 11 of SSARS 1, "Reporting on Uncertainties" (AICPA, *Professional Standards,* vol. 2, AR sec. 9100.33–.40), offers guidance on the accountant's reporting obligations when there is an uncertainty in the financial statements. Disclosure guidelines for uncertainties can be found in FASB Statements No. 5, *Accounting for Contingencies,* and No. 47, *Disclosure of Long-Term Obligations.*

.29 The accounting literature does not provide any guidance concerning the necessary disclosures for an uncertainty caused by doubts about an entity's ability to continue as a going concern. This guidance is found in SAS No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern,* paragraphs 10 and 11 (AICPA, *Professional Standards,* vol. 1, AU sec. 341.10–.11).

.30 If the accountant believes that the disclosure of an uncertainty in the financial statements is inadequate, then he or she should look to the guidance on reporting on GAAP departures, paragraphs .21–.23, for the necessary modifications to the report. If the accountant believes that the disclosure of an uncertainty in the financial statements is adequate, then according to SSARS 1, paragraph 40, footnote 14 (AICPA, *Professional Standards,* vol. 2, AR sec. 100.40), there is no need to modify the accountant's standard report, either compilation or review.

.31 Although it is not required, an accountant may wish to add an explanatory paragraph to the compilation or review report to emphasize the existence of an uncertainty. An example of an explanatory paragraph follows:

> As discussed in Note X, certain conditions indicate that the Company may be unable to continue as a going concern. The accompanying financial statements do not include any adjustments to the financial statements that might be necessary should the Company be unable to continue as a going concern.

Examples of full compilation and review reports for this situation can be found in paragraphs .41 and .50, respectively.

Illustrative Reports

.32 The following paragraphs present illustrative compilation and review reports for the situations described in this booklet. For more sample reports you should consult the AICPA's *Audit and Accounting Manual,* sections 10,400 and 10,500.

Compilation Reports

.33 Accountant's Standard Compilation Report

I (We) have compiled the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (We) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

(*Source*: SSARS 1, paragraph 17 [AR sec. 100.17], as amended by SSARS 5, paragraph 2 [AR sec. 500.02])

.34 Omission of Substantially All Disclosures

I (We) have compiled the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (We) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Management has elected to omit substantially all of the disclosures required by generally accepted accounting principles. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the company's financial position, results of operations, and its cash flows. Accordingly these financial statements are not designed for those who are not informed about such matters.

(*Source*: SSARS 1, paragraph 21 [AICPA, *Professional Standards,* vol. 2, AR sec. 100.21], as amended by SSARS 5, paragraph 2 [AICPA, *Professional Standards,* vol. 2, AR sec. 500.02])

.35 Omission of Statement of Cash Flows and Substantially All Disclosures

I (We) have compiled the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income and retained earnings for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (We) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Management has elected to omit substantially all of the disclosures and the statement of cash flows required by generally accepted accounting principles. If the omitted disclosures and the statement of cash flows were included in the financial statements, they might influence the user's conclusions about the company's financial position, results of operations, and its cash flows. Accordingly these financial statements are not designed for those who are not informed about such matters.

(*Source*: SSARS 1, paragraph 21 [AICPA, *Professional Standards,* vol. 2, AR sec. 100.21], as amended by SSARS 5, paragraph 2 [AICPA, *Professional Standards,* vol. 2, AR sec. 500.02])

.36 Departure From GAAP—Omission of Statement of Cash Flows

I (We) have compiled the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income and retained earnings for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (We) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them. However, I (we) did become aware of a departure from generally accepted accounting principles that is described in the following paragraph.

A statement of cash flows for the year ended December 31, 19XX, has not been presented. Generally accepted accounting principles require that such a statement be presented when the financial statements purport to present financial position and results of operations.

(*Source*: SSARS 1, paragraph 40 [AICPA, *Professional Standards,* vol. 2, AR sec. 100.40], as amended by SSARS 5, paragraph 2 [AICPA, *Professional Standards,* vol. 2, AR sec.500.02])

.37 Departure From GAAP—Accounting Principles Not Generally Accepted

I (We) have compiled the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (We) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them. However, I (we) did become aware of a departure (certain departures) from generally accepted accounting principles that is (are) described in the following paragraph.

As disclosed in Note X to the financial statements, generally accepted accounting principles require that land be stated at cost. Management has informed me (us) that the company has stated its land at appraised value and that, if generally accepted accounting principles had been followed, the land account and stockholders' equity would have been decreased by $500,000.

