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ACCOUNTING & AUDITING REPORT

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- PPE disclosures
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EXECUTIVE SUMMARY

PART 1. ACCOUNTING

Goodwill Disclosures 3

Russ Madray, CPA explains the disclosures required in accounting for goodwill. [*Running time: 30:20*]

Learning Objectives: Upon completion of this segment, the user should be able to:

- Determine how often and how to assess a reporting unit's goodwill for impairment
- Identify the types of alternatives available in accounting for goodwill
- Identify how to account for goodwill and what to disclose

PART 2. AUDITING

Recent PCAOB and SEC Sanction or Enforcement Activity 19

Jennifer Louis, CPA reviews recent PCAOB and SEC enforcement activity. [*Running time: 34:10*]

Learning Objectives: Upon completion of this segment, the user should be able to:

- Identify the PCAOB and SEC missions
- Identify the purpose of the Form AP
- Identify what sanctions, censures, and cease and desists can be issued for and what that means

PART 3. SMALL BUSINESS

FRF for SMEs..... 37

Kurt Oestrieher, CPA, discusses the Financial Reporting Framework for Small and Medium Sized Entities developed by the AICPA. [*Running time: 28:05*]

Learning Objectives: Upon completion of this segment, the user should be able to:

- Determine why the FRF for SMEs was created and whether it is GAAP
- Identify how the term SME was derived
- Identify who is likely to use the framework and what is critical to decision making by bankers

ABOUT THE SPEAKERS

Russ Madray, CPA, CGFM, has more than 30 years of professional experience, including stints at two Big 4 accounting firms. Russ is a nationally-known accounting and auditing thought leader, writer, and advisor helping CPAs throughout the country understand and implement technical accounting and auditing issues.

Jennifer Louis, CPA, is a CPA and president of Emergent Solutions Group, LLC. She has more than 25 years experience in designing and instructing high-quality training programs. Ms. Louis was previously executive vice president and director of training services at AuditWatch Inc., a premier training and consulting firm serving the auditing profession. She also served as financial/operational audit manager for the AARP, and as an audit manager for Deloitte.

Kurt Oestrieher, CPA, is a CPA and partner with the accounting firm of Oestrieher and Company in Alexandria, Louisiana. He is in charge of accounting and auditing services, and is also involved in litigation support and small business consulting engagements. In addition to his client responsibilities, Kurt has served as a discussion leader for numerous accounting and auditing courses. He has served on the AICPA Accounting and Review Services Committee and is currently serving a three-year term on the AICPA Council.

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PART 1. ACCOUNTING

Goodwill Disclosures

Goodwill is that extra intangible amount between the fair value of an entity and the book value of its assets. U.S. GAAP requires that goodwill of a reporting unit be tested at least annually or more frequently for impairment if certain triggering events occur. An entity can perform a qualitative assessment or move to step one of the impairment test, which is to compare the carrying amount of the unit to its fair value.

For more on the goodwill presentation and disclosure, let's join Russ Madray, a CPA in Greenville, South Carolina, and CPE Network's Debi Grove Casey.

Ms. Grove Casey

Today we are going to talk a little bit about goodwill, specifically the presentation and disclosure requirements. Now, the information provided by the recognized amounts in the financial statements is important but, because there are just numbers, really, in the financial statements, there are some limited disclosures. Obviously, that is very limited, and what is in the notes provides a lot more information. So, to begin with, can you give us an overview of the presentation and disclosure requirements related to goodwill?

Mr. Madray

Sure, I will be glad to. The guidance for goodwill—for all intangibles including goodwill and other intangibles—is found in FASB Accounting Standards Codification (ASC) 350. All of the guidance is there, including presentation, disclosure, recognition, and impairment; all of those kinds of things are in Topic 350. Our focus today is primarily disclosure—presentation and disclosure.

As you mentioned earlier, and I agree, what is in the numbers, what is in the line items on the face of the financial statements, there is a limit to how much information can be conveyed there, which is why we have these disclosure requirements to provide that additional information (the context, the detail, and so on) related to the items in the financial statements and, specifically, as we are talking about today, goodwill. So, folks who look at, use, read, and analyze financial statements often will go through the notes first and read the detail and, then, go back and begin to look at the numbers, because it provides, again, context, and detail, and description about what we are seeing there.

As you mentioned, today we are talking about goodwill, and that comes from Topic 350. Again, all of the accounting for goodwill and other intangibles is in that topic, including what we are covering today, which is focusing primarily on the presentation and disclosure.

Now, one thing to keep in mind is in this area—goodwill, specifically—private companies and not-for-profits that have adopted certain accounting alternatives will have different presentation and disclosure requirements than public business entities. So, as we are working through this discussion, we will need to kind of separate those between those entities that have adopted these accounting alternatives versus all other entities which are, primarily, going to be your public business entities in that case.

Ms. Grove Casey

Well, let's discuss the specifics of those accounting alternatives, because I know that the Private Company Council did provide some alternatives, and the FASB has provided some practical expedients in certain cases. So, let's talk about what our options are.

Mr. Madray

Sure. U.S. Generally Accepted Accounting Principles, or U.S. GAAP, basically requires that goodwill of a reporting unit be tested for impairment at least annually, or more frequently if certain conditions exist in that case. Generally—and again, we aren't to the alternatives yet but, generally—an entity can choose to either perform a qualitative assessment to determine whether it is more likely than not that the reporting unit's fair value is less than its carrying amount, or they can proceed directly to step one of the impairment test. So, that qualitative test is sometimes referred to as step

zero, which is optional; they can do that [step] and qualitatively determine whether step one is necessary, or they can go straight to step one, which is comparing the carrying amount of the reporting unit to the fair value of that reporting unit.

If the reporting unit's carrying amount exceeds the fair value, then the entity will need to determine the extent of goodwill impairment, if any. In calculating the amount of the impairment, the entity compares the implied fair value of the reporting unit's goodwill with its carrying amount. Now, again, the focus of our discussion today is not on the specifics and mechanics of that impairment measurement, but that term *implied fair value* is the tricky part of trying to perform this measurement. Essentially, it necessitates performing a hypothetical application of the acquisition method to determine the implied fair value of goodwill after measuring the reporting unit's identifiable assets and liabilities in accordance with the guidance in ASC Topic 805, which deals with business combinations.

Now, with all that said, that is the basic guidance for goodwill impairment. But, as we mentioned earlier, U.S. GAAP allows private companies and not-for-profit organizations to make two accounting policy elections (that we are calling *accounting alternatives*) to simplify the subsequent accounting for goodwill related to impairment. These elections will then, in turn, impact the types of disclosures that are required related to goodwill.

So, [there are] two alternatives. The first accounting alternative, among other things, allows private companies and not-for-profits (NFPs) to amortize goodwill that has been acquired in a business combination or in an acquisition by an NFP and allows them to use a simplified, one-step impairment test. We will refer to this alternative as the *goodwill amortization alternative*. More specifically here, a private company can elect to amortize goodwill on a straight-line basis over a period of ten years, or a shorter period if they can demonstrate that a shorter period is more appropriate.

In addition, goodwill will be subject to impairment in this case only upon the occurrence of a triggering event. So, by electing this alternative, first, you are amortizing goodwill, and secondly, you don't have to perform an annual test as you do under the general guidance on accounting for goodwill; it is only based on triggering events.

Now, what are triggering events? If we look on the next slide, there are some examples of things that might lead the private company that has elected this alternative to perform a goodwill impairment test. For example, deterioration in general economic conditions, limitations on accessing capital, fluctuations in foreign exchange rates, or other developments in equity and credit markets, could be a triggering item. In other words, just general economic conditions.

Industry and market considerations could be a triggering event, like deterioration in the environment where the entity operates, an increased competitive environment, a decline in market-dependent multiples or metrics, a change in the market for the entity's products or services, or changes in the regulatory or political environment, could lead to the need to test goodwill for impairment.

It could be things [related to] cost factors, like increases in the cost of raw materials, labor, or other things that could have a negative effect on earnings and cash flows. It could be the overall financial performance of the entity itself, [such as] negative or declining cash flows or declines in actual or planned revenue or earnings compared with actual and projected results of prior periods.

It could be other entity-specific events, like changes in management, changes in key personnel, strategy, customers; contemplation of bankruptcy; it could be litigation. It could be events affecting a reporting unit as opposed to the entire entity, like a change in the composition or carrying amount of the net assets, a more-likely-than-not expectation of selling or disposing of all, or a portion, of the reporting unit.

So, again, these triggering events can be more macroeconomic or they can be more entity specific that would lead the private company that had elected this alternative to perform the impairment test.

Now, importantly, a private company that elects this alternative is required to make an accounting policy decision to test goodwill at either the company level, entity level, or the reporting unit level. Then, goodwill will be tested for impairment when a triggering event occurs that indicates that the fair value of the entity or the reporting unit could be below its carrying amount. If a quantitative impairment test is required, it is a one-step test. You calculate the amount of impairment by calculating the difference between the carrying amount of the entity and its fair value. So, that hypothetical

purchase price allocation to isolate the change in goodwill (which is step two of the general goodwill impairment test) is not required for private companies that have elected this alternative.

Importantly, if a private company elects to apply the amortization alternative, it is required to apply all aspects; in other words, both the amortization piece and the simplified impairment test.

Application of this accounting alternative is optional, which means that a private company or not-for-profit, even though they are eligible to elect this alternative, can instead choose to continue to follow the guidance applicable to public business entities; in other words, the broad, general, two-step impairment test (with a step zero that we talked about a moment ago).

Now, all that can get kind of confusing so, on this next slide, there is a little decision tree here that shows how this accounting alternative works. First, has an event occurred or circumstances changed that would indicate the fair value of the entity might be below its carrying amount? In other words, has there been some type of triggering event like the examples we saw earlier? If the answer is no, we are done.

If there has been a triggering event, then is it more likely than not that the fair value of the entity is less than its carrying amount? (That is that qualitative step zero.) If the answer is no, you are done.

If the answer is yes, then we calculate the fair value of the entity and compare that with its carrying amount, including goodwill. Then, is the fair value of the entity less than its carrying amount? If the answer is no, we stop; there is no impairment.

If the answer is yes, then, in that case, we would recognize impairment. This is equal to the difference between the carrying amount and the fair value, not to exceed the carrying amount of the goodwill itself. So, that is the *goodwill amortization alternative*.

Now, more recently—in fact, in 2021—the FASB provided a second accounting alternative related to goodwill that allows private companies and not-for-profits to assess whether those triggering events (that we saw examples of earlier) have occurred only as of the end of their annual reporting period, or interim reporting period if they report more frequently. We will call this one the *triggering event alternative*. Now, an entity that elects this alternative is not required to

monitor for goodwill impairment-triggering events throughout the reporting period. Instead, they only need to evaluate the facts and circumstances as of the end of the reporting period to determine whether a triggering event exists and, if so, whether it is more likely than not that the goodwill is impaired. So, like the amortization alternative, this alternative is also optional, meaning that eligible private companies and not-for-profits can ignore both alternatives and continue to follow the goodwill impairment guidance that is applicable to public business entities.

Importantly, entities—these eligible entities, private companies and not-for-profits—can elect either of these alternatives, the amortization alternative or the triggering event alternative, regardless of whether they have elected the other one. So, it is an either-or type of thing.

So, as I mentioned earlier, the reason we wanted to go through this bit of detail is that private companies and not-for-profits that have adopted the amortization alternative, specifically, are going to have different presentation and disclosure requirements than public business entities. Again, we will discuss those separately—those that have elected the alternative versus those entities that have not.

Ms. Grove Casey

Well, let's start there with the requirements for those entities that have adopted the goodwill amortization accounting alternative. Could you talk a little bit more about the requirements there?

Mr. Madray

Sure. For those entities, these would be private companies and not-for-profits that meet the eligibility requirements that have elected the accounting alternative (specifically, the amortization alternative that we discussed earlier), we find the disclosure requirements in Topic 350. Specifically, it is ASC 350-20-50-3A and, under this guidance, a private company or not-for-profit that elects the amortization alternative would disclose the information that you see on this next slide.

So, for each period that the reporting entity presents a balance sheet, the entity would disclose the following items regarding additions to goodwill that would include: the designated amount of total goodwill; the goodwill for a major business combination, major

acquisition by a not-for-profit, or reorganization where the entity adopts fresh-start reporting; also, the period of the total weighted-average amortization; and the amortization for a major business combination, major acquisition, or reorganization.

Then, for each period that the entity presents a balance sheet, they also need to disclose certain information as we see here: the gross book value of goodwill, the accumulated amortization of goodwill, the accumulated goodwill impairment losses, and the aggregate goodwill amortization expense for the period. Then, for each of the following types of goodwill: goodwill included in a group of assets for disposal categorized as held for sale and, then, goodwill that the entity derecognized during the period but that had not ever been recognized as part of a group of assets for disposal categorized as held for sale.

Related to impairment losses, for each goodwill impairment loss that has been recorded, the entity will need to disclose information in the notes for the statements that cover the period that the entity recognized that loss that would include: a description of the facts and circumstances surrounding the impairment of goodwill, i.e., the triggering event; the amount of impairment loss and how the entity determined the fair value of the entity (that might be prices of similar businesses or nonprofit activities; a valuation technique, like a present value technique; or maybe some combination of those things); also, they need to disclose the line item in the income statement or statement of activities that contains the impairment loss; and then, finally, the manner in which the entity apportions the impairment loss to each amortizable unit of goodwill.

So, with all of that, in addition, the private company or not-for-profit that elects the accounting alternative for evaluating goodwill and impairment triggering events needs to disclose the election as a significant accounting policy under the requirements in Topic 235, which is *Notes to the Financial Statements*. That is related to that second alternative about evaluating triggering events as of the end of the reporting period.

Importantly, too—because this question sometimes comes up—Topic 820, which is *Fair Value Measurement*, generally requires disclosure of quantitative information regarding significant unobservable inputs which is, again, something that comes from Topic 820, not Topic 350, but comes into

play, but a private company or not-for-profit is not required to make these quantitative disclosures about unobservable inputs (these are Level 3 inputs for fair value measurement) for goodwill after the goodwill is initially recognized. So, it is required in the initial year of a business combination or acquisition but, going forward, private companies and not-for-profits are not required to provide that quantitative information in these cases, which would be where you have an impairment loss and you are discussing the fair value of the entity, and so forth.

Now, still staying with private companies and entities that have elected the accounting alternatives, Topic 350 does require that the aggregate amount of goodwill (net of any accumulated amortization and any impairment) be presented as a separate line item in the balance sheet.

Further, goodwill amortization and impairment losses are required to be presented in the income statement as part of income from continuing operations unless it is specifically associated with a discontinued operation. Any of the amortization or impairment associated with a discontinued operation would, obviously, be reported within the results of the discontinued operations on the income statement.

Then, finally, according to Topic 350, any portion of goodwill that is assigned to a business or nonprofit activity that has been disposed of would be recognized as part of the gain or loss on the disposal of those assets and not as part of other goodwill impairment losses. So, those are the basic requirements for those entities that have elected those accounting alternatives and, and as we discuss the other, you will see how they are different for all other entities.

Ms. Grove Casey

Well, let's talk about that. Could you discuss the requirements?

Mr. Madray

Yes. Obviously, moving right on to the other entities—all other entities—which are, basically, going to be your public business entities that cannot make use of these accounting alternatives. Again, we are going to find the requirements in Topic 350 related to changes in the carrying value of goodwill. Now, according to that guidance, entities would need to disclose any changes to the carrying amount of goodwill from the beginning of the reporting period to the end of that period.

Then, beyond that, each of the categories that we see on this next slide would need to be reported separately. That includes: the gross carrying amount of goodwill as of the beginning of the period and the accumulated goodwill impairment losses as of the beginning of the period; any additions for new amounts of goodwill recognized, where there is an exception for goodwill in a disposal group that, at the time of acquisition, satisfies the conditions for classification as held for sale (so, we are acquiring something but we intend to immediately dispose of it); changes related to deferred tax assets that are recognized pursuant to the guidance in Topic 805, *Business Combinations*; the amount of goodwill in a disposal group that, at the time of acquisition, can be classified as held for sale and the amount of goodwill derecognized that had not been accounted for as part of the disposal group classified as held for sale. Also, the decreases for impairment losses that we have recognized; any increases or decreases for the net effects of foreign exchange differences that comes from the requirements in Topic 830, *Foreign Currency Matters*; any other changes to the carrying amounts of recognized goodwill that occurred during the period that are not included in what we have already seen in this list; and then, finally, the gross carrying amount of goodwill as of the end of the period, as well as the accumulated goodwill impairment losses at the end of the period.

Now, an entity may have a reporting unit with a zero or negative carrying value of net assets. If that particular reporting unit has goodwill allocated to it, then there is an additional disclosure requirement where we have to disclose the amount of the allocated goodwill, as well as which reportable segment contains the reporting unit.

We have an example of this one on the next slide. This is from Caesars Entertainment Corporation, where we have \$405 million of goodwill associated with a reporting unit with zero or negative carrying value. As the reporting unit has a positive fair value, there was no impairment associated with this reporting unit. So those are the—we will call them general disclosures requirements—related to goodwill.

There are additional disclosures for goodwill impairment losses. Now, remember, for these entities—these public business entities—the impairment testing, and measurement, and so on, will be different than what we saw with the private entities. According to Topic 350 entities need to provide the information that we see

on this next slide for every goodwill impairment loss that occurs during the reporting period. This information would need to be disclosed in the notes to the financial statements that are issued for the same period in which these losses are recognized: first, the facts and circumstances contributing to the goodwill impairment loss; the amount of the goodwill impairment loss, as well as the approach that we used to establish fair value of the reporting unit (that might be quoted market prices; prices of a business or not-for-profit comparable to the reporting unit; present value calculations; or some combination of all of these methods).

We have some examples on the next slide of disclosures made by some public companies about the facts and circumstances that contributed to their goodwill impairment losses. Of course, here, the level of detail that is used for this disclosure can depend, clearly, on the significance of the impairment to the entity's financial statements.

In this first example, we see that the loss on impairment included goodwill impairment charges of \$8.7 million for the three and nine months ended December 31st. The goodwill impairment charges related to Eastern Airways and resulted from an overall reduction in expected operating results due to the downturn in the oil and gas market driven by reduced crude oil prices.

Then, another example, during the Company's annual goodwill impairment testing conducted during the third quarter, management concluded that goodwill associated with the Company's Paper and Industrial Converted Products—Brazil reporting unit had become impaired as a result of the continued deterioration of economic conditions in Brazil. Then [it disclosed] the impairment charge.

The next example is one with a good bit more detail because of the significance of the impairment in this particular case. During the nine months ended December 31st, revenues in our Cold Chain Packaging reporting segment decreased significantly as compared to the same period in the prior year. Then, more discussion about this, and the other factors, and context. Based on these facts, we concluded that we had a triggering event requiring assessment of impairment for certain of our long-lived assets associated with the Cold Chain Packaging reporting segment. As a result, we reviewed the long-lived assets associated and recorded a \$13,819,000 impairment charge related to goodwill,

which is included in impairment loss on goodwill on the accompanying consolidated statements of operations. The impairment loss was measured using a market approach utilizing an EBITA multiple model. The remaining goodwill and tangible assets associated with this segment are reported as you see there.

Now, just like we mentioned earlier with private companies, Topic 820 generally requires disclosure of quantitative information regarding the significant unobservable inputs—those Level 3 estimates. However, just like with private companies, entities are not required to make those disclosures for goodwill after the goodwill is initially recognized. So again, same as it is for private companies in that case: in the period of acquisition, that information is required to be disclosed but, in the subsequent impairment disclosures, it would not be required.

Now, finally, in terms of the financial statement presentation for public business entities, Topic 350 requires that the aggregate amount of goodwill be presented as a separate line item on the balance sheet. Topic 350 also requires that, at a minimum, the aggregate balance of intangible assets (excluding goodwill) would need to be shown as a separate line item on the balance sheet.

Goodwill impairment losses would be presented as a separate line item in the income statement as part of continu[ing] operations unless, of course, it is part of a discontinued operation, in which case that impairment would be associated with the results of the discontinued operations. Then, finally, any portion of goodwill that is assigned to net assets that represent a business disposed of would be recognized as part of the gain or loss on the disposal of those assets and not with the other goodwill impairment losses.

So, [there is] a lot of stuff there. Again, as I said when we started, it is important to understand the differences (to understand the accounting alternatives and how those are applied) to understand the difference in the presentation and disclosure requirements, because they are significantly different for those private companies and not-for-profits that have elected those alternatives versus all other entities. Hopefully, this puts all of this in context and helps our folks maneuver and manage their way through these requirements in in Topic 350.

Goodwill: Presentation and Disclosure Requirements

by J. Russell Madray, CPA

Overview

The information provided by the recognized amounts and related descriptions in the financial statements is fundamental to a user's decision making, but the information that can be provided in that form is inherently limited. Consequently, notes to financial statements provide relevant information that is not provided on the face of the financial statements. Notes provide information that explains specific line items on the face of the financial statements. Additionally, notes provide information about past events and current circumstances and conditions that have not been recognized but will or may affect an entity's future cash flows. Financial Accounting Standards Board *Accounting Standards Codification* (FASB ASC) 350, *Intangibles—Goodwill and Other*, provides guidance for presentation and disclosure of goodwill.

Accounting Alternatives

U.S. generally accepted accounting principles (U.S. GAAP) requires that goodwill of a reporting unit be tested for impairment at least annually or more frequently if certain conditions exist. An entity can choose to either perform a qualitative assessment to determine whether it is more likely than not that a reporting unit's fair value is less than its carrying amount, or proceed directly to step one of the impairment test, which is to compare the carrying amount of the reporting unit with its fair value. If its carrying amount exceeds its fair value, the entity must determine the extent of goodwill impairment, if any. In calculating the amount of the impairment, an entity must compare the implied fair value of the reporting unit's goodwill with its carrying amount. That necessitates performing a hypothetical application of the acquisition method to determine the implied fair value of goodwill after measuring the reporting unit's identifiable assets and liabilities in accordance with FASB ASC 805, *Business Combinations*.

However, U.S. GAAP allows private companies and not-for-profit (NFP) organizations to make two accounting policy elections (referred to as accounting alternatives) to simplify subsequent accounting for goodwill. These elections, in turn, impact the types of disclosures that are required related to goodwill.

