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EXECUTIVE SUMMARY

AUDITING PART 1

Going Concern: Understanding Disclosure Responsibilities Under U.S. GAAP 4

In this presentation, Kurt explores the critical accounting concept that assumes a business will continue operating in the foreseeable future. Drawing on decades of experience, he traces the evolution of Going Concern standards—from their 1980s origins to today’s FASB ASC 205-40 guidance. The session explains management’s and auditors’ shared responsibilities for evaluating and disclosing substantial doubt, distinguishes between “yellow light” and “red light” scenarios, and illustrates real-world business challenges. This course equips professionals in public accounting and industry to assess, document, and communicate Going Concern issues with clarity and confidence. *[Running time: 40:45]*

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

- Identify the evolution of the Going Concern concept under U.S. GAAP and auditing standards, including the historical shift of responsibility from auditors to management for evaluating and disclosing Going Concern uncertainties.
- Distinguish between management’s and auditors’ responsibilities under current FASB guidance (ASC 205-40) in assessing known and reasonably knowable conditions that may raise substantial doubt about an entity’s ability to continue as a Going Concern.
- Apply the appropriate disclosure and reporting requirements by analyzing conditions that give rise to yellow light (mitigated) and red light (unmitigated) Going Concern situations, and determine when liquidation basis accounting under ASC 205-30 becomes applicable.

AUDITING PART 2

Special Considerations Related to Audits of Group Financial Statements 15

In this session, Jennifer Louis, an expert in audit quality and professional standards, explains the new requirements of SAS No. 149—Special Considerations Related to Audits of Group Financial Statements, effective for periods ending on or after December 15, 2026. She outlines how the standard strengthens audit credibility when using work from component or referred-to auditors and applies to both simple and complex group structures. Jennifer covers key topics such as identifying components, setting materiality, supervising component auditors, and evaluating their evidence. This session provides practical guidance for planning, performing, and documenting group audits with consistency and quality. *[Running time: 44:04]*

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

- Identify the key provisions of SAS 149, Special Considerations—Audits of Group Financial Statements, including its effective date and scope.
- Differentiate between the responsibilities of a group auditor, component auditor, and referred-to auditor in planning, supervising, and reporting on group financial statements.
- Apply appropriate audit procedures to assess risks, materiality, and consolidation adjustments in accordance with the requirements of SAS 149 and related auditing standards.

ACCOUNTING

Digital Assets: Implications of Recent SEC and FASB Developments 25

In this session, Jennifer Louis delivers a concise overview of the rapidly evolving world of cryptocurrency and digital assets. She explains how blockchain and distributed ledger technology work, examines debates over whether cryptocurrencies are securities, commodities, or other assets, and highlights recent SEC and FASB developments. Jennifer discusses key cases like FTX, issues of custodial control, and the growing use of “proof of reserve” reports. The session concludes with FASB’s latest guidance on classifying, measuring, and disclosing digital assets, including fair value and impairment considerations. This course equips financial professionals to navigate digital asset reporting under U.S. GAAP with clarity and confidence. *[Running time: 42:18]*

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

- Identify the accounting and reporting guidance applicable to digital assets, including classification as intangible assets or financial instruments under FASB standards.
- Recognize current regulatory uncertainties related to the classification and oversight of cryptocurrencies, stablecoins, and digital asset exchanges.
- Apply the measurement and disclosure requirements for digital assets, including impairment testing, fair value measurement, and related financial reporting risks.

ABOUT THE SPEAKERS

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

Jennifer Louis, is a CPA and President of Training Services at Emergent Solutions Group, LLC. She has more than two decades of experience in designing and instructing high-quality training programs. Most recently Jennifer was executive vice president and director of training services at AuditWatch Inc., a premier training and consulting firm serving the auditing profession.

Be sure to include the completed sheet when you request certificates for this event.

Title of Course (Enter full title)	
Date of Class (MM/DD/YYYY)	
Time (Enter time of class)	
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Learning Objectives (Refer to executive summary)	
Program Description (Refer to executive summary)	
Instructional delivery method	Group Live
Recommended CPE credit	3.0 Credits
Recommended field of study(ies) (Refer to executive summary)	
Program Level	Update
Prerequisites (Circle One)	<ul style="list-style-type: none"> • Basic Accounting and Auditing professional experience • Basic Tax professional experience • Basic Governmental professional experience
Advance preparation	None required
Course registration and, where applicable, attendance requirements ⁽¹⁾	

(1) Insert instructions for your students to register for the class and any other attendance requirements (e.g., bring your laptop, be prepared to work in groups, you will be required to sign in and sign out of the session, etc.)

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AUDITING PART 1

Going Concern: Understanding Disclosure Responsibilities Under U.S. GAAP

Welcome to this presentation on “Going Concern: Understanding Disclosure Responsibilities Under U.S. GAAP.” This video explores one of the most essential concepts in accounting—the assumption that a business will continue operating into the foreseeable future. Drawing from decades of professional and teaching experience, Kurt traces the evolution of Going Concern standards, from their origins in the 1980s through the transition from auditing to accounting guidance under FASB ASC 205-40. He explains how management and auditors share responsibility for assessing and disclosing substantial doubt, highlights real-world examples of business challenges, and distinguishes between “yellow light” and “red light” disclosures. Whether you’re in public accounting or industry, this course will help you understand how to evaluate, document, and communicate Going Concern issues clearly and confidently in today’s changing economic environment.

Mr. Kurt Oestrieher

Welcome to the presentation on Going Concern and when it is applicable for financial statements prepared in accordance with United States GAAP. My name is Kurt Oestrieher. I've been presenting these courses for several years and hopefully for several more years to come, and the objective is to, in an hour or so, cover various topics that might be of importance either because of recent standards and some sort of an update, or just issues that we see coming back kind of full circle, if you will, where it is necessary to kind of sharpen our skills in particular areas.

And today's topic of Going Concern is relevant. We're seeing a lot of changes in the economy. We're seeing interest rates go up. We will always see business failures. Again, that's part of being in a capitalistic society, it's sometimes businesses succeed very well, and sometimes they fail.

And while I hope that your companies or your clients aren't necessarily seeing a lot of this, it is important that we are aware of the disclosures because in certain circumstances, as we will learn today, even if your company is not going under, if there are enough warning signs there, there are going to be required disclosures where under the old standards we just considered things, and if we got to a certain point, we said, “Okay. Yep, there are issues, but there are no disclosures.”

So, we want to talk about the transition of what is happening over the 25 to 30 years that we've had various standards that caused disclosure and what is the current, what are their current requirements now.

And I've been practicing long enough to remember a time when there was no such thing as a Going Concern disclosure. The concept was foreign to us as accountants. We did not believe it was our responsibility. We were reporting on historical information or if we're in business and industry we are preparing financial statements based on historical information, and it was up to the user to determine whether or not, based on that historical information and the user's understanding of current economic events and information about the company, whether or not it was going to be around and whether or it was a good investment or whether or not it was worthwhile to loan money.

And every time in the '80s, and especially I think probably the savings in a loan crisis was a driver of this, but certainly wasn't the only driver, when a company would go bankrupt, the question that was asked often or you would see in the press is, “Well, how could that happen? The auditors gave the company a clean opinion, yet here we are six months later and they're out of business. How could the auditors have been so foolish or so naive to give a clean opinion?”

And of course, the response from our profession was, “We do not provide an opinion on the health of the company. We provide an opinion as to whether or not the company's financial statements are in accordance with generally accepted accounting principles. And if they're in accordance with GAAP and there are losses and there's not a strong balance sheet and there are other conditions and there are other issues disclosed in the footnotes and long-term commitments and guarantees and all the other risks that are identified in the financial statement notes, it is up to the user to conclude, so, as to whether or not it's a worthwhile investment or may go under. So, I'm sorry for the confusion, but it is not our responsibility in the accounting department to be an analyst.”

And you would think that that explanation would have sufficed, but it didn't. Congress got involved, other people got involved, and there was just tremendous pressure on our profession to give some sort of a warning. In other words, the stakeholders and politicians said, “Well, we don't care if you don't think, it is your responsibility to opine on the future of the company. That is our expectation, and if you cannot fulfill that expectation, then we will find someone that can, or we will write the standards that will define those expectations and make them requirements.”

And this was just another one in the series of ongoing battles that we've had for I don't know how many years, but they continue today, is to what extent the federal government should either regulate our profession or set standards. And we know we're not regulated at the federal level right now, we're regulated at the state level, but our standards are developed at the national level through the AICPA for audits of nonpublic companies. Of course, we know that PCAOB has audit standards form that have to be followed for audits of public companies.

So, with those pressures, the AICPA Auditing Standards Board took on the project, if you will, to figure out what should happen with Going Concern, and after, I don't know, a year or two or study, they came up with a conclusion that was very relevant. They said, “Wait a second. Now we see where stakeholders might have had a point because financial statements are developed and written, the balance sheet in the income statement on the premise that the entity will continue as a Going Concern.” That is why we have depreciation and we will stretch the expense over four or five years or longer because we believe the entity will be there. It is one of the actual concept statements in GAAP. This Going Concern principle, if you will, whatever you want to call it, principle, concept, it's there.

And so ultimately what the Auditing Standards Board determined was it's not the auditor's responsibility to give a warning to the users that there's a Going Concern. It is management's responsibility. This is something that should be in the accounting standards. Just as there are other disclosures, and I think they actually came a little bit later, but about concentrations and other risks, that if an entity will not continue or there is “substantial doubt,” that's the term they came up with, to continue as a Going Concern, then maybe that is something that should be disclosed in the summary of significant accounting policies by management and stress that our accounting policies are based on the assumption we're going to continue as a Going Concern, that, “Hey, Mr. or Mrs. Reader, here are some things that we have identified that may cause us not to continue as a Going Concern.”

So, once the Auditing Standards Board came to that conclusion, they went to the Accounting Standards Center, otherwise known as the FASB, and said, “Hey, look at what we have found. Here's our research. Here's our project. We think we're driving in the wrong lane. We think we are actually moving into your territory, so we would like to give you our data, our research, and maybe you as the FASB should consider such a disclosure.”

Now, I don't know what the official FASB response was. It was probably never published, but if it was behind closed doors, it probably went something like this. And this is the FASB talking to the representatives of the AICPA in the Auditing Standards Board. “Hey. Nice try. You're not going to dump this on us. Everyone's mad at you, the auditors. They believe the auditors are the ones, you are the independent people. You are the ones that can make that call. So, sorry, this is your problem and I appreciate that you think that you're not staying in your lane. We're more than welcome to allow you to drive your little vehicle in our lane and we're not taking this project off of you because it's a headache, and good luck with that and left the room.” Now again, I have no evidence that that is how the conversation took place, but I will bet you it was something along those lines.

So, the Auditing Standards Board had to go back to square one and realize, “Well, wait a second. We can't change our minds and we do believe that this is something that needs to be disclosed in the financial statements, yet we don't write accounting standards that tell people what to disclose because we don't think it would be appropriate if there is a Going Concern issue to only address it in the auditor's report.”

So, the Auditing Standards Board had to come up with a backdoor methodology of forcing management to have the Going Concern disclosure. So, that's what they came up with. I want to say it was originally SAS 69 -- 59, excuse me, that said, “All right, here is an auditor's responsibility. If you become aware of conditions and events during the course of your audit that give rise to substantial doubt, in other words, that you believe that there is substantial doubt about the ability of the entity to continue going one year past the date of the financial statements were issued” -- that was the big threshold, it's not the balance sheet date, it was the date the financial statements were going to be issued -- “then you have to discuss those issues with management.”

And if management did not have mitigating factors, if management agreed with your conclusions, then -- this is where it gets tricky -- it was the auditor's responsibility to ensure that management has properly disclosed this uncertainty in the footnotes to the financial statement. And if management had not disclosed that uncertainty, then the auditor had to consider the impact of that lack of disclosure on their opinion. Basically, the Auditing Standards Board said, we are kind of stretching our interpretation of certain disclosures related to uncertainty to include Going Concern, and if there is substantial doubt and it's not disclosed, that is a GAAP departure and therefore, the auditor's report will address that GAAP departure.

Then the Auditing Standard Board went on to say that if management has properly included that uncertainty in the footnotes to the financial statement, then the auditor shall, must, has to include an Emphasis of Matter paragraph in the audit report that emphasizes management's disclosure of the Going Concern.

And that is how the Auditing Standards Board backdoored this disclosure and actually wrote an auditing standard that became a de facto accounting standard and required this disclosure. It's a little bit controversial, but that's what they had to do. There was no other choice because the Auditing Standards Board would not require, they would not write the standard that would require it, and remember, our audit report is not supposed to introduce any new information about the entity. We can emphasize something that is back there, but we can't introduce new information. Our audit report is to tell people what we did, provide our opinion, and then emphasize anything that management has put in there.

So, that actually gave rise to a term which is kind of a misnomer in accounting literature. It's called the Going Concern Opinion. Everyone here, if you're listening to this, you have probably used that term. “Oh, that company got a Going Concern Opinion.” The reason that is a misnomer and incorrect to say, nowhere in any of these audit reports where they emphasize management's disclosure of Going Concern, did the auditor state that in their opinion, the company was going to go kaput within a year. Their opinion, and that's a very official term “kaput,” the opinion was that the financial statements were in accordance with the GAAP.

Then later on, there's a paragraph that emphasized management's disclosure of Going Concern, which is in the financial statement. So, it's still management's process. And remember, management had the right to reject the financial statements. They signed the rep letter. And the reason why I believe that is somewhat misunderstood, and then the focus went away from what is in the footnotes and then what is in the report, and then what is the auditor's responsibility and what is management's responsibility is that typically in an audit, and the smaller the company, the more likely this is the case, we're actually assisting management in writing the financial statements.

