Reports on the Application of Accounting Principles

AU Section 625

Source: SAS No. 50; SAS No. 97.
See section 9625 for interpretations of this section.
Issue date, unless otherwise indicated: July, 1986.

Introduction

.01 There may be differing interpretations as to whether and, if so, how existing accounting principles apply to new transactions and financial products.1 Management and others often consult with accountants on the application of accounting principles to those transactions and products, or to increase their knowledge of specific financial reporting issues.2 Such consultations often provide relevant information and insights not otherwise available. [As amended, effective for written reports issued or oral advice provided on or after June 30, 2002, by Statement on Auditing Standards No. 97.]

.02 For purposes of this section, reporting accountant refers to an accountant in public practice3 who prepares a written report4 or provides oral advice on the application of accounting principles to specified transactions involving facts and circumstances of a specific entity, or the type of opinion that may be rendered on a specific entity's financial statements. Continuing accountant refers to an accountant who has been engaged to report on the financial statements of a specific entity.5 [Paragraph added, effective for written reports issued or oral advice provided on or after June 30, 2002, by Statement on Auditing Standards No. 97.]

.03 This section provides guidance that a reporting accountant, either in connection with a proposal to obtain a new client or otherwise, should apply when preparing a written report on—

a. The application of accounting principles to specified transactions, either completed or proposed, involving facts and circumstances of a specific entity ("specific transactions").

b. The type of opinion that may be rendered on a specific entity’s financial statements.

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1 Accounting principles include generally accepted accounting principles and other comprehensive bases of accounting. See section 623, Special Reports, paragraph .04 for a description of other comprehensive bases of accounting.

2 [Footnote deleted by the issuance of Statement on Auditing Standards No. 97, June 2002.]

3 See ET section 92.29 of the AICPA Code of Professional Conduct for a definition of "practice of public accounting."

4 Written report, for purposes of this section, includes any written communication that expresses a conclusion on the appropriate accounting principle(s) to be applied or the type of opinion that may be rendered on an entity’s financial statements. [Footnote added, effective for written reports issued or oral advice provided on or after June 30, 2002, by Statement on Auditing Standards No. 97.]

5 An accountant engaged by the entity to perform services other than reporting on the entity’s financial statements is not considered to be a continuing accountant. [Footnote added, effective for written reports issued or oral advice provided on or after June 30, 2002, by Statement on Auditing Standards No. 97.]
This section also applies to oral advice that the reporting accountant concludes is intended to be used by a principal to the transaction as an important factor considered in reaching a decision on the application of accounting principles to a specific transaction, or the type of opinion that may be rendered on a specific entity’s financial statements. [Paragraph renumbered and amended, effective for written reports issued or oral advice provided on or after June 30, 2002, by Statement on Auditing Standards No. 97.]

.04 Because of the nature of a transaction not involving facts or circumstances of a specific entity (“hypothetical transaction”), a reporting accountant cannot know, for example, whether the continuing accountant has reached a different conclusion on the application of accounting principles for the same or a similar transaction, or how the specific entity has accounted for similar transactions in the past. Therefore an accountant should not undertake an engagement to provide a written report on the application of accounting principles to a hypothetical transaction. [Paragraph added, effective for written reports issued or oral advice provided on or after June 30, 2002, by Statement on Auditing Standards No. 97.]

.05 This section does not apply to a continuing accountant with respect to the specific entity whose financial statements he or she has been engaged to report on, to engagements either to assist in litigation involving accounting matters or to provide expert testimony in connection with such litigation, or to professional advice provided to another accountant in public practice. [Paragraph renumbered and amended, effective for written reports issued or oral advice provided on or after June 30, 2002, by Statement on Auditing Standards No. 97.]

.06 This section also does not apply to communications such as position papers prepared by an accountant for the purpose of presenting views on an issue involving the application of accounting principles or the type of opinion that may be rendered. Position papers include newsletters, articles, speeches and texts thereof, lectures and other forms of public presentations, and letters for the public record to professional and governmental standard-setting bodies. However, if communications of the type discussed in this paragraph are intended to provide guidance on the application of accounting principles to a specific transaction, or on the type of opinion that may be rendered on a specific entity’s financial statements, the provisions of this section should be followed. [Paragraph renumbered and amended, effective for written reports issued or oral advice provided on or after June 30, 2002, by Statement on Auditing Standards No. 97.]