The first accounting alternative, among other things, allows private companies and NFPs to amortize goodwill acquired in a business combination or in an acquisition by an NFP and to use a simplified one-step impairment test (referred to as the goodwill amortization accounting alternative). More specifically, a private company may elect to amortize goodwill on a straight-line basis over a period of ten years, or over a shorter period if the company demonstrates that another useful life is more appropriate. In addition, goodwill would be subject to impairment testing only upon the occurrence of a triggering event. Examples of such triggering events and circumstances include the following:

- Deterioration in general economic conditions, limitations on accessing capital, fluctuations in foreign exchange rates, or other developments in equity and credit markets
- Industry and market considerations such as a deterioration in the environment in which an entity operates, an increased competitive environment, a decline in market-dependent multiples or metrics, a change in the market for an entity's products or services, or a regulatory or political development
- Cost factors such as increases in raw materials, labor, or other costs that have a negative effect on earnings and cash flows
- Overall financial performance such as negative or declining cash flows or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods
- Other relevant entity-specific events such as changes in management, key personnel, strategy, or customers; contemplation of bankruptcy; or litigation
- Events affecting a reporting unit (if applicable) such as a change in the composition or carrying amount of its net assets, a more-likely-than-not expectation of selling or disposing of all, or a portion, of a reporting unit, the testing for recoverability of a significant asset group within a

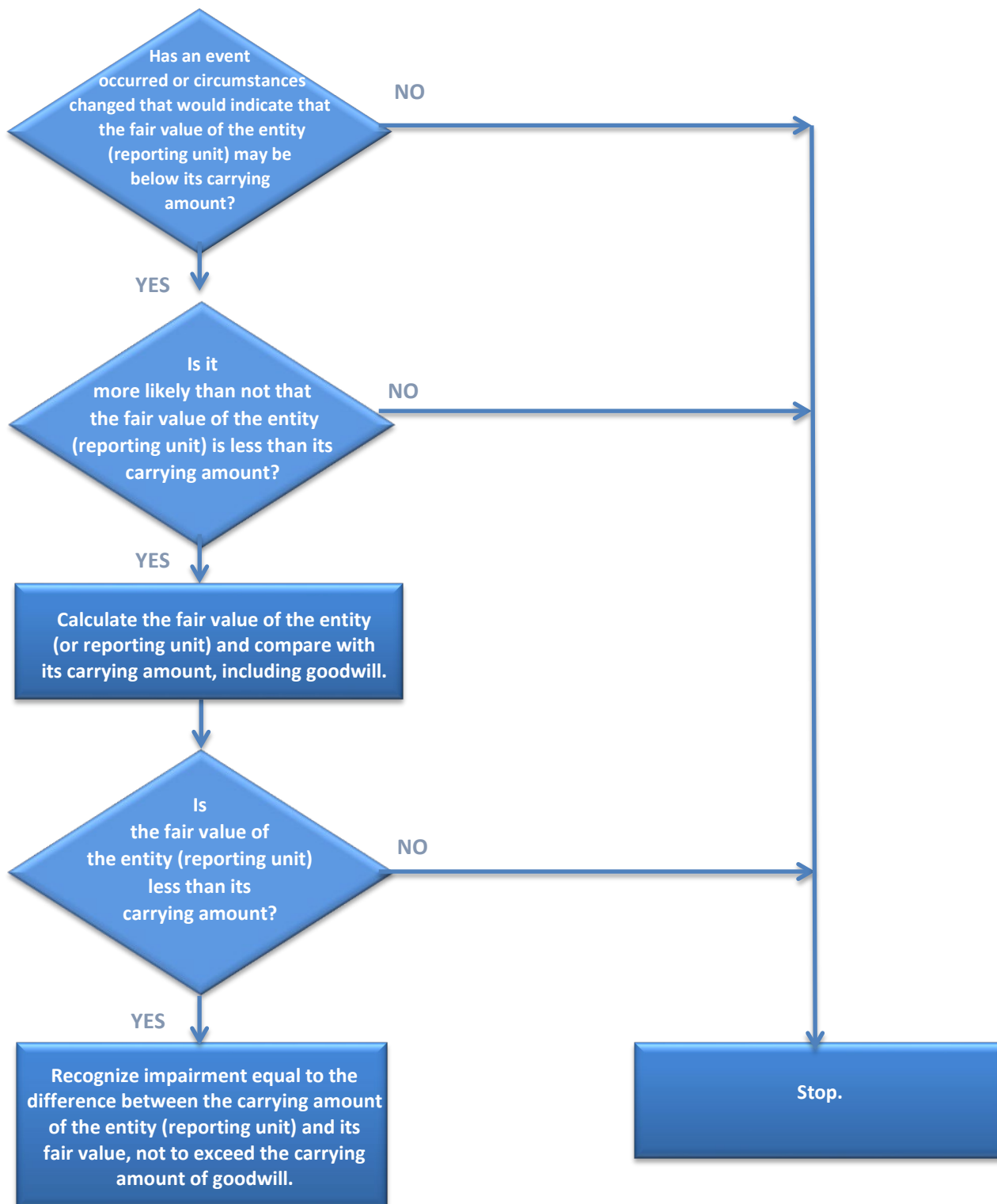
reporting unit, or recognition of a goodwill impairment loss in the financial statements of a subsidiary that is a component of a reporting unit.

A private company that elects this accounting alternative is required to make an accounting policy decision to test goodwill for impairment at either the company level or the reporting unit level. Goodwill would be tested for impairment when a triggering event occurs that indicates that the fair value of an entity (or a reporting unit) may be below its carrying amount. If a quantitative impairment test is required, a one-step impairment test would be performed. The amount of the impairment would be measured by calculating the difference between the carrying amount of the entity (or reporting unit, as applicable) and its fair value. A hypothetical purchase price allocation to isolate the change in goodwill (i.e., step two) would no longer be required.

Observation: If a private company elects to apply the amortization alternative, it is required to apply all aspects of the alternative (i.e., both amortization and the simplified impairment test).

The application of the goodwill amortization accounting alternative is optional, meaning that eligible private companies and NFPs can continue to follow the guidance applicable to public business entities (PBEs) if they so choose.

The following flowchart illustrates the impairment evaluation under the Private Company Council (PCC) alternative.



In 2021, the FASB provided a second accounting alternative that allows private companies and NFPs to assess whether triggering events for goodwill impairment under FASB ASC 350-20 have occurred only as of the end of their annual reporting period, or interim reporting period if they report more frequently (referred to as the goodwill triggering event evaluation accounting alternative). An entity that elects this alternative is not required to monitor for goodwill impairment triggering events during the reporting period but, instead, should evaluate the facts and circumstances as of the end of each reporting period to determine whether a triggering event exists and, if so, whether it is more likely than not that goodwill is impaired. Once again, the application of this accounting alternative is optional, meaning that eligible private companies and NFPs can continue to follow the goodwill impairment guidance applicable to PBEs.

Observation: Eligible entities can elect either the goodwill amortization accounting alternative or the triggering event evaluation accounting alternative, regardless of whether they have elected to apply the other alternative.

Importantly, private companies and NFPs that have adopted the goodwill amortization accounting alternative have different disclosure requirements than PBEs. Section 1 addresses the disclosure requirements for those entities that have adopted the accounting alternatives. Section 2 addresses the disclosure requirements for PBEs and other entities that have not adopted the accounting alternatives.

Section 1: Entities Electing the Accounting Alternatives

Disclosure Requirements

According to FASB ASC 350-20-50-3A, a private company or NFP that elects the accounting alternative for amortizing goodwill must disclose all of the following information in the notes to the financial statements:

- For each period that the reporting entity presents a balance sheet, the entity must disclose the following regarding additions to goodwill:
 - The designated amount of:
 - Total goodwill

- Goodwill for a major business combination, major acquisition by an NFP, or reorganization under which the entity adopts fresh-start reporting
- The period of:
 - Total weighted-average amortization
 - Amortization for a major business combination, major acquisition by an NFP, or reorganization under which the entity adopts fresh-start reporting
- For each period that the reporting entity presents a balance sheet, the entity must disclose certain data as follows:
 - Gross book values of:
 - Goodwill
 - Accumulated amortization of goodwill
 - Accumulated goodwill impairment loss
 - Aggregate goodwill amortization expense for the period
 - Each of the following types of goodwill:
 - Goodwill included in a group of assets for disposal categorized as held for sale
 - Goodwill that the entity derecognized during the reporting period but that had not ever been recognized as part of a group of assets for disposal categorized as held for sale
- For each goodwill impairment loss recorded by the entity, the entity must disclose the following data in the notes to its financial statements that cover the period that the entity recognized each loss:
 - A description of the facts and circumstances surrounding the impairment of goodwill
 - The amount of impairment loss and how the entity determined the fair value of the entity (or reporting unit), such as use of:
 - The prices of similar businesses or nonprofit activities
 - A valuation technique (for example, a present value technique)
 - A combination of both of these

- The line item in the income statement or statement of activities that contains the impairment loss
- The manner in which the entity apportions the impairment loss to each amortizable unit of goodwill

In addition, a private company or NFP that elects the accounting alternative for evaluating goodwill impairment triggering events must disclose the election as a significant accounting policy per the requirements of FASB ASC 235, *Notes to Financial Statements*.

Observation: FASB ASC 820, *Fair Value Measurement*, generally requires disclosure of quantitative information regarding significant unobservable inputs. However, a private company or NFP is not required to make these disclosures for goodwill after the goodwill is initially recognized as part of a business combination or an acquisition by an NFP.

Financial Statement Presentation

FASB ASC 350-20-45-1 requires that the aggregate amount of goodwill (net of accumulated amortization and any impairment) be presented as a separate line item in the balance sheet.

Goodwill amortization and impairment losses are required to be presented in the income statement before the subtotal “income from continuing operations” (or similar caption) unless the amortization or a goodwill impairment loss is associated with a discontinued operation. The amortization and impairment of goodwill associated with a discontinued operation should be included within the results of discontinued operations.

According to FASB ASC 350-20-45-3, any portion of goodwill assigned to a business or nonprofit activity that has been disposed of should be recognized as part of the gain or loss on disposal of those assets and not with other goodwill impairment losses.

Section 2: All Other Entities

Disclosures about Changes in Carrying Amounts

FASB ASC 350-20-50-1 provides the disclosure requirements related to changes in the carrying amounts of goodwill. According to that guidance, a reporting entity must disclose any changes to the carrying amount of goodwill from the beginning of the reporting period

to the end of the period. Further, each of the following categories should be reported separately:

- The gross carrying amount of goodwill as of the beginning of the period and the accumulated goodwill impairment losses as of the beginning of the period
- Additions for new amounts of goodwill recognized, with an exception for goodwill in a disposal group that, at the time of acquisition, satisfies the conditions for classification as held for sale
- Changes related to deferred tax assets recognized pursuant to the guidance in FASB ASC 805, *Business Combinations*
- The amount of goodwill in a disposal group that, at the time of acquisition, can be classified as held for sale and the amount of goodwill derecognized that had not been accounted for as part of a disposal group classified as held for sale
- Decreases for impairment losses recognized according to the requirements of FASB ASC 350-20
- Increases or decreases for the net effects of foreign exchange differences as prescribed by FASB ASC 830, *Foreign Currency Matters*
- Other changes to the carrying amounts of recognized goodwill that occurred during the period and are not included in this list
- The gross carrying amount of goodwill as of the end of the period and the accumulated goodwill impairment losses as of the end of the period

An entity may have a reporting unit with a zero or negative carrying value of net assets. If this reporting unit has goodwill allocated to it, according to FASB ASC 350-20-50-1A, that fact must be disclosed along with:

- The amount of allocated goodwill
- Which reportable segment contains the reporting unit

The following is an example of this disclosure requirement from Caesars Entertainment Corporation.

Note 7—Goodwill and Other Intangible Assets

\$405 million of goodwill is associated with a reporting unit with zero or negative carrying value.

As the reporting unit has a positive fair value, there was no impairment associated with this reporting unit.

Disclosures for Goodwill Impairment Losses

According to FASB ASC 350-20-50-2, a reporting entity must provide the following information for every goodwill impairment loss that occurs during the reporting period. This information must be disclosed in the notes to the financial statements that are issued for the same period in which the losses are recognized:

- Facts and circumstances contributing to the goodwill impairment loss
- Amount of the goodwill impairment loss, as well as the approach for establishing the fair value of the reporting unit; possible methods include:
 - Quoted market prices of the reporting unit
 - Prices of a business or NFP comparable to the reporting unit
 - Present value calculations or other valuation techniques applied to the performance measures of the reporting entity
 - A combination of these methods

The following table provides examples of disclosures made by public companies about the facts and circumstances contributing to a goodwill impairment loss. The level of detail that an entity uses for this disclosure may depend, in part, on the significance of the impairment to the entity's financial statements.

Company	Excerpt from SEC Filing
Bristow Group Inc.	Loss on impairment included goodwill impairment charges of \$8.7 million for the three and nine months ended December 31, 2016 (...) The goodwill impairment charges related to Eastern Airways and resulted from an overall reduction in expected operating results due to the downturn in the oil and gas market driven by reduced crude oil prices[.]
Sonoco Products Company	During the Company's annual goodwill impairment testing conducted during the third quarter of 2016, management concluded that goodwill associated with the Company's Paper and Industrial Converted Products—Brazil reporting unit had become impaired as a result of the continued deterioration of economic conditions in Brazil. Accordingly, an impairment charge totaling \$2,617, the entire amount of goodwill associated with this reporting unit, was recognized during the third quarter of 2016.
Mesa Laboratories Inc.	During the nine months ended December 31, 2017, revenues in our Cold Chain Packaging reporting segment decreased significantly as compared to the same period in the prior year primarily due to a significant decrease in revenues from our largest customer and the loss of the business of one of our larger customers. During the three months ended December 31, 2017 we completed a detailed review of the cold chain packaging business and concluded that long and difficult sales-cycles associated with this product set, when coupled with higher than previously contemplated costs for operating and expanding the necessary infrastructure to support revenues growth have resulted in a forecast of lower than expected revenues, gross margin percentages and overall profitability as compared to our original model for this business. Based on these facts, we concluded that we had a triggering event requiring assessment of impairment for certain of our long-lived assets associated with the Cold Chain Packaging reporting segment. As a result, we reviewed the long-lived assets associated with this reporting segment and recorded a \$13,819,000 impairment charge related to goodwill, which is included in impairment loss on goodwill on the accompanying condensed consolidated statements of operations for the three and nine months ended December 31, 2017. The impairment loss was measured using a market approach utilizing an EBITA multiple model. The remaining goodwill and intangible assets associated with this segment are \$1,434,000 and \$4,340,000, respectively as of December 31, 2017.

Observation: FASB ASC 820 generally requires disclosure of quantitative information regarding significant unobservable inputs. However, a reporting entity is not required to make these disclosures for goodwill after the goodwill is initially recognized as part of a business combination or an acquisition by an NFP entity, according to FASB ASC 350-20-50-3.

Financial Statement Presentation

FASB ASC 350 requires that the aggregate amount of goodwill be presented as a separate line item in the balance sheet. FASB ASC 350-30-45-1 also requires that, at a minimum, the aggregate balance of intangible assets (excluding goodwill) be shown as a separate line item on the balance sheet.

Goodwill impairment losses should be presented as a separate line item in the income statement before the subtotal “income from continuing operations” (or similar caption) unless a goodwill impairment loss is associated with a discontinued operation. According to FASB ASC 350-20-45-3, a goodwill impairment loss associated with a discontinued operation should be included within the results of discontinued operations. Any portion of goodwill assigned to net assets that represent a business disposed of should be recognized as part of the gain or loss on disposal of those assets and not with other goodwill impairment losses.

GROUP STUDY MATERIALS

A. Discussion Problems

1. Briefly describe the two accounting alternatives available to private companies and not-for-profit (NFP) organizations under U.S. GAAP related to subsequent accounting for goodwill.
2. Explain the financial statement presentation requirements for goodwill.
3. Discuss the difference in disclosure requirements related to goodwill impairment for entities that have elected the accounting alternatives versus all other entities.

B. Suggested Answers to Discussion Problems

1. The first accounting alternative, among other things, allows private companies and NFPs to amortize goodwill acquired in a business combination or in an acquisition by an NFP and to use a simplified one-step impairment test (referred to as the goodwill amortization accounting alternative). The application of the goodwill amortization accounting alternative is optional, meaning that eligible private companies and NFPs can continue to follow the guidance applicable to public business entities (PBEs) if they so choose. In 2021, the FASB provided a second accounting alternative that allows private companies and NFPs to assess whether triggering events for goodwill impairment under FASB ASC 350-20 have occurred only as of the end of their annual reporting period, or interim reporting period if they report more frequently (referred to as the goodwill triggering event evaluation accounting alternative). Once again, the application of this accounting alternative is optional, meaning that eligible private companies and NFPs can continue to follow the goodwill impairment guidance applicable to PBEs.
2. FASB ASC 350-20-45-1 requires that the aggregate amount of goodwill (net of accumulated amortization and any impairment) be presented as a separate line item in the balance sheet. Goodwill amortization and impairment losses are required to be presented in the income statement before the subtotal “income from continuing operations” (or similar caption) unless the amortization or a goodwill impairment loss is associated with a discontinued operation. The amortization and impairment of goodwill associated with a discontinued operation should be included within the results of discontinued operations.
3. For each goodwill impairment loss recorded by an entity that has elected the accounting alternatives, the entity must disclose the following data in the notes to its financial statements that cover the period that the entity recognized each loss:
 - A description of the facts and circumstances surrounding the impairment of goodwill
 - The amount of impairment loss and how the entity determined the fair value of the entity (or reporting unit)

- The line item in the income statement or statement of activities that contains the impairment loss
- The manner in which the entity apportions the impairment loss to each amortizable unit of goodwill

All other entities must provide the following information for every goodwill impairment loss that occurs during the reporting period. This information must be disclosed in the notes to the financial statements that are issued for the same period in which the losses are recognized:

- Facts and circumstances contributing to the goodwill impairment loss
- Amount of the goodwill impairment loss, as well as the approach for establishing the fair value of the reporting unit

PART 2. AUDITING

Recent PCAOB and SEC Sanction or Enforcement Activity

The Public Company Accounting Oversight Board, or PCAOB, was created as part of the Sarbanes-Oxley legislation to oversee the audits of public entities. It also oversees auditors' compliance with provisions of the securities laws relating to auditing, professional standards, and PCAOB and SEC rules. Strengthening enforcement is one of the four key goals that the Board has identified in its strategic plan. To advance this goal, the Board in 2022 increased average penalties, pursued enforcement actions involving certain types of violations for the first time, and has taken steps to proactively seek out wrongdoing by increasing the use of sweeps against firms where there may be a violation of PCAOB standards or rules.

For more on recent activity from the PCAOB and SEC on enforcement of the guidance, let's join Jennifer F. Louis, a CPA with Emergent Solutions Group, LLC, and CPE Network's Debi Grove Casey.

Ms. Grove Casey

Today we want to talk about some recent PCAOB and SEC sanctions or enforcement actions. To begin with, what general role does the PCAOB play in sanctions or enforcement actions against CPAs?

Ms. Louis

The PCAOB was created by Congress to oversee the audits of these public companies. The overarching goal is to make sure that there's informative and accurate information being provided through these audited financial statements. The goal is to protect investors [and] further the public's interest. So, as they look at compliance, they are looking at compliance with certain auditing professional standards, but also other types of PCAOB/SEC rules and, broader based, making sure that there's compliance with certain provisions of our securities laws.

The enforcement activity is one of the key goals that was established, and strategically the PCAOB has been looking at ways to strengthen their enforcement activity. And so, what they've done—for example, in 2022, you saw an increase in the penalties that are being assessed. You saw enforcement of certain types of violations, perhaps for the first time. There also was a more proactive approach to seek out wrongdoing as they were doing some of these investigations that existed. So, [the] PCAOB is allowed to impose sanctions. It could be monetary penalties; it could be censure. It could limit a firm or an individual's ability to be a part of an audit of a public company or a broker-dealer. And that's important as they're now satisfying their overall mission that was originally established.

Ms. Grove Casey

Can a firm be sanctioned for matters such as improper completion of the Form AP that provides information about what audit firms participated on an audit of an SEC filer?

Ms. Louis

Yes, they can. So, that's not even a part of the actual audit, right? It's not a part of the audit report. But there's this form that has to be publicly available to let people know what percentage was actually audited by this firm that's signing the report, what did they dole out, and who did they dole it out to? So, there can be sanctions.

In October of 2022, the PCAOB actually announced settlement of a sanction against four different audit firms for failing to file the required Form AP and disclose who did the specific audits for the firms and what other firms there were, to what percentage, to what degree. Ultimately, they just did a sweeping look at these Forms, and they collected information on violations from a number of firms at the same time. That's why four firms, ultimately, were caught up in this process. Even though those firms did end up filing the Form AP once they knew that they hadn't filed it correctly, the PCAOB still took action where there [were] some censures involved. There [were] some civil monetary penalties that were involved, and also the firms involved had to agree to make certain changes in their policies and procedures to make sure that there's future compliance with the PCAOB's reporting requirements associated with this Form AP.

Ms. Grove Casey

Does lack of cooperation and transparency with PCAOB ever result in an enforcement action by the board?

Ms. Louis

There can be sanctions for a firm or an audit partner in a firm for not cooperating with a board inspection. In September 2022, for example, there was a disciplinary order that sanctioned a registered public accounting firm and its managing partner or owner for violations of the rules and standards related to a PCAOB inspection from, say, a 2019 audit. What they found, as far as this non-cooperation, is that the engagement partner failed to assemble a final set of audit documentation for the audit in violation of audit standards. Instead, the partner and others under the partner's direction went and created workpapers. They were backdating, adding, or altering workpapers months after the deadline for when you had the document lockdown date where I was supposed to have a final set of documentation. In advance of the board inspection, they were going and creating these workpapers, and they didn't disclose to the PCAOB inspectors that they had gone through that process. They were trying to hide it, and so that was deemed non-cooperation. Ultimately, the partner is now permanently barred from being associated with a PCAOB registered accounting firm, and they permanently revoked the firm's registration to be able to be a firm that does work for these SEC filers. Then there [were] some monetary penalties that also were put forth against them in this situation.

Ms. Grove Casey

Well, I think I know the answer to this question already, but can a firm be sanctioned for not properly supervising the work of another auditor?

