

California Society of Certified Public Accountants
Accounting Principles and Assurance Services Committee
Pendry Hotel San Diego
Minutes
May 10, 2018

Meeting called to order at 9:00 by Chair Matt Lombardi.

The Chair asked for self-introductions by members and guests and the appointment of secretaries.

The group received a special presentation by Tony Sondhi, Emerging Issues Task Force (EITF) member, on Revenue Recognition from Contracts with Customers and EITF Current Issues; Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract Proposed ASU, deferred taxes resulting from tax law changes, and level of activity of the EITF in general. (Mr. Sondhi's slide deck is attached to these minutes)

Adjourned for lunch at 12:06

Submitted by Dave Wilson

1:07 pm Meeting resumed.

FASB Update

- FASB Proposed Accounting Standards Update—*Collaborative Arrangements (Topic 808): Targeted Improvements: Comments due: June 11, 2018 – Frank O'Brien*
 1. Frank summarized the proposed ASU. This ASU appears to be a modification of ASC 606 Rev. Rec. There is diversity in practice and this ASU is an effort to resolve some of the diversities in collaborative arrangements. It provides guidance on unit of account. Comment letter has been drafted which agrees with the committee's view except for one area. This is in the area of joint venture where the product is not ready to be sold and revenue may or may not have been realized. Howard S. raised the issue whether in this situation the company can sell to itself and recognize revenue. And there is also the issue if there is excess investment in the venture and how it should be recognized and reported. Nancy R. brought up another option that this arrangement could be an equity transaction when a bigger company ventures with a small company. Aleks Z. view is that this is meant to draw a line between revenue recognition and collaborative arrangements accounting. Tony Sondhi (guest speaker) offered his perspective on the difference between ASC 606 and 808. His issue with this proposal is that this ASU says that part of a certain arrangement can be part in 606 and part in 808 so his concern is how would this be allocated and it would mean much diversity in practice which is precisely what this ASU is aiming to resolve. Discussion ensued between several committee members and various possible cases were discussed. The committee went through the draft comment letter:

- a. Ques #1 – does the “Update clarify when a transaction between collaborative participants is within the scope of the revenue guidance in Topic 606”- majority committee agreed
- b. Ques #2 – “Is additional guidance necessary to determine if a collaborative participant is a customer” – committee voted that additional guidance is necessary. Aleks’ suggestion is to supplement existing examples in the ASC of when a party is a customer. Frank will revise the response based on committee’s discussions.
- c. Ques #3 – (i) are proposed disclosures operable? Majority of committee agrees that the proposed disclosure is operable. (ii) “Would the proposed amendments reduce diversity in practice in this area?” – majority committee voted for not changing what is currently in the proposed ASU.
- d. Ques #4 – “Would the proposed amendments on the unit of account clarify that the unit-of-account guidance in Topic 606 should be applied for determining if a transaction is within the scope of Topic 606?” The committee agrees that the answer to this is Yes.
- e. Ques #5 – “Should a reporting entity be required to provide additional recurring disclosures (that is, incremental disclosures to those required in Topic 808 and Topic 606) because of the proposed amendments?” – Committee agrees additional recurring disclosures are not needed.
- f. Ques #6 – “Do you agree with the proposed transition requirements” – timing is consistent with ASC 606 transition. Committee agrees with proposed transition.
- g. Ques #7 – “How much time is needed to implement the proposed amendments? Should early adoption be permitted?” - Committee agrees on drafted comment letter.
- h. Ques #8 – “Should entities other than public business entities be provided with more time to implement the proposed amendments?” - Committee agrees on drafted comment letter.

- **FASB Project on Revenue Recognition for Grants and Contracts – Nancy Rix**

1. Update on non-profit issues – ASU of revenue recognition of grants was exposed in October 2017. Our committee provided our comments to this proposed ASU in November.
 - a. Determine whether reciprocal transaction would follow 606
 - b. Other sorts of transactions would follow 606?
 - c. Clarification on determining reciprocal vs. nonreciprocal transactions. The update will change that the default will be nonreciprocal. The default now is that contributions are non- conditional.
FASB will eliminate the first barrier in its final version of the ASU.
Final version was reviewed by an external reviewer and has two issues that Nancy has concerns about:
 - (i) Required adoption date is June 30,2018 for NFP that have to adopt ASC 606 early
 - (ii) Conditions may exist that may have a combination of reciprocal and non-reciprocal and may delay the issuance of the ASU. Lewis S. indicated that the FASB is moving forward with the issuance.