Performance Standards

.07 The reporting accountant should exercise due professional care in performing the engagement and should have adequate technical training and proficiency. The reporting accountant should also plan the engagement adequately, supervise the work of assistants, if any, and accumulate sufficient information to provide a reasonable basis for the professional judgment described in the report. The reporting accountant should consider the circumstances under which the written report or oral advice is requested, the purpose of the request, and the intended use of the written report or oral advice. [Paragraph renumbered and amended, effective for written reports issued or oral advice provided on or after June 30, 2002, by Statement on Auditing Standards No. 97.]

.08 To aid in forming a judgment, the reporting accountant should perform the following procedures: (a) obtain an understanding of the form and substance of the transaction(s); (b) review applicable generally accepted accounting
principles; (c) if appropriate, consult with other professionals or experts; and (d) if appropriate, perform research or other procedures to ascertain and consider the existence of creditable precedents or analogies. [Paragraph renumbered by the issuance of Statement on Auditing Standards No. 97, June 2002. Revised, October 2009, to reflect conforming changes necessary due to the withdrawal of SAS No. 69.]

.09 When evaluating accounting principles that relate to a specific transaction or determining the type of opinion that may be rendered on a specific entity's financial statements, the reporting accountant should consult with the continuing accountant of the entity to ascertain all the available facts relevant to forming a professional judgment. The continuing accountant may provide information not otherwise available to the reporting accountant regarding, for example, the following: the form and substance of the transaction; how management has applied accounting principles to similar transactions; whether the method of accounting recommended by the continuing accountant is disputed by management; or whether the continuing accountant has reached a different conclusion on the application of accounting principles or the type of opinion that may be rendered on the entity's financial statements. The reporting accountant should explain to the entity's management the need to consult with the continuing accountant, request permission to do so, and request the entity's management to authorize the continuing accountant to respond fully to the reporting accountant's inquiries. The responsibilities of an entity's continuing accountant to respond to inquiries by the reporting accountant are the same as the responsibilities of a predecessor auditor to respond to inquiries by a successor auditor. See section 315, *Communications Between Predecessor and Successor Auditors*, paragraph .10. [Paragraph renumbered and amended, effective for written reports issued or oral advice provided on or after June 30, 2002, by Statement on Auditing Standards No. 97.]

**Reporting Standards**

.10 The accountant's written report should be addressed to the requesting entity (for example, management or the board of directors of the entity), and should ordinarily include the following.6

- A brief description of the nature of the engagement and a statement that the engagement was performed in accordance with applicable AICPA standards.
- Identification of the specific entity, a description of the transaction(s), a statement of the relevant facts, circumstances, and assumptions, and a statement about the source of the information.
- A statement describing the appropriate accounting principle(s) (including the country of origin) to be applied or type of opinion that may be rendered on the entity's financial statements, and, if appropriate, a description of the reasons for the reporting accountant's conclusion.
- A statement that the responsibility for the proper accounting treatment rests with the preparers of the financial statements, who should consult with their continuing accountant.

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6 Although the reporting standards in this section apply only to written reports, accountants may find this guidance useful in providing oral advice. [Footnote renumbered and amended, effective for written reports issued or oral advice provided on or after June 30, 2002, by Statement on Auditing Standards No. 97.]
Other Types of Reports

e. A statement that any difference in the facts, circumstances, or assumptions presented may change the report.

f. A separate paragraph at the end of the report that includes the following elements:7

- A statement indicating that the report is intended solely for the information and use of the specified parties;
- An identification of the specified parties to whom use is restricted; and
- A statement that the report is not intended to be and should not be used by anyone other than the specified parties.

[Paragraph renumbered and amended, effective for written reports issued or oral advice provided on or after June 30, 2002, by Statement on Auditing Standards No. 97.]

.11 The following is an illustration of sections of the report described in paragraph .10.

Introduction

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

Description of Transaction

The facts, circumstances, and assumptions relevant to the specific transaction as provided to us by the management of ABC Company are as follows:

Appropriate Accounting Principles

[Text discussing generally accepted accounting principles]

Concluding Comments

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

Restricted Use

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

[Paragraph renumbered and amended, effective for written reports issued or oral advice provided on or after June 30, 2002, by Statement on Auditing Standards No. 97.]

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7 See section 532, Restricting the Use of an Auditor's Report. Although restricted, this is not intended to preclude distribution of the report to the continuing accountant. [Footnote added, effective for written reports issued or oral advice provided on or after June 30, 2002, by Statement on Auditing Standards No. 97.]