

**California Society of CPA's
Accounting Principles and Assurance Standards Committee
Meeting Minutes
August 16, 2018
AM and PM Sessions**

8:35am Meeting called to order.

EITF Update (FASB Emerging Issues Task Force) - Stu Harden

Mr. Harden presented that EITF continues with three issues on the agenda: 17-A, 18-A and 18-B.

1. Issue 17- A, *Customer's Accounting for Implementation, Setup, and Other Upfront Costs (Implementation Costs) Incurred in a Cloud Computing Arrangement That Is Considered a Service Contract*
 - o final consensus reached
 - o Committee had 3 comments:
 - i. Existing stages of implementation are clouded in newer type arrangements – information issue
 - ii. Existing disclosures are sufficient (EITF agreed). See ASU 350-40, *Intangibles—Goodwill and Other—Internal-Use Software*.
 - iii. Delayed for non-public entities (for public companies: interim & annual reporting periods beginning after December 15, 2019, for non-public companies: December 15, 2020)
2. Issue 18-A, *Recognition under Topic 805 for an Assumed Liability in a Revenue Contract*
 - o recognition of an assumed liability when you have a business combination under Topic 805, *Business Combinations*
 - i. ASC 606 – performance obligation in revenue recognition
 - ii. ASC 605 – legal obligation assumed
 - iii. Question as to what governs. Some practitioners use carryover basis, if ASC 606 is applied would one use performance basis
 1. Tentative conclusion/consensus – performance used in ASC 606
 2. ED coming in 60 days
 - iv. Matter at issue if a legally enforceable obligation was legally defined
 1. non-exclusive rights to IP – how to account for that obligation
 - a. performance obligation? (FV cost, only incremental cost to fulfill obligation, FV for purposes of Business Combination Accounting)
 - i. FV at the date of business combination (not pre-determined amount at an earlier date)
 - ii. With adoption of ASC 606 retrospectively – use prospectively
 - b. Legal interpretation
3. Issue 18-B, *Cost Capitalization for Episodic Television Series*
 - o This topic deals with Capitalization of Upfront Costs – taskforce has no consensus
 - i. Different for episodic presentations and films:
 1. Films – capitalize costs, amortize over distribution period in all markets

2. TV episodes – costs are restricted in capitalization in looking only into initial and secondary markets
- ii. Preliminary decision – same (more capitalization of TV episodes that currently)
 1. Mr. Harden inquired if any of the committee members were familiar with taskforce member [Tom Schulte](#) from Armanino, LLP
 2. Mr. Lombardi suggested to put names forward to FASB for 1 of the 9 issues, including:
 - a. Capitalization
 - b. Impairment
 - c. Private company considerations
 - d. Amortization
 - e. ASC 926, *Entertainment — Films* – entertainment field accounting
 - f. Mr. Burrowes indicated he may have a name to recommend form the entertainment accounting industry

Mr. Harden concluded by saying that there were no letters to submit at this time. He also inquired of the volunteers for response on Issue 18-A, *Recognition under Topic 805 for an Assumed Liability in a Revenue Contract*, and asked Committee members to email him if they have an interest.

FASB/PCC (Private Company Council) Update – Alex Zabreyko for Frank O’ Brian

Mr. Zabreyko, presenting for Mr. O’Brian, provided the following overview:

1. Review of FASB Technical Agenda – final ASU’s are coming down
2. Today’s discussion relates to two ASU’s: leases and narrow scope credit losses
 - a. Technical Corrections and Improvements—Leases, July 18, 2018
 - b. Leases—Targeted Amendments to Topic 842, July 30, 2018
3. Ms. Rix and Mr. Sharpstone assisted with the Comment Letter issued on August 9, 2018 on the not-for-profit issues (Proposed ASU: Not-for-Profit (Topic 958) *Updating the Definition of Collections*)

Mr. Zabreyko discussed the following:

1. Proposed ASU—Leases (Topic 842): *Narrow-Scope Improvements for Lessors*
2. Proposed ASU—Codification Improvements to Topic 326, *Financial Instruments—Credit Losses*
 - a. Two final ASUs were issued at the end of July 2018
 - i. Adopt prospectively
 1. Regarding leases, Mr. Sibelman noted possible issue with comparability, if not presenting comparatively, present a single year
 - ii. minor clarifications
 - iii. On the revenue side 75% chose single-year presentation
 - b. 2017-11 – separate a lease contract from service revenue contract
 - i. Lessee - treat entire arrangement as a lease, while there was no similar ability for the lessor
 - ii. Added this option for the lessor
 - iii. Operating straight-line lease – do practitioners account for combined item as a lease or as revenue (ASC 606)

