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General Accounting and Auditing Developments

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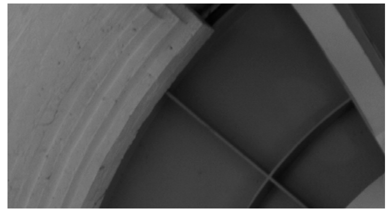

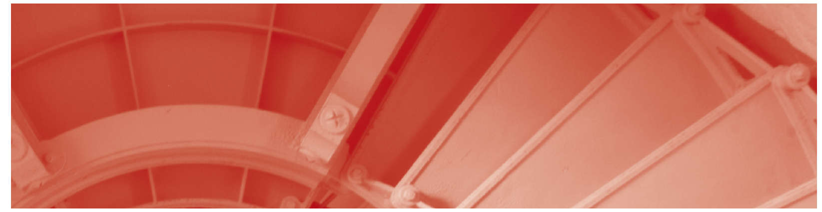

AUDIT RISK ALERT

General Accounting and Auditing Developments

2013/14

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Notice to Readers

This Audit Risk Alert (alert) replaces *General Accounting and Auditing Developments—2012/13*.

This alert is intended to provide auditors of financial statements with an overview of recent economic, industry, technical, regulatory, and professional developments that may affect the audits and other engagements they perform. This alert also can be used by an entity's internal management to address areas of audit concern.

This publication is an *other auditing publication*, as defined in AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards* (AICPA, *Professional Standards*). Other auditing publications have no authoritative status; however, they may help the auditor understand and apply generally accepted auditing standards.

In applying the auditing guidance included in an other auditing publication, the auditor should, using professional judgment, assess the relevance and appropriateness of such guidance to the circumstances of the audit. The auditing guidance in this document has been reviewed by the AICPA Audit and Attest Standards staff and published by the AICPA and is presumed to be appropriate. This document has not been approved, disapproved, or otherwise acted on by a senior technical committee of the AICPA.

The AICPA gratefully acknowledges those members of the Auditing Standards Board and the AICPA Technical Issues Committee, who helped identify the interest areas for inclusion in this alert.

AICPA Staff

Liese Faircloth
Technical Manager
Accounting and Auditing Publications

The Audit Risk Alert *General Accounting and Auditing Developments* is published annually. As you encounter audit or industry issues that you believe warrant discussion in next year's alert, please feel free to share them with us. Any other comments you have about the alert also would be appreciated. You may e-mail these comments to A&APublications@aicpa.org.

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How This Alert Helps You

.01 This Audit Risk Alert (alert) helps you plan and perform your audits and also can be used by an entity's internal management to identify issues significant to the industry. It also provides information to assist you in achieving a more robust understanding of the business, economic, and regulatory environments in which your clients operate. This alert is an important tool to help you identify the significant risks that may result in the material misstatement of financial statements and delivers information about current accounting, auditing, and regulatory developments. For developing issues that may have a significant impact in the near future, the "On the Horizon" section provides information on these topics, including guidance that either has been issued but is not yet effective or is in a development stage.

.02 You should refer to the full text of accounting and auditing pronouncements, as well as the full text of any rules or publications that are discussed in this alert.

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

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

.04 The auditor should develop an audit plan that includes, among other things, the nature and extent of planned risk assessment procedures, as determined under AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* (AICPA, *Professional Standards*). AU-C section 315 defines *risk assessment procedures* as the audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal control, to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and relevant assertion levels. As part of obtaining the required understanding of the entity and its environment, paragraph .12 of AU-C section 315 states that the auditor should obtain an understanding of the industry, regulatory, and other external factors, including the applicable financial reporting framework, relevant to the entity. This alert assists the auditor with this aspect of the risk assessment procedures and further expands the auditor's understanding of other important considerations relevant to the audit.

Economic Developments

The Current Economy

.05 When planning an audit, auditors need to understand the economic conditions facing the industry in which an entity operates, as well as the effects of these conditions on the entity itself. These external factors, such as interest rates, availability of credit, consumer confidence, overall economic expansion or contraction, inflation, and labor market conditions, are likely to have an effect on an entity's business and, therefore, its financial statements. Considering the effects of external forces on an entity is part of obtaining an understanding of the entity and its environment. Recognizing that economic conditions and other external factors relevant to an entity and its environment constantly change, auditors should evaluate whether changes have occurred since the previous audit that may affect their reliance on any information obtained from their previous experience with the entity. These changes may affect the risks and risk assessment procedures applicable to the current year's audit.

.06 During 2012 and into 2013, the U.S. economy continued to recover. The S&P 500 and the Down Jones Industrial Average both reached all-time highs during 2013. The Chicago Board Options Exchange Volatility Index (VIX) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock option prices and is considered by many to indicate investor sentiment, market volatility, and the best gauge of fear in the market. The VIX continued to show a steady decline during the end of 2012 and into 2013. During that time, prices have ranged from 22.72–11.56. The volatility shows there is still some uncertainty; however, the continued downward trend shows that investors believe the economy and market are improving.

Key Economic Indicators

.07 The following key economic indicators reaffirm the recovery of the economy during 2013: gross domestic product (GDP), unemployment, and the federal fund rate. The GDP measures output of goods and services by labor and property within the United States. It increases as the economy grows or decreases as it slows. According to the Bureau of Economic Analysis, real GDP increased at an annual rate of 2.4 percent in the first quarter of 2013, based on the advance estimate (second estimate). Real GDP increased at an annual rate of 0.4 percent in the fourth quarter of 2012. The increase in real GDP in the first quarter of 2013 has been attributed to positive contributions from personal consumption expenditures and residential fixed investments, among other factors.

.08 From May 2012 to May 2013, the unemployment rate fluctuated between 8.3 percent and 7.6 percent. A rate of 7.6 percent represents approximately 11.8 million people who are unemployed. Based on the Bureau of Labor Statistics (BLS), from May 2012 to May 2013, the average employment growth was 169,000 per month, which is an increase over 2011. During that same time period, the number of long-term unemployed (those jobless for 27 weeks or more) has decreased by 687,000, indicating more growth in the economy. Based on the BLS, the number of people employed part-time for economic reasons decreased to 7.6 million during the first quarter of 2013, down from 8 million at the end of 2012, and the average workweek for all private employees had increased 0.1 hour through the first quarter of 2013. Together, these statistics illustrate the overall improvement in the economy.

.09 The Board of Governors of the Federal Reserve System (Federal Reserve) decreased the target for the federal funds rate more than 5.0 percentage points, from its high of 5.25 percent prior to the financial crisis, to less than 0.25 percent, where it remains through May 2013. The Federal Reserve indicates that the target range for federal funds rates of 0 to 0.25 percent is appropriate for as long as the unemployment rate stays above 6.5 percent, inflation over the next two years is projected to be less than 0.5 percent above the 2-percent longer-run goal, and longer-term inflation projections continue to be low.

Sequestration

.10 In the past several years, Congress and the President have worked together to lower the deficit. In 2011, Congress passed a law that required a $4 trillion reduction in the deficit, including the $2.5 trillion that had already been accomplished. The new requirement was not met and, as a result, there was an automatic and arbitrary across-the-board cut in government spending. The sequestration went into effect in March of 2013. The cuts will be spread over 9 years but will amount to approximately $85 million in 2013. About 50 percent of the cuts will affect defense and national security. The other 50 percent will affect health care, education, law enforcement, disaster relief, unemployment benefits, nonprofit organizations, and scientific research. Many Americans believe these cuts will have a negative impact on the recovering economy.

Legislative and Regulatory Developments

American Taxpayer Relief Act of 2012

.11 On January 1, 2013, Congress passed the American Taxpayer Relief Act of 2012 (the act) after reaching an agreement to avoid the "fiscal cliff."

.12 With some modifications that increase taxes on the wealthiest Americans, the act permanently extends provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 and the Jobs and Growth Tax Relief Reconciliation Act of 2003. It also permanently patches the alternative minimum tax and indexes it to inflation.

.13 The act's nontax features include one-year extensions of emergency unemployment insurance and agricultural programs and yet another postponement of automatic cuts in Medicare payments to physicians. In addition, it delayed until March 2013 a broad range of automatic federal spending cuts known as *sequestration* that otherwise would have begun in January 2013.

.14 The act temporarily extends many other tax provisions that had lapsed at midnight on December 31, 2012, and others that had expired a year earlier, reinstating them retroactively. Some of the provisions of the law that may be of interest include the following:

- Taxpayers age $70^1/_2$ or older can donate up to $100,000 from Roth or traditional IRAs to certain charitable organizations without including the amount of their IRA withdrawals in gross income.
- The above-the-line deduction for qualified higher education tuition-related expenses for taxpayers with adjusted gross income below certain limits was extended.
- The deduction limitation for qualified conservation contributions is increased from 30 percent to 50 percent of the donor's contribution base over the amount of other charitable contributions.
- The deduction for contributions of apparently wholesome food from any trade or business is not limited to the taxpayer's basis in the food. The deduction is limited to 10 percent of the taxpayer's aggregate net income.

.15 Among the tax items not addressed by the act was the temporarily lower 4.2 percent rate for employees' portions of the Social Security payroll tax, which was not extended and has reverted to 6.2 percent.

The Dodd-Frank Wall Street Reform and Consumer Protection Act

.16 The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was signed into law in July 2010 in response to weaknesses in the financial services industry that are believed to have contributed to the economic recession. The main goals of the reform are to lower the systemic risks to the financial system and enhance consumer protections.

.17 The Dodd-Frank Act implements changes that affect the oversight and supervision of financial institutions and creates many new agencies. One of the main changes brought about by the Dodd-Frank Act was the creation of the Financial Stability Oversight Council (FSOC) that oversees financial institutions. The role of the FSOC, which is chaired by the Secretary of the Treasury, is to identify risks to financial stability and promote market discipline.

.18 Implementation of the Dodd-Frank Act is far behind schedule. Of the almost 400 rules that the act requires be finalized, only 153 are final as of May 2013. Another 117 have been proposed but have not been finalized by the regulators. One hundred twenty-eight rules have not been proposed.

Update on Derivatives Regulation

.19 Prior to the Dodd-Frank Act, no comprehensive framework for regulating swap agreements existed. The Dodd-Frank Act addresses the gap in the regulation of over-the-counter swaps by requiring that a number of rules are made in this area. The act splits the responsibilities for swaps between the Commodity Futures Trading Commission (CFTC) and the Securities and Exchange Commission (SEC). The SEC has regulatory authority over security-based swaps, which fall under the definition of security under the Securities Exchange Act of 1934 (the 1934 Act) and the Securities Act of 1933. The CFTC has primary regulatory authority over all other swaps, such as energy and agricultural swaps. The CFTC and SEC share authority over *mixed swaps*, which are security-based swaps that also have a commodity component. In addition, the SEC has antifraud enforcement authority over swaps that are related to securities but that do not come within the definition of security-based swap (referred to as *security-based swap agreements*). To assist the SEC in this responsibility, the act provides the SEC with access to information relating to security-based swap agreements in the possession of the CFTC and certain CFTC-regulated entities, such as derivatives clearing organizations, designated contract markets, and swap data repositories.

.20 The creation of rules required under the Dodd-Frank Act related to swaps is extensive and involves both the SEC and CFTC. Recent rules have been finalized regarding key terms—such as *swap*, *security-based swap*, and *security-based swap agreement*—along with *swap* and *security-based swap dealer*, *major swap*, and *security-based swap participants*. For up-to-date information on rule making, visit the SEC and CFTC websites at www.sec.gov and www.cftc.gov, respectively.

Audit and Attestation Issues and Developments

The Public Company Accounting Oversight Board

.21 In December 2012, the Public Company Accounting Oversight Board (PCAOB) released Staff Audit Practice Alert No. 10, *Maintaining and Applying Professional Skepticism in Audits* (AICPA, *PCAOB Standards and Related Rules*, PCAOB Staff Guidance, sec. 400.10), which can be found at http://pcaobus.org/Standards/QandA/12-04-2012_SAPA_10.pdf. Auditing standards require that professional skepticism be applied throughout the audit by each individual auditor on the engagement team. Certain circumstances can impede the appropriate application of professional skepticism and allow unconscious biases to prevail, including incentives and pressures resulting from certain conditions inherent in the audit environment, scheduling and workload demands, or an inappropriate level of confidence or trust in management. Audit firms and individual auditors should be alert for these impediments and take appropriate measures to assure that professional skepticism is applied appropriately throughout all audits.

.22 It is the responsibility of each individual auditor to appropriately apply professional skepticism throughout the audit, including when identifying and assessing the risks of material misstatement, performing tests of controls and substantive procedures to respond to the risks, and evaluating the results of the audit. This involves, among other things, considering what can go wrong with the financial statements, performing audit procedures to obtain sufficient appropriate audit evidence, rather than merely obtaining the most readily available evidence to corroborate management's assertions, and critically evaluating all audit evidence, regardless of whether it corroborates or contradicts management's assertions.

.23 Staff Audit Practice Alerts highlight new, emerging, or otherwise noteworthy circumstances that may affect how auditors conduct audits under the existing requirements of PCAOB standards.

The Auditing Standards Board's Clarity Project

.24 The goal of the Clarity Project was to make GAAS easier to read, understand, and apply. As the Auditing Standards Board (ASB) redrafted the standards for clarity, it also converged the standards with the International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB).

.25 As a result of the Auditing Clarity Project, a new section identifier, "AU-C," was established for the clarified auditing standards in order to avoid confusion with references to the "AU" sections in AICPA *Professional Standards*. The AU-C identifier had been scheduled to revert back to the AU identifier at the end of 2013, by which time the previous AU sections would be superseded for all engagements. However, in response to user requests, the AU-C identifier will be retained indefinitely. The superseded AU sections are still scheduled to be removed from AICPA *Professional Standards* at the end of 2013.

.26 At this point, auditors should be well on their way to transitioning to the clarified standards that became effective for audits of financial statements for periods ended on or after December 15, 2012. The new requirements may involve planning discussions with clients, affect interim testing and other fieldwork, and require changes to the auditor's report.

.27 Although the Clarity Project was not intended to create additional requirements, some revisions have resulted in substantive changes and primarily clarifying changes that may require auditors to make adjustments in their practices.

.28 In July 2013, the ASB amended AU-C section 920, *Letters for Underwriters and Certain Other Requesting Parties* (AICPA, *Professional Standards*). When AU section 634, *Letters for Underwriters and Certain Other Requesting Parties*, was redrafted and issued as AU-C section 920, the ASB did not intend to change or expand AU section 634 in any significant respect. The ASB believed that the substance of the last sentence in paragraph .42 of AU section 634, "In the case of a business combination, the historical financial statements of each constituent part of the combined entity on which the pro forma financial information is based should be audited or reviewed," had been appropriately captured in paragraph .53 of AU-C section 920. However, in order to reinforce the ASB's intention not to change practice and avoid unintended consequences, the ASB has added the following sentence as the penultimate sentence in paragraph .53 of AU-C section 920: "In the case of a business combination, the historical financial statements of each constituent part of the combined entity on which the pro forma financial information is based should be audited or reviewed."

.29 In January 2013, the AICPA issued Statement on Auditing Standards (SAS) No. 127, *Omnibus Statement on Auditing Standards—2013* (AICPA, *Professional Standards*). SAS No. 127 includes changes to AU-C section 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, and AU-C section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks* (AICPA, *Professional Standards*).

.30 AU-C section 600 was amended in several areas. Most importantly, the preconditions to making reference to others' work relating to the basis of a component's financial statement preparation when the financial reporting framework differs from the parent and the auditing standards followed by the component auditor, if the component auditor did not follow GAAS, were updated.

