AICPA Technical Hotline's Top A&A Issues Facing CPAs

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Kristy Illuzzi moved to North Carolina and joined the AICPA in May 2007 as a Technical Manager in the Accounting and Audit Publications team. Kristy was responsible for writing, maintaining and updating Audit and Accounting Guides, Audit Risk Alerts, Checklists and Illustrative Financial Statements, and Financial Reporting Alerts. Kristy was also a project leader on the XBRL and FASB Codification projects, and has worked on several publications, training materials, and speeches focused on these topics. In July 2011, Kristy joined the Accounting and Auditing Technical Hotline team, where in addition to answering member inquiries, she also works on our Technical Practice Aids publication.

Prior to joining the AICPA, Kristy was the Controller for EngenderHealth, an international not-for-profit organization focused on women’s reproductive health. Kristy received her Bachelors Degree in Accounting from SUNY-University at Albany in May 1998. She holds CPA licenses in North Carolina and New York, and is a member of the AICPA and the North Carolina Association of Certified Public Accountants.
Frances S. McClintock, CPA

Frances McClintock is a Senior Technical Manager of the AICPA Peer Review Program. She is the staff liaison to the Peer Review Board and the National Peer Review Committee. She assists representatives from enrolled firms in addressing their peer review related questions, in addition to overseeing in development and maintenance of technical and administrative guidance for the AICPA Peer Review Program.

Frances has been with the AICPA for six years. Prior to joining the AICPA, she was an audit manager with PricewaterhouseCoopers in Raleigh, NC. Frances holds both a Bachelor of Science in Business Administration and a Masters in Accounting from the University of North Carolina at Chapel Hill. She is currently licensed as a CPA in the State of North Carolina.

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- Application of generally accepted accounting principles is the responsibility of a company's management. As such, the Technical Hotline staff is prohibited from making subjective judgments for constituents or acting as an arbitrator on any issue (for example, a dispute between a company and its auditor).
Technical Hotline Statistics at a Glance

- This service was established back in 1950, originally fully staffed by volunteers
- Provides technical guidance (at no additional cost) to our members
- We receive more than 100 calls per day
- Open Monday through Friday from 9am-8pm EST
- Answer questions related to accounting principles, financial reporting, audit, attest, compilation and review standards, including industry specific issues
- We do not provide any answers in writing
- Some questions and answers are published into our Technical Practice Aids publication

Variable Interest Entities
Variable Interest Entities (FASB ASC 810)

- **Who do the consolidation rules apply to?**
  - All legal entities, including both public and private

- **What are the criteria for VIEs?**
  - FASB list out considerations and criteria in FASB ASC 810-10-25 under VIE section (starting at paragraph 20)

- **What if my entity is the primary beneficiary of a VIE that meet the requirements for consolidation but I chose not to consolidate?**
  - If VIE is material, would give qualified or adverse opinion
  - If qualifying the opinion, would also need to add an emphasis of a matter paragraph describing the GAAP departure along with the effects of this departure on the financial statements

- **What if I am preparing the financial statements using the income tax basis of accounting?**
  - Consolidation requirements when preparing tax basis financial statements are based on the IRS code, so FASB ASC 810 would not apply

- **Can I present standalone financial statements for a VIE that is not the primary beneficiary?**
  - FASB does not address. However, standalone financial statements are appropriate for subsidiaries, and this could be applied to VIEs
  - Entity would still have to include related party footnotes as applicable
Variable Interest Entities (FASB ASC 810)

• Can I prepare combined financial statements rather than consolidated statements if I am the primary beneficiary of a VIE?
  • No. GAAP only allows presentation of combined financial statements in certain cases where consolidation is NOT required.
  • If a bank or regulator requests financials of just the primary beneficiary, you might be able to perform under AU-C Section 800 using a special purpose framework (not US GAAP) and restrict use of that report to the bank or requesting party only.

How does this impact my peer reviews?

• Impact on risk?
• Impact on engagements?
• Would this result in a “no” answer or matter?
Subsequent Events

- **Type 1 versus Type 2 subsequent events**
  - FASB ASC 855
  - Type 1 you would record in the financial statements, type 2 would be disclosure only

- **Type 1 subsequent events**
  - Entity knew about, but possibly did not have the ability to estimate at year end (for example, a pending lawsuit)
  - If additional information comes to their attention after year-end, but before the financial statements are issued, they should accrue any additional amounts as needed
  - If result is a gain or decrease in a liability, FASB would consider a gain contingency and you would not record until received
  - Bank or requesting party only
Subsequent Events

- **Examples of Type 2 subsequent events**
  - An entity was out of compliance with debt covenants at year-end, but remedied the issue with the bank before issuance of the financial statements
  - An entity ended up paying a sum less than accrued at year-end in association with a lawsuit or environmental obligation
  - After year-end, the entity made a decision to liquidate the entity (and they did not discuss or consider liquidation at year-end)
  - The entity entered into a business combination after year-end
  - The entity became a going concern after year end due to liquidity issues that arose after year-end

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How does this impact my peer reviews?