Ms. Louis

Absolutely. As we think about using the work of others outside of the engagement team, outside of the firm, what can happen is, there, ultimately, were some sanctions for a firm and two partners who improperly used [an] unregistered firm and improperly failed to report the use of this unregistered firm. This was against a large audit firm, and the engagement partner and the engagement quality review partner both received sanctions, because of the fact that they weren't complying with the rules as they failed to properly

report the participation of an unregistered accounting firm in the audits that were done. And in looking at these audits that were completed over multiple years—it was a three-year timeframe that this audit firm used this unregistered firm in a substantial role, which would've required the unregistered firm to actually be registered. Because the extent [to which they were used], they couldn't be unregistered. As a result, the firm and the partner failed to reasonably supervise this firm and comply with PCAOB registration requirements.

Ms. Grove Casey

What if the audit firm tries to manipulate documentation to inaccurately report information in the Form AP? That sounds like a violation to me.

Ms. Louis

Absolutely. If you're trying to manipulate your Form AP because I might have a firm that is substantially involved and should be registered, and I'm trying to make them look like they're not substantially involved, so they could be unregistered and still be appropriate. In this case that I just talked about with this large firm, they went through and reduced the recorded hours of this unregistered firm by 77% to downward adjust the hours so that they didn't exceed the guidelines to say it's now a substantial threshold. And they got caught in doing that. As a result then, it's not just that you weren't properly supervising them. You were actually participating in purposely misleading in this form about whether that firm should have gone through and had its own separate registration because of the substance of the work that was being done on these audits.

Ms. Grove Casey

Transparency is not just for clients. So, let's talk about what the resulting penalties were in this specific instance.

Ms. Louis

There was a \$200,000 civil penalty that was put against this large firm, and it also required the firm to review and make improvements to its quality control policies and procedures. There also was a \$50,000 civil monetary penalty on the engagement partner, and [the PCAOB] barred the partner from being associated with a registered public accounting firm. They ultimately said that the person could petition that after a two-year period, but for at least two years you're not going to be

allowed to be involved. They ultimately did take into account the financial resources of this engagement partner. The fine was originally going to be a \$100,000; they reduced it to \$50,000. But they also had a \$25,000 penalty on the engagement quality control review partner and suspended him from being associated with a registered public accounting firm for a year.

Ms. Grove Casey

Are there other examples of when a firm is sanctioned for failure to comply with required quality control standards?

Ms. Louis

There are other examples as we think about inappropriate quality control policies, improperly altering workpapers, [or] failing to, perhaps, take required steps after learning that certain audit procedures may not have been performed properly. So, there are procedures to follow if you discover that we omitted something we should have done, and there needs to be transparency in the fact that we identified it through our own internal monitoring and what steps did we take in going back and doing the procedures.

But what happens sometimes is that firms will try to just alter the workpapers to make it seem like they didn't have the issue. Rather than being transparent about it—here's what we found, here's what we did to correct it—they try to hide it. And if the PCAOB inspection finds that, then there [are] going to be penalties that will be against the firm for not having a good system of control to keep that from happening, but also against the individuals that are involved. Typically, it is going to be the partner. It sometimes is also the engagement quality reviewer that might have civil penalties and restrictions in their ability to participate on audits or be a part of a PCAOB registered firm.

Ms. Grove Casey

That tone at the top thing. It seems that altering audit documentation is never a good idea, following that whole honesty is the best policy kind of thing. So, how do you think that fact impacted this particular case? The fact that they were hiding it.

Ms. Louis

It goes to the integrity of the process. Ultimately, that's where the PCAOB got upset because their mission as a board is to improve audit quality and protect investors.

They're expecting that firms will take their obligations seriously to ensure that there is a robust system of quality control that would prevent or detect things like inappropriately altering audit documentation from occurring. And so that is important. And what they found, ultimately, is that even if they found that there wasn't sufficient appropriate work, you need to just identify it; take timely steps; perform the procedures that might have been omitted; [and] make sure that, in the end, would it have changed my conclusions at all.

What had occurred in this case is that a firm, a component auditor had inappropriately used the prior year A/R workpapers to support conclusions of the current year audit. So, all the workpapers were from the year prior, and they needed to go and actually audit the current year. That's a pretty sizable consequential omission that occurred. Once they did the work, it's not that they had to change their opinion, but I needed to go and actually do the work for me to be able to support that.

Ms. Grove Casey

So, I know, sometimes with the SEC, if an entity is more proactive in coming forward and reporting certain things, the penalties and the sanctions can be a little bit, shall we say, reduced. Is that the case with PCAOB? Can cooperation with a PCAOB investigation be rewarded in the end, or does it really not matter?

Ms. Louis

No, it does, as they're trying to determine the civil penalties. Are you just going to be suspended, or are you going to be permanently barred? And for how long, and can you reapply to get reinstated? All those decisions are subjective on the part of the PCAOB inspectors, and certainly they will take that into account. The level of cooperation and assistance that you're providing will be beneficial.

Ms. Grove Casey

Are there other examples of where false documentation was created in advance of a PCAOB inspection?

Ms. Louis

Yes, there [are] a variety of cases related to it. What they found in one particular case from June of 2022 is that there were two different audits that were being done. They found that [in] both audits of Entity A and Entity B, that the CPA failed to perform certain required procedures. [They] also found that—many

months after they issued these financials—in advance of PCAOB inspection, they went back and also backdated audit documentation. [They] also falsely indicated that these had been through engagement quality review. So, the engagement quality review wasn't done prior to releasing these reports. They [had] not just altered the workpapers, they altered the documentation of the engagement quality review to make it seem like it happened in compliance with PCAOB rules. And [it] also was discovered that this wasn't truthful and accurate documentation around what occurred.

Ms. Grove Casey

How was this specific case settled?

Ms. Louis

In this case, ultimately, the CPA settled with the PCAOB without admitting or denying the findings. And the CPA consented to being barred from being associated with the registered public accounting firm, with the right to petition that in two years, [and] also [to have] limited involvement with any type of audit of a public company or SEC registered broker-dealer. And [the PCAOB] imposed some similar penalties. But what was also different about this situation is requiring 25 hours of continuing CPE related to PCAOB audit standards. So, it's interesting in this case that there was this continuing education requirement that also was added into what [the CPA] agreed to do related to this disciplinary order that existed.

Ms. Grove Casey

We talked about how it's not just the individuals within the firm, but that the firm has to be registered in order to perform a PCAOB audit. Are sole practitioners subject to PCAOB sanctions?

Ms. Louis

Absolutely. I can have a sole shareholder of a registered accounting firm, and there can be sanctions that are taken against the firm, even though there's only one member, as well as the sole shareholder as an individual. So, there still can be sanctions against the individual and sanctions against the firm simultaneously.

What had happened in this case is—because there was just one sole shareholder—the sole shareholder acted as the engagement partner, and then, simultaneously was the engagement quality reviewer. You can't be both

underneath PCAOB standards, so that was a violation of the rules. And this happened for three different engagements. They felt then that, as they looked at what should be done against the firm and what should be done with the shareholder, they still separately had sanctions against each.

Ms. Grove Casey

Does there sometimes appear to be a pattern when it comes to violations? For example, if you have quality control issues in one audit, are you more likely to have issues with other audits as well? It would seem like if you've got a quality control issue, it might be pervasive.

Ms. Louis

It might be. And that's the risk, that if the PCAOB finds issues with one, they'll go back and look, perhaps, at other financial statements that were issued for that same entity. But they also may look at—for that engagement partner or for that engagement quality reviewer, they may extend out and say, "Well, what other engagements are you in charge of? And are there quality control issues there?"

For example, they might have found that in one case there was an audit director that was found to have violated rules, and that director was the engagement partner. With it they found multiple different companies—three different companies—and multiple years within those companies that they failed to comply in those multiple instances, including (1) making sure that they properly got evidence related to some areas like revenue that were considered higher risk areas, (2) not exercising due professional care, and (3) not getting sufficient and appropriate evidence because they found that that partner didn't really know what they were doing. They found that, as they broadened out their investigation, it resulted in multiple repeated violations that led to having an effect on the sanctions that were taken in those circumstances.

Ms. Grove Casey

Really the inspections are just like—I don't want to say any other audit, but your population is the number of audits they've done. So, when they pick the sample and your sample has an anomaly, then they have to go and broaden the search because it may not be representative or it may be representative.

Ms. Louis

Exactly.

Ms. Grove Casey

So that's all they're trying to determine there. But the PCAOB is not the only regulatory body that has enforcement authority. Let's talk a little bit about the role the SEC plays in complementing the PCAOB's efforts. Because the PCAOB is, kind of, the audit side, where I think of the SEC as being the accounting side.

Ms. Louis

And that's a fair reflection. The SEC has a Division of Enforcement that does look at investigating possible violations of federal security laws, but also to litigate any civil enforcement proceedings, any administrative proceedings that that might exist. There are steps they can take of imposing fines, but also there can be legal consequences like imprisonment for contempt as they are looking at their enforcement. They can suspend people from acting as an officer of a public company. They can bring a variety of administrative proceedings in the end. It is focused on the regulated entities and their employees, but there also can be others that could be affected in revoking or suspending your registration or barring you from employment or ceasing and desisting certain parties to be involved with these SEC-regulated organizations.

Ms. Grove Casey

Can the SEC also take direct enforcement action against audit firms and the auditors involved?

Ms. Louis

They can. There is an example from September of 2022 where the SEC settled some charges against two different audit firms and four partners for their improper professional conduct in connection with an audit of an open-ended mutual fund. This mutual fund was actually used to perpetrate a fraud scheme, and according to the SEC, the auditors failed to meet their audit standards in doing a proper audit of this open-ended mutual fund. Therefore, they felt that that contributed to the fraud.

Ms. Grove Casey

So, how was this case settled with the audit firm and the auditors involved?

Ms. Louis

The four partners involved—ultimately, they (the SEC) were saying that [the partners] are denied the privilege

of appearing or practicing before the Commission as accountants, and they could look for reinstatement over a designated period of time. But [the SEC] could look at limiting your ability to be involved in these SEC-regulated entities as the accountant. They also might have censure and agreements to provide improvements in the firm's audit procedures and the firm's oversight. But also, what they may use this as a mechanism for is to enforce cooperation as they're now investigating this fraud. So, their level of cooperation ultimately could affect what the final outcome is in the end.

Ms. Grove Casey

Doesn't the SEC also take action against the actual fraud perpetrators?

Ms. Louis

In this particular case, they brought a civil fraud case against various participants in this fraud scheme that did result in \$77 million being returned from this mutual fund back to the harmed investors. Certainly part of the process is to try and take necessary corrective action with these defendants that have violated these anti-fraud provisions in these federal security laws. Ultimately, you can freeze assets, right? And you can take other action in order to disgorge any enrichment that these defendants could have had as they look at this particular judgment. Then, underneath individual rules, there could be a permanent barring of an individual [from] participating in a future securities offering. Not just what do you have to disgorge or pay back, but also your ongoing future ability to participate with registered companies.

Ms. Grove Casey

Do you have an example of an SEC enforcement action that was related to a specific accounting or reporting issue, such as improper revenue recognition?

Ms. Louis

There was one specific [case] that dealt with some cease and desist proceedings that were made against certain audit professionals in a registered public accounting firm. The defendants in this case, on multiple audits, indicated that they failed to follow professional standards. And what had occurred is that, as they were looking at how the company, the SEC filer, accounted for revenue from bill and hold sales, the company was relying on the conclusion that the audit firm made as it relates to whether or not these bill and

hold sales met all the necessary criteria for them to go ahead and recognize them as revenue. So, recognizing the revenue versus deferring it. And during the course of the audit, the auditors unreasonably failed to identify that their policy, their procedure was not consistent with the applicable financial reporting framework—FASB GAAP, in this case.

Ms. Grove Casey

So, specifically, why were the auditors investigated in this case as opposed to more accountability being placed on the actual company that had a financial statement misstatement? I think you mentioned that the company had relied on the valuation of the auditors, maybe. Was that part of the reasoning there?

Ms. Louis

Yes, as they're looking at this, what had happened is that while they knew that there may be an issue, the auditors concluded that these revenue misstatements were immaterial and said, "Well, even though we know you're not doing something right, you don't need to restate and reissue your financials because it's not material." But this conclusion was unreasonable based on the faulty estimates that were being made of the effect and qualitative factors that should have been involved as it relates to these estimates.

What would've occurred then is that clearly revenue significantly exceeded quantitative audit materiality levels that the firm had identified previously. So, saying that even though it's quantitatively material, it's not qualitatively material, and, therefore, we're not going to make you restate,—the company was like, "Okay, we're not going to do that then."

Ms. Grove Casey

Can the SEC charge an audit firm with improper professional conduct separate from the PCAOB?

Ms. Louis

Yes, and we've seen that in a couple [of] examples that we've talked about. The firm can actually have monetary penalties and other charges against them from the SEC, and then, separately you can have some enforcement or some effect from the PCAOB's side as well. Part of it could be like in one example where there was a firm that failed to detect numerous related party transactions, and so those related party transactions went undisclosed. Therefore, the company was

repeatedly filing materially inaccurate information because it wasn't fully disclosing these related party transactions. The SEC's order found that it was the audit firm that really failed to get sufficient and appropriate evidence. They failed to recognize that there were these red flags indicating that there might be some undisclosed related parties. Therefore, [the SEC was] holding the audit firm accountable in the end [for] the fact that [the firm] didn't have adequate quality control procedures in place to make sure that there [were] adequate procedures done in this higher risk area.

Ms. Grove Casey

What was the penalty or punishment levied to settle this case?

Ms. Louis

In this case, the audit firm did end up having to do some training, and they also had to pay some judgements. It ultimately was judgements that were over \$1.5 million that had to be paid to the SEC.

Ms. Grove Casey

Can the SEC charge an auditor with failing to follow generally accepted auditing standards in Regulation A offerings?

Ms. Louis

So, Regulation A audits—those have different rules and standards involved with them. Yet [the SEC] can still take administrative proceedings against something because [Regulation A audits are] still governed by federal security laws. So, as it relates to these Regulation A filings, [the SEC] found that all of the audit reports falsely stated that the audits of this Regulation A filer were fairly stated when they weren't. Part of this was because of independence issues, and the fact that the independence threat where the CPA was preparing the same financial statements that he later audited. That's not something that you can do as it relates to these SEC filers. So, there was some enforcement that was made against that individual.

Ms. Grove Casey

Finally, is SEC enforcement sometimes made against individual CPAs who are not a part of a public accounting firm?

Ms. Louis

Yes, they are. I've focused on some examples where it was CPA firms involved, but you can have an earnings management scheme where a controller does improper accounting practices. Therefore, the SEC can find that you ultimately violated rules and provisions, and there can be enforcement action that could suspend an individual from practicing as just an accountant for an SEC filer.

SUPPLEMENTAL MATERIALS

Recent PCAOB and SEC Sanction or Enforcement Actions

by Jennifer F. Louis, CPA

Focus on PCAOB Sanctions

The Public Company Account Oversight Board (PCAOB) is a nonprofit corporation established by Congress to oversee the audits of public companies in order to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports. The PCAOB also oversees the audits of brokers and dealers, including compliance reports filed pursuant to federal securities laws.

The PCAOB oversees auditors' compliance with the Sarbanes-Oxley Act, provisions of the securities laws relating to auditing, professional standards, and PCAOB and Securities and Exchange Commission (SEC) rules. Strengthening enforcement is one of the four key goals that the Board has identified in its strategic plan. To advance this goal, in 2022, the Board increased average penalties, pursued enforcement actions involving certain types of violations for the first time, and taken steps to proactively seek out wrongdoing by increasing the use of sweeps against firms where there may be a violation of PCAOB standards or rules.

When violations are found, the PCAOB may impose sanctions, including censures, monetary penalties, and limitations on a firm's or an individual's ability to audit public companies or broker-dealers. As required by the Sarbanes-Oxley Act, PCAOB investigations and disciplinary proceedings are confidential and nonpublic.

PCAOB Sanctions Four Audit Firms for Failing to Disclose Who Worked on Audits

On October 4, 2022, the PCAOB announced several settled disciplinary orders sanctioning four audit firms for failing to file required Form APs, which disclose who led specific audits for the firm and whether any other firms were involved in those audits. The violations were found during a sweep, which enables the PCAOB to collect information on potential violations from multiple firms at the same time.

Failure to file Form APs on time is a violation of PCAOB Rule 3211, *Auditor Reporting of Certain Audit*

Participants. All four firms have since filed the Form APs in question, but only after the PCAOB took action.

There were both civil money penalties (ranging from \$20,000 to \$35,000) and censures involved in this action. In addition, each firm consented to undertake remedial measures to establish policies and procedures directed toward ensuring future compliance with PCAOB reporting requirements.

PCAOB Sanctions Firm and Audit Partner for Noncooperation with a Board Inspection

On September 13, 2022, the PCAOB announced a settled disciplinary order sanctioning a registered public accounting firm and its managing partner/owner for violations of PCAOB rules and standards in connection with a 2019 audit and their subsequent failure to cooperate with a PCAOB inspection.

The PCAOB found that the engagement partner failed to assemble a final set of audit documentation for the audit, which was a violation of applicable auditing standards. Instead, the partner and others acting at his direction, improperly altered, added to, and backdated workpapers months after the deadline for assembling a complete and final set of audit documentation and shortly before a Board inspection. The partner and the firm violated PCAOB rules by providing these altered workpapers to the Board's inspectors without disclosing that they had been altered.

The Board censured the firm and the partner, permanently barred the partner from associating with a PCAOB-registered accounting firm, permanently revoked the firm's registration, and imposed a \$50,000 civil money penalty jointly and severally on the firm and partner.

PCAOB Sanctions Audit Firm and Two Partners for Improper Use and Reporting of Unregistered Firm

On August 29, 2022, the PCAOB announced that it had imposed \$275,000 in total monetary penalties and other sanctions against a large audit firm, an engagement partner, and the engagement quality review partner.

The sanctions were based on supervisory failures and violations of PCAOB rules and standards in connection with the use and reported participation of an unregistered accounting firm in performing the 2015, 2016, and 2017 audits of a public company.

The PCAOB found that, in conducting three audits of the public company, the audit firm used an unregistered firm in a substantial role requiring the unregistered firm to have registered with the PCAOB. As a result, the firm and the engagement partner failed to reasonably supervise the unregistered firm so that its participation in the audits complied with PCAOB registration requirements.

Moreover, during the 2017 audit, the parties used a series of unreasonable adjustments to reduce the unregistered firm's recorded hours by 77%. The registered firm relied on the downward-adjusted hours to conclude that the unregistered firm had not exceeded the PCAOB substantial role registration threshold and inaccurately reported on a Form AP filed with the PCAOB that the unregistered firm had incurred only 17% of the total audit hours. As a result, the registered firm failed to accurately report the unregistered firm's participation in the 2017 audit, and the engagement quality review partner failed to exercise due professional care in performing his engagement quality review with respect to that participation.

These violations occurred after the registered firm and the engagement partner were aware that the U.S. Securities and Exchange Commission had opened an investigation concerning use of the unregistered firm during the 2013 and 2014 audits of the same public company. Some of the violations occurred after the SEC issued an enforcement order covering the conduct that occurred in 2013 and 2014.

The PCAOB imposed a \$200,000 civil money penalty on KPMG-South Africa and ordered the firm to review and, if appropriate, improve its quality control policies and procedures. The PCAOB also imposed a \$50,000 civil money penalty on the engagement partner and barred him from associating with a registered public accounting firm, with a right to petition to terminate the bar after two years. His penalty would have been \$100,000, but the PCAOB imposed the lesser penalty based on consideration of his financial resources. Finally, the PCAOB imposed a \$25,000 penalty on the engagement quality review partner and suspended him

from associating with a registered public accounting firm for one year.

PCAOB Sanctions Audit Firm for Violating Quality Control Standards and Two Former Auditors for Noncooperation

On August 16, 2022, the PCAOB announced that it had sanctioned a registered accounting firm for failing to establish and implement appropriate quality control policies and procedures to protect against improper alterations of workpapers. The Board further found that the firm failed to take required steps after learning that certain audit procedures may not have been performed in connection with an audit of a public company.

The PCAOB also sanctioned a former partner and a former director of the firm for improperly altering workpapers and violating auditing standards in connection with the same audit.

The Board imposed a censure and a civil money penalty of \$350,000. It also required the firm to undertake and certify improvements to its system of quality control. The Board also imposed a separate \$50,000 civil money penalty on the former partner and a \$40,000 penalty on the former director. Both have been barred from associating with a PCAOB-registered accounting firm, with the right to petition the Board to lift the bars after three years.

Auditors' improper alteration of audit documentation undermines the integrity of the Board's inspection processes and impedes the Board's mission to improve audit quality and protect investors. Firms must take their obligations seriously to prevent and detect such conduct through a robust system of quality control.

In 2018, while preparing for a PCAOB inspection, the firm learned that an engagement team for the audit of an international component of a U.S. public company had used the prior year's accounts receivable workpapers to support its audit conclusions. However, the firm failed to timely take the steps required by PCAOB auditing standards, including determining if the engagement team had performed sufficient audit procedures, had obtained sufficient evidence, and had reached appropriate conclusions.

The Board also found that, upon discovery of the use of the prior year's workpapers and other issues, the partner and director improperly created additional workpapers

in an effort to mislead the Board's inspection staff about the work performed at the time of the audit. The firm's system of quality control failed to prevent or detect their misconduct.

When ordering the sanctions against the firm, the Board took into account the firm's extraordinary cooperation, specifically the substantial assistance it provided to the PCAOB's investigation and the disciplinary action it took against the former partner and director.

PCAOB Sanctions Engagement Quality Reviewer for Inadequate Reviews and False Documentation Created in Advance of Inspection

On June 22, 2022, the PCAOB announced that it had sanctioned a CPA for violations of PCAOB rules and standards in connection with his engagement quality reviews for audits of Corporation A's financial statements for the period ended April 30, 2017, and Corporation B's financial statements for the period ended November 30, 2017.

The PCAOB found that, in both audits, the CPA failed to perform procedures required by AS 1220, *Engagement Quality Review*. The PCAOB also found that, many months after providing concurring approval of issuance for the audits and in advance of a PCAOB inspection, the CPA violated PCAOB rules and standards when he completed and backdated audit documentation that falsely indicated he had completed all of the procedures required by AS 1220.