.31 The group engagement team may now make reference to the component audit that uses a different financial reporting framework, as long as the financial reporting framework is similar, and the group auditor has obtained sufficient appropriate audit evidence for the purpose of evaluating the appropriateness of the adjustments to convert the component's financial statements to the financial reporting framework used by the group without the need to assume responsibility for, and, thus, be involved in, the work of the component auditor. In making reference to the component auditor, the group auditor should disclose the financial reporting framework used by the component and disclose that the auditor of the group financial statements is taking responsibility for evaluating the appropriateness of the adjustments to convert the component's financial statements to the financial reporting framework used by the group. New application material that addresses making reference when the financial reporting frameworks differ has also been added.

.32 Making reference to the component auditor when the component auditor is not in accordance with GAAS is precluded unless the component auditor has performed an audit that meets the relevant requirements of GAAS. Paragraph .A54 of AU-C section 600 provides guidance on how the group engagement partner may determine that the audit performed by the component auditor meets the relevant requirements of GAAS. The additional guidance provided by SAS No. 127 includes relevant requirements pertaining to planning and performing the component audit. The component auditor may perform additional procedures to meet the relevant requirements of GAAS. If the relevant requirements are met, the group audit report should disclose the set of auditing standards used by the component auditor and that additional procedures were performed by the component auditor to meet the relevant requirements of GAAS.

.33 An additional amendment to AU-C section 600 is added clarification that the group audit engagement team is required to determine the component materiality for those components for which the group engagements team will assume responsibility for the work of a component auditor who performs an audit or review.

.34 AU-C section 800 was amended by SAS No. 127 to add "Other Basis" to the list of special purpose frameworks. The *other basis* is defined as a basis of accounting that uses a definite set of logical, reasonable criteria that is applied to all material items appearing in financial statements.

.35 With the issuance of SAS No. 127, the ASB has redrafted all but one of the auditing sections, which now reflect the ASB's established clarity drafting conventions.

.36 For information on the final clarified auditing standard, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*, to be released as part of the Clarity Project, see the "On the Horizon" section of this alert.

Substantive Changes

.37 The following AU-C sections in AICPA *Professional Standards* are considered likely to affect the firms' audit methodology and engagements because they contain *substantive or other changes*, defined as having one or both of the following characteristics: (*a*) a change or changes to an audit methodology that may require effort to implement or (*b*) a number of small changes that, although not individually significant, may affect audit engagements:

- AU-C section 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*
- AU-C section 265, *Communicating Internal Control Related Matters Identified in an Audit*
- AU-C section 550, *Related Parties*
- AU-C section 600
- AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*
- AU-C section 705, *Modifications to the Opinion in the Independent Auditor's Report*
- AU-C section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*

Primarily Clarifying Changes

.38 The following AU-C sections have clarifying changes that are intended to explicitly state what may have been implicit in the previous standards that, over time, resulted in diversity in practice. Certain clarified standards address management responsibilities that may need to be communicated to clients early in the planning stage. Some of these requirements may already be performed in practice, although not explicitly required by the previous standards. Most notably, certain new requirements shift the timing of requirements from the reporting stage of an audit to the planning stage. The new requirements in this section may not have a substantial effect but may result in adjustments to the timing and responsibilities of the auditor and his or her clients and will need to be reviewed by the auditor to ensure that all requirements have been properly addressed. These AICPA standards include the following:

- AU-C section 210, *Terms of Engagement*
- AU-C section 220, *Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*
- AU-C section 402, *Audit Considerations Relating to an Entity Using a Service Organization*
- AU-C section 501, *Audit Evidence—Specific Considerations for Selected Items*
- AU-C section 505, *External Confirmations*
- AU-C section 510, *Opening Balances—Initial Audit Engagements, Including Reaudit Engagements*
- AU-C section 620, *Using the Work of an Auditor's Specialist*
- AU-C section 708, *Consistency of Financial Statements*
- AU-C section 800
- AU-C section 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*
- AU-C section 810, *Engagements to Report on Summary Financial Statements*
- AU-C section 905, *Alert That Restricts the Use of the Auditor's Written Communication*
- AU-C section 910, *Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country*

Resources for the Clarity Standards

.39 A wealth of information about the clarity standards is available at www.aicpa.org/SASClarity. Also, two publications specifically discuss the clarity standards:

- The AICPA Audit Risk Alert *Understanding the Clarified Auditing Standards—2012* (product nos. ARACLA12P, ARACLA12E, or ARACLA12O) identifies the substantive and clarifying changes in requirements from the Clarity Project and includes a mapping schedule tracking the extant standards to the clarified standards.
- Additionally, the AICPA Audit Risk Alert *Understanding the Responsibilities of Auditors for Audits of Group Financial*

Statements—2013 (product nos. ARAGRP13P, ARAGRP13E, or ARAGRPO) provides additional guidance for implementing AU-C section 600.

.40 These publications are available at www.cpa2biz.com. Additionally, see the section "Resource Central" for ways to obtain the codified clarity standards.

Financial Reporting Framework for Small- and Medium-Sized Entities

.41 The Financial Reporting Framework for Small- and Medium-Sized Entities (FRF for SMEs™) accounting framework has been developed by the AICPA FRF for SMEs Task Force (task force) and staff of the AICPA as a special purpose framework for small- and medium-sized entities. It is a self-contained financial reporting framework that may be appropriate for entities that do not need to prepare financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

.42 The FRF for SMEs accounting framework draws upon a blend of traditional accounting principles and accrual income tax methods of accounting. It utilizes historical cost as its primary measurement basis. In addition, it provides management with a suitable degree of optionality when choosing accounting policies to better meet the needs of the end users of the financial statements. The framework avoids prescriptive, detailed standards and voluminous disclosure requirements. Being a more intuitive and understandable framework for small business owners and the users of their financial statements, the framework lays out principles that encourage the use of professional judgment in the particular circumstances of a transaction or event.

.43 The AICPA believes that the framework is criteria suitable for general use financial statements and can be used by users external to the entity. An important pillar of the framework is that its use requires the exercise of professional judgment. The key attributes of the framework are as follows:

- *Objectivity*. The framework is free from bias.
- *Measurability*. The framework permits reasonably consistent measurements.
- *Completeness*. The framework is sufficiently complete so that those relevant factors that would alter a conclusion about the financial statements are not omitted.
- *Relevance.* The framework is relevant to financial statement users.

Scope and Characteristics of Entities Utilizing the FRF for SMEs Accounting Framework

.44 The FRF for SMEs accounting framework has been developed for small- to medium-sized entities that require reliable non-GAAP financial statements for internal use and external uses. The task force believes that this framework can be used by entities in many industry groups and may also be used by unincorporated, as well as incorporated, entities. The framework is not intended to be a substitute for GAAP when GAAP-based financial statements are necessary, as determined by the management of a private company and its financial statement users.

.45 A standard definition of small- and medium-sized entities does not exist in the United States. However, the term is intuitive, widely recognized, and effectively descriptive of the scope of entities for which the FRF for SMEs accounting framework is intended. Size criteria for determining what a small- or medium-sized entity is were deliberately not developed to quantify size. Rather, characteristics of typical entities that may utilize the framework are presented. Ultimately, the decision regarding which accounting framework best meets an entity's financial reporting needs rests with management.

Certain Characteristics of Small- and Medium-Sized Entities Utilizing the FRF for SMEs Accounting Framework

.46 This list presents certain characteristics of typical entities that may utilize the FRF for SMEs accounting framework. These characteristics are not all-inclusive and are not presented as a list of required characteristics an entity must possess in order to utilize it:

- The entity does not have regulatory reporting requirements that essentially require it to use GAAP-based financial statements.
- A majority of the owners and management of the entity have no intention of going public.
- The entity is for-profit.
- The entity may be owner-managed, which is a closely held company in which the people who own a controlling ownership interest in the entity are substantially the same set of people who run the company.
- Management and owners of the entity rely on a set of financial statements to confirm their assessments of performance, cash flows, and of what they own and what they owe.
- The entity does not operate in an industry in which the entity is involved in transactions that require highly-specialized accounting guidance, such as financial institutions and governmental entities.
- The entity does not engage in overly complicated transactions.
- The entity does not have significant foreign operations.
- Key users of the entity's financial statements have direct access to the entity's management.
- Users of the entity's financial statements may have greater interest in cash flows, liquidity, statement of financial position strength, and interest coverage.
- The entity's financial statements support applications for bank financing when the banker does not base a lending decision solely on the financial statements but also on available collateral or other evaluation mechanisms not directly related to the financial statements.

Application of FRF for SMEs Accounting Framework Principles, Concepts, and Criteria

.47 The FRF for SMEs accounting framework was developed to address transactions that are typically encountered by private, for-profit, small-, and medium-sized entities. If the framework does not specifically address a transaction, other event, or condition, management should use its judgment and apply the general principles, concepts, and criteria contained in the framework when developing accounting policies. The development and application of those policies should result in financial information that is intended to be consistent with the financial statement concepts of the FRF for SMEs accounting framework.

Authority and Effective Date of the FRF for SMEs Accounting Framework

.48 The AICPA has no authority to require the use of the FRF for SMEs accounting framework for any entity. Therefore, use of the framework is purely optional. Management that prepares an entity's financial statements in accordance with the framework may represent or assert that such financial statements have been prepared in accordance with the AICPA's FRF for SMEs accounting framework, a special purpose framework.

.49 Because use of the framework is optional, there is no effective date for its implementation.

Maintenance of the FRF for SMEs Accounting Framework

.50 Appreciating the limited accounting resources that typical entities utilizing the FRF for SMEs accounting framework have, as well as the nature of their financial reporting, the framework is intended to be a stable platform that does not undergo frequent amending or updating. At the same time, it is intended to be responsive to the financial reporting needs of small- and medium-sized entities and, therefore, will be modified in response to significant developments in accounting and financial reporting matters affecting those entities.

.51 Accordingly, the task force and AICPA staff intend to monitor and assess input related to the implementation of the framework after its initial release and propose modifications as necessary. Afterwards, staff, with assistance from the task force, intends to review and propose amendments to the framework approximately every three or four years. Amendments will be primarily based on input from stakeholders and developments in accounting and financial reporting.

.52 The AICPA's Accounting and Auditing Technical Hotline provides members with free, high-quality technical assistance by phone concerning issues related to accounting and financial reporting, auditing and attestation, compilation, and review standards. Technical questions about the FRF for SMEs accounting framework can be directed to the technical hotline.

Group Audits

.53 *Group audits* involve the audit of financial statements that include the financial information of more than one component (group financial statements). AU-C section 600 expands previous guidance related to using the work of other auditors to encompass audits of group financial statements. AU-C section 600 introduces a number of new terms, concepts, and requirements related to group audits that will significantly affect current practice. Because AU-C section 600 is much broader than previous guidance, it is important for auditors to fully understand the requirements therein. AU-C section 600 is effective for audits of group financial statements for periods ending on or after December 15, 2012.

.54 The following questions and answers point out some of the major changes in the new standard, which may assist auditors in recognizing when they are involved in an audit of group financial statements:

- *What are group financial statements?* Group financial statements include the financial information of more than one component. The concept of group financial statements is broader than consolidated or combined financial statements because it encompasses business activities in addition to separate entities. Additionally, this standard applies in all audits of group financial statements, regardless of whether different auditors are involved in the audit.
- *What is a component?* A *component* is an entity or business activity for which group or component management prepares financial information that is required to be included in the group financial statements. A component may include, but is not limited to, subsidiaries, geographical locations, divisions, investments, products or services, functions, processes, or component units of state or local governments. Equity method investments are also components that are scoped into the standard. However, other investments using fair value measurements are generally not considered components.
- *How are the previous concepts of*other auditor *and* principal auditor *changed in this standard?* The focus of the previous standard was the interaction between the auditors. AU-C section 600 changes that focus to the unique characteristics of a group reporting entity and how an auditor should obtain sufficient audit evidence to render an opinion on the group financial statements. An auditor who performs work on the financial statements, or financial information, of a component is now referred to as the *component auditor*, rather than an *other auditor*. The *auditor of the group financial statements*, which encompasses the firm and group engagement team, including the group engagement partner, replaces the concept of the *principal auditor*. A member of the group engagement team may perform work on the financial information of a component for the group audit at the request of the group engagement team. When this is the case, such a member of the group engagement team is also a component auditor. Note that when the component is being audited by the group engagement team, the group engagement team is filling the role of the component auditor. Although members of the group engagement team may be filling the role of a component auditor, typically, this will not add any additional performance requirements to the group audit other than, in some circumstances, the need to apply component materiality.
- *Do the requirements change for making reference to the work of other auditors?* AU-C section 600 better articulates the degree of involvement required when reference is made to the audit of component auditors in the auditor's report on the group financial statements. It establishes certain conditions that are necessary for the group engagement partner to make reference to a component auditor in the auditor's report on the group financial statements. Moreover, AU-C section 600 clarifies that

the group engagement partner is responsible for the opinion on the group financial statements, regardless of whether reference is made to component auditors. Additionally, AU-C section 600 establishes requirements that apply to all group audits, regardless of whether reference is made to the work of the component auditor. These requirements expand the level of communication with the component auditors and the considerations of the group engagement partner when determining the acceptability of using the component auditor's work.

- *Are there new procedures that are required when assuming responsibility for the work of other auditors?* Certain provisions of AU-C section 600 apply to all group audits, regardless of whether reference is made to the audit of a component auditor in the auditor's report on the group financial statements. AU-C section 600 specifically articulates the procedures the group engagement team is required to perform when a component auditor is involved in the group audit. Additional specific procedures are applicable when the auditor of the group financial statements assumes responsibility for the work of a component auditor or is performing audit procedures on the components directly.

.55 The Alert *Understanding the Responsibilities of Auditors for Audits of Group Financial Statements—2013* summarizes the new standard and provides implementation guidance for the auditor of the group financial statements. For component auditors, it also describes the specific matters that the group engagement team is required to communicate to the component auditor and requests that the component auditor also communicate with the group engagement team. However, auditors will need to read AU-C section 600, including its application material, in its entirety to fully understand its effect on current practice.

The Auditor's Report

.56 Requirements related to the form and content of auditor's reports are contained in AU-C section 700. This section is the basis of the reporting standards. It maintains the auditors' responsibilities for reporting on financial statements as required by the standards in all significant respects. However, the form of the auditor's report differs from the extant standards in that it

- requires the use of headings to highlight
  - — management's responsibility for the financial statements,
  - — the auditor's responsibility, and
  - — the auditor's opinion.
- describes management's and the auditor's responsibilities in greater detail.
- requires the city and state where the auditor practices to be stated.

.57 The clarified auditing standards related to auditor's reports continue to build upon the base established in AU-C section 700. AU-C section 705 contains guidance related to modifications to the opinion in the independent auditor's report.

.58 AU-C section 706 introduces two new terms, *emphasis-of-matter* and *other-matter paragraphs*, replacing the term *explanatory paragraph*:

- An *emphasis-of-matter paragraph* is any paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements. Some emphasis-of-matter paragraphs are required by certain standards, whereas others are added at the discretion of the auditor, consistent with current practice. However, all such paragraphs are to be considered emphasis-of-matter paragraphs because they are intended to draw the users' attention to a particular matter that is appropriately presented or disclosed in the financial statements.
- An *other-matter paragraph* is a paragraph included in the auditor's report that is required by GAAS, or is included at the auditor's discretion, and refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's professional judgment, is relevant to the users' understanding of the audit, the auditor's responsibilities, or the auditor's report.

