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EXECUTIVE SUMMARY	1	PART 2. SMALL BUSINESS	
EXPERT ANALYSIS AND COMMENTARY	4	Benefits and Risks of Generative AI for Accountants	24
PART 1. ACCOUNTING		SUPPLEMENTAL MATERIALS	
Special Purpose Frameworks and Required Disclosures	4	Artificial Intelligence and Accountants.....	31
SUPPLEMENTAL MATERIALS		GROUP STUDY MATERIALS	
Navigating Disclosure Requirements for OCBOA Financial Statements	12	A. Discussion Problems.....	35
GROUP STUDY MATERIALS		B. Suggested Answers to Discussion Problems	36
A. Discussion Problems	21	GLOSSARY OF KEY TERMS	37
B. Suggested Answers to Discussion Problems.....	22	CPE QUIZZER	37

Topics for future editions may include:

- PCAOB Proposals on Firm and Engagement Metrics

EXECUTIVE SUMMARY

PART 1. ACCOUNTING

Special Purpose Frameworks and Required Disclosures 3

Russ Madray, CPA reviews special purpose frameworks other than U.S. GAAP, and the disclosures required. These frameworks typically include cash and tax, among others. *[Running time: 40:48]*

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

- Identify which bases are considered special purpose frameworks
- Determine where guidance on special purpose frameworks is found and what is required to be evaluated
- Identify what differential effects from U.S. GAAP must be disclosed in using a special purpose framework
- Determine which disclosures are appropriate for which special purpose frameworks and the ones that differ from U.S. GAAP
- Identify management's responsibilities

- Identify key limitations of using generative AI
- Identify how generative AI typically interacts with users
- Identify critical components for AI to work effectively
- Determine the impact of AI on replacing human jobs in accounting and finance in the near future

PART 2. SMALL BUSINESS

Benefits and Risks of Generative AI for Accountants 23

Artificial intelligence and generative AI have become hot topics in the past year, as ChatGPT and other large language models have become more accessible and better trained. It's important for professionals to stay informed on the tasks that AI is useful for and to identify where risks and limitations exist. Brad Gold, JD, discusses both the potential benefits to practitioners and the areas of risk. *[Running time: 34:01]*

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

- Identify the primary reason for the recent surge in discussions surrounding AI

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.

Brad Gold, JD, has a degree in Corporate Communication from the University of Texas, and a law degree from the University of Southern California. His previous work experience includes entrepreneurial ventures in fashion, marketing, furniture manufacturing, and eco-friendly shipping containers. Through these various business ventures, a 15+ year legal practice focused in compliance and business systems frameworks, and deep academic research into business ethics, behavioral economics, traditional economics, and fraudulent business practices, Brad gained a diverse knowledge base in finance and accounting that is highly practical, focused on legal compliance, and grounded in business case studies. Brad taught business law, business ethics, and public speaking at UT, and serves as Vice Chair of Canada's Mirror Committee to ISO/PC 317. Brad is a practicing attorney and Practice Group Chair of his firm's IP and technology law group focused upon privacy, cybersecurity, AI, and other technology compliance systems, with one of the country's first virtual law firms, Grable Martin, PLLC.

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—From a Declaration of Principles jointly adopted by a *Committee of the American Bar Association* and *Committee of Publishers and Association*

PART 1. ACCOUNTING

Special Purpose Frameworks and Required Disclosures

U.S. Generally Accepted Accounting Principles (GAAP) are set by the Financial Accounting Standards Board; however, it is not the only accounting framework in use by entities. Special purpose frameworks are used by far more organizations. These special purpose frameworks include cash, modified cash, and the tax basis, among others. While guidance on these frameworks can be found in both the auditing and the accounting and review services literature, determining appropriate disclosures can be challenging for preparers.

For more on special purpose frameworks and the disclosures needed, let's join Russ Madray, a CPA in South Carolina, and CPE Network's Debi Grove Casey.

Ms. Grove Casey

Today we want to talk about something related to an alternative to U.S. generally accepted accounting principles or U.S. GAAP as it's more frequently called. Those are collectively referred to in the authoritative literature as special purpose frameworks. To begin with, can you explain what special purpose frameworks are?

Mr. Madray

Yes, sure. When we talk about special purpose frameworks, we're typically talking about four or five categories of things, frameworks or bases of accounting that can be used to prepare financial statements. As you see on this next slide, cash basis is one of those, which is... defined as the basis of accounting the entity uses to record cash receipts and disbursements, as well as modifications of that cash basis. Tax basis, which is the basis of accounting the entity uses to file its tax return for the period covered by the financial statements. Regulatory basis would be a basis of accounting an entity uses to comply with the requirements or reporting provisions of a regulatory agency in which the entity is subject to their jurisdiction. A contractual basis would be a basis of accounting the entity uses to comply with an agreement between an entity and one or more third parties other than an auditor. And then that kind of catch-all at the end, the other basis—basis of accounting uses a definite set of logical, reasonable criteria that's applied to all material items that appear in the financial statements. So looking at all of those, you see some more than others as alternatives to U.S. GAAP. Cash basis, and more specifically, modified cash is fairly common. Tax basis using the basis used for the income tax return is fairly common. The regulatory basis is very limited in terms that you see this for example in the insurance industry. Contractual basis, it's very rare that would be, for example, there could be a contract between parties in an acquisition where financial statements were prepared according to a certain set of guidelines, again, not very common. And then on other basis, the only thing I know of that kind of falls into that category is the AICPA's framework for small and medium-sized entities, which is a definite set of logical, reasonable criteria that's applied to all material items. But a lot of times we're talking about special purpose frameworks or what are sometimes referred to as other comprehensive bases of accounting, or OCBOA, financial statements, quite often we're talking about cash basis and tax basis. Those would be the two most common that we see. Now one of the most difficult issues that folks have with preparing these types of financial statements is dealing with the question of disclosures within those financial statements.

That's because there's no authoritative accounting literature that addresses basis of accounting other than US GAAP, and clearly nothing that addresses the disclosures that are necessary in these types of presentations. So think about it, GAAP financial statements, you follow the requirements of US GAAP. If it's IFRS financial statements, you follow the IFRS, but if you are preparing cash basis statements, what do you follow? There's no authoritative accounting literature that applies to that. But, we can find some guidance on disclosure information or disclosure requirements in a couple of other places.

One [place] would be in our statements on auditing standards (SASs) or the auditing guidance and the other is the statements on standards for accounting and review services, the SSARS, which apply to compilation, review, and preparation engagements. Now, again, a bit unusual because these are engagement standards directed at auditors and

those reporting on financial statements. But, because there's a lack of any authoritative accounting guidance in these areas, these kind of become the de facto authoritative guidance when it comes to disclosures, at least. So we do have some things we can look to and analogize from in order to come to a conclusion about what needs to be disclosed in the notes of financial statements prepared, especially on a cash basis or tax basis of accounting.

Ms. Grove Casey

Let's start with the audit guidance. There, they refer to it as other comprehensive bases of accounting. It doesn't preclude you from performing that service, but you do have to have a framework. So what does it tell us about these frameworks?

Mr. Madray

Sure. It's found in AU-C Section 800. It's called Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks. It provides some authoritative guidance related to these types of presentations. Specifically, AU-C 800 requires auditors to evaluate whether OCBOA financial statements are suitably titled, whether they include a summary of significant accounting policies and do they adequately describe the differences between the special purpose framework and U.S. GAAP. That audit guidance further requires that when OCBOA financial statements include items that are the same as or similar to those in financial statements prepared under U.S. GAAP, the auditor will need to evaluate whether those OCBOA financial statements include disclosures similar to those required by U.S. GAAP.

Also, the auditor would need to evaluate whether additional disclosures beyond those specifically required by the framework that are related to matters not specifically identified on the face of the financial statements or other disclosures might be necessary for the financial statements to achieve fair presentation. That audit guidance further indicates that achieving fair presentation includes providing all informative disclosures that are appropriate for the applicable financial reporting framework, including matters that affect use, understanding, or interpretation of those financial statements.

There's an appendix in this audit guidance that provides further detail in determining the adequacy of disclosures that are prepared using a special purpose framework, including some examples of qualitative disclosure information and some U.S. GAAP disclosure requirements that would not be relevant to some specific special purpose frameworks. Finally, that audit guidance indicates that OCBOA financial statements can substitute quantitative information for the quantitative information that U.S. GAAP requires or as an alternative to provide information that communicates the substance of those same requirements. There's an example there that indicates that disclosing estimated percentages of revenue rather than amounts as required by US GAAP might adequately convey the significance of sales or leasing to related parties, major customers, that kind of thing. So that's the bulk of what we look to for making determinations about adequate disclosure in OCBOA financial statements, although again, as I mentioned, there's some other sources that kind of support these same kinds of requirements.

Ms. Grove Casey

What about those other sources of guidance? Let's talk about those.

Mr. Madray

Oh, sure. You can also, as I mentioned, find some reference to this in the SSARS, the standards that are applicable to compilation, review, and preparation engagements. These standards require or indicate that OCBOA financial statements in order to be appropriate in form should include, and we've got this on the next slide, a description of the special purpose framework, including a summary of significant accounting policies and how the framework differs from GAAP. Again, mirroring what's in the audit guidance. Also... informative disclosures similar to those required by U.S. GAAP for items that are the same as or similar to those in financial statements prepared in accordance with U.S. GAAP. Again, mirroring the auditing guidance. And finally, additional disclosures beyond those specifically required by the framework that may be necessary for the special purpose framework to achieve fair presentation, again, mirroring the guidance that is found in the auditing standards.

Now, one other thing that we would look to, one other source of guidance, albeit a non-authoritative source, the AICPA has a practice aid, called *Accounting and Financial Reporting Guidelines for Cash and Tax Basis Financial Statements*. Again, it's non-authoritative. It's not an... authoritative standard or anything of that nature, but it provides some guidance about preparing financial statements using a cash basis or a tax basis framework. It's intended to provide those that prepare these types of financial statements with some guidelines and best practices in order to promote some consistency in resolving some difficult questions regarding the preparation of these types of financial statements.

And it, again, mirrors and expands upon by providing some examples and illustrations of what we just mentioned from the auditing guidance and from the SSARS. So if you pull all of this together, we think a reasonable approach to determining appropriate disclosures in OCBOA financial statements would be to consider these three things. One, we know we need to have a summary of significant accounting policies. Two, we know we need some disclosures related to items that appear in the financial statements. And three, we need to consider other U.S. GAAP disclosure requirements and whether they may need to be included or would be appropriate for those particular special purpose framework presentations. So that's kind of what it boils down to is looking at those three areas.

Ms. Grove Casey

Well, let's start with the first one. That summary of significant accounting policies. Really for users of the financial statements that tells them a huge amount about what's going on with the entity and policies that they've adopted. There's a lot of explanation there. So let's explain how that applies to these particular frameworks.

Mr. Madray

Sure, well, Topic 235, which is part of U.S. GAAP, part of the Accounting Standards Classification, Topic 235 is notes to the financial statements, and it addresses disclosure of accounting policies in GAAP financial statements. Specifically, one part of that topic 235 indicates that disclosure of accounting policies should identify and describe the accounting principles followed by the entity and the methods of applying those principles that materially affect the determination of financial position, cash flows, or results of operations. Now, as I mentioned a moment ago, both the audit guidance and the SSARSs requires that the notes to the financial statements in OCBOA presentations include a summary of significant accounting policies. So taking all that together, you can think of the accounting policies for OCBOA financial statements as needing to include several things.

First, the description of the basis of accounting. Now in this case, that description only needs to identify the basis. So for example, you can describe it as the cash basis of accounting modified to record certain assets or liabilities, or simply call it the modified cash basis, or maybe call it the basis of accounting used for federal income tax reporting. It also needs to describe the primary differences between the framework used and U.S. GAAP. Now that description ordinarily would only include some material differences. Other differences don't necessarily need to be described. So items in the balance sheet that would be accounted for differently under U.S. GAAP could be used to identify those differences, and both the audit guidance and the SSARS indicate that quantifying the effects of those differences is not required. So just describing the material differences between the basis used and U.S. GAAP would be sufficient here. If there are no material differences... so for example, if you're using the income tax basis to comply with a partnership agreement, there..., probably would not be any significant differences between U.S. GAAP and that income tax basis, then you would disclose the fact that there's no material differences in that policy note.

Now, Topic 235 requires disclosure of all the significant accounting policies used to prepare the financial statements. In particular, one part of that requires disclosure of any accounting policies that involve a selection from existing acceptable alternatives, industry peculiarities, unusual innovative applications of accounting principles. So in addition to the description of the basis, OCBOA financial statements would need to disclose accounting policies that are significant to the presentation. Now, as a side note, typically accounting policies can be sufficiently described through the description of the major differences from U.S. GAAP. So for example, if there's several items that are accounted for differently under this particular framework than would be under U.S. GAAP, but the only material difference is how revenue is recognized, then the description of the revenue differences would probably be all that is needed in that case. To give you some examples, let's take the modified cash basis.

So, a description of the primary differences from U.S. GAAP in this case, would need to provide enough information for the financial statement reader to understand the basis that's being used. The description of the basis doesn't need to identify... the modifications of the cash basis. It could look like the example we have on the next slide. The accompanying financial statements have been prepared on the cash basis of accounting, modified to record assets, liabilities with respect to cash transactions and events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred.

The modifications result in the recording of investments, inventories, capital assets, and related short-term and long-term obligations on the statement of financial position. This basis of accounting represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, U.S. GAAP. This basis of accounting differs from U.S. GAAP primarily because certain revenue and related assets, such as accounts receivable and revenue for billed or provided services not yet collected, and other accrued revenue and receivables have been recognized when received rather than when earned, and certain expenses and related liabilities that have been recognized when paid rather than when the obligations were incurred. So that's an example of what you might see in a modified cash basis.

In an income tax basis presentation, we're going to take a little bit of a different tact on this, because among other things, the description of the accounting basis, if we're using an income tax basis, should indicate whether we're a cash method taxpayer or accrual method taxpayer for tax reporting purposes. In addition to that, since federal tax law often differs from that of other tax authorities, we typically would need to disclose which tax reporting scheme is used, something like the accrual basis of accounting used for federal income tax reporting.

So, on the next slide, we have an example of what this disclosure might look like for a cash method taxpayer. As you see here, the accompanying financial statements have been prepared using the cash method of accounting used by the company for federal income tax purposes, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, U.S. GAAP. Then we describe the material differences between U.S. GAAP and this particular basis of accounting. On the next slide, we have an example of this disclosure for an accrual method taxpayer. So it might say something like this, the accompanying financial statements have been prepared using the accrual method of accounting the company uses for federal income tax purposes, yada, yada, yada. This basis differs from U.S. GAAP primarily because the company expenses the cost of certain types of assets in accordance with section 179. U.S. GAAP requires that such assets be capitalized and expensed over their estimated useful lives. So that's an example.

