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CPE NETWORK

ACCOUNTING & AUDITING REPORT

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Note: Beginning with the March 2023 edition of the Network programs DVDs will no longer be shipped by Thomson Reuters. Videos will be available for download or streaming only. For customers wishing to adopt an online only format sooner, please contact your customer representative.

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Topics for future editions may include:

- Accounting for Deferred Compensation
- AICPA ESG Practice Aid
- Going Concern



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EXECUTIVE SUMMARY

PART 1. ACCOUNTING

FASB Update3

Russ Madray, CPA discusses recent FASB guidance and practical expedients on share-based awards, discount rates for lessees, and government assistance. [Running time: 40:30]

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

- Identify recent guidance on share-based awards, leases, and government assistance
- Describe the effect of the practical expedient on discount rates for lessees
- Identify the characteristic used on equity-classified share-based awards and where they are from

PART 2. AUDITING

Audit Issues For Businesses Receiving Government Assistance23

Jennifer Louis, CPA reviews recent guidance on related to government assistance provided to for profit businesses as a result of the pandemic. [Running time: 35:00]

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

- Identify the focus of single audit uniform guidance and audit guidance for compliance audits
- Determine where guidance on assistance listings is located
- Define commercial organizations as per DHHS
- Identify the effective date of compliance requirements for for-profit hospitals and health care providers

PART 3. SMALL BUSINESS

Subsequent Events.....47

Kurt Oestrieher, CPA, considers the different types of subsequent events and how to account for them. [Running time: 27:35]

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

- Identify the authoritative guidance on subsequent events
- Define recognized and non-recognized events
- Determine the appropriate accounting treatment of different types of subsequent events
- Identify the requirements related to subsequent events for different levels of service

ABOUT THE SPEAKERS

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

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

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

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Advance preparation	None required
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PART 1. ACCOUNTING

FASB Update

In October 2021, the Financial Accounting Standards Board (FASB) issued two Accounting Standards Update one providing a practical expedient on determining the price of a share for equity-classified share-based awards, and one on contract assets and liabilities acquired as part of a business combination. In November 2021, the Board issued guidance on disclosures by business entities about government assistance.

For a closer look at these new statements and other activities at the FASB, let's join Russ Madray, a CPA in Greenville, South Carolina, and CPE Network's Debi Grove Casey.

Ms. Grove Casey

So today we want to talk a little bit about what's been going on with the FASB. Now, there hasn't been a lot of major new guidance coming out of the FASB in recent months because they had all of those large projects for several years. But there have been a couple of new FASs that we probably need to cover. So to begin with, let's look at ASU 2021-07, which relates to the determining the current price of an underlying share for equity-classified share-based awards, which came out as a consensus of the Private Company Council (PCC). But let's talk about what that means.

Mr. Madray

Sure. This issue, as you mentioned, ASU 2021-07 coming from the Private Company Council (PCC) was issued to provide a practical expedient related to the current price input of equity classified share based awards. A little bit of background about why this came about. If you recall in Accounting Standards Codification Topic ASC 718, which is the topic on compensation—stock compensation, the measurement objective in that topic for share-based awards is based on fair value when determining the grant date fair value of these types of awards. Typically, an option pricing model is used by folks. Examples include Black Scholes. We've heard of a binomial model. There's others. So typically something like that, but regardless of the option pricing model that's used, there's certain inputs that go into these models to produce an estimate of fair value. If we take a look at the slide there, you see that you typically see in these models inputs that include the strike price of the option, the current price of the share of stock, how long until expiration, risk free rate of return, volatility, and sometimes there's others depending on the actual model. Now out of these, the current price input for a share of stock is typically the most difficult one for private companies to come up with.

The fact is Topic 718 already provides some practical expedients for other inputs, namely the volatility and the expected term. So what ASU 2021-07 does is, it adds another practical expedient that allows a nonpublic entity to determine the current price of a share underlying the options, for example, using what is referred to as a “reasonable application of a reasonable valuation method.” So that's the gist of what the ASU is about. Again, we can go into some details as you like.