.59 Accordingly, the term *explanatory paragraph* is no longer a recognized element of the auditor's report in GAAS. Instead, additional communications in the auditor's report are labeled as either emphasis-of-matter or other-matter paragraphs. AU-C section 706 requires an emphasis-of-matter or other-matter paragraph to always follow the opinion paragraph and to be included in a separate section of the auditor's report under the heading "Emphasis of Matter" or "Other Matter" or other appropriate heading.

.60 The clarified standards (AICPA, *Professional Standards*) continue to build upon the base reporting requirements established in AU-C section 700 in the following:

- AU-C section 708
- AU-C section 720, *Other Information in Documents Containing Audited Financial Statements*
- AU-C section 725, *Supplementary Information in Relation to the Financial Statements as a Whole*
- AU-C section 730, *Required Supplementary Information*

.61 These sections address consistency of financial statements, as well as other information in documents containing audited financial statements. Reporting on supplementary information and required supplementary information is also addressed within these sections.

.62 An auditor reporting on financial statements prepared in accordance with special purpose frameworks will follow the requirements and guidance in AU-C section 800. The previous sections still apply, but this section addresses special considerations in the application of those AU-C sections to an audit of financial statements prepared in accordance with a special purpose framework, which is a cash, tax, regulatory, or contractual basis of accounting.

.63 An auditor is sometimes engaged to report on a single financial statement or on a specific element, account, or item of a financial statement. Requirements and guidance related to this reporting is contained in AU-C section 805. Again, AU-C sections 200–700 apply, and this section addresses special considerations in the application of those AU-C sections to these circumstances.

In addition, if the financial statements are prepared in accordance with a special purpose framework, AU-C section 800 also applies to the audit.

.64 When a firm discovers that it issued an audit report in accordance with AU section 508, *Reports on Audited Financial Statements* (AICPA, *Professional Standards*), on financial statements for a period ended after December 15, 2012, the firm should consider AU-C section 585, *Consideration of Omitted Procedures After the Report Release Date* (AICPA, *Professional Standards*). After considering AU-C section 585, the firm should apply its professional judgment to determine whether it should recall its "outdated" report and reissue a new report in accordance with AU-C section 700. When a firm decides to reissue its audit report, the auditor should also get an updated representation letter with the new report date. More information and examples can be found in the AICPA online tool *The Auditor's Report: Comprehensive Guidance and Examples* (product no. APAARMO).

Common Peer Review Findings

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

.66 Firms have peer reviews because of the public interest in the quality of the accounting, auditing, and attestation services provided by public accounting firms. In addition, firms indicate that peer review contributes to the quality and effectiveness of their practices. Furthermore, most state boards of accountancy require their licensees to undergo peer review, which they may also call *compliance assurance*, to practice in their state. Other regulators require peer review in order to perform engagements and issue reports under their standards.

.67 Firms are encouraged to remain current with changes in the standards because the standards are the basis for peer reviews. Training and frequently asked questions about the AICPA Peer Review program can be found at www.aicpa.org/InterestAreas/PeerReview/Pages/PeerReviewHome.aspx.

.68 The most common findings in recent peer reviews are as follows:

- Lack of disclosure of the date through which subsequent events have been evaluated
- Lack of disclosure of open tax years
- Lack of documentation of expectations for analytical procedures
- Lack of documentation around risk assessment procedures
- Engagement letters not updated for current engagement

Updated COSO Framework

.69 In May 2013, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) published an update to the 1992 *Internal Control—Integrated Framework* (the framework). The updates became necessary due to the increasing complexity of businesses since the original framework was published. The changes are intended to make the framework easier for management to use while, at the same time, allow management to meet the entity's financial and operations goals.

.70 Internal control is not one event or circumstance, but a dynamic, iterative, and integrated process. It is not a one-time task because the impact of an entity's internal and external activities is not static but is continually changing. The entity's policies reflect management or board statements of what should be done to effect internal control. These statements may be explicitly stated in management communication or implied through management actions and decisions.

.71 The updated framework recognizes that technology is used much more in business than it was in 1992, when the original framework was published. The updated framework also provides examples of how to apply the principles of the framework for public, private, and not-for-profit entities.

.72 The updated framework retains the 5 components of internal control used in the original and incorporates 17 principles representing the fundamental concepts associated with the components. A summary of the components and listing of the principles associated with the components follows:

- **Control Environment.** The set of standards, processes, and structures that provide the basis for carrying out internal control across the entity. The board of directors and senior management establish the tone at the top regarding the importance of internal control and expected standards of conduct.
  - — Commitment to integrity and ethical values
  - — Board oversight and independence
  - — Appropriate authority, responsibilities, and reporting
  - — Commitment to competence
  - — Accountability
- **Risk Assessment.** A dynamic and iterative process for identifying and analyzing risks to achieving the entity's objectives, forming a basis for determining how risks should be managed. Management considers possible changes in the external environment and within its own business model that may impede its ability to achieve its objectives.
  - — Objective setting
  - — Identification of risks
  - — Consideration of fraud
  - — Identification and assessment of risk for changes
- **Control Activities.** The actions established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out. Control activities are performed at all levels of the entity and at various stages within business processes and over the technology environment.
  - — Appropriate control policies

- — General technology controls
- — Selection and development of appropriate control activities

- **Information and Communication.** Information is necessary for the entity to carry out internal control responsibilities in support of achieving its objectives. Communication occurs both internally and externally and provides the organization with the information needed to carry out day-to-day internal control activities. Communication enables personnel to understand internal control responsibilities and their importance to the achievement of objectives.
  - — Obtains and uses quality and reliable information to perform control activities
  - — Communication of objective and responsibilities
  - — Communication with third parties
- **Monitoring Activities.** Ongoing evaluations, separate evaluations, or some combination of the two are used to ascertain whether each of the five components of internal control, including controls to effect the principle within each component, is present and functioning. Findings are evaluated, and deficiencies are communicated in a timely manner, with serious matters reported to senior management and the board of directors.
  - — Evaluation of controls and control activities to determine presence and functionality
  - — Evaluation of strength of controls, along with reporting and response by organization

.73 The original framework will be available until December 15, 2014, but COSO is encouraging entities to adopt the new framework prior to that date.

Accounting Issues and Developments

.74 Because the financial reporting standards are in a constant state of change, it may be challenging to keep up with all the new standards as they are issued. Auditors and preparers need to be aware of the following Financial Accounting Standards Board (FASB) Accounting Standards Updates (ASUs) that have been recently issued and become effective in the near term.

Business Combinations

.75 In October 2012, FASB issued ASU No. 2012-06, *Business Combinations (Topic 805): Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution (a consensus of the FASB Emerging Issues Task Force)*. This ASU affects all entities that recognize an indemnification asset in accordance with FASB *Accounting Standards Codification* (ASC) 805-20 as a result of a government-assisted acquisition of a financial institution.

.76 When a reporting entity recognizes an indemnification asset as a result of a government-assisted acquisition of a financial institution and, subsequently, a change in the cash flows expected to be collected on the indemnification asset occurs (as a result of a change in cash flows expected to be collected on the assets subject to indemnification), the reporting entity should subsequently account for the change in the measurement of the indemnification asset on the same basis as the change in the assets subject to indemnification. Any amortization of changes in value should be limited to the contractual term of the indemnification agreement (that is, the lesser of the term of the indemnification agreement and the remaining life of the indemnified assets).

.77 This ASU is effective for public and nonpublic entities, and the amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2012. Early adoption is permitted. The amendments should be applied prospectively to any new indemnification assets acquired after the date of adoption and to indemnification assets existing as of the date of adoption arising from a government-assisted acquisition of a financial institution.

Offsetting Assets and Liabilities in the Balance Sheet

.78 In January 2013, FASB issued ASU No. 2013-01, *Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. This ASU affects entities that have derivatives accounted for in accordance with FASB ASC 815, *Derivatives and Hedging*, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and lending transactions that are either offset in accordance with FASB ASC 210-20-45 or FASB ASC 815-10-45 or subject to an enforceable master netting arrangement or similar agreement. Entities with other types of financial assets and financial liabilities subject to a master netting arrangement or similar agreement also are affected because these amendments make them no longer subject to the disclosure requirements in ASU No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*.

.79 The amendment clarifies that the scope of ASU No. 2011-11 applies to derivatives accounted for in accordance with FASB ASC 815, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and lending transactions that are either offset in accordance with FASB ASC 210-20-45 or FASB ASC 815-10-45 or subject to an enforceable master netting arrangement or similar agreement.

.80 This ASU is currently effective for public entities. It is effective for nonpublic entities for impairment assessments performed on or after December 15, 2013. The amendments resulting from this ASU should be applied prospectively.

Comprehensive Income

.81 In February 2013, FASB issued ASU No. 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. This ASU applies to all entities that issue financial statements that are presented in conformity with U.S. GAAP and that report items of other comprehensive income. Public companies are required to comply with these amendments for all reporting periods presented, including interim periods. Nonpublic entities are required to comply with all the requirements of the amendments for annual reporting periods. For interim reporting periods, nonpublic entities are not required to report the effects of reclassifications on net income but are required to report information about the amounts reclassified out of accumulated other comprehensive income by component for each reporting period. Not-for-profit entities that report under the requirements of FASB ASC 958-205 are excluded from the scope of these amendments.

.82 Under the amendments to FASB ASC 220, *Comprehensive Income*, entities are required to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts.

.83 This ASU is effective for public entities for reporting periods beginning after December 15, 2012. For nonpublic entities, the amendments to FASB ASC 220 are effective prospectively for reporting periods beginning after December 15, 2013. Early adoption is permitted.

Financial Instruments

.84 In February 2013, FASB issued ASU No. 2013-03, *Financial Instruments (Topic 825): Clarifying the Scope and Applicability of a Particular Disclosure to Nonpublic Entities*. This ASU affects nonpublic entities that have total assets of $100 million or more or have one or more derivative instruments.

.85 The amendments to FASB ASC 825, *Financial Instruments*, clarify that the requirement to disclose "the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3)" does not apply to nonpublic entities for items that are not measured at fair value in the statement of financial position but for which fair value is disclosed.

.86 This ASU became effective upon issuance on February 7, 2013.

Obligations Resulting From Joint and Several Liability

.87 In February 2013, FASB issued ASU No. 2013-04, *Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date (a consensus of the FASB Emerging Issues Task Force)*. This ASU applies to all entities, both public and nonpublic, that have obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date and for which no specific guidance exists.

.88 The guidance in this ASU requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date as the sum of the following:

- The amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors

- Any additional amount the reporting entity expects to pay on behalf of its co-obligors

.89 The guidance in this ASU also requires an entity to disclose the nature and amount of the obligation, as well as other information about those obligations.

.90 The amendments to FASB ASC 405, *Liabilities*, in this ASU are effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2013. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2014, and interim periods and annual periods thereafter.

.91 The amendments to FASB ASC 405 in this ASU should be applied retrospectively to all prior periods presented for those obligations resulting from joint and several liability arrangements within FASB ASC's scope that exist at the beginning of an entity's fiscal year of adoption. An entity may elect to use hindsight for the comparative periods (if it changed its accounting as a result of adopting the amendments in this ASU) and should disclose that fact. Early adoption is permitted.

Foreign Currency

.92 In March 2013, FASB issued ASU No. 2013-05, *Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity (a consensus of the FASB Emerging Issues Task Force)*. This ASU affects entities that cease to hold a controlling financial interest (as described in FASB ASC 810-10) in a subsidiary or group of assets within a foreign entity when (*a*) the subsidiary or group of assets is a nonprofit activity or business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights), and (*b*) there is a cumulative translation adjustment balance associated with that foreign entity. The amendments also affect entities that lose a controlling financial interest in an investment in a foreign entity (by sale or other transfer event) and those that acquire a business in stages (sometimes also referred to as a step acquisition) by increasing an investment in a foreign entity from one accounted for under the equity method to one accounted for as a consolidated investment.

.93 When a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity, the parent is required to apply the guidance in FASB ASC 830-30 to release any related cumulative translation adjustment into net income. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided.

.94 For an equity method investment that is a foreign entity, the partial sale guidance in FASB ASC 830-30-40 still applies. As such, a pro rata portion of the cumulative translation adjustment should be released into net income upon a partial sale of such an equity method investment. However, this treatment does not apply to an equity method investment that is not a foreign entity. In those instances, the cumulative translation adjustment is released into net income only if the partial sale represents a complete or substantially complete liquidation of the foreign entity that contains the equity method investment.

.95 Additionally, the amendments in this ASU clarify that the sale of an investment in a foreign entity includes both (*a*) events that result in the loss of a controlling financial interest in a foreign entity (that is, irrespective of any retained investment) and (*b*) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date (sometimes also referred to as a *step acquisition*). Accordingly, the cumulative translation adjustment should be released into net income upon the occurrence of those events.

.96 The amendments to FASB ASC 830, *Foreign Currency Matters*, are effective prospectively for public companies for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. For nonpublic entities, the amendments in this ASU are effective prospectively for the first annual period beginning after December 15, 2014, and interim and annual periods thereafter. The amendments should be applied prospectively to derecognition events occurring after the effective date. Prior periods should not be adjusted. Early adoption is permitted. If an entity elects to adopt the amendments early, it should apply them as of the beginning of the entity's fiscal year of adoption.

Liquidation Basis of Accounting

.97 In April 2013, FASB issued ASU No. 2013-07, *Presentation of Financial Statements (Topic 205): Liquidation Basis of Accounting*. The amendments apply to all entities that issue financial statements that are presented in conformity with U.S. GAAP, except investment companies that are regulated under the Investment Company Act of 1940.

.98 This ASU requires an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent. Liquidation is imminent when the likelihood is remote that the entity will return from liquidation and either (*a*) a plan for liquidation is approved by the person or persons with the authority to make such a plan effective, and the likelihood is remote that the execution of the plan will be blocked by other parties, or (*b*) a plan for liquidation is being imposed by other forces (for example, involuntary bankruptcy). If a plan for liquidation was specified in the entity's governing documents from the entity's inception (for example, limited-life entities), the entity should apply the liquidation basis of accounting only if the approved plan for liquidation differs from the plan for liquidation that was specified at the entity's inception.

.99 The amendments to FASB ASC 205, *Presentation of Financial Statements*, require financial statements prepared using the liquidation basis of accounting to present relevant information about an entity's expected resources in liquidation by measuring and presenting assets at the amount of the expected cash proceeds from liquidation. The entity should include in its presentation of assets any items it had not previously recognized under U.S. GAAP but that it expects to either sell in liquidation or use in settling liabilities (for example, trademarks).

.100 An entity should recognize and measure its liabilities in accordance with U.S. GAAP that otherwise applies to those liabilities. The entity should not anticipate that it will be legally released from being the primary obligor under those liabilities, either judicially or by creditor(s). The entity also is required to accrue and separately present the costs that it expects to incur and the income that it expects to earn during the expected duration of the liquidation, including any costs associated with sale or settlement of those assets and liabilities.

.101 Additionally, the amendments to FASB ASC 205 require disclosures about an entity's plan for liquidation, the methods and significant assumptions used to measure assets and liabilities, the type and amount of costs and income accrued, and the expected duration of the liquidation process.