Some other things that we might want to include in that summary of significant accounting policies for tax basis presentation would include things like on this next slide, the tax filing status of the entity. So is it a C corp? Is it an S corp? Is it something else? How is it reported that revenues are related to assets, and expenses and related obligations are recognized only when they are reported or deducted for federal income tax purposes. You might want to include that non-taxable income and non-deductible expenses are included in the determination of the equivalent of operating results or net income. So while they may not have these items, I often say the tax basis of accounting does not have to be a mirror image of the tax return. We might very well include non-taxable income or non-deductible expenses on our tax basis financial statement presentation. And again, if so, we want to disclose that kind of information in the note. We might want to include the nature of any optional tax methods of accounting that are followed, as well as the nature of any important judgments or policies that are necessary for understanding the methods of recognizing revenue, allocating costs to current future periods and so on.

So there's some other sections to keep in mind while we're still talking about significant accounting policies. There's some other sections of U.S. GAAP that also specify accounting policies that should be disclosed. So for example, Topic 360 on property, plant, and equipment requires that we include a description of the depreciation methods used. Other examples would be policies related to collection of sales or other types of taxes. Policies related to inventory, investments, income taxes, consolidation, and so on.

Beyond kind of the basics we've seen here in these examples, if these other policies that appear in other parts of U.S. GAAP are relevant to the OCBOA financial statements, then we would need to consider including those in that accounting policy note as well. That kind of gives you some examples of starting points at least for what... that type

of accounting policy note might look like and might include. And again, they're examples because every cash basis presentation, every tax basis presentation could be different and might need to include some things that others would not. So it really all is a matter of considering what needs to be disclosed in order to meet those requirements that we find in Topic 235 related to GAAP financial statements.

Ms. Grove Casey

You also mentioned disclosures related to items and financial statements. What kinds of things would we need to consider there?

Mr. Madray

Well, as I mentioned earlier, the authoritative guidance, whether it's in the audit guidance or in the SSARS indicates that if the OCBOA financial statements contain amounts where U.S. GAAP would require disclosure, then those OCBOA financial statements should either provide that same disclosure or provide some type of information that communicates the substance of that disclosure.

In order to do that, as we see on this next slide, that requires us to do several things. One, identifying financial statement items for which U.S. GAAP would require disclosure. I often have people ask me, where can I find a... disclosure checklist for tax-basis financial statements? I say, use a GAAP disclosure checklist because that's how you [have] to go through and identify everything where GAAP would require disclosure. Next, decide whether the U.S. GAAP disclosure requirements are relevant. So, a number of things would simply not be relevant.

U.S. GAAP requires disclosure of a host of information related to fair value measurement, probably not relevant to a tax-basis presentation, so we can just N/A all of those things. That's going to narrow it down to those things where we have items in the OCBOA financial statements that were those items in GAAP financial statements, they would require disclosure. So at that point, what do we do? Do we follow the exact GAAP disclosure requirement? Or, do we convey that information in some other way? There you do have a choice in terms of how to do that. So there's a number of items in the financial statements that require specific disclosure under U.S. GAAP. So clearly, if the U.S. GAAP item has an equivalent item in your OCBOA presentation, then it's clear that those disclosures would probably be relevant to that presentation.

On the next slide, we've got some categories of, again, not necessarily all inclusive, but you can kind of think of it along these lines. First, disclosures related to amounts, things like depreciation, interest, rent, and so on. If U.S. GAAP would require disclosure of an amount, then that amount should be disclosed in those OCBOA financial statements. So for example, the U.S. GAAP requirement to disclose depreciation expense would be relevant in a tax-basis presentation that has depreciable assets because the tax basis financial statements would report depreciation. In addition, depreciation expense is a common modification for a modified cash basis. So disclosure of the depreciation expense would be appropriate in that presentation as well. You also find in U.S. GAAP disclosures related to components of amounts. So for example, components of property and equipment, components of the income tax provision.

So if US GAAP would require disclosing the components of an amount in the financial statements, then those components should also be disclosed in the OCBOA financial statements. So for example, the components of rental or other property and equipment should be disclosed in tax basis statements or in modified cash basis statements if we are capitalizing property and equipment.

On the other hand, the U.S. GAAP requirement to disclose components of income taxes would not be relevant if deferred taxes are not measured, for example, in a modified cash basis, or are not applicable, for example, in an income tax basis. So clearly some things would not be applicable in that case.

Then finally, disclosures related to measurement. For example, assets measured at fair value, assets that have been reduced below their cost, those types of things. In this case, whether the U.S. GAAP requirement is relevant would depend on whether it relates to the same measurement as in the modified cash or tax basis presentation. For example,

the requirement that disclosed information about unrealized gains and losses on investments in marketable securities would not be relevant in a tax basis presentation where we measure those investments at cost. Another example, requirements to provide information about asset valuation allowances would not be relevant to tax basis presentations that only recognize losses when they're actually realized.

Now, a side note here, there's some non-authoritative guidance in the AICPA's technical questions and answers that address one issue here specifically, the applicability of fair value disclosure requirements in Topic 820 to financial statements prepared in accordance with a special purpose framework. And it specifically addresses whether financial statements prepared using one of these special purpose frameworks that include accounts measured at fair value should comply with the fair value disclosure requirements in Topic 820. That technical question indicates that if the special purpose financial statements include assets and liabilities measured at fair value in accordance with ASC 820, then the disclosure requirements should be considered. That's going to be, I think, fairly rare, but it is one specific, one source, non-authoritative source that addresses that specific issue and addresses it specifically.

Beyond that, disclosures related to transactions, so things like descriptions of leasing arrangements, scheduled principal reduction of long-term obligations, terms of related party transactions. These typically would be relevant to OCBOA presentations, but alternatives could be used like narrative descriptions that might convey the same information.

And then finally, disclosures related to other information. So for example, the relationship with the tax provision to pre-tax income. Generally, that's just going to depend on the basis of accounting. So for example, under the modified cash basis, you wouldn't expect the relationship with income taxes and pre-tax income to be predictable, so that U.S. GAAP requirement to disclose the primary reasons for the variance in the relationship would not be relevant.

On the other hand, notes to the financial statements probably should include disclosure of commitments related to long-term lease agreements even though the amount of rent expense may differ depending on the basis of accounting that's used.

That's where I think we're going to find the bulk of the work in determining the appropriate disclosures in these presentations. [It] is in going through the items in the financial statements that require disclosure under U.S. GAAP, but hopefully those categories that we spoke of give you some way to organize and approach making those evaluations related to those items that actually appear in the financial statements.

Ms. Grove Casey

You mentioned other GAAP disclosure requirements. So let's talk about what that would include, because GAAP disclosures are quite extensive. That's the reason that many move to the alternative disclosure... Sometimes it's due to measurement, but the GAAP disclosures are extensive.

Mr. Madray

True. That is true. And there, again, we've touched on Summary of Significant Accounting Policies, we've touched on disclosures related to items that appear in the financial statements. It's important to remember that GAAP also requires disclosures related to a variety of other information that does not correlate directly to items reported in the financial statements. For example, the things you see on this next slide, risks and uncertainties, going concern, subsequent events, related party transactions, commitments and contingencies, impairment, uncertainty in tax positions, arrangements with variable interest entities. And again, this is not all inclusive, but these are some areas where GAAP does require specific disclosure that very well could apply to OCBOA presentations. And so we need to evaluate whether we need similar types of disclosures in these presentations. So following that same approach, identifying the other information where US GAAP would require disclosure, again, back to the disclosure checklist, decide whether it's relevant, and then if it's relevant, decide how we want to disclose or communicate this information in our OCBOA presentations. So... going through some of those categories, risks and uncertainties, for example, we find the guidance in Topic 275, which requires in GAAP financial statements information about four areas: One, nature of operations; Two, use of estimates; Three, certain significant estimates; and four, vulnerability due to concentrations.

So these kinds of things, similar things, would need to be considered in OCBOA presentations. Again, keeping in mind that you do have some options here to use perhaps narrative descriptions or percentages or something, and it may not have to meet specifically the requirement as set forth in Topic 275. But these same kinds of things certainly are relevant to most presentations, regardless of whether they are GAAP or cash or tax bases. Another example is going concern. Topic 205 addresses going concern within U.S. GAAP, provides guidance on evaluation of going concern, indicates an evaluation of the entity's ability to continue with the going concern is a management responsibility and requires disclosure of certain matters related to goal and concern. Specifically, that guidance requires management to evaluate whether conditions or events indicate there is substantial doubt about the entity's ability to continue as a going concern for one year from the date the financial statements are issued.

Now, clearly there is no explicit requirement in modified cash or income tax basis statements for management to evaluate the entity's ability to continue as a going concern. But as an auditor, there is a requirement and also under the SSARS, there is a requirement to consider this and consider whether management has... made these determinations. And specifically, in the audit guidance and in the SSARS, it states that when an entity uses a financial reporting framework that does not specify a forward-looking time period, then a reasonable period of time is within one year from the date the financial statements are issued....

Bottom line is, going concern is a relevant issue, whether we're talking about GAAP financial statements where it is a specific requirement for management to make an evaluation. It's just as relevant to any other type of presentation if there are concerns about the ability of the entity to continue as a going concern. I've got a couple of examples of what that disclosure might look like on the next slide.

The company has sustained recurring losses in negative cash flows from operations over the past year. The company's growth has been funded through a combination of private equity, bank debt, lease financing. As of December 30th, the company had approximately 175,000 of unrestricted cash and so on and so on. This is an example where the company believes the steps they've taken have alleviated the substantial doubt and they will continue to move forward, so they do not have substantial doubt.

However, that's not always the case. And on the next slide, we have an example where substantial doubt is not alleviated. And it just goes through the situation, the issues that are going on. And in the final part of this, the financial statements do not include any adjustments to reflect the possible future effects on recoverability and classification of assets or the amounts and classifications and liabilities that may result should the company be unable to continue as a going concern. So again, it's just an issue that has to be considered. It cannot be simply taken off the table or ignored even if the statements are prepared using a cash basis or a tax basis.

Another area is subsequent events. This comes from Topic 855 under U.S. GAAP. Subsequent events are divided into two categories. There's recognized subsequent events and non-recognized subsequent events. Here again, we have some non-authoritative guidance in the form of an AICPA technical question and answer that specifically addresses the question of whether financial statements prepared using a special purpose framework need to include the disclosures related to subsequent events in Topic 855. And it specifically clarifies that these disclosures should be made in financial statements prepared on the cash basis or income tax basis of accounting. And clearly, this is where that GAAP requirement...

would be applicable where we state that management has evaluated events subsequent to December 31st through March 15th, which is the date the financial statements are available to be issued and yada, yada, yada.

So clearly another area that would be relevant in most cases. Related party transactions, again, those can exist regardless of what basis is used to prepare the financial statements, and the same types of considerations should be given to the types of disclosures that should be made in financial statements, whether they're cash, tax bases, or any other special purpose framework related to related party transactions.

Finally, some other areas to consider. Again, not all inclusive, but mainly trying to illustrate that there are a number of things that need to be considered in these presentations because they very well could be relevant. Things like

commitments and contingencies, existence and nature of any kind of post-retirement benefit plans, existence and nature of any kind of asset impairment, information about uncertain tax positions, information about arrangements and relationships with variable interest entities.

There are others. No substitute for going through a disclosure checklist and considering all of it and its applicability to a presentation that is based on a special purpose framework. So, as I said, when we started off, one of the common misconceptions related to special purpose frameworks is there's a substantial reduction in disclosure requirements compared with U.S. GAAP. And while clearly there are some things that would not be required or not relevant, there are clearly many, many others, as we've just discussed, that would be required to communicate the same information that's communicated in disclosures required for any U.S. GAAP presentation.

So bottom line is you're not going to get a substantial reduction in the amount of work related to disclosures simply because the statements are prepared using a special purpose framework, such as a cash basis or a tax basis of accounting. Lots to consider there and hopefully this is helpful in kind of going in the right direction on what needs to be considered.

SUPPLEMENTAL MATERIALS

Navigating Disclosure Requirements for OCBOA Financial Statements

by J. Russell Madray, CPA, CIA, CGMA, CFM

Overview

There are widely-used alternatives to U.S. generally accepted accounting principles (U.S. GAAP) which are collectively referred to in the authoritative literature as special purpose frameworks. These other frameworks include:

- **Cash Basis:** A basis of accounting that the entity uses to record cash receipts and disbursements and modifications of the cash basis having substantial support
- **Tax Basis:** A basis of accounting that the entity uses to file its tax return for the period covered by the financial statements
- **Regulatory Basis:** A basis of accounting that the entity uses to comply with the requirements or financial reporting provisions of a regulatory agency to which jurisdiction the entity is subject
- **Contractual Basis:** A basis of accounting that the entity uses to comply with an agreement between the entity and one or more third parties other than the auditor
- **Other Basis:** A basis of accounting that uses a definite set of logical, reasonable criteria that is applied to all material items appearing in financial statements

OBSERVATION: The cash basis, tax basis, regulatory basis, and other basis of accounting are commonly referred to as other comprehensive bases of accounting (OCBOA).

Perhaps the most difficult issue practitioners need to address in preparing and reporting on OCBOA financial statements—whether cash basis or tax basis—relates to the adequacy of disclosure within those statements. This is because authoritative accounting literature does not address bases of accounting other than U.S. GAAP or the disclosures necessary in such presentations. However, guidance on disclosing information in such presentations can be found in both the Statements on Auditing Standards (SASs) and the Statements on Standards for Accounting and Review Services (SSARs).

Audit Guidance

AU-C 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*, provides authoritative guidance related to OCBOA financial statements. AU-C 800.16 requires auditors to evaluate whether OCBOA financial statements are suitably titled, include a summary of significant accounting policies, and adequately describe differences between the special purpose framework and U.S. GAAP.

AU-C 800.18 requires that, when OCBOA financial statements include items that are the same as or similar to those in financial statements prepared under U.S. GAAP, the auditor should evaluate whether the OCBOA financial statements include informative disclosures similar to those required by U.S. GAAP. Also, the auditor should evaluate whether additional disclosures, beyond those specifically required by the framework, that are related to matters not specifically identified on the face of the financial statements, or other disclosures, are necessary for the financial statements to achieve fair presentation.

AU-C 800.A25 indicates that achieving fair presentation includes providing all informative disclosures appropriate for the applicable financial reporting framework, including matters that affect the use, understanding, and interpretation of the financial statements. AU-C 800.A40, Appendix B, *Fair Presentation and Adequate Disclosures*, provides more guidance on determining the adequacy of disclosures prepared using a special purpose framework, including examples of qualitative disclosure information and some U.S. GAAP disclosure requirements that would not be relevant to specific special purpose frameworks.

Further, AU-C 800.A27 indicates that OCBOA financial statements may substitute qualitative information for the quantitative information that U.S. GAAP requires or, alternatively, provide information that communicates the substance of those requirements. An example indicates that disclosing estimated percentages of revenues, rather than amounts as required by U.S. GAAP, may adequately convey the significance of sales or leasing to related parties or major customers.