(*Source*: SSARS 1, paragraph 40 [AICPA, *Professional Standards,* vol. 2, AR sec. 100.40], as amended by SSARS 5, paragraph 2 [AICPA, *Professional Standards,* vol. 2, AR sec. 500.02])

.38 Compilation Each Period—Comparative Financial Statements

I (We) have compiled the accompanying balance sheets of XYZ Company as of December 31, 19X2 and 19X1, and the related statements of income, retained earnings, and cash flows for the years then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (We) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

(*Source*: SSARS 2, paragraph 9 [AICPA, *Professional Standards,* vol. 2, AR sec. 200.09], as amended by SSARS 5, paragraph 2 [AICPA, *Professional Standards,* vol. 2, AR sec. 500.02])

.39 Compilation Report on Current Period and Reference to Review Report on Prior Period—Comparative Financial Statements

I (We) have compiled the accompanying balance sheets of XYZ Company as of December 31, 19X2 and 19X1, and the related statements of income, retained earnings, and cash flows for the years then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (We) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

The accompanying 19X1 financial statements of XYZ Company were previously reviewed by me (us) and my (our) report dated March 1, 19X2, stated that I was (we were) not aware of any material modifications that should be made to those statements in order for them to be in conformity with generally accepted accounting principles. I (We) have not performed any procedures in connection with that review engagement after the date of my (our) report on the 19X1 financial statements.

(*Source*: SSARS 2, paragraph 12 [AICPA, *Professional Standards,* vol. 2, AR sec. 200.12], as amended by SSARS 5, paragraph 2 [AICPA, *Professional Standards,* vol. 2, AR sec. 500.02])

.40 Financial Statements Accompanied by Supplementary Information

I (We) have compiled the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings, and cash flows for the year then ended, and the accompanying (identify the supplementary information, for example, schedules of costs of goods sold and selling, general and administrative expenses), which are presented only for supplementary analysis purposes, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements and supplementary schedules information that is the representation of management (owners). I (We) have not audited or reviewed the accompanying financial statements and supplementary schedules and, accordingly, do not express an opinion or any other form of assurance on them.

(*Source*: SSARS 1, paragraph 43 [AICPA, *Professional Standards,* vol. 2, AR sec. 100.43])

.41 Uncertainty With Note Disclosure—Entity's Continued Existence ("Going Concern")

I (We) have compiled the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (We) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

As discussed in Note X, certain conditions indicate that the Company may be unable to continue in existence. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts or classification of liabilities that might be necessary should the Company be unable to continue in existence.*

*Although not a requirement, an accountant may wish to draw attention to an uncertainty in an explanatory paragraph of his or her compilation report.

(*Source*: SSARS 1, paragraph 40 [AICPA, *Professional Standards,* vol. 2, AR sec. 100.40], and Interpretation No. 11 of SSARS 1 [AICPA, *Professional Standards,* vol. 2, AR sec. 9100.38])

Review Reports

.42 Accountant's Standard Review Report

I (We) have reviewed the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

(*Source*: SSARS 1, paragraph 35 [AICPA, *Professional Standards,* vol. 2, AR sec. 100.35])

.43 Departure From GAAP—Omission of Statement of Cash Flows

I (We) have reviewed the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income and retained earnings for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, with the exception of the matter described in the following paragraph, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

A statement of cash flows for the year ended December 31, 19XX, has not been presented. Generally accepted accounting principles require that such a statement be presented when financial statements purport to present financial position and results of operations.

(*Source*: SSARS 1, paragraph 40 [AICPA, *Professional Standards,* vol. 2, AR sec. 100.40])

.44 Departure From GAAP—Accounting Principles Not Generally Accepted

I (We) have reviewed the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, with the exception of the matter described in the following paragraph, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

As disclosed in Note X to the financial statements, generally accepted accounting principles require that inventory cost consist of material, labor, and overhead. Management has informed me (us) that the inventory of finished goods and work in process is stated in the accompanying financial statements at material and labor cost only, and that the effects of this departure from generally accepted accounting principles on financial position, results of operations, and cash flows have not been determined.