1. If service is not predominant – revenue (ASC 606)
 2. Lease predominant or you cannot determine which one is predominant – lease
- c. 2017-10
- i. Language consistency in Topic 842
- d. ASU is currently for exposure
- i. Due September 12, 2018
 - ii. Applies to:
 1. Sales Taxes/VAT/Canadian GST
 - a. Lessor has to evaluate if the taxes are the responsibility of the lessee
 - b. On jurisdiction-by-jurisdiction basis
 - c. If you are leasing mobile assets that are easily movable (e.g., laptops) – analysis becomes complicated
 - d. LR: take taxes into revenue
 - e. LO: can take as a pass-through
 - f. Must be assessed to the Lessor
 2. Lessees may be paying costs that under Topic 842 may be considered lessor's (e.g., purchase insurance to insure the lessor's asset)

Discussion ensued. Committee members were presented with three voting options:

Options:

A – to go by readily determinable

- Obligation that may put on the lessor in terms of efforts to estimate the amounts

B – could elect gross or net - policy election, present all non-reimbursable costs net, to avoid need to determine what is or is not readily determinable

C – always net - lessor negotiated-type costs, would be limited to those types of costs

After the vote, Option B / Option C were roughly equally divided. Discussion was tabled to allow Committee members to fully read the ED. **To Do:** Read the pronouncement.

Mr. Wille suggested indicating that Committee doesn't like option A, and presents a couple of alternatives. Due to the difficulty of determining of what readily available is, list what the Committee is proposing. Mr. Zabreyko agreed to spearhead the response draft.

AICPA/ASB Update (AICPA Auditing Standards Board) - Howard Sibelman and Gary Krausz

Mr. Sibelman discussed Employee Benefit Plan (EBP) Auditing Standard exposure draft (ED):

- Mr. Sibelman noted that ballot was in draft stage and at this time open as to whether it would be re-issued and/or re-exposed. Since this EBP ED related to other EDs, ASB did not appear willing to re-issue EBP ED until the remainder EDs would be issued (because audit paragraphs may need to be re-written), therefore this EBP ED may have to be delayed and all EDs issued together.
- Mr. Sibelman then discussed that ASB appears to have abandoned the idea of a separate report on the specific plan provisions (testing participant).

- Regarding ED on AU-C 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, ASB feels these audits are unique and are no longer going to be limited-scope. These are going to be called: ERISA Section 103(a)(3)(C) Audits.
- Discussion ensued. Committee members mentioned potential issues with materiality, as materiality is derived for financial statements taken as a whole. Also, that the determination of the qualified entity being a legal conclusion. Mr. Sibelman indicated that clients may request a longer report. Mr. Lombardi mentioned reporting number of KAM's by jurisdiction v risk. Mr. Wilson mentioned a 3 to 4 page Audit Report. This may be a possible topic for an article in the October Issue of the CalCPA Magazine.
- Committee decided to table the topic for communications

Mr. Krausz discussed the Auditor Reporting Model

- Issue paper, ASB will discuss in October 2018. Two areas with responses:
 - language about going concern
 - special framework, why present it?
 - key audit matters – supported, some did not know it was optional
 - Items for feedback: (1) Item communicated to those charged with governance – MW, IC deficiency, before the Report is issued, or up to professional judgement, (2) adding City and State of the principal auditor - most felt it would not add value
- Attestation Engagements
 - In 2016, ASB re-codified attestation standards, there were gaps between US and International standards. In July 2018 ASB issued 400 pages with additional convergence to close the gaps.
 - AARSC – new engagement type, ASB absorbed the comments into this ED. To increase conformity with international standards and including the comments into AT-C sec. 215, *Agreed-Upon Procedures Engagements*
 - AUP/Examinations – assertion from responsible party no longer will be necessary
 - Limited Assurance Provision – more provisions for limited assurance engagement
 - No longer require all parties to agree to procedures, only engaging party.
 - Effective date May 2020, with early adoption permitted

Committee formed a taskforce – regarding the response, including (1) Mr. Harden, (2) Mr. Krausz, (3) Mr. Lombardi, (4) Ms. Kowalczyk, and (4) Mr. Peterson.

PEEC/Ethics (Professional Ethics Executive Committee) – Dave Wilson

Mr. Wilson discussed two topics (1) *Disclosing Client Information in Connection with a Quality Review* and (2) *Technical Correction to Agreed-Upon Procedure Engagements performed in Accordance with SSAEs*:

- Topic 1 - one current ED dealing with disclosing a client in connection with Quality Review of a tax practice. Practitioner needs to make sure the firm that is doing the quality review is qualified. Practitioner may need to enter into a confidentiality agreement. The reviewer cannot

use any confidential information. (This not only applies to Peer Reviews, but to the Tax Quality Reviews as well).