SSARs Guidance

Guidance on disclosures in OCBOA financial statements is also found in AR-C 80, *Compilation Engagements*, and AR-C 90, *Review of Financial Statements*. The SSARs indicate that for compiled or reviewed OCBOA financial statements to be appropriate in form, they should include:

- A description of the special purpose framework, including a summary of significant accounting policies, and how the framework differs from U.S. GAAP
- Informative disclosures similar to those required by U.S. GAAP for items that are the same as, or similar to, those in financial statements prepared in accordance with U.S. GAAP
- Additional disclosures beyond those specifically required by the framework that may be necessary for the special purpose framework to achieve fair presentation.

The SSARs also include much of the same disclosure information found in AU-C 800.

AICPA Practice Aid

The AICPA has a practice aid, *Accounting and Financial Reporting Guidelines For Cash- and Tax-Basis Financial Statements* (the AICPA Practice Aid), that provides nonauthoritative guidance about preparing financial statements using a cash basis or tax basis financial reporting framework. This practice aid is intended to provide preparers of cash- and tax-basis financial statements with guidelines and best practices to promote consistency and for resolving the often difficult questions regarding the preparation of such financial statements.

Based on the above sources of authoritative and non-authoritative guidance, a reasonable approach to determining the appropriate disclosures in OCBOA financial statements is to consider the following:

- Summary of significant accounting policies
- Disclosures related to items in the financial statements
- Other U.S. GAAP disclosure requirements

Summary of Significant Accounting Policies

FASB Accounting Standards Codification (ASC) 235, *Notes to Financial Statements*, addresses disclosure of accounting policies in U.S. GAAP financial statements. Specifically, ASC 235-10-50-3 indicates that “Disclosure of accounting policies shall identify and describe the accounting principles followed by the entity and the methods of applying those principles that materially affect the determination of financial position, cash flows, or results of operations.” As noted above, both the audit guidance and the SSARs require that the notes to the financial statements include a summary of significant accounting policies. Accordingly, ASC 235, AU-C 800, and the SSARs provide authoritative guidance on the summary of significant accounting policies for OCBOA financial statements as explained below.

- **Basis of Accounting:** The description only needs to identify the basis (e.g., “the cash basis of accounting, modified to record certain assets or liabilities” or “the modified cash basis;” “the basis of accounting used for federal income tax reporting” or “the accrual method of accounting used for federal income tax purposes”).

- Primary Differences between the Basis Used and U.S. GAAP: The description ordinarily only includes the material differences; the remaining differences need not be described. Items in the statement of financial position that would be accounted for differently under U.S. GAAP can be used to identify these differences. Both the audit guidance and the SSARSs indicate that quantifying the effects of differences in the description of the basis is not required.

If there are no material differences between U.S. GAAP and the basis used (e.g., when the income tax basis is used solely to comply with a partnership agreement), the fact that there are no material differences should be disclosed.

ASC 235-10-50-1 requires disclosure in U.S. GAAP financial statements of all the significant accounting policies used to prepare the statements. In particular, ASC 235-10-50-3 requires disclosure of any accounting policies that involve a selection from existing acceptable alternatives, industry peculiarities, and unusual or innovative applications of accounting principles. Therefore, in addition to the description of the basis, the OCBOA financial statements should disclose the accounting policies significant to the presentation.

OBSERVATION: Typically, accounting policies can be sufficiently described through the description of the major differences from U.S. GAAP. For example, if there are several items that are accounted for differently under the special purpose framework than they would be under U.S. GAAP, but the only material difference is how revenue is recognized, a description of the revenue difference is all that would be needed.

Modified Cash Basis

The description of the primary differences from U.S. GAAP should provide enough information for the financial statement reader to understand the basis. Therefore, the description of the basis does not need to identify the modifications of the cash basis. The following is an example of this description:

The accompanying financial statements have been prepared on the cash basis of accounting, modified to record assets or liabilities with respect to cash transactions and events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. The modifications result in the recording of investments, inventories, capital assets, and related short-term and long-term obligations on the statement of financial position. This basis of accounting represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (U.S. GAAP). This basis of accounting differs from U.S. GAAP primarily because certain revenue and related assets (such as accounts receivable and revenue for billed or provided services not yet collected, and other accrued revenue and receivables) have been recognized when received rather than when earned and certain expenses and related liabilities (such as accounts payable and expenses for goods or services received but not yet paid, and other accrued liabilities and expenses) have been recognized when paid rather than when the obligations were incurred.

Income Tax Basis Presentations

The description of the accounting basis should indicate whether the cash method or accrual method of accounting is used for tax reporting. In addition, since federal tax law often differs from that of other taxing authorities, it is helpful to disclose which tax reporting scheme is used, such as the “accrual basis of accounting used for federal income tax reporting.” The following is an example of the description for a cash method taxpayer:

The accompanying financial statements have been prepared using the cash method of accounting used by the Company for federal income tax purposes, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (U.S. GAAP). That basis differs from U.S. GAAP primarily because receipts of customer payments in advance are recognized immediately instead of being deferred and because expenses generally are recognized when paid instead of when the underlying obligation is incurred.

The following is an example of the description for an accrual method taxpayer:

The accompanying financial statements have been prepared using the accrual method of accounting that the Company uses for federal income tax purposes, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (U.S. GAAP). This basis differs from U.S. GAAP primarily because the Company expenses the cost of certain types of assets in accordance with IRC 179. U.S. GAAP requires that such assets be capitalized and expensed over their estimated useful lives.

Typically, the summary of significant accounting policies note for tax-basis financial statements would also include disclosure of the following:

- The tax filing status of the entity, if other than a taxable corporation (that is, a C corporation)
- That revenues and related assets and expenses and related obligations are recognized only when they are reported or deducted for federal income tax purposes
- That nontaxable income and nondeductible expenses are included in the determination of the equivalent of operating results or “net income”
- The nature of any optional tax methods of accounting followed
- The nature of any important judgments or policies necessary for an understanding of the methods of recognizing revenue and allocating costs to current and future periods

OBSERVATION: There are various sections of the ASC that also specify accounting policies that should be disclosed. Examples include a description of depreciation methods required by ASC 360, *Property, Plant, and Equipment*, and disclosures about policies related to the collection of sales and similar taxes required by ASC 606, *Revenue from Contracts with Customers*. Other examples include policies related to inventory, investments, income taxes, and consolidation. Accordingly, if the policies are relevant to the OCBOA financial statements, similar disclosures should be provided.

Disclosures Related to Items in the Financial Statements

As discussed above, the authoritative guidance indicates that if OCBOA financial statements contain amounts for which U.S. GAAP would require disclosure, the financial statements should either provide the relevant disclosure or provide information that communicates the substance of that disclosure. Applying that guidance requires (a) identifying financial statement items for which U.S. GAAP would require disclosure; (b) deciding whether the U.S. GAAP disclosure requirement is relevant; and (c) if the requirement is relevant, deciding whether to follow that requirement or to meet the objective of that requirement through other means.

U.S. GAAP requires a number of disclosures for items reported in financial statements. Accordingly, if the U.S. GAAP item has an equivalent item in the modified cash or income tax basis presentation, it seems reasonable that the U.S. GAAP disclosure requirements would be relevant to the presentation. That analysis is illustrated in the following categories of U.S. GAAP disclosures:

- Disclosures related to amounts (e.g., depreciation, interest, rent, etc.)—if U.S. GAAP would require disclosure of an amount, that amount should be disclosed in the OCBOA financial statements. For example, the U.S. GAAP requirement to disclose depreciation expense is relevant to a tax basis presentation that has depreciable assets because the tax basis financial statements would report depreciation. In addition, depreciation expense is a common modification found in modified cash basis presentations. Therefore, disclosure of the depreciation expense would be appropriate in that presentation, as well.

- Disclosures related to components of amounts (e.g., components of property and equipment and the income tax provision)—if U.S. GAAP would require disclosing the components of an amount in the financial statements, those components also should be disclosed in OCBOA financial statements. For example, the components of rental or other property and equipment should be disclosed in tax basis statements or in modified cash basis statements that capitalize property and equipment. However, the U.S. GAAP requirement to disclose the components of income taxes is not relevant if deferred taxes are not measured (e.g., in a modified cash basis presentation) or are not applicable (e.g., in an income tax basis presentation).
- Disclosures related to measurement (e.g., assets measured at fair value, assets that have been reduced below their cost, accrued losses, etc.)—whether the U.S. GAAP requirement is relevant depends on whether it relates to the same measurement as in the modified cash or income tax basis presentation. For example, the requirement to disclose information about unrealized gains and losses on investments in marketable equity securities is not relevant to a tax basis presentation that measures the investments at cost. Similarly, requirements to provide information about asset valuation allowances are not relevant to tax basis presentations that only recognize losses when they are realized.

OBSERVATION: Nonauthoritative guidance in AICPA’s Technical Questions and Answers (TQA) 1800.06, *Applicability of Fair Value Disclosure Requirements in ASC 820 to Financial Statements Prepared in Accordance With a Special Purpose Framework*, specifically addresses whether financial statements prepared using a special purpose framework, that include accounts measured at fair value, should comply with the fair value disclosure requirements in ASC 820, *Fair Value Measurement*. TQA 1800.06 indicates that, if special purpose financial statements include assets or liabilities measured at fair value in accordance with ASC 820, the disclosure requirements of ASC 820 should be considered.

- Disclosures related to transactions (e.g., descriptions of leasing arrangements, scheduled principal reduction of long-term obligations, terms of related-party transactions, etc.)—these requirements generally would be relevant to modified cash and income tax basis presentations, but alternatives (e.g., narrative descriptions) often may be used to communicate the substance of the requirements.
- Disclosures related to other information (e.g., the relationship of the tax provision to pretax income)—generally, whether other information about the item is relevant depends on the basis of accounting. For example, under the modified cash basis, you would not expect the relationship of income taxes and pretax income to be predictable, so the U.S. GAAP requirement to disclose the primary reasons for the variance in the relationship is not relevant. On the other hand, the notes to the financial statements should include disclosure of commitments related to long-term lease agreements, even though the amount of rent expense may differ depending on the basis of accounting used.

Other U.S. GAAP Disclosure Requirements

U.S. GAAP also requires disclosures related to a variety of other information that does not correlate directly to items reported in the financial statements, such as the following:

- Risks and uncertainties
- Going concern considerations
- Subsequent events
- Related-party transactions
- Commitments and contingencies
- Impairment of assets
- Uncertainty in tax positions
- Arrangements with variable interest entities

The need for similar disclosures should be evaluated in modified cash and income tax basis financial statements following an approach similar to the one discussed above. That is, entities should (a) identify the other information for which U.S. GAAP would require disclosure (e.g., by using a disclosure checklist); (b) decide whether the U.S. GAAP disclosure requirement is relevant; and (c) if the requirement is relevant, decide whether to follow that requirement or to meet the objective of that requirement through other means.

Risks and Uncertainties

ASC 275, *Risks and Uncertainties*, requires information about the following four areas:

- a. Nature of operations—this disclosure helps financial statement users understand the nature of the entity’s business and the risks common to that business and would be relevant to all modified cash and income tax basis presentations. Entities should disclose a description of the major products or services the reporting entity sells or provides and its principal markets.
- b. Use of estimates—this disclosure includes an explanation that the preparation of financial statements in accordance with U.S. GAAP requires the use of management’s estimates. Accordingly, the relevance of this information would depend on whether the accounting basis uses estimates. For example, it may be relevant to the modified cash basis, such as when useful lives are estimated for depreciation calculations. The requirement also may be relevant to the income tax basis, such as when estimated direct costs are used to calculate the percentage of completion of contracts.
- c. Certain significant estimates—the purpose of the disclosure is to communicate to financial statement users that there is a reasonable possibility that certain estimated amounts in the current year financial statements will change significantly and affect the subsequent years’ financial statements. Therefore, this information would be relevant to modified cash and tax basis statements that have estimates.
- d. Vulnerability due to concentrations—this disclosure is intended to notify financial statement readers of the reasonable possibility that the loss of a significant customer, supplier, or other concentration will have a severe impact on the entity. The information would be relevant to all modified cash and income tax basis presentations. For example, the reasonable possibility that the loss of the source of a significant portion of the recorded cash receipts will have a severe impact is relevant to the readers of a modified cash basis presentation. Note, however, there is no requirement to quantify the effect. Instead, the significance of the concentration can be conveyed using estimated percentages, such as “approximately 40%,” a ratio, such as “approximately one-third,” or adjectives, such as “most.”

Going Concern Uncertainty

ASC 205-40, *Presentation of Financial Statements—Going Concern*, provides guidance on evaluation of going concern and indicates that the evaluation of an entity’s ability to continue as a going concern is management’s responsibility. ASC 205-40 also requires disclosure of certain matters related to going concern. Specifically, ASC 205-40-50-1 requires management to evaluate whether conditions or events indicate there is substantial doubt about the entity’s ability to continue as a going concern for one year from the date the financial statements are issued or the date the financial statements are available to be issued.

Although the modified cash basis and income tax basis do not include an explicit requirement for management to evaluate the entity’s ability to continue as a going concern for a reasonable period of time, the auditor’s responsibility is addressed in AU-C 570, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern*. Lack of a specific requirement for management to assess going concern under a special purpose framework is also discussed in the SSARs. According to AU-C 570.11 and AR-C 90.08, when the entity uses a financial reporting framework that does not specify a forward-looking time period for management to consider any going concern issue, then a reasonable period of time is within one year from the date the financial statements are issued.

Clearly, financial results should be considered when determining whether there is substantial doubt about the entity's ability to continue as a going concern. However, other conditions also could indicate uncertainty about going concern. For example:

- Other indications of possible financial difficulties—default on loans or similar agreements, denial of usual trade credit from suppliers, a need to restructure debt to avoid default, or a need to seek new sources or methods of financing or to dispose of substantial assets
- Internal matters—work stoppages or other labor difficulties, substantial dependence on the success of a particular project, uneconomic long-term commitments, or a need to significantly revise operations
- External matters—legal proceedings, legislation, or similar matters that might jeopardize the entity's ability to operate; loss of a key franchise, license, or patent; loss of a principal customer or supplier; or an uninsured or underinsured catastrophe such as a hurricane, tornado, earthquake, or flood

Importantly, the presence of the conditions or events above is not impacted by whether the financial statements are prepared using a special purpose framework or U.S. GAAP. Accordingly, it would be unusual for the use of the modified cash or income tax basis rather than U.S. GAAP to affect the conclusion about an entity's ability to continue as a going concern.

