THE AP & AS Advisor

Issue 1 / Winter 2015

ON THE HORIZON

EITF Issue 14-A: Effects on Historical Earnings per Unit (EPU) of Master Limited Partnership Dropdown Transactions

The EITF reached a consensus-for-exposure in September 2014 that would require Master Limited Partnerships (MLP) to allocate the net income (loss) of a transferred business, solely to the General Partner when calculating EPU for periods prior to a dropdown transaction (e.g., when a sponsor conveys assets or a business to an MLP in exchange for a general partner interest and cash). If adopted, the guidance would be applied retrospectively. More information.

EITF Issue 14-B: Fair Value Hierarchy Levels for Certain Investments Measured at Net Asset Value

The EITF reached a consensus-for-exposure in September 2014 that would require investments, measured at net asset value under the practical expedient under ASC 820, Fair Value Measurements, to be excluded from the fair value hierarchy. Instead, such investments would be disclosed as a reconciling item between the fair value hierarchy table and the reported balance sheet investments. If adopted, the guidance would be applied retrospectively. More information.

Lease Redeliberations Nearly Complete

During its February 2015 meeting the FASB redeliberated

—On the Horizon, continues

THE COMMITTEE CORNER

AICPA Enhancing Audit Quality Discussion Paper (DP)

In August 2014, the AICPA issued this innocuously titled document with a comment period that expired November 7, 2014. As a member of the AICPA, you received notification of the issuance of this DP, and your input on its contents was solicited. The CalCPA Society Accounting Principles and Auditing Standards Committee issued a comment letter to the AICPA in October 2014. The comment letter was written in collaboration with the CalCPA Peer Review Committee because at its heart, this DP puts the profession on alert about changes to the peer review paradigm that are coming down the pike.

If your practice includes peer review “must select” engagements, and more particularly, if your practice includes only a few (less than 5) audits in any category of “must select” engagements, your practice will be impacted by the coming changes.

If you are a peer reviewer who reviews audits in the “must select” categories, you are quite likely to be impacted by the coming changes.

This DP appears to have been the opening step in the AICPA’s effort to improve audit quality by strengthening the peer review (monitoring) process. For more details, take a look at the AICPA website Future of Practice Monitoring.

The profession is put on alert about coming changes to the peer review paradigm.

NEW AND NOTABLE

Filling the Gap in GAAP

The FASB made numerous changes to GAAP during 2014 and the beginning of 2015, issuing 18 Accounting Standards Updates in 2014 and 1 so far in 2015.

- four provide alternative accounting allowing amortization of goodwill; provides less onerous requirements for applying hedge reporting to certain interest rate swaps; eliminate the requirement to determine if a common control lessor is a variable interest entity (VIE); and reduces the number of intangibles to which an acquisition price is required to be allocated.
- Additional
- ASUs relate to discontinued operations; revenue recognition in contracts with customers; going concern; and pushdown accounting.
- The remaining ASUs are not likely to be applicable to a wide range of entities.

Read detailed article.

AICPA’s Revised Code of Professional Conduct

AICPA’s Revised Code of Professional Conduct: The revised Code of Professional Conduct (Code) became effective Dec. 31. One year later, the Conceptual Framework for AICPA Independence Standards will be supplemented with two additional frameworks that extend beyond the current independence rules. Restructured into four primary parts: Preface, Members in Public Practice, Members in Business and Other Members, the AICPA’s revised ethics codi-

—New and Notable, continues

ON THE HORIZON, *continues*

its proposed lease accounting guidance. While additional discussions involving the Private Company Council are anticipated, the FASB is expected to issue the new lease accounting standard during the second half of 2015. Summary of tentative decisions.

PCAOB's Proposed Auditor Reporting Model

The proposed auditor reporting standard retains the pass/fail model in the existing auditor's report but would provide additional information about the audit and the auditor including: (1) critical audit matters; (2) new elements related to auditor independence, auditor tenure, and the auditor's evaluation of "other information" outside of the financial statements (such as the MD&A section); and (3) enhancements to existing language in the auditor's report related to the auditor's responsibilities for fraud and notes to the financial statements. The proposed "other information" standard would: (1) enhance the auditor's responsibility with respect to "other information"; (2) 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; and (3) 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." The PCAOB intends to repropose the draft standard after evaluating comments received on the initial document this quarter.