Ms. Grove Casey

Well, let's talk a little bit about that because that's an interesting choice of words. Could you talk a little bit more about what reasonable application of a reasonable valuation method actually means?

Mr. Madray

Sure. And there's a reason that that phrase is used. The issue essentially describes the characteristics of what a “reasonable application of a reasonable valuation method” would entail. The characteristics that are described in this ASU are the same characteristics that are used in the U.S. Department of Treasury Regulations related to Section 409A of the Internal Revenue Code to describe what is used, the same term or phrase as used in the Treasury Regs.

Again, the reasonable application of a reasonable valuation method. So the Private Company Council essentially picked up language and characteristics from the Treasury regs to create this practical expedient for financial reporting purposes. If you take a look at the next slide, you see the characteristics that are there. Again, these came from the Treasury regs, but they're now embedded in Topic 718. This includes the date on which the valuation's reasonableness is evaluated is in fact the measurement date. It says that several factors

should be considered in a reasonable valuation, including the value of the tangible and intangible assets of the entity, the present value of any anticipated future cash flows of the entity, the market value of stock or equity interest in similar entities that are engaged in trades or businesses substantially similar to those engaged in by the entity for which the stock is being valued.

Also, look at or consider recent arms-length transactions involving sale or transfer of the stock or equity interest of the entity. Other relevant factors such as control premiums, discounts for lack of marketability, whether the valuation is used for other purposes that would have a material economic effect on the entity, its stockholders or its creditors. And another thing to consider is the entity's consistent use of a valuation method to determine the value of stock or assets for other purposes.

It goes on to describe that the scope of the information to be considered in a reasonable valuation would be all information that is material to the value of the entity. And then, finally, to criteria that need to be met for use of a previously calculated value to be considered reasonable. And that is the value that is updated for any information that's available after the date of the calculation that could materially affect the value of the entity and also the value that was previously calculated is no more than 12 months old based on the valuation date for now. So, essentially, what all this says, it's a roundabout way of getting there that a reasonable valuation performed in accordance with Treasury regulations is in fact an example of a way to achieve this practical expedient in ASU 2021-07.

Ms. Grove Casey

Well, are there other types of valuations that would be considered the reasonable application of a reasonable valuation method?

Mr. Madray

Yes, there are, although the PCC picked up language almost verbatim from the Treasury regulations for this, it doesn't limit you to that specific type of valuation. In fact, in the basis for conclusions the ASU describes or mentions that the population of valuations that would be considered reasonable application of a reasonable valuation for purposes of the practical expedient are not limited to a certain type or even an independent appraisal.

In other words, you could have internal valuations. As long as it met the characteristics that we just looked at on that slide, it would meet the requirements of this ASU. Now, with that said, it's expected that in most cases an independent appraisal is going to be the method that's used by nonpublic entities that are electing this practical expedient. Right now or previously, these nonpublic entities may have gotten two different valuations. One for Topic 718 to get the current price input, and then, another one to satisfy the Treasury regulations. That could still be done, of course, but with this, it certainly would be acceptable to have one valuation performed to meet the requirements of the IRS with regard to the reporting, a taxing of these share based awards and use that same valuation for purposes of the financial reporting by making use of this new, practical expedient.

Ms. Grove Casey

I notice that the title of this ASC refers to equity-classified awards. Can this practical expedient be used for liability-classified awards?

Mr. Madray

Great question. And the short answer is no, it cannot. It's very specific in this issue that the practical expedient can only be elected for equity-classified share-based awards that are within the scope of Topic 718, and it specifically states that the practical expedient cannot be used for liability classified awards. Now, beyond that, the nonpublic entities, and obviously, this is a practical expedient available only to nonpublic entities as that is described within the issue, the nonpublic entities can elect the practical expedient on a measurement date by measurement date basis. That means if it's elected, it has to be applied to all share based awards that have the same underlying share and the same measurement date. But it does not have to be used, or the practical expedient does not have to be elected, for a different measurement date, for example. So there is some flexibility there. But to answer your question, it's limited just to equity classified awards.