Fair Value

.102 In July 2013, FASB issued ASU No. 2013-09, *Fair Value Measurement (Topic 820): Deferral of the Effective Date of Certain Disclosures for Nonpublic Employee Benefit Plans in Update No. 2011-04*. The amendments in this ASU defer indefinitely the effective date of certain required disclosures in ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, of quantitative information about the significant unobservable inputs used in level 3 fair value measurements for investments held by a nonpublic employee benefit plan in its plan sponsor's own nonpublic entity equity securities, including equity securities of its plan sponsor's nonpublic affiliated entities. These changes do not defer the effective date for those certain quantitative disclosures for other nonpublic entity equity securities held in the nonpublic employee benefit plan or any qualitative disclosures.

Derivatives and Hedging

.103 In July 2013, FASB issued ASU No. 2013-10, *Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes (a consensus of the FASB Emerging Issues Task Force)*. FASB ASC 815 provides guidance on the risks that are permitted to be hedged in a fair value or cash flow hedge. Among those risks for financial assets and financial liabilities is the risk of changes in a hedged item's fair value or a hedged transaction's cash flows attributable to changes in the designated benchmark interest rate (referred to as interest rate risk). In the United States, currently only the interest rates on direct Treasury obligations of the U.S. government (UST) and, for practical reasons, the London Interbank Offered Rate (LIBOR) swap rate are considered benchmark interest rates.

.104 As a result of the financial crisis in 2008, the exposure to, and the demand for, hedging the Fed Funds rate have increased significantly. That demand has been driven by an increased focus by banks on their sources of funding (including an increased focus on overnight interbank borrowings of surplus balances held at the Federal Reserve) the greater (and sometimes volatile) spread between LIBOR and Federal Funds Effective Swap Rate or Overnight Index Swap Rate (OIS), and new regulatory measures to curb systemic risks (such as increased collateralization of derivatives). Considering the increased importance of OIS, the objective of this ASU is to provide for the inclusion of the OIS as a U.S. benchmark interest rate for hedge accounting purposes, in addition to UST and LIBOR.

.105 The ASU permits the OIS to be used as a U.S. benchmark interest rate for hedge accounting purposes under FASB ASC 815, in addition to UST and LIBOR. The amendments also remove the restriction on using different benchmark rates for similar hedges.

.106 The amendments are effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013.

Income Taxes

.107 In July 2013, FASB issued ASU No. 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force)*. FASB ASC 740, *Income Taxes*, does not include explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. There is diversity in practice in the presentation of unrecognized tax benefits in those instances. Some entities present unrecognized tax benefits as a liability unless the unrecognized tax benefit is directly associated with a tax position taken in a tax year that results in, or that resulted in, the recognition of a net operating loss or tax credit carryforward for that year, and the net operating loss or tax credit carryforward has not been utilized. Other entities present unrecognized tax benefits as a reduction of a deferred tax asset for a net operating loss or tax credit carryforward in certain circumstances. The objective of the amendments in this ASU is to eliminate that diversity in practice.

.108 This ASU applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date.

.109 An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. For example, an entity should not evaluate whether the deferred tax asset expires before the statute of limitations on the tax position or whether the deferred tax asset may be used prior to the unrecognized tax benefit being settled.

.110 The ASU does not require new recurring disclosures.

.111 The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. Early adoption is permitted.

.112 The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted.

Recent Pronouncements

Recent Auditing and Attestation Pronouncements and Related Guidance

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

Recent Auditing and Attestation Pronouncements and Related Guidance	
Statement on Auditing Standards (SAS) No. 127, *Omnibus Statement on Auditing Standards—2013* (AICPA, *Professional Standards*) Issue Date: January 2013	This SAS amends AU-C section 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, and AU-C section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks* (AICPA, *Professional Standards*). This statement includes amendments that address making reference to the audit of a component auditor when the component's financial statements are prepared using a different financial reporting framework, clarify and provide guidance when determining that a component auditor has performed an audit that meets the relevant requirements of generally accepted auditing standards, clarify requirements for determining component materiality, and expand the definition of special purpose framework of accounting. This SAS is effective for audits of financial statements for periods ending on or after December 15, 2012.

Recent ASUs

.114 The following table presents, by codification area, a list of recently issued ASUs through the issuance of ASU No. 2013-11. However, this table does not include ASUs that are SEC updates or that are technical corrections to various topics. FASB ASC does include SEC content to improve the usefulness of FASB ASC for public companies, but content labeled as "SEC staff guidance" does not constitute rules or interpretations of the SEC, nor does such guidance bear official SEC approval.

Recent Accounting Standards Updates	
Presentation Area of Financial Accounting Standards Board (FASB) ***Accounting Standards Codification*** **(ASC)®**	
Accounting Standards Update (ASU) No. 2013-07 (April 2013)	*Presentation of Financial Statements (Topic 205): Liquidation Basis of Accounting*
ASU No. 2013-02 (February 2013)	*Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*
ASU No. 2013-01 (January 2013)	*Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*
ASU No. 2012-05 (October 2012)	*Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows (a consensus of the FASB Emerging Issues Task Force)*
Liabilities Area of FASB ASC	
ASU No. 2013-04 (February 2013)	*Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date (a consensus of the FASB Emerging Issues Task Force)*
Broad Transactions Area of FASB ASC	
ASU No. 2013-11 (July 2013)	*Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force)*
ASU No. 2013-10 (July 2013)	*Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes (a consensus of the FASB Emerging Issues Task Force)*
ASU No. 2013-09 (July 2013)	*Fair Value Measurement (Topic 820): Deferral of the Effective Date of Certain Disclosures for Nonpublic Employee Benefit Plans in Update No. 2011-04*
ASU No. 2013-05 (March 2013)	*Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity (a consensus of the FASB Emerging Issues Task Force)*

(continued)

Recent Accounting Standards Updates	
ASU No. 2013-03 (February 2013)	*Financial Instruments (Topic 825): Clarifying the Scope and Applicability of a Particular Disclosure to Nonpublic Entities*
ASU No. 2012-06 (October 2012)	*Business Combinations (Topic 805): Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution (a consensus of the FASB Emerging Issues Task Force)*
Industry Area of FASB ASC	
ASU No. 2013-08 (June 2013)	*Financial Services—Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements*
ASU No. 2013-06 (April 2013)	*Not-for-Profit Entities (Topic 958): Services Received from Personnel of an Affiliate (a consensus of the FASB Emerging Issues Task Force)*
ASU No. 2012-07 (October 2012)	*Entertainment—Films (Topic 926): Accounting for Fair Value Information That Arises after the Measurement Date and Its Inclusion in the Impairment Analysis of Unamortized Film Costs (a consensus of the FASB Emerging Issues Task Force)*

Recently Issued Technical Questions and Answers

.115 The following table presents a list of recently issued nonauthoritative audit, attest, and accounting Technical Questions and Answers (AICPA, *Technical Practice Aids*) issued by the AICPA. Recently issued questions and answers can be accessed at www.aicpa.org/InterestAreas/FRC/Pages/RecentlyIssuedTechnicalQuestionsandAnswers.aspx.

Recently Issued Technical Questions and Answers	
Group Audits	
Technical Questions and Answers (TIS) section 8800.43 (June 2013)	"Using Another Accounting Firm to Perform Inventory Observations"
TIS section 8800.42 (June 2013)	"Component Audit Report of Balance Sheet Only"
TIS section 8800.41 (March 2013)	"Component Using a Different Basis of Accounting Than the Group"
TIS section 8800.40 (March 2013)	"Variable Interest Entities (VIEs) as a Component"

Recently Issued Technical Questions and Answers	
TIS section 8800.39 (February 2013)	"Disaggregation of Account Balances or Classes of Transactions"
TIS section 8800.38 (February 2013)	"Using Net Asset Value to Calculate Fair Value"
TIS section 8800.37 (February 2013)	"Employee Benefit Plan Using Investee Results to Calculate Fair Value"
TIS section 8800.36 (February 2013)	"Investments Held in a Financial Institution Presented at Cost or Fair Value"
TIS section 8800.35 (February 2013)	"Component and Group Have Different Year-Ends"
TIS section 8800.34 (February 2013)	"Subsequent Events Procedures Relating to a Component"
TIS section 8800.33 (February 2013)	"Structure of Component Auditor Engagement"
TIS section 8800.32 (February 2013)	"Issuance of Component Auditor's Report"
TIS section 8800.31 (February 2013)	"Review of Component That Is Not Significant Performed by Another Practitioner"
TIS section 8800.30 (February 2013)	"Making Reference to Review Report"
TIS section 8800.29 (February 2013)	"Equity Investee's Financial Statements Reviewed, and Investment Is a Significant Component"
TIS section 8800.28 (February 2013)	"Lack of Response From a Component Auditor"
TIS section 8800.27 (February 2013)	"Circumstances in Which Making Reference Is Inappropriate"
TIS section 8800.26 (February 2013)	"Procedures Required When Making Reference to the Audit of an Equity Method Investee"
TIS section 8800.25 (February 2013)	"Applicability of AU-C Section 600 When Making Reference to the Audit of an Equity Method Investee"
TIS section 8800.24 (February 2013)	"Applicability of AU-C Section 600 When Only One Engagement Team Is Involved"
TIS section 8800.23 (February 2013)	"Use of Component Materiality When the Component Is Not Reported On Separately"

(continued)

Recently Issued Technical Questions and Answers	
TIS section 8800.22 (November 2012)	"Form of Communications With Component Auditors"
TIS section 8800.21 (November 2012)	"Factors Affecting Involvement in the Work of a Component Auditor"
TIS section 8800.20 (November 2012)	"Involvement in the Work of a Component Auditor"
TIS section 8800.19 (November 2012)	"Understanding of Component Auditor Whose Work Will Not Be Used"
TIS section 8800.18 (November 2012)	"Determining Component Materiality"
TIS section 8800.17 (November 2012)	"Inclusion of Component Auditor in Engagement Team Discussions"
TIS section 8800.16 (November 2012)	"Responsibilities With Respect to Fraud in a Group Audit"
TIS section 8800.15 (November 2012)	"Restricted Access to Component Auditor Documentation"
TIS section 8800.14 (November 2012)	"No Significant Components Are Identified"
TIS section 8800.13 (November 2012)	"Criteria for Identifying Significant Components"
TIS section 8800.12 (November 2012)	"Criteria for Identifying Components"
TIS section 8800.11 (November 2012)	"Equity Method Investment Component"
TIS section 8800.10 (November 2012)	"Terms of the Group Audit Engagement"
TIS section 8800.09 (November 2012)	"Component Audit Performed by Other Engagement Teams of the Same Firm"
TIS section 8800.08 (November 2012)	"Component Audit Performed in Accordance With *Government Auditing Standards*"
TIS section 8800.06 (November 2012)	"Governmental Financial Statements That Include a GAAP-Basis Component"
TIS section 8800.04 (November 2012)	"Factors to Consider Regarding Component Auditors"
TIS section 8800.03 (November 2012)	"Deciding to Act as Auditor of Group Financial Statements"

Recently Issued Technical Questions and Answers	
TIS section 8800.02 (November 2012)	"Making Reference to Any or All Component Auditors"
TIS section 8800.01 (November 2012)	"Applicability of AU-C Section 600"
Health Care Entities	
TIS section 6400.52 (October 2012)	"Insurance Recoveries From Certain Retrospectively Rated Insurance Policies"
TIS section 6400.51 (October 2012)	"Presentation of Insurance Recoveries When Insurer Pays Claims Directly"
TIS section 6400.50 (October 2012)	"Accrual of Legal Costs Associated With Contingencies Other Than Malpractice"
TIS section 6400.49 (October 2012)	"Presentation of Claims Liability and Insurance Recoveries—Contingencies Similar to Malpractice"
TIS section 6400.48 (October 2012)	"Accounting for Costs Incurred During Implementation of ICD-10"
Insurance	
TIS section 6300.40 (October 2012)	"Deferrable Commissions and Bonuses Under ASU No. 2010-26"
TIS section 6300.39 (October 2012)	"Cumulative Effect of Change in Accounting Principle—ASU No. 2010-26"
Investment Companies	
TIS section 6910.35 (February 2013)	"Assessing Control When Measuring Fair Value"
TIS section 6910.34 (February 2013)	"Application of the Notion of Value Maximization for Measuring Fair Value of Debt and Controlling Equity Positions"
Reporting	
TIS section 9100.08 (June 2013)	"Audit Firm With Multiple Offices on Their Company Letterhead and Effect on Report"
TIS section 9100.07 (October 2012)	"Naming the City and State Where the Auditor Practices"
TIS section 9110.23 (March 2013)	"Modification of Compliance Report When Financial Statements Are Audited in Accordance With GAAS"
TIS section 9110.22 (March 2013)	"Use of Restricted Alert Language When Financial Statements Are Audited in Accordance With GAAS and *Government Auditing Standards*"

(continued)

Recently Issued Technical Questions and Answers	
TIS section 9110.21 (March 2013)	"Reporting on Current-Value Financial Statements That Supplement Historical-Cost Financial Statements in Presentations of Real Estate Entities"
TIS section 9110.20 (December 2012)	"Effective Date of AU-C Section 905 in a Compliance Audit"
TIS section 9170.02 (October 2012)	"Supplementary Information That Accompanies Interim Financial Information"
Other Topics	
TIS section 9110.19 (July 2012)	"Lender Comfort Letters"

Recent AICPA Independence and Ethics Developments

.116 The Alert *Independence and Ethics Developments—2012/13* (product no. ARAIET12P) contains a complete update on new independence and ethics pronouncements. This alert will heighten your awareness of independence and ethics matters likely to affect your practice. Obtain this alert by calling the AICPA at 888.777.7077 or visiting www.cpa2biz.com.

AICPA Code of Professional Conduct

.117 The AICPA's Professional Ethics Executive Committee (PEEC) is proposing to restructure and codify the AICPA Code of Professional Conduct (AICPA Code) so that members and other users of the AICPA Code can apply the rules and reach correct conclusions more easily and intuitively. To achieve this, PEEC is proposing to restructure the AICPA Code into several parts organized by topic, edit it using consistent drafting and style conventions, incorporate a conceptual framework for members in public practice and business, revise certain provisions to reflect the conceptual framework approach (also known as the *threats and safeguard approach*), and, where applicable, reference existing nonauthoritative guidance to the relevant topic. It is PEEC's intent to maintain the substance of the existing AICPA ethics standards. PEEC believes this was achieved; however, during the process, PEEC identified some areas that needed revision and have been highlighted as substantive changes.

New Structure of the Code

.118 The restructured AICPA Code is divided into separate parts. The first part is the preface, which is applicable to all members and covers topics such as the structure of the code; the principles of professional conduct; the defined terms that are used in the code; nonauthoritative guidance; and new, revised, and pending interpretations. The remaining three parts are divided according to a member's practice. Part 1 is applicable to members in public practice, part 2 is applicable to members in business, and part 3 is applicable to all other members, such as those who are retired or unemployed. By structuring the AICPA Code this way, PEEC believes that members will be able to easily identify what provisions apply to them. For members who are both in public practice and business, content that is relevant to both parts appears in the corresponding citation (an explanation of numeric citations follows). The actual content differs only where necessary (for example, part 1 might refer to a firm, whereas part 2 might refer to employer).

Numeric Citations

.119 The new citation numbering system for the AICPA Code looks like this: ET section X.XXX.XXX. The single digit that begins the citation identifies in which part the content resides. Accordingly, content from the preface begins with the single digit 0.XXX.XXX, whereas content for part 1 begins with a 1.XXX.XXX, part 2 with a 2.XXX.XXX, and part 3 with a 3.XXX.XXX. Next are two sets of three digit numbers that identify the topics and, when applicable, subtopics or sections. To facilitate use, when a topic, subtopic, or section appears in two or more parts, the same number is used.