Now, when this first came out, we didn't say assist, we just said, heck, we're writing the financial statements. We did not have that time ethics 101.3 had not been upgraded and now it's 1.295 that has all the safeguards that we have on the test services, which wrote the financial statements for the client. It wasn't an independence issue. Now we understand there's a distinctive barrier, a firewall, if you will, between those two functions. And if we're assisting them in writing, we have to have the safeguards for independence.

So, that's where we stayed for years. That was the arena that we worked in where the Audited Standards Board was driving not only the requirements for what constituted Going Concern, but also how management would handle that as a disclosure, and then the auditor's responsibility in the report.

Finally, after many years, the FASB finally conceded that, "You know what? This really should be in the accounting's guidance. It should be in the accounting standards codification." So, the FASB issued a standard that created Section 205.40 that provided what management's responsibilities were. And by the way, when the FASB issued this, then the auditing standards changed to now just give guidance as to what our report may or may not say if in fact management has disclosed Going Concern.

So, let's talk about changes that the FASB made in 205.40 and how it is evaluated or how Going Concern is evaluated and then what our disclosures are.

The first thing that the FASB says management has to consider is look at known events. What is out there that could cause substantial doubt about the ability of the entity to continue as a Going Concern for one year past the issuance of the report. I believe earlier I said, you know, when there's an auditing standard, it's one year past the balance sheet date. I misspoke.

So, if you issued your audit report 10 months after you're in, you only had a two-month window. In fact, I remember at the time CPAs joking and saying, "Heck, if they have this problem, we'll just wait till the end of the year to see if they made it." Now it's under the FASB guidance that it's one year past the date the financial statements will be issued. So, that expanded the whole Going Concern about a two- or three-month window.

And I used to tell people, "You know what? But if things are that bad, it's probably not going to make a difference." In other words, if you're saying, "Okay, everything was great at December 31st, but by March 10th, the date the financial statements had been already to be issued, everything had deteriorated, that's a pretty short timeframe and I don't think that will ever happen."

That's what I used to say. However, three years ago now, I was involved in a lawsuit as an expert witness and it all centered around a Going Concern. And it was under the old standard. It was before the new standard had passed when all this happened. And because of various issues, there was a delay in the issuance of the audit report. It was a December year-end and everything was issued, I think, in September or October of that year. And it wasn't because of the issues that came up, but ultimately, the experts on the other side got it wrong. They thought, because they thought it was under the new accounting standard, they said, "Oh, they should have caught this," but it was under the -- it was still in the auditing standard, the guidance.

But for that particular entity, and by the way, it's the bankruptcy trustee that had filed suit against the CPA firm on alleging all sorts of things wrong, but one of them was that, "Hey, there should have been a Going Concern." There wasn't a Going Concern, because things deteriorated. But that company was in fact very healthy, but then not going to get in all the gory details, but a series of events happened. They ran out of funding and they went from being in pretty good shape to really bad liquidity. Again, had good products. They just had a liquidity problem that they could not solve, could not get the financing, eventually declared bankruptcy because of the liquidity problems. And it all happened very, very fast.

So, I now check myself when I'm saying, "Hey, I doubt we could ever see an issue where things could deteriorate so quickly," because I actually saw where that had happened. So, you're considering known events when you're making this, when management sitting around talking about, "Hey, let's talk about all the disclosures. Do we have any subsequent events we're supposed to disclose? Are there any risks or concentration?"

And again, this is under the premise that management is writing the financial statements, not the auditor. I know that's a stretch, but when the auditor is assisting, you will have these discussions with management. So, at some point during this conversation when management is following their own internal controls to make sure that they have all the appropriate disclosures in the financial statements, they're going to have this discussion about Going Concern and talk about these known events.

Maybe it's just general economic conditions. And certainly, while general economic conditions can be a driving factor toward an entity going under, that's usually a contributing factor because everyone's affected by, you know, maybe it's rising interest rates or something along those lines, higher inflation, whatever it might be. More likely, there's going to be industry-specific conditions. Maybe you're in the oil and gas industry and then oil has gone down to \$18 a barrel or whatever the case might be, or changes in the technology in a particular industry that make your service or your product irrelevant.

It's not just technologists, just the cost of things have come down. So you just go buy another television. So whatever it might be. So there are changes. We used to have farriers. In case you didn't know, those are people that would change horseshoes. Not as important anymore. Blacksmiths, all those things. And then I say those, I know those are a hundred-year-old professions, but there are professions today that will not be here in five years because of changes in the technology. What are those? I don't know. I don't identify them, but if I could, I wouldn't invest in them, but as emerging technologies come out, we don't have a use for certain types of industries.

Changes in customer habits. That's a big one. Where people used to, it could even be restaurants where people would go through phases where people like, oh, it's just really good to have this type of cuisine or whatever, you know, and then all of sudden it's not in favor anymore. So, it could be a clothing thing. It could be, whatever it might be, the changes in consumer habits are things that are typically non-advanced.

It could be internal issues to the organization. Maybe there are changes in management. In our firm, we have gone through that just in the last two years. Our founder who founded the firm in 1971 and who worked as the manager partner until 2023. It's a pretty long life, 1971 to 2023. He turned over managing partner duties to me and he passed away about a year later. For those of you that don't know my background, we all called him "Mr. O," but after five o'clock, I called him "Dad."

There were changes in our organization. One of my employees will said, "Kurt, you're not like your dad." I said, "No kidding. We're two different people," you know. So, when someone that's been a leader of a company for 53 years, there's going to be some changes. Fortunately, we don't have a Going Concern. I've got a great staff, but we have seen situations with family, closely held businesses where someone that's just a rock of the business like my father was, things can deteriorate pretty quickly, but fortunately, we had a good transition plan in place.

Just lack of capitalization. So you have a great product. You have a great service. You have distribution channels. You just don't have the capital to make it work. Time and time again I've see various, polls or opinions or whatever on the reasons why small businesses fail, and a lack of capitalization is usually among the top of it. And that lawsuit that I was in earlier, and by the way we wound up winning it, the jury decided wasn't the auditor's fault. It's just there's an aggressive growth plan by management and they just assumed they could get their capital and when they didn't and all their other loans got called well that became a problem.

Lack of product development. So, you have a good product now, but it's going to change. This kind of goes with changes in technology or consumer habits.

So, those are the types of things that an entity should consider and say, "Is there anything out there that if we don't address, we could be out of business in a year? And one of the great things about this standard, when I tell my clients to consider, they have that discussion, it makes them have, we used to call it—and they still do, I guess—a "SWOT analysis," Strengths, Weaknesses, Opportunities, and Threats.

Obviously, strengths and opportunities are things how we grow our businesses, but weaknesses and threats are things that could cause our business to contract or fail. And I think of weaknesses, things that are internal to the organization, and threats are those things external to the organization. And any good entity should be developing that. That's leadership, call it leadership, whatever you want to call it. You're not just reacting to everything, you're actually being a leader.

So, it makes people think of those things. And then if you identify issues that are weaknesses or threats, the next thing that management would do is say, "Okay, so we have this weakness internally or we, have this external threat. First of all, if we don't address it, it might hurt earnings, but will it cause us to go under?" And if the answer is, "Yeah, it might hurt earnings, but it won't cause us to go under," now this is nothing that would need to be disclosed because you don't have anything, there's not a substantial doubt about the ability of the entity to continue when you're past the date the financial statements will be issued.

So, you don't identify it, so it's so good. So, we've gone through the known events. We don't identify anything, so you think to say, "Okay, we are fine." No, we're not quite done yet.

The next part of the standard, and it's very controversial, says that management should also consider or have consideration of reasonably knowable events. And that is defined as either events or conditions that don't exist at the time management evaluates Going Concern, but based on all available information, it was reasonable, or a reasonable person would have believed that management should have predicted the effects then now those conditions are there.

The reason I call this controversial is, folks, that's being an armchair quarterback. The money I could have made in the stock market if I would have known that, oh, Nvidia was going to do this stock or Apple, whatever it might have been. The fact is, we can't predict, and good managers are people that are better able to read the tea leaves, if you will, and see what's going on and kind of get ahead of the curve of everyone, but at the same time, to sit there and say that there is a failure of management to properly disclose Going Concern simply because they didn't put two and two together and got four. They put two and one together and got three and three was less than four and four would have been a Going Concern and three wasn't. I mean, it's just, that's a very high threshold, but it's there.

So, part of the evaluation of management is not only known events, but it's also these reasonably knowable events. And at this time, I'm still not aware of any lawsuits out there or any regulatory sanctions that have been taken against a company where things weren't known, but the regulator or lawyer said, "But you should have known this based on this particular indicator." So, hopefully that will not become a problem, but that is what the standard requires.

So, now that we have considered both known and reasonably knowable events, and we talk about this, If we do not identify any condition or event that it's reasonable that it would cause us to cease operations within a year from the date the financial statements were issued, at that point management is done. So, management has done their job under FASB and document these discussions.

So, now the auditor, when the auditor is coming through and saying, "Okay, have you got all your disclosures on related party? Do you have all your subsequent event disclosures and all these other disclosures?" When they ask about Going Concern, ask for a manager and says, "Yeah, we talked about it and here are our conclusions."

And I wish that happened every time. In reality, it doesn't. I think in practice, what typically happens is what happened in what we saw in the auditing standard. We, as the auditor, when we would ask management, "Have you done this response to the survey?" They go, "No." And then "So, let's talk about some of the things we have come up with. Has there been anything in the board minutes of a threat coming through?"

An example that I always give or have given recently is, is in the Central Louisiana area where I live, we have a really nice series of, that have just come around the last 10 years or so of gas station combination restaurant, accommodation, convenience store called "Y Not Stop," but it's a "Y," letter Y Not Stop. Really catchy, beautiful new, clean place and all.

For those of you in the South, you may have heard of Buc-ee's, which is a 10 times version of what I just talked about. And if Buc-ee's were to ever show up in Alexandria, Louisiana, it would probably put all the Y Nots out of business because people would go to Buc-ee's. We actually call it, Y Nots "Buc-ee's Light," because it's a smaller scale.

So, those are the type things if something like that were identified by management, some threat, and that would be considered a threat, you'd have to say, "Okay, what are our responses to this threat?" If we identify one. Let's say we're management of Y Not, and we said, "Yeah, we just heard Buc-ee's is coming to town, they will be here in a, well, within that one-year timeframe. How do we mitigate it?"

So, management has to come up with a plan to say, "This is what we think is going to happen, and this is what we're going to do." What are your potential plans? Maybe we're going to compete on price. We're going to compete on service. We are going to establish customer loyalty programs so that our customers won't go off to Buc-ee's. They'll stay at Y Not. We'll improve our menu. We'll develop an app that will allow people to get their food faster. Whatever they are, we either improve our service, improve our outreach customers, complete on price, whatever it might be.

Some people say, "Okay. We're going to contract. We're going to close three or four locations that might be near where that Buc-ee's is and the other ones we'll keep." Some people might expand and say, "Come on Buc-ee's, we're going to be bigger than you." I don't know what management's response will be, but there better be one because you said there's a threat that could put us out of business. So, what do you do? Do you step up to the plate and compete or do you whine and cry about it? It's kind of, I know that sounds harsh, but if you whine and cry and there's no response, then you're probably going to have the, we're about to talk about, a red light Going Concern.

So, once management has determined the plan, so remember, where are we? If management says there's no threats out there, you document it, you're good. But if management said there is a threat out there, what is your plan? And then it is up to management, and then the auditor to agree or disagree as to whether or not their plan will mitigate the threat. We'll say, "Yeah, okay, so this is what you're going to do and yes this mitigates the threat."

This is where there's a big difference between the old standard and then what we now have within FASB. When Going Concern was in the auditing standards you got to stop there, you would document everything and that was it. No one that was reading the financial statements would ever know that management even considered the Going Concern. However, now under the FASB standard, if management identifies a threat that could cause them to go out of business within a year, even if there's mitigating circumstances and management has a plan that they believe will work and be effective, management will have to disclose that Going Concern issue and their plan, and state that they believe their plan will be effective, that it is probable that the plan can be implemented, and it is probable that the plan will mitigate the threat.

And I've always referred to that, this isn't official, I haven't seen it written anywhere. I call that the "yellow light disclosure." It's a cautionary disclosure, which we did not have when it was an auditing standard.

So, that's where you hope you are, but I want to make sure everybody understands here. If you have to start talking about what is your plan to mitigate the threat, you're going to have a disclosure. And if you have that yellow light disclosure, management does not have to add that emphasis paragraph in their report, but it's just a disclosure over there.

The content of that disclosure and the written material, I have an example of a situation where you have someone that's the last leg on the distribution chain to get product from warehouses to retail stores, and the two threats that they have identified is rising fuel prices and people no longer shopping in stores but doing online shopping.

So, those are the threats that they identified that if we don't do anything, then we're not going to make it until the end of the year, but management comes up with a plan. They're going to renegotiate fuel surcharges. They're going to, because they have short-term leases on their vehicles, get more fuel-efficient fleet. That covers that. And then they're going to look at expanding their outreach to other retailers.

Right now, people hopefully realize that UPS, FedEx and others, they will sometimes be that last leg. Sometimes they can get overwhelmed, so they're going to enter contracts with UPS and FedEx and other delivery people to take some of the load off of that. So, they're going to, they realize the market's going down, but there's more business we're going to reach into there. So, that's management's plan.

So, what do you have to disclose? First of all, the principal conditions or events that raise substantial doubt. Rising fuel prices, changing consumer shopping habits. Then management's evaluation. Talk about how management evaluated and said, "Yeah, this is going to be the impact. We're going to lose X number of revenues. Our costs are going to go up Y, and Z means we're not making enough money, and if we're not making any money, then we're not going to be able to continue in business."