Ms. Grove Casey

And so when does the ASU become effective?

Mr. Madray

Well, it's effective prospectively for all qualifying awards that are granted or modified during fiscal years that begin after December 15, 2021. In an interim period, it's a year later. It can be applied early to or

within financial statements that had not been issued or made available for issuance as of October 25, 2021, which was when this ASU was actually issued. So kind of paraphrasing all that—calendar year, 2022, although it could have been early applied for financial statements that had not yet been issued or made available for issuance as of that date in October of 2021.

Ms. Grove Casey

So let's move on to ASU 2021-08 which relates to accounting for contract assets and contract liabilities from contracts with customers. Could you give us an overview of this particular standard?

Mr. Madray

Sure. ASU 2021-08 changes the accounting for contract assets and contract liabilities that are acquired in a business combination. Essentially, it requires the acquiring entity to measure those contract assets and contract liabilities in accordance with ASC 606, which is revenue from contracts with customers. Now, before we go into some details, it's probably helpful to remind folks what a contract asset and the contract liability are.

So take a look at the slide and you see that the definition there from the master glossary within the ASC, a contract asset as is defined as an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditional on something other than passage of time. Again, for example, the entity's future performance contract, an asset if you're familiar with the old percentage of completion of accounting, think of that as cost in excess of billings. That's essentially what a contract asset is, but obviously, not limited just to percentage of completion construction accounting. A contract liability is defined as an entity's obligation to transfer goods or services to a customer for which the entity has already received consideration from the customer. Here, think about the phrase billings in excess of cost. So that's essentially, for our purposes, what a contract asset and contract liability are. And again, the purpose of this ASU is to clarify that or actually change the guidance on how to value these in a business combination because under current U.S. GAAP an acquirer would generally recognize all assets and liabilities, assuming that a business combination at fair value on the acquisition date. Initial fair value measurement for acquired revenue contracts in a business combination are going to be pretty complex and require a lot of judgment to begin with.

Beyond that, there was also diversity in practice in terms of determining fair value of contract liabilities for certain revenue arrangements. And a number of folks have raised questions about how to apply Topic identify business combinations to contracts with a customer that are actually acquired in a business combination. So again, this will clarify and to some extent change practice so that these contract assets and contract liabilities acquired in a business combination will be valued in accordance with ASC 606, which is, again, our revenue guidance.

Ms. Grove Casey

So I assume that this ASU provides some amendments to clarify this process. Am I correct?

Mr. Madray

Yes. You're correct on that, too. To address these issues that I mentioned where there's diversity and questions about how to apply the guidance in a business combination, this ASU will require the acquirer or in a business combination to recognize and measure contract assets and contract liabilities that are part of the business combination in accordance with as I mentioned earlier, ASC 606. What that means is at the acquisition date, the acquirer will account for any related revenue contracts in accordance with ASC 606, as if the acquirer had originated the contracts themselves. Again, to go a little deeper in accounting for revenue contracts in accordance with ASC 606 at the acquisition date, the acquirer is going to need to assess how the acquiree applied ASC 606 to determine what to record for those acquired revenue contracts.

What that means generally is that would result in the acquirer recognizing and measuring the acquired contracts and contract assets and contract liabilities consistent with how they were recognized and measured in the acquiree's financial statements. That's assuming the acquiree followed U.S. GAAP in preparing their financial statements. But obviously there's going to be circumstances where the acquirer either is unable to assess how the acquiree applied ASC 606 or maybe they are concerned about how it was done and don't want to rely on the acquiree's accounting for these revenue contracts.

And again it could be the acquiree didn't follow U.S. GAAP, maybe used another basis of accounting or another framework, where they would not have followed ASC 606, so in a case like that the acquirer is essentially going to have to consider the terms of the

acquired contracts, things like timing of payment, need to identify performance obligations, allocate total contract price. In other words, apply 606 to that on the basis of how it would have been done at contract inception, which would have been the date the acquiree entered into the contracts. So again, this obviously is complex, but it does bring consistency to how these contract assets, contract liabilities will be valued in the course of a business combination.

Now, the ASU does provide some practical expedient for acquirers when they are recognizing and measuring these acquired contract assets and contract liabilities in the business combination. If we take a look at the next slide, you see the acquirer can use one or more of these practical expedients, so on the contracts that were modified before the acquisition date, the acquirer can reflect the aggregate effect of all the modifications that occur before the acquisition date when they're identifying the satisfied, unsatisfied performance obligations, when they are determining the transaction price, as well as when they're allocating the transaction price to those satisfied and unsatisfied performance obligations.

Now for all contracts for purposes of allocating the transaction price, the acquirer using this practical expedient can determine the standalone selling price at the acquisition date instead of at the contract inception date for each of the performance obligations in the contract. Now, if an acquirer uses or makes use of any of these practical expedients, they would apply that on an acquisition by acquisition basis. Each of those practical expedients selected by the acquirer need to be applied consistently to all the contracts acquired in the same acquisition. And finally, they need to disclose the expedients that have been used and to the extent reasonably possible, they need to include a qualitative assessment of the estimated effect of applying those practical expedients in the business combination.

Ms. Grove Casey

Well, does this guidance apply only to contract assets and contract liabilities in the business combination?

Mr. Madray

The primary reason for the ASU was to address accounting for contract assets and contract liabilities in a business combination, but it does actually also apply to contract assets, contract liabilities from other contracts where other provisions within ASC 606

would apply. And mainly what that's getting to is contract liabilities that might exist from the sale of non-financial assets that are within the scope of ASC 610, Topic 610-20 other income dealing with gains and losses from the derecognition or disposal of non-financial assets is where we look when we're determining gains and losses on disposal of non-financial assets.

And in a situation like that, there could be a contract liability that would exist in that sale. Other than that, it really doesn't affect the accounting for any other assets or liabilities that come out of revenue contracts with customers in accordance with ASC 606, things like refund liabilities are not affected by this in the course of the business combination. So, for example, for the acquired revenue contract, if they're considered to have terms that are unfavorable or favorable relative to market terms, the acquirer would in fact recognize a liability or asset for the off-market contract terms at the acquisition date following the guidance in Topic 805 where we're going to apply fair value for those types of things. So it is rather limited to contract assets and contract liabilities related to contracts with customers. It does extend as I said, to contract liabilities that might exist as a result of disposing of other non-financial assets. But it really doesn't expand beyond that to other types, even other types of liabilities that might exist with contracts with customers beyond those contract assets and contract liabilities, as we defined those earlier.

Ms. Grove Casey

And what about the effective date for this one?

Mr. Madray

This one is split up between public business entities and everybody else. For public business entities the ASU is effective for fiscal years that begin after December 15, 2022. For all other entities, it'll be effective for fiscal years that began after December 15, 2023. The effect of this is applied prospectively to business combinations that occur on or after the effective date. So it's not something that you would go back and retroactively apply to business combinations that had already occurred before the effective date. Now, with all that said, like many of these types of amendments, folks can early adopt the amendments that are in this ASU. If an entity does early adopt in an interim period, they would apply the amendments retrospectively to all business combinations where the acquisition date occurs on or

after the beginning of the fiscal year, that includes that interim period and also prospectively, and then beyond that, prospectively to all business combinations that occur on or after the date of initial application. So like many of these things, we have the effective dates about a year out, a year beyond that for everybody else other than the public business entities, but early adoption with some caveats in terms of how that would be applied there.

Ms. Grove Casey

Well, let's take a look at ASU 2021-09. Now we've previously discussed on our program the topic of discount rate for lessees under the new lease accounting guidance. And I remember that you mentioned at the time that there was a proposed ASU that would impact private company lessees. Is this the final version of that proposal?

Mr. Madray

Yes, it is. And good memory there. It is the final version of that proposal that we talked about previously. But a little bit of background, in September of 2020, the FASB hosted some public roundtable sessions to get some feedback from a cross-section of different stakeholder groups specifically related to the lease accounting standard. During those sessions, there were some private company folks that talked about the costs and complexities of applying the lease accounting standard. And specifically, they suggested that the FASB amend the existing practical expedient that is in ASC 842 on leases, which is the risk-free rate election to provide lessees that are not public business entities with a little bit more flexibility in how they determine the discount rate for their leases. And further, make that risk free rate election to reduce some of the initial adoption and implementation costs that are associated with adopting ASC 842. So again, long story, not short at this point, it is the final version based on feedback that FASB was getting from some in the private company world.

Ms. Grove Casey

So what does this ASU change about using a risk free discount rate?

Mr. Madray

Well, if you recall in Topic 842, among other practical expedients, there is one that allows lessees that are not public business entities to elect as an accounting policy

to use a risk free rate as the discount rate for all leases. And that's where the challenge came because as ASC 842 was originally issued or developed it said that that practical expedient to use the risk-free rate as the discount rate had to be applied to all leases of the lessee. What this issue is going to do is allow lessees, again, that are not public business entities to make the risk-free rate election by class of underlying asset rather than across the board at the entity-wide level. Now any entity that makes that risk-free rate election is going to be required to disclose which asset classes it has applied the risk free rate to as the asset discount rate issue also requires that the lessee use the rate that is implicit in the lease when it's readily determinable. That's always the override for determining or using a discount rate for the lessee. If the rate implicit in the lease is readily determinable, that's always used. You only get to the risk-free rate election if that implicit rate is not determinable. So that's still there, still stands. But the main thing is changing it from an entity-wide election to an asset class election.

Ms. Grove Casey

And when is this guidance effective?

Mr. Madray

This one's a little tricky, but it depends on whether an entity has adopted ASC 842 yet or not. In fact, whether they had adopted it as of the issuance date of this ASU, which was in November 2021. Keep in mind that ASC 842 becomes effective for private companies as well as not for profit entities that are not conduit bond obligors for fiscal years that began after December 15, 2021 because earlier application is permitted. Early application of ASC 842 is what I'm referring to.

Some private companies and some not-for-profit organizations have already adopted ASC 842. So with all that said, entities that had not yet adopted ASC 842 as of the issuance date of this ASU, which was in November 2021 specifically November 11th, they are required to adopt the amendments in this ASU at the same time they adopt ASC 842, which is going to be sometime in 2022. They would apply the existing transition provisions within 842. Those provisions specifically require that entity use either one of two transition methods, either apply the guidance to existing leases retrospectively with a cumulative effect adjustment, recognized at the beginning of the earliest period presented, or the modified retrospective approach, which is to apply the guidance to existing

leases on that modified retrospective basis with the cumulative effect adjustment from the transition, recognizing the opening balance of retained earnings at the beginning of the period of adoption, so that for those that had not yet or had not yet adopted 842 as of November of 2021 for entities that had already adopted ASC 842 as of that date in November of 2021 the amendments in this ASU are going to be effective for fiscal years that begin after December 15, 2021 an interim period that began a year later. Earlier application is permitted for those entities. They are required to apply these amendments on a modified retrospective basis to leases that exist at the beginning of the fiscal year in the year of adoption excuse me.

One other thing, if this were adopted by someone who had already had already adopted ASC 842, it's important to remember that there are certain types of modifications to leases that trigger a remeasurement of that reallocation in a lease contract. This is not one of those. Even though it can be adopted by somebody who had already adopted 842, and essentially, you could be changing the discount rates used for certain leases based on how you applied this practical expedient under this new ASU, it would not trigger remeasurement, reallocation of the consideration in the lease contract. So that's an important thing to keep in mind, and it was important that they included that caveat in the ASU. Otherwise, probably no one would have adopted this if they had already adopted ASC 842. So in the end, I think it'll be useful to our private company lessees.

Ms. Grove Casey

Well, finally, let's take a look at ASU 2021-10. I believe that this guidance relates primarily to funds that have come about to for-profit entities for the last year or so, because of the CARES Act and different additional legislation that came after that, that provided opportunities for government assistance. So could you tell us about this new guidance?

Mr. Madray

Sure. And you're exactly right. This ASU, 2021-10, was prompted by the pandemic and the related government funding that came about that was provided to for-profit companies. And in fact, you and I discussed in the program in the past how recipients of these funds might account for those in cases where the longer they were set up as loans that were then forgiven, as long as certain requirements were met and we talked about

some approaches that could be used to account for those types of things, and generally doing it by analogizing to other types of guidance that exist out there. The reason there was some confusion is because current U.S. GAAP doesn't provide any specific authoritative guidance or accounting for or disclosure of government assistance received by business entities. Now, what this issue does not do is it does not provide guidance on accounting for any of this government assistance, but it does add a new topic to the accounting standards codification.

It's called ASC 832 government assistance to provide guidance on disclosure related to any type of government assistance. And it will apply to all entities except not for profit entities and employee benefit plans. That's because those specific industry topics already have guidance related to this type of assistance that might be provided. It does apply again, to all other entities that have accounted for these transactions with the government by analogizing to other guidance like we've talked about in the previous program. For example, one of the options that companies were using or analogizing to was the grant model that's found in the IFRS standards or another approach was to use the contribution model that's in the Topic 958 dealing with not for profit entities, so essentially, it applies to anybody that was trying to figure out how to account for these types of transactions.

Also, it does apply to transactions with the government. And as that term is used in ASC 832, that includes domestic, foreign, local, regional, national, federal governments and any entities related to those types of government. So it covers a broad spectrum of what is meant by government assistance, but again, at the end of the day, it's about disclosure and maybe some day there might be more specific accounting audits, but that's not unusual for the FASB to start down the road with disclosure first.

Ms. Grove Casey

Well, it's worked that way for most of their other topics in the past, certainly with derivatives it worked out like that. So let's talk about what those new disclosure requirements for government assistance are.

Mr. Madray

Sure. In fact, we have a slide with this information on it. So if you take a look there, you see the disclosure requirements include the nature of the transactions.

That would include a general description of the transactions and the form in which the assistance they receive, whether it's cash or some other type of asset, disclosure of the accounting policy used to account for the transactions, because there is no U.S. GAAP that tells us what to do. So what are you using? And again, most folks think there's about three approaches that could be used to appropriately account for these types of transactions. And then, finally, we disclose the line items in the balance sheet and the income statement that are affected by the transactions, as well as the amounts applicable to each financial statement, a line item in the current reporting period.

Beyond that, this new guidance requires entities to disclose information about the significant terms and conditions of the transactions with the government. And that might include things that you see here on the slide, the duration or period of the agreement, the commitments that are made by both the reporting entity and the government, provisions, if there are any, for recapture, for example, when government can recapture amounts that have been awarded, including the conditions where that recapture might be allowed. And then, broadly, any other contingencies that might exist related to these types of transactions with a government. Entities are required to provide the disclosures that we just mentioned for annual periods, they are not required in interim period financial statements.

Ms. Grove Casey

And when will these new disclosure requirements be effective?

Mr. Madray

They're effective for all entities within their scope, which again, is basically all entities other than not for profits and employee benefit plans, for financial statements that are issued for annual periods that begin after December 15, 2021. Of course, early application is permitted, which means earlier financial statements certainly could include these disclosures. Further, the ASU says that the amendments can be applied either prospectively to all transactions that are within its scope. They are reflected in the financial statements at the date of initial application, as well as new transactions that are entered into after the date of initial application or retrospectively to those transactions. So prospective or retrospective to the type of transactions that would be within its scope, but again, annual periods only where these would be required.

FASB Update

by J. Russell Madray, CPA, CGMA

ASU 2021-07, *Determining the Current Price of an Underlying Share for Equity-Classified Share-Based Awards (a consensus of the Private Company Council)*

Overview

In October 2021, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2021-07, *Determining the Current Price of an Underlying Share for Equity-Classified Share-Based Awards*. ASU 2021-07 provides a practical expedient, whereby a nonpublic entity is allowed to determine the current price input of equity-classified share-based awards issued to both employees and nonemployees using the reasonable application of a reasonable valuation method.

The measurement objective in Accounting Standards Codification (ASC) 718, *Compensation—Stock Compensation*, for share-based awards is fair value based. When determining the grant-date fair value of those awards, a valuation technique such as an option-pricing model (e.g., binomial model, Black-Scholes-Merton model) is typically used. An option-pricing model requires various inputs, including the fair value of the equity shares underlying a share-option award (referred to as the current price input).

The current price input for equity shares typically is the most difficult input for private companies to estimate. ASC 718 already provides for practical expedients for other inputs—specifically, the share price volatility and expected term. The practical expedient in ASU 2021-07 allows a nonpublic entity to determine the current price of a share underlying an equity-classified share-based award using the reasonable application of a reasonable valuation method.

The practical expedient describes the characteristics of the reasonable application of a reasonable valuation method. The characteristics of this method are the same as the characteristics used in the current regulations of the U.S. Department of the Treasury related to Section 409A of the U.S. Internal Revenue Code (the Treasury Regulations) to describe the reasonable application of a reasonable valuation method for income tax purposes. A reasonable valuation performed in accordance with the Treasury Regulations is an example of a way to achieve the practical expedient.

According to the Basis for Conclusions, the population of valuations that would be considered the reasonable application of a reasonable valuation for purposes of the practical expedient is not limited to a valuation by independent appraisal. That is, other valuations, including internal valuations, could have the characteristics described in the practical expedient in ASU 2021-07. However, it is expected that an independent appraisal often will be the method used by nonpublic entities electing the practical expedient. Currently, some nonpublic entities may obtain separate external valuations to satisfy the requirements of both ASC 718 and the Treasury Regulations. Others may seek to use one formal valuation to serve multiple purposes. The practical expedient in ASU 2021-07 amends certain requirements of ASC 718 to clarify that an acceptable practice is to obtain a single valuation that satisfies both requirements.

The practical expedient in ASU 2021-07 can be elected for equity-classified share-based awards within the scope of ASC 718. The practical expedient is not available for liability-classified awards. Nonpublic entities can elect the practical expedient on a measurement-date-by-measurement-date basis. That means that the practical expedient must be applied to all share-based awards within the scope of the practical expedient that have the same underlying share and the same measurement date.

Effective Date and Transition

The practical expedient in ASU 2021-07 is effective prospectively for all qualifying awards granted or modified during fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early application, including application in an interim period, is permitted for financial statements that have not yet been issued or made available for issuance as of October 25, 2021.

ASU 2021-08, *Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*

Overview

In October 2021, the FASB issued ASU 2021-08, *Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. ASU 2021-08 changes

the accounting for contract assets and liabilities acquired in a business combination by requiring an acquiring entity to measure contract assets and liabilities in accordance with ASC 606, *Revenue from Contracts with Customers*.

Under current U.S. generally accepted accounting principles (U.S. GAAP), an acquirer generally recognizes assets acquired and liabilities assumed in a business combination, including contract assets and contract liabilities arising from revenue contracts with customers and other similar contracts that are accounted for in accordance with ASC 606, at fair value on the acquisition date. Initial fair value measurement for acquired revenue contracts in a business combination can be complex and require significant judgment. Moreover, diversity exists in current practice for determining the fair value of contract liabilities for certain revenue arrangements and stakeholders have raised questions about how to apply ASC 805, *Business Combinations*, to contracts with a customer acquired in a business combination.

Main Provisions

To address those issues, ASU 2021-08 requires an acquirer to recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with ASC 606. At the acquisition date, an acquirer should account for the related revenue contracts in accordance with ASC 606 as if it had originated the contracts.

In accounting for revenue contracts in accordance with ASC 606 at the acquisition date, the acquirer may assess how the acquiree applied ASC 606 to determine what to record for the acquired revenue contracts. Generally, this should result in an acquirer recognizing and measuring the acquired contract assets and contract liabilities consistent with how they were recognized and measured in the acquiree's financial statements (if the acquiree prepared financial statements