Fully compliant engagement quality reviews and the preparation of truthful and accurate documentation are essential to high-quality audits. True to the PCAOB's investor-protection mission, the Board takes violations in these areas very seriously.

After the Board initiated a disciplinary proceeding against him, the CPA settled without admitting or denying the findings. He consented to the terms of the disciplinary order, which did the following:

- Barred him from being associated with a registered public accounting firm, with the right to file a petition for Board consent to associate with a registered firm after two years.
- Limited his activities in connection with audits of public companies or SEC-registered broker-dealers for one year after termination of the bar.

- Imposed a \$30,000 civil money penalty on him.
- Required him to obtain an additional 25 hours of continuing professional education related to PCAOB auditing standards.

Engagement quality reviews serve as an important safeguard against erroneous or insufficiently supported audit opinions, and an auditor who fails to follow AS 1220 deprives investors of that PCAOB-mandated safeguard. Similarly, falsifying the documentation associated with engagement quality reviews undermines the PCAOB's ability to inspect registered firms and report the results to the public.

PCAOB Sanctions Registered Accounting Firm for Violating PCAOB Rules and Standards

On June 22, 2022, the PCAOB announced a settled disciplinary order sanctioning a registered accounting firm and its sole shareholder for violations of PCAOB rules and standards in connection with three audit and attestation engagements of a broker-dealer.

The PCAOB found that the firm repeatedly violated PCAOB rules and standards by failing to obtain an engagement quality review that complied with AS 1220, *Engagement Quality Review*. The sole shareholder acted as the engagement partner on the audits, while simultaneously acting as the engagement quality reviewer. PCAOB standards require an objective engagement quality review by an individual who does not assume any of the responsibilities of the engagement team. As a result, effectively, no engagement quality review was performed for the three audit and attestation engagements.

The PCAOB also found that, as the firm's principal and sole shareholder, he directly and substantially contributed to the firm's violations.

This firm and its sole shareholder flouted the PCAOB's engagement quality review requirements. Obtaining objective and compliant engagement quality reviews serves as a meaningful check on the work performed by engagement teams.

The firm and the sole shareholder settled with the PCAOB without admitting or denying the findings. They consented to a disciplinary order, which revoked the firm's registration with a right to reapply for registration after two years, barred the shareholder from

associating with any registered public accounting firm with a right to petition to terminate the bar after two years, and imposed a \$30,000 civil money penalty jointly and severally on the firm and the shareholder.

PCAOB Sanctions Former Audit Director for Violating PCAOB Rules and Standards in Four Audits of Three Public Companies

On May 24, 2022, the PCAOB announced that it had sanctioned a former audit director for violations of PCAOB rules and standards in connection with the audits of the financial statements of three public companies performed between 2017 and 2019.

The PCAOB found that the audit director violated PCAOB rules and standards while serving as the engagement partner on audits of the 2019 financial statements of Company A, the 2018 financial statements of Company B, and the 2015 and 2016 financial statements of Company C.

The PCAOB found that the audit director failed to comply with PCAOB rules and standards in multiple instances, and those failures occurred in significant-risk or high-risk areas, including revenue and the valuation of intangible assets. The PCAOB determined that he violated PCAOB rules and standards requiring auditors to, among other things, exercise due professional care and professional skepticism, design and implement audit procedures that address the assessed risks of material misstatement, and obtain sufficient appropriate audit evidence supporting the audit opinion.

The investing public relies on PCAOB-registered firms and their personnel to perform their audit responsibilities in accordance with PCAOB regulations and protect the integrity of the capital markets. By repeatedly failing to comply with fundamental PCAOB auditing standards, the director posed a risk to investors, who need high-quality financial statements to inform their decision-making.

The Board barred the director from being associated with a registered public accounting firm, with the right to file a petition for Board consent to associate with a registered firm after two years. The Board also imposed a \$25,000 civil money penalty on him and required that he complete an additional 50 hours of continuing professional education in subjects that are directly

related to the audits of financial statements under PCAOB standards.

Focus on Recent SEC Enforcement

The SEC's Division of Enforcement conducts investigations into possible violations of the federal securities laws and litigates the SEC's civil enforcement proceedings in both the federal courts and in administrative proceedings.

In civil suits, the Commission seeks injunctions, which are orders that prohibit future violations; a person who violates an injunction is subject to fines or imprisonment for contempt. In addition, the Commission often seeks civil money penalties and the disgorgement of illegal profits. In certain circumstances, the Commission also may seek, among other things, a court order barring or suspending individuals from acting as corporate officers or directors.

The Commission can bring a variety of administrative proceedings, which are heard by hearing officers and the Commission. One type of proceeding, a cease-and-desist order, may be instituted against any person who violates the federal securities laws. With respect to regulated entities (e.g., brokers, dealers, and investment advisers) and their employees, the Commission may institute administrative proceedings to, among other things, revoke or suspend registration, or to impose bars or suspensions from employment. In both cease-and-desist proceedings and administrative proceedings against regulated persons, the Commission is authorized, among other things, to order the payment of civil penalties and disgorgement of ill-gotten gains.

SEC Charges Two Audit Firms and Four Partners with Auditing Violations and Improper Professional Conduct

On September 30, 2022, the SEC announced that it had settled charges against two audit firms and four partners for their improper professional conduct in connection with audits of an open-ended mutual fund used to pursue a fraudulent scheme.

According to the SEC's orders, multiple audits failed to comply with certain auditing standards. The auditors failed to meet auditing standards related to due professional care, training and proficiency, audit planning, audit documentation, audit evidence, related-

party transactions, and supervision and review. Additionally, the engagement quality review partner failed to inquire about a number of key documents and issues regarding the transactions. The orders also find that both firms failed to adhere to the PCAOB's quality control standards.

Without admitting or denying the Commission's findings, the respondents consented to the entry of orders finding that they engaged in improper professional conduct pursuant to Section 4C(a)(2) of the Exchange Act and Rule 102(e)(1)(ii) of the Commission's Rules of Practice. The four partners involved consented to the entry of an order that denies them the privilege of appearing or practicing before the Commission as accountants, with a right to request reinstatement after one or two years. One firm consented to the entry of an order that denies it the privilege of appearing or practicing before the Commission as an accountant and agreed to provide continuing cooperation. The other firm consented to a censure and to certain undertakings to improve the firm's audit procedures and oversight, as well as agreeing to provide continuing cooperation.

The SEC brought a civil fraud case against various participants in the fraud scheme that resulted in more than \$77 million being returned to harmed investors. The scheme involved an offshore fund beginning in March 2018, with the initial SEC complaint filed in June 2021.

After promising to invest in U.S. Treasury securities and reverse repurchase agreements, the defendants instead routed fund assets to shell companies under their control as part of uncollateralized sham lending arrangements. The SEC charged specific defendants with violating the antifraud provisions of the federal securities laws, named as relief defendants six companies that received investor assets in furtherance of the scheme, and obtained an asset freeze to safeguard the remaining investor funds.

On January 31, 2022, the district court entered a final consent judgment enjoining Fund A from future violations of Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder and ordering it to pay disgorgement and prejudgment interest of \$111,591,312, which shall be deemed satisfied by the distribution of no less than \$76,944,775 to harmed investors.

On February 25, 2022, the district court entered a consent judgment enjoining one of the individual defendants from future violations of Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, imposing a permanent bar against participating in future securities offerings and ordering him to pay disgorgement and prejudgment interest of \$4,939,733, which shall be deemed satisfied by the distribution of all funds in the accounts of certain relief defendants to harmed investors.

SEC Enforcement—Failure to Detect Material Misstatement Due to Audit Failures

On September 30, 2022, the SEC issued an accounting and auditing enforcement action to initiate cease and desist proceedings against certain audit professionals in a registered public accounting firm.

Between 2015 and 2018, two defendants engaged in improper professional conduct during multiple audits of Company A, which were performed by a registered public accounting firm. In addition, during 2018, another defendant engaged in improper professional conduct in connection with the same audit. The defendants failed to properly conduct audits of Company A's financial statements and internal control over financial reporting. They failed to adhere to PCAOB auditing standards, from planning and supervision of the audit through the evaluation of the audit results and review of related disclosures.

During 2018, the audit team consulted with one of the defendants, who was a partner in the firm's national office, about potential errors in Company A's accounting for revenue from bill-and-hold sales and the potential impact of any error on the financial statements. During this work, the defendant failed to adhere to PCAOB standards.

Company A's financial statements were materially misstated because they included improperly recognized revenue from *bill-and-hold sales*, which are generally a type of transaction that involves a company selling a product to a customer but not delivering the product to the customer until some later date. Bill-and-hold sales need to satisfy several criteria in order for a company to recognize them as revenue (meaning the sales get recorded as revenue in a company's books and records and reported as revenue in a company's financial statements). Audit evidence provided to the audit team during the audits demonstrated that Company A was

violating U.S. generally accepted accounting principles (GAAP) with respect to recognition of revenue in its financial statements from these bill-and-hold sales. The auditors unreasonably failed to comply with PCAOB standards by concluding that Company A's accounting and financial statements conformed with GAAP.

During the course of the audit of Company A's fiscal year 2017 financial statements, the auditors concluded that Company A had improperly recognized revenue in fiscal year 2017 due to a failure to adhere to fixed delivery dates for its bill-and-hold sales, and they presumed that this issue also impacted revenue recognition in each of the preceding three years. The auditors then concluded that revenue misstatements were immaterial and concurred with Company A that it did not need to restate its financial statements. Their conclusion was unreasonable because (1) it was based on faulty estimates and (2) it rested upon the auditors' determination that qualitative factors outweighed the fact that, even under the faulty estimates, Company A's misstatements of revenue significantly exceeded the quantitative audit materiality level that the audit firm had identified for several of the periods in question. In reaching the decision that qualitative factors rendered immaterial the fact that revenue figures for multiple years were misstated, the auditors effectively abandoned the audit team's own prior determination, in each of the years in question, that reported revenue was a key metric of interest to shareholders of Company A. During this analysis, the auditor also violated the applicable PCAOB standards.

SEC Charges Audit Firm for Improper Professional Conduct in Its Audit of Two Public Companies

On September 23, 2022, the SEC charged a registered public accounting firm with improper professional conduct for failing to comply with PCAOB standards while conducting audits of two public companies from 2017 through 2020. The firm has agreed to settle the charges and will pay approximately \$1.5 million in total monetary relief.

According to the SEC's order, in its audit of Company A for fiscal years 2017 through 2020, the firm failed to design and perform audit procedures that would have detected numerous undisclosed related party transactions.

The SEC previously charged Company A with repeatedly filing materially inaccurate financial

statements that failed to fully disclose related party transactions, specifically alleging that Company A engaged in undisclosed transactions with entities that were either controlled by the CEO or owned by the CEO's brother.

The SEC's order finds that the audit firm did not exercise professional skepticism during its review of the workpapers and failed to recognize red flags that indicated undisclosed related parties. The audit firm also failed to obtain sufficient appropriate audit evidence, respond to fraud risks, and perform procedures to identify related party transactions during its audits.

In its audits of another public issuer, according to the SEC's order, the audit firm did not exercise professional skepticism and due professional care and failed to obtain sufficient appropriate audit evidence in connection with multiple transactions and relationships it encountered during its audit of that company. The audit firm also failed to properly audit related party transactions made by that company. In addition, the SEC's order finds that the audit firm failed to design, implement, and monitor an adequate system of quality control, and that it failed to adopt and implement adequate policies and procedures regarding audit documentation.

The order against the audit firm finds that it engaged in improper professional conduct within the meaning of Section 4C(a)(2) of the Securities Exchange Act of 1934 and Rule 102(e) of the SEC's Rules of Practice, and violated Section 10A(a)(2) of the Exchange Act and Rule 2-02(b)(1) of Regulation S-X. Without admitting or denying the SEC's findings, the audit firm agreed to be censured; implement undertakings concerning the training of its staff; and pay disgorgement of \$524,138, pre-judgment interest of \$40,574, and a monetary penalty of \$1,000,000.

Auditor Charged for Multiple Audit Failures

On September 22, 2022, the SEC announced the institution of cease-and-desist and administrative proceedings against a CPA for alleged willful violations of the federal securities laws and alleged multiple failures in auditing the financial statements of two clients, which had made filings under Regulation A with the Commission.

According to the SEC's order, the Division of Enforcement and the Office of the Chief Accountant (OCA) allege that the CPA audited Company A's financial statements for fiscal years 2015 through 2019, and the financial statements for fiscal year 2018 for another commonly controlled company (Company B). The order alleges that all of the audit reports falsely stated that the audits had been conducted in accordance with generally accepted auditing standards (GAAS) when, in fact, they had not.

The Division of Enforcement and OCA allege that the CPA failed to adhere to GAAS in his audits because he failed to satisfy the Commission's independence standards by preparing the very financial statements he later audited for Company A, for fiscal years 2017 through 2019, and for Company B.

The Division of Enforcement and OCA also allege that the CPA engaged in improper professional conduct in all of his audits by failing to comply with GAAS, including by failing to properly plan the audit, failing to (1) prepare adequate documentation, (2) obtain written representations from management, (3) review the filings containing his audit reports, (4) obtain sufficient appropriate audit evidence, and (5) exercise due professional care and professional skepticism.

SEC Charges Industry CPA with Earnings Management Scheme

On August 26, 2022, the SEC announced that it had settled charges against a CPA who is the former controller for Manufacturer A. The CPA engaged in improper accounting practices to increase the company's earnings per share (EPS) and adjusted EPS (a non-GAAP metric) so that it would meet consensus earnings estimates.

The SEC's order finds that, from December 2016 through April 2018, the CPA directed his subordinates to improperly record or omit recording various expense accruals and misclassify certain income from continuing operations and adjusted income from continuing operations, often in violation of generally accepted accounting principles (GAAP). As a result, according to the order, the company's income and adjusted income from continuing operations in its published financial results was inflated for the years ended December 31, 2016, and December 31, 2017, and for certain quarters within that period. The Commission previously announced that it had settled

charges against the company, which restated several periods of financial reporting related to the same misconduct.

The SEC's order finds that the CPA willfully violated Section 17(a)(3) of the Securities Act of 1933 and Section 13(b)(5) Securities Exchange Act of 1934 and Rule 13b2-1 thereunder, and willfully aided and abetted and caused the company's violations of Section 17(a)(2) of the Securities Act and Sections 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act and Rules 12b-20, 13a-1, 13a-11, 13a-13 thereunder.

Without admitting or denying the findings in the SEC's order, the CPA agreed to a cease-and-desist order and a civil penalty of \$100,000. The CPA also agreed to be suspended from appearing and practicing before the SEC as an accountant. The order does not provide the CPA an express right to apply for reinstatement.

GROUP STUDY MATERIALS

A. Discussion Problems

1. Describe the role of the PCAOB in taking action against CPAs who fail to comply with professional and ethical standards.
2. Describe the role of the SEC in taking action against CPAs who fail to comply with professional and ethical standards.
3. Discuss a recent enforcement action taken by the SEC related to earnings management.

B. Suggested Answers to Discussion Problems

1. The PCAOB is a nonprofit corporation established by Congress to oversee the audits of public companies in order to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports. The PCAOB also oversees the audits of brokers and dealers, including compliance reports filed pursuant to federal securities laws.

The PCAOB oversees auditors' compliance with the Sarbanes-Oxley Act, provisions of the securities laws relating to auditing, professional standards, and PCAOB and SEC rules. Strengthening enforcement is one of the four key goals that the Board has identified in its strategic plan. To advance this goal, in 2022, the Board increased average penalties, pursued enforcement actions involving certain types of violations for the first time, and taken steps to proactively seek out wrongdoing by increasing the use of sweeps against firms where there may be a violation of PCAOB standards or rules.

When violations are found, the PCAOB may impose sanctions, including censures, monetary penalties, and limitations on a firm's or an individual's ability to audit public companies or broker-dealers. As required by the Sarbanes-Oxley Act, PCAOB investigations and disciplinary proceedings are confidential and nonpublic.

2. The SEC's Division of Enforcement conducts investigations into possible violations of the federal securities laws and litigates the SEC's civil enforcement proceedings in both the federal courts and administrative proceedings.

In civil suits, the Commission seeks injunctions, which are orders that prohibit future violations; a person who violates an injunction is subject to fines or imprisonment for contempt. In addition, the Commission often seeks civil money penalties and the disgorgement of illegal profits. In certain circumstances, the Commission also may seek, among other things, a court order barring or suspending individuals from acting as corporate officers or directors.

The Commission can bring a variety of administrative proceedings, which are heard by hearing officers and the Commission. One type of

proceeding, a cease-and-desist order, may be instituted against any person who violates the federal securities laws. With respect to regulated entities (e.g., brokers, dealers, and investment advisers) and their employees, the Commission may institute administrative proceedings to, among other things, revoke or suspend registration, or to impose bars or suspensions from employment. In both cease-and-desist proceedings and administrative proceedings against regulated persons, the Commission is authorized, among other things, to order the payment of civil penalties and disgorgement of ill-gotten gains.

3. In one case, a CPA directed his subordinates to improperly record or omit recording various expense accruals and misclassify certain income from continuing operations and adjusted income from continuing operations, often in violation of generally accepted accounting principles (GAAP). As a result, according to the order, the company's income and adjusted income from continuing operations in its published financial results was inflated for the years ended December 31, 2016, and December 31, 2017, and for certain quarters within that period. The Commission previously announced that it had settled charges against the company, which restated several periods of financial reporting related to the same misconduct.

The SEC's order finds that the CPA willfully violated Section 17(a)(3) of the Securities Act of 1933 and Section 13(b)(5) Securities Exchange Act of 1934 and Rule 13b2-1 thereunder, and willfully aided and abetted and caused the company's violations of Section 17(a)(2) of the Securities Act and Sections 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act and Rules 12b-20, 13a-1, 13a-11, 13a-13 thereunder.

PART 3. SMALL BUSINESS

FRF for SMEs

The Big GAAP-Little GAAP debate raged for many years and finally came to a head in late 2011, when the Financial Accounting Foundation created the Private Company Council. In response, the AICPA eventually released the Financial Reporting Framework for Small and Medium Entities, or FRF for SMEs. This framework is a non-GAAP framework for private companies that may find current GAAP to be too complex or costly to implement.

For more on the FRF for SMEs framework and who should use it, let's join Kurt Oestrieher, CPA and a partner with Oestrieher and Company in Alexandria, Louisiana, and CPE Network's Debi Grove Casey.

Ms. Grove Casey

Today we want to talk a little bit about a basis of accounting called Financial Reporting Framework for SMEs. FRF for SMEs is the short term for that. To begin with, why don't you talk a little bit about what that framework is?

Mr. Oestrieher

Well, how much time do you have? Before I tell you what it is, it is almost better to tell you the history of it and how it came about because, by putting it in that perspective, we understand why it is here and why it is so helpful. When I was a very, very young man—so Debi, we are talking about a long, long time ago when I was a young man—I was taking college accounting classes, and I remember . . . Dr. Smith, Dr. Hughes, all of my professors back then, they were talking about this thing called “Big GAAP, Little GAAP.” Anyone my or your age remembers those discussions of Big GAAP, Little GAAP.

Basically, what we are saying is for big companies which, by the way, typically meant publicly traded companies, there maybe should be one set of rules and for little companies, meaning not publicly traded, there should be a different set of accounting rules. Now, let's be fair here: there are some non-public entities that have balance sheets a lot bigger and revenues a lot bigger than some publicly traded companies; and there are some pretty small publicly traded companies. We just use that term because I believe, in general, it is fair to say that publicly traded companies, because they have more access to capital—hence, publicly traded—they do tend to be larger than non-public companies. But the real differentiation between Big GAAP and Little GAAP are the users of the financial statements. For

non-public entities, the stakeholders, which could be potential investors, investors, potential lenders, or lenders, typically have a direct line of communication with management. For public companies, that is just not the case so, of course, there needs to be more information available in the financial statements of publicly traded companies. That is kind of the differentiation, if you will.

This has been there forever between Big GAAP, Little GAAP and this discussion has raged long before I was a young man in accounting classes. My father, who is a CPA, talked about the discussion of Big GAAP, Little GAAP. As with all great conversations, at some point it comes to a head. There is an inflection point where a decision is made to either go forward with it or we come to the realization that it is really never going to happen. In 2012, that is when we had our inflection point on Big GAAP, Little GAAP. There was a groundswell of support through the O'Dell Committee. The Judy O'Dell Committee had recommended it to the FAF. A lot of people forget, Debi, that the FASB answers to the FAF—the Financial Accounting [Foundation] is the umbrella organization. That is the nonprofit that was started as a joint effort with the AICPA and, let's call them representatives of the government, to keep accounting standards as an independent body that was neither a governmental entity nor under the purview of the AICPA. So, that is what the FAF is. Then the FAF created the FASB, the GASB, and the FASAB.

The board of trustees of the FAF, they really had the ability to develop the most widely recognized independent set of standards for a non-public company—if they chose to do so. Understand that they don't get hauled into city committee hearings, they don't answer to the AICPA. Their duty is to come up

with frameworks that provide the most relevant and reliable (relevant is better and useful is a better word) information for users of financial statements.

So, they looked at the recommendation of the O'Dell Committee and determined, You know what? We really don't need to have a different set of rules. Certainly, while the users of financial statements of public versus non-public companies have different uses or different ways they might interpret things, the underlying transactions are the same. In other words, if my small client goes and purchases a certain item or enters into a fixed-pay, variable-receive interest rate swap, and Exxon does the same thing, there are just a whole lot more zeroes behind Exxon's, but the transactions are the same. Or, if my small business client gets into more complex transactions, such as cash flow hedges because they know they are going to be paying a certain amount of fuel on a contract for the next 24 months and want to hedge their exposure to an increase in fuel prices, they may enter into hedges on oil or something. And that is a fairly sophisticated and complex transaction that a private company might get into. So, the FAF said, "We don't need to get a different set of rules because they are going to be the same, because the underlying transactions are the same."

The AICPA fully supported the O'Dell recommendation of having separate reporting. I was actually on Council when this decision was made by the FAF, and the AICPA created—I don't know if you call it a declaration or proclamation or edict or whatever it was—but basically, we asked the FAF to reconsider, and they very politely but firmly said, "No, we made our decision. Why don't you stay in your lane? And next time if you ask us, we are not going to be so polite." Now, that is *not* what [they really] said (understand, there is a level of professionalism there), but it was a very firm rebuke to the AICPA. We listened to you, we value you, but we have made our decision. That was the inflection point. So now, we have been told (we the users, the entire community) that the FAF has determined whether we—whether I—disagree or not, whether the AICPA disagrees or not, that is their role and they have said, "We don't need a separate set of standards."