And then the third part is what is management's plan? What are they going to do? And in the sample note in the written material, we go through and we detail that plan. So, have that disclosure, that yellow light disclosure.

Now, what is the responsibility of management and the financial statements if they look at their plan and go, "You know what This is the best we've got. We don't think it's going to work." When you have that issue, then you have what I refer to as the "red light disclosure."

So, the first thing you will still disclose the principal conditions or events that gave rise to the substantial doubt. Then management's evaluation is significant. And then what's your plan? You're still going to have a plan. You just don't think it's going to work. Or I predicted that we're never going to see this. So, let's say you have a company that goes through this process and says, "Yep, we're out of business in nine months and this is the best we've got and we don't think it's going to work." That is management admitting to the world and their creditors and their shareholders that they are not good enough to manage their way out of their current predicament.

That generally doesn't give you very good job security, very good job security when you tell your board of directors, as the CEO, CO, CFO, and every other, CIO and everybody else in there that, "We just can't manage our way out of this. We're out of answers." That's probably not going to happen.

You can go back and look at the history of Sears and Robuck. But Sears and Robuck, very profitable retail company for many years, the king of retail and department stores in the United States. And we all know about 10, 12, 15 years ago, maybe a little bit longer than that. They started declining for a multitude of reasons, and they were selling off stores. They were closing stores. They were buying out leases. Heck, one of the things they did was they bought Kmart. So, let's just buy someone else that's in the same predicament as us. I've never heard that as being something that's really good. Let's just buy someone so we can take them down with us, all right.

So even though they were basically, Sears was going to become a real estate company, we know they sold the Sears Tower that was in Chicago. So, but eventually they just ran out of options. But all along, when any reasonable person could look and say, "Sears is dead."

They still just had that yellow light disclosure and they said, "Oh, we're going to sell off the Diehard brand. We're going to sell off the Craftsman brand. We're going to do this in real estate, and because of that, we're still going to be around in a year. And yes, I know we went into bankruptcy, but we're going to emerge from bankruptcy. It's not going to be liquidation." It was well written.

And again, you have to like their attitude. They were fighting, they fought until the very end. And I don't know that the end is actually here. I haven't looked lately at what Sears is. I don't think, I think they're delisted. Maybe they're still there in some shape or form, but back when the standard first came out, that's when I was teaching live, I would show these disclosures to provide examples of a company that's even what we consider might be desperate. They're just in the yellow light, but by the way, that was correct, because each year I would show the disclosure. They made it that next year. They made it that next year. So, they were making it.

The other interesting thing about the Sears disclosure is it was somewhat buried. They actually had it in the summary of significant accounting policies that several paragraphs about liquidity, then they just threw in the Going Concern language. To me, it's always been the intent of the FASB, and even when it was an auditing standard that you have a separate footnote, you know, Uncertainty, Going Concern, really emphasize that particular footnote.

So, once a company has maybe entered liquidation bankruptcy or everyone knows there's no hope, you will see these red light disclosures where they will have everything they're supposed to do. All the issues and they say, "What are the issues? And here's our plan, but we don't think the plan is going to work." That's that red light disclosure. And then that's when the auditor will add an emphasis paragraph that says, "Yes, there is management that's concluded that there is substantial doubt to continue as a Going Concern."

And the example that happened in the written text is an entity that was kind of a startup pharmaceutical company but not making drugs, making the actual pill counters. And I was inspired by that because for whatever reason, Central Louisiana was kind of a hotbed of that in the '70s and '80s. We had a pharmacist here that had developed some of the pill counters that you see, these automated prescription dispensers in stores all around the country. And, you know, I thought, "Well, what happened if he would have failed?"

And he didn't fail. He got it, but what would have happened? And just eventually this entity ran out of capital and there's no way and they could not obtain other capital. Although he's still going to try to get the additional capital there's a very little likelihood of that, therefore, it was not probable that the plan could be implemented, therefore, it was a red light Going Concern.

Now, to kind of close out this discussion, I want to talk about the liquidation basis of accounting because if management has in fact adopted a plan to liquidate or they've gone to bankruptcy court and liquidation bankruptcy is imminent, either one of those two things, now you're not going to have the Going Concern disclosure, but that's because you're not going to be issuing the financial statements as if they're in a Going Concern. You will actually adopt a liquidation basis of accounting under Accounting Standards Codification 205.30. So, again, when management has approved a plan or they're being forced by a third party to liquidate, now you're in the liquidation basis of accounting, and any asset that has no liquidation value, meaning cash value, they're written off. All other assets are going to be adjusted to net realizable value.

So, maybe you have trademarks or some other type of goodwill that, by the way, there's no more goodwill because you're not making money. No one's going to buy this company from you. So, you write all those things down to zero. So, all assets are going to be brought to net realizable value, and that is what you will get for them after any commissions. And then if there's any other disposal costs, you'll accrue them. Liabilities are going to be presented at liquidation value, which unless there's a specific agreement with a creditor, it's going to be the current face amount, and that is what you're going to present moving forward. And income's going to show, income statement will show all the income from the various liquidation and selling of assets and then the related expenses.

So, that is why the Going Concern is not appropriate for the liquidation basis of accounting. The very fact that you're in the liquidation basis of accounting itself, that warned the user that, "Hey, we're not going to be around for long."

So, I hope this has been a good refresher on the requirements of both management and the auditor as it relates to Going Concern and the appropriate disclosures.

GROUP STUDY MATERIALS

A. Discussion Questions

1. How did the responsibility for assessing Going Concern shift from auditors to management, and why was this change significant in financial reporting?
2. Explain how management evaluates both *known* and *reasonably knowable* events when assessing Going Concern, and why this distinction can be challenging in practice.
3. What are the key differences between “yellow light” and “red light” Going Concern disclosures, and how do these affect users of financial statements?

B. Suggested Answers to Discussion Questions

1. How did the responsibility for assessing Going Concern shift from auditors to management, and why was this change significant in financial reporting?

Originally, auditors were primarily responsible for evaluating whether an entity could continue as a Going Concern. This approach stemmed from auditing standards such as SAS 59, which required auditors to identify substantial doubt and ensure management disclosed such uncertainties. However, over time, the profession recognized that management, not auditors, had the most direct knowledge of the company's operations, liquidity, and future plans. This led to the issuance of FASB ASC 205-40, which formally placed the responsibility for the Going Concern evaluation on management. The change was significant because it aligned the disclosure process with the fundamental principle that management prepares the financial statements and auditors only provide assurance on them. By shifting this responsibility, the FASB also clarified that auditors should not introduce new information through their reports but should emphasize management's disclosures when necessary. This evolution enhanced transparency, reinforced accountability at the management level, and reduced confusion about the auditor's role, ensuring that the Going Concern assessment became an integral part of management's financial reporting process rather than an afterthought of the audit.

2. Explain how management evaluates both *known* and *reasonably knowable* events when assessing Going Concern, and why this distinction can be challenging in practice.

When assessing Going Concern, management must evaluate two categories of potential risks: *known events* and *reasonably knowable events*. Known events are conditions that exist as of the evaluation date—such as declining sales, loss of financing, or the departure of key personnel—that could raise substantial doubt about the company's ability to continue operations. Reasonably knowable events, on the other hand, are future events that management could reasonably foresee based on available information, such as expected market shifts or regulatory changes. The challenge lies in interpreting what is “reasonably knowable.” This concept introduces a degree of professional judgment, as hindsight often makes past decisions appear negligent when unforeseen conditions occur. For example, management might not have predicted a rapid economic downturn or a sudden loss of investor confidence. Nonetheless, the standard requires that management document its reasoning and support its conclusions with evidence available at the time. This distinction encourages proactive risk management while recognizing that no evaluation can perfectly predict future outcomes, making the Going Concern assessment both an analytical and ethical exercise.

3. What are the key differences between “yellow light” and “red light” Going Concern disclosures, and how do these affect users of financial statements?

“Yellow light” and “red light” disclosures represent two levels of Going Concern uncertainty under FASB ASC 205-40. A “yellow light” disclosure occurs when management identifies conditions that raise substantial doubt about the entity's ability to continue as a Going Concern but believes its mitigation plans—such as refinancing debt, restructuring operations, or securing new customers—are probable of success. In this case, the company must disclose both the risks and its mitigation strategies, but the auditor does not need to include an emphasis-of-matter paragraph. In contrast, a “red light” disclosure arises when management concludes that substantial doubt exists and its plans are *not* likely to succeed. This situation signals to users that the company's survival is in serious jeopardy and typically results in an auditor's emphasis paragraph highlighting the Going Concern issue. These distinctions are critical for financial statement users because they affect how investors, creditors, and regulators interpret the company's financial health and future viability. A yellow light suggests caution but continued confidence, while a red light indicates severe distress that could lead to liquidation or bankruptcy, fundamentally shaping stakeholder decision-making.

AUDITING PART 2

Special Considerations Related to Audits of Group Financial Statements

In this session, Jennifer Louis, an expert in audit quality and professional standards, explains the upcoming requirements of SAS No. 149 — Special Considerations Related to Audits of Group Financial Statements, effective for periods ending on or after December 15, 2026. Jennifer discusses how the new standard enhances the credibility of audit reports when using the work of component or referred-to auditors, and how it applies to both simple and complex group structures. She explores key concepts such as identifying components, determining materiality, supervising component auditors, and evaluating evidence obtained from other auditors. Through practical guidance and clear explanations, this session helps auditors understand how to plan, perform, and document group audits in compliance with evolving professional standards, ensuring consistency, accountability, and audit quality across all levels of engagement.

Ms. Jennifer Louis

Hi, I'm Jennifer Louis and I want to talk to you today about group audits, particularly because of the fact that we've got SAS 149, that is special considerations related to audits of group financial statements. That's going to be effective for my financial statement audit periods ending on or after December 15, 2026.

Early adoption is permitted of this particular SAS, but as we think forward, to our calendar year 2026 audits that we do need to factor in the planning for those engagements to incorporate this particular SAS. As we reach 12/31/2026 moving forward is the official effective date. The section around the SASs that deals with these audits of group financial statements is to focus on increasing the credibility of an auditor's report when we are using the work of a component auditor or a referred-to auditor. It applies to any group audit, regardless of the size or complexity of the audit.

In each case, though, we are going to be ensuring that we're properly identifying and assessing risks of material misstatement in this group set of financial statements, and we're going to plan and perform procedures that are appropriate to respond to those assessed risks, and to ensure that we are comfortable that we should be able to get sufficient and appropriate evidence to provide a basis for forming an opinion on the group financial statements.

This does include making sure that the engagement partner, the group partner, is sufficiently and appropriately involved in the work, which does include any component auditors that are really fundamentally a part of our engagement team, that they need to oversee the component auditor's work, including being comfortable with the scope and the timing of the work and evaluating the results of that component auditor's work because we need to make sure that we've got adequate evidence to support what's in our report.

We are going to talk about the option that does exist to make reference to the audit of a referred-to auditor in an audit report in a set of group financial statements, but we'll differentiate that from a component auditor here in just a moment. But one of the things I want to highlight before we get into the specific details is that this section of the SAS, as it relates to group financial statements, it could be adapted to other types of circumstances. Like if I'm using another auditor to simply observe inventory or to inspect certain fixed assets at a remote location. That's not a group audit situation, it's just inventory that's in a remote location, but the concepts that are embedded could be adapted and applied to that particular circumstance as well to guide you in ensuring that you're getting sufficient and appropriate evidence about that inventory or those fixed assets.

SAS 149 specifically says that you have a group when there is a reporting entity where group financial statements are prepared. They include the financial information of more than one entity or more than one business unit where the financial statements of the entity or the business unit, where there's more than one of them, that the financial information needs to be going through a consolidation process. A consolidation process could include actual consolidation. It could be proportionate consolidation. It could be equity method of accounting.

So, in these cases, there is a process of aggregating information. It also could be combining financial statements of entities or business units that are under common control or common management. I have to aggregate the financial information of more than one entity or more than one business unit, which could be a branch or division or a region.

Examples of group audits include things like consolidating a subsidiary, having a consolidation of a variable interest entity. It could be that I have an investment in a joint venture. It also could be an equity method investment. It could be an investment that's measured at cost that we now adjust to fair value, say if it's an equity security, but I could have an investment when a report of another auditor is going to be a major element of the evidence that I'm using in order to audit my client.

There may be entities where things are managed by product line or region, and I need to get the financial information from each region to pull together, to consolidate that information in order to create the group financial statements.

So, one of the things that was critical for SAS 149 is highlighting that when you look at auditing an equity method investment that if I'm obtaining and reading the audited financial statements of this entity that I'm not consolidating because I don't control them, but yet I significantly influence them, I'm still doing a single line consolidation. And so, if the difference is something where I have to make sure that if I'm basing it on these audited financials of this investee, that I'm comfortable that that's satisfactory audit evidence.

There also may be cases where there's a difference in the financial reporting periods between the investee and the group, and that could have a material effect on the group's financial statements.

And there is going to be factors to consider if there is lack of consistency in the fiscal year ends that I do need to appropriately address in conformance with what GAAP says to do, but also in accordance with what our audit standards say to do, because there is a Section 708 that deals with consistency of financial statements. And the goal in the end is to just make sure that even if I'm using audited information from another auditor, I'm comfortable that it is sufficient and appropriate evidence to meet my needs.

In thinking about a component, in planning a group audit, that a group always has more than one component. There's more than one entity or there's more than one business unit that does have to be, that I'm bringing the information together, either consolidating it or combining it. And if I am in a situation where I have a component that has been audited and has a standalone audit opinion, this section of dealing with group financial statements is still going to apply. And one of the things that as we look at items, there could be that a component actually has a subgroup within it, as there could be multiple layers that need to be understood as I am determining what audit work might be required.