(*Source*: SSARS 1, paragraph 40 [AICPA, *Professional Standards,* vol. 2, AR sec. 100.40])

.45 Departure From GAAP—Change in Accounting Principle Without Reasonable Justification

I (We) have reviewed the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, with the exception of the matter described in the following paragraph, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

As disclosed in Note X to the financial statements, the company has adopted (description of newly adopted method), whereas it previously used (description of previous method). Although the (description of newly adopted method) is in conformity with generally accepted accounting principles, the company does not appear to have reasonable justification for making a change as required by APB Opinion No. 20, *Accounting Changes.*

(*Source*: SSARS 1, paragraph 40 [AICPA, *Professional Standards,* vol. 2, AR sec. 100.40])

.46 Review Each Period—Comparative Financial Statements

I (We) have reviewed the accompanying balance sheets of XYZ Company as of December 31, 19X2 and 19X1, and the related statements of income, retained earnings, and cash flows for the years then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) reviews, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

(*Source*: SSARS 2, paragraph 9 [AICPA, *Professional Standards,* vol. 2, AR sec. 200.09])

.47 Review Report on Current Period and Reference to Compilation Report on Prior Period—Comparative Financial Statements

I (We) have reviewed the accompanying balance sheet of XYZ Company as of December 31, 19X2, and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the 19X2 financial statements in order for them to be in conformity with generally accepted accounting principles.

The accompanying 19X1 financial statements of XYZ Company were compiled by me (us). A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (we) have not audited or reviewed the 19X1 financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

(*Source*: SSARS 2, paragraph 10 [AICPA, *Professional Standards,* vol. 2, AR sec. 200.10])

.48 Financial Statements Accompanied by Supplementary Information Subjected to Inquiry and Analytical Procedures

I (We) have reviewed the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

My (Our) review was made for the purpose of expressing limited assurance that there are no material modifications that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles. The information included in the accompanying (identify the supplementary information, for example, schedules of cost of goods sold, selling, general and administrative expenses) is presented only for supplementary analysis purposes. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements and I am (we are) not aware of any material modifications that should be made thereto.

(*Source*: SSARS 1, paragraph 43 [AICPA, *Professional Standards,* vol. 2, AR sec. 100.43])

.49 Financial Statements Accompanied by Supplementary Information Not Subjected to Inquiry and Analytical Procedures

I (We) have reviewed the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

My (Our) review was made for the purpose of expressing limited assurance that there are no material modifications that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles. The information included in the accompanying (identify the supplementary information, for example, schedules of cost of goods sold, selling, general and administrative expenses) is presented only for supplementary analysis purposes. Such information has not been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, but was compiled from information that is the representation of management, without audit or review. Accordingly, I (we) do not express an opinion or any other form of assurance on the supplementary information.

(*Source*: SSARS 1, paragraph 43 [AICPA, *Professional Standards,* vol. 2, AR sec. 100.43])

.50 Uncertainty With Note Disclosure—Entity's Continued Existence ("Going Concern")

I (We) have reviewed the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

As discussed in Note X, certain conditions indicate that the Company may be unable to continue in existence. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.*

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*Although not a requirement, an accountant may wish to draw attention to an uncertainty in an explanatory paragraph of his or her review report.

(*Source*: SSARS 1, paragraph 40 [AICPA, *Professional Standards,* vol. 2, AR sec. 100.40], and Interpretation No. 11 of SSARS 1 [AICPA, *Professional Standards,* vol. 2, AR sec. 9100.38])

AAM Section 2600

Special Areas

Prescribed Forms

.01 SSARS 3 allows an accountant to issue a compilation report on a prescribed form which calls for a departure from generally accepted accounting principles (GAAP) by using a measurement principle different from GAAP or by not requiring the disclosures required by GAAP. A prescribed form is defined in SSARS 3, paragraph 2 (AICPA, *Professional Standards,* vol. 2, AR sec. 300.02), as "any standard preprinted form designed or adopted by a body to which it is to be submitted, for example, forms used by industry trade associations, credit agencies, banks, and governmental and regulatory bodies other than those concerned with the sale or trading of securities."

.02 Generally, it is assumed that the information required by a prescribed form meets the needs of the body that required the form to be completed, and, therefore, it is not necessary for that body to be advised of departures from GAAP that are required by the form. An example of the compilation report to be issued when the unaudited financial statements of a nonpublic entity are included in a prescribed form that calls for departures from GAAP can be found in paragraph .03.

.03 Financial Statements Included in Certain Prescribed Forms

I (We) have compiled the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings, and cash flows for the year then ended included in the prescribed form, in accordance with standards established by the American Institute of Certified Public Accountants.

My (Our) compilation was limited to presenting in the form prescribed by ABC Bank information that is the representation of management (owners). I (We) have not audited or reviewed the financial statements referred to above and, accordingly, do not express an opinion or any other form of assurance on them.

These financial statements (including related disclosures) are presented in accordance with the requirements of ABC Bank, which differ from generally accepted accounting principles. Accordingly, these financial statements are not designed for those who are not informed about such differences.