—On the Horizon, continues

NEW AND NOTABLE, *continues*

fication is intended to increase standard clarity, broaden the application of existing rules and create a more efficient means of evaluating ethics compliance. For more information, access the revised AICPA Code of Professional Conduct here.

PCAOB's Issuance of Auditing Standard No. 18

PCAOB's Issuance of Auditing Standard No. 18, Related Parties (effective for audits beginning on or after Dec. 15, 2014): Auditing Standard No. 18 (AS 18) is intended to strengthen auditor performance requirements for identifying, assessing, and responding to the risks associated with related party relationships and transactions. It requires the performance of procedures to:

(i) understand a company's of related party relationships and transactions,
(ii) evaluate whether they have been properly identified,
(iii) evaluate their disclosures, and
(iv) communicate the company's identification of, accounting for, and disclosure of related party relationships and transactions. AS 18 also includes changes designed to complement the auditor's work relating to significant unusual transactions. More information.

SSARS 21

SSARS 21, Clarified Statements on Standards for Accounting & Review Services, supersedes all SSARS except for Compilation of Pro Forma Financial Information, which will be clarified sometime in 2015. SSARS 21 is effective for years ending on or after December 15, 2015 and early implementation is permitted.

SSARS adds a new level of service, ***Preparation of Financial Statements,*** a nonattest, no assurance service, that:

- Requires the accountant to include a legend on each page of the financial statements stating that no assurance is being provided or a disclaimer when such a legend cannot be included;
- Does *not* require the accountant to consider whether he or she is independent.

Requirements for compilations and reviews remained largely unchanged. SSARS 21 did, however, make some changes, including:

- "Management use only" compilation engagements are eliminated;
- Compilation reports are always required and streamlined to only one paragraph with *no* headings to differentiate from assurance (review and audit) reports;
- Review report will have subheadings for management's responsibilities, the accountant's responsibilities, and the conclusion; and
- Compilation and review reports both must indicate location of CPA firm (City & State).

OTHER REQUIREMENTS ALL SERVICES

- All preparation engagements, compilations, and reviews require an engagement letter signed by both the client and the accountant.
- Reporting framework must be disclosed if other than GAAP.
- For financial statements that omit substantially all disclosures, this fact needs to be disclosed on face of statements or in a note to the financial statements.
- Material departure from the reporting framework may be disclosed on the face of the financial statements or in a footnote to the financial statements.

Read detailed article.

ON THE HORIZON, *continues*

Framework for reorganization of PCAOB Auditing Standards. The objective of this project is to reorganize the PCAOB's existing interim and PCAOB-issued auditing standards into a topical structure with a single, integrated numbering system. The new structure will NOT follow either the AICPA or IAS audit standard structures, but will be responsive to the needs of the SEC. The staff of the PCAOB is currently drafting an adopting release for the Board's consideration for release this quarter.

The PCAOB's Full Standard Setting Agenda can be accessed here.

FILLING THE GAP IN GAAP, *Complete article*

During 2014, the FASB issued 18 pronouncements, in the form of Accounting Standards Updates, including 4 from the Private Company Council (PCC) that provide alternative accounting approaches for nonpublic entities, intended to reduce the cost of financial reporting for nonpublic entities without compromising the integrity or the quality of financial reporting.