So, what happens when this happens in life in other areas? If other people perceive that there is a need for something and it is not happening, what do you do? You go create it. And that is what the AICPA did with the Financial Reporting Framework for Small- and

Medium-Sized [Entities]. The AICPA kept hearing from small businesses and users of those financial statements that it would be very useful for us to have a separate set of standards. And, more importantly, when this was done in 2013, we knew that revenue recognition, leases, financial instruments—the big three—we knew all of that was going to be happening, so the AICPA took it upon themselves and created a task force.

I happened to be very fortunate enough to know a couple of members of that task force. Tom Ratcliffe is the member who I knew best and, unfortunately, he passed away a few years ago but, as this was being developed and when we were first lecturing about this, I leaned on Tom and have a lot of emails from Tom that they gave us some insight into the thought process of this task force and what they were doing. So, they came up with it, and so that is what this is.

We are going to get into more detail here but understand, the Financial Reporting Framework for SMEs was developed by the AICPA to fill a need that the FAF—which is their right—determined wasn't necessary. So, that was the genesis, and that is why we have the Financial Reporting Framework for SMEs, and it is developed by the, well, we now have the American Institute of Certified Public Accountants, and we have the Association of International Certified Professional Accountants, which are kind of the same thing, so I will just call it "AICPA."

Ms. Grove Casey

Well, since it was developed by the AICPA, is the FRF for SMEs considered to be GAAP?

Mr. Oestrieher

Not now; it is considered to be a special purpose framework. Now, interestingly enough, if the Professional Ethics Executive Committee of the AICPA ever decided to add this into what we call "Appendix A" and make an authoritative, then it would be considered GAAP. I don't anticipate this happening because that would not be staying on our lane. That would be having a big old truck and seeing the FAF in our rearview mirror, and they are trying to move forward, and we just slam them off the road.

Ms. Grove Casey

Rolled it all back, yes.

Mr. Oestriecher

Yes, and that is something we don't want to do. So I don't anticipate it. Interestingly enough, the AICPA has the power to make this United States GAAP, but they are not going to do that because that would now be usurping the power of the FAF. It is not GAAP; it is considered to be a special purpose framework, so, what does that mean to us? That means that if a client is not under a mandate by a regulatory agency, or a bank, or anybody, to issue GAAP-based financial statements, then this is probably going to be the most appropriate framework for them. However, if they are under some sort of a mandate to issue GAAP-based statements, this framework would not be appropriate for those small businesses.

Ms. Grove Casey

Well, let's talk a little bit about what is an "SME." A lot of times, it is a "subject matter expert," but I don't think that is the case here. So, let's talk about the size of the entity and why that matters.

Mr. Oestriecher

Right, and let's be clear here. This term was not first coined by the AICPA. I first heard of this term in the international realm and unlike the gatekeepers, if you will, of United States GAAP, the International Accounting Standards Board did, in fact, create a separate set of standards for non-public entities. They call that IFRS for SMEs (for small to medium enterprises). Here is the ironic thing. That *is* considered to be GAAP, even in the United States, because the AICPA has designated the IASB as a GAAP standard setter, so it is very, very interesting and not well known—this could be the "Double Jeopardy!" question if we ever had "Jeopardy!" for accountants—that IFRS for SMEs is not United States GAAP, but it is GAAP that is acceptable in the United States of America because the AICPA says so. Now go through that in your mind real quick.

That is where the AICPA, let's say, borrowed the term because it wasn't trademarked, but it was the right thing to do because we don't need to use different terms for the same thing in both the international financial reporting community and in the United States financial reporting community. So, the terms, basically, when you look at both international and the AICPA definition, are not identical, but there are similarities. First of all, it is not a public company, nor is this

appropriate for a company that intends to go public. When you have these hedge funds that are buying up companies and, eventually, they are going to spin them off and either have an IPO or just have another public company acquire them, that is really not appropriate because, at that point, they would need to use United States GAAP.

It doesn't matter what state you are in or what level of involvement, let's call it that, that you want the state governments to get involved. In other words, I can open up a checking account and open up a fruit stand and that is a small to medium enterprise, even though I am not incorporated or I am not an LLC. Now, I think the reality is most people when doing business these days do, in fact, start out as LLCs. Even though some people do incorporate, an LLC is easier but you have to live in a state that allows it. I think most states now have LLCs. I remember when that was a big thing in Louisiana, that we finally had LLCs.

Just a completely random thought here, Debi, but do people still get corporations in Delaware anymore? Because that is where everyone got incorporated in the 1980s.

Ms. Grove Casey

That is where everybody used to get them.

Mr. Oestriecher

But now that we have this ease of formation, is Delaware losing out on all these fees so they start taxing their citizens because they are not getting all these Secretary of State filing fees?

So, it can be incorporated or unincorporated. Now, I used this in the introductory remarks and this is not an absolute but, typically, what you are going to find is that the people who use the financial statements have direct access to management. Now, understand, because this is a special purpose framework, these are just the AICPA's recommendation of the types of entities that should use this; this is how they are defining a small to medium enterprise. So, you cannot look at this internally and say, "Oh, well, there is one investor who is a silent investor who doesn't talk to us; therefore, I can't use it." Well, no, you look at everything in global, if you will. So, these are just more recommendations but, typically, that is what you are going to see. You are going to have that direct access to management.

The fourth criterion that was added in here I thought was very interesting. It said that banking decisions are not made solely on the financial statements. I remember asking Tom Ratcliffe specifically about that criteria because, I said, “A lot of times that is the criteria that people are using,” and he said, “Yes, so what our committee decided is that there are some limitations with this framework.” They don’t address some very complex issues that full-blown U.S. GAAP addresses and, so, if the only thing a user is going to use for credit decisions, if you will, are the financial statements, then maybe U.S. GAAP is more appropriate.

Typically, in the small business world—and I think this is a true statement that Tom made, it is certainly my experience—a lot of times it is the person(s) themselves, it is the individual and their individual credit score and their reputation with the banker, that is going to weigh far more. I know that because banks have talked to me and said, “Look, we have already made the credit decision. I just need a copy of the tax return and financial statements.” So, I think it is appropriate, but I will also—and, again, this is Kurt Oestricher’s caveat—I believe this framework is sufficient so that if the vast majority of the information that the bank is going to rely on is financial statements, I still believe FRF for SMEs is appropriate. And I think it is far more appropriate than the income tax basis of accounting which, quite frankly, that is where some of these people might be coming over from when they are using that FRF for SME.

So, those are just guidelines, but I have never seen, both in the international realm or the United States realm, where they use a certain threshold of either a dollar amount of assets or revenues to define an SME. It is more about who uses the financial statement and availability. That is more important than the size of the assets or the size of the revenue.

Ms. Grove Casey

Well, on that note, let’s talk about who may want to use FRF for SMEs because, certainly, there are some benefits in terms of complexity, and just what the older accountants remember and probably some of the older users, as well.

Mr. Oestricher

Well, that goes right into the timing of this, so I will start off the most obvious. Anyone who got frustrated over the lease standards—which gets into the first

overall bullet point we have—when GAAP just becomes too costly or too complex to implement. And no one from the AICPA has told me this, but I can read through the lines and I know what the expectations of this framework were. I think the AICPA is disappointed that more companies have not adopted. When they rolled this out, they said, “We hear you.” This was not something where the AICPA said, “Gee, let’s put this out there and hope that people use it.” It was more the other way; they kept hearing about the demand so they put it out there but, then, when it got out there, I don’t have a lot of clients who want this or demand this. Of course, they are not going to walk into my office and demand it, but when I talk to them about the option, they [say], “Well, let’s just go income tax basis.” I know that, for a lot of my clients who have GAAP-based statements, when I start talking to them about implementing leases, and we have already started that discussion at this point, that client is going to [say], “Wait, I have to do what?” These are the types of things.

So, potentially, the Current Expected Credit Loss model, that is another thing that is going to take a lot. If you are a financial institution, it takes a lot of time because you are regulated. I have talked to enough practitioners who believe, “Yes, we are just going to use different data points under CECL, but our allowance for doubtful accounts is going to remain the same,” and I think that is a very fair sentiment that many people may have.

As we are implementing these standards, I think that is when we are going to understand, yes, it just became too complex. One of the things that you can do and, again, I think this is going to be driven, and it is being driven, by the CPAs. So, if you have a client who needs compiled GAAP statements, what often happens, if it is an audit or review and we become aware of a GAAP departure, we propose the adjustment or we adjust the disclosure, whatever is necessary, so that now they are in accordance with GAAP. But in a compilation, what do we do? We just say, “Okay, it is okay if you don’t want to accrue deferred taxes, it is okay if you don’t want to accrue an asset retirement obligation,” or whatever the issues are—leases—we can adjust our compilation report or modify our compilation report to disclose the departure, and that is what we do.

Well, folks, if you have a compilation like this and you have five paragraphs describing GAAP departures, and you are about to add a sixth and seventh because of the

lease standard and CECL, now you have to ask yourself, is it better to go to the framework? And here is what you would probably find: you could not take the exact balance sheet and income statement that is presented that has five or six GAAP departures. There would be no adjustments and it would be in conformity with FRF for SMEs because it doesn't have those complex[ities], or it gives you options, like current or deferred taxes. You have an option to present deferred taxes or you can just show current taxes.

I don't want to overstate this, but one of the criticisms that I have heard of FRF for SMEs—and it is not a criticism the framework, but it is a reluctance if you will—is, “Kurt, I don't want to have to learn a whole other set of standards.” You don't have to learn a new set of standards. This framework is about 230 pages long. If you print out United States GAAP, it is 20,000 pages long. So, if you already know United States GAAP, to learn FRF for SMEs all you have to do is forget 19,780 pages worth of stuff—a pretty good deal. In other words, there is nothing in this framework that is different, that is new, that is not already contained in GAAP. It is just, quite frankly, there is a lot of the stuff that I learned in 1985 that they have added on to GAAP since then.

So, those are the types of entities. If you are on the tax basis of accounting because GAAP got too complex, or if you have a lot of GAAP departures. You are working with your client and you want financial statements that reflect economic reality. Your tax bases don't, because you report cash basis and you are expensing everything that you buy. Well, those aren't reflective of economic realities, and you are not accruing your paid time off (PTO) and that is a very real liability.

I can give you a great example, of years ago when a client of mine acquired a company and I was very, very minimally involved, thankfully, because this could have been egg on my face, but it wasn't. They told the client, “Look, these are just income tax basis financial statements. They don't give you all the information,” but eventually, they were happy and they came to a price and acquired the company and toward the closing, the other side, when they were doing their reps and warranties said, “Look, all of my employees are going with you. Do you mind taking whatever accrued paid time off they had?” And my client said, “Fine”—I did not know that at the time, but what had happened then was, not long after the deal closed, a couple of those managers who did not have non-compete [agreements]

went and started their own company and took about half the employees with them. Okay, win some, lose some. But when those people left, my client told the person who started the company, “Well, why don't you take their accrued PTO?” They said, “Nope, you owe them that money.” There was about a quarter of million dollars [owed] there—that is a classic example of where the income tax basis financial statements did not include that \$250,000 liability. My client had never asked how much that might be, or never asked me to see how much it might be, and he took on that obligation because it wasn't reflected in tax basis financials where, even in FRF for SMEs, that is something that would be accrued.

So, that is just—hopefully, to everybody involved here—a great example of the types of information that are used. You don't have to go all the way to U.S. GAAP, but you are going to have a full accrual basis of accounting that will tell you a better story of what has happened within your company, and where you are on a particular date. And, isn't that the purpose of financial reporting?

Ms. Grove Casey

So let's talk a little bit about how the framework is organized.

Mr. Oestrieher

For those who are used to the GAAP Codification, you have the various ASC sections and all that. This is organized by chapter, and it is one chapter per topic. In other words, there is a chapter on receivables, there is a chapter on inventories—I want to say there are 38 total chapters. It has a lot of the same look and feel that we have in U.S. GAAP. In other words, they talk about the conceptual frameworks, they define what are the elements of the financial statements, just not into the great detail that you see in U.S. GAAP.

So, it is not just a set of specific rules. It is a true entire framework, a very simplified framework. And you can, again, just look at the various chapters and in each chapter—maybe for inventory—you would see all the relevant subtopics that you would [expect to] see; it is just not organized that same way. But it is going to talk to you about how do you initially measure inventory? What is your subsequent measurement? What are your disclosure issues? So, it talks about all those specific issues. Then, there are chapters that say here are the elements of the balance sheet, here are the elements of

the income statement, the statement of cash flows and, again, it is all the things that we are used to seeing.

Now, I haven't mentioned this before. Nonprofits probably do not want to use this framework because it doesn't have things like statement of activities and all that. It is designed for for-profit companies; that is part of what an SME is. So, if you are a not-for-profit, stay over in U.S. GAAP, use the industrywide guidance where there is a special section for not-for-profit entities (ASC 958, I think). If you are a governmental entity, no, you use GASB. So, for for-profit companies, they don't have to worry about all the variations that we have with not-for-profits, such as the statement of activities. It just says, hey, these are the elements of the income statement.

Again, I think I mentioned all the disclosures are there, and it is very easy to read. In other words, everything I need to know about property and equipment, intangible assets, inventories, long-term debt—it takes five to eight minutes to read all those chapters. It is there and it is done. By design, they kept the number of words to the absolute minimum that are necessary. There are illustrative examples of what the financial statements look like to help supplement it. We have all seen the commercials with the “easy button.” I cannot tell you how impressed I was with this task force. They kept it as simple as possible, yet addressed the information or addressed the issues necessary so that SMEs can produce financial statements that are useful and designed for their purpose. I think they did that, and the way it is organized in chapters, rather than code sections, helps accomplish that simplicity.

Ms. Grove Casey

So, let's talk about where we can find this guidance.

Mr. Oestrieher

I thought you just did like everything, and you Google it.

Ms. Grove Casey

Well, that is the fast way.

Mr. Oestrieher

Remember when “Google” was not even a verb? You can Google it and probably get there but, actually, the most direct way is go to the AICPA website. Again, that is the entity that sponsored this. Now, they did have a

plan to review this after three years, but they never did because, I guess, they just believed, hey, it works. So, it is still in its original format, which, by the way, to me that is one of the biggest advantages of this is you don't have 20 new standards every year updating the FRF for SMEs. Because when you look at everything that is out there, they are either changing existing guidance that has maybe minimal impact, or they are creating guidance for these new things that [for example], there was an ASU last year that dealt with film studios and things. If you are in a very specific industry and you need all that industry guidance then, please, stay with the GAAP framework; the United States GAAP, I think, is most appropriate.

What is the old saying? Ninety-some percent of statistics are made up on the spot? I believe that is actually a statistic that is made up on the spot, so I am not making up a statistic on the spot. But, based on my experience, I would say about 95 to 98% of all the transactions of my clients are very routine every year. In other words, everything that I learned in “Principles 101” would apply to most of those companies. It is when they do have an early extinguishment of debt, or they get an employee retention credit, and you are wondering, how do I address that? Where is that presented? Those are the types of things, and you always have a few of those.

Well, we have enough wraparound guidance within the FRF for SMEs—or not wraparound, but general guidance—that tells us how to treat these. So, go to the AICPA website. It hasn't been updated in years. If you go to the front (once you are in the AICPA website), if you do a search for “financial reporting framework for small and medium [sized entities], it will take you to a resource section and that is where you can download the framework for free. Just save it on your server. Then, you are going to see, there is an example of a review report, an example compilation report, example financial statements; there are implementation guides, there is a disclosure checklist, and there is actually a PowerPoint presentation that you can use to try to educate, for example, local bankers, and users, and your clients on the benefits of the framework. So the AICPA, that is the key. Don't go to the FASB website; this is an AICPA project. All of the information you will need can be found at the AICPA website.

Financial Reporting Framework for Small to Medium Enterprises

by Kurt Oestrieher, CPA

Introduction

The AICPA published the Financial Reporting Framework for Small and Medium-Sized Entities (FRF for SMEs) in June 2013, and it was reviewed in 2017. This non-GAAP framework was designed for private companies that do not need GAAP-based financial statements, but need a framework that does not have the limitations of income tax or cash basis accounting.

This discussion will introduce you to the framework and guide you through the examples published by the AICPA, as well as a demonstration of how to convert to FRF for SMEs.

Background

The development of the FRF for SMEs was a direct result of the ongoing debate as to whether or not there should be separate reporting standards for privately held companies. The debate came to a head when a Blue Ribbon Panel studied the need for a separate set of standards, and issued their report to the Financial Accounting Federation (FAF) in January 2011. As part of this report, the Blue Ribbon Panel recommended that a separate standard-setting body, independent of the FASB, be established by the FAF for the purpose of developing a separate set of standards for privately held companies. The FAF rejected this proposal and, instead, proposed the creation of the Private Company Standards Improvement Committee (PCSIC). This committee would perform, essentially, the same function as the Private Company Financial Reporting Task Force, the ineffectiveness of which was the reason for the Blue Ribbon Panel's recommendation.

The AICPA Council adopted a resolution at the Fall 2011 council meeting that called for the FAF to reconsider their rejection of the Blue Ribbon Panel recommendation. The resolution further stated that if the FAF did not create a separate and independent standard-setting body for private companies, the AICPA would explore all options, including, but not limited to, the following:

- Designating another independent body as the standard setter for private companies

- Creating a body to serve as an independent standard setter for private companies
- Creating a set of standards using an existing AICPA senior technical committee
- Creating a special purpose framework for private companies

The FAF created the Private Company Council (PCC) to develop GAAP for private companies. The AICPA decided to explore and, ultimately, issue a framework that is considered to be a special purpose framework (non-GAAP) to assist in the development of financial reporting for private companies.

What is an SME?

The proposed framework does not specifically define an SME, but the term was first introduced by the IASB when International Financial Reporting Standards (IFRS) for SMEs was introduced in July 2009. The foreword mentions the following items as characteristics of an SME:

- Non-public companies that do not intend to go public
- Both incorporated and unincorporated entities
- Financial statements are used by third parties that have direct access to management
- Banking decisions are not made solely on the financial statements

Who is Required to Use FRF for SMEs?

Because the task force has no legal or regulatory authority, an entity can only be forced to use FRF for SMEs if the entity voluntarily enters into a contractual agreement with another party to produce financial statements in accordance with the framework. However, this is unlikely to be the case for several years as there will be a learning curve for the banking, insurance, and investing community.

Who May Want to Use FRF for SMEs?

While an entity may not be legally required to use FRF for SMEs, management may decide that this is the best framework for financial reporting, and decide to use it. The following entities are the ones that are most likely to make this determination:

- Entities that have determined that U.S. GAAP is too complex or costly to implement
- Entities that issue only compiled financial statements and have multiple GAAP departures such as (1) not consolidating VIEs, (2) not recording deferred taxes, (3) not measuring certain financial instruments at fair value, and (4) using tax depreciation instead of an acceptable GAAP method
- Entities that are currently using the income tax basis of accounting which does not accurately reflect economic reality, especially when considering accelerated depreciation.

General Issues from the Framework

Qualitative Characteristics of Financial Statements

The task force has determined that the following qualitative characteristics will make the financial statements useful:

- Understandability
- Relevance
- Reliability
- Comparability

These are the same characteristics that can be found in other financial reporting frameworks; however, Chapter 1 of the framework elaborates on each of these issues, emphasizing how they relate to an SME. Obviously, what is relevant to a user of a financial statement who has direct communication with management will differ from a user of financial statements of a public company where an investor does not have direct communication with members of management.

Elements of Financial Statements

Chapter 1 of the framework defines the following elements of financial statements:

- Assets

- Liabilities
- Equity
- Revenue
- Expenses
- Gains
- Losses

There are no surprises in any of these areas, and the definitions are what an experienced preparer and user of a financial statement would expect.

Measurement Issues

Measurement issues (how assets and liabilities are measured) is where the first obvious difference appears from existing U.S. GAAP. The primary measurement basis is *historical cost*. However, in certain limited circumstances, the following measurement bases may be used:

- Replacement cost
- Realizable value
- Present value

It is important to note that the term *fair value* is not used as a measurement basis. While realizable value includes the term *market value*, the definition is not as extensive as in the current Accounting Standards Codification (ASC). The concept of Levels 1, 2, and 3 for fair value measurement do not exist in this framework; thus, disclosure issues when realizable value is used within this framework will be far less extensive than current U.S. GAAP.

Market value is defined in Chapter 1, but the definition reverts back to the pre-FASB 157 days. Market value is defined in FRF for SMEs as “the amount of consideration that would be agreed upon in an arm’s length transaction between knowledgeable, willing parties, who are under no compulsion to act.”

This definition makes sense for the types of entities that would probably use FRF for SMEs because they are not likely to encounter the complex assets and liabilities that require the definition of fair value in the ASC.

Presentation Issues for FRF for SMEs

The framework requires the following financial statements in a complete presentation:

- Balance Sheet
- Statement of Income
- Statement of Changes in Equity
- Statement of Cash Flows

The exact titles shown above are not required to be used, but the user should understand what is being presented, and the title of the financial statements should not be misleading. Note that a Statement of Comprehensive Income or equivalent is not listed. The framework does not recognize comprehensive income, so such a statement is not required. The statement of changes in equity may be presented in the notes to the financial statements instead of as a separate statement. The presentation of a single financial statement is permitted.

Comparative statements are not required, but are encouraged. Specific guidance is presented when there are comparative issues, such as a change in accounting principles. Note that IFRS for SMEs requires comparative financial statements, so many users in the U.S. will see this framework as an advantage over IFRS for SMEs.

Supplementary information may be presented, but is not an integral part of the financial statements. (Audit, review, and compilation standards issued by the AICPA will provide guidance on reporting issues related to supplementary information.)