- Topic 2 is a technical correction only.

Mr. Wilson also notes that effective date of the new “Hosting Services” interpretation (ET §1.295.143) in the AICPA’s “Independence Rule” (ET §1.200.001) has been extended 10 months to be effective July 1, 2019.

PCAOB Update – Paul Peterson

Mr. Peterson discussed that PCAOB had a complete change in the board members. He noted that standard setting update came out and included (1) agenda item – supervision of other auditors, and (2) going concern – currently monitoring. PCAOB issued 5-yr strategic plan – high level, need to implement more timely feedback on the inspection process. Mr. Peterson noted that currently there were no items to comment on. He further indicated PCAOB was looking into the use of technology, including AI and blockchain, in the audit process. It is possibly and topic for a taskforce or a research agenda.

Committee then discussed former chief accountant for the Securities and Exchange Commission (SEC), Mr. Lynn Turner’s comments from the American Accounting Association (AAA) Conference including expanded audit reports in the EU vs content of the Audit Workpapers. Number of Critical Audit Matters (CAMs) reported are on average 2 to 6 which is possibly inconsistent with significant risks.

SSARS Update (Statement on Standards for Accounting and Review Services) – Gail Anikouchine

Ms. Anikouchine mentioned that ARSC (Accounting Review Services Committee) was holding a meeting today, August 16, 2018, and may be voting on certain agenda items.

- Agenda Item ISRE 2400 (International Standard on Review Engagements 2400), *Engagements to Review Historical Financial Statements* or SSARS 24, *Omnibus Statement on Standards for Accounting and Review Services – 2018*
 - For CPAs who are reporting under both standards, international guidance allows an adverse conclusion, therefore should an adverse conclusion be allowed in the US.
 - Discussion ensued as to (1) the definition of “limited assurance” which could pose a risk to the accountant with further discussion of possibly review becoming an “audit-lite” or a “limited assurance” engagement; and (2) the definition of “review evidence” including that a negative review was a an “audit conclusion” and resulted in a review or a withdrawal.

Mr. Harden noted that the direction appears to be to get away from service like a review or compilation that is procedures-based and to allow for choice of procedures.

Mr. Lombardi noted that SSAE (Statement on Standards for Attestation Engagements) nomenclature appeared to be used: audit vs limited assurance (which includes analytics and inquiry plus other procedures).

Mr. Wille noted that previously there was a “solid line” between (1) footnotes and reports and (2) no footnotes and no reports engagements:

1. Footnotes/Reports
 - Audit
 - Review – Limited Assurance
 - AUP
2. No Footnotes/No Reports
 - Preparation Engagement

Ms. Anikouchine then discussed that ARSC is reviewing changes that are coming to audit reports (issued by the ASB):

- Adding City & State on the audit reports – not going to change as it will not benefit users
- Audit opinion going first or if conclusion opinion should go first
- KAMs/CAMs do not seem to apply
- Going concern – maybe change the emphasis of the matter paragraph

Chapter Chairs Update – Doug DeBoer

Mr. DeBoer discussed the ongoing challenge of finding speakers for events and getting people to attend the events and to make them worthwhile.

Mr. Wille asked what options does the Committee have for video webinars with CalCPA Society?

Mr. Lombardi noted that local members want to know how to deal with implementation guidance, not about the EDs and therefore there is a disconnect between the local level and the Committee level.

Mr. Harden noted that the Fresno group has been inactive for a while. When the local meetings were active the interest was not in education or speakers, but in forums. EDs were not the main topic, presentation was for 15 mins on EDs and then the discussion turned to what issues are the practitioners facing. The local areas have common problems/issues: Fresno – agriculture accounting, SF – Technology, LA – Entertainment.

Mr. Lombardi mentioned that when CalCPA had an A&A call-in line staffed by Mr. Art Korn (now retired), that he was insured. Mr. Harden noted that practitioners have to feel safe to share. A prospect of creating a Sub-Committee was raised to look at what the Committee doing with the chapters and what the model should there be. Members mentioned that for practitioner issues the AICPA has a Technical Line, the Center for plain English accounting, which will respond in writing.

Mr. Sibelman noted that composition of sub-committee should be chapter chairs. Mr. Sibelman indicated that charter provided for education about ED’s, however the demand for this hasn’t been seen. He also raised a possibility of a platform for nano-learning.

Interested committee members are:

- (1) Mr. Sibelman, (2) Mr. Wille, (3) Ms. Shtyrkova, (4) Mr. Krausz, (5) Mr. Babcock, (6) Mr. Lombardi, (7) Mr. DeBoer, (8) Mr. Zhang, (9) Mr. Peterson, (10) Ms. Anikouchine, and (11) Mr. Sharpstone, with respect to CalCPA direction.