It's up to the group auditor to use professional judgment in determining which components of this entity actually are going to merit having audit work done. And this is going to be based on my group auditor's understanding of the entity and its environment, and my ability sometimes to perform procedures at a centralized level in looking at where there might be common systems and controls.

Underneath the preceding standard related to these group audits, prior to SAS 149, there was more of an approach that permitted less judgment on determining when do I have a component that's significant enough to require audit work. Underneath the old standards, you looked at the significance of a component to the group based on calculating what percentage of group assets or liabilities or revenues or expenses does this comprise, but they also looked at just specific circumstances, like could there be a significant risk at this component that could be material to the group, such as foreign exchange trading.

So, in the past, you had to look at the individual financial significance of the component to the group, and you also had to look at the specific nature or circumstances of the component, and are there any significant risks within that component that are significant risks to the group?

It is still, though, underneath this new approach, I'm still going to use my judgment around what components merit separate audit work, and it may be because of specific risks or the individual financial significance of the group. I'm still going to go through a process of identifying my plan and why it is that I'm thinking this should be an appropriate plan. I just have more flexibility in what I use as a basis for forming that particular judgment or that particular conclusion.

All right, when we are looking at other things, like when I'm assessing my level of interaction and involvement, there is a difference between what I'm obligated to do when I'm working with a component auditor compared to a referred-to auditor. In a referred-to auditor situation, I'm saying I've audited this group except for maybe a subsidiary that was audited by somebody else. And I will say in my audit report, I didn't audit that subsidiary, somebody else did.

Now you're still responsible for gathering that audited information and making sure that it's properly consolidated or combined into the group financials. There still needs to be a process of bringing it in in an appropriate way, but I didn't audit the level of information that's coming for the financial information of the standalone element, the stand, the subsidiary has its standalone financials that were audited. But I also can have, even if those financial statements were audited by somebody else, I could not use the referred-to option. I could get the audited financials of that component, and I could, in essence, when you read my audit report, I would never know that another auditor was involved.

In essence, I take, I take responsibility for the results of the work of the component auditor, whereas when I do the referred-to option, I want to make sure that I'm comfortable that this is a competent, capable auditor that followed standards, but I'm not taking responsibility for supervising and reviewing their work.

When I have evidence that's coming from an auditor of a component where I'm not going to be using the referred-to option, it's going to require closer involvement and communication between the group auditor and this component auditor. In the situation, where we're dealing with these group financials, now the group engagement partner is going to be looking at being involved with that component auditor as I approve their materiality and I review their significant findings and conclusions. Like I am basically saying they're a part of my team. A component auditor is a part of the engagement team. They're a part of the resources used by that team where there needs to be quality management over those resources.

As we think about the level of control and influence that the group audit partner has over that component, a component auditor may audit an entire subsidiary and we have to be involved in that audit of the subsidiary upfront to make sure that we're comfortable with their materiality and their plan procedures, et cetera. It may be that a component auditor is simply providing information or performing work for me of this component that we're now going to use. So, they may not issue a separate audit report of that component, but they're still a component auditor.

There is where a component auditor does function under the direction and the supervision of the group and ultimately the group partner. Part of the risk assessment then of the group audit team is to go through and say, are we comfortable that we're reducing our audit risk to an appropriately low level?

Is there something where we have higher risk of material misstatement because it involves this component, and how am I going to satisfy my detection risk related to that component? Is there a risk that the nature, time and extent of what we're doing would not identify a material misstatement due to fraud or error as I'm designing the nature, time, and extent of my detailed audit plan. The group has to be comfortable with the detailed audit plan of that component when we're taking responsibility for the work of the auditors at that component.

The group engagement team is obviously going to come up with materiality, performance materiality, trivial for the group. Here's what we're hired to form an opinion about. So, I'm responsible for the materiality decisions for the group set of financials.

Now, when there is a component of the group, I'm now going to look at this and say, "If I have a component auditor that I'm going to be using, as a part of our evidence related to this component, and I'm not going to refer to them in my audit report, I also am responsible for overseeing what's the materiality, the performance materiality, the trivial threshold that's being used at the component level."

Now, typically, your materiality at the component level should be lower than what you're using for the group to allow to make sure that in the aggregate any undetected or uncorrected misstatements would still not be material in the aggregate. And there may be direction as well to say, "I'm expecting to use a lower performance materiality for very specific accounts, class of transactions or disclosures, that might have higher risk associated with them."

The judgments about materiality for components falls underneath the purview of the group audit team, unless there is a referred-to auditor who isn't really a component auditor underneath the definition of SAS 149. They're auditing a component, but I'm going to be referring to their work, and therefore, I'm not responsible for approving their decisions that they're making with risk and materiality and what they believe to be sufficient and appropriate evidence as they're performing their audit in conformance with professional and technical and ethical and regulatory requirements.

But it is also, though, important even when I have a referred-to auditor that there does need to be some communication with those referred-to auditors. There also needs to be sharing of information like related parties, significant deficiencies in material weaknesses, any known or suspected fraud or noncompliance with laws or regulations. Like we should seek out to proactively interact with auditors of a component, whether they're a referred-to auditor or whether they're a component auditor.

I just want to engage in sharing information with those other auditors because there's value on both sides to have clarity around issues that could affect our audit opinions. It could affect the opinion of the referred-to auditor. It could affect the opinion of our group as we're communicating with these other auditors. But the sense of communicating in the spirit of let's cooperate and share with each other, that's more of the referred-to auditor side. Whereas with the component auditor that I'm not referring to, I have responsibility for supervising and reviewing their significant judgments, decisions, conclusions.

There should be a threshold then that is communicated to this component auditor to say, "Here's what we're comfortable with. Here's what we would be comfortable as being deemed a trivial quantitatively at this component audit. Here's the thresholds we want you to use as you're performing your audit work, as you're setting scopes and sample size and acceptance thresholds for analytics" And "Here's what we believe to be an appropriate planning materiality."

From a quality management point of view, we have to have sufficient and appropriate involvement by the group audit team, the group engagement partner, in the work of a component auditor. There needs to be appropriate two-way communication. There needs to be that the, we take into account how is it we're going to direct and supervise and review the work of the component auditor.

When we do decide potentially to use the referred-to option instead, we're going to make reference to the audit of the referred-to auditor in an audit report because they have audited a component and they've issued an audit report as a result of that. That referred-to auditor, while it is evidence that we're going to use for the group, that referred-to auditor is not considered to be a part of our engagement team. They're not a part of being under the quality management of the group as far as my policies and procedures of how it is that I maintain quality for the audit.

It is though important in order for me to use this reference option that the auditor that we're going to refer to in our audit report, that they have performed their audit in conformance with either generally accepted audit standards issued by the AICPA or PCAOB audit standards. If I'm following US standards, they have to also follow US standards. If they're not following US standards, then I may have to ask them to do additional procedures to be in conformance with the US standards.

If they are using international audit standards, they have to do additional procedures to be in accordance with the SAS's or PCAOB because if I'm going to refer to them, their audit needs to be done in conformance with that. If the referred-to auditor isn't interested in that I'm just giving you my audit report that's under IFRS audit standards, well, they now can be a component auditor versus a referred-to auditor. I may take steps to do additional procedures so that I feel comfortable. I have sufficient and appropriate evidence underneath US standards. It might be things that I get them to do or it might be things that I do myself.

Regardless, if there are financial statements created for a component, you're going to read those financial statements. If there's an audit report that's being created for that component, you're going to read the results of the audit. Whether you're referring to them or not referring to them, you're still going to read the financials in any related report or communications. You're going to see is there anything that I believe could be a finding or issue for me, for the group. And there may be, like in a referred-to option, it is possible that they would have a modified opinion or something else that we see as a result. There may be a subsequent event disclosure. I may need to reach out to the referred-to auditor to get more information about that issue.

It also may be that the applicable financial reporting framework that's being used by the component might be a different framework than what the group is using. Perhaps my subsidiary is a foreign-based subsidiary and their financials were prepared under IFRS. Whereas the group is using FASB/GAAP. Appropriate steps would have to be taken to convert the IFRS financials into US GAAP financials in order for me to ensure that there's a consolidation process that's resulting in the preparation and fair presentation of the group financials as I have to take into account differences in reporting frameworks, as well as differences in fiscal year ends.

While you're not required to get involved in the work of the referred-to auditor, I'm not required to direct and supervise and review their work, I still have to think about whether or not it is appropriate for me to just make reference to them in my report. I still need to evaluate the appropriateness of that choice where there may be cases where I'm like, "Yeah, I don't feel good with that. I think I need to treat them like a component auditor." I'm not going to refer to them. I am going to get more hands on and there may be procedure that I ask them to do or there may be procedures that I do at the group level in order to feel good about what's being actually presented in these group financial statements.

I want to explore a little bit more about the planning and risk assessment activities that we would undertake as we look about the group. When we're going through the planning phase, I'm going to gain an understanding of the group and I'm going to identify where there are components of the group. Remember a component is that there's a separate entity or a separate business unit, division, department, where there's separate financial information that needs to be captured and consolidated or combined to create the financial statements of the group. I need to understand the group, identify components, and I need to also understand what are the controls over the group, and are there common systems or common controls that would affect the group including its components.

If we have a component, remember there's separate financial information that needs to be consolidated or combined, so what is that consolidation process? What are the instructions that are followed by group management to pull in the information from these components, and are we comfortable with the design and the implementation of those controls, of those policies, of those procedures?

It is also a separate decision to determine whether or not you're going to test the operating effectiveness of the consolidation process or other group-wide controls if I'm going to plan on reducing my control risk below high or the maximum. So, I have to understand the design and implementation of controls relevant to this audit, and then I may or may not take a control reliant strategy. But I am going to factor those things in, what do I know about controls as I'm designing my substantive testing, as I'm looking at my tests of details, my substantive analytics, my observations and other procedures that are meant to satisfy that detective risk.

For the consolidation process, we want to feel comfortable that it's creating complete and accurate and appropriate information, which would include any consolidation adjustments, any reclassifications. I want to make sure that all components have been included in the group, that the group financial instruments are complete, but I also want to make sure that they are accurate and appropriate.

Adjustments that might be merited is when there is a different reporting period end for the component, or if the component is not applying the same accounting framework as the group, but even if they're applying the same accounting framework, is the component applying the same accounting policy elections within that group.

So, for example, is this component, are they amortizing goodwill when the group has indefinite line of goodwill. The component needs to have the same framework, the same policies as the group, as we're preparing the financial statements of the group, at least things that would be materially different.

Another important thing to highlight is that we're also obligated to perform procedures that are designed to identify events at the component level that happened between the date that I got the financial information the component, and the date of the group's audit report because those subsequent events might be significant to the group. It may require disclosure or adjustment in the group financial statements. So as I get the financial information of the component, I do have to consider subsequent events that are things that I should readily be able to gather information about that's relevant to going through the date of the group audit report as close as practicable.

Those subsequent event procedures may be done by the group audit team. They may be done by the component auditor, but we are going to get them to gather that information. Even when I have a referred-to auditor, in my audit report date for the group is later than the audit report that I'm getting from the referred-to auditor, there is still accountability for evaluating subsequent events from, between the date of the referred-to auditor's report and the date of the group audit report. Are we comfortable that we've identified subsequent events that might affect the disclosure or the adjustment in the group financial statements?

When we have that component auditor, that is going to be a part of my engagement team, we do need to confirm that they're willing to cooperate with the group engagement team. We also need them to confirm that we understand what are the ethical requirements that you abide by, including independence. Are you following the AICPA Code of Professional Conduct? Are you following international ethics? What are you following?

It is also going to be important to highlight the importance of sharing information about related parties and the transactions and events that occur in those related party relationships. We also want to be involved in helping identify where I have significant risks, risks that are at the upper end of my inherent-risk spectrum. We want to request them to be open in communicating with us as they have to understand we're going to be using your work as a basis of forming our opinion at the group level.

So, at the preliminary level, we get them to agree to all those concepts, and then we have to at the end of the audit, we need to make sure that we affirm with the component auditor that they actually did comply with the requests and the requirements of the group engagement team, that I've told you any findings that could be material to the group. I've told you about any significant risks of material misstatement that we identified and how we responded to them. We've let you know about all corrected and uncorrected misstatements that we identified. We've let you know about any indicators of potential management bias, any significant deficiencies or material weaknesses in internal controls of a financial reporting, any known or suspected fraud or known or suspected noncompliance of laws and regulations that could be material. We've let you know about any communications that we've had with the governance of the component.

Remember, the group is going to be involved to make sure that they're comfortable with the appropriateness of the work that's being done, that they're comfortable the component auditor has sufficiently identified and evaluated and responded to risks, including those significant risks that are higher end of the risk spectrum, that they've reviewed documentation. They've looked at the work that was done, to look at subsequent events through the group audit report date. Those factors all have to be considered.

Whether when I use the work of a component auditor, it may be principally done by the component auditor, and then there may be additional things that I'm doing on my end in order for me to clear review notes and make sure that I have that sufficient and appropriate evidence as I'm now using their work, in forming my opinion. I'm taking responsibility for their work because if somebody read my report, they wouldn't even know that another auditor was involved, whereas in the referred-to auditor situation, the audit report says somebody else audited this business unit or this subsidiary. But I still have to interact with the referred-to auditor. I still have to confirm that they're going to cooperate with us. I have to also say, "What standards did you use to do your work? What ethical requirements did you abide by?" Because I just want to feel comfortable that they are an auditor that is following professional, technical, ethical regulatory requirements.

In addition, I need to get their permission in order for me to use their work. And then I also want to request of them, "Could you share with me any related party relationships that you might identify in the course of your audit? Could you share that with me? I'll share it with you. You can share it with me."