The Balance Sheet

The guidance for balance sheet presentation is contained in Chapter 4 of the framework. The following items should be distinguished in a classified balance sheet:

- Current assets
- Long-term assets
- Total assets
- Current liabilities
- Long-term liabilities
- Total liabilities

- Equity
- Total liabilities and equity

In addition, the following items should be shown separately. This presentation can be on the face of the financial statement or in the disclosures:

- Cash and cash equivalents
- Trade and other receivables
- Prepaid expenses
- Other financial assets
- Inventories
- Investments in non-consolidated subsidiaries
- Investments using the cost method
- Investments using the equity method
- Investments measured at market value
- Property, plant, and equipment
- Intangible assets
- Assets for current income taxes
- Deferred tax assets and liabilities
- Long-lived assets and other assets held for sale
- Accrued benefit assets
- Main classes of current liabilities
- Liabilities of disposal groups classified as held for sale
- Obligations under capital leases
- Accrued benefit liability
- Long-term debt
- Asset retirement obligations
- Other financial liabilities
- Equity shall be presented within the requirements of Chapter 18

Statement of Income

The guidance for the statement of income is in Chapter 7 of the framework. The statement should distinguish the following:

- Income or loss before discontinued operations

- Results of discontinued operations
- Net income or loss for the period

In arriving at income or loss before discontinued operations, the following major elements should be presented:

- Revenue
- Cost of goods sold
- Operating expenses
- Other revenues and gains
- Other expenses and losses

In addition, the following items should be separately disclosed on the face of the statement of income or in the notes to the financial statements:

- Revenue recognized
- Income from investments
- Depreciation and amortization
- Impairment losses
- Foreign currency exchange gains and losses
- Infrequent gains and losses
- Income taxes

Note that the concept of extraordinary items does not exist within this framework.

Statement of Cash Flows

The guidance for presenting a Statement of Cash Flows is contained in Chapter 8 of the framework. This chapter also contains the definition of a cash equivalent, which is different than in U.S. GAAP.

Cash Equivalent

Cash equivalents are defined as “short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.” The framework also states that an investment normally qualifies as a cash equivalent only when it has a short maturity of three months or less from the date of acquisition. While this language is more restrictive than what was contained in the exposure draft, there is still no absolute requirement that the maturity be three months or less from date of acquisition.

Because the definition does not absolutely require a three-month maturity date, many financial instruments, such as CDs and Treasury notes, that would be classified as investments under U.S. GAAP may be considered a cash equivalent under this framework. Not only does that simplify the Statement of Cash Flows (the purchases and sales of these items would not be considered investing activities), but many disclosure issues related to fair value are eliminated because these items would be measured at cost instead of fair value.

Bank Overdrafts

A very interesting issue is contained in paragraph 8.08 relating to cash overdrafts. U.S. GAAP does not specifically address this issue because, technically, it is illegal to have a cash overdraft and the FASB understandably does not address accounting issues on illegal transactions. However, the task force understands that many SMEs do, in fact, have cash overdrafts, and the framework specifically addresses how to present bank overdrafts. The guidance states that bank overdrafts must be presented as a financing activity. Many companies present bank overdrafts as operating activities under U.S. GAAP, so this will be a change.

Classifications of Cash Flows

Operating Activities

Operating activities can be presented using either the direct or indirect method. Gross cash flows should be presented when using the direct method, and net amounts should be presented when using the indirect method.

Interest paid and received, and dividends received are operating activities. Amounts paid for interest and income taxes *are not* required to be disclosed when using the indirect method.

A reconciliation of net income or loss to cash flows from operating activities *is not* required to be disclosed.

Investing and Financing Activities

Cash flows from investing and financing activities are to be presented using gross amounts. The categories of investing and financing activities are similar to U.S. GAAP.

Noncash Transactions

An entity shall disclose noncash transactions in the notes to the financial statements when a statement of cash flows is presented. The framework provides specific examples of noncash transactions. When an asset is purchased and financed by a third party, this is *not* considered a noncash transaction, even though the entity did not directly receive the loan proceeds and pay the vendor. This specific guidance does not exist in U.S. GAAP; therefore, some entities disclosed these types of transactions as noncash transactions.

Other Issues

Going Concern

An entity that is not a going concern and prepares its financial statements on the liquidation basis of accounting should not use FRF for SMEs. However, if there is substantial doubt about the ability of the entity to continue as a going concern, this should be disclosed.

Transition Issues

The exposure draft contains guidance for transition from the existing framework that is used by an entity to FRF for SMEs. The guidance should only be used when adopting FRF for SMEs for the first time. If an entity abandons FRF for SMEs, then reverts back to the framework, certain provisions of this chapter would not apply. The following are the general rules that will be used:

- Recognize all assets and liabilities that are required and/or permitted to be used by FRF for SMEs
- Reclassify assets and liabilities that will be classified differently under FRF for SMEs than in the previously used framework
- Apply the changes to the beginning balance sheet for the earliest period presented
- All adjustments to the beginning balances should be reflected in *equity*

An entity may elect to exempt certain principles upon transition. The exposure draft directs the user to implementation guidance that has not yet been written in some of these circumstances. The principles that can be exempt are:

- Business combination

- Defined benefit plans
- Financial instruments
- Asset retirement obligations
- Related party transactions

In addition, there are certain items that prohibit retrospective application as follows:

- Derecognition of financial assets and financial liabilities
- Estimates (management may not change previous estimates because new information is now available at the transition date)
- Non-controlling interests

If an entity has any of the items above, other than estimates, the exposure draft directs the user to specific guidance within those chapters.

Transition Guidance for Estimates

The guidance on estimates is in Chapter 3, and the guidance is there to prevent an entity from “hiding” certain losses in retained earnings. An example might be that an entity had recorded an allowance for doubtful accounts at the end of the previous year at \$100,000 using the reporting framework of the entity at the time. When transitioning to FRF for SMEs, the entity now uses new information available one year later and determines that the allowance account should be \$250,000. This type of change in estimate will not be permitted as a transition item because the \$150,000 in additional losses would bypass the income statement and be recorded directly in retained earnings.

Disclosure Issues for Transition

The exposure draft contains detailed disclosures that are required in the year of transition. Ultimately, the user of the financial statements should be able to understand what measurement and presentation changes occurred as a result of the transition, and the effect on equity.

Table of Contents for FRF for SMEs

The framework contains the following chapters that provide specific guidance in each area. This discussion does not focus on each of these specific items due to time constraints, but the information is provided to

inform the participant of all of the topics that are addressed by the framework. If a participant determines that this framework would be suitable for their company or their clients, more extensive education on this framework is encouraged.

- Chapter 1 – Financial Statement Concepts
- Chapter 2 – General Principles of Financial Statement Presentation and Accounting Policies
- Chapter 3 – Transition
- Chapter 4 – Statement of Financial Position
- Chapter 5 – Current Assets and Current Liabilities
- Chapter 6 – Special Accounting Considerations for Certain Financial Assets and Liabilities
- Chapter 7 – Statement of Operations
- Chapter 8 – Statement of Cash Flows
- Chapter 9 – Accounting Changes, Changes in Accounting Estimates, and Corrections of Errors
- Chapter 10 – Risks and Uncertainties
- Chapter 11 – Equity, Debt, and Other Investments
- Chapter 12 – Inventories
- Chapter 13 – Intangible Assets
- Chapter 14 – Property, Plant, and Equipment
- Chapter 15 – Disposal of Long-Lived Assets and Discontinued Operations
- Chapter 16 – Commitments
- Chapter 17 – Contingencies
- Chapter 18 – Equity
- Chapter 19 – Revenue
- Chapter 20 – Retirement and Other Postemployment Benefits

- Chapter 21 – Income Taxes
- Chapter 22 – Subsidiaries
- Chapter 23 – Consolidated Financial Statements
- Chapter 24 – Interests in Joint Ventures
- Chapter 25 – Leases
- Chapter 26 – Related Party Transactions
- Chapter 27 – Subsequent Events
- Chapter 28 – Business Combinations
- Chapter 29 – New Basis (Push-Down) Accounting
- Chapter 30 – Nonmonetary Transactions
- Chapter 31 – Foreign Currency Translation

Summary

The Financial Reporting Framework for SMEs is poised to become the preferred financial reporting option for U.S. companies that are not required by contract or regulatory authority to use the ASC of the FASB. Whether or not this framework eventually becomes widely used will be in large part dictated by the efforts of the AICPA to educate both CPAs and the users of financial statements. CPAs will also play a large role because they are usually the key decisionmaker for an entity when determining which financial reporting framework an entity will use when multiple options exist.

GROUP STUDY MATERIALS

A. Discussion Problems

1. Discuss the types of entities that may wish to use FRF for SMEs and the factors involved in that determination.
2. Discuss how the presentation of financial statements prepared under FRF for SMEs differs from GAAP-based statements.
3. Your client recorded a \$10,000 allowance for doubtful accounts at the end of the prior year using the existing reporting framework at that time. Upon transitioning to FRF for SMEs, the new information is used one year later and it is determined that the allowance should be \$25,000. Discuss how this change in estimate as a transition item would be handled.

B. Suggested Answers to Discussion Problems

1. Management may decide that FRF for SMEs is the best framework for financial reporting, and decide to use it. The following entities are the ones that are most likely to make this determination:
 - Entities that have determined that U.S. GAAP is too complex or costly to implement
 - Entities that issue only compiled financial statements, and have multiple GAAP departures such as (a) not consolidating VIEs, (b) not recording deferred taxes, (c) not measuring certain financial instruments at fair value, and (d) using tax depreciation instead of an acceptable GAAP method
 - Entities that are currently using the income tax basis of accounting which does not accurately reflect economic reality, especially when considering accelerated depreciation.
2. The framework requires the following financial statements in a complete presentation: the balance sheet, statement of income, statement of changes in equity, and statement of cash flows.
3. The guidance on estimates is in Chapter 3 of the framework and is there to prevent an entity from “hiding” certain losses in retained earnings. The type of change in estimate suggested in this scenario will not be permitted as a transition item because the \$15,000 in additional losses would bypass the income statement and be recorded directly in retained earnings.

The exact titles shown above are not required to be used, but the user should understand what is being presented, and the title of the financial statements should not be misleading. Note that a Statement of Comprehensive Income or equivalent is not listed. The framework does not recognize comprehensive income, so such a statement is not required. The statement of changes in equity may be presented in the notes to the financial statements instead of as a separate statement. The presentation of a single financial statement is permitted.

Comparative statements are not required, but are encouraged. Specific guidance is presented when there are comparative issues, such as a change in accounting principles. Note that IFRS for SMEs requires comparative financial statements, so many users in the U.S. will see this framework as an advantage over IFRS for SMEs.

GLOSSARY OF KEY TERMS

Bill and Hold Sales—a type of transaction that involves a company selling a product to a customer but not delivering the product to the customer until some later date.

Cease and desist order—a written notice demanding that the recipient immediately stop an illegal or allegedly illegal activity.

Form AP—Auditor Reporting of Certain Audit Participants; this form discloses the names of engagement partners and other accounting firms that participated in the audits of public companies

FRF for SMEs—an accounting framework developed by a task force of the AICPA for privately held owner managed businesses that are not required to use GAAP, but still want and need streamlined relevant financial statements

Goodwill—portion of the purchase price of a business that is higher than the sum of the net fair value of all of the assets purchased

PCAOB—the Public Company Accounting Oversight Board is a nonprofit organization created by the Sarbanes-Oxley to oversee audits of public companies to protect investors and further the public interest

SEC—the Securities and Exchange Commission is the government regulatory agency charged with supervising the corporate sector, the capital market participants, the securities and investment instruments market, and the investing public.

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BY SPEAKER

Speaker	Month	Speaker	Month
Jennifer Louis	Jan-Mar	Russ Madray.....	Jan- Mar
Kurt Oestrieher	Feb-Mar		

Choose the best response and record your answer in the space provided on the answer sheet.

1. According to Russ Madray, how often should a reporting unit's goodwill be tested for impairment if no special circumstances exist that require testing more frequently?
 - A. Every quarter.
 - B. Twice a year.
 - C. Annually.
 - D. Every other year.
2. According to Russ Madray, at what point in the process does an entity test its goodwill by performing a qualitative assessment to determine whether it is more likely than not that the fair value is less than its carrying amount?
 - A. This is an optional step zero of the impairment test that can be performed first if desired.
 - B. This is step one of the impairment test and is required before any other testing is done.
 - C. This is the required final step of the impairment test used to confirm quantitative results qualitatively.
 - D. This is an optional final step of the impairment test that can provide extra information for the financial statement disclosures.
3. According to Russ Madray, if an entity elects the *triggering event alternative* when accounting for goodwill, which of the following will occur?
 - A. Its goodwill accounting will become more complex and require more time and additional procedures during the audit.
 - B. It will amortize goodwill on a straight-line basis over a period of ten years.
 - C. It will be required to use a broad, general two-step impairment test for goodwill.
 - D. It will only need to monitor for goodwill impairment triggering events at the end of the reporting period.
4. According to Russ Madray, what type(s) of entities can elect the *goodwill amortization alternative*?
 - A. Public companies only.
 - B. Private companies and nonprofit organizations.
 - C. Public companies and private companies.
 - D. Public companies, private companies, and nonprofit organizations.
5. According to Russ Madray, which of the following is a requirement for entities that account for goodwill under FASB ASC 350?
 - A. The amount of goodwill is recorded at its net value in the financial statements with no separate amounts or disclosures related to impairment losses or other issues.
 - B. Reporting units with a zero or negative carrying value of net assets are prohibited from reporting any associated goodwill.
 - C. After goodwill is recognized initially, entities are required to disclose quantitative information about significant unobservable inputs in any subsequent impairment disclosures.
 - D. Changes to the carrying amount of goodwill from the beginning of the reporting period must be disclosed.

Continued on next page

6. According to Jennifer Louis, what is the overarching goal of the Public Company Accounting Oversight Board (PCAOB)?
 - A. To oversee the accuracy and reliability of the audits of both public and private companies.
 - B. To ensure that the audited financial statements of public companies provide informative and accurate information.
 - C. To protect public companies from facing legal action at the hands of investors or members of the public.
 - D. To levy the maximum sanctions and penalties regardless of firms' compliance with investigations or individuals' financial situations.
7. According to Jennifer Louis, what is the purpose of Form AP?
 - A. It is one of the basic workpapers required as part of a typical audit engagement.
 - B. It provides details about firms' systems of quality control and how they complied with those policies and procedures.
 - C. It lets the public know which firms were involved in an audit and how much of the audit they performed.
 - D. It provides information to the public about sanctions or penalties levied against firms by the PCAOB.
8. According to Jennifer Louis, can a firm be sanctioned by the PCAOB for not properly supervising the work of another auditor or audit firm?
 - A. Yes, the PCAOB requires firms to report whether other firms are used during an audit and to reasonably supervise them.
 - B. No, while firms are expected to supervise other firms that perform audit procedures, they will only be subject to sanctions based on their own work.
 - C. No, under the PCAOB's rules, firms can only be sanctioned based on their own performance and are not required to supervise other firms that are involved.
 - D. Whether a firm is sanctioned for not supervising the work of others is up to the entity being audited, not the PCAOB.
9. According to Jennifer Louis, how do PCAOB sanctions work when a registered firm consists of a sole practitioner?
 - A. Sanctions are only levied against the firm.
 - B. Sanctions are only levied against the practitioner.
 - C. Sanctions can be levied against either the firm or the practitioner, but not both.
 - D. Sanctions can be levied against the firm, the practitioner, or both.
10. According to Jennifer Louis, which of the following statements best describes the sanctions and enforcement actions taken by the Security and Exchange Commission (SEC)?
 - A. The SEC's Division of Enforcement investigates possible violations of securities laws and litigates civil enforcement and administrative proceedings.
 - B. Because the SEC is more focused on the accounting side of things, it cannot take direct enforcement action against audit firms and auditors, which are governed by the PCAOB.
 - C. The SEC can bar an individual from participating in future securities offerings, but the barring will be temporary, not permanent.
 - D. Monetary judgments issued by the SEC must be for amounts lower than \$1 million, both collectively and individually.

Continued on next page

11. According to Kurt Oestrieher, why was the Financial Reporting Framework for Small- and Medium-Sized Entities (FRF for SMEs) created?
- A. To uphold the request for separate standards made by the Financial Accounting Federation (FAF) and the Judy O'Dell Committee.
 - B. To eliminate the differences between Big GAAP (generally accepted accounting principles) and Little GAAP since all corporations, regardless of size, have the same types of underlying transactions.
 - C. To fill the need for a separate set of standards based on requests received by the American Institute of Certified Public Accountants (AICPA) from small business owners and users of their financial statements.
 - D. To help ensure that investors in larger public companies maintain a direct line of communication with management while using their financial statements.
12. According to Kurt Oestrieher, is the FRF for SMEs considered GAAP?
- A. Yes, it is considered GAAP by the AICPA and the FAF.
 - B. Yes, but it is considered GAAP only in the United States.
 - C. Yes, it is GAAP because the AICPA added it to Appendix A.
 - D. No, it is considered a special purpose framework.
13. According to Kurt Oestrieher, who coined the term *SME* as it is used in relation to the FRF for SMEs?
- A. The AICPA.
 - B. The FAF's O'Dell Committee.
 - C. The International Accounting Standards Board (IASB).
 - D. The state government of Delaware.
14. According to Kurt Oestrieher, in the world of small business, what often weighs most with bankers when they are making financial decisions?
- A. Credit score and reputation.
 - B. Financial statements.
 - C. Tax return.
 - D. Profit and business plan.
15. According to Kurt Oestrieher, which of the following entities would be **least** likely to use the FRF for SMEs?
- A. A sole proprietor.
 - B. A nonprofit organization.
 - C. A for-profit company.
 - D. A limited liability company (LLC).

Subscriber Survey Evaluation Form

Please take a few minutes to complete this survey related to **CPE Network® A&A Report** and return with your quizzer or group attendance sheet to 2395 Midway Road, Carrollton, Texas 75006. All responses will be kept confidential. Comments in addition to the answers to these questions are also welcome. Please send comments to CPLgrading@thomsonreuters.com.

How would you rate the topics covered in the March 2023 **CPE Network® A&A Report**? Rate each topic on a scale of 1–5 (5=highest):

	Topic Relevance	Topic Content/ Coverage	Topic Timeliness	Video Quality	Audio Quality	Written Material
Goodwill Disclosures	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Recent PCAOB and SEC Sanction or Enforcement Activity	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
FRF for SMEs	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

Which segments of the March 2023 issue of **CPE Network® A&A Report** did you like the most, and why?

Which segments of the March 2023 issue of **CPE Network® A&A Report** did you like the least, and why?

What would you like to see included or changed in future issues of **CPE Network® A&A Report**?

How would you rate the effectiveness of the speakers in the March 2023 CPE Network® A&A Report? Rate each speaker on a scale of 1–5 (5 highest):

	Overall	Knowledge of Topic	Presentation Skills
Russ Madray	_____	_____	_____
Jennifer Louis	_____	_____	_____
Kurt Oestrieher	_____	_____	_____

Which of the following methods would you use for viewing CPE Network® A&A Report? DVD ☐ Streaming ☐ Both ☐

Are you using CPE Network® A&A Report for: CPE Credit ☐ Information ☐ Both ☐

Were the stated learning objectives met? Yes ☐ No ☐ _____

If applicable, were prerequisite requirements appropriate? Yes ☐ No ☐ _____

Were program materials accurate? Yes ☐ No ☐ _____

Were program materials relevant and contribute to the achievement of the learning objectives? Yes ☐ No ☐

Were the time allocations for the program appropriate? Yes ☐ No ☐ _____

Were the supplemental reading materials satisfactory? Yes ☐ No ☐ _____

Were the discussion questions and answers satisfactory? Yes ☐ No ☐ _____

Specific Comments: _____

Name/Company _____

Address _____

City/State/Zip _____

Email _____

Once Again, Thank You...

Your Input Can Have a Direct Influence on Future Issues!

CPE Network[®]

Firm/Company Name: _____

Account #:

Location:

Program Title: _____

Date: _____

[illegible]

I certify that the above individuals viewed and were participants in the group discussion with this issue/segment of the CPE Network® newsletter, and earned the number of hours shown.

Instructor Name: _____

Date: _____

E-mail address:

License State and Number:

CPE Network/Webinar Delivery Tracking Report

Course Title	
Course Date:	
Start Time:	
End Time:	
Moderator Name, Credentials, and Signature Attestation of Attendance:	
Delivery Method:	Group Internet Based
Total CPE Credit:	3.0
Instructions:	During the webinar, the moderator must verify student presence a minimum of <u>3 times per CPE hour</u> . This is achieved via polling questions. Sponsors must have a report which documents the responses from each student. The timing of the polling questions should be random and not made known to students prior to delivery of the course. Record the polling question responses below. Refer to the CPL Network User Guide for more instructions. Partial credit will not be issued for students who do not respond to at least 3 polling questions per CPE hour.
Brief Description of Method of Polling	Example: Zoom: During this webinar, moderator asked students to raise their hands 3 times per CPE hour. The instructor then noted the hands that were raised in the columns below.

[illegible]

CHECKPOINT LEARNING NETWORK

CPE NETWORK®

USER GUIDE

REVISED March 11, 2022

Welcome to CPE Network!

CPE Network programs enable you to deliver training programs to those in your firm in a manageable way. You can choose how you want to deliver the training in a way that suits your firm's needs: in the classroom, virtual, or self-study. You must review and understand the requirements of each of these delivery methods before conducting your training to ensure you meet (and document) all the requirements.

This User Guide has the following sections:

- **“Group Live” Format:** The instructor and all the participants are gathered into a common area, such as a conference room or training room at a location of your choice.
- **“Group Internet Based” Format:** Deliver your training over the internet via Zoom, Teams, Webex, or other application that allows the instructor to present materials that all the participants can view at the same time.
- **“Self-Study” Format:** Each participant can take the self-study version of the CPE Network program on their own computers at a time and place of their convenience. No instructor is required for self-study.
- **Transitioning From DVDs:** For groups playing the video from the online platform, we suggest downloading the video from the Checkpoint Learning player to the desktop before projecting.
- **What Does It Mean to Be a CPE Sponsor?:** Should you decide to vary from any of the requirements in the 3 methods noted above (for example, provide less than 3 full CPE credits, alter subject areas, offer hybrid or variations to the methods described above), Checkpoint Learning Network will not be the sponsor and will not issue certificates. In this scenario, your firm will become the sponsor and must issue its own certificates of completion. This section outlines the sponsor's responsibilities that you must adhere to if you choose not to follow the requirements for the delivery methods.
- **Getting Help:** Refer to this section to get your questions answered.