Rules of Conduct

.120 The bylaws of the AICPA require that members adhere to the rules of the AICPA Code. This has not changed with the restructured code. However, the specific rule numbers are no longer being used. For example, Rule 101, *Independence*, is now referred to as the Independence Rule. In addition, the manner in which the interpretations are aligned with the rules has changed. In the currently effective version of the AICPA Code, content is aligned under the applicable rules, whereas in the restructured AICPA Code, the rules are aligned with the interpretations under a broad topic. For example, the Contingent Fees Rule and Commission and Referral Fees Rule and related interpretations appear under ET section 1.500, "Fees and Other Types of Remuneration."

.121 Given this construct, there are some situations in which the rule appears multiple times in the AICPA Code. For example, the Integrity and Objectivity Rule appears under the Integrity and Objectivity topic of both parts 1 and 2. However, the interpretations of this rule do not necessarily appear in both parts 1 and 2. Rather, they are aligned with the member's practice. For example, under the Integrity and Objectivity topic, there is a subtopic called Conflicts of Interest in both parts 1 and 2. In part 1, there is an interpretation that addresses conflicts of interest concerns when a member in public practice is also a director of an entity. However, this interpretation does not appear in part 2 because it would not be applicable to such members.

.122 Finally, all ethics rulings have been redrafted as interpretations and codified under the appropriate topic.

Conceptual Framework

.123 PEEC proposes to incorporate two conceptual framework interpretations into the restructured AICPA Code: one for members in public practice and another, very similar, one for members in business. In addition, for members in public practice who provide attest services to clients, there is a conceptual framework for independence that focuses on the specific threats to independence. The conceptual framework for independence is a redraft of the extant *Conceptual Framework for AICPA Independence Standards* (AICPA, *Professional Standards*, ET sec. 100-1). These conceptual framework interpretations are designed to assist members when they encounter a relationship or circumstance that creates threats to their compliance with the rules and when the AICPA Code contains no specific guidance to assist the member. When specific guidance is absent, under the conceptual framework interpretations, the member should evaluate whether that circumstance or relationship would lead a reasonable and informed third party that is aware of the relevant information to conclude that there is an unacceptable threat to the member's compliance with the rules.

.124 In addition to the two conceptual framework interpretations, certain interpretations were recast to reflect the conceptual framework approach that represents a significant change. For example, the existing interpretation that prohibits a covered member from having a direct financial interest in a client is proposed to read as follows:

> If a covered member had or was committed to acquire any direct financial interest in an attest client during the period of the professional engagement, the self-interest threat to the covered member's compliance with the Independence Rule would not be at an acceptable level and could not be reduced by the application of safeguards. Accordingly, independence would be impaired.

.125 PEEC believes this will enhance understanding of the AICPA Code by providing additional context to the code and guidance on the application of the framework. However, recasting will not change the substance of the existing AICPA Code by allowing members to apply judgment where none is permitted today. For example, as noted in the preceding statement, if a covered member holds stock in an audit client, the only safeguard that would eliminate or sufficiently mitigate the self-interest threat to independence would be to eliminate the interest or cease being a covered member, which is the same requirement as under the current AICPA Code. Thus, recasting does not weaken the code or allow for judgment where none is permitted now. Some interpretations in the code, such as those for acts discreditable, false advertising, and confidentiality, do not lend themselves to a conceptual framework approach and, as such, were not recast. For those interpretations, PEEC applied only drafting and style conventions.

Nonauthoritative Guidance

.126 The primary objectives of restructuring the AICPA Code is so that members and other users can apply the code more easily, thus, minimizing the risk of misapplication. To assist members in understanding and applying the AICPA Code, periodically, the Ethics division develops nonauthoritative guidance (for example, frequently asked questions and Basis for Conclusions documents) that resides outside the AICPA Code. As described in the "Nonauthoritative Guidance" section of the Ethics codification, during the restructuring, PEEC reevaluated the nonauthoritative guidance and either proposed that some of it be made authoritative and incorporated into the revised AICPA Code or aligned links to the nonauthoritative content with the relevant topic. The revised AICPA Code is expected to be issued in 2014.

Nonattest Services

.127 Several changes to Interpretation No. 101-3, "Nonattest Services," under Rule 101, *Independence* (AICPA, *Professional Standards*, ET sec. 101 par. .05), were made. PEEC believes these revisions will add clarity to the nonattest services guidance and enhance practitioners' understanding of the interpretation's requirements. Changes adopted affecting nonattest services included the following:

- Providing a limited exception to the period of impairment

- Clarifying language regarding the general requirements for performing nonattest services, including enhanced definitions of management responsibilities
- Defining activities related to attest services and, therefore, not constituting a nonattest service subject to Interpretation No. 101-3
- Technical corrections to compliance requirements with independence regulations of certain regulatory bodies
- Addition of nonattest services
- Independence monitoring activities

.128 More detailed information on each of the changes follows.

Period of Impairment Limited Exception When Performing Nonattest Services

.129 Interpretation No. 101-3 states that members performing attestation services must remain independent during the period covered by the financial statements and the period of the professional engagement. This interpretation was modified to provide a limited exception if prohibited services were performed during the period covered by the financial statements, provided that the nonattest services were provided prior to the period of the professional engagement; the nonattest services related only to periods prior to the period covered by the financial statements; and the financial statements for the period to which the nonattest services relate were audited by another firm (or, in the case of a review engagement, reviewed by another firm).

Management's Responsibilities When Performing Nonattest Services

.130 The term *management responsibilities* replaces the term *management functions*. PEEC believes that the term *management responsibilities* will better help members distinguish between management responsibilities and other types of services. In addition, this change converges terms used by other standard-setting bodies. A member assuming management responsibilities for an attest client would create a management participation threat so significant that no safeguards could reduce the threat to an acceptable level and, therefore, would impair independence. The interpretation adds explanatory language on what constitutes *management responsibilities*, which are defined as involving leading and directing an entity, including making significant decisions regarding the acquisition, deployment, and control of human, financial, physical, and intangible resources.

.131 Examples of activities that would be considered a management responsibility and would impair independence if performed for an attest client include

- setting policies or strategic direction for the client.
- directing or accepting responsibility for the actions of the client's employees, except to the extent permitted when using internal auditors to provide assistance for services performed under auditing or attestation standards.
- authorizing, executing, or consummating a transaction or otherwise exercising authority on behalf of a client or having the authority to do so.

- preparing source documents, in electronic or other form, evidencing the occurrence of a transaction.
- having custody of client assets.
- deciding which recommendations of the member or other third parties to implement or prioritize.
- reporting to those in charge of governance on behalf of management.
- serving as a client's stock transfer or escrow agent, registrar, general counsel, or its equivalent.
- accepting responsibility for the management of a client's project.
- accepting responsibility for the preparation and fair presentation of the client's financial statements in accordance with the applicable financial reporting framework.
- accepting responsibility for designing, implementing, or maintaining internal controls.
- performing ongoing evaluations of the client's internal control as part of its monitoring activities.

.132 Additional examples of nonattest services when independence would not be impaired were added for performance of reconciliations and network maintenance services.

.133 Members are cautioned that regulatory bodies, such as the SEC and Government Accountability Office, may have different requirements and, therefore, should be consulted when performing attestation work under those standards.

Activities Not Considered Nonattest Service Because the Activities Are Considered to Be Related to Attest Services

.134 PEEC also clarified that when performing attest services, members often have communications with the client that are a routine part of the engagement and, therefore, are not considered nonattest services and subject to the general requirements of Interpretation No. 101-3. Such communications may include the following:

- Client's selection and application of accounting standards or policies and financial statement disclosure requirements
- Appropriateness of a client's methods used in determining the accounting and financial reporting
- Adjusting journal entries that the member prepared or proposed for the client's consideration
- The form or content of the financial statements

Engagements Subject to Independence Rules of Certain Regulatory Bodies

.135 Changes to Interpretation No. 101-3 added the PCAOB as an example authoritative regulatory body for which compliance is required when performing nonattest services for a client for which independence is required under regulations of the regulatory body.

Additional Nonattest Services

.136 This revision concludes that financial statement preparation, cash-to-accrual conversions, and reconciliations are considered outside the scope of the attest engagement and, therefore, constitute nonattest services subject to the general requirements of the interpretation. This revision is effective for engagements covering periods beginning on or after December 15, 2014.

Independence Monitoring Activities

.137 This revision clarifies the impact that performing ongoing and separate evaluations have on independence. Although the revisions include a description of these two types of monitoring activities, members seeking further guidance on distinguishing between ongoing and separate evaluations are directed to the COSO *Internal Control—Integrated Framework*. This revision is effective for engagements covering periods beginning on or after December 15, 2013.

On the Horizon

.138 Auditors should keep abreast of accounting developments and upcoming guidance that may affect their engagements. The following sections present brief information about some ongoing projects that have particular significance. Remember that exposure drafts are nonauthoritative and cannot be used as a basis for changing existing standards.

.139 Information on, and copies of, outstanding exposure drafts may be obtained from the various standard-setters' websites. These websites contain in-depth information about proposed standards and other projects in the pipeline. Many more accounting and auditing projects exist in addition to those discussed here. Readers should refer to information provided by the various standard-setting bodies for further information.

Auditing and Attestation Pipeline—Nonissuers

ASB Issues Exposure Draft to Amend AU Section 322

.140 The ASB has completed the clarity redrafting of its last AU section in AICPA *Professional Standards* and has issued the proposed SAS *Using the Work of Internal Auditors*. This proposed SAS would supersede AU section 322, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements* (AICPA, *Professional Standards*), and AU-C section 610, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements* (AICPA, *Professional Standards*), and, among other amendments, would also significantly amend AU-C section 315. The proposed SAS is converged with ISA 610 (Revised 2013), *Using the Work of Internal Auditors*, to reflect developments in the internal auditing environment and changes in practice regarding the interactions between the external and internal auditors.

.141 Consistent with ISA 610 (Revised 2013), the proposed SAS introduces the concept of a systematic and disciplined approach, which is not included in extant AU-C section 610. Paragraph 14 of the proposed SAS would require, among other things, as a prerequisite to being able to use the work of the internal audit function, that the external auditor evaluate the application by the internal audit function of a systematic and disciplined approach, including quality control. Paragraphs A10–A12 of the proposed SAS provide application guidance regarding the application of a systematic and disciplined approach. The ASB believes that relative to our extant standards, this requirement represents an additional and explicit evaluation that the external auditor would need to perform to conclude on the appropriateness of using the work of internal auditors.

Attestation Standards Clarity Project

.142 The Attestation Recodification Task Force is in the process of clarifying Statements on Standards for Attestation Engagements (SSAEs) and converging them with the International Standards on Assurance Engagements issued by the IAASB. The task force has developed a draft SSAE that would replace the more general attestation standards (AT sections 20, *Defining Professional Requirements in Statements on Standards for Attestation Engagements*; 50, *SSAE Hierarchy*; 101, *Attest Engagements*; and 201, *Agreed-Upon Procedures Engagements* [AICPA, Professional Standards]). Once this material is finalized, the task force expects to focus on the subject matter-specific standards (that is, AT sections 301–801).

.143 The following are some of the conclusions reached by the ASB regarding the proposed clarified attestation standards:

- The practitioner should be required to obtain a written assertion in an examination or review engagement.
- If the responsible party refuses to provide written representations, and the responsible party is not the engaging party, the practitioner may report directly on the subject matter and restrict the use of the report to the engaging party.
- The clarified attestation standards should include a preface that explains what the attestation standards are and how they are organized.
- A risk assessment model should be incorporated in the section of the attestation standards that addresses examination engagements.
- The guidance in the clarified attestation standards should not be overburdened by the incorporation of all the detailed requirements in the clarified auditing standards.
- The illustrative examination reports should address a variety of subject matters, for example, qualitative subject matter, such as the effectiveness of controls.
- The guidance on compilations of prospective financial statements will be removed from the attestation standards, and the AICPA Accounting and Review Services Committee will address this topic.

.144 The ASB discussed a revised draft of the proposed general attestation standards at its May 2013 meeting.

Auditing and Attestation Pipeline—Issuers

Auditor's Reporting Model

.145 In August 2013, the PCAOB proposed a new auditing standard to enhance the auditor's reporting model. The proposed standard would retain the pass/fail model and the basic elements of the current auditor's report, but would require the auditor to communicate a wider range of information specific to the particular audit.

.146 The proposed standard would require

- the communication of critical audit matters as determined by the auditor;
- enhancements to existing language in the auditor's report related to the auditor's responsibilities for fraud and notes to the financial statements; and
- the addition of new elements to the auditor's report related to
  - — auditor independence;
  - — auditor tenure; and
  - — the auditor's responsibilities for, and the results of, the auditor's evaluation of other information outside the financial statements.

Critical Audit Matters

.147 *Critical audit matters* are those matters the auditor addressed during the audit of the financial statements that

- involved the most difficult, subjective, or complex auditor judgments;
- posed the most difficulty to the auditor in obtaining sufficient appropriate evidence; and
- posed the most difficulty to the auditor in forming an opinion on the financial statements.

.148 Critical audit matters ordinarily are matters of such importance that they are

- included in engagement completion documents;
- reviewed by the engagement quality reviewer; and
- communicated to the audit committee.

.149 Factors that the auditor should take into account when determining critical audit matters are as follows:

- The degree of subjectivity involved when determining or applying audit procedures to address the matter or when evaluating the results of those procedures.
- The nature and extent of audit effort required to address the matter.
- The nature and amount of available relevant and reliable evidence regarding the matter or the degree of difficulty in obtaining such evidence.
- The severity of control deficiencies identified relevant to the matter, if any.
- The degree to which the results of audit procedures to address the matter resulted in changes in the auditor's risk assessments,

including risks that were not identified previously, or required changes to planned audit procedures, if any.

- The nature and significance, quantitatively or qualitatively, of corrected and accumulated uncorrected misstatements related to the matter, if any.
- The extent of specialized skill or knowledge needed to apply audit procedures to address the matter or evaluate the results of those procedures, if any.
- The nature of consultations outside the engagement team regarding the matter, if any.

.150 The description for each critical audit matter in the auditor's report would

- identify the critical audit matter;
- describe the considerations that led the auditor to determine that the matter is a critical audit matter; and
- refer to the relevant financial statement accounts and disclosures that relate to the critical audit matter, when applicable.

Proposed Other Information Standard

.151 Under existing PCAOB standards, the auditor has a responsibility to "read and consider" other information with no related reporting requirements.

.152 The proposed standard would

- apply the auditor's responsibility for other information specifically to a company's annual report filed with the SEC under the 1934 Act that contains the company's audited financial statements and the related auditor's report.
- enhance the auditor's responsibility with respect to other information by adding procedures for the auditor to perform when evaluating the other information based on relevant audit evidence obtained and conclusions reached during the audit.
- require the auditor to evaluate the other information for a material misstatement of fact, as well as for a material inconsistency with amounts or information, or the manner of their presentation, in the audited financial statements.
- require communication in the auditor's report regarding the auditor's responsibilities for, and the results of, the auditor's evaluation of the other information.

Related Parties

.153 The PCAOB is reproposing the following:

- An auditing standard, *Related Parties*
- Amendments to certain PCAOB auditing standards regarding significant unusual transactions
- Other amendments to PCAOB auditing standards

.154 The proposed auditing standard would supersede the PCAOB's AU section 334, *Related Parties* (AICPA, *PCAOB Standards and Related Rules*, Interim Standards).