(*Source*: SSARS 3, paragraph 3 [AICPA, *Professional Standards,* vol. 2, AR sec. 300.03], as amended by SSARS 5, paragraph 2 [AICPA, *Professional Standards,* vol. 2, AR sec. 500.02])

.04 If, during the compilation engagement, the accountant becomes aware of a departure from GAAP not required by the prescribed form he or she should follow the guidance discussed in section 2500, paragraphs .21–.23, on GAAP departures. If the accountant finds that there is a departure from the requirements of the prescribed form, he or she should consider the departure the same as he or she would a departure from GAAP in determining the effects on the report. An example of a compilation report for departure from GAAP which was not called for by the prescribed form can be found in paragraph .05.

.05 Financial Statements Included in Certain Prescribed Forms—Departure From GAAP Not Called for by the Prescribed Forms

I (We) have compiled the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings, and cash flows for the year then ended included in the prescribed form, in accordance with standards established by the American Institute of Certified Public Accountants.

My (Our) compilation was limited to presenting in the form prescribed by ABC Trade Association information that is the representation of management (owners). I (We) have not audited or reviewed the financial statements referred to above and, accordingly, do not express an opinion or any other form of assurance on them. However, I (we) did become aware of a departure from generally accepted accounting principles that is not called for by the prescribed form or related instructions, as described in the following paragraph.

As disclosed in Note X to the financial statements, generally accepted accounting principles require that land be stated at cost. Management has informed me (us) that the company has stated its land at appraised value and that, if generally accepted accounting principles had been followed, the land account and the stockholders' equity would have been decreased by $500,000.

These financial statements (including related disclosures) are otherwise presented in accordance with the requirements of ABC Trade Association, which also differ from generally accepted accounting principles. Accordingly, these financial statements are not designed for those who are not informed about such differences.

(*Source*: SSARS 3, paragraph 4 [AICPA, *Professional Standards,* vol. 2, AR sec. 300.04])

.06 SSARS 3, paragraph 5 (AICPA, *Professional Standards,* vol. 2, AR sec. 300.05), states that if the accountant is asked to sign a preprinted form which does not conform with the guidance found in SSARS 3 or SSARS 1, he or she should not sign the form. He or she should add the appropriate report to the prescribed form.

Specified Elements

.07 SSARS 1 provides guidance on the compilation and review of financial statements. Some accountants are asked to issue review reports on separate presentations of specified elements, accounts or items of financial statements or to report on agreed-upon procedures. Since this type of presentation is not a financial statement, guidance for this type of engagement is not found in the statements on standards for accounting and review services. This type of presentation should be reported on in accordance with SAS No. 14, *Special Reports* (AICPA, *Professional Standards,* vol. 1, AU sec. 621), and SAS No. 35, *Special Reports—Applying Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement* (AICPA, *Professional Standards,* vol. 1, AU sec. 622).

Appendix

*Commonly Asked Questions About Compilation and Review Engagements**

1. **Question**—An accountant processes client input on a computer and produces monthly statements that do not include adjustments for changes in inventories, prepayments, and accruals, and do not include notes. Adjustments are recorded annually. Can the accountant state in his report that adjustments to make the statements not misleading have not been made?
   Answer—No. The specific departures from GAAP must be disclosed. Paragraphs 39 and 41 of SSARS 1, *Compilation and Review of Financial Statements* (AICPA, *Professional Standards,* vol. 2, AR sec. 100.39 & .41), are clear that the accountant must consider whether a modified report is adequate to disclose the departures. Paragraph 40 (AICPA, *Professional Standards,* vol. 2, AR sec. 100.40), describes the form of report when the accountant concludes that a modified report is appropriate. The departures should be disclosed in a separate paragraph, including the effects of the departures on the financial statements, if known to the accountant, or he should state that the effects have not been determined.

2. **Question**—Appendix A of SSARS 1, *Compilation and Review of Financial Statements* (AICPA, *Professional Standards,* vol. 2, AR sec. 100.52), lists certain suggested inquiries for a review engagement. Is a "yes" or "no" response sought?
   Answer—Appendix A states that the list is not intended to serve as a checklist, but to describe the general areas in which inquiries might be made. The inquiries in Appendix A are presented for illustrative purposes only. They do not necessarily apply to every engagement, nor are they meant to be all-inclusive. The accountant has to bear in mind that he must achieve limited assurance about the financial statements. His inquiry and analytical procedures should be designed to provide him with that assurance. A review should not be treated as a mechanical exercise to obtain "yes" or "no" answers to the illustrative inquiries. The accountant should exercise professional judgment based on all relevant circumstances in designing his inquiries and evaluating responses. While some of the inquiries can be answered "yes" or "no," others cannot because they are asking "what are the procedures. . . ."