IMPORTANT: This User Guide outlines in detail what is required for each of the 3 formats above. Additionally, because you will be delivering the training within your firm, you should review the Sponsor Responsibilities section as well. To get certificates of completion for your participants following your training, you must submit all the required documentation. (This is noted at the end of each section.) Checkpoint Learning Network will review your training documentation for completeness and adherence to all requirements. If all your materials are received and complete, certificates of completion will be issued for the participants attending your training. Failure to submit the required completed documentation will result in delays and/or denial of certificates.

IMPORTANT: If you vary from the instructions noted above, your firm will become the sponsor of the training event and you will have to create your own certificates of completions for your participants. In this case, you do not need to submit any documentation back to Thomson Reuters.

If you have any questions on this documentation or requirements, refer to the “Getting Help” section at the end of this User Guide **BEFORE** you conduct your training.

**We are happy that you chose CPE Network for your training solutions.
Thank you for your business and HAPPY LEARNING!**

Copyrighted Materials

CPE Network program materials are copyrighted and may not be reproduced in another document or manuscript in any form without the permission of the publisher. As a subscriber of the **CPE Network Series**, you may reproduce the necessary number of participant manuals needed to conduct your group study session.

“Group Live” Format

CPE Credit

All CPE Network products are developed and intended to be delivered as 3 CPE credits. You should allocate sufficient time in your delivery so that there is no less than 2.5 clock hours:

50 minutes per CPE credit TIMES 3 credits = 150 minutes = 2.5 clock hours

If you wish to have a break during your training session, you should increase the length of the training beyond 2.5 hours as necessary. For example, you may wish to schedule your training from 9 AM to 12 PM and provide a ½ hour break from 10:15 to 10:45.

***Effective November 1, 2018:** Checkpoint Learning CPE Network products ‘group live’ sessions must be delivered as 3 CPE credits and accredited to the field(s) of study as designated by Checkpoint Learning Network. Checkpoint Learning Network will not issue certificates for “group live” deliveries of less than 3 CPE credits (unless the course was delivered as 3 credits and there are partial credit exceptions (such as late arrivals and early departures). Therefore, if you decide to deliver the “group live” session with less than 3 CPE credits, your firm will be the sponsor as Checkpoint Learning Network will not issue certificates to your participants.

Advertising / Promotional Page

Create a promotion page (use the template after the executive summary of the transcript). You should circulate (e.g., email) to potential participants prior to training day. You will need to submit a copy of this page when you request certificates.

Monitoring Attendance

You must monitor individual participant attendance at “group live” programs to assign the correct number of CPE credits. A participant’s self-certification of attendance alone is not sufficient.

Use the **attendance sheet**. This lists the instructor(s) name and credentials, as well as the first and last name of each participant attending the seminar. The participant is expected to initial the sheet for their morning attendance and provide their signature for their afternoon attendance. If a participant arrives late, leaves early, or is a “no show,” the actual hours they

attended should be documented on the sign-in sheet and will be reflected on the participant's CPE certificate.

Real Time Instructor During Program Presentation

"Group live" programs must have a **qualified, real time instructor while the program is being presented**. Program participants must be able to interact with the instructor while the course is in progress (including the opportunity to ask questions and receive answers during the presentation).

Elements of Engagement

A "group live" program must include at least one element of engagement related to course content during each credit of CPE (for example, group discussion, polling questions, instructor-posed question with time for participant reflection, or use of a case study with different engagement elements throughout the program).

Make-Up Sessions

Individuals who are unable to attend the group study session may use the program materials for self-study either in print or online.

- If the print materials are used, the user should read the materials, watch the video, and answer the quizzer questions on the CPE Quizzer Answer Sheet. Send the answer sheet and course evaluation to the address listed on the answer sheet and the CPE certificate will be mailed or emailed to the user. Detailed instructions are provided on Network Program Self-Study Options.
- If the online materials are used, the user should log on to her/his individual Checkpoint Learning account to read the materials, watch the interviews, and answer the quizzer questions. The user will be able to print her/his/their CPE certificate upon completion of the quizzer. (If you need help setting up individual user accounts, please contact your firm administrator or customer service.)

Awarding CPE Certificates

The CPE certificate is the participant's record of attendance and is awarded by Checkpoint Learning Network after the "group live" documentation is received (and providing the course is delivered as 3 CPE credits). The certificate of completion will reflect the credit hours earned by the individual, with special calculation of credits for those who arrived late or left early.

Subscriber Survey Evaluation Forms

Use the evaluation form. You must include a means for evaluating quality. At the conclusion of the "group live" session, evaluations should be distributed and any that are completed are collected from participants. Those evaluations that are completed by participants should be returned to Checkpoint Learning Network along with the other course materials. While it is required that you circulate the evaluation form to all participants, it is NOT required that the participants fill it out. A preprinted evaluation form is included in the transcript each month for your convenience.

Retention of Records

Regardless of whether Checkpoint Learning Network is the sponsor for the "group live" session, it is required that the firm hosting the "group live" session retain the following information for a period of five years from the date the program is completed unless state law dictates otherwise:

- Record of participation (Group Study Attendance sheets; indicating any late arrivals and/or early departures)
- Copy of the program materials
- Timed agenda with topics covered and elements of engagement used
- Date and location of course presentation
- Number of CPE credits and field of study breakdown earned by participants
- Instructor name and credentials
- Results of program evaluations.

Finding the Transcript

When the DVD is inserted into a DVD drive, the video will immediately begin to play and the menu screen will pop up, taking the entire screen. Hitting the Esc key should minimize it to a smaller window. To locate the pdf file of the transcript either to save or email to others, go to the start button on the computer. In My Computer, open the drive with the DVD. The Adobe Acrobat files are the transcript files. If you do not currently have Adobe Acrobat Reader (Mac versions of the reader are also available), a free version of the reader may be downloaded at:

- <https://get.adobe.com/reader/>

Requesting Participant CPE Certificates

When delivered as 3 CPE credits, documentation of your “group live” session should be sent to Checkpoint Learning Network by one of the following means:

Mail: Thomson Reuters
PO Box 115008
Carrollton, TX 75011-5008

Email: CPLgrading@tr.com

Fax: 888.286.9070

When sending your package to Thomson Reuters, you must include ALL of the following items:

Form Name	Included?	Notes
Advertising / Promotional Page		Complete this form and circulate to your audience before the training event.
Attendance Sheet		Use this form to track attendance during your training session.
Subscriber Survey Evaluation Form		Circulate the evaluation form at the end of your training session so that participants can review and comment on the training. Return to Thomson Reuters any evaluations that were completed. You do not have to return an evaluation for every participant.

Incomplete submissions will be returned to you.

“Group Internet Based” Format

CPE Credit

All CPE Network products are developed and intended to be delivered as 3 CPE credits. You should allocate sufficient time in your delivery so that there is no less than 2.5 clock hours:

50 minutes per CPE credit TIMES 3 credits = 150 minutes = 2.5 clock hours

If you wish to have a break during your training session, you should increase the length of the training beyond 2.5 hours as necessary. For example, you may wish to schedule your training from 9 AM to 12 PM and provide a ½ hour break from 10:15 to 10:45.

***Effective November 1, 2018:** Checkpoint Learning CPE Network products ‘group live’ sessions must be delivered as 3 CPE credits and accredited to the field(s) of study as designated by Checkpoint Learning Network. Checkpoint Learning Network will not issue certificates for “group live” deliveries of less than 3 CPE credits (unless the course was delivered as 3 credits and there are partial credit exceptions (such as late arrivals and early departures). Therefore, if you decide to deliver the “group live” session with less than 3 CPE credits, your firm will be the sponsor as Checkpoint Learning Network will not issue certificates to your participants.

Advertising / Promotional Page

Create a promotion page (use the template following the executive summary in the transcript). You should circulate (e.g., email) to potential participants prior to training day. You will need to submit a copy of this page when you request certificates.

Monitoring Attendance in a Webinar

You must monitor individual participant attendance at “group internet based” programs to assign the correct number of CPE credits. A participant’s self-certification of attendance alone is not sufficient.

Use the **Webinar Delivery Tracking Report**. This form lists the moderator(s) name and credentials, as well as the first and last name of each participant attending the seminar. During a webinar you must set up a monitoring mechanism (or polling mechanism) to periodically check the participants’ engagement throughout the delivery of the program.

In order for CPE credit to be granted, you must confirm the presence of each participant **3 times per CPE hour and the participant must reply to the polling question**. Participants that respond to less than 3 polling questions in a CPE hour will not be granted CPE credit. For example, if a participant only replies to 2 of the 3 polling questions in the first CPE hour, credit for the first CPE hour will not be granted. (Refer to the Webinar Delivery Tracking Report for examples.)

Examples of polling questions:

1. You are using **Zoom** for your webinar. The moderator pauses approximately every 15 minutes and ask that participants confirm their attendance by using the “raise hands” feature. Once the participants raise their hands, the moderator records the participants who have their hands up in the **webinar delivery tracking report** by putting a YES in the webinar delivery tracking report. After documenting in the spreadsheet, the instructor (or moderator) drops everyone’s hands and continues the training.
2. You are using **Teams** for your webinar. The moderator will pause approximately every 15 minutes and ask that participants confirm their attendance by typing “Present” into the Teams chat box. The moderator records the participants who have entered “Present” into the chat box into the **webinar delivery tracking report**. After documenting in the spreadsheet, the instructor (or moderator) continues the training.
3. If you are using an application that has a way to automatically send out polling questions to the participants, you can use that application/mechanism. However, following the event, you should create a **webinar delivery tracking report** from your app’s report.

Additional Notes on Monitoring Mechanisms:

1. The monitoring mechanism does not have to be “content specific.” Rather, the intention is to ensure that the remote participants are present and paying attention to the training.
2. You should only give a minute or so for each participant to reply to the prompt. If, after a minute, a participant does not reply to the prompt, you should put a NO in the webinar delivery tracking report.
3. While this process may seem unwieldy at first, it is a required element that sponsors must adhere to. And after some practice, it should not cause any significant disruption to the training session.
4. **You must include the Webinar Delivery Tracking report with your course submission if you are requesting certificates of completion for a “group internet based” delivery format.**

Real Time Moderator During Program Presentation

“Group internet based” programs must have a **qualified, real time moderator while the program is being presented**. Program participants must be able to interact with the moderator while the course is in progress (including the opportunity to ask questions and receive answers

during the presentation). This can be achieved via the webinar chat box, and/or by unmuting participants and allowing them to speak directly to the moderator.

Make-Up Sessions

Individuals who are unable to attend the “group internet based” session may use the program materials for self-study either in print or online.

- If print materials are used, the user should read the materials, watch the video, and answer the quizzer questions on the CPE Quizzer Answer Sheet. Send the answer sheet and course evaluation to the address listed on the answer sheet and the CPE certificate will be mailed or emailed to the user. Detailed instructions are provided on Network Program Self-Study Options.
- If the online materials are used, the user should log on to her/his individual Checkpoint Learning account to read the materials, watch the interviews, and answer the quizzer questions. The user will be able to print her/his CPE certificate upon completion of the quizzer. (If you need help setting up individual user accounts, please contact your firm administrator or customer service.)

Awarding CPE Certificates

The CPE certificate is the participant’s record of attendance and is awarded by Checkpoint Learning Network after the “group internet based” documentation is received (and providing the course is delivered as 3 CPE credits). The certificate of completion will reflect the credit hours earned by the individual, with special calculation of credits for those who may not have answered the required amount of polling questions.

Subscriber Survey Evaluation Forms

Use the evaluation form. You must include a means for evaluating quality. At the conclusion of the “group live” session, evaluations should be distributed and any that are completed are collected from participants. Those evaluations that are completed by participants should be returned to Checkpoint Learning Network along with the other course materials. While it is required that you circulate the evaluation form to all participants, it is NOT required that the participants fill it out. A preprinted evaluation form is included in the transcript each month for your convenience.

Retention of Records

Regardless of whether Checkpoint Learning Network is the sponsor for the “group internet based” session, it is required that the firm hosting the session retain the following information for a period of five years from the date the program is completed unless state law dictates otherwise:

- Record of participation (Webinar Delivery Tracking Report)
- Copy of the program materials
- Timed agenda with topics covered
- Date and location (which would be “virtual”) of course presentation
- Number of CPE credits and field of study breakdown earned by participants
- Instructor name and credentials
- Results of program evaluations

Finding the Transcript

When the DVD is inserted into a DVD drive, the video will immediately begin to play and the menu screen will pop up, taking the entire screen. Hitting the Esc key should minimize it to a smaller window. To locate the pdf file of the transcript either to save or email to others, go to the start button on the computer. In My Computer, open the drive with the DVD. It should look something like the screenshot below. The Adobe Acrobat files are the transcript files. If you do not currently have Adobe Acrobat Reader (Mac versions of the reader are also available), a free version of the reader may be downloaded at:

- <https://get.adobe.com/reader/>

Alternatively, for those without a DVD drive, the email sent to administrators each month has a link to the pdf for the newsletter. The email may be forwarded to participants who may download the materials or print them as needed.

Requesting Participant CPE Certificates

When delivered as 3 CPE credits, documentation of your “group internet based” session should be sent to Checkpoint Learning Network by one of the following means:

Mail: Thomson Reuters
PO Box 115008
Carrollton, TX 75011-5008

Email: CPLgrading@tr.com

Fax: 888.286.9070

When sending your package to Thomson Reuters, you must include ALL the following items:

Form Name	Included?	Notes
Advertising / Promotional Page		Complete this form and circulate to your audience before the training event.
Webinar Delivery Tracking Report		Use this form to track the attendance (i.e., polling questions) during your training webinar.
Evaluation Form		Circulate the evaluation form at the end of your training session so that participants can review and comment on the training. Return to Thomson Reuters any evaluations that were completed. You do not have to return an evaluation for every participant.

Incomplete submissions will be returned to you.

“Self-Study” Format

If you are unable to attend the live group study session, we offer two options for you to complete your Network Report program.

Self-Study—Print

Follow these simple steps to use the printed transcript and DVD:

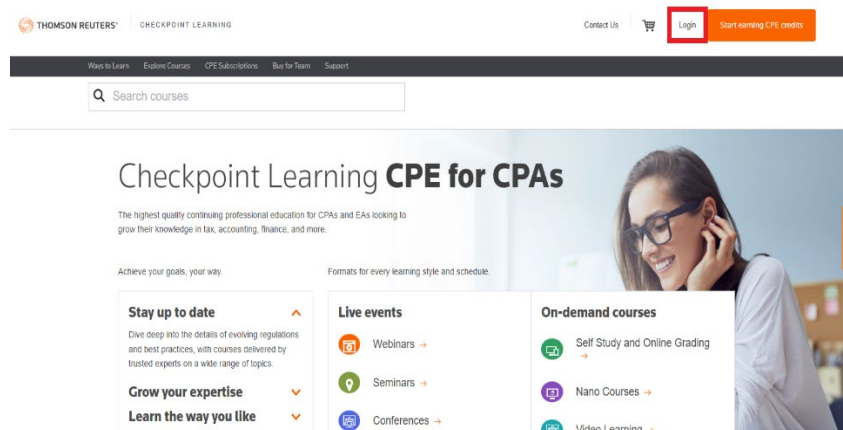
- Watch the DVD.
- Review the supplemental materials.
- Read the discussion problems and the suggested answers.
- Complete the quizzer by filling out the bubble sheet enclosed with the transcript package.
- Complete the survey. We welcome your feedback and suggestions for topics of interest to you.
- Mail your completed quizzer and survey to:

Thomson Reuters
PO Box 115008
Carrollton, TX 75011-5008

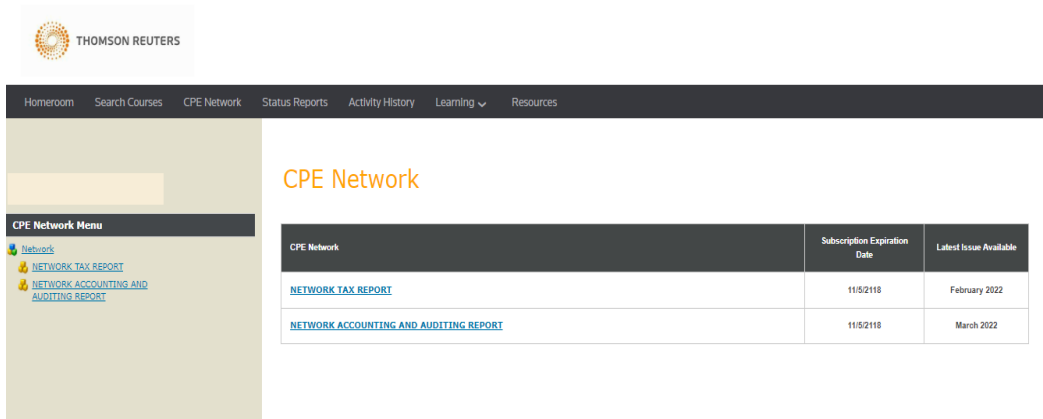
Self-Study—Online

Follow these simple steps to use the online program:

- Go to www.checkpointlearning.thomsonreuters.com.
- Log in using your username and password assigned by your firm’s administrator in the upper right-hand margin (“Login or Register”).

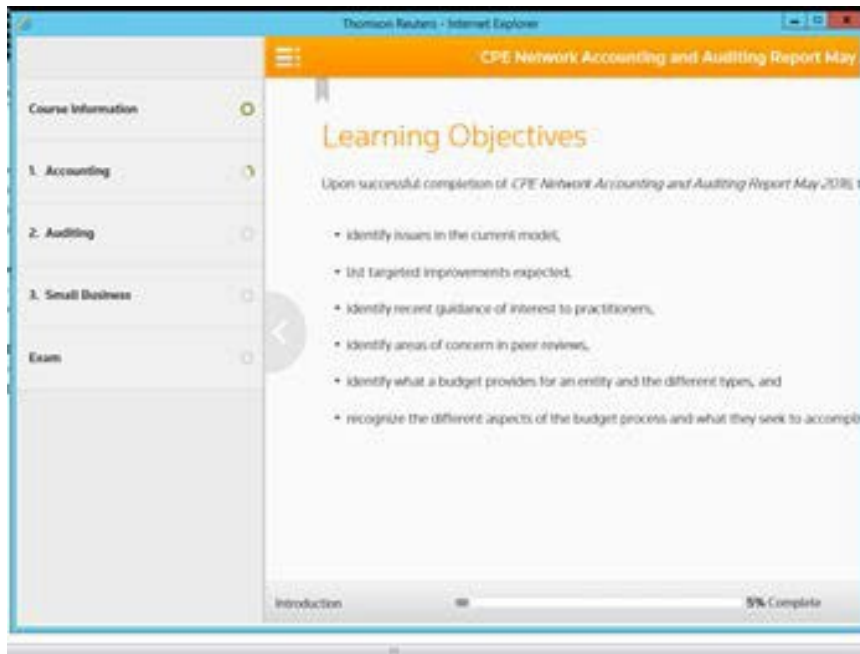


- In the **CPE Network** tab, select the desired Network Report and then the appropriate edition.



CPE Network	Subscription Expiration Date	Latest Issue Available
NETWORK TAX REPORT	11/5/2118	February 2022
NETWORK ACCOUNTING AND AUDITING REPORT	11/5/2118	March 2022

The Chapter Menu is in the gray bar at the left of your screen:



Thomson Reuters - Internet Explorer

CPE Network Accounting and Auditing Report May 2018

Learning Objectives

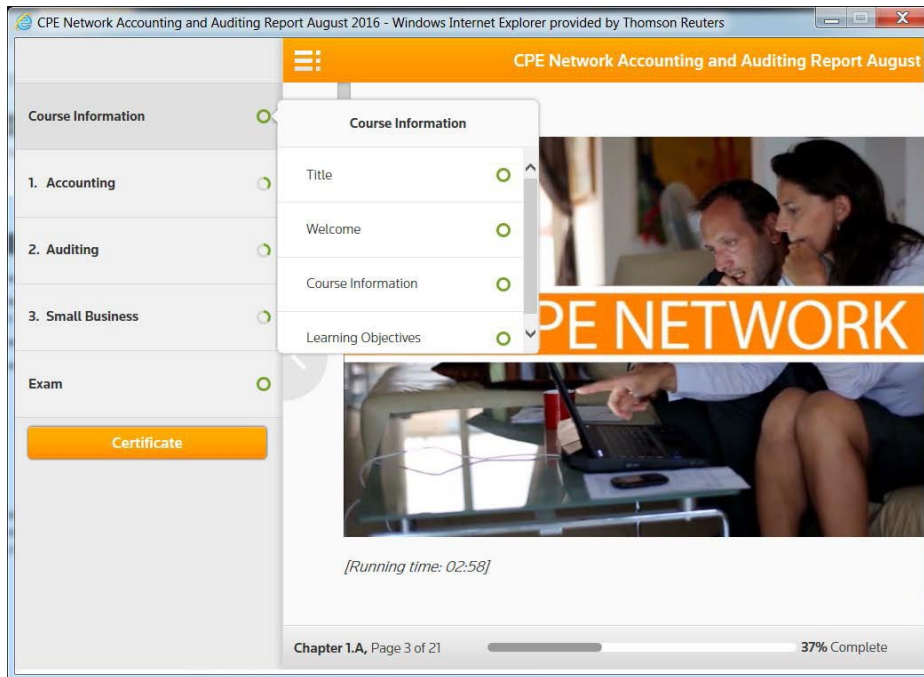
Upon successful completion of *CPE Network Accounting and Auditing Report May 2018*:

- identify issues in the current model;
- list targeted improvements expected;
- identify recent guidance of interest to practitioners;
- identify areas of concern in peer reviews;
- identify what a budget provides for an entity and the different types; and
- recognize the different aspects of the budget process and what they seek to accomplish.

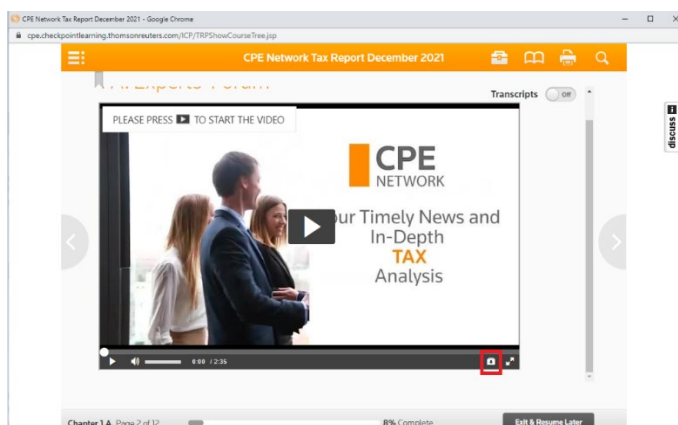
Introduction 5% Complete

Click down to access the dropdown menu and move between the program Chapters.