.155 Related party transactions have been contributing factors in numerous prominent financial reporting frauds over the last few decades. Financial reporting frauds also have involved significant transactions that are outside the normal course of business for the company or that otherwise appear to be unusual due to their timing, size, or nature (significant unusual transactions) and a company's financial relationships and transactions with its executive officers. Corporate scandals involving these areas, such as financial reporting frauds at Enron Corporation; Tyco International, Ltd.; Refco, Inc.; and WorldCom, Inc. undermined investor confidence and resulted in significant losses for investors, as well as the loss of many jobs for employees. These critical areas have continued to be a contributing factor in more recent cases. The reproposed standard and amendments would update and strengthen auditor performance requirements in these critical areas, which could pose significant risks of material misstatement in company financial statements. The critical areas addressed by the reproposed standard and amendments include

- relationships and transactions with related parties;
- significant unusual transactions; and
- financial relationships and transactions with executive officers.

.156 The PCAOB is proposing changes in these three critical areas contemporaneously because it believes that the auditor's efforts in these areas complement each other. For example, focusing the auditor's identification and evaluation of significant unusual transactions might assist the auditor in identifying related parties or relationships or transactions with related parties that management has not previously disclosed to the auditor. Similarly, performing procedures to obtain an understanding of a company's financial relationships and transactions with its executive officers might provide the auditor with information that indicates the existence of related party relationships or transactions previously undisclosed to the auditor. Both the auditor and the investor benefit from a comprehensive and consistent examination of these areas, not only because of the risk of material misstatement due to fraud, but also because these transactions, due to their nature, pose a risk of material misstatement due to error.

.157 The reproposed standard and amendments would update the PCAOB's standards and focus the auditor's efforts on these critical areas that could pose significant risks of material misstatement to company financial statements. In the PCAOB's view, this update is particularly appropriate due to the number and magnitude of financial reporting frauds, and resulting investor losses, associated with these areas.

PCAOB Framework

.158 In March 2013, the PCAOB proposed a framework for reorganizing the existing interim and PCAOB-issued auditing standards into a topical structure with a single integrated numbering system. In addition, the PCAOB is proposing certain conforming amendments to Rule 3101, *Certain Terms Used in Auditing and Related Professional Practice Standards*, and Rule 3200T, *Interim Auditing Standards* (AICPA, *PCAOB Standards and Related Rules*, Select Rules of the Board). The PCAOB also is proposing certain related amendments to the its auditing standards and proposing to rescind certain interim auditing standards that it believes are no longer necessary under the proposed reorganization.

.159 In April 2003, the PCAOB issued Rule 3200T, which adopted, on an interim transitional basis, GAAS of the ASB of the AICPA that were in existence on April 16, 2003. For those "interim auditing standards," the PCAOB retained the organization and reference numbers (AU sections) used in the ASB's preexisting codification of its standards.

.160 Since the adoption of the interim auditing standards, the PCAOB has issued 16 new standards that, collectively, have superseded 10 interim standards and amended the majority of the remaining auditing standards to varying degrees. The standards issued by the PCAOB have been numbered sequentially based on the order in which they were issued.

.161 Consequently, the PCAOB's existing auditing standards consist of sequentially numbered standards issued by the PCAOB (the AS standards) and the AU sections representing the remaining interim standards that the PCAOB has not superseded.

.162 To enhance the usability of the PCAOB's auditing standards, the PCAOB is proposing to reorganize its existing auditing standards into a topical structure with a single, integrated numbering system. The proposed reorganization is intended to present the standards in a logical order that generally follows the flow of the audit process.

.163 The proposed reorganization also is intended to help users navigate the standards more easily, for example, to find the relevant standard for a particular area of the audit. It also would help avoid potential confusion between the PCAOB's standards and the recently reorganized standards of the ASB, if the same AU section reference is used for different standards covering different topics. In addition, the proposed reorganization framework is intended to provide a structure for updating PCAOB standards in the future.

.164 The proposed reorganization of PCAOB auditing standards would involve reordering and renumbering existing standards in their entirety without redrafting the auditing standards or making substantive changes to the requirements of the standards. Also, in conjunction with the proposed reorganization of PCAOB auditing standards, the PCAOB is proposing to rescind certain auditing standards that it believes are no longer necessary under the proposed reorganization. Implementation of the proposed reorganization of PCAOB auditing standards would require a number of amendments, for example, to update the reference numbers and cross-references to reflect the new section numbers and remove references to rescinded standards. The changes to the auditing standards resulting from the proposed reorganization are not expected to impose new requirements on auditors or substantively change the requirements of PCAOB standards.

.165 Under this proposal, all PCAOB auditing standards would be reorganized into a topical structure, with the topics grouped into the following categories:

- *General Auditing Standards*. Standards on broad auditing principles, concepts, activities, and communications.
- *Audit Procedures*. Standards for planning and performing audit procedures and obtaining audit evidence.
- *Auditor Reporting*. Standards for auditors' reports.

- *Matters Relating to Filings under Federal Securities Laws*. Standards on certain auditor responsibilities relating to SEC filings for securities offerings and reviews of interim financial information.
- *Other Matters Associated with Audits*. Standards for other work performed in conjunction with an audit of an issuer or a broker or dealer.

.166 Within each category are subcategories to further organize similar topics, such as standards related to auditor communications in the General Auditing Standards category.

.167 The integrated referencing system would use an "AS" prefix to identify the auditing standards, which is consistent with common practice for describing standards issued by the PCAOB (for example, "AS No. 7" for the standard on engagement quality review).

.168 Each standard would be assigned a unique section number, based on a four-digit numbering system. Using a four-digit system would facilitate the grouping of auditing standards into logical categories and subcategories by topic and would avoid potential confusion with the standards of the IAASB or ASB. If the proposed reorganization is adopted, future auditing standards would be issued as new or replacement sections and paragraphs within the new framework.

.169 Although the proposed framework for reorganization of PCAOB auditing standards would not mirror the organizational structure of the standards of the IAASB, the reorganized structure could facilitate comparison of PCAOB and IAASB standards. For example, both the IAASB standards and the proposed reorganization of PCAOB auditing standards begin with general standards, followed by standards for audit procedures and auditor reporting. Many of the differences between the proposed reorganization of PCAOB auditing standards and the organizational structure of the IAASB's standards generally relate to the content of the standards themselves, rather than the arrangement of the standards. For example, the topics in multiple PCAOB standards might be covered in one IAASB standard or vice versa.

Accounting Pipeline

Consolidation

.170 In August 2013, FASB issued proposed ASU *Consolidation (Topic 810): Applying Variable Interest Entity Guidance to Common Control Leasing Arrangements (a proposal of the Private Company Council)*. The amendments in this proposed ASU would permit a private company to elect not to apply variable interest entity guidance for assessing whether it should consolidate a lessor entity when (*a*) the lessor entity and the private company are under common control, (*b*) the private company has a leasing arrangement with the lessor entity, and (*c*) substantially all the activity between the two entities is related to the leasing activity of the lessor entity.

.171 The accounting alternative, when elected, would be an accounting policy election that would be applied by a private company to all current and future lessor entities under common control that meet the criteria for applying this approach.

.172 If a private company lessee elects to apply the guidance in this proposed ASU, it would be required to disclose additional information about each applicable lessor entity. Such disclosures would include the key terms of the leasing arrangements, the amount of debt or significant liabilities, or both, of the lessor entity under common control, the key terms of existing debt agreements of the lessor entity under common control, and the key terms of any other explicit interest related to the lessor entity under common control. In addition, entities that elect this alternative should continue to apply other applicable FASB ASC guidance, including FASB ASC 840, *Leases*, and FASB ASC 460, *Guarantees*.

Troubled Debt Restructuring

.173 In July 2013, FASB issued proposed ASU *Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Collateralized Mortgage Loans upon a Troubled Debt Restructuring (a consensus of the FASB Emerging Issues Task Force)*. The amendments in this proposed ASU would clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon (*a*) the creditor obtaining legal title to the residential real estate property or (*b*) completion of a deed in lieu of foreclosure or similar legal agreement under which the borrower conveys all interest in the residential real estate property to the creditor to satisfy that loan, even though legal title may not yet have passed. In addition, the proposal would require that an entity that receives physical possession of residential real estate property collateralizing a consumer mortgage loan disclose a roll-forward schedule reconciling the change from the beginning to the ending balance of such foreclosed properties at every reporting period. An entity would also be required to disclose the recorded investment in consumer mortgage loans secured by residential real estate properties that are in the process of foreclosure according to local requirements of the applicable jurisdiction.

Service Concession Arrangements

.174 In July 2013, FASB issued proposed ASU *Service Concession Arrangements (Topic 853) (a consensus of the FASB Emerging Issues Task Force)*. The proposal would apply to an operating entity of a service concession arrangement entered into with a public sector entity grantor when the arrangement contains both of the following conditions:

- The grantor controls, or has the ability to modify or approve, the services that the operating entity must provide with the infrastructure, to whom it must provide them, and at what price.
- The grantor controls, through ownership, beneficial entitlement, or otherwise, any residual interest in the infrastructure at the end of the term of the arrangement.

.175 The proposed amendments would specify that an operating entity should not account for a service concession arrangement within the scope of this proposed ASU as a lease in accordance with FASB ASC 840. An operating entity would refer to other relevant FASB ASC topics as applicable to account for various aspects of a service concession arrangement. The proposal also specifies that the infrastructure used in a service concession arrangement would not be recognized as property, plant, and equipment of the operating entity.

Consolidation

.176 In July 2013, FASB issued proposed ASU *Consolidation (Topic 810): Measuring the Financial Liabilities of a Consolidated Collateralized Financing Entity (a consensus of the FASB Emerging Issues Task Force)*. The amendments in this proposed ASU would apply to reporting entities that are required to consolidate a collateralized financing entity under the "Variable Interest Entity" subsections of FASB ASC 810-10. The proposal would define a *collateralized financing entity* as an entity that holds financial assets, issues beneficial interests in those financial assets, and has no more than nominal equity. All the beneficial interests that have recourse to the related financial assets of the collateralized financing entity are classified as financial liabilities. Under the proposed amendments, a collateralized financing entity also may hold nonfinancial assets temporarily as a result of default by the debtor on the underlying debt instruments held as assets by the collateralized financing entity or in an effort to restructure the debt instruments held as assets by the collateralized financing entity.

.177 The amendments would allow a reporting entity within the scope of this proposed ASU to measure the financial liabilities of the collateralized financing entity using the following calculation:

- The sum of the following two amounts: the fair value of the financial assets held by the collateralized financing entity and the carrying value of any nonfinancial assets held by the collateralized financing entity
- Less the sum of the following two amounts: the sum of the fair value of financial assets and the carrying value of nonfinancial assets attributable to the beneficial interest owned by the reporting entity and the carrying value of any beneficial interests that represent compensation for services rendered by the reporting entity

.178 A reporting entity would allocate the preceding calculated value to the individual financial liabilities on a reasonable and consistent basis using a methodology appropriate in the circumstances. Beneficial interests that represent compensation for services (such as management fees) and nonfinancial assets that are being held temporarily by a collateralized financing entity would be measured in accordance with other applicable U.S. GAAP.

.179 Changes in the sum of the fair value of financial assets and the carrying value of nonfinancial assets attributable to the beneficial interests (other than beneficial interests that represent compensation for services) owned by the reporting entity would be recognized in the consolidated statement of comprehensive income of the reporting entity.

.180 An entity that consolidates a collateralized financing entity would not be permitted to measure the financial liabilities at fair value under the fair value option regardless of whether the reporting entity elects to apply the measurement guidance under this proposed ASU.

.181 The amendments in this proposal would be effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. For nonpublic entities, the amendments would be effective for fiscal years beginning after December 15, 2014, and interim and annual periods after that date.

Early adoption would be permitted. The proposed effective date will be redeliberated after the Emerging Issues Task Force considers stakeholder feedback on this proposed ASU.

Going Concern

.182 In June 2013, FASB issued proposed ASU *Presentation of Financial Statements (Topic 205): Disclosure of Uncertainties about an Entity's Going Concern Presumption*. Under U.S. GAAP, financial statements are prepared under the inherent presumption that the reporting entity will be able to continue as a going concern (that is, the entity will continue to operate such that it will be able to realize its assets and meet its obligations in the ordinary course of business [the going concern presumption]). The going concern presumption is critical to financial reporting because it establishes the fundamental basis for measuring and classifying assets and liabilities.

.183 Financial statements are prepared under the going concern presumption unless and until an entity's liquidation is imminent. When liquidation is imminent, an entity starts applying the liquidation basis of accounting as described in FASB ASC 205-30.

.184 Even before an entity's liquidation is imminent, there may be uncertainties about an entity's ability to continue as a going concern and, therefore, about its going concern presumption (going concern uncertainties). Currently, there is no guidance in U.S. GAAP about management's responsibilities in evaluating or disclosing going concern uncertainties or when and how going concern uncertainties should be disclosed in an entity's financial statement footnotes. U.S. auditing standards and federal securities laws require that an auditor evaluate whether substantial doubt exists about an entity's ability to continue as a going concern for a reasonable period of time. Auditing standards also require auditors to assess the possible financial statement effects, including the adequacy of disclosures on uncertainties about the entity's ability to continue as a going concern for a reasonable period of time as described in AU-C section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (AICPA, *Professional Standards*), or the PCAOB's AU section 341, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (AICPA, *PCAOB Standards and Related Rules*, Interim Standards).

.185 FASB received input indicating that the lack of guidance in U.S. GAAP and the varying interpretations of when and how going concern uncertainties should be disclosed under the auditing standards, resulting in diversity in the timing, nature, and extent of existing footnote disclosures. The proposed amendments in this ASU are intended to provide preparers with guidance in U.S. GAAP about management's responsibilities for evaluating and disclosing going concern uncertainties and, thereby, reduce existing diversity in footnote disclosures. In doing so, FASB believes that the proposed amendments also would improve the timeliness and the quality of footnote disclosures about going concern uncertainties.

.186 The proposed amendments would provide guidance in U.S. GAAP about management's responsibilities when evaluating an entity's going concern uncertainties and the timing and content of related footnote disclosures. An entity would evaluate going concern uncertainties by assessing the likelihood that the entity would be unable to meet its obligations as they become due within 24 months after the financial statement date.

.187 An entity would evaluate going concern uncertainties at each annual and interim reporting period and start providing footnote disclosures when it is either (*a*) more likely than not that the entity will be unable to meet its obligations within 12 months after the financial statement date without taking actions outside the ordinary course of business or (*b*) known or probable that the entity will be unable to meet its obligations within 24 months after the financial statement date without taking actions outside the ordinary course of business. When determining whether disclosures are necessary, an entity would assess information about conditions and events that exist at the date the financial statements are issued (or for a nonpublic entity, the date that the financial statements are available to be issued). Mitigating conditions and events also would be considered. When determining whether disclosures are necessary, however, an entity would not consider the potential mitigating effect of management's plans that are outside the ordinary course of business.

.188 When the previous disclosure threshold is met, an entity would disclose in the footnotes a description of (*a*) the principal conditions and events that give rise to the entity's potential inability to meet its obligations, (*b*) the possible effects those conditions and events could have on the entity, (*c*) management's evaluation of the significance of those conditions and events, (*d*) mitigating conditions and events, and (*e*) management's plans that are intended to address the entity's potential inability to meet its obligations. Disclosures may be less extensive in the early stages because available information may be limited. In subsequent reporting periods, disclosures may, depending on the circumstances, become more extensive as additional information becomes available about the conditions and events and management's plans.