If the substantial doubt is alleviated as a result of consideration of management's plans, the following would need to be disclosed in the notes to the financial statements:

- Conditions or events that raised substantial doubt (before consideration of management's plans)
- Management's evaluation of the significance of those conditions or events in relation to the reporting entity's ability to meet its obligations
- Management's plans that alleviated the substantial doubt

The following illustrative disclosure addresses the situation when management has taken steps to alleviate the substantial doubt:

The Company has sustained recurring losses and negative cash flows from operations. Over the past year, the Company's growth has been funded through a combination of private equity, bank debt, and lease financing. As of December 31, 2020, the Company had approximately \$175,000 of unrestricted cash. On January 12, 2021, the Company executed an agreement with a group of private investors, whereby the Company issued \$7,500,000 in convertible subordinated loan notes. The Company believes that, as a result, it currently has sufficient cash and financing commitments to meet its funding requirements over the next year. However, the Company has experienced and continues to experience negative operating margins and negative cash flows from operations, as well as an ongoing requirement for substantial additional capital investment. The Company expects that it will need to raise substantial additional capital to accomplish its business plan over the next several years. The Company expects to seek to obtain additional funding through a bank credit facility or private equity. However, there can be no assurance as to the availability or terms upon which such financing and capital might be available.

If substantial doubt is not alleviated after consideration of management's plans, the following would need to be disclosed in the notes to the financial statements:

- A statement that there is substantial doubt about the reporting entity's ability to continue as a going concern within one year after the date that the financial statements are available to be issued

- Conditions or events that raised substantial doubt
- Management's evaluation of the significance of those conditions or events in relation to the reporting entity's ability to meet its obligations
- Management's plans that are intended to mitigate the conditions or events that raise the substantial doubt

The following is an example of a disclosure where substantial doubt is not alleviated:

The Company incurred a loss of approximately \$1,700,000 in 2020 and continued to experience certain decreases in working capital. As a result, the Company is in technical default of certain covenants contained in its credit and loan agreement with its primary lender. In addition, this default has triggered events of default under certain other obligations of the Company, including the \$1,000,000 interim capital financing notes and certain promissory notes secured by real estate. The holders of the interim capital financing notes and promissory notes may, at their option, give notice to the Company that amounts are immediately due and payable. As a result, \$8,400,000 of the Company's total long-term debt has been classified as a current liability in the accompanying statement of assets and liabilities at December 31, 2020.

The Company's default of the loan agreements described above raises substantial doubt about the Company's ability to continue as a going concern. The Company is currently working with all of its lenders to obtain necessary waivers under the terms of the various agreements and is negotiating with its primary lender to stabilize its lender relationships by establishing certain internal operating and management plans. The Company is also evaluating the disposal of certain assets and raising new capital for future operations. However, there can be no assurance that the Company will be successful in achieving its objectives.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern; however, the above conditions raise substantial doubt about the Company's ability to do so. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result should the Company be unable to continue as a going concern.

Subsequent Events

ASC 855, *Subsequent Events*, sets forth general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued:

- Recognized subsequent events—provide additional information about whether an asset was impaired or a liability was incurred at the end of the reporting period; this information should be considered in determining the carrying amount of the asset or liability at the end of the reporting period
- Non-recognized subsequent events—provide information that does not indicate that an asset was impaired or a liability was incurred at the end of the reporting period, but may require disclosure so the financial statements will not be misleading

ASC 855 also requires disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date on which the financial statements were issued or were available to be issued.

Nonauthoritative guidance in TQA 1500.07, *Disclosure Concerning Subsequent Events in Special Purpose Financial Statements*, specifically addresses the question of whether financial statements prepared using a special purpose framework should contain the disclosures set forth in ASC 855. TQA 1500.07 clarifies that these disclosures should be made in financial statements prepared on the pure cash, modified cash, or income tax basis of accounting.

The following is an example of a subsequent events disclosure:

Management has evaluated events subsequent to December 31, 2020, through March 15, 2021, which is the date the financial statements were available to be issued. There were no subsequent events that required adjustment to or disclosure in the financial statements except as follows. [*describe events as necessary*].

Related Party Transactions

The existence of related party transactions that are material individually or in the aggregate and the nature and amounts of the transactions and balances should be disclosed. Note that tax law may define “related party” differently than it is defined in U.S. GAAP. To avoid confusion, the U.S. GAAP definition of related party should be considered for all financial reporting purposes.

Other Disclosures

The following matters also should be disclosed in OCBOA financial statements, as applicable:

- The existence and nature of any material commitments and contingencies
- The existence and nature of any pension or postretirement plans
- The existence and nature of any asset impairment
- Information about uncertain tax positions
- Information about arrangements with variable interest entities

Summary

One of the common misconceptions related to special purpose frameworks is that there is a substantial reduction in disclosure requirements compared with U.S. GAAP. While there are some disclosures that are not required, other disclosures, as discussed above, are required in addition to those required to communicate the same information as U.S. GAAP disclosures. As such, any reduction in disclosure requirements when preparing special purpose framework financial statements may not be as substantive as initially expected.

GROUP STUDY MATERIALS

A. Discussion Problems

1. Guidance on disclosing information in OCBOA presentations can be found in both the Statements on Auditing Standards (SASs) and the Statements on Standards for Accounting and Review Services (SSARs). Based on that guidance, how should appropriate disclosures be identified in OCBOA presentations?
2. Describe the typical items included in a summary of significant accounting policies note for tax-basis financial statements.
3. Discuss the disclosures related to a variety of other information that does not correlate directly to items reported in the financial statements that should be included.
4. Discuss the four areas that should be included in notes to the financial statements related to risks and uncertainties.
5. ASC 855, *Subsequent Events*, requires disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date on which the financial statements were issued or were available to be issued. Discuss how this requirement applies to OCBOA presentations.
6. Discuss other matters that should also be disclosed in OCBOA presentations.

B. Suggested Answers to Discussion Problems

1. Based on the sources of authoritative and non-authoritative guidance, a reasonable approach to determining the appropriate disclosures in OCBOA financial statements is to consider the following:
 - Summary of significant accounting policies
 - Disclosures related to items in the financial statements
 - Other U.S. GAAP disclosure requirements
2. Typically, the summary of significant accounting policies note for tax-basis financial statements would also include disclosure of the following:
 - The tax filing status of the entity, if other than a taxable corporation (that is, a C corporation)
 - That revenues and related assets and expenses and related obligations are recognized only when they are reported or deducted for federal income tax purposes
 - That nontaxable income and nondeductible expenses are included in the determination of the equivalent of operating results or “net income”
 - The nature of any optional tax methods of accounting followed
 - The nature of any important judgments or policies necessary for an understanding of the methods of recognizing revenue and allocating costs to current and future periods
3. U.S. GAAP also requires disclosures related to a variety of other information that does not correlate directly to items reported in the financial statements, such as the following:
 - a. Risks and uncertainties
 - b. Going concern considerations
 - c. Subsequent events
 - d. Related-party transactions
 - e. Commitments and contingencies
 - f. Impairment of assets
 - g. Uncertainty in tax positions
 - h. Arrangements with variable interest entities
4. ASC 275, *Risks and Uncertainties*, requires information about the following four areas:
 - a. Nature of operations—this disclosure helps financial statement users understand the nature of the entity’s business and the risks common to that business and would be relevant to all modified cash and income tax basis presentations. Entities should disclose a description of the major products or services the reporting entity sells or provides and its principal markets.

- b. Use of estimates—this disclosure includes an explanation that the preparation of financial statements in accordance with U.S. GAAP requires the use of management’s estimates. Accordingly, the relevance of this information would depend on whether the accounting basis uses estimates. For example, it may be relevant to the modified cash basis, such as when useful lives are estimated for depreciation calculations. The requirement also may be relevant to the income tax basis, such as when estimated direct costs are used to calculate the percentage of completion of contracts.
 - c. Certain significant estimates—the purpose of the disclosure is to communicate to financial statement users that there is a reasonable possibility that certain estimated amounts in the current year financial statements will change significantly and affect the subsequent years’ financial statements. Therefore, this information would be relevant to modified cash and tax basis statements that have estimates.
 - d. Vulnerability due to concentrations—this disclosure is intended to notify financial statement readers of the reasonable possibility that the loss of a significant customer, supplier, or other concentration will have a severe impact on the entity. The information would be relevant to all modified cash and income tax basis presentations. For example, the reasonable possibility that the loss of the source of a significant portion of the recorded cash receipts will have a severe impact is relevant to the readers of a modified cash basis presentation. Note, however, there is no requirement to quantify the effect. Instead, the significance of the concentration can be conveyed using estimated percentages, such as “approximately 40%,” a ratio, such as “approximately one-third,” or adjectives, such as “most.”
5. Nonauthoritative guidance in TQA 1500.07, *Disclosure Concerning Subsequent Events in Special Purpose Financial Statements*, specifically addresses the question of whether financial statements prepared using a special purpose framework should contain the disclosures set forth in ASC 855. TQA 1500.07 clarifies that these disclosures should be made in financial statements prepared on the pure cash, modified cash, or income tax basis of accounting.
6. The following matters also should be disclosed in OCBOA financial statements, as applicable:
- a. The existence and nature of any material commitments and contingencies
 - b. The existence and nature of any pension or postretirement plans
 - c. The existence and nature of any asset impairment
 - d. Information about uncertain tax positions
 - e. Information about arrangements with variable interest entities

PART 2. SMALL BUSINESS

Benefits and Risks of Generative AI for Accountants

Artificial intelligence, commonly known as AI, has become extremely popular as a topic of conversation due to its ability to automate tasks and improve efficiency. While AI has the potential to replace certain tasks, it is unlikely to completely replace human jobs in the near future. It is crucial to understand the limitations and risks associated with AI, such as the potential for hallucinations or inaccurate information. Professionals should consider the quality of data fed into AI systems and assess whether implementing AI tools aligns with their specific needs and goals.

For more on AI, its uses and risks, let's join Brad Gold, an attorney with a background in privacy, cybersecurity, and AI, and CPE Network's Debi Grove Casey.

Ms. Grove Casey

So today we want to talk a little bit about generative AI. Artificial intelligence has really taken a huge leap forward, at least in terms of the public interaction with it recently. So to begin with, let's talk about what exactly is AI, and why have people been talking about it so much lately?

Mr. Gold

It's easy to get lost in technical language and these big stories when we're talking about AI. So let's start by breaking it down into its simplest explanation, which is really computers or software making decisions or performing actions on our behalf. This is incredibly important because not only does it help make our lives better, and make performing certain tasks more convenient or faster—and, of course, that's what a lot of technology is about—but when tasks can be automated for us, or communication can be automated for us, we're beginning to reach a point where the work that can be done by software and computers actually starts to reduce our task list as human beings every day. So there's so much conversation about AI and specifically generative AI because the technology has reached a point where it might actually start to look like it can help us in our lives, regardless of our professions and pretty much no matter what we're trying to accomplish every day.

So I mentioned generative AI a moment ago because I think we need to distinguish here between the overall concept of AI, which is software making decisions or taking actions on our behalf versus that word *generative* AI. That's when software generates something that we're asking it to do, and where we've all seen so many headlines over the last year is with the product called ChatGPT. That is a large language model generating words on our behalf. People will type in something like, write me an English paper on the history of everything Napoleon ever did, and then, suddenly it writes out word after word after word. It generates through AI the answer to our question, which isn't just a snippet of information anymore. Now it's what looks like almost a custom written paper that answers our question. So we've been talking about it so much lately because even though AI has been around for a while, it's usefulness and the way that we're interacting with it has really changed over the last year.

Ms. Grove Casey

Well, let's talk a little bit about why accountants and financial service professionals need to know a little bit more about AI because you're right. When we have these large language models, they can deliver maybe some of the reports that in the past we've had to cut and paste together. This could potentially not only do that, I don't want to say grunt work because every one of them has to be tailored. So it's not really grunt work. There's a lot of thought that goes behind it. But that last piece of delivering it correctly, could be helped along by having this AI write the report maybe.

Mr. Gold

Oh gosh, yes, you're absolutely correct that the variety pack of generative AI tools that's becoming available, it certainly seems promising in terms of helping all of us get through our workdays. And me being a practicing attorney,

our audience that is financial service professionals, our days are fairly similar in terms of the mix of administrative work that we have, paperwork that we have to complete, communications that we have to get in and out the door. And then of course, there's the actual deliverables that we need to complete every day and every week on behalf of our clients. And some AI products out there look like they could help us accomplish those tasks and help us be efficient with our days. And that general backdrop of efficiency and integrating this technology into our practice is one reason that we're having this conversation.

Another reason we're having this conversation is because the AICPA is really encouraging us to talk about technology. I think many people are here because they're earning continuing education credits and probably not taking the CPA exam for the first time, but needing to be very aware and familiar with how technology impacts all of us as service providers, as financial professionals, and especially as CPA accountants. When we think about the backdrop of how this can help us, and we know the AICPA is encouraging us to know about this, the other function of having these conversations and doing a conversation more so than just here's a bunch of material, is so that all of us can begin to understand how this technology can work for us.

Whether or not now is a good time to begin integrating this technology, or maybe we're just at the point where we're learning about it and trying to understand it before we make a decision. But either way, no matter where any of our audience members are on that spectrum, having a balanced conversation about what AI is and what it does is going to help advance all of our knowledge in this space. And we don't all have to be doing the same thing.

But the more that we're aware of and familiar with how generative AI is used within our practices and the way our clients are using it, we're all going to improve our knowledge in this space and hopefully be better service providers too.

Ms. Grove Casey

Well, obviously, we talked about how the accountant could use it in their practice, but let's talk about how we could use it and this knowledge related to supporting our clients because some of them are further advanced than we are when it comes to the use of AI and technology in their businesses.

Mr. Gold

That's a great point. Some of our clients are more advanced than we are. And in other cases, clients ask us, what do you know about this? Because they expect us to have the answers. And both sides of that coin are reasons for us to have this conversation. If we have clients that are more advanced with their use of technology, then they're going to expect their service providers to keep up. And for those clients that are just building their awareness and looking for information for the accountants, the attorneys, the financial and legal service professionals out there. We're often expected to know this stuff, even if it's not directly part of our practice and what we do for clients. So anything that we can all do to improve our respective knowledge bases about generative AI and how it gets brought into our practice and how it gets used is... the rising tide that's going to raise all of our ships as we all figure out how to incorporate this into our lives and into our businesses. So another thing to keep in mind here is that we're talking about technology, but generative AI could either be an independent and distinct technology, or it can become a part of something that we're already using.

I know as a legal service provider, as an attorney, some of the legal resources that I use and that my firm uses over time have become AI enabled, or there's AI tools associated with that product. I know the same thing holds true for a lot of accounting software. Before any of you or any of us ever click on, yes, I want to try the AI version of this product, having a conversation like this helps you understand what you might be getting yourself into. I don't think any of those attempts to learn about AI are really going to get anybody in trouble. We'll touch on that more in a couple of minutes. But of course, the more you know, before you click, let me try this, is always going to be a good thing.