- **NFP issue to refine the definition of "collections." – Nancy Rix**

1. This is an item that was added to FASB’s agenda specific to museums collections. No accounting change effect.

SSARS Update – Sue Hudgens

1. ARSC is meeting today – working on convergence issues with international reporting
2. Howard S. added that SSARS 24 will be coming out in the next month or so, but nothing has been issued at this time for our Committee to comment on.

PCAOB Update – Michael Feinstein

1. Not much change at this time. Committee has responded to the most recent three proposals. There is nothing at this time to report on.

ARSC – Jeremy Dillard

Items on ARSC agenda to come out summer of 2019:

1. Harmonizing definition of limited assurance into SSARS and Attest standards. ARSC is split on meaningful assurance.
2. Professional skepticism – currently not used in SSARS. ARSC is debating whether this concept should be included in SSARS, perhaps in AR-C-90 for Reviews.
3. Materiality – looking to change the standards to include materiality to requirements in Review and at the same time harmonizing with international standards.
4. Adverse conclusion – does not exist in SSARS now. International standards allow adverse conclusion.
5. Adding a new paragraph to Accountant’s Review Report that accountant is independent and “have fulfilled our other ethical responsibilities in accordance with the relevant ethical requirements for our review”.

Break from 3:07 – 3:18

AICPA Update - Gary Krausz

ASB Topic Section – continuation from our February 15, 2018 meeting

1. Current Proposed Exposure Draft Responses - *Comment Letters Due 5/15/2018*
 - a. Auditor Reporting and Proposed Amendments – expanding Auditor’s report - Committee had agreed on most everything except for Ques #5 – exposure draft makes including key audit matters optional. Our response is that majority of committee does not support including KAMs in auditors reports of non-public entities and the public will not be served if it is optional due to possible diversity in practice. Mark D. raised the issue that perhaps it would force the client to address identified key matters if they are reported in the auditor’s report. Nancy R. countered that auditor’s unmodified report implies that material issues that have been identified have been addressed. Lewis S. is in

favor of including KAMs in the auditor's report. Majority of Committee agrees on the draft of the comment letter as is that KAMs should not be required to be included in the auditor's report and it also should not be optional.

- b. Omnibus Statement – Gary presented the comment letter. The Committee agrees on it.
- c. Reporting on Information in Annual Reports – discussion ensued on Ques #6 among the committee members. Committee agrees on the draft comment letter.

CalCPA - Forum/Squads Update - Lewis Sharpstone

Six of the CalCPA committees will start the pilot program in June 2018.

- a. Members who opt in, will get a short video of summary of the committee meetings posted on our webpage at CalCPA website
- b. Name of initiative – initial name is Squad, i.e. Accounting Principles and Assurance Services Squad – Lewis asked what is members' initial reaction. Overall reaction of the group was not very positive. Nancy made a point that when CalCPA considers to change how the committees are referred to, they should consider that the committee writes comment letters to standard setters and how the new name would be perceived by them.
- c. CalCPA is assembling a document where links to resources will be provided.
- d. CalCPA considering to offer specific sections to members that will have resources in a specific area, i.e. Tax, Personal Financial Planning, AP&AS, etc.

John Lacey made an announcement that a student of his is an EA with a book of business and is looking to join a firm in the Long Beach area.

16:15 Meeting adjourned.

Submitted by Liana Tovmasyan

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Meeting called to order at 9:00 a.m.

1. Pre-certification Education Executive Committee – John Lacey

John Lacey provided an update regarding the activities of the AICPA Pre-certification Education Executive Committee. John serves as a member of the AICPA Pre-certification Education Executive Committee. The AICPA Pre-certification Education Executive Committee seeks information and feedback from CPAs in the profession regarding their views of what is needed for pre-certification education and subsequently compiles and provides feedback to universities across the United States. He noted that the AICPA Pre-certification Education Executive Committee typically receives feedback from the Big Four accounting firms but does not typically receive feedback from smaller practices. John specifically asked us to provide our feedback regarding the need for additional education requirements or changes to university accounting curriculums to address data analytics. We provided the following feedback:

- Overall, we expressed concern that any significant changes to curriculums to address data analytics could lead to students not obtaining the appropriate foundational understanding of accounting.
- Nancy Rix stated that her firm uses data analytics, specifically Mindbridge, during the planning phase of her audits.
- Brianne Loyd, Stacie Kowalczyk, and Jeremy Dillard expressed the need for students to learn the foundation and understanding of the “big picture,” including the ability to read and interpret financial statements, identifying inconsistencies or risks of material misstatement. They commented that students should learn to leverage data analytics in connection with risk assessment. Further, they expressed that there needs to be a high level understanding of the technology underlying the data analytics but ultimately the students need to understand the output of data analytics and ultimately the underlying relationships within the financial statements.
- Jeremy Dillard suggested to have computer science majors take accounting/auditing classes as a solution instead of accounting majors becoming data analytics specialists.
- Paul Peterson stated that he believes there will be data analytics specialists supporting auditors on their engagements (similar to other IT specialists or actuarial specialists). As such, there is no need for auditors to become experts in data analytics.

- John Lacey concluded this session and stated that he will deliver this feedback to the AICPA Pre-certification Education Executive Committee.

2. AICPA Employee Benefit Plan Reporting Update – Howard Sibelman

Howard Sibelman provided an update regarding AICPA Employee Benefit Plan Reporting matters – specifically related to issues considered from the April 20, 2017 exposure draft of the proposed Statement on Auditing Standards (SAS), *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*. Howard commented that our comment letter was 1 of 108 letters submitted to the ASB regarding the exposure draft and that there were consistent themes addressed in all of the comment letters received by the ASB.

Howard expects that an updated exposure draft could be released by our next meeting (August 16, 2018). However, we will monitor what updates from the ASB, if any, are provided in the coming months in order to determine whether this topic should be added to the agenda for our next meeting. The red line version of the exposure draft is available at the following link, and is set to be discussed at the next ASB meeting on May 14-17, 2018:

<https://www.aicpa.org/content/dam/aicpa/research/standards/auditattest/asb/documents/mtg/1805/2018-05-asb-item2a.pdf>.

3. PCC and AICPA Selected Procedures Update – Jeremy Dillard

Jeremy presented slides (provided to the Committee as an attachment to the agenda) and provided an update on the latest meeting he attended with the FASB Private Company Council (PCC). Jeremy is a member of the PCC. He also provided an update on the proposed changes to the AICPA Selected Procedures. Additionally, Jeremy provided an overview of the Professional Ethics Executive Committee (PEEC) response with respect to perceived independence issues relating to the ARSC and ASB's Selected Procedures project and the ASB's Direct Engagements project (also provided to the Committee as an attachment to the agenda). No decisions or actions were taken as a result of the updates provided.

4. Committee Communications – Nancy Rix, Doug Deboer, Matt Lombardi, Vinit Shrawagi

Nancy Rix provided an update on the A&A conference in October and asked for volunteers for presenters at the conference as well as volunteers to be on the Planning Committee.

We also discussed the October issue of the CalCPA magazine. Paul Peterson, Stacie Kowalczyk, and Brianne Loyd volunteered to write the articles to be included in the October issue. We concluded that the articles will address: 1) auditing the implementation of the new revenue recognition standard (ASC 606), and 2) not-for-profit financial reporting updates.

Doug DeBoer provided an update on the Chapter Chairs. There were no significant matters to report to the Committee. No decisions or actions were taken as a result of the updates provided.

Matt Lombardi provided an update on Other Committee Business. There were no significant matters to report to the Committee. No decisions or actions were taken as a result of the updates provided.

Vinit Shrawagi provided an update on CalCPA matters as well as a brief update on peer review. Vinit mentioned that there is a shortage of qualified peer reviewers and requested that committee members interested in performing reviews speak to either him or Linda McCrone.

5. Open Forum

Various members provided updates. Specifically, Paul Peterson raised a question regarding the accounting and auditing of cryptocurrency. Various members provided feedback that there is currently no accounting or auditing guidance directly on point. Various members suggested to research existing Big Four accounting firm guidance on the matter and commented that the standard-setters are evaluating cryptocurrency currently. We will monitor any related standard-setting updates as they arise.

Submitted by Brianne Loyd