The discussion was then tabled for future meetings.

Communications Update – Matt Lombardi for Nancy Rix

Mr. Lombardi discussed the following:

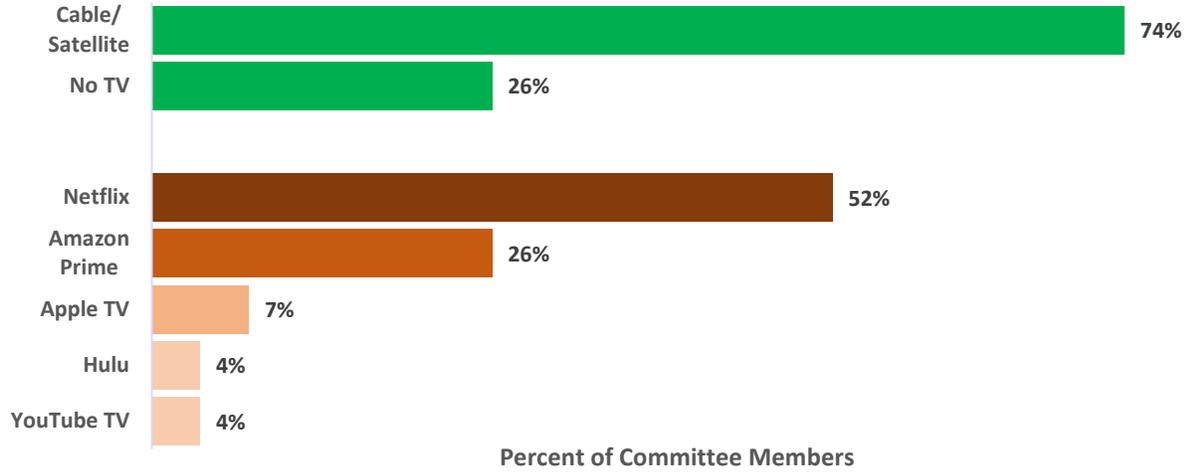
- CalCPA A&A Conference Planning – thanked those committee members participating in the CalCPA A&A Conference planning.
- Formation of Sub-Committees – asked for the level of interest and in sub-committee chair positions (FASB, etc.) Ms. Rix is in process of forming a list and if committee members don't have at least one sub-committee, she'll assign you one.
- May'2019 Meeting
 - Speaker –
 - Mr. Chuck Landes is retiring from position of vice president – Professional Standards & Services at the AICPA. Mr. Landes put his foot down at a conference, if accounting firm blows the risk assessment, it cannot perform an audit in accordance with the standards. Also, introduced new peer review starting in October'2018 for 3 years – first findings, after it will be deficiency and fail.
 - Mr. Bob Dohrer, is the incoming replacement for AICPA (starting in October 2018). He has been named Chief Auditor.
 - If we cannot have Mr. Bob Dohrer as a speaker, Ajava.
 - Location – Meeting will be held in Carmel, CA at LaPlaya Hotel. Please be on the lookout for block room booking info.
- CalCPA Magazine Article
 - October'2018 Issue – Thank you for RevRec and non-profits October Article. Deloitte labyrinth.
 - October'2019 Issue – For next year possible topics are RevRec / Leases / Credit Losses / Documentation of SKE's (skills, knowledge, or experience) from new Yellow Book.
- Agenda formation - at February Meeting agenda to be formed. A decision to be made of the topics and members presenting. With certain topics put on the Agenda as a standing item.

Mr. John Levy noted that the World Congress of Accountants 2018 (WOCA) is being held in Australia on November 5-8, 2018. Since the AUD is now cheaper members may consider attending.

2:30pm Meeting adjourned.

August 16, 2018 Ice Breaker Results:

Cable TV vs Internet TV Preferences



Attendance
August 16, 2018

SF

- Vinit Shrawagi
- Brianne Loyd, Deloitte
- Matt Lombardi
- Don Pfluger
- Stu Harden
- Alex Zabryko
- Dave Wilson
- Mark Willie
- Anne Marie Walsh La Rocca
- Tatyana Shtyrkova

San Ramon

- Paul Peterson
- John Levy
- Bob Jones

LA – Pismo

- Julia Cox
- Claus Agger-Nielsen

LA – Santa Monica

- Stacie Kowalczyk, Armanino
- Ryan Zhang

Woodland Hills

- Jillian Phan
- James Dougherty

Online/TV

- Gary Krausz
- Doug DeBoer
- Howard Sibelman
- Lewis Sharpstone
- Sue Hudgens
- Cindy Musser
- Gail Anikouchine
- Jim Babcock

Absent Presenters

- Frank O'Brien
- Nancy Rix