Now, I also want to take a moment here to point out the importance of data. Because our... businesses, your accounting practices, generative AI does not work, it can't accomplish anything without having data fed into it. So for all of my CPAs out there that are enjoying this, imagine if somebody asked you to produce a financial statement or to run some taxes without them giving you any numbers. You wouldn't be able to accomplish anything. You could have a skeleton

of, here's what I might do if you gave me some numbers to work with. Generative AI is the same thing. If it doesn't have any information fed into it, it can't accomplish anything. So then the question becomes what information gets fed into it. Well, it's data from the internet. Or if you yourself are creating an AI tool, then maybe you can select some of your own data to put into it. But the bottom line is—generative AI does not work without data being fed into it. So thinking about data, thinking about the privacy of that data, thinking about the security of that data, and thinking about the economic value of that data is a rising conversation all throughout business. And you as CPAs, again, this might not be directly within your practice, but if you want to start thinking about the different angles of the data, which is the raw material that is needed in order to create these products and have the products do their thing, that's a question you might start to get asked depending on what business your clients are in. If your clients make money off of selling data, well that's a very short onramp for them to begin asking you questions about the privacy and security and economic value of that data. I think that's probably a place where the written portion of this could also shed a little bit more light on the issues related to security, privacy, and economics of data.

Ms. Grove Casey

Well, certainly those are very important topics. We want to talk about how this conversation is helpful with regard to implementing AI within an accounting practice. Because you're right, there are a number of tools out there where they're AI-enabled, whether it's research or the other side. So say your Microsoft Office, or if you're running data analytics on something, you can use AI through your Microsoft Office suite, that kind of thing.

Mr. Gold

Yes. So a couple pieces to that puzzle. Just by mentioning Microsoft, you're certainly touching on one of the big pieces of that puzzle, which is, there's generative AI made by different companies out there accomplishing different things. I think most of us are used to and understand the conversation of using a Windows PC versus an Apple Macintosh computer and the implications of that, what software you can use, what compatibility issues you might have, what chargers work with each device and which ones don't. And yes, and that's of course an important piece of this puzzle also because some of the companies that are making AI products, including Microsoft, could be very mature and if it's part of the Microsoft Office suite or it plays nicely, with the other tech tools that we already use in our practice, the integration process to bringing AI into our practice is probably going to be a bit easier. Adding an additional Microsoft app that you don't already have is relatively easy compared to, oh my gosh, I have to set up a whole new piece of software and train people on it and use it, and that's an issue that AI is trying to address.

So what's interesting about many of these AI products is, not only are they trying to accomplish a task, but they're trying to be thoughtful about the fact that most of us never even figured out how to do a proper search for things on the internet. If you and our audience, if you can remember back, because I certainly remember this being in a library as a student growing up and being taught how to actually conduct research, how to use Boolean search terms if you're looking for things on a computer, and to say if I want this word within this word and they have to be within five words of each other, here's how you do it.

Now, I know some of our audience members may be realizing and thinking to themselves, oh yeah, cool, I know how to do that. And... I, in a very nerdy way, think that I'm cool because I know how to do that, but guess what? Most people don't, most people will never learn. My wife hates it when I try to teach her to do that kind of stuff. That's how most of our technology works today. It doesn't work based on people like me trying to take the technically correct and accurate approach. Google and most searches work with, what's the best thing for lunch tomorrow, and more of a natural language style of asking questions and producing information. That's just because that's how we as human beings interact with each other. We have a tendency to want to interact with technology with that same level of just kind of casual interaction.

So generative AI is, not only about what it can produce in terms of written documents or art or even a musical arrangement. It's also about how do we as non-technology people get to interact with it? And the way generative AI products like ChatGPT are created is they're created to work with our natural language tendencies. So if you go to ChatGPT and use the appropriate technical search terms, of course it will spit information back out. But, where it really shines is how it can be prepared to answer questions and prompts that are given to it in natural language, the

way that most of us really talk on a day-to-day basis. So all of that conversation and all of that answer is about recognizing that the makers of these products are trying to make it easier for all of us to integrate these technologies into our businesses and our daily lives and recognize that one of the biggest barriers to bringing in new software and technology is the entire implementation process and what it takes to actually download the software, start using it, start understanding how to get productivity and value out of using it.

I think we're on the cusp of being able to use this software and not have to invest in an undue amount of our time and resources just to get started with it. So to me, I think your question could be a nice parallel to whether or not somebody should go out and buy an electric vehicle tomorrow. Because I think that's a similar conversation that we have in the news. There's a lot of reasons that people might want to go out and buy an electric vehicle tomorrow, but there's also a list of reasons that people say, I might want one, but tomorrow is still a little bit too soon.

And I think that we're seeing a very similar conversation with generative AI. There are some folks that are absolutely ready. There's some folks that are prepared. There's some folks that are interested and say not yet. And then there's some folks that just say, I'm never going to use this and it'll never make sense for my business. And you know what? Everybody's probably right because there's going to be a spectrum of uses, a spectrum of adoption. And for all of us that are part of this conversation, the best thing we can do is even if we don't want to adopt the technology or be a part of it, at least be aware of it and have a nicely informed opinion regarding why it's not quite right for us as opposed to just saying, oh, it's something new and I need to stay away from it. So interesting question.

Yes, I think we're all just about ready, but then we hit that point where it's also going to be up to us as individuals to recognize is this right for me in my practice or are we maybe not quite ready yet. That's what this conversation is largely about.

Ms. Grove Casey

Yes, and I think of that yet quite a bit when it comes to a variety of practices. So I want to give you an analogy there related to the generative AI. So our ability to interact with it is like going from this is a throwback for you and very nerdy. So machine language versus like a visual basic interface, when it came to, I think, access databases? You still have the data there, but how you interact with the machine about that data [is different]. This makes it substantially easier for people who don't have that machine language training, because we have large language model training. That's the way we talk to one another.

Mr. Gold

That's an interesting point. I feel like, yes, the older we are, or the older a human being is, the more likely it is that we've actually already trained our brain on large language models. Many of my students that are, of course, younger, I feel like it's rare that they've ever spoken in more than like single sentence text messages and they're very good at stringing them together. But, that's why sometimes having a long conversation with younger people, they just they just sort of vacate the conversation within like three minutes because this is too long.

Ms. Grove Casey

So speaking of vacating, will I get left behind if I don't act on this generative AI trend now? Because they're talking about bots taking over the jobs. And for some of those, I don't want to say menial tasks because sometimes you need those just to keep focused, but some of them really are drudgery. They're just repetitive tasks that we have to do. That AI and really any other kind of technology may be able to help us with so that we can do those things that we enjoy more.

Mr. Gold

Yes, I think the question of whether we jump on this bandwagon right now is really a reflection of what we have going on in our lives. But at a minimum, I encourage everybody to jump on the education bandwagon. Because there's so many stories coming out about the products themselves and what they can do and how they're going to impact our lives.

One of the common threads in those conversations is, how is this going to impact our jobs? Am I going to have a job? Are you going to have a job? Is our audience going to have a job 10 years from now because of AI? And while those headlines grab a lot of attention, it's probably going to be pretty rare that AI or robots are actually going to be taking anybody's jobs over at least the next decade. And we can think of and talk through a couple of examples to help make sure people understand that this is coming, but it's not coming for your job tomorrow. So one example would be, let's say in food service, where everything is analog, there doesn't have to be any technology involved in waiting tables and serving food at a restaurant. But could we all find headlines and conversations about how robots and AI are effectively going to replace every single person in a restaurant? Yes.

We can find that. And in fact, there are already some food establishments around the country that are basically just giant vending machines that are nothing but robots and AI trying to push food out to people. And it's certainly an interesting business idea, but for any one of us that has ever sat at a restaurant or grabbed a cup of coffee or whatever it was, and you wanted something that was just a little bit different, or you needed to talk to somebody for just a moment about anything over the course of your time there, you instantly remember how helpful and important it is to have a human being or many human beings involved in those interactions called customer service. Robots and AI are not very good at customer service yet. That's why even with high tech industries and high tech products that have been using AI enabled or AI style chat bots for customer service for a long time, it's rare that you find people that say, yes, I love that chatbot. Yes, I love the customer service that automated agents gave me. Now, what do a lot of us do when we encounter one of those chatbots or pre-automated recordings? I don't know about you, but the moment that I hear one of those, when I call an airline to make a reservation or a change, I just start saying, agent, representative, I want to talk to a person.

Ms. Grove Casey

I've done the representative thing.

Mr. Gold

Yes, I think we all do. So despite, some of the jokes and the cynicism, at a minimum, we need to be educating ourselves about this because there are also really, really good uses and use cases for AI. Let's say, for example, you've got a fintech company that is running a variety pack of payment and banking APIs that's designed to give somebody insights into their spending or their budgets.

This is something that kind of cozies up alongside the worlds of accounting and finance and operations and budgeting and planning. And it is not taking any of our jobs, but implementing a tool like that inside of a business or on behalf of a client might be that missing piece of efficiency and information that we appreciate as service providers, our clients appreciate as business people, and there's all kinds of interesting products out there that are AI-enabled or generative AI products themselves that can help with some of those very, very refined functions in accounting and finance and law that take us a long time and may even be very difficult because of the stones that we have to kick over to get the right numbers and right pieces of the puzzle to put together. Because those situations do exist now, and again, our clients are going to be asking us, our families ask us, our kids ask us, our parents ask us. It's just good for us to start learning about this, and then, continue with the process as we encounter new stories and kind of think for ourselves how AI can be used with our practices every day.

Ms. Grove Casey

So ChatGPT is the one that you hear about the most, but is that the whole generative AI conversation? It would seem like there's more than that.

Mr. Gold

Yes, there's definitely a number of other products out there that generate strings of words or can help people create a document or something that's written. Google makes these products. Microsoft makes these products. There's a handful of other companies out there that are working on language generating products. Those are, of course, very

interesting because those products are very good at doing something like maybe a written report, as we all have to do from time to time. They're getting better at working through spreadsheets, working through numbers and mathematical calculations is not the strong suit of these large language models yet, but that capability is developing.

As the capability develops beyond language, there's art products like Dall-E 2 and MidJourney that you can just type in. I want to see what Florida looks like on a snowy day. And, you know, it'll generate some images for you. And on top of the language models or the art generating models, the latest iteration that has started to come out, even in just the last few weeks, as we're getting into 2024, are what's being called large action models.

So generative AI that can effectively click things on the screen on your behalf to accomplish certain tasks. There's new devices and new software that is all being developed and rolled out into the market right now that adopts this process of doing things on our behalf. As more and more layers get added to it, it's not only expanding well beyond the world of ChatGPT and large language models, but now we're actually starting to talk again about things that really deliver convenience and performing actions on our behalf without us having to do much.

Ms. Grove Casey

What else can we do to understand how these products can help or harm us? Because, you know, there's some liability and there's been some discussion about the illusions that come up when you're using ChatGPT.

Mr. Gold

Yes, yes. And I hope that through [our discussion], we're not scaring anybody. We're trying to give people a healthy and balanced understanding of this technology and a healthy skepticism of the claims around not just generative AI technology, but all technology in general tends to come out with these huge promises, it's going to change your life, it's changing the world. That's probably a bit of an overstatement, but hopefully somewhere within that overstatement, there is a legitimate benefit or value to us. And having this style of conversation hopefully gets us to the heart of those matters. So whether AI will help or harm anybody, I think is a very case specific question.

I give our audience two guideposts to work with. The first is, that if you can play with this technology with personal devices or if you can afford it even a dedicated device that is the safest and easiest way to start learning. If some how, some way you have the resources and ability to maybe either buy a cheap new phone or device or maybe take an old device that you don't use anymore and wipe it clean, and then, use that to start playing around with ChatGPT and some of the other similar products, if you do it on a closed device that's not connected to your client files, it's not connected to your email, it's not connected to everything else, well, you're certainly reducing the chance of harm if anything bad happens. It's unlikely anything bad will happen in the first place, but if you have an offline, independent, not connected device, then anything bad that happens is going to be contained. So, to whatever extent you're able to kind of create that contained environment to play around, that would be my first suggestion.

My second suggestion is to talk to people about this. And don't just talk to one person, talk to a lot of people about this. And understand what kinds of issues they're running into so that you understand what help or harm may come to you. Now, me being a practicing attorney, this is kind of a hard no for me right now. And that's because of what we call the hallucination problem within large language models. If I, as an attorney, ask ChatGPT or any one of these other generative AI products to give me a legal answer to something, whether it's for my own information or I'm going to tell a client, my gosh, this is my job. This is the most important thing that I do. Currently, generative AI products are known to just make things up. That's what a hallucination is. And it's worse when it tries to justify the hallucination. So getting a hallucination stuck into the advice that you're giving to a client, that's not just harmful, that's a recipe for a malpractice suit. So hopefully that's not really happening to anybody. And certainly, I caution all of our audience to stay away from doing anything like that. But that's why you need to talk to people and play with it, so that you understand the risks and harms that might come to you in your practice. If there really aren't many and you get comfortable playing with it on your own, then maybe you have a practice that is appropriate for starting to bring some of these AI products in there. If so, that's fantastic.

Ms. Grove Casey

If someone wants to use a generative AI product, could you tell us a little bit about how they work, so that we can make these assessments and judgments about whether or not we want to bring those products in?

Mr. Gold

There could be a very, very technical answer to how these products work, but I prefer to give a simple response to kind of tie a bow on this conversation. And that is to say, AI products can only be as good as what gets fed into them in the first place. Just like if we were to ask any of our accountants in the audience...

Ms. Grove Casey

Garbage in, garbage out.

Mr. Gold

Exactly. How good is that financial statement going to be if you have bad data to begin with? Well, AI products are the same. The better the data, the better the output. So if we're talking about ChatGPT writing documents, the better the documents were that ChatGPT got a chance to look at and work with, the better of a chance it'll have to generate something that is useful and appropriate and accurate on the backend. So these... generative AI software products are really just these giant engines that are ingesting all of the data, hopefully not garbage, that they receive to begin with, to then figure out what is the most sensible output based on what is being asked. It's like having a whole library of information at your fingertips when it's done well. Sometimes it's done well, sometimes it isn't, but that's the whole nature of this conversation. Generative AI certainly looks interesting and can be very promising and hold a lot of positivity for a lot of people, but not necessarily for everybody and not necessarily today. That's going to be up to our audience members and all the individuals out there to decide as we have this conversation and maybe some other ones throughout this year too.

Artificial Intelligence and Accountants

by Brad Gold, JD

AI seems to be the business and advertising buzzword for 2024. It's everywhere! After viewing our conversation, you are aware that AI is not entirely new technology. However, it is the maturation of this technology that has brought it into the spotlight, and AI will undoubtedly be in ads and on store shelves before most of us have had a chance to digest what it is and what it does.

This is both exciting and scary! It is exciting because this new technology carries significant potential to actually improve our lives in a way that only history's greatest inventions have ever accomplished. If AI can genuinely help us improve communications, be more productive at work, and keep consumers safe, we will have a life-altering invention entering our lives and making it better like cars a century ago. But also much like the invention and commercialization of the car, there are dangers and risks that we can identify now as well as risks and harms that may not become obvious for another century, and that's the scary part.