The reference in the audit report is going to identify specifically what proportion of the group was audited by somebody else, and I should be reading the referred-to auditors report, reading the financials and the disclosures. And then I may have other procedures that I decide to do as a result of that additional communications that I might have with the referred-to auditor or with management and governance of the entity that was separately audited.

I may ask the referred-to auditor to perform certain procedures for me. So, for example, "Could you please look at subsequent events through the date of my group audit report?" "Could you gather certain information that I need in order to do some adjustments that might be merited?"

When you're using a referred-to auditor, it is important then to document, "Here's the financials of the component and here is the audit report." And if the component audit was not done underneath US standards, so it wasn't done underneath the SAS's or PCOB, then how do I know that the referred-to auditor did meet the relevant requirements of the SAS's or PCAOB?

So, I may have to stipulate, I, even though they did their audit underneath international standards, I asked them to confirm they are as an example of where there could be a difference.

So, it does need to be that the group auditor does determine that this referred-to auditor does have the competency and capability to do audits. They're following standards. They have ethical requirements. I made sure that if I needed to add things to be in compliance with the US standards that I got them to do it.

And then in addition, there may be cases where I have to document that there may be significant matters that were discussed, either with the referred-to auditor or with management or governance of the component, or even sometimes things that have to be involving management and governance of the larger group at the same time.

These new standards are important because there is clarity when I'm the group, what's my responsibilities, but also if you're on the other end, let's say that you're the component auditor or you're going to be an auditor that the group would like to refer to, I need to understand my role, my responsibility in conformance with these standards.

And then also remember that you may have situations where it's not that I have really a component with separate financial information. It may be that I have to adapt these requirements because we just have inventory that's held in an overseas location and I just need you to look at that inventory for me, not necessarily complete financial statements, but I can adapt to the circumstances.

And I also want to remind you before I wrap up, that this does apply to when I have an investment, say in a joint venture, or there is an investment that I'm using equity method. If I'm relying on the financial information of the joint venture or the investee in order for me to create the financials of the group, I have to make sure that I am comfortable, that I have sufficient and appropriate evidence about that element of the group's financial statements. I'm still accountable for that at the end of the day.

So, thank you very much for listening to these conversations and hopefully it just gives you broad-based context of knowing how this could affect you and how things might be different than you've historically handled things, whether you're on the group side or whether you're on the component side.

GROUP STUDY MATERIALS

A. Discussion Questions

1. Explain the key objectives of SAS 149 and how it improves audit quality for group financial statements.
2. Discuss the major differences between a *component auditor* and a *referred-to auditor* and how these distinctions affect the group auditor's responsibilities.
3. Why is communication between the group auditor and component or referred-to auditors critical in conducting a successful group audit?

B. Suggested Answers to Discussion Questions

1. Explain the key objectives of SAS 149 and how it improves audit quality for group financial statements.

SAS 149 was developed to enhance audit quality and transparency in engagements involving group financial statements. The standard clarifies the responsibilities of the group engagement team when using the work of other auditors, ensuring that sufficient and appropriate audit evidence supports the group opinion. One of its primary objectives is to strengthen oversight of component auditors, requiring that they be treated as part of the engagement team under the group's quality management system. This includes the group auditor's active involvement in planning, risk assessment, and evaluation of results. SAS 149 also introduces flexibility in determining which components require separate audit work, emphasizing professional judgment rather than strict quantitative thresholds. Another key improvement is guidance on when and how a group auditor may refer to another auditor's work, including ensuring conformity with U.S. GAAS or PCAOB standards. Overall, SAS 149 improves accountability, consistency, and credibility in group audit reporting, particularly in multinational or multi-entity settings where reliance on multiple audit teams is common.

2. Discuss the major differences between a *component auditor* and a *referred-to auditor* and how these distinctions affect the group auditor's responsibilities.

A *component auditor* is considered part of the group engagement team and operates under the supervision, direction, and quality management of the group auditor. The group engagement partner determines the component's materiality, reviews the component auditor's work, and ensures compliance with ethical and professional requirements. In contrast, a *referred-to auditor* functions independently and is not subject to the group's quality management system. When reference is made to a referred-to auditor in the group report, the group auditor does not take responsibility for supervising or reviewing their work but must evaluate whether the referred-to auditor followed U.S. GAAS or PCAOB standards. The decision to reference another auditor should be carefully considered, as it affects report wording and the group auditor's level of assurance. Component auditors require direct oversight and communication, while referred-to auditors require coordination to confirm competence, independence, and standards alignment. These distinctions ensure that both types of auditors contribute appropriately to the overall sufficiency of audit evidence supporting the group opinion.

3. Why is communication between the group auditor and component or referred-to auditors critical in conducting a successful group audit?

Effective communication is a cornerstone of successful group audits. SAS 149 emphasizes that both component and referred-to auditors must exchange relevant information to ensure audit efficiency and quality. For component auditors—who are part of the engagement team—communication ensures alignment on materiality thresholds, identified risks, ethical requirements, and findings of significance. This enables the group auditor to maintain appropriate supervision and ensure that the component's work provides sufficient evidence for the group opinion. For referred-to auditors, communication focuses on ensuring understanding of applicable standards, subsequent events, related parties, and known fraud or noncompliance. Although the group auditor does not oversee their work, cooperation helps address issues that could affect the consolidated financial statements. Clear, two-way communication also facilitates consistent handling of complex issues like differing accounting frameworks, fiscal year-ends, or consolidation adjustments. Ultimately, ongoing and transparent dialogue among all auditors enhances audit quality, reduces duplication, and promotes confidence in the integrity of the group's financial reporting process.

ACCOUNTING

Digital Assets: Implications of Recent SEC and FASB Developments

In this session, Jennifer Louis provides a clear and timely overview of the evolving landscape surrounding cryptocurrency and other digital assets. She explores how blockchain technology and distributed ledgers function, the ongoing debate over whether cryptocurrencies should be treated as securities, commodities, or something else entirely, and the implications of recent SEC and FASB developments. Jennifer also examines headline cases such as FTX, issues surrounding custodial control, and the role of “proof of reserve” reports. The presentation concludes with an in-depth discussion of FASB’s guidance on classifying and measuring digital assets, including impairment, fair value accounting, and disclosure requirements. Whether you’re an auditor, accountant, or financial professional, this course offers practical insight into how to navigate the complex and rapidly changing world of digital asset reporting under U.S. GAAP.

Ms. Jennifer Louis

Hi, I'm Jennifer Louis and I want to talk to you today a little bit about some of the current issues with accounting and with financial reporting when we're looking at cryptocurrency and digital assets. To start with, when we talk about digital assets, it is definitely something that's evolving. And if you look back historically, when we discuss digital assets, it can be anything that exists in some sort of digital format and it comes with some sort of right of use.

It may be something that resides on some sort of blockchain, as you may hear about blockchains or distributed ledgers. And it's, the distributed ledger is really the simplest form of blockchain. It contains every transaction that's ever occurred, that's been processed within this chain. And the authenticity of adding something to the chain is something that is protected through cryptography, which is an essence like digital signatures. We have a public key, there's a private key. There is no central administration as it relates to managing this distributed ledger. There's things where you have nodes or minors that every time you add to this distributed ledger it gets verified and everybody that participates in this ledger now has access to that digital ledger. It's shared by everyone who's a part of the chain.

So, to manipulate this ledger would be near impossible because every time you create a link in the chain, everyone that participates in this chain is aware of those changes. A distributed ledger is unreadable unless you have the encryption keys because it's protected by cryptography. There is a unique encryption key for each copy of this distributed ledger.

There's public keys, there's private keys that are needed to pair together in order to access these digital assets. So, just like a password, you have a username, you have a password. You have to keep these encryption keys secure in order for you to secure the access into this distributed ledger, this blockchain that only exists in an intangible form.

Now, the AICPA has been dealing with how to handle these accounting measurement reporting matters, and since December of 2019, they had this digital asset working group that did put together a non-authoritative practice aid that dealt with accounting for and auditing these digital assets. It's something that is a living document that's periodically expanded as you're getting emerging questions. And it is something that is based on professional literature, but it's not authoritative guidance. But it is a useful tool in trying to help figure out what is a best practice that people tend to be following as we do look at these industry-specific circumstances.

One of the most current areas that they're exploring, for example, relates to stablecoins, which we're actually going to talk about a little bit further in my conversation with you today. But in general, there is uncertainty in the U.S. tax law about how these digital assets, particularly things like cryptocurrency, is going to be treated. So should they be regulated as securities like stocks and bonds? Are they more like a commodity, where it's like foreign currency or crude oil?

So, this is also something when we have a change in administration so, as we changed over with who's in power, the prior SEC Chair wanted to declare Bitcoin for example to be a commodity, but also, then saying, but there's other digital assets out there that really behave more like a security where investors profit from the efforts of others, where value is derived from promoting this digital asset.

Uncertainty in its classification matters because it will make a difference about whether or not the SEC is the one that has purview over these securities, but if it's treated as a commodity, there is a U.S. Commodity Futures Trading Commission that's commonly viewed as being potentially friendlier than the better funded SEC.

Currently, as we look at these items, there are various lawsuits out there that the SEC has promulgated accusing some of these participants in this digital asset ecosystem to be unregistered. Either you have an unregistered security offering or you are an unregistered broker dealer, but they're trying to figure all that out.

When there are initial coin offerings, these are done as a way that can be to help raise capital as I offer my own coins, or it could be that I'm participating in some form of investment opportunity. Given the specific facts and circumstances, these initial coin offerings could end up being called securities. They could be end up being called commodities or potentially something else. Calling something a "token" isn't necessarily going to prevent it from being called a security, but there are lack, there is a severe lack of clarity on how these coins or tokens are going to be addressed particularly even as we think about the platforms that are being used to trade in these coins or tokens.

So, is this a security where really now this platform is an exchange and do they need to register with the SEC as a National Securities Exchange or be exempt for registration? In June of 2023, the SEC charged Coinbase Incorporated, for example, as saying you're operating your crypto asset trading platform as an unregistered securities exchange, broker, clearing agency. They're saying we should be able to regulate Coinbase. They said that, you are providing a marketplace, you're bringing together orders for securities and multiple buyers and sellers using some established non-discretionary methods under which these orders interact.

So, their language is basically saying that this is a marketplace. You're engaging in the business of effecting transactions for the accounts of your Coinbase customers; right? You're providing facilities for you to be able to compare data related to the terms of settlement of these different transactions. You're serving as an intermediary and settling those transactions. You're acting as a securities depository.

So, there in essence, having these allegations that they really, that Coinbase in its function is operating like an unregistered exchange broker clearing agency. The SEC also like in February of 2024, they adopted some rules in saying well who really is a dealer and so are you engaging in certain dealer roles where you need to register with the SEC, become members of a self-regulatory organization, comply with federal securities laws and regulatory obligations.

Part of this is to say, who's taking on a significant liquidity providing role in these various markets? And one of the things that they looked at, as we think about who is a dealer, was to really focus on if there are crypto assets that are eventually defined as securities, then you're going to potentially have these market participants that might be actually also defined as dealers, which also would deal more with figuring out the SEC regulatory oversight in those cases.

I mentioned how a change in administration matters. In January of 2025, once the new administration came into place, there was an SEC crypto task force that was formed and what their goal is, is to really provide clarity on the application of these federal laws to the crypto asset marketplace, to try to have more clarity around the regulatory intentions, and to provide realistic paths for the crypto asset marketplace, both those that have the crypto assets, but also in thinking about the market intermediaries.

We still want to make sure that investors are protected. We want to make sure that they have adequate information. So, one of the things that they're thinking about doing, for example, with these initial coin offerings, these tokens, is to provide some temporary relief and saying, "Hey, go ahead and offer these coins or these tokens. As long as you're providing this very specific information to your investors and potential investors. As long as you're keeping it current. As long as you agree that if there's an alleged fraud, you're not going to contest the SEC having jurisdiction over you. We're going to basically call these tokens to be non-securities until we have a more permanent rule or legislation that might be finalized."

This would in essence allow free trade on secondary markets that aren't registered with the SEC for these coins or tokens, but yet also knowing that this is just a temporary relief. That there is eventually things that need to be figured out, but we want to promote these offerings in the meantime. So, that's one area of just having uncertainty about what's really happening, but this new SEC crypto task force hopefully will provide some clarity in relatively short order.

Another area that is uncertain is when I have an entity that basically has these crypto assets, but I'm using some form of third-party hosted wallet service. I have a digital wallet. And this digital wallet service basically is a custodian of my assets. And so, I need to figure out when I place my assets in this digital wallet, who's really controlling the underlying digital assets? As we think about the facts and circumstances that might exist as we're thinking about from a legal analysis point of view, but also in thinking about as well, like what's the specific terms and conditions related to these agreements that we have between the custodian and the depositor.

And so, you need to look at the factors as we look at what's the terms and conditions of the agreement about? How is it that these assets pass title? Whether the custodian's required to transfer my original units in deposit back to me or just something different? Does the custodian have the right to sell, transfer, loan, encumber, pledge perhaps these digital assets without the consent or notice to the depositor?

And this is the area that I want to focus on when we're looking at certain circumstances like with FTX, which we're going to talk about in just a moment. But before we get there, it is something where that AICPA working group that I said that created this non-authoritative guidance, they have a listing of multiple factors that says as you're defining, who has control over the asset. I need to think about things like if this custodian were to go bankrupt, like would the custodian's creditors be able to access my digital assets in that digital wallet? Can I withdraw my digital assets at any time for any reason? Who's holding the signatures, including the private key, the public key, the private key? Who has access to the encryption. But also, what you have to worry about sometimes is there may be off-chain transactions where there's something that's not making its way into the actual distributed ledger, but we're creating rights and obligations off of that chain, which also though affects who has control of these assets.