- **Course Information** is the course Overview, including information about the authors and the program learning objectives



- **Each Chapter is now self-contained.** Years ago, when on the CPEasy site, the interview segments were all together, then all the supplemental materials, etc. Today, each chapter contains the executive summary and learning objectives for that segment, followed by the interview, the related supplemental materials, and then the discussion questions. This more streamlined approach allows administrators and users to more easily access the related materials.



Video segments may be downloaded from the CPL player by clicking on the download button. Tip: you may need to scroll down to see the download button.

Thomson Reuters - Internet Explorer

CPE Network Accounting and Auditing Report May 2016

Transcripts ☒

Chapter 1 Liabilities and Equity: Another Look at the Model

Both the FASB and the AICPA have targeted improvements to the guidance related to liabilities and equity instruments. The current debt-equity model in U.S. GAAP is very complex, making it difficult for both preparers and accountants to implement.

For more on the targeted improvements in this area, let's join Paul Munter, professor in practice for the University of Colorado at Boulder, and CPE Network's Debi Grove Casey.

Ms. Grove Casey

Today, we want to talk a little bit

Please note that the transcript [Liabilities and Equity Transcripts](#) can also be found as a link and in the Tools section.

Chapter 1A, Page 4 of 21 8% Complete [Exit & Resume Later](#)

Transcripts for the interview segments can be viewed at the right side of the screen via a toggle button at the top labeled **Transcripts** or via the link to the pdf below the video (also available in the toolbox in the resources section). The pdf will appear in a separate pop-up window.

D:\xml\production\working\U6015494\N... Network Accounting and Auditing Report May 2016

Transcripts ☒

Chapter 1 Liabilities and Equity: Another Look at the Model

Both the FASB and the AICPA have targeted improvements to the guidance related to liabilities and equity instruments. The current debt-equity model in U.S. GAAP is very complex, making it difficult for both preparers and accountants to implement.

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Please note that the transcript [Liabilities and Equity Transcripts](#) can also be found as a link and in the Tools section.

Chapter 1A, Page 4 of 21 8% Complete [Exit & Resume Later](#)

CHAPTER 1A: ACCOUNTING

Liabilities and Equity: Another Look at the Model

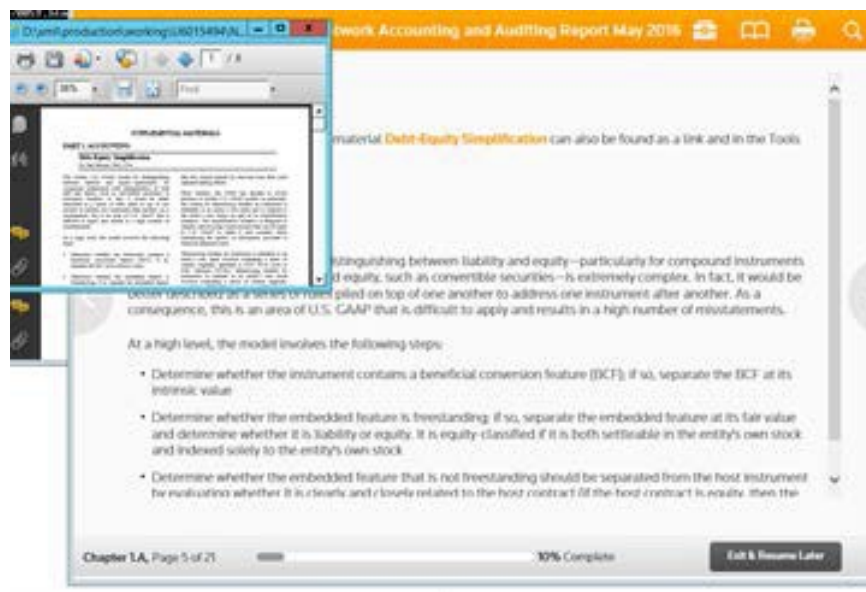
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For more on the targeted improvements in this area, let's join Paul Munter, professor in practice for the University of Colorado at Boulder, and CPE Network's Debi Grove Casey.

Ms. Grove Casey

Today, we want to talk a little bit

Click the arrow at the bottom of the video to play it, or click the arrow to the right side of the screen to advance to the supplemental material. As with the transcripts, the supplemental materials are also available via the toolbox and the link will pop up the pdf version in a separate window.



Continuing to click the arrow to the right side of the screen will bring the user to the Discussion problems related to the segment.

The Suggested Answers to the Discussion Problems follow the Discussion Problems.

The screenshot shows a web interface for the CPE Network Accounting and Auditing Report July 2016. The header is orange with a menu icon, title, and icons for a calculator, book, printer, and search. The main content area is titled "Suggested Answers to Discussion Problems" and contains three numbered items:

1. ASC 320 requires that, at acquisition, an enterprise classify debt and marketable equity securities into one of three categories:
 - Held-to-maturity
 - Trading
 - Available-for-sale

An entity decides how to classify securities based on its intended holding period for each individual security, using the framework in ASC 320. In establishing its intent, an entity should consider relevant trends and experience, such as previous sales and transfers of securities. Classification decisions should be made at acquisition and, preferably, formally documented. It is not appropriate to use "hindsight" to classify securities transactions, perhaps by considering changes in value after acquisition.
2. The trading securities category includes securities that are bought and held principally for the purpose of selling them in the short term. Trading generally reflects active and frequent buying and selling, and trading securities are generally used with the objective of generating profits on short-term differences in price. "Short-term," in this context, is intended to be measured in hours and days, rather than in months or years, according to ASC 320. However, an entity is not precluded from classifying as trading a security it plans to hold for a longer period, as long as that designation occurs at acquisition.
3. Impairment is recognized in earnings when a decline in value has occurred that is deemed to be other than temporary, and the current fair value becomes the new cost basis for the security. An investment is considered to be impaired if the fair value of the investment is less than its cost basis. Cost includes adjustments made for

The bottom of the screen shows a progress bar at 100% Complete, the text "Chapter 3.A, Page 20 of 20", and an "Exit & Resume Later" button.

The **Exam** is accessed by clicking the last gray bar on the menu at the left of the screen or clicking through to it. Click the orange button to begin.

When you have completed the quizzer, click the button labeled **Grade** or the **Review** button.

The screenshot shows a web interface for the CPE Network Accounting and Auditing Report June 2016. The header is orange with a menu icon, title, and icons for a calculator, book, printer, and search. The main content area is titled "Course Exams Completed" and contains the following text:

You have completed the exam for this course.

Please choose your next course of action by selecting on one of the buttons below.

"Review My Answers" will take you back through exam, giving you the opportunity to make changes.

Review My Answers

"Grade My Answers" will result in providing you with a final score for this course.

Grade My Answers

The bottom of the screen shows a progress bar at 100% Complete, the text "Course, Completed", and an "Exit & Resume Later" button.

- Click the button labeled **Certificate** to print your CPE certificate.
- The final quizzer grade is displayed and you may view the graded answers by clicking the button labeled **view graded answer**.

Additional Features Search

Checkpoint Learning offers powerful search options. Click the **magnifying glass** at the upper right of the screen to begin your search. Enter your choice in the **Search For:** box.

Search Results are displayed with the number of hits.

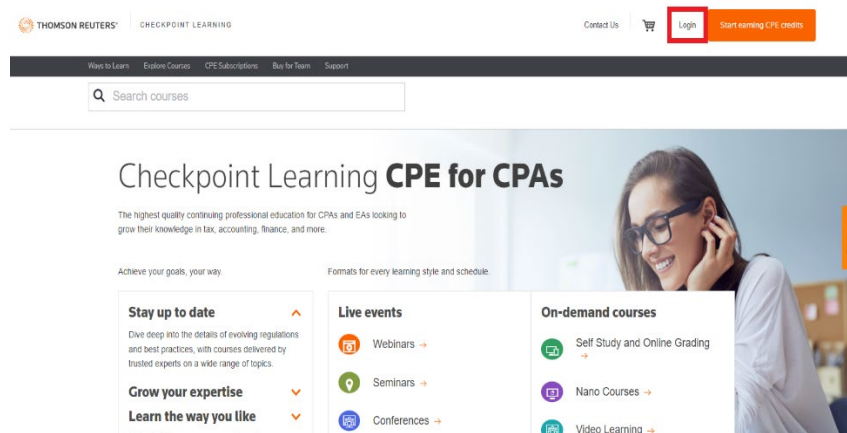
Print

To display the print menu, click the printer icon in the upper bar of your screen. You can print the entire course, the transcript, the glossary, all resources, or selected portions of the course. Click your choice and click the orange **Print**.

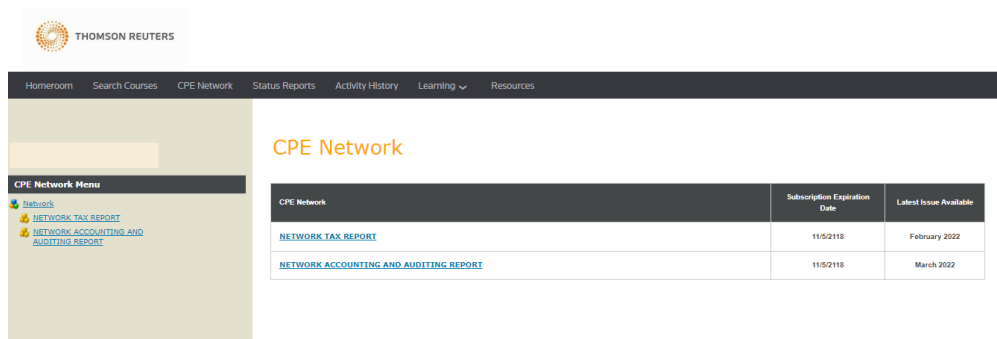
Transitioning From DVDs

Follow these simple steps to access the video and pdf for download from the online platform:

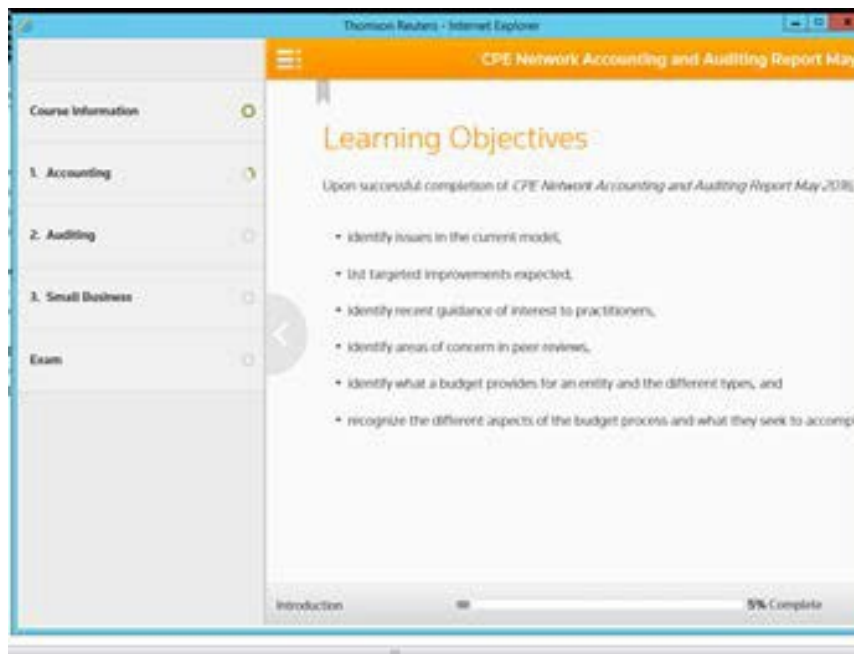
- Go to www.checkpointlearning.thomsonreuters.com .
- Log in using your username and password assigned by your firm’s administrator in the upper right-hand margin (“Login or Register”).



- In the CPE **Network** tab, select the desired Network Report by clicking on the title, then select the appropriate edition.

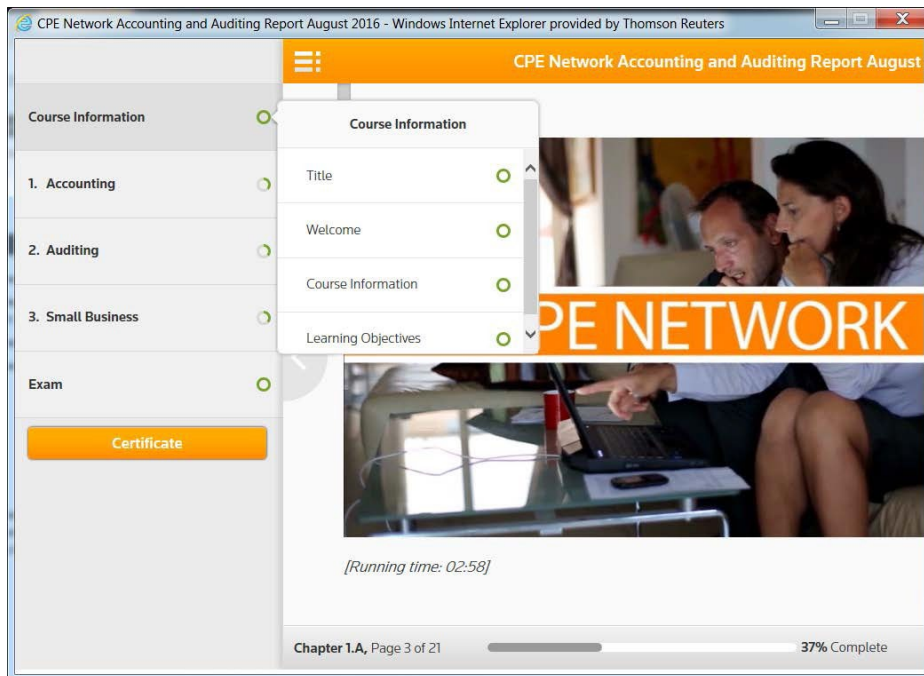


The Chapter Menu is in the gray bar at the left of your screen:

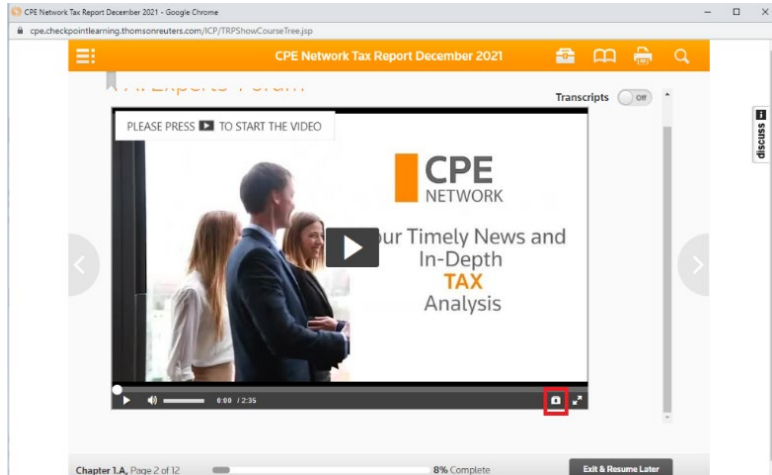


Click down to access the dropdown menu and move between the program Chapters.

- **Course Information** is the course Overview, including information about the authors and the program learning objectives



- Each Chapter is self-contained. Each chapter contains the executive summary and learning objectives for that segment, followed by the interview, the related supplemental materials, and then the discussion questions.



Video segments may be downloaded from the CPL player by clicking on the download button noted above. Tip: You may need to use the scroll bar to the right of the video to see the download button.

PDFs may be downloaded from either the course toolbox in the upper right corner of the Checkpoint Learning screen or from the email sent by Checkpoint Learning CPE Customer Service.

What Does It Mean to Be a CPE Sponsor?

If your organization chooses to vary from the instructions outlined in this User Guide, your firm will become the CPE Sponsor for this monthly series. The sponsor rules and requirements noted below are only highlights and reflect those of NASBA, the national body that sets guidance for development, presentation, and documentation for CPE programs. **For any specific questions about state sponsor requirements, please contact your state board. They are the final authority regarding CPE Sponsor requirements.** Generally, the following responsibilities are required of the sponsor:

- Arrange for a location for the presentation
- Advertise the course to your anticipated participants and disclose significant features of the program in advance
- Set the start time
- Establish participant sign-in procedures
- Coordinate audio-visual requirements with the facilitator
- Arrange appropriate breaks
- Have a real-time instructor during program presentation
- Ensure that the instructor delivers and documents elements of engagement
- Monitor participant attendance (make notations of late arrivals, early departures, and “no shows”)
- Solicit course evaluations from participants
- Award CPE credit and issue certificates of completion
- Retain records for five years

The following information includes instructions and generic forms to assist you in fulfilling your responsibilities as program sponsor.

CPE Sponsor Requirements

Determining CPE Credit Increments

Sponsored seminars are measured by program length, with one 50-minute period equal to one CPE credit. One-half CPE credit increments (equal to 25 minutes) are permitted after the first credit has been earned. Sponsors must monitor the program length and the participants' attendance in order to award the appropriate number of CPE credits.

Program Presentation

CPE program sponsors must provide descriptive materials that enable CPAs to assess the appropriateness of learning activities. CPE program sponsors must make the following information available in advance:

- Learning objectives.
- Instructional delivery methods.
- Recommended CPE credit and recommended field of study.
- Prerequisites.
- Program level.
- Advance preparation.
- Program description.
- Course registration and, where applicable, attendance requirements.
- Refund policy for courses sold for a fee/cancellation policy.
- Complaint resolution policy.
- Official NASBA sponsor statement, if an approved NASBA sponsor (explaining final authority of acceptance of CPE credits).

Disclose Significant Features of Program in Advance

For potential participants to effectively plan their CPE, the program sponsor must disclose the significant features of the program in advance (e.g., through the use of brochures, website, electronic notices, invitations, direct mail, or other announcements). When CPE programs are offered in conjunction with non-educational activities, or when several CPE programs are offered concurrently, participants must receive an appropriate schedule of events indicating those components that are recommended for CPE credit. The CPE program sponsor's registration and attendance policies and procedures must be formalized, published, and made available to participants and include refund/cancellation policies as well as complaint resolution policies.

Monitor Attendance

While it is the participant's responsibility to report the appropriate number of credits earned, CPE program sponsors must maintain a process to monitor individual attendance at group programs to assign the correct number of CPE credits. A participant's self-certification of attendance alone is not sufficient. The sign-in sheet should list the names of each instructor and her/his credentials, as well as the name of each participant attending the seminar. The participant is expected to initial the sheet for their morning attendance and provide their signature for their afternoon attendance. If a participant leaves early, the hours they attended should be documented on the sign-in sheet and on the participant's CPE certificate.

Real Time Instructor During Program Presentation

“Group live” programs must have a qualified, real time instructor while the program is being presented. Program participants must be able to interact with the real time instructor while the course is in progress (including the opportunity to ask questions and receive answers during the presentation).

Elements of Engagement

A “group live” program must include at least one element of engagement related to course content during each credit of CPE (for example, group discussion, polling questions, instructor-posed question with time for participant reflection, or use of a case study with different engagement elements throughout the program).

Awarding CPE Certificates

The CPE certificate is the participant’s record of attendance and is awarded at the conclusion of the seminar. It should reflect the credit hours earned by the individual, with special calculation of credits for those who arrived late or left early. Attached is a sample *Certificate of Attendance* you may use for your convenience.

CFP credit is available if the firm registers with the CFP board as a sponsor and meets the CFP board requirements. IRS credit is available only if the firm registers with the IRS as a sponsor and satisfies their requirements.

Seminar Quality Evaluations for Firm Sponsor

NASBA requires the seminar to include a means for evaluating quality. At the seminar conclusion, evaluations should be solicited from participants and retained by the sponsor for five years. The following statements are required on the evaluation and are used to determine whether:

1. Stated learning objectives were met.
2. Prerequisite requirements were appropriate.
3. Program materials were accurate.
4. Program materials were relevant and contributed to the achievement of the learning objectives.
5. Time allotted to the learning activity was appropriate.
6. Individual instructors were effective.
7. Facilities and/or technological equipment were appropriate.
8. Handout or advance preparation materials were satisfactory.
9. Audio and video materials were effective.

You may use the enclosed preprinted evaluation forms for your convenience.

Retention of Records

The seminar sponsor is required to retain the following information for a period of five years from the date the program is completed unless state law dictates otherwise:

- Record of participation (the original sign-in sheets, now in an editable, electronic signable format)
- Copy of the program materials
- Timed agenda with topics covered and elements of engagement used
- Date and location of course presentation
- Number of CPE credits and field of study breakdown earned by participants
- Instructor name(s) and credentials
- Results of program evaluations

Appendix: Forms

Here are the forms noted above and how to get access to them.

Delivery Method	Form Name	Location	Notes
"Group Live" / "Group Internet Based"	Advertising / Promotional Page	Transcript	Complete this form and circulate to your audience before the training event.
"Group Live"	Attendance Sheet	Transcript	Use this form to track attendance during your training session.
"Group Internet Based"	Webinar Delivery Tracking Report	Transcript	Use this form to track the 'polling questions' which are required to monitor attendance during your webinar.
"Group Live" / "Group Internet Based"	Evaluation Form	Transcript	Circulate the evaluation form at the end of your training session so that participants can review and comment on the training.
Self Study	CPE Quizzer Answer Sheet	Transcript	Use this form to record your answers to the quiz.

Getting Help

Should you need support or assistance with your account, please see below:

Support Group	Phone Number	Email Address	Typical Issues/Questions
Technical Support	800.431.9025 (follow option prompts)	checkpointlearning.techsupport@thomsonreuters.com	<ul style="list-style-type: none">• Browser-based• Certificate discrepancies• Accessing courses• Migration questions• Feed issues
Product Support	800.431.9025 (follow option prompts)	checkpointlearning.productsupport@thomsonreuters.com	<ul style="list-style-type: none">• Functionality (how to use, where to find)• Content questions• Login Assistance
Customer Support	800.431.9025 (follow option prompts)	checkpointlearning.cpecustomerservice@thomsonreuters.com	<ul style="list-style-type: none">• Billing• Existing orders• Cancellations• Webinars• Certificates