Every day we are faced with choices about conveniences and risk, and we all handle this very differently. If the pandemic didn't make that clear, I'm not sure what would! It is important to acknowledge that we all have different tolerances for risk. Alternatively, some people do not recognize risks with technology, often based on the thought process that we wouldn't have access to these technologies if they were risky or dangerous. For any of those folks in our audience, we encourage you not to be ignorant of the risks, but instead to understand them and make informed choices. This is especially important when we consider the role that many accountants and financial service professionals occupy wherein you may be called upon to help a client or colleague understand something about AI. Making a balanced and informed decision, even if it ends up being a bad choice, is better than a decision made out in ignorance.

In our discussion, we touched upon some of the lenses that we can use to evaluate the benefits and risks of AI. Here, we can take a moment to expand that. In our discussion, we specifically mentioned how AI can be considered through the lenses of security, data privacy, or economics.

First with regard to (cyber)security, large language models such as ChatGPT are promising tools that could help improve our risk profiles by virtue of giving the "good guys" more ways to detect and defeat cybersecurity problems. According to Microsoft, password attacks that they are able to detect have risen from 579 per second to over 4,000 per second in just the past two years. Likewise, the average corporate cybersecurity team uses nearly 100 security tools to detect and defend against attacks. As we know the bad guys are using AI to accelerate their efforts, it is essential that the good guys are able to keep up and have their own AI resources to manage their detection and prevention tools, as well as be ready for new types of attacks.

On the other hand, many corporate CIOs and data managers are reporting that ChatGPT-based language models are making it easier for hackers to attack businesses by virtue of exposing corporate information in unpredictable ways. The problem here is that the folks that created ChatGPT and other similar AI products didn't properly conceptualize that these products could be trained with information that would not be acceptable to reveal. In some cases, the engineers that created these products aren't even entirely sure how they work! It is no wonder then that some companies are dealing with double-edged swords of ChatGPT-type products increasing some positive efficiencies – such as helping managers streamline meeting communications – while simultaneously trying to race to market with AI products that are revealing patents, corporate secrets, and like most things on the internet, occasionally spewing out hateful language.

As we move to the next lens, privacy, we probably don't have as many off-setting benefits and drawbacks as we do with security. Instead, with regard to the lens of privacy, we probably run into more concerns than benefits. This is simply because large language models like ChatGPT were not built to respect global privacy laws, intellectual property laws, or follow "best practices" for consumer product safety. Instead, these products have been built and brought to market by their makers with a shoulder shrug and a "let's see what happens" attitude. This attitude was

barely tolerable when tech companies started dropping e-scooters on major cities across the world without considering “is this a good idea?”. It is certainly an intolerable mindset when it comes to AI technologies and the very obvious ways that the technology can be used to harm people. The most common use of AI technologies out in the world thus far seems to be deployment for fraud, scams, and thefts. It’s no joke for parents to receive a phone call from their child saying they are in danger or distress and need money, and then later everyone figures out that the call was an AI-generated deepfake. I wish that horrible scenarios like the previous sentence were mere hypotheticals, but people being tricked by AI tools with serious consequences are increasingly showing up as news stories in all of the cities where we live, almost every single day. From a privacy standpoint, therefore, significant caution should be exercised in using AI tools, and whether we like it or not, we all need to start being more careful and thoughtful about how these tools could be used against us and our families, even if we are not interested in using them.

When we bring the lens of economics into the conversation, we are likely to see more benefits than concerns. This is simply because ChatGPT and its competitors were not built to comply with laws (as mentioned above), but instead to accomplish certain tasks at a speed that was previously unthinkable. For example, it takes me about a day to write up a 30 minute educational course; ChatGPT could accomplish the same task in less time than it has taken me to write this paragraph. Is that economically-efficient? Absolutely! But is it a good idea? Well, that is ultimately for you to decide and I will conclude this section with some words of wisdom that you may have heard before: “you can have it fast, you can have it cheap, you can have it with high quality, but you can’t have all three!”. Since all of the new AI products entering the market clearly provide speed, that’s one item. And many of these AI tools are free, low cost, or are serving as “new and improved” features for existing products. With those two items in mind, I’ll leave you to decide if there’s quality in these products.

AI products like ChatGPT are stewed in hype as much as grounded in legitimate use cases that deliver value to consumers and businesses. A brief internet search for statistics about AI reveals that much of the conversation about AI and its success is based upon what people *think* will happen in the future with AI, not what is actually happening today. When the analytical lens turns from all of the positive and cool things ChatGPT could accomplish to what it actually does and how it provides value, the conversation changes from optimistic to pessimistic. Isn’t it a paradox that people generally believe AI will dominate the consumer product landscape and business services by 2030, but at the same time, the public is afraid of “robots taking our jobs” and so-called self-driving cars that drive like inexperienced teenagers?

Interestingly, it’s not necessary to resolve this paradox or make a choice as to whether AI products like ChatGPT are good or bad at this moment. Instead, the best thing we can do to prepare ourselves, our clients, and our colleagues for the impending wave of generative AI to build our awareness and knowledge of these products and work to obtain a balanced and informed understanding of its benefits and consequences. This is very important for financial service professionals in day to day practice, and also for licensure requirements.

You are probably aware that in 2020, the AICPA and NASBA developed an updated set of guidelines for the CPA exam that introduces a significant dose of technology into an accountant’s knowledge and practice requirements. As of early 2024, [evolutionofcpa.org](https://www.evolutionofcpa.org) tells us:

The AICPA Governing Council and the NASBA Board of Directors have both voted to support advancing the CPA Evolution initiative. NASBA and the AICPA are moving forward with implementing a new core + discipline CPA licensure model, and will launch a new Uniform CPA Exam in 2024.

Taking a step down the funnel into what this actually means, accountants (and other financial service professionals) of the future will be expected to demonstrate “technology knowledge” and “digital acumen” in their practice. As AI gains an increasingly large presence in daily news headlines and is likely to be found in an increasing number of products, your time in this course is certainly a step towards increased technology knowledge.

In our discussion, we broadly considered artificial intelligence and why 2024 seems to be an inflection point for AI to enter our lives, workplaces, and productivity or risk management plans. Large language model products, like ChatGPT, are the forefront of this conversation. Perhaps these large language model products are genuine technological breakthroughs, or maybe they are just the latest shiny new tech toys that will fade into oblivion by 2026?

For the sake of conversation, let's assume that ChatGPT and large language models are here to stay. Thus, we cannot bury our collective heads in the sand, and we need to consider the risks, benefits, and value of using these products. Today, that is a dicey proposition. Let's look at Google's large language model product called Bard, already renamed as Gemini, as an example of what we're all dealing with in this space.

Google's Bard product was first launched in the Spring of 2023. Most folks say that Google didn't launch this product because it was ready for the public, or because it legitimately performed some kind of valuable function. Instead, Google released Bard to the public because its competitor OpenAI released ChatGPT in the Fall of 2022, and Google felt like ChatGPT was an existential threat to the company, especially its search engine dominance. So although we'd like to think that a major and giant company like Alphabet / Google would never release a software product that was unproven and effectively untested, they did. As a result, Bard has had a lukewarm reception, and sparked some serious questions about whether Google's best days are behind it.

In February 2024, Bard has continued to make headlines, but not for good reasons. Recall that Bard, as a large language model, was trained with data. Recall that large language models like ChatGPT are not genius pieces of software that figure out what to say just like a person. Instead, while large language models are feats of software programming, all the software is doing is quickly determining, based on its training data, what word comes after the one before it, based on a prompt to write something. Bard and ChatGPT don't have thoughts or express themselves through concepts or values. Bard and ChatGPT are like spoons taking word soup from a giant pot of words, i.e. its training data.

The actual training data used for large language models is a closely held secret. Despite this secrecy, we know some facts and truths that can shed some significant light on how these products work and whether or not they will bring value and positivity into our lives and workplaces. Those facts and truths are:

- ChatGPT originally told human beings it was trained on (more or less) all available internet data posted or published somewhere on the WWW as of September 2021;
- ChatGPT has recently removed the September 2021 limitations and is supposedly able to scan the entire internet "as of today" to provide its responses;
- Multiple lawsuits have been filed against OpenAI, Google / Alphabet, and other makers of large language model products because there is a realistic possibility that the training data for these products included copyrighted material including books, movie scripts, song lyrics, comedy routines, and other performances that are entitled to legal protections from unauthorized copying or use;
- In the European Union, data protection authorities have recently prohibited certain products from operating in the EU including Google's Bard and Meta's Threads;
- It is no secret that the internet is filled with speech that ranges from questionable to downright abhorrent; and
- It is also no secret that the internet is filled with lies, conspiracy theories, "competing truths", jokes, satire, sarcasm, and general nonsense.

Ultimately, even if we do not know exactly what data was used to train any given large language model, we can at least assert that these large language models were trained by what is written all over the internet. Taking that notion one step further, since we know what is written all over the internet is a collective dumpster fire, is Bard or ChatGPT capable of generating language that is better than the proverbial dumpster fire on which it was trained? If we were to ask a high school student this question, we'd probably be rebuffed along with a story about how ChatGPT helped the student finish some kind of assignment. On the other hand, there has been a consistent stream of news stories since late 2022 about ChatGPT, Bard, and other products built with the same LLM technology such as website chatbots, generating content that is racist, offensive, discriminatory, untrue, defamatory, and sometimes just downright strange.

Much like a child that becomes influenced by some ill-behaved schoolmates and comes home one day talking like George Carlin at a free speech convention, it is important to note that ChatGPT and its brethren are immature and easily influenced. So much like a child that has learned cuss words but not the right context for deployment of the language, perhaps we can be hopeful that ChatGPT will one day soon emerge from its immature phase? “Hope” is probably the best way to put it because the headlines in February 2024 about generative AI products are still sharing and exploring the horrifying nature of what happens when these products are asked / prompted to do something simple, like just to describe or show a family photo, and how the results are both eye-poppingly ignorant and wildly different once race, religion, or other *human* characteristics are added to the prompt.

Perhaps therein lies the problem that can’t be solved, but must nonetheless be dealt with? No, I’m not referring to ending a sentence in a preposition. I’m referring to the fact that no matter how good a generative AI product’s training data may be, it is still software trying to mimic (complex and dynamic) human decision-making. As we are nearly a decade into the assisted-driving technology experiment, but only about two years into the generative AI experiment, we could find some insights into the future of generative AI by reviewing the progress of assisted-driving technologies. Assisted-driving technologies appear to be useful, are touted as conveniences, and are being developed by multiple large organizations that all have the resources to iterate and improve upon the technology.

Assisted-driving technologies are therefore largely analogous to the complexity of generative AI products, analogous to the business environment in which they are being created, and analogous to the benefits and value promoted to the public for the purpose of adopting or buying the technology. Well, if assisted-driving technologies are our benchmark, we’re in for some cool future tech, but it will be many years until the technology is mature enough for every day use. *Maturity* is also a key word in the previous sentence because it is very hard to characterize much of what is written on the internet as mature. It is possible that part of the evolution of generative AI technology is that the software itself needs to be improved, but so does the training data. Just like us mortal humans know that “we are what we eat,” it might be to everyone’s benefit for the purveyors of generative AI products, and specifically consumer-facing products like ChatGPT, to be more thoughtful about the training data these products are eating. Dumpster fire in, dumpster fire out...

In the mean time, education and awareness of generative AI and its uses is all about having these conversations and recognizing that there are risks, benefits, and some things we just don’t know (yet). At a minimum, even if you do not think that AI tools are right for you, it is important to nonetheless gain strong working knowledge of these products. It is only a matter of time until your clients will ask you something about AI! To be clear, experts on AI are few and far between. And to the extent someone like myself might be considered an expert, I’ll be the first to tell you that there’s probably a lot more we don’t know or can’t figure out yet than what we do know. Thus, it is okay to know enough about AI to answer some questions, but also acknowledge that this technology is so new that answers may not be available, or agreed upon.

GROUP STUDY MATERIALS

A. Discussion Problems

1. Discuss cybersecurity and the risks associated with the use of AI products.
2. Discuss privacy risks associated with the use of AI.
3. Discuss the economics of using AI and if the benefits outweigh the associated costs.

B. Suggested Answers to Discussion Problems

1. First with regard to (cyber)security, large language models such as ChatGPT are promising tools that could help improve our risk profiles by virtue of giving the “good guys” more ways to detect and defeat cybersecurity problems. According to Microsoft, password attacks that they are able to detect have risen from 579 per second to over 4,000 per second in just the past two years. Likewise, the average corporate cybersecurity team uses nearly 100 security tools to detect and defend against attacks. As we know the bad guys are using AI to accelerate their efforts, it is essential that the good guys are able to keep up and have their own AI resources to manage their detection and prevention tools, as well as be ready for new types of attacks.

On the other hand, many corporate CIOs and data managers are reporting that ChatGPT-based language models are making it easier for hackers to attack businesses by virtue of exposing corporate information in unpredictable ways. The problem here is that the folks that created ChatGPT and other similar AI products didn’t properly conceptualize that these products could be trained with information that would not be acceptable to reveal. In some cases, the engineers that created these products aren’t even entirely sure how they work! It is no wonder then that some companies are dealing with double-edged swords of ChatGPT-type products increasing some positive efficiencies – such as helping managers streamline meeting communications – while simultaneously trying to race to market with AI products that are revealing patents, corporate secrets, and like most things on the internet, occasionally spewing out hateful language.

2. With regard to the lens of privacy, we probably run into more concerns than benefits. This is simply because large language models like ChatGPT were not built to respect global privacy laws, intellectual property laws, or follow “best practices” for consumer product safety. Instead, these products have been built and brought to market by their makers with a shoulder shrug and a “let’s see what happens” attitude. This attitude was barely tolerable when tech companies started dropping e-scooters on major cities across the world without considering “is this is a good idea?”. It is certainly an intolerable mindset when it comes to AI technologies and the very obvious ways that the technology can be used to harm people. The most common use of AI technologies out in the world thus far seems to be deployment for fraud, scams, and thefts. It’s no joke for parents to receive a phone call from their child saying they are in danger or distress and need money, and then later everyone figures out that the call was an AI-generated deepfake. I wish that horrible scenarios like the previous sentence were mere hypotheticals, but people being tricked by AI tools with serious consequences are increasingly showing up as news stories in all of the cities where we live, almost every single day. From a privacy standpoint, therefore, significant caution should be exercised in using AI tools, and whether we like it or not, we all need to start being more careful and thoughtful about how these tools could be used against us and our families, even if we are not interested in using them.
3. In looking at economics and the use of AI, we are likely to see more benefits than concerns. This is simply because ChatGPT and its competitors were not built to comply with laws (as mentioned above), but instead to accomplish certain tasks at a speed that was previously unthinkable. For example, it takes me about a day to write up a 30 minute educational course; ChatGPT could accomplish the same task in less time than it has taken me to write this paragraph. Is that economically-efficient? Absolutely! But is it a good idea? Well, that is ultimately for you to decide and I will conclude this section with some words of wisdom that you may have heard before: “you can have it fast, you can have it cheap, you can have it with high quality, but you can’t have all three!”.