The pronouncements of the PCC all become effective for periods beginning after December 15, 2015, with earlier application permitted. An entity may adopt any of the new standards by making an election to do so, generally through disclosure in the summary of significant accounting policies. The four pronouncements are:

ASU 2014-02 – Intangibles – Goodwill and Other (Topic 350): Accounting for Goodwill, a consensus of the Private Company Council

- Allows for the amortization of goodwill
  - Straight-line
  - 10 years or less
- Eliminates annual assessment for impairment
  - Only required as a result of triggering event
  - May be done on reporting unit or entity level
  - Testing less complex than required for public entities

ASU 2014-3 – Derivatives and Hedging (Topic 815): Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps – Simplified Hedge Accounting Approach, a consensus of the Private Company Council

- Applies to "plain vanilla" interest rate swaps
  - Borrower is converting variable rate instrument to fixed rate
  - Swap has terms that mirror those of instrument
- Reduces difficulty in applying hedge reporting
  - Reduces qualifications and extends deadline for meeting them
  - Simplifies accounting, assuming no ineffectiveness

ASU 2014-07 – Consolidation (Topic 810): Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements, a consensus of the Private Company Council

- Applies to leasing arrangement where lessor and lessee are under common control
  - Eliminates requirement to determine if relationship creates variable interest entity (VIE)
  - Allows application of lease accounting
- Requires appropriate related party disclosures

ASU 2014-18 – Business Combinations (Topic 805): Accounting for Identifiable Assets in a Business Combination, a consensus of the Private Company Council

- Applies to business combinations accounted for under the acquisition method, applying the equity method of accounting, and adopting fresh start accounting
  - Eliminates requirement to allocate amounts to certain intangibles based on their fair values
  - Amounts incorporated, instead, into goodwill

There are several additional ASUs that were issued during 2014 that might be applicable to a wide range of entities, both public and nonpublic. These are:

ASU 2014-08 – Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity

- Redefines criteria for when information will be reported as discontinue operations or disposal of a component of an entity, reducing the circumstances in which such reporting will apply.
- Effective for periods beginning on or after December 15, 2014

—Filling the Gap in GAAP, continues

Key Events

Women's Leadership Forum
April 24, San Francisco

Health Care Industry Conference
April 28, San Francisco

Employee Benefit Plans Annual Audit Conference
April 30, Burbank

Next meeting of the Accounting Principles and Assurance Services Committee
May 14–15, Carmel

FILLING THE GAP IN GAAP, *Complete article continues*

ASU 2014-09 – Revenue from Contracts with Customers (Topic 606)

- Applies to all entities that enter contracts with customers to transfer goods or services or contracts for the transfer of nonfinancial assets
- Establishes 5 step process for recognizing revenues
  - Identify contracts with customers
  - Identify all performance obligations within each contract
  - Determine the total revenue from the contract
  - Allocate total revenue from the contract to all performance obligations
  - Recognize revenues when performance obligations are met or, in some circumstances, while they are being met.
- Effective for public entities for periods beginning after December 15, 2016 and for nonpublic entities for periods beginning after December 15, 2017

ASU 20914-15 – Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern

- Applies to all entities identifying indications of substantial doubt about entity's ability to continue as a going concern
- Requires certain disclosures related to management's plans for mitigations and expectations as to their effectiveness
- Effective for periods ending after December 15, 2016

ASU 2014-17 – Business Combinations (Topic 805): Pushdown Accounting, a consensus of the FASB Emerging Issues Task Force

- Applies to acquired entities when another entity, the acquirer, obtains a controlling financial interest
- Allows acquired entity to elect to apply pushdown accounting in preparing its separate financial statements
- Effective as of November 18, 2014

ASU 2015-01 – Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items

- Eliminates concept of extraordinary items, requiring items be presented, before tax, elsewhere in statement reporting earnings.
- Effective for periods beginning after December 15, 2015 with early adoption permitted

The remaining ASUs are likely to apply to a narrower range of entities. These are:

- ASU 2014-01 – 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
- ASU 2014-04 – Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure, a consensus of the FASG Emerging Issues Task Force
- ASU 2014-05 – Service Concession Arrangements (Topic 853), a consensus of the FASB Emerging Issues Task Force
- ASU 2014-06 – Technical Corrections and Improvements Related to Glossary Terms
- ASU 2010-10 – Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation
- ASU 2014-11 – Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures
- ASU 2014-12 – Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be

—Filling the Gap in GAAP, continues

THE AP & AS Advisor

The purpose of this publication is to inform the members of CalCPA about accounting, attest services and other reporting issues through chapter technical sessions and electronic and other effective means of communication.