Who bears the risk of loss if this digital asset is breached, if it's hacked, if it's not retrievable for some reason? Those are going to be factors that would come into play because if I give up control of my digital asset to the custodian, well, then do I really have a receivable on my books? And does the custodian have a liability to me as they now have the digital asset on their statement of financial position? Or do I still keep the digital asset on my statement of financial position, and that is something that does need to be clarified as we think about the assets that are held in this custodial form.

So, going back to FTX, because I said this is a factor, FTX as an exchange was launched back in 2019 and it had huge publicity with celebrity endorsements and Super Bowl ads. Back in May of 2022, what they found is that FTX was in essence diverting a lot of these depositor assets to an entity called Alameda Research. And once this was discovered, very quickly between May and November 2022, FTX ended up filing for bankruptcy when they previously at some point had \$32 billion of value on this crypto exchange.

Sam Bankman-Fried was found guilty of seven counts of wire fraud, conspiracy, money laundering. There was about \$10 billion of customer deposits that were involved in this scheme. And what it was is that when I purchased FTX's native token, which was called FTT, that FTT basically, as it was in my wallet on this exchange, the exchange used FTT as collateral on the balance sheet. And FTX, would transfer things basically like a line of credit to Alameda Research and they co-mingled the funds of the actual exchange and Alameda Research.

Well, the SEC in looking at the situation said, well as a regulator, like we feel as if we have an SEC filer, somebody that's subject to our rules. We're going to make sure that if they're operating some sort of platform where they're acting as a custodian, they're doing the record keeping and I'm maintaining the cryptographic key information necessary to access the asset, which FTX was doing because they were able to get in and transfer assets. Then they're saying now you basically should have, as long as you're not the control of the asset but I'm in this safeguarding record-keeping role, you should have a liability on your books at fair value to reflect your obligation to your depositors. And the other side of the asset would basically be an indemnification asset. And as long as there were no loss events on my platform, the asset's always going to equal the liability. So, there wouldn't necessarily be a net income effect, but you were still grossing up your statement of financial position or your balance sheet.

There also were required disclosures that the SEC had about the vulnerabilities that they have because of these safeguarding activities that we have and talking about the nature and the amount of crypto assets that I hold and how did you apply fair value measurement concepts in coming up with the value of this liability and corresponding asset. But this is another one in January of 2025, with the change in administration that the Staff Accounting Bulletin 121 that created these rules for accounting disclosure for SEC filers was subsequently rescinded by Staff Accounting Bulletin Number 122, where it said, "Let's get rid of these guidelines about accounting for obligations to safeguard these crypto assets as I have an entity that's holding things for the user of my platform."

So, they're saying it's not that you don't have a liability, it's just that you're going to recognize a liability related to risk of loss that you have just using already existing requirements about the recognition and measurement of a liability from a loss contingency.

So, rather than having special rules about grossing up the balance sheet, you'll just use loss contingency accounting instead. And so, this is something that was fully retrospective with this new Staff Accounting Bulletin 122 to rescind the old Staff Accounting Bulletin 121 and to have it fully retrospective to annual periods that were beginning after December 15th, 2024.

Now, part of it as well though is people starting to get scared as you have FTX and some of these other failures that happened related to this digital asset marketplace that there was something like "proof of reserve reports," that were being created to respond to concerns about whether or not if there were to be some sort of event, could I withdraw my assets if there was a run on this exchange or run on this issuer of stable coins.

And these proof of reserve reports were something that started to sometimes involve a auditor or like a attest provider in the form of doing certain agreed upon procedures. The PCAOB came out to say, you need to be aware that we have limited oversight over these proof of reserve reports, even if they're issued by a registered public accounting firm that's registered with the PCAOB. So, you should be cautious on relying on them or concluding that your assets are protected based on them, because there's really no assurance that reserves are going to be adequate as of the date of a future event that does exist. There's inherent limitations in what we should be doing.

So, in essence, some audit firms have voluntarily decided to stop even being involved in these services, particularly after the collapse of FTX and other high profile crypto-type companies.

So, that's a little bit of a background about the risks and the uncertainties that we have with this digital asset marketplace. Let's talk a little bit more about how do you account for these digital assets.

So, first of all, underneath FASB GAAP, if I'm providing somebody with a financial instrument or a financial asset, because I'm giving you an ownership interest, or I'm giving you a contractual right to receive cash or another financial instrument, that is something that would be dealt with as a financial instrument underneath the FASB Codification.

Crypto in its definition would not be that. It does not provide you with enforceable rights to or claims on underlying assets, goods or services. It's not a financial instrument. It's not a receivable. It is an intangible asset as it's defined underneath the FASB Codification. It is also for a crypto asset it would be something that is created or residing on some form of blockchain technology, like a distributed ledger. It's secured through cryptography.

In addition, what they have is differences in these assets, either it's fungible or it's not. So, what does fungible mean? Like if I have a non-fungible token, it's like I have the only one. This is the only thing like it. It can't be replaced with something else. Bitcoin is fungible because it can be traded for another Bitcoin and you would end up with the exact same thing. But something like art, like if I have an original work of art and somebody else has a print or a copy of it, the original art is not fungible. I can only own one original. So, there are non-fungible tokens that are out there like digital art that would be in one categorization for accounting, whereas the fungible ones are creating in a different categorization.

So that's where one of the things you have to look to see when I'm involved in cryptocurrency, crypto assets, digital assets, I need to look and say, am I applying Topic 350 where I have an intangible asset? And if it's indefinite life, it's going to be shown at cost less impairment using the guidelines for indefinite life intangible assets because generally there are no legal regulatory contractual economic factors that are going to limit the useful life of a digital asset. When we say indefinite, it's not infinite. It's just that as we think about the life that this asset could contribute to the cash flows of this reporting entity, it's beyond the foreseeable horizon.

So, part of it is going to say, okay, is it an indefinite life intangible asset accounting where I show it at costless impairment or is this a qualifying intangible asset where I'm going to show it at fair value based on the revised rules that FASB embedded for intangible assets, assuming that this crypto asset meets certain defined criteria, including being fungible.

So, there's where I want to introduce this concept then talking about these stablecoins. So, a stablecoin is something that is collateralized or redeemable into assets that are used to collateralize this stablecoin. Oftentimes it might be something like a U.S. dollar.

But there is mechanisms designed to minimize price volatility by linking the value of this coin to a more traditional asset in some way. It could be a commodity. It doesn't have to be U.S. dollars.

There's a variety of facts and circumstances that are evolving related to these stablecoin holdings. And so sometimes I need to look at the terms and conditions of this particular asset to determine based on my judgement what's the most appropriate area of GAAP to go to. And it may be that based on the terms and conditions of the stablecoin, I think it's a financial asset because it may be redeemable for U.S. dollars.

It may meet the definition of being a receivable or even a debt security in some cases. As we think about how it is that they could minimize the price volatility of this digital asset as they may be linking it and segregating money into a separate bank account with the goal to keep enough cash or cash equivalents in reserve so that as I have a stablecoin that might be a USDT like a, it could be one of the acronyms that you see, that it holds the same value as a single U.S. dollar.

And the way that they make money in this is that they're using the deposits collateralized by customers to make money. So, they can use it to hold government bonds, corporate notes, to generate investment returns. So, I do want to highlight how stablecoins are an evolving area where we've got to figure out what's the right area of GAAP to go to for that particular circumstance because is it really properly accounted for as a financial instrument underneath another area of GAAP?

As mentioned, you're going to have certain crypto assets that meet certain criteria that will be fair valued every reporting period with unrealized gains or losses affecting your current period net income. And then you may have other digital assets that don't meet all that criteria, so that they may be deemed to be indefinite, life and tangible assets where at least annually I have to evaluate that asset for impairment or more frequently if there's a triggering event where there's facts and circumstances that indicate that it's more likely than not that I have an asset that is impaired.

When we think about these triggering events, it's going to be things like I can see that an identical thing is being bought and sold in a marketplace that's below my current carrying value or something similar to it. We have to look at changes with regulations. We have to look at macroeconomic conditions that could affect the fair valuing of this digital asset.

If I have something that is cost less impairment, one of the issues under GAAP is that if I have signs of impairment, I have to write it down to fair value. Even if it's in the middle of a reporting period, and even if it recovers at the end of the same reporting period, if it's cost less impairment, when impairment happens, it triggers a revaluation. And under FASB GAAP I'm not allowed to re-evaluate this upwards. I can't recover that impairment loss. After the impairment loss, that now becomes the new carrying amount or basis of my digital asset as I have these items.

So, it is important to know what is fair valued, what is cost less impairment. And even as I'm tracking these things, I need to evaluate it at a unit of account because I need to know what my impairment loss might be if it's something like an indefinite life and intangible asset. But if I'm fair valuing things, I also need to know what's the realized gains and losses that I have as I'm selling these items, but also what's the unrealized gains and losses that I have as I'm now going and reflecting that change or impact in my current period net income.

The requirement under ASU 2023-08 will be effective for everybody for fiscal years that are beginning after December 15, 2024. So, that would be my, if I'm on my calendar year end, it's January 1st, 2025, moving forward. But also, this new ASU that was released in 2023 was early adoptable as long as you had not yet issued or made available for issuance your financial statements. So some entities may have early adopted, others may be in the process of adopting. There wasn't a different effective date, whether you were a public entity or not. Everybody was using the same effective date.

But it is important that if they're allowing you to fair value these items, if it qualifies for fair value, you have to use fair value. You're not permitted to use a different measurement basis. Even if those assets are not traded in an active market, you would still apply the fair value measurement and disclosures that you have with Topic 820 and 840 under the FASB Codification. You still need to show them at fair value. You would have disclosures about the level of uncertainty that exists in that fair value measurement.

We also want to make sure that we're able to track the gains and losses that are being recorded related to these fair valued items that would be separate and distinct from other things that we have affecting the financial statements with other types of intangible assets.

As a reminder, you need to set a way of tracking your digital assets. And even in some cases, you may have a divisible fraction of an asset, like I'm purchasing a portion of Bitcoin. I own 20% of that Bitcoin as opposed to owning the entire Bitcoin. There's cases where you need to track things at the divisible fraction level because I need to have a reasonable and rational methodology for determining my basis or carrying amount of these units so that I can determine what to realize as I derecognize or sell these units, but also what is unrealized as I may be adjusting things to fair value on a regular basis, because it's fair value measurement. But even when I have impairment of something, as I have an asset that didn't qualify for fair value measurement. I still need to figure out what's the impairment loss that exists.

There is a variety of risks that you have related to these digital assets when I'm trying to fair value these items. So, for example, there may be that the same asset might be traded on multiple exchanges. And remember these exchanges may not be regulated and so therefore there may be inconsistent pricing.

There's the fact of thinking about the institutionalization of this digital asset marketplace, not just into our marketplace, into our economy, but also how is it affect things as it relates to the preparation and fair presentation of financial reporting, whether I am the holder of these digital assets or whether I'm somebody that engages in selling them or running an exchange or a platform. There's issues, frequently asked questions, that are constantly evolving.

And we also need to keep in mind because of the lack of institutionalization and regulation, not all of these marketplaces, these exchanges are designed to prohibit things like self-dealing. So, if I wanted to go and self-deal in my token on my exchange to try and create the perception that there is an active market for this exchange, there might not be something that prohibits me from doing it. There's also going to be limitations in what it is that I'm going to be doing as I may need to think about related party transactions. Where there's others that are maybe trying to buttress up my exchange, try to create the perception of a more fully developed marketplace than really exists.

Even when we think about nonprofits, like what you're finding is that for a donor, they may want to donate their cryptocurrency. There's tax benefits for them to donate that as opposed to cash. But also, sometimes I may be someone who donates some form of coin or token to a nonprofit, and then I might tell the nonprofit you have to hold on to it for a year. There may be restrictions that are put on that and it's because they want the marketplace to think that somebody's voluntarily out there holding on to those particular tokens or coins.

So, there are things that we have to be considering as far as how it affects fair value and how fair value might be manipulated in the marketplace, but also thinking about different frauds where there may be an intention to deceive with either misappropriation of these digital assets but also fraudulent financial reporting that might be happening as well, just like we saw with FTX. And it is difficult because a lot of times digital assets might not have observable inputs that can be used to determine fair value but I still need to figure out how am I going to fair value these items?

As I'm now going out and looking at what measures I'm using as I have Level 1, Level 2, Level 3, because the Topic 820 with fair value measurement and giving preference to an observable input is critical, but also having disclosures about which category should I be placing these items in so that the reader knows the level of uncertainty that exists. And if they have Level 3 unobservable inputs, well, what was your technique? What was your assumptions that applied?

I think over the course of time, as we start looking at this ecosystem, right, you are going to have to figure out, at least FASB is going to have to figure out, like, what is it that we do, particularly for those with public accountability? And particularly because some of the things that the SEC had put out there with disclosures and recognition with that Staff Accounting Bulletin 121 ended up getting removed by Staff Accounting Bulletin 122.

So, if there's nothing that the SEC is promulgating in these public accountability realms, is this something that the FASB wants to take up? And I think at this point, because we're still trying to figure out what are these called?

And one of the interesting things that you might see, like if you go to the FASB and you look at their research agenda, that they're looking into how should we account for and report commodities? And I think part of that is because if some of these things end up being classified as commodities, what, how does that, should affect us in what it is that we're putting out there as it relates to the GAAP. Whereas if they're called securities, we already have a lot of guidelines related to how to handle those financial instruments, if they're led to be called securities.