GLOSSARY OF KEY TERMS

AI—Artificial Intelligence

API—Application Programming Interface

Cash Basis—the basis of accounting the entity uses to record cash receipts and disbursements, as well as modifications of that

ChatGPT—Large language model generative AI tool

Contractual Basis—basis of accounting the entity uses to comply with an agreement between an entity and one or more third parties other than an auditor

GAAP—Generally Accepted Accounting Principles

Generative AI—type of artificial intelligence technology that can produce various types of content, including text, imagery, audio and synthetic data.

Regulatory Basis—basis of accounting an entity uses to comply with the requirements or reporting provisions of a regulatory agency to which the entity is subject.

Special Purpose Frameworks—cash basis, tax basis, contractual basis, regulatory basis, and an other definite set of logical, reasonable criteria that's applied to all material items that appear in the financial statements

Tax Basis—the basis of accounting the entity uses to file its tax return for the period covered by the financial statements

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

1. According to Russ Madray, which of the following is **not** considered a special purpose framework?
 - A. Cash basis.
 - B. Tax basis.
 - C. Contractual basis.
 - D. U.S. GAAP.
2. According to Russ Madray, where can guidance on special purpose framework disclosures be found?
 - A. AICPA audit and accounting guides.
 - B. SASs and the SSARS.
 - C. U.S. Internal Revenue Code.
 - D. SEC regulations.
3. According to Russ Madray, what does AU-C Section 800 require auditors to evaluate regarding special purpose framework financial statements?
 - A. If the financial statements are prepared by a CPA.
 - B. If a summary of significant accounting policies is included.
 - C. The competence of the preparer.
 - D. The software used in preparing the financial statements.
4. According to Russ Madray, in using a special purpose framework in the preparation of financial statements, which of the following is correct related to quantifying the effects of differences from U.S. GAAP?
 - A. Quantification of the differences is always required.
 - B. Quantification of the differences is never permitted.
 - C. Quantification of the differences is not required, according to both the SASs and the SSARS.
 - D. Quantification of the differences is only required for public entities.
5. According to Russ Madray, which of the following is **not** mentioned as a typical component of the summary of significant accounting policies for special purpose framework financial statements?
 - A. A description of the basis of accounting.
 - B. The primary differences from U.S. GAAP.
 - C. A detailed reconciliation to U.S. GAAP.
 - D. The tax filing status of the entity (for tax basis).

Continued on next page

6. According to Russ Madray, which U.S. GAAP disclosure requirement would likely **not** be relevant to a tax basis presentation?
- A. Depreciation expense.
 - B. Components of property and equipment.
 - C. Unrealized gains and losses on investments in marketable securities where investments are measured at cost.
 - D. Interest expense.
7. According to Russ Madray, which of the following is described as a management responsibility in U.S. GAAP, but not explicitly required in special purpose frameworks?
- A. Preparation of the financial statements.
 - B. Evaluating going concern.
 - C. Selecting accounting policies.
 - D. Approving the budget.
8. According to Russ Madray, which of the following is a common misconception about special purpose frameworks?
- A. They require more disclosures than U.S. GAAP.
 - B. They are only used by small businesses.
 - C. They result in a substantial reduction in disclosure requirements compared to U.S. GAAP.
 - D. They are not accepted by banks and other creditors.
9. According to Russ Madray, which of the following is **not** mentioned as a category of U.S. GAAP disclosures that might be relevant to special purpose framework financial statements?
- A. Risks and uncertainties.
 - B. Subsequent events.
 - C. Segment reporting.
 - D. Related party transactions.
10. According to Russ Madray, how should preparers approach determining appropriate disclosures for special purpose framework financial statements?
- A. Only include disclosures specifically required by tax laws.
 - B. Use a U.S. GAAP disclosure checklist and evaluate for the specific financial statement presentation.
 - C. Limit disclosures to a brief description of only the basis of accounting.
 - D. Only include disclosures required by the primary lender to the entity.
11. According to Brad Gold, what is the primary reason for the recent surge in generative AI considerations?
- A. The development of new hardware technologies.
 - B. The ability of AI to automate tasks and add efficiency to processes.
 - C. Government regulations promoting AI adoption.
 - D. Decreasing costs of AI implementation.

Continued on next page

12. According to Brad Gold, what is a key limitation of generative AI that professionals should be aware of?
 - A. Slow processing speeds.
 - B. High implementation costs.
 - C. Potential for hallucinations or inaccurate information.
 - D. Inability to handle complex tasks.
13. According to Brad Gold, how does generative AI primarily interact with users?
 - A. Through complex coding interfaces, like machine language.
 - B. Using natural language processing.
 - C. Via specialized hardware devices.
 - D. Through traditional keyboard inputs only.
14. According to Brad Gold, what is a critical component for generative AI to function properly?
 - A. Advanced processors.
 - B. Cloud computing infrastructure.
 - C. Data fed into the system.
 - D. Open-source algorithms.
15. According to Brad Gold, the likelihood of AI completely replacing human jobs in accounting and finance in the near future is which of the following?
 - A. Very high, within the next year.
 - B. Moderate, within 5 – 10 years.
 - C. Low, unlikely in the near future.
 - D. Certain, it's already occurring.

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 CeriFi, LLC. All responses will be kept confidential. Comments in addition to the answers to these questions are also welcome. Please send comments to CPLgrading@cerifi.com.

How would you rate the topics covered in the July 2024 **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
Special Purpose Frameworks and Required Disclosures	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Benefits and Risks of Generative AI for Accountants	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

Which segments of the July 2024 issue of **CPE Network® A&A Report** did you like the most, and why?

Which segments of the July 2024 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 July 2024 **CPE Network® A&A Report**? Rate each speaker on a scale of 1–5 (5 highest):

	Overall	Knowledge of Topic	Presentation Skills
Russ Madray	_____	_____	_____
Bradley Gold	_____	_____	_____

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 December 31, 2023

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 CeriFi, LLC.

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 online.

- If the emailed 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 email 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

Note: DVDs no longer ship with this product effective 3/1/2023.

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/>

The entire transcript is also available as a pdf in the Checkpoint Learning player in the resource toolbox at the top of the screen, or via the link in the email sent to administrators.

Requesting Participant CPE Certificates

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

Email: CPLgrading@cerifi.com

When sending your package to CeriFi, 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 CeriFi 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. Participants’ two-way video should remain on during the entire presentation.

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 asks 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.

Where individual participants log into a group live program they are required to enable two-way video to participate in a virtual face-to-face setting (with cameras on), elements of engagement are required (such as group discussion, polling questions, instructor posed questions with time for reflection, or a case study with engagement throughout the presentation) in order to award CPE credits to the participants. Participation in the two-way video conference must be monitored and documented by the instructor or attendance monitor in order to authenticate attendance for program duration. The participant-to-attendance

monitor ratio must not exceed 25:1, unless there is a dedicated attendance monitor in which case the participant-to-attendance monitor ratio must not exceed 100:1.

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 emailed 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 email 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

Note: DVDs are no longer shipped effective 3/1/2023

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 the following means:

Email: CPLgrading@CeriFi.com

When sending your package to CeriFi, 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 CeriFi 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—Email

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

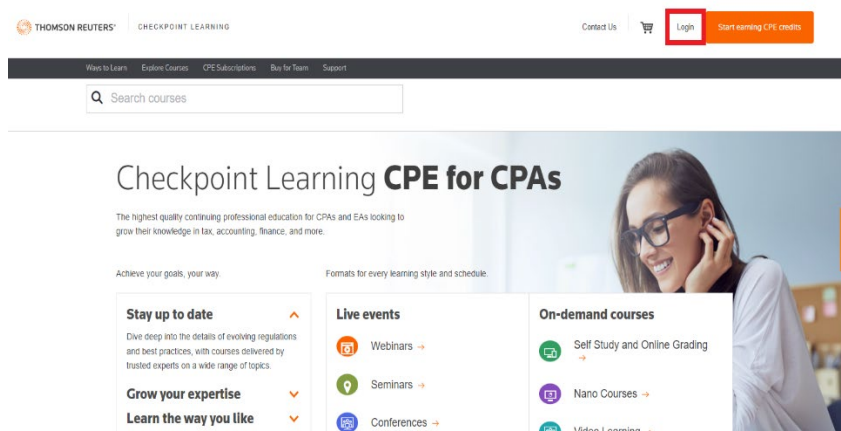
- Watch the video.
- Review the supplemental materials.
- Read the discussion problems and the suggested answers.
- Complete the quizzer by filling out the bubble sheet enclosed with the transcript package.
- Complete the survey. We welcome your feedback and suggestions for topics of interest to you.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

CPLgrading@cerifi.com

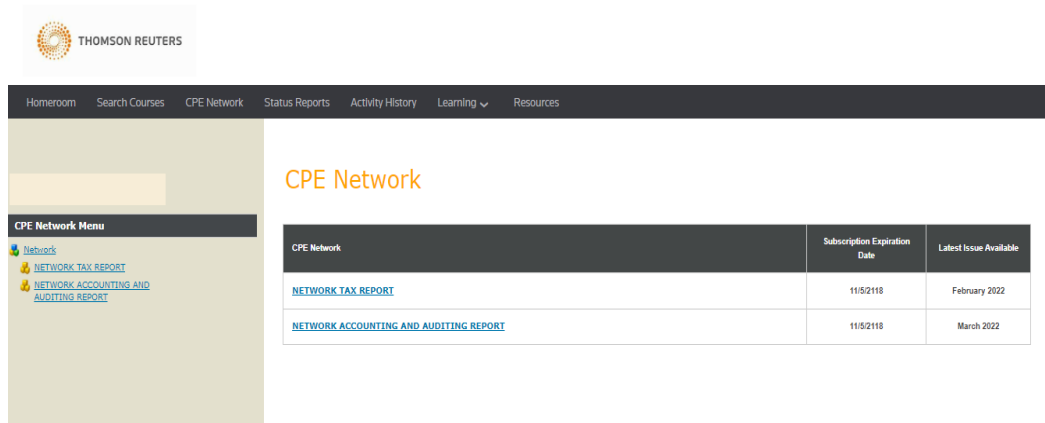
Self-Study—Online

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”).

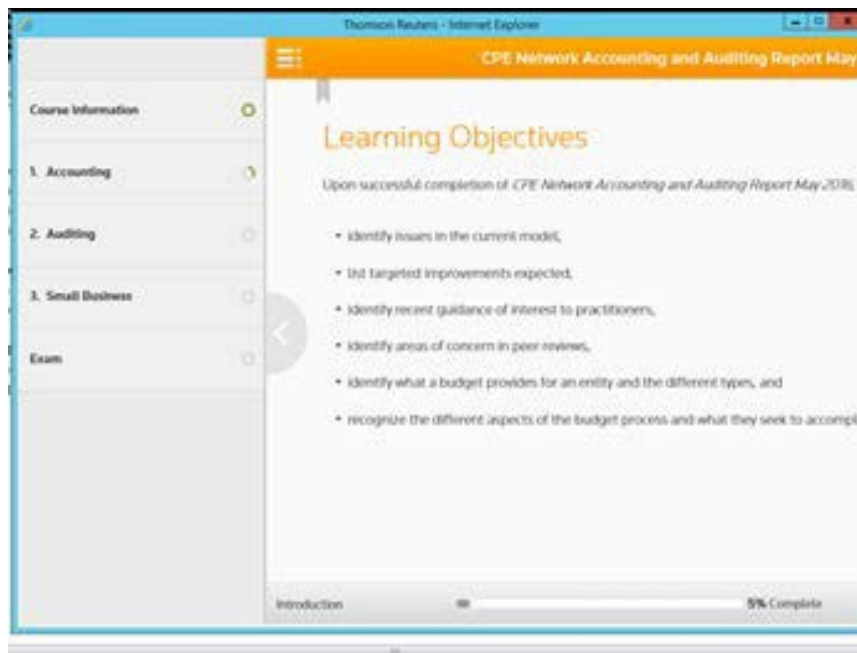


- In the **CPE Network** tab, select the desired Network Report and then the appropriate edition.



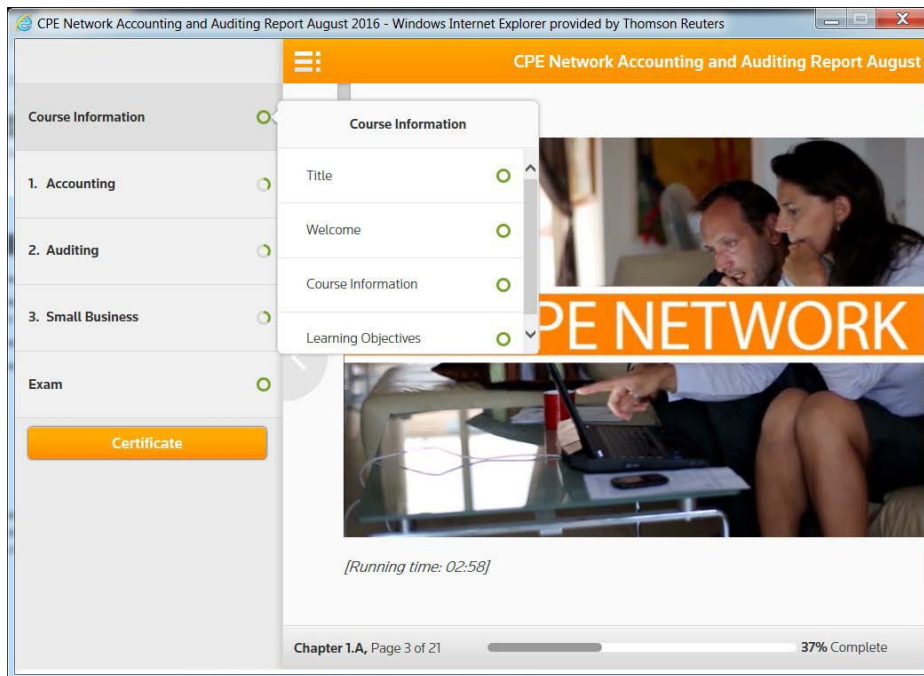
CPE Network	Subscription Expiration Date	Latest Issue Available
NETWORK TAX REPORT	11/5/2118	February 2022
NETWORK ACCOUNTING AND AUDITING REPORT	11/5/2118	March 2022

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

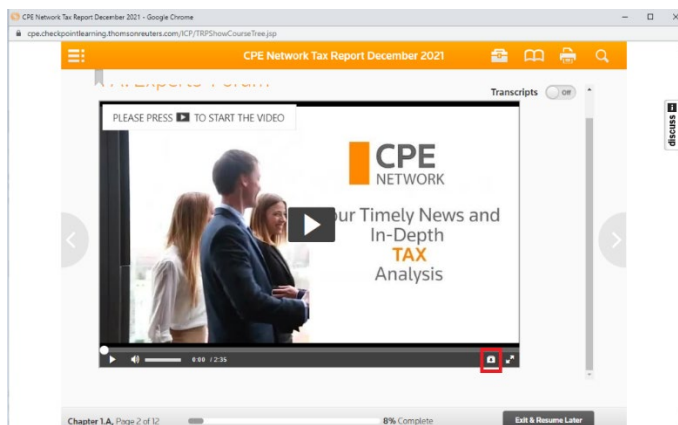


Click down to access the dropdown menu and move between the program Chapters.