3. **Question**—An accountant prepares the general ledger from information supplied by a client. He prepares, from the general ledger, monthly comparative trial balances on analysis paper for the client's use. The trial balance is classified as assets, liabilities, equity, sales, cost of sales, and expenses. Do the reporting requirements of SSARS 1, *Compilation and Review of Financial Statements* (AICPA, *Professional Standards,* vol. 2, AR sec. 100), apply to such a trial balance?
   Answer—The accounts in a general ledger are normally organized in the order that they appear in the financial statements. Consequently, a working trial balance would normally

*Extracted from AICPA, *Technical Practice Aids.*

list debits and credits in that same order and under this condition would not be subject to the reporting requirements of SSARS 1. However, when the accountant adds captions to classify and provides subtotals and/or totals for each classification, the working trial balance becomes a set of financial statements. Accordingly, the accountant should adhere to the reporting requirements of SSARS 1.

4. **Question**—Should each page of compiled or reviewed financial statements be marked unaudited?
   Answer—SSARS 1 does not require nor prohibit marking each page of compiled or reviewed financial statements of a nonpublic entity as unaudited. It does, however, require that each page of the financial statements should include a reference such as "See Accountant's Compilation Report" or "See Accountant's Review Report," as appropriate.

   SAS No. 26, *Association With Financial Statements,* paragraph 5 (AICPA, *Professional Standards,* vol. 1, AU sec. 504.05), requires that each page of unaudited financial statements of a public entity should be clearly and conspicuously marked as unaudited.

5. **Question**—What constitutes adequate disclosure in compiled or reviewed financial statements prepared on a comprehensive basis of accounting other than generally accepted accounting principles?
   Answer—Whether an accountant or auditor is reporting on compiled, reviewed, or audited financial statements, he should use the same criteria to evaluate disclosure. An Auditing Interpretation, "Adequacy of Disclosure in Financial Statements Prepared on a Comprehensive Basis of Accounting Other Than Generally Accepted Accounting Principles" (AICPA, *Professional Standards,* vol. 1, AU sec. 9621.34–.39), states in part:

   > In addition, when the financial statements contain items that are the same as, or similar to, those in financial statements prepared in conformity with generally accepted accounting principles, the same degree of informative disclosures is generally appropriate. For example, financial statements prepared on an income tax basis or a modified cash basis of accounting usually reflect depreciation, long-term debt and owners' equity. Thus, the informative disclosures for depreciation, long-term debt and owners' equity in such financial statements should be comparable to those in financial statements prepared in conformity with generally accepted accounting principles.

6. **Question**—Are supporting schedules of balance sheet or income statement accounts considered supplementary information? If so, what are the reporting requirements in a review or compilation engagement?
   Answer—SSARS 1, paragraph 43 (AICPA, *Professional Standards,* vol. 2, AR sec. 100.43), pertains to reporting on supplementary information that accompanies the basic financial statements in a review or compilation engagement. The basic financial statements are usually considered to be the balance sheet, statement of income, statement of retained earnings, or changes in stockholders' equity, and statement of cash flows. Descriptions of accounting policies and notes to financial statements are also considered part of the basic financial statements and are usually identified as such, for example, by a legend on the balance sheet, etc., indicating that the notes are an integral part of the financial statements. If supporting schedules of balance sheet or income statement accounts are not identified as being part of the basic financial statements, they are considered supplementary information.

   If the information does not accompany the basic financial statements, it is not supplementary information. Under SSARS 1, paragraph 4 (AICPA, *Professional Stand-*

ards, vol. 2, AR sec. 100.04), it does not meet the definition of a financial statement, and therefore, the accountant does not have a reporting obligation. However, the accountant may want to issue a report to clarify his responsibility. This can be done by modifying the standard compilation report (SSARS 1, paragraph 17 [AICPA, *Professional Standards,* vol. 2, AR sec. 100.17]) to refer to the schedules.