But in the meantime, the best thing that we have underneath our conceptual framework is to work underneath guidelines and things that we have are related to thinking about these being just intangible assets. They're intangible and then just whether they have certain characteristics or not, they're either going to be finite-lived or indefinite-lived. And if they are also meeting certain criteria, we're either going to fair value them or we're going to show them at cost less impairment, particularly because they think generally that indefinite live classification is going to come into play. Because if they're finite live, then there may be some sort of rights or obligations that exist that actually move it over to being called a debt security, a receivable or other form of financial asset instead.

So, I think it's either a financial asset, an indefinite life and tangible asset, or an indefinite life and tangible asset that qualifies for the fair value measurement as it meets those specific criteria.

Thank you very much for paying attention today as it relates to trying to give you a general sense about what are the current issues that we're facing as we look at the digital asset cryptocurrency world that we're living in.

GROUP STUDY MATERIALS

A. Discussion Questions

1. How does the uncertainty in classifying digital assets as either securities or commodities impact accounting and financial reporting?
2. What lessons did the FTX collapse reveal about custodial risk and control over digital assets?
3. How does FASB's ASU 2023-08 change the accounting for certain digital assets, and what are its implications for financial statement users?

B. Suggested Answers to Discussion Questions

1. How does the uncertainty in classifying digital assets as either securities or commodities impact accounting and financial reporting?

The uncertainty surrounding whether digital assets such as cryptocurrencies should be classified as securities or commodities significantly affects accounting, regulation, and investor confidence. If classified as securities, digital assets fall under the jurisdiction of the SEC, which imposes strict registration, reporting, and disclosure requirements. This would align their treatment more closely with traditional financial instruments, potentially increasing compliance costs but also enhancing transparency. Conversely, if considered commodities, oversight shifts to the Commodity Futures Trading Commission (CFTC), which applies a different regulatory framework emphasizing trading practices rather than issuer disclosures. This ambiguity has created confusion for issuers, investors, and auditors alike, complicating the recognition and measurement of these assets under GAAP. Entities struggle to determine whether to apply financial instrument guidance, intangible asset guidance, or other frameworks. Furthermore, classification impacts valuation, as securities often have observable market data, while many digital assets trade in unregulated markets with volatile and inconsistent pricing. The absence of a unified approach undermines comparability across financial statements, prompting calls for clear, authoritative guidance from regulators and standard setters to stabilize the digital asset reporting environment.

2. What lessons did the FTX collapse reveal about custodial risk and control over digital assets?

The FTX collapse underscored major weaknesses in custodial controls and the concept of “ownership” in the digital asset marketplace. FTX’s misuse of customer deposits—transferring funds to Alameda Research—exposed how limited oversight and unclear custodial agreements can lead to catastrophic financial loss. The situation demonstrated that digital wallets and hosted custodial services often blur the line between the depositor’s ownership and the custodian’s control. Key considerations include who holds the private keys, whether assets can be withdrawn freely, and whether creditors can access deposited assets if the custodian goes bankrupt. The SEC’s response, which initially required custodians to record safeguarding liabilities at fair value (Staff Accounting Bulletin 121), emphasized accountability but was later revised by SAB 122 to align with existing loss contingency principles. This evolution highlights the need for clarity in determining who bears the risk of loss—the depositor or the custodian. The FTX case reinforced the importance of strong governance, transparent reporting, and regulatory oversight in preventing misuse of assets. For auditors and preparers, it also illustrated the critical role of evaluating control, ownership, and exposure to risks when determining balance sheet recognition for crypto assets.

3. How does FASB’s ASU 2023-08 change the accounting for certain digital assets, and what are its implications for financial statement users?

FASB’s ASU 2023-08 represents a major shift in the accounting treatment of qualifying digital assets, allowing (and in some cases requiring) measurement at fair value rather than cost less impairment. Historically, most crypto assets were treated as indefinite-lived intangible assets under ASC 350, requiring impairment testing and prohibiting upward revaluation—even if the asset later recovered value. This approach often produced financial statements that understated asset values and distorted volatility. ASU 2023-08, effective for fiscal years beginning after December 15, 2024, provides relief by mandating fair value for fungible crypto assets meeting defined criteria, with unrealized gains and losses recognized in net income. This change enhances transparency by aligning reported values with market reality and improving comparability across entities that hold digital assets. However, it also introduces volatility into reported earnings and challenges in determining fair value when markets are thin or unregulated. Entities must also ensure robust disclosures under ASC 820 regarding valuation inputs and techniques. For users of financial statements, this update offers more relevant information about current asset values but demands careful interpretation of valuation assumptions and potential risks associated with market instability.

GLOSSARY

Blockchain—A decentralized digital ledger that records transactions across multiple computers in a secure, transparent, and tamper-resistant manner using cryptography. Each “block” of data is linked to the previous one, forming an immutable chain shared by all participants in the network.

Component Auditor—An auditor who performs audit work on a portion (or component) of the group for inclusion in the group financial statements and operates under the direction, supervision, and quality management of the group engagement team. The component auditor’s work becomes part of the overall evidence supporting the group auditor’s opinion.

Fair Value Measurement—A valuation approach under U.S. GAAP that estimates the price at which an asset could be sold or a liability transferred in an orderly transaction between market participants at the measurement date. Digital assets qualifying under ASU 2023-08 must use this method for recurring measurement.

Going Concern—The foundational accounting assumption that an entity will continue its operations for the foreseeable future—typically at least one year beyond the date the financial statements are issued—and will not liquidate or cease trading. This assumption underpins financial statement elements such as depreciation and long-term asset valuation.

Group Audit—An audit of financial statements that include the financial information of more than one entity, business unit, division, or component that must be consolidated or combined. Group audits require the group auditor to obtain sufficient appropriate audit evidence for all components to form an opinion on the group financial statements.

Liquidation Basis of Accounting—A financial reporting method applied when liquidation is imminent—either through management’s decision or by court order. Under this basis, assets are measured at net realizable (liquidation) value and liabilities are reported at expected settlement amounts, reflecting the entity’s intention to wind down rather than continue operations.

Referred-to Auditor—An independent auditor whose work on a component is referenced in the group auditor’s report. The group auditor does not supervise or review this auditor’s work but must ensure that the referred-to auditor’s engagement was conducted in accordance with U.S. auditing standards (GAAS or PCAOB) before making reference in the group audit report.

Stablecoin—A type of cryptocurrency designed to minimize price volatility by pegging its value to a more stable asset, such as the U.S. dollar or a commodity. Stablecoins are typically backed by reserves of cash, securities, or other collateral to maintain their fixed value.

Substantial Doubt—A key threshold in evaluating Going Concern under both auditing and accounting standards. It exists when conditions and events raise significant uncertainty about an entity’s ability to continue operating for one year beyond the issuance date of the financial statements. Management must assess such conditions and determine whether mitigation plans can alleviate the doubt.

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

1. Which of the following best describes the primary purpose of the Going Concern concept in financial reporting?
 - A. To predict a company's profitability for future years.
 - B. To support the assumption that the entity will continue operations long enough to realize assets and discharge liabilities in the normal course of business.
 - C. To determine the fair value of the company's equity for investors.
 - D. To establish the auditor's responsibility for evaluating management's future plans.

2. Under ASC 205-40, the Going Concern evaluation period extends:
 - A. One year from the balance sheet date.
 - B. One year from the issuance date of the financial statements.
 - C. Six months from the balance sheet date.
 - D. Eighteen months from the date of the auditor's report.

3. Which of the following is **most likely** to be considered a "known event" that could raise substantial doubt about an entity's ability to continue as a Going Concern?
 - A. An unexpected change in consumer trends occurring after the issuance date.
 - B. Speculative rumors about future legislation.
 - C. Loss of a major customer due to bankruptcy prior to the report issuance date.
 - D. An anticipated change in accounting standards not yet adopted.

4. What distinguishes a "red light" Going Concern disclosure from a "yellow light" disclosure?
 - A. The red light indicates liquidation accounting is required.
 - B. The red light indicates management's plan is unlikely to mitigate substantial doubt about the entity's ability to continue.
 - C. The red light applies only to public companies under PCAOB standards.
 - D. The red light eliminates the need for an auditor's emphasis-of-matter paragraph.

5. When management adopts a **liquidation basis of accounting** under ASC 205-30, which of the following is true?
 - A. Assets are reported at historical cost less accumulated depreciation.
 - B. Goodwill and intangible assets with no liquidation value are written down to zero.
 - C. Liabilities are discounted to present value using the market rate of interest.
 - D. Income is recognized based on expected future operations.

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6. Which of the following best defines a *group audit* under SAS 149?
- A. An audit of a single entity with multiple product lines.
 - B. An audit involving the consolidation or combination of financial information from more than one entity or business unit.
 - C. An engagement limited to inventory observation in multiple locations.
 - D. An internal control review across multiple departments.
7. Which of the following is *not* a responsibility of the group engagement partner?
- A. Approving materiality levels for each component.
 - B. Reviewing significant judgments and conclusions of component auditors.
 - C. Preparing consolidation journal entries for management.
 - D. Overseeing communication and cooperation among component auditors.
8. What distinguishes a **component auditor** from a **referred-to auditor**?
- A. The component auditor is part of the engagement team and under the group's quality management system.
 - B. The referred-to auditor issues no separate report.
 - C. The referred-to auditor's work must be reviewed in full by the group auditor.
 - D. The component auditor follows entirely different auditing standards.
9. When using a referred-to auditor's report prepared under international standards, what must the group auditor do before referencing it?
- A. Nothing; international standards are equivalent to U.S. GAAS.
 - B. Obtain evidence that additional procedures were performed to align the audit with U.S. standards.
 - C. Require reissuance of the financial statements under IFRS.
 - D. Exclude the component's results from the group consolidation.
10. In a group audit, the group engagement team must consider **subsequent events** occurring:
- A. Up to the component's reporting date only.
 - B. Between the component's report date and the group report date.
 - C. Only at the group level after consolidation.
 - D. Within 30 days of the year-end.

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11. Which of the following best describes a *digital asset*?
- A. A tangible asset recorded at fair value.
 - B. An asset existing in digital form with rights of use or ownership secured through cryptography.
 - C. A regulated financial instrument issued by the SEC.
 - D. A liability representing custodial obligations.
12. Under FASB's ASU 2023-08, eligible crypto assets must be measured at:
- A. Cost less impairment.
 - B. Historical cost.
 - C. Fair value with changes recognized in net income.
 - D. Replacement cost.
13. Which of the following factors helps determine *control* over a digital asset held in a custodial arrangement?
- A. Who holds the private and public encryption keys.
 - B. Whether the custodian reports to the SEC.
 - C. The number of users on the blockchain.
 - D. The market capitalization of the crypto exchange.
14. Which event highlighted the accounting and regulatory risks related to digital asset custodianship?
- A. The 2018 issuance of Bitcoin ETFs.
 - B. The 2022 collapse of FTX.
 - C. The launch of Ethereum in 2015.
 - D. The 2024 rescission of ASU 842.
15. When a digital asset classified as an indefinite-lived intangible is impaired:
- A. It must be written down to fair value and cannot be subsequently revalued upward.
 - B. The impairment loss may be reversed in the next period.
 - C. The impairment affects only other comprehensive income.
 - D. It must be amortized over its estimated useful life.

Subscriber Survey

Evaluation Form

Please take a few minutes to complete this survey related to **CeriFi CPE Network A&A Report** and return with your final exam 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 grading-cpedge@cerifi.com.

How would you rate the topics covered in this issue of **CeriFi 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
Session 1	_ _ _	_ _ _	_ _ _	_ _ _	_ _ _	_ _ _
Session 2	_ _ _	_ _ _	_ _ _	_ _ _	_ _ _	_ _ _
Session 3	_ _ _	_ _ _	_ _ _	_ _ _	_ _ _	_ _ _

Which segments of this issue of **CeriFi CPE Network A&A Report** did you like the most, and why?

Which segments of this issue of **CeriFi 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 **CeriFi CPE Network A&A Report**?

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

	Overall	Knowledge of Topic	Presentation Skills
Mr. Kurt Oestriecher	_____	_____	_____
Ms. Jennifer Louis	_____	_____	_____

Are you using **CeriFi 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!

CERIFI CPE NETWORK USER GUIDE

REVISED August 2025

Welcome to CeriFi CPE Network!

CeriFi 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 CeriFi CPE Network program on their own computers at a time and place of their convenience. No instructor is required for self-study.
- **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), CeriFi CPE 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 the 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.) CeriFi CPE 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 CeriFi CPE Network for your training solutions.

Thank you for your business and HAPPY LEARNING!

Copyrighted Materials

CeriFi 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 **CeriFi 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 CeriFi 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:** CeriFi CPE Network products ‘group live’ sessions must be delivered as 3 CPE credits and accredited to the field(s) of study as designated by CeriFi CPE Network. CeriFi CPE 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 CeriFi CPE 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 final exam questions on the CPE 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 CeriFi account to read the materials, watch the interviews, and answer the final exam questions. The user will be able to print her/his/their CPE certificate upon completion of the final exam. (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 CeriFi CPE 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 CeriFi CPE 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 CeriFi CPE 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

The entire transcript is available as a pdf 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 CeriFi CPE Network by the following means:

Email: grading-cpedge@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 CeriFi 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:** CeriFi CPE Network products ‘group live’ sessions must be delivered as 3 CPE credits and accredited to the field(s) of study as designated by CeriFi CPE Network. CeriFi CPE 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 CeriFi CPE 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 final exam questions on the CPE 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 CeriFi CPE account to read the materials, watch the interviews, and answer the final exam questions. The user will be able to print her/his CPE certificate upon completion of the final exam. (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 CeriFi CPE 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 CeriFi CPE 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 CeriFi CPE 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

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 CeriFi CPE Network by the following means:

Email: grading-cpedge@cerifi.com

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

Advertising /		Complete this form and circulate to your audience
Webinar Delivery		Use this form to track the attendance (i.e., polling
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

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 final exam 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 final exam and survey to:

grading-cpedge@cerifi.com

Self-Study—Online

Follow these simple steps to use the online program:

- Go to <https://cerificpedge.com/>.
- Log in using your username and password assigned by your firm’s administrator in the upper right-hand margin (“Login or Register”).