For questions or information on how to submit articles for this semi-annual publication, please contact:

• Editor Mark Dauberman, mark@dauberman.com, or

• AP&AS Communications Chair Matthew Lombardi, lombardim@hemming.com

FILLING THE GAP IN GAAP, *Complete article continues*

Achieved after the Requisite Service Period, a consensus of the FASB Emerging Issues Task Force
- ASU 2014-13 – Consolidation (Topic 810): Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity, a consensus of the FASB Emerging Issues Task Force
- ASU 2014-14 – Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure, a consensus of the FASB Emerging Issues Task Force
- ASU 2014-16 – Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity, a consensus of the FASB Emerging Issues Task Force

The full text of these pronouncements can be found here.

SSARS 21: *Clarified Statements on Standards for Accounting & Review Services,*

Complete article

SSARS 21 supersedes all existing AR Sections in the AICPA Professional Standards (except for AR Section 120 Compilation of Pro Forma Financial Information – which will be clarified sometime in 2015). SSARS 21 is codified as AR-C and is effective for years ending on or after December 15, 2015 and early implementation is permitted.

Section 60 – ***General Principles for Engagements Performed in Accordance with Statements on Standards for Accounting and Review Services.*** *This replaces Framework for Performing and Reporting on Compilation and Review Engagements.*

Section 70 – ***Preparation of Financial Statements – New*** A nonattest no assurance service
- Applies when an accountant is *engaged* to *prepare* financials statements but is *not* engaged to perform an audit, review or compilation engagement
- Requires the accountant to include a legend on each page of the financial statements stating that no assurance is being provided
- Requires the accountant to obtain an engagement letter that is signed by *both* the accountant and the client's management
- Does *not* require the accountant to consider whether he or she is independent
- May be applied to financial statements with or without disclosures

Section 80 – ***Compilation Engagements – Revised*** An attest service with no assurance
- Existing requirements largely unchanged
- Applies when an accountant is *engaged* to perform a compilation engagement
- Always requires a report
- Streamlines the report so that the standard report contains only one paragraph with *no* headings to differentiate the non-assurance compilation from assurance reports under reviews and audits
- Retains requirement to modify the report if the accountant's independence is impaired
- Requires the accountant to obtain an engagement letter that is signed by *both* the accountant and the client's management
- May be applied to financial statement with or without disclosures
- Report must indicate location of CPA firm (City & State)
- Dated as of the *reading* of the financial statements

—SSARS 21, continues

SSARS 21, *Complete article continues*

Section 90 – ***Review of Financial Statements – Redraft of SSARS 19*** An attest service with some assurance

New Compilation Report **(Note no headers allowed because this is not an assurance engagement) Accrual Basis Financial Statement with Disclosures Example**

Management is responsible for the accompanying financial statements of XYZ Company, which comprise the balance sheet as of December 31, 20X1 and the related statement of income, changes in stockholders' equity and cash flows for the year then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United State of America. We have performed a compilation engagement in accordance with statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion a conclusion nor provide any form of assurance on the financial statements.

Signature of accounting firm or accountant
Accountant's city and state
Date of accountant's report

AR-C contains examples of other compilation reports for a variety of situations

Legend For Preparation Of Financial Statements

"No assurance is provided on these financial statements." Or

"These financial statements have not been subjected to an audit or review or compilation engagement, and no assurance is provided on them". *Or a report that states*

"The accompanying financial statements of XYZ Company as of and for the year ended December 31, 20X1, were not subjected to an audit, review, or compilation engagement by us and, accordingly, we do not express an opinion, a conclusion, nor provide any assurance on them."

Signature of accounting firm or accountant
Accountant's city and state
Date of accountant's report

Other Requirements All Services

- Reporting framework must be disclosed if other than GAAP
- Financial statements that omit all disclosures, this fact needs to be disclosed on face of statement or in a footnote to the financial statements
- Or "Selected Information – Substantially All Disclosures Required By [Applicable Framework] Are Not Included.
- Material departure from the reporting framework may be disclosed on the face of the financial statements or in a footnote to the financial statements