7. **Question**—Some nonpublic entities, as defined in SSARS 2, *Reporting on Comparative Financial Statements,* paragraph 1, footnote 2 (AICPA, *Professional Standards,* vol. 2, AR sec. 200.01), such as privately owned brokers or dealers in securities, may be required to include unaudited financial statements in a form prescribed by a regulatory body concerned with the sale or trading of securities, such as the National Association of Securities Dealers or the New York Stock Exchange. Does the first sentence of SSARS 3, *Compilation Reports on Financial Statements Included in Certain Prescribed Forms,* paragraph 2 (AICPA, *Professional Standards,* vol. 2, AR sec. 300.02), preclude an accountant from using the alternative form of report illustrated in SSARS 3 in those circumstances?

   Answer—No. SSARS 3 excludes from the definition of a prescribed form those forms "... concerned with the sale or trading of securities." In that context, "securities" refers to those issued or to be issued by the entity submitting the prescribed form. Accordingly, an accountant is not precluded in the circumstances described in this question from using the alternative form of compilation report illustrated in SSARS 3 if the entity is not submitting the prescribed form in connection with the actual or contemplated sale or trading of its own securities.

8. **Question**—SSARS 3, *Compilation Reports on Financial Statements Included in Certain Prescribed Forms,* paragraph 3 (AICPA, *Professional Standards,* vol. 2, AR sec. 300.03), states that "in the absence of a requirement or a request for a review report on the financial statements included in a prescribed form, the following form of standard compilation report may be used when the unaudited financial statements of a nonpublic entity are included in a prescribed form that calls for departure from generally accepted accounting principles. . . ." Can an accountant perform a review of financial statements included in a prescribed form that are presented on a basis other than generally accepted accounting principles?

   Answer—A review can be performed on the financial statements included in a prescribed form prepared under any comprehensive basis of accounting (as defined in SAS No. 14, *Special Reports,* paragraph 4 [AICPA, *Professional Standards,* vol. 1, AU sec. 621.04]), but SSARS 1 reporting standards would apply, not those in SSARS 3. SSARS 3, paragraph 1 (AICPA, *Professional Standards,* vol. 2, AR sec. 300.01), states in part:

   > The requirements of SSARS 1 and SSARS 2 are applicable when the unaudited financial statements of a nonpublic entity are included in a prescribed form. This statement amends SSARS 1 and SSARS 2 to provide for an alternative form of standard compilation report when the prescribed form or related instructions call for departure from generally accepted accounting principles by specifying a measurement principle not in conformity with generally accepted accounting principles or by failing to request the disclosures required by generally accepted accounting principles.

   Accordingly, where the prescribed form calls for the departures referred to above, a review report expressing limited assurance under SSARS 1 would be appropriate provided that, as required by SSARS 1, paragraph 40 (AICPA, *Professional Standards,* vol. 2, AR sec. 100.40), the review report discloses the departures from generally accepted accounting principles, including the departures called for by the prescribed form.

9. **Question**—A firm recently purchased a new computer which will enable it to have some of its clients access this computer via a phone terminal in their office. The client will input all information into the firm's computer including journal entries and will be able to prepare its own financial statements which will be received via the client's phone terminal. No one in the accounting firm directly inputs data into the computer or sees the financial statements. Is the accounting firm required to attach a compilation report for this type service?
Answer—No. If the client directly inputs data from its office into the computer and the financial statements are received in the client's office directly from the computer, the firm does not have a reporting responsibility. However, if the firm inputs the data or the financial statements are generated in the firm's office, there is a reporting responsibility as discussed in SSARS 1, paragraph 7 (AICPA, *Professional Standards,* vol. 2, AR sec. 100.07).

10. **Question**—The client wants computer generated monthly compiled cash basis financial statements and annual reviewed accrual basis financial statements. The monthly statements will be based upon cash receipts and disbursements without recognizing accrual, prepayments, and inventory adjustments. Can the accountant state in the monthly reports that the monthly financial statements were prepared on a cash basis and the annual financial statements will be prepared on an accrual basis?
Answer—SSARS 1, paragraph 20 (AICPA, *Professional Standards,* vol. 2, AR sec. 100.20), states that "if financial statements compiled in conformity with a comprehensive basis of accounting other than generally accepted accounting principles do not include disclosure of the basis of accounting used, the basis should be disclosed in the accountant's report."

    Consequently, if the basis of presentation is disclosed in the monthly cash basis financial statements the accountant's report need not be modified.

    The fact that year-end financial statements will be prepared on the accrual basis should not be mentioned in the accountant's compilation report for the interim periods. However, the client can make that statement in a transmittal letter when he sends the interim financial statements to third parties.