- **Impact on risk?**
- **Impact on engagements?**
- **Would this result in a “no” answer or matter?**
Related Parties

How to record transactions (other than business combinations under FASB ASC 805) between related parties

- FASB does not address specifically
- Common acceptable practice is to record at historical cost, and not FMV
- Transaction is assumed to not be at arm’s length
- Recording gains on related party transactions would not be appropriate
- Could have different treatment for tax purposes, as sometimes basis step ups are allowed for tax purposes
- Would have a deferred tax asset or liability if that is the case
How does this impact my peer reviews?

- Impact on risk?
- Impact on engagements?
- Would this result in a “no” answer or matter?

Fair Value Measurements and Disclosures
Fair Value Measurements and Disclosures

Did ASU 2013-13 remove all of the fair value disclosure requirements for non-public entities?

- NO. However, they are exempted from certain disclosure requirements in paragraphs 10-19 of FASB ASC 825-10-50
- Only significant change from this ASU is that a nonpublic entity is not required to provide the disclosure in paragraph 825-10-50-10(d) (which requires disclosure of the level of the fair value hierarchy within which fair value measurements are categorized in their entirety), for items disclosed at fair value but not measured at fair value in the statement of financial position.
- Does not change any other fair value disclosure requirements of FASB ASC 820 or 825, and was effective immediately

Are certificates of deposit measured at fair value, and therefore subject to additional disclosures?

- Typically not, as CDs generally do not meet the FASB definition of a security
- Entity could classify them as either “cash and cash equivalents” (if they meet that definition based on maturity) or as “investments-other” on the balance sheet
- Example of a policy disclosure might read:
  - Certificates of deposit held for investment that are not debt securities are included in “investments—other.” Certificates of deposit with original maturities greater than three months and remaining maturities less than one year are classified as "short-term investments—other." Certificates of deposit with remaining maturities greater than one year are classified as "long-term investments—other."
Fair Value Measurements and Disclosures

If an entity does not have any investments, financial instruments, or other items that require fair value measurements on their balance sheet, are they still required to disclose anything related to fair value?

• Typically not. Although an entity may choose to disclose their accounting policy regarding fair value measurements and disclosures, if they did not have any balance sheet items measured at fair value, then this policy would most likely not be a significant accounting policy. They also would not be required to have a separate fair value footnote breaking out levels 1, 2, and 3 if there were no assets subject to such measurements.

Can an entity (that is not an investment company) elect to fair value real estate property they hold for investment purposes?

• Perhaps. Some argue that you can apply the fair value option under FASB ASC 820 and 825. However, there is diversity in practice for real estate entities, and some would argue that real estate is not a financial instrument and not eligible for election. FASB has a current exposure draft to address the issue. See Proposed ASU on Real Estate - Investment Property Entities (Topic 973)

Can an entity elect to fair value their fixed assets?

• No, under current US GAAP, fixed assets would not qualify as financial instruments and therefore could not be recorded at fair value.
How does this impact my peer reviews?

- Impact on risk?
- Impact on engagements?
- Would this result in a “no” answer or matter?

Supplementary Information
Supplementary Information

A bank has asked a company to present a schedule of assets at fair value rather than historical cost as required by GAAP. Can I present this as supplemental information?

- Yes. The accountant would add the following language to their audit report (the last paragraph):
  - Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental fair value information presented in [Describe where the information is presented, for example, Schedule I.], which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

If an other than unqualified opinion is issued on the financial statements, am I prohibited from issuing an unqualified opinion on the supplementary information?

- If a disclaimer or adverse opinion is issued on the basic financial statements, the auditor is precluded from issuing an opinion on the supplementary information.
- If a qualified opinion on the financial statements is issued and there is an effect on supplementary information, audit report would state, except for the effects on the supplementary information of (refer to the paragraph in the auditor’s report explaining the qualification), such information is fairly stated, in all material respects, in relation to the financial statements as a whole.
Supplementary Information

Where can I find the appropriate opinion wording when asked to opine on supplementary information that is not required by a regulator, as I don’t see anything in AU-C section 700?

- Supplementary information is not covered in AU-C section 700, as that section only covers your “standard” report and wording.
- AU-C section 725 provides sample language when you are asked to report on supplementary information (that is not required by a regulator or other party).

A sample other-matter paragraph when you are issuing an unmodified opinion on both the financial statements and supplementary information would read:

- Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The [identify accompanying supplementary information] is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.
Supplementary Information

Can an accountant present budgetary information as supplementary information along with current year historical financial statements?

- Typically not, as budgetary information does not meet the definition of being derived from the basic financial statements
- If a regulatory basis of accounting requires presentation of budgetary information, follow guidance in AU-C section 800
- You are allowed to compile, examine, or apply agreed upon procedures to prospective financial information as a separate engagement

How to handle supplementary information that accompanies interim financial information

- The auditor would not be required to report on supplementary information that accompanies interim financial information
- The auditor could report on such information if requested by the client or possibly a regulator, language might read:
  - Our review was made primarily for the purpose of obtaining a basis for reporting whether we are aware of any material modifications that should be made to the interim financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America through performing limited procedures. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the interim financial statements. The supplementary information has been subjected to the limited procedures applied in the review of the interim financial statements, and we did not become aware of any material modifications that should be made to such information.
How does this impact my peer reviews?

- Impact on risk?
- Impact on engagements?
- Would this result in a “no” answer or matter?

Questions?