.189 Additionally, the proposed amendments would require an entity that is an SEC filer to evaluate whether substantial doubt exists about its going concern presumption. If substantial doubt exists, the entity would disclose that determination in the footnotes. Substantial doubt would exist if, after assessing existing conditions and events and after considering all of management's plans (including those outside the ordinary course of business), the entity concludes that it is known or probable that it will be unable to meet its obligations within 24 months after the financial statement date. An entity that is not an SEC filer would not be required to evaluate or disclose whether substantial doubt exists about its going concern presumption but would be required to apply all the other disclosure requirements within the proposed amendments.

Insurance Contracts

.190 In June 2013, FASB issued proposed ASU *Insurance Contracts (Topic 834)*. Existing U.S. GAAP for insurance contracts have evolved over many years as a result of new insurance products and new contract terms and features. Those changes have resulted in multiple models that vary based on the nature of the insurance contract. Existing U.S. GAAP on insurance applies only to insurance entities and not to contracts issued by noninsurance entities that contain identical or similar economic characteristics to insurance contracts. That guidance has not been subject to comprehensive reconsideration by FASB before the beginning of this project.

.191 The guidance in this proposed ASU would apply to all entities that issue insurance contracts as defined in this proposed ASU (including entities other than insurance companies) or that hold reinsurance contracts, unless those contracts are specifically excluded from the scope of this proposed ASU.

The guidance in this proposed ASU would not apply to the holder (that is, policyholder) of insurance contracts unless the contract is a reinsurance contract. The extent of the effect on an individual entity would depend on the significance of insurance contracts issued or reinsurance contracts held to the entity's operations and financial position.

.192 The guidance in this proposed ASU would supersede the requirements in FASB ASC 944, *Financial Services—Insurance*, which currently apply to insurance entities.

.193 The guidance in this proposed ASU would require an entity to measure its insurance contracts under one of two measurement models, referred to as the *building block approach* (for most life, annuity, and long-term health contracts) and the premium allocation approach (for most property, liability, and short-term health contracts).

.194 Under the guidance in this proposed ASU, contracts accounted for using the building block approach generally would be measured in a way that portrays a current assessment of the insurance contract. That measurement has the following two components:

- The present value of the unbiased probability-weighted mean of the future net cash flows (expected value) that the entity expects in fulfilling the contract
- A margin representing profit at risk, which is deferred and recognized as income as the uncertainty in the cash flows decreases

.195 An entity applying the premium allocation approach would initially measure its liability for remaining coverage as the contractual premiums that are within the boundary of the existing contract. In subsequent periods, the entity would reduce the measurement of the liability for remaining coverage on the basis of the expected timing of incurred claims and benefits and would recognize the amount of that reduction as insurance contract revenue. When insured events occur, an entity generally would measure a separate liability for incurred claims as the expected value of future cash flows to settle the claims and related expenses.

.196 The guidance in this proposed ASU generally would require an entity to present the following in net income:

- Insurance contract revenue:
  - — For the building block approach—over the coverage and settlement periods as the obligation to provide coverage and other services are satisfied.
  - — For the premium allocation approach—over the coverage period on the basis of the expected timing of incurred claims.
- Claims and expenses as they are incurred, and for contracts measured using the building block approach, changes in assumptions regarding expected cash flows.
- Interest expense using the discount rates determined when the contract was initially recognized. Those rates would be periodically reset for insurance contracts with discretionary participation features that change the expected cash flows.

Equity Method and Joint Venture Investments

.197 In April 2013, FASB issued proposed ASU *Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the FASB Emerging Issues Task Force)*. Currently, under U.S. GAAP, a reporting entity that invests in a qualified affordable housing project may elect to account for that investment using the effective yield method if all the conditions in FASB ASC 323-740-25-1 are met. For those investments that are not accounted for using the effective yield method, FASB ASC 323-740-25-2 requires that those investments be accounted for in accordance with FASB ASC 970, *Real Estate—General*, which results in the investments being accounted for under either the equity method or the cost method. Some stakeholders have said that the conditions requiring the availability of tax credits to be guaranteed by a creditworthy entity and projected yield based solely on the cash flows from guaranteed tax credits to be positive in order to use the effective yield method are restrictive and, therefore, should be reconsidered. To these stakeholders, those conditions prevent many investments from qualifying for the use of the effective yield method, which they believe provides users with a better understanding of the returns from such investments.

.198 The amendments in this proposed ASU would permit reporting entities that invest in a qualified affordable housing project through a limited liability entity to elect to account for the investment using the effective yield method if all the following conditions are met:

- It is probable that the tax credits allocable to the investor will be available.
- The investor retains no operational influence over the investment other than protective rights, and, substantially, all the projected benefits are from tax credits and other tax benefits (for example, tax benefits generated from the operating losses of the investment).
- The investor's projected yield based solely on the cash flows from the tax credits and other tax benefits is positive.
- The investor is a limited liability investor in the affordable housing project for both legal and tax purposes, and the investor's liability is limited to its capital investment.

.199 For those investments in qualified affordable housing projects not accounted for using the effective yield method, the investment would be accounted for as an equity method investment or cost method investment in accordance with FASB ASC 970-323.

.200 The decision to apply the effective yield method of accounting will continue to be an accounting policy decision, rather than a decision to be applied to individual investments that qualify for use of the effective yield method.

.201 A reporting entity would disclose information that enables users of its financial statements to understand the following:

- The nature of investments in qualified affordable housing projects
- The effect of the measurement of the investment in a qualified affordable housing project and the related tax credits on the financial position and results of operations of the reporting entity.

.202 To meet these objectives, a reporting entity may consider disclosures such as the following:

- The amount of affordable housing tax credits recognized during the year.
- For qualified affordable housing project investments accounted for using the equity method, the amount of investment income or loss included in pretax income.
- Whether the qualified affordable housing project is currently subject to any regulatory reviews and the status of such reviews (for example, investigations by the housing authority).
- Any commitments or contingent commitments (for example, guarantees or commitments to provide additional capital contributions), including the amount of equity contributions that are contingent commitments related to qualified affordable housing project investments and the year or years in which contingent commitments are expected to be paid.
- The amount and nature of the write-downs during the year resulting from the forfeiture or ineligibility of tax credits or other circumstances. These write-downs may be based on actual property-level foreclosures, loss of qualification due to occupancy levels, compliance issues with tax code provisions, or other issues.

.203 The amendments in this proposed ASU would be applied retrospectively. Early adoption would be permitted. The effective date will be determined after FASB considers stakeholder feedback on the amendments to this proposed ASU.

Private Company Decision-Making Framework

.204 In April 2013, FASB issued proposed ASU *Private Company Decision-Making Framework: A Guide for Evaluating Accounting and Reporting for Private Companies*. In July 2011, FASB staff completed an assessment of (*a*) how and why the needs of users of private company financial statements may differ from the needs of users of public company financial statements and (*b*) how the cost-benefit considerations of financial reporting may vary between private companies and public companies. The assessment identified the following six significant factors that differentiate the financial reporting considerations of private companies and public companies:

- Types and number of financial statement users
- Access to management
- Investment strategies of equity investors
- Ownership and capital structures
- Accounting resources
- Learning about new financial reporting guidance

.205 In May 2012, the Financial Accounting Foundation Board of Trustees issued a final report, *Establishment of the Private Company Council*. The Private Company Council (PCC) was created to improve the standard-setting process for private companies. At the PCC's February 12, 2013, meeting, FASB and the PCC tentatively agreed on the criteria to be included in this guide for determining whether and in what circumstances there should be alternatives for private companies within U.S. GAAP. Using this guide, the PCC will develop, deliberate, and formally vote on proposed alternatives for private companies within U.S. GAAP. If endorsed by FASB, the proposed alternatives will be exposed for public comment. At the conclusion of the public comment process, the PCC will redeliberate the proposed alternatives and then submit them to FASB for a final decision on endorsement. FASB and the PCC also will use this guide to consider private company issues in standard-setting projects under active consideration on FASB's technical agenda.

Reporting Discontinued Operations

.206 In April 2013, FASB issued proposed ASU *Presentation of Financial Statements (Topic 205): Reporting Discontinued Operations*. Some stakeholders have said that too many disposals of assets qualify for discontinued operations presentation under FASB ASC 205-20. This results in financial statements that are not decision-useful for users and higher costs for preparers. The amendments in this proposed ASU would address these issues by changing the criteria for reporting discontinued operations and enhancing convergence of FASB's and the IASB's reporting requirements for discontinued operations.

.207 The amendments in this proposed ASU would change the requirements for reporting discontinued operations in FASB ASC 205-20, which would increase convergence of the requirements for reporting discontinued operations in FASB ASC 205-20 and International Financial Reporting Standard (IFRS) 5, *Non-current Assets Held for Sale and Discontinued Operations*. A *discontinued operation* would be either of the following:

- A component of an entity or a group of components of an entity that represents a separate major line of business or major geographical area of operations that either has been disposed of or is part of a single coordinated plan to be classified as held for sale in accordance with the criteria in FASB ASC 360-10-45-9
- A business that, on acquisition, meets the criteria in FASB ASC 360-10-45-9 to be classified as held for sale

.208 A *component of an entity* comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. A component of an entity may be a reportable segment or an operating segment, a reporting unit, a subsidiary, or an asset group.

.209 The amendments in this proposed ASU would require additional disclosures about discontinued operations, including the following:

- The major income and expense items constituting the pretax profit or loss from a discontinued operation for the periods that the results of operations of the discontinued operation are reported in the statement where net income is reported
- The major classes of cash flows (operating, investing, and financing) of the discontinued operation for the periods that the results of operations of the discontinued operation are reported in the statement where net income is reported
- If the discontinued operation includes a noncontrolling interest, the pretax profit or loss attributable to the parent for the periods

that the results of operations of the discontinued operation are reported in the statement where net income is reported

- A reconciliation of the major classes of assets and liabilities of the discontinued operation classified as held for sale that are disclosed in the notes to the financial statements to total assets and total liabilities of the disposal group classified as held for sale that are presented separately on the face of the statement of financial position for the initial period in which the disposal group is classified as held for sale
- A reconciliation of the major income and expense items from the discontinued operation that are disclosed in the notes to the financial statements to the after-tax profit or loss from the discontinued operation that is presented on the face of the statement where net income is reported for the periods that the results of operations of the discontinued operation are reported in the statement where net income is reported

.210 The proposed amendments would require a public entity to provide disclosures about a disposal of an individually material component of an entity that does not qualify for discontinued operations presentation in the financial statements, including the following:

- The pretax profit or loss attributable to the component of an entity for the period in which it is sold or is classified as held for sale and for all prior periods that are presented in the statement where net income is reported
- If the component of an entity includes a noncontrolling interest, the pretax profit or loss attributable to the parent for the period in which it is sold or is classified as held for sale and for all prior periods that are presented in the statement where net income is reported
- A reconciliation of the major classes of assets and liabilities of the component of an entity classified as held for sale that are disclosed in the notes to the financial statements to total assets and total liabilities of the disposal group classified as held for sale that are presented separately on the face of the statement of financial position for the initial period in which the disposal group is classified as held for sale

.211 The proposed amendments would require a nonpublic entity to provide disclosures about a disposal of an individually material component of an entity that does not qualify for discontinued operations presentation in the financial statements, including the following:

- The pretax profit or loss attributable to the component of an entity for the period in which it is sold or is classified as held for sale
- If the component of an entity includes a noncontrolling interest, the pretax profit or loss attributable to the parent for the period in which it is sold or is classified as held for sale

.212 The proposed amendments would expand the disclosures about an entity's continuing involvement with a discontinued operation, including the following:

- The amount of any cash inflows (outflows) from (to) the discontinued operation
- Disclosures about a discontinued operation in which an entity retains an equity method investment after the disposal transaction

.213 Those disclosures would be required until the results of operations of the discontinued operation in which an entity retains continuing involvement are no longer separately presented in the statement where net income is reported.

.214 The effective date will be determined after FASB considers the feedback on the amendments in this proposed ASU. The proposed amendments would be applied prospectively to all disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after the period of adoption, with earlier application permitted.

Financial Instruments

.215 In February 2013, FASB issued proposed ASU *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, and in April 2013, FASB issued proposed ASU *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities—Proposed Amendments to the FASB Accounting Standards Codification®*. The guidance in the first proposed ASUs focuses on creating a comprehensive framework for the classification and measurement of the financial instruments within its scope. An entity would determine the classification and measurement of a financial asset, upon initial recognition, by first considering whether the contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics criterion). If so, an entity then would consider the business model in which the asset is managed, along with other financial assets, to determine its classification and measurement. An entity would be required to measure financial assets that do not meet the contractual cash flow characteristics criterion at fair value, with all changes in fair value recognized in net income.

.216 The second proposed ASU includes amendments to FASB ASC 825-10 to reflect FASB's decision to eliminate the fair value options in FASB ASC 825-10-15-4 for financial instruments that are not in the scope of the proposed ASU on financial instruments.

.217 FASB believes that retaining the unconditional fair value options has the potential to impair comparability and, thus, make financial statements less decision-useful. FASB further believes that such fair value options are no longer needed given its projects on financial instruments, insurance contracts, and revenue recognition. Thus, it decided to link the transition and effective date for eliminating these fair value options to those respective projects.

Leases

.218 In May 2013, FASB issued proposed ASU *Leases (Topic 842): a revision of the 2010 proposed FASB ASU,* Leases (Topic 840). The IASB and FASB have jointly developed a revised draft standard on leases. They developed the proposals in this revised exposure draft after considering responses to their discussion paper, *Leases: Preliminary Views*, which was issued in March 2009, and the IASB's initial exposure draft, *Leases*, and the proposed ASU, *Leases (Topic 840)*, which were both issued in August 2010.

.219 The core principle of the proposed requirements is that an entity should recognize assets and liabilities arising from a lease. This represents an improvement over existing lease requirements, which do not require lease assets and lease liabilities to be recognized by many lessees.

.220 In accordance with that principle, a lessee would recognize assets and liabilities for leases with a maximum possible term of more than 12 months. A lessee would recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the leased asset (the underlying asset) for the lease term.

.221 The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee would depend on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset. For practical purposes, this assessment would often depend on the nature of the underlying asset.

.222 For most leases of assets other than property (for example, equipment, aircraft, cars, or trucks), a lessee would classify the lease as a Type A lease and would do the following:

- Recognize a right-of-use asset and a lease liability, initially measured at the present value of lease payments
- Recognize the unwinding of the discount on the lease liability as interest separately from the amortization of the right-of-use asset

.223 For most leases of property (that is, land or a building or part of a building), a lessee would classify the lease as a Type B lease and would do the following:

- Recognize a right-of-use asset and a lease liability, initially measured at the present value of lease payments
- Recognize a single lease cost, combining the unwinding of the discount on the lease liability with the amortization of the right-of-use asset, on a straight-line basis

.224 Similarly, the accounting applied by a lessor would depend on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset. For practical purposes, this assessment often would depend on the nature of the underlying asset.

.225 For most leases of assets other than property, a lessor would classify the lease as a Type A lease and would do the following:

- Derecognize the underlying asset and recognize a right to receive lease payments (the lease receivable) and a residual asset (representing the rights the lessor retains relating to the underlying asset)
- Recognize the unwinding of the discount on both the lease receivable and the residual asset as interest income over the lease term
- Recognize any profit relating to the lease at the commencement date

.226 For most leases of property, a lessor would classify the lease as a Type B lease and would apply an approach similar to existing operating lease accounting in which the lessor would do the following:

- Continue to recognize the underlying asset
- Recognize lease income over the lease term, typically on a straight-line basis

.227 When measuring assets and liabilities arising from a lease, a lessee and a lessor would exclude most variable lease payments. In addition, a lessee and a lessor would include payments to be made in optional periods only if the lessee has a significant economic incentive to exercise an option to extend the lease or not to exercise an option to terminate the lease.