11. **Question**—Can compiled or reviewed financial statements prepared on a liquidation basis be considered in accordance with generally accepted accounting principles? Would the financial statement format be similar to a going concern basis?
Answer—Yes. APB Statement No. 4, *Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises,* paragraph 117, footnote 25, states in part, "if liquidation appears imminent, financial information may be prepared on the assumption that liquidation will occur." Therefore, the liquidation basis of accounting may be considered to be generally accepted accounting principles for entities in which liquidation appears imminent. In such circumstances, the client ordinarily should include an explanatory paragraph in the footnotes that states that the entity has changed the basis of accounting used to determine the amounts at which assets and liabilities are carried from the going concern basis to liquidation basis. If the client omits substantially all disclosures the accountant's report should include such an explanatory paragraph which is required by SSARS 1, paragraph 40, footnote 14 (AICPA, *Professional Standards,* vol. 2, AR sec. 100.40).

No. The financial statement format would be different for a company in liquidation. Drawing from sample auditor's reports in an interpretation of SAS No. 58, "Reporting on Financial Statements Prepared on a Liquidation Basis of Accounting," it appears that the statements of income, retained earnings, and cash flows are presented for the period before the company has decided to liquidate. A statement of changes in net assets would be presented for the period the company was in liquidation.

12. **Question**—SAS No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (AICPA, *Professional Standards,* vol. 1, AU sec. 341), provides guidance on that subject as it would affect the auditor's report under SAS No. 58, *Reports on Audited Financial Statements* (AICPA, *Professional Standards,* vol. 1, AU sec. 508). What is the appropriate guidance on how to deal with uncertainties under the statements on standards for accounting and review services?
Answer—SSARS 1, footnote 14 (AICPA, *Professional Standards,* vol. 2, AR sec. 100.40), states that "normally, neither an uncertainty nor an inconsistency in the application of accounting principles would cause the accountant to modify the standard report provided the financial statements appropriately disclose such matters." Accordingly, disclosure of this uncertainty in a footnote to the financial statements would satisfy this requirement. SSARS 1, footnote 14, further states, "nothing in this statement, however, is intended to preclude the accountant from emphasizing in a separate paragraph of his report a matter regarding the financial statements."

The last two paragraphs of Interpretation No. 11 of SSARS 1, "Reporting on Uncertainties" (AICPA, *Professional Standards*, vol. 2, AU sec. 9100.33–.40), indicate there is no requirement to disclose an uncertainty in the accountant's report, under certain conditions, when management has elected to omit substantially all disclosures required by generally accepted accounting principles.

13. **Question**—A correction of an error in previously issued financial statements is treated as a prior period adjustment, in accordance with FASB Statement No. 16, *Prior Period Adjustments.* SAS No. 1, section 420, *Consistency of Application of Generally Accepted Accounting Principles,* paragraph 10 (AICPA, *Professional Standards,* vol. 1, AU sec. 420.10), discusses a correction of an error in principle and states that a change from an accounting principle that is not generally accepted to one that is generally accepted, including correction of a mistake in the application of a principle, is a correction of an error. Although this type of change in accounting principle should be accounted for as the correction of an error, the change requires including an explanatory paragraph describing the inconsistency in the auditor's report. How is this consistency issue treated in compilation and review engagements?
Answer—SSARS 1, footnote 14 (AICPA, *Professional Standards,* vol. 2, AR sec. 100.40), states that "normally, neither an uncertainty nor an inconsistency in the application of accounting principles would cause the accountant to modify the standard report provided the financial statements appropriately disclose such matters." Accordingly, disclosure of this inconsistency in a footnote to the financial statements would satisfy this requirement. SSARS 1, footnote 14, further states, "nothing in this statement, however, is intended to preclude an accountant from emphasizing in a separate paragraph of his report a matter regarding the financial statements."

14. **Question**—SSARS 1, paragraphs 16 and 34 (AICPA, *Professional Standards*, vol. 2, AR sec. 100.16 and .34), requires that each page of the financial statements compiled or

reviewed by the accountant include a reference such as "See Accountant's Compilation (or Review) Report." Does this requirement extend to the related notes to the financial statements?

Answer—The application of this requirement varies in practice. Some accountants believe that since the related notes to financial statements are an integral part of the basic financial statements, at least the first page of the notes should include a reference to the accountant's report.

Other accountants believe that if the basic financial statements, other than footnote disclosures, contain a statement indicating that the notes to financial statements are an integral part of the statements, it is not necessary to include a reference to the accountant's report on note pages.