The screenshot shows the CeriFi CPEdge website. At the top, there is a navigation bar with the CeriFi CPEdge logo on the left, and links for "Contact Us", a shopping cart icon, and a "Login" button on the right. Below the navigation bar is a search bar with the text "Search courses". A blue banner below the search bar reads "Checkpoint Learning is now CeriFi CPEdge!". The main content area features the heading "CeriFi CPEdge CPE for CPAs" and a sub-heading "The highest quality continuing professional education for CPAs and EAs looking to grow their knowledge in tax, accounting, finance, and more." Below this, there are three columns of learning options: "Achieve your goals, your way." with sub-sections "Stay up to date", "Grow your expertise", "Learn the way you like", and "Upskill your organization"; "Formats for every learning style and schedule." with sub-sections "Live events" (Webinars and Virtual Conferences, Seminars, Conferences) and "On-demand courses" (Self Study and Online Grading, Nano Courses, Video Learning, On-Demand Webinars). A woman wearing glasses is visible in the background on the right side of the page.

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

The screenshot shows the CeriFi CPEEdge website interface. At the top, there is a navigation bar with links: Homeeroom, Search Courses, CPE Network, Status Reports, Activity History, Learning (with a dropdown arrow), and Resources. Below the navigation bar, the page title is "CPE Network". On the left, there is a "CPE Network Menu" with a "Network" link and three report options: "NETWORK TAX REPORT", "NETWORK ACCOUNTING AND AUDITING REPORT", and "GOVERNMENTAL NONPROFIT ACCOUNTING REPORT". To the right of the menu is a table with the following data:

CPE Network	Subscription Expiration Date	Latest Issue Available
NETWORK TAX REPORT	11/5/2118	July 2025
NETWORK ACCOUNTING AND AUDITING REPORT	11/5/2118	July 2025
GOVERNMENTAL NONPROFIT ACCOUNTING REPORT	9/19/2027	July 2025

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

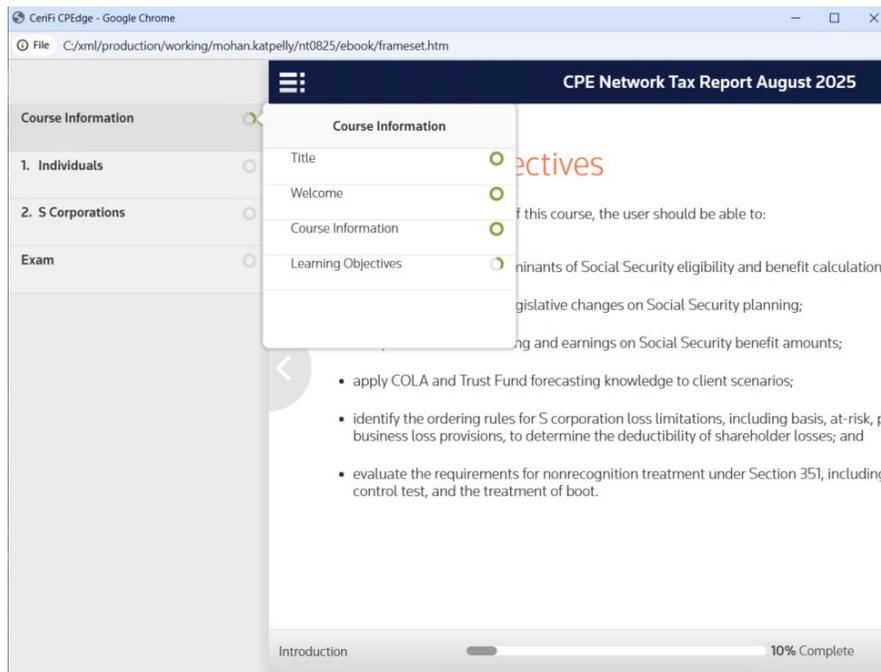
The screenshot shows a course page in a browser window titled "CeriFi CPEEdge - Google Chrome". The page title is "CPE Network Tax Report August 2025". On the left, there is a gray sidebar menu with the following items: "Course Information" (with a green checkmark), "1. Individuals", "2. S Corporations", and "Exam". The main content area is titled "Learning Objectives" and contains the following text: "Upon successful completion of this course, the user should be able to:" followed by a list of six bullet points:

- understand the key determinants of Social Security eligibility and benefit calculation;
- evaluate the impacts of legislative changes on Social Security planning;
- analyze the effects of timing and earnings on Social Security benefit amounts;
- apply COLA and Trust Fund forecasting knowledge to client scenarios;
- identify the ordering rules for S corporation loss limitations, including basis, at-risk, pe business loss provisions, to determine the deductibility of shareholder losses; and
- evaluate the requirements for nonrecognition treatment under Section 351, including control test, and the treatment of boot.

At the bottom of the page, there is a progress bar showing "Introduction" and "10% Complete".

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

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



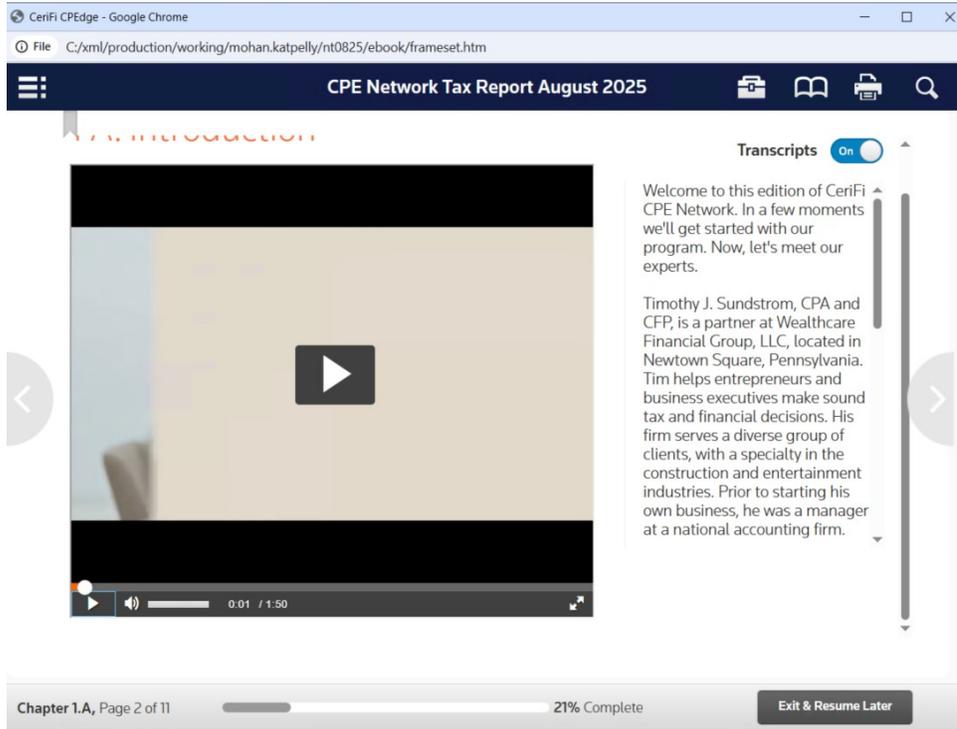
- **Each Chapter is self-contained.** Each chapter contains the executive summary and learning objectives for that segment, followed by the interview, the related supplemental materials, and then the self-study questions. This streamlined approach allows administrators and users to more easily access the related materials.



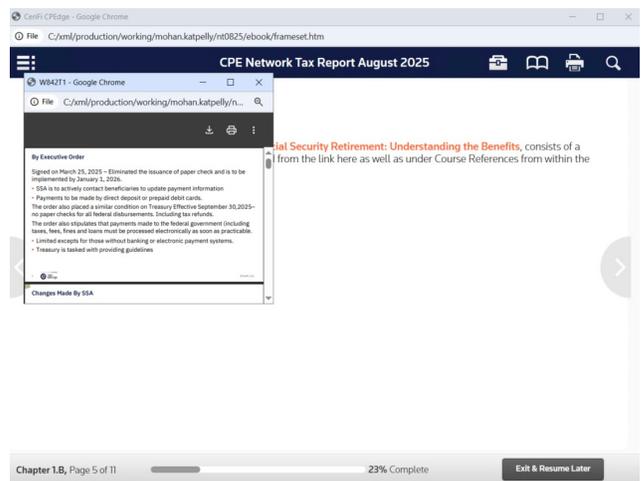
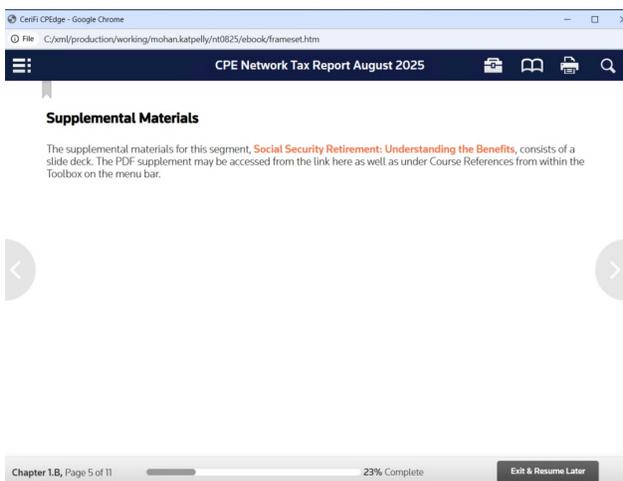
Video segments may be downloaded from the player by clicking on the download button. *Tip: you may need to scroll down to see the download button.*

Transcripts for the interview segments can be viewed at the right side of the screen via a toggle button at the top labeled **Transcripts**

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.



The supplemental materials are 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 self-study questions related to the segment.

The screenshot shows a web browser window with the title "Cerifi CPEdge - Google Chrome". The address bar displays the file path "C:/xml/production/working/mohan.katpelly/nt0825/ebook/frameset.htm". The page header is "CPE Network Tax Report August 2025" and includes icons for a menu, home, book, print, and search. The main content area is titled "Chapter 1: Study Question" and asks the user to "Select the best answer." The question is "What determines the amount of earnings required to earn a quarter of coverage?" and has four multiple-choice options: A. Average Wage Index (AWI), B. CPI-W adjustments, C. Individual work history, and D. Federal budget limits. Navigation arrows are visible on the left and right sides of the question area. The footer shows "Chapter 1.B, Page 6 of 11", a progress bar at "26% Complete", and an "Exit & Resume Later" button.

Cerifi CPEdge - Google Chrome
C:/xml/production/working/mohan.katpelly/nt0825/ebook/frameset.htm

CPE Network Tax Report August 2025

Chapter 1: Study Question

Select the best answer.

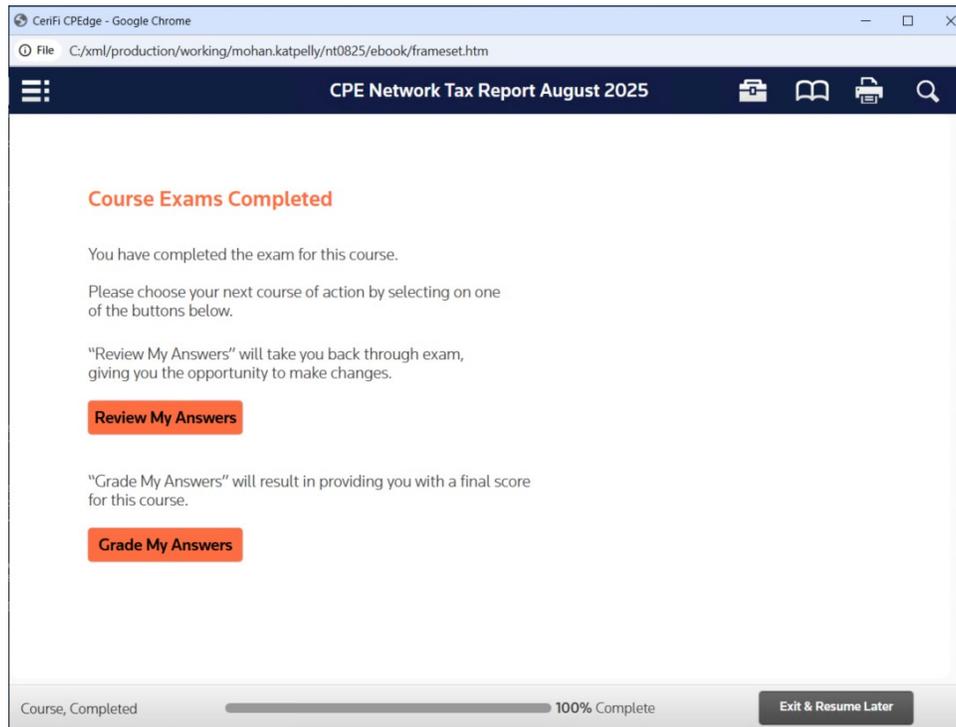
What determines the amount of earnings required to earn a quarter of coverage?

- A. Average Wage Index (AWI)
- B. CPI-W adjustments
- C. Individual work history
- D. Federal budget limits

Chapter 1.B, Page 6 of 11 26% 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 final exam, click the button labeled **Grade or the Review button**.



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

Additional Features Search

CeriFi CPE 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**.

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 Answer Sheet	Transcript	Use this form to record your answers to the final exam.

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