.228 The existing accounting model for leveraged leases would not be retained, and the proposals described for lessors would be applied to all leases currently accounted for as leveraged leases.

.229 For leases with a maximum possible term (including any options to extend) of 12 months or less, a lessee and a lessor would be permitted to make an accounting policy election, by class of underlying asset, to apply simplified requirements that would be similar to existing operating lease accounting.

.230 An entity would provide disclosures to meet the objective of enabling users of financial statements to understand the amount, timing, and uncertainty of cash flows arising from leases.

.231 On transition, a lessee and a lessor would recognize and measure leases at the beginning of the earliest period presented using either a modified retrospective approach or a full retrospective approach.

.232 FASB and the IASB will set the effective date for the proposed requirements when they consider interested parties' feedback on this revised exposure draft. They are aware that the proposals affect almost every reporting entity. Some of those entities have many leases, and the proposed changes to accounting for leases are significant. FASB and the IASB will consider these and other relevant factors when setting the effective date.

Revenue Recognition

.233 The income statement shows an entity's financial performance and position. However, revenue recognition requirements in U.S. GAAP differ from those in IFRSs, and both sets of requirements need improvement. U.S. GAAP comprises broad revenue recognition concepts and numerous requirements for particular industries or transactions that can result in different accounting for economically similar transactions. Although IFRSs have fewer requirements on revenue recognition, the two main revenue recognition standards, IAS 18, *Revenue*, and IAS 11, *Construction Contracts*, can be difficult to understand and apply. In addition, IAS 18 provides limited guidance on important topics such as revenue recognition for multiple-element arrangements.

.234 Accordingly, FASB and the IASB initiated a joint project to clarify the principles for recognizing revenue and develop a common revenue standard for U.S. GAAP and IFRSs that would

- remove inconsistencies and weaknesses in existing revenue requirements.

- provide a more robust framework for addressing revenue issues.
- improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets.
- provide more useful information to users of financial statements through improved disclosure requirements.
- simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer.

.235 To meet those objectives, FASB and the IASB have proposed amendments to FASB ASC and IFRSs, respectively.

.236 The core principle of this proposed guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

.237 To achieve that core principle, an entity would apply all the following steps:

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

.238 FASB and the IASB have tentatively decided to require an entity to apply the revenue standard for reporting periods beginning on or after January 2017. That timing would ensure that for an entity providing two years of comparative annual financial information (in addition to information for the current year), the standard would be issued before the beginning of the earliest comparative annual period presented. FASB decided that early application would not be permitted. The IASB decided that early application would be permitted. The final document is expected in the third quarter of 2013.

Disclosure Framework

.239 The objective and primary focus of this project is to improve the effectiveness of disclosures in notes to financial statements by clearly communicating the information that is most important to users of each entity's financial statements. Although reducing the volume of notes to financial statements is not the primary focus, FASB hopes that a sharper focus on important information will result in reduced volume in most cases.

.240 Achieving the objective of improving effectiveness will require development of a framework that promotes consistent decisions about disclosure requirements by FASB and the appropriate exercise of discretion by reporting entities. FASB also is considering whether, and, if so, how, to provide guidance to improve the organization, formatting, and style of notes to financial statements.

Private Company Council Proposals

.241 In June 2013, FASB endorsed three alternatives within U.S. GAAP that were proposed by the PCC. The proposals involve accounting for intangible assets acquired in business combinations, goodwill, and certain types of interest rate swaps. Exposure drafts are expected to be issued for public comment.

.242 The first proposal—derived from PCC Issue No. 13-01A, *Accounting for Identifiable Intangible Assets in a Business Combination*—modifies the requirement for private companies to separately recognize fewer intangible assets acquired in a business combination.

.243 The second proposal—derived from PCC Issue No. 13-01B, *Accounting for Goodwill Subsequent to a Business Combination*—would permit amortization of goodwill (the residual asset recognized in a business combination after recognizing all other identifiable assets acquired and liabilities assumed) and a simplified goodwill impairment model.

.244 The third proposal—derived from PCC Issue No. 13-03, *Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps*—would give private companies, other than financial institutions, the option to use two simpler approaches to accounting for certain types of interest rate swaps that are entered into by a private company for the purpose of economically converting its variable-rate borrowing to a fixed-rate borrowing.

.245 The effective dates will be determined after FASB and the PCC consider stakeholder feedback on the exposure drafts.

Resource Central

.246 The following are various resources that practitioners may find beneficial.

Publications

.247 Practitioners are encouraged to consider the following additional AICPA publications. Choose the format best for you—print, e-book, or online. Although the most current editions available at the date of writing of this alert are subsequently identified, you'll want the newest edition available at the time of purchase:

- Audit Guide *Analytical Procedures* (2012) (product no. AAGANP12P [paperback], AAGANP12E [eBook], or WAN-XX [online])
- Audit Guide *Assessing and Responding to Audit Risk in a Financial Statement Audit* (2012) (product no. AAGRAS12P [paperback], AAGRAS12E [eBook], or WRA-XX [online])
- Audit Guide *Special Considerations in Auditing Financial Instruments* (2012) (product no. AAGAFI12P [paperback], AAGAFI12E [eBook], or AAGAFIO [online])
- Guide *Compilation and Review Engagements* (2013) (product no. AAGCRV13P [paperback], AAGCRV13E [eBook], or WRC-XX [online])

- Audit Guide *Auditing Revenue in Certain Industries* (2012) (product no. AAGREV12P [paperback], AAGREV12E [eBook], or WAR-XX [online])
- Audit Guide *Audit Sampling* (2012) (product no. AAGSAM12P [paperback], AAGSAM12E [eBook], or WAS-XX [online])
- Alert *Compilation and Review Developments—2012/13* (product no. ARACRV12P [paperback] or ARACRV12E [eBook])
- Alert *Independence and Ethics Developments—2012/13* (product no. ARAIET12P [paperback], ARAIET12E [eBook], or WIA-XX [online])
- *Internal Control—Integrated Framework: Executive Summary, Framework and Appendices, and Illustrative Tools for Assessing Effectiveness of a System of Internal Control* (3-volume set) (product no. 990025P [paperback] or 990025E [eBook]
- *Checklists and Illustrative Financial Statements for Corporations* (product no. ACKCOR12P [paperback] or WCP-CL [online])
- *U.S. GAAP Financial Statements—Best Practices in Presentation and Disclosure (formerly Accounting Trends & Techniques)* (product no. ATTATT12P [paperback] or WNG-XX [online])
- *IFRS Financial Statements—Best Practices in Presentation and Disclosure 2012/2013 (formerly IFRS Accounting Trends & Techniques)* (product no. ATTIFRS12P [paperback] or WIF-XX [online])
- *Audit and Accounting Manual* (2013) (product no. AAMAAM13P [paperback] or WAM-XX [online])
- *The Auditor's Report: Comprehensive Guidance and Examples* (product no. APAARMO [online])
- *The Engagement Letter: Best Practices and Examples* (product no. APAEGLO [online])
- Practice Aid *Related-Party Audit Considerations: A Case Study Approach* (product no. APARPS12P [paperback], APARPS12E [eBook], or APARPSO [online])
- Audit Risk Alert *Understanding the Responsibilities of Auditors for Audits of Group Financial Statements* (product no. ARAGRP13P [paperback], ARAGRPO [online], or ARAGRP13E [eBook])

Continuing Professional Education

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

- *Accounting and Auditing Workshop: Latest Developments* (product no. 736189 [text]). Whether you are in industry or public practice, this course keeps you current and informed and shows you how to apply the most recent standards.
- *IFRS Certificate Program* (product no. 159770). Using a scenario-based series of courses with audio, video, and interactive exercises and case studies, this program will guide you through the concepts of each area of IFRSs.

- *Internal Control: Essentials for Financial Managers, Accountants, & Auditors* (product no. 731905 [text]). This course will provide you with a solid understanding of systems and control documentation at the significant process level.
- *International Versus U.S. Accounting: What in the World is the Difference?* (product no. 745941 [text] or 181663 [DVD and manual]). Understanding the differences between IFRSs and GAAP is becoming more important for businesses of all sizes. This course outlines the major differences between IFRSs and GAAP.
- *IFRS Essentials—GAAP Comparison/IFRS Essentials with GAAP Comparison: Building a Solid Foundation* (product no. 741604 [text]). This course provides you with a greater understanding of what you need to know as the acceptance of international standards continues to grow.
- *FASB Industry Review—FASB Review for Industry: Targeting Recent GAAP Issues (2012/2013 Edition)* (product no. 730569). Comprehensive coverage of recent FASB and IASB pronouncements geared to the specific interests of the CPA in corporate management.

.249 Visit www.cpa2biz.com for a complete list of CPE courses.

Online CPE

.250 AICPA CPExpress, offered exclusively through CPA2Biz, is the AICPA's flagship online learning product. Divided into 1-credit and 2-credit courses that are available 24 hours a day, 7 days a week, AICPA CPExpress offers hundreds of hours of learning in a wide variety of topics. Subscriptions are available at www.cpa2biz.com/AST/AICPA_CPA2BIZ_Pages/C2BOnlineSubscriptionsPage/Section2/PRDOVR~PC-BYF-XX/PC-BYF-XX.jsp (product no. BYF-XX). Some topics of special interest may include the following:

- Accounting and Auditing Update
- Small Business Accounting and Auditing Update
- Fair Value Accounting
- Accounting for Goodwill and Other Intangibles
- Uncertainty in Income Taxes
- Revenue Recognition in Today's Business Climate
- International Versus U.S. Accounting
- Fraud and the Financial Statement Audit
- Public Company Update
- SEC Reporting

.251 To register for individual courses or to learn more, visit www.cpa2biz.com.

Webcasts

.252 Stay plugged in to what is happening and earn CPE credit right from your desktop. AICPA webcasts are high-quality CPE programs that bring you the latest topics from the profession's leading experts. Broadcast live, they allow you to interact with the presenters and join in the discussion. If you cannot make the live event, each webcast is archived and available for viewing.

For additional details on available webcasts, please visit www.cpa2biz.com/AST/AICPA_CPA2BIZ_Browse/Store/Webcasts.jsp.

Member Service Center

.253 To order AICPA products, receive information about AICPA activities, and get help with your membership questions, call the AICPA Service Center Operations at 888.777.7077.

Hotlines

Accounting and Auditing Technical Hotline

.254 Do you have a complex technical question about GAAP, other comprehensive bases of accounting, or other technical matters? If so, use the AICPA's Accounting and Auditing Technical Hotline. AICPA staff will research your question and call you back with the answer. The hotline is available from 9 a.m. to 8 p.m. ET on weekdays. You can reach the Technical Hotline at 877.242.7212 or online at www.aicpa.org/Research/TechnicalHotline/Pages/TechnicalHotline.aspx. Members can also e-mail questions to aahotline@aicpa.org. Additionally, members can submit questions by completing a Technical Inquiry form found on the same website.

Ethics Hotline

.255 In addition to the Technical Hotline, the AICPA also offers an Ethics Hotline. Members of the AICPA's Professional Ethics Team answer inquiries concerning independence and other behavioral issues related to the application of the AICPA Code of Professional Conduct. You can reach the Ethics Hotline at 888.777.7077 or by e-mail at ethics@aicpa.org.

AICPA Online Professional Library: Accounting and Auditing Literature

.256 The AICPA has created your core accounting and auditing library online. The AICPA Online Professional Library is now customizable to suit your preferences or your firm's needs. You can also sign up for access to the entire library. Get access—anytime, anywhere—to the FASB *Accounting Standards Codification*®; the AICPA's latest *Professional Standards*, *Technical Practice Aids*, Audit and Accounting Guides, Audit Risk Alerts, and *Accounting Trends & Techniques*; and more. To subscribe to this essential online service for accounting professionals, visit www.cpa2biz.com.

Codified Clarity Standards

.257 The best way to obtain the codified clarity standards is with a subscription to AICPA *Professional Standards* in the AICPA Online Professional Library. Although the individual SASs are available in paperback, this online codified resource is what you need to update your firm audit methodology and begin understanding how clarity standards change certain ways you perform your audits. Visit www.cpa2biz.com/AST/AICPA_CPA2BIZ_Specials/MostPopularProductGroups/AICPAResourceOnline/PRD~PC-005102/PC-005102.jsp for online access to AICPA *Professional Standards*.

.258 You can also get the clarified standards in paperback format. *Codification of Statements on Auditing Standards* is published each spring and includes the clarified auditing standards and the attestation standards.

Professional Standards, which has the full complement of AICPA standards, is published each summer.

.259 The codification of clarified standards includes various resources:

- A preface, "Principles Underlying the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards"
- A glossary of terms defined in the standards
- An appendix describing the differences between GAAS and the ISAs
- A table mapping the extant AU sections to the clarified AU-C sections

Financial Reporting Center of AICPA.org

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

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

.262 For example, the Financial Reporting Center offers a dedicated section to the Clarity Project. For the latest resources available to help you implement the clarified standards, visit the "Improving the Clarity of Auditing Standards" page at www.aicpa.org/SASClarity.

Additional Internet Resources

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

Website Name	*Content*	*Website*
AICPA	Summaries of recent auditing and other professional standards, as well as other AICPA activities	www.aicpa.org www.cpa2biz.com www.ifrs.com
AICPA Financial Reporting Executive Committee (formerly known as the Accounting Standards Executive Committee)	Summaries of recently issued guides, whitepapers, and technical questions and answers containing financial, accounting, and reporting recommendations, among other things	www.aicpa.org/InterestAreas/FRC/AccountingFinancialReporting/Pages/FinREC.aspx

(continued)

Website Name	***Content***	***Website***
AICPA Accounting and Review Services Committee	Summaries of review and compilation standards and interpretations	www.aicpa.org/research/standards/compilationreview/arsc/pages/arsc.aspx
Committee of Sponsoring Organizations of the Treadway Commission	Information about the committee and the internal control framework developed by the committee	www.coso.org
Economy.com	Source for analyses, data, forecasts, and information on the U.S. and world economies	www.economy.com
The Federal Reserve Board	Source of key interest rates	www.federalreserve.gov
Financial Accounting Standards Board (FASB)	Summaries of recent accounting pronouncements and other FASB activities	www.fasb.org
International Accounting Standards Board	Summaries of International Financial Reporting Standards and International Accounting Standards	www.iasb.org
International Auditing and Assurance Standards Board	Summaries of International Standards on Auditing	www.iaasb.org
International Federation of Accountants	Information on standard-setting activities in the international arena	www.ifac.org
Private Company Council	Information on the initiative to further improve FASB's standards-setting process to consider needs of private companies and their constituents of financial reporting	www.accountingfoundation.org/jsp/Foundation/Page/FAFSectionPage&cid=1176158985794
Public Company Accounting Oversight Board (PCAOB)	Information on accounting and auditing activities of the PCAOB and other matters	www.pcaob.org

Website Name	*Content*	*Website*
Securities and Exchange Commission (SEC)	Information on current SEC rulemaking and the Electronic Data Gathering, Analysis, and Retrieval database	www.sec.gov
USA.gov	Portal through which all government agencies can be accessed	www.usa.gov