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

CHAPTER 1A: ACCOUNTING

Liabilities and Equity: Another Look at the Model

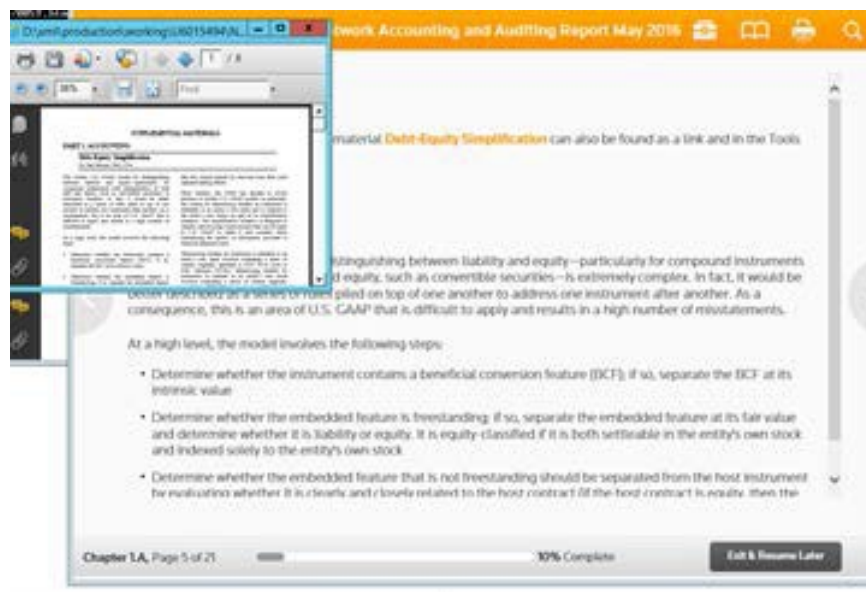
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Click the arrow at the bottom of the video to play it, or click the arrow to the right side of the screen to advance to the supplemental material. As with the transcripts, the supplemental materials are also available via the toolbox and the link will 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 displays a web-based interface for a CPE (Continuing Professional Education) report. The header bar is orange and contains the text "CPE Network Accounting and Auditing Report July 2016" along with several icons: a hamburger menu, a calendar, a book, a printer, and a search icon. Below the header, the main content area has a light gray background. At the top of this area is the section title "Suggested Answers to Discussion Problems" in bold. Below the title is a numbered list of three items. Item 1 discusses ASC 320 requirements for classifying debt and marketable equity securities into three categories: Held-to-maturity, Trading, and Available-for-sale. It includes a paragraph explaining that classification is based on the intended holding period and that decisions should be made at acquisition. Item 2 describes the trading securities category, noting that these are held for short-term profit and measured in hours and days. Item 3 discusses impairment, stating it is recognized when a decline in value is deemed other than temporary, and the current fair value becomes the new cost basis. At the bottom of the page, a footer bar shows "Chapter 3.A, Page 20 of 20", a progress indicator at "100% Complete", and a button labeled "Exit & Resume Later".

Suggested Answers to Discussion Problems

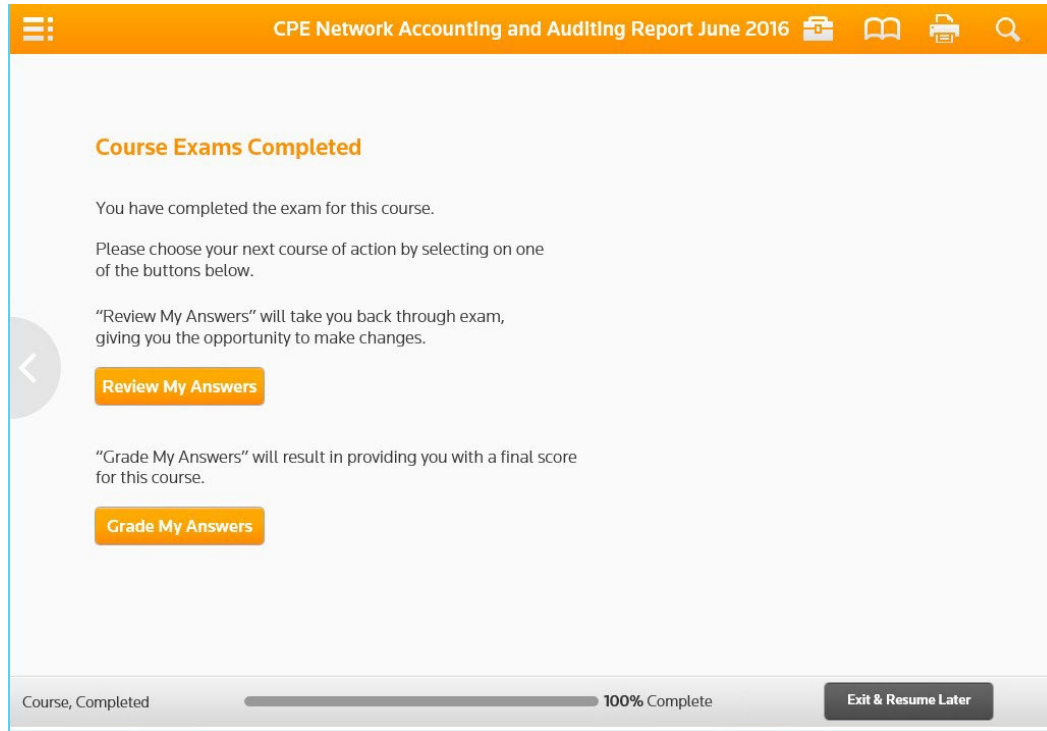
1. ASC 320 requires that, at acquisition, an enterprise classify debt and marketable equity securities into one of three categories:
 - Held-to-maturity
 - Trading
 - Available-for-sale

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

Chapter 3.A, Page 20 of 20 100% Complete Exit & Resume Later

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**.



- 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.

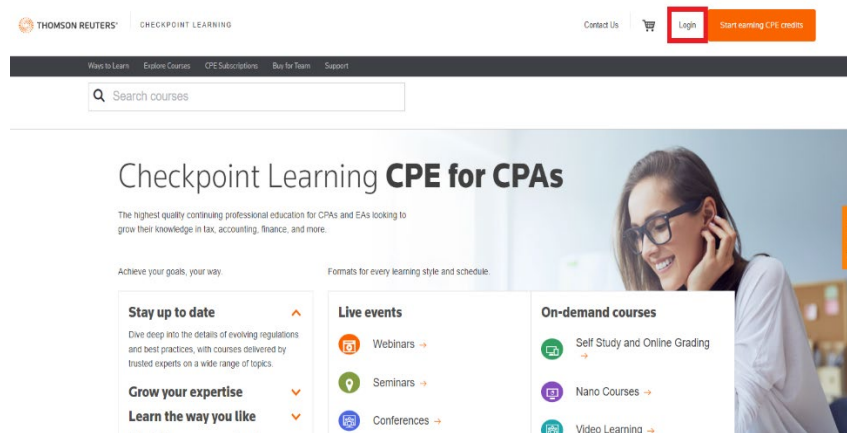
Print

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**.

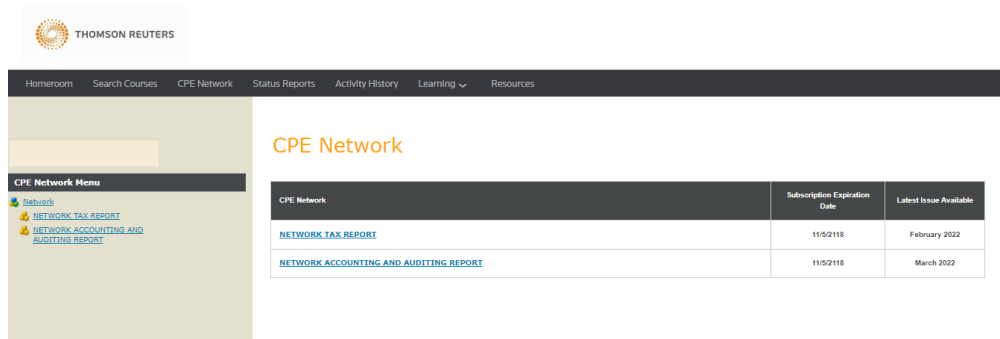
Transitioning From DVDs

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

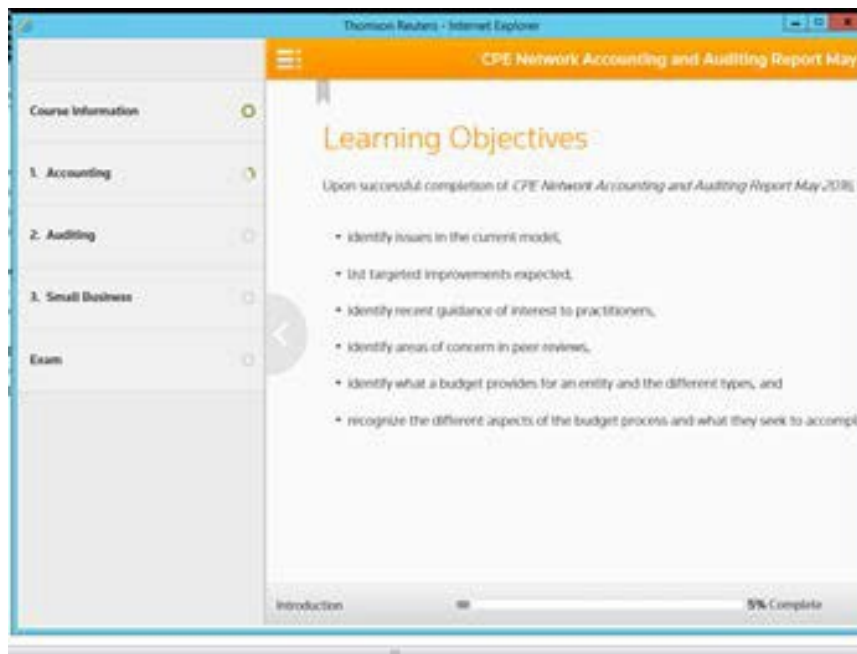
- Go to www.checkpointlearning.thomsonreuters.com .
- Log in using your username and password assigned by your firm's administrator in the upper right-hand margin ("Login").



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

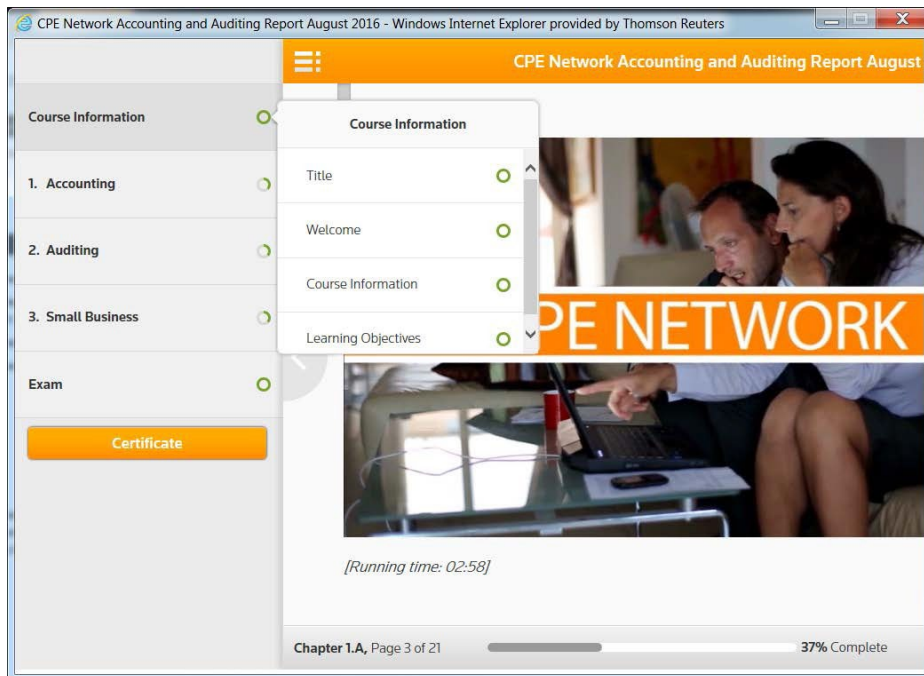


The Chapter Menu is in the gray bar at the left of your screen:

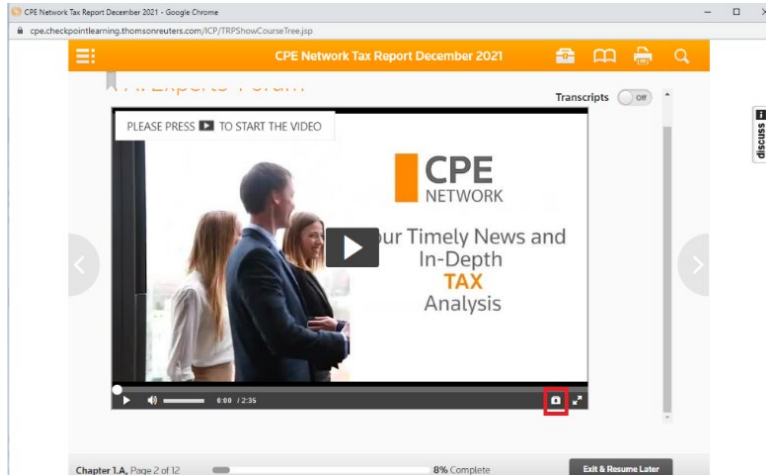


Click down to access the dropdown menu and move between the program Chapters.

- **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. You may need to use the scroll bar to the right of the video to see the download button. **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 to administrators with each release.

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.

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 (if any).
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	844.245.5970	Cplsupport@cerifi.com	<ul style="list-style-type: none">• Browser-based• Certificate discrepancies• Accessing courses• Migration questions• Feed issues
Product Support	844.245.5970	Cplsupport@cerifi.com	<ul style="list-style-type: none">• Functionality (how to use, where to find)• Content questions• Login Assistance
Customer Support	844.245.5970	Cplsupport@cerifi.com	<ul style="list-style-type: none">• Billing• Existing orders• Cancellations• Webinars• Certificates