15. **Question**—A bank has engaged a CPA firm to compile a balance sheet for another entity. The bank has possession of the books and records of the entity. Can the firm issue a compilation report under such circumstances?
Answer—There is nothing in the Statements on Standards for Accounting and Review Services which precludes the CPA firm from issuing a compilation report under such circumstances. However, SSARS 1, paragraph 11 (AICPA, *Professional Standards,* vol. 2, AR sec. 100.11), states: "To compile financial statements, the accountant should possess a general understanding of the nature of the entity's business transactions, the form of its accounting records, the stated qualifications of its accounting personnel, the accounting basis on which the financial statements are to be presented, and the form and content of the financial statements." Due to the nature of the engagement, the CPA firm may not be able to attain a sufficient level of understanding of the entity's business as required by SSARS 1, paragraph 11, to issue a compilation report on the balance sheet, nor obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations in relation to any professional services performed, as required by Rule 201(D) of the AICPA Code of Professional Conduct. (See SSARS 1, paragraph 3 [AICPA, *Professional Standards,* vol. 2, AR sec. 100.03].)

16. **Question**—If an accountant has issued a review report on a set of financial statements may he later issue an audit report on the same set of financial statements?
Answer—Yes. Interpretation No. 3 of SSARS 1, "Reporting on the Highest Level of Service" (AICPA, *Professional Standards,* vol. 2, sec. 9100.03), states that SSARS 1 does not prohibit the accountant from accepting an engagement to perform a higher level of service with respect to financial statements that have been previously compiled or reviewed.

17. **Question**—An accountant performed a review in the prior year and a compilation in the current year. He was independent in the prior year but impaired his independence in the current year. May he reissue his review report on the prior year financial statements?
Answer—Yes. SSARS 2, *Reporting on Comparative Financial Statements,* paragraph 8 (AICPA, *Professional Standards,* vol. 2, AR sec. 200.08), states in part, "A continuing accountant who performs a lower level of service with respect to the financial statements of the current period should either (a) include as a separate paragraph of his report a description of the responsibility assumed for the financial statements of the prior period . . . or (b) reissue his report on the financial statements of the prior period." The separate paragraph referred to in item (a), above, includes a statement that the accountant has not performed any procedures in connection with the prior period review

engagement after the date of his review report as reflected in the example in SSARS 2, paragraph 12 (AICPA, *Professional Standards,* vol. 2, AR sec. 200.12).

18. **Question**—The management of a Subchapter C corporate client have rationalized that there will be no income tax due by year end because they will pay year-end bonuses, pension contributions and/or purchase property and equipment to obtain accelerated depreciation deductions. Accordingly, its interim financial statements are prepared without a provision and estimated liability for income taxes.

    (1) Is this in conformity with generally accepted accounting principles?

    (2) How should the accountant's compilation report be presented?

    Answer—(1) No. APB Opinion No. 28, *Interim Financial Reporting,* paragraph 17, states:

    > The amounts of certain costs and expenses are frequently subjected to year-end adjustments even though they can be reasonably approximated at interim dates. To the extent possible such adjustments should be estimated and the estimated costs and expenses assigned to interim periods so that the interim periods bear a reasonable portion of the anticipated annual amount. Examples of such items include inventory shrinkage, allowance for uncollectible accounts, allowance for quantity discounts, and discretionary year-end bonuses.

    In addition the last sentence of footnote 7 of FASB Interpretation No. 18, *Accounting for Income Taxes in Interim Periods,* states:

    > If an enterprise is unable to estimate a part of its "ordinary" income (or loss) or the related tax (or benefit) but is otherwise able to make a reliable estimate, the tax (or benefit) applicable to the item that cannot be estimated shall be reported in the interim period in which the item is reported.

    Accordingly, where year-end bonuses ("ordinary" income) have not been estimated and included in the interim period, because the estimate is not reliable, then the tax benefit should be recorded in the period that the estimate (or actual) expense is reported in the financial statements.

    (2) Following is an example of an accountant's compilation report that would cover this departure from generally accepted accounting principles:

    > We have compiled the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants.
    >
    > A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them. However, we did become aware of certain departures from generally accepted accounting principles that are described in the following paragraph.
    >
    > It is management's intent to minimize or eliminate income taxes by paying year-end bonuses, pension contributions and/or purchasing property and equipment to obtain accelerated depreciation deductions. None of these potential transactions have been estimated, nor has a provision for income taxes been reported in the accompanying financial statements. Generally accepted accounting principles require that discretionary year-end bonuses and/or pension costs should be estimated and assigned to interim periods so that the interim periods bear a reasonable portion of the anticipated annual amount. If these amounts cannot be reliably estimated then the tax consequence should be reported in the interim period in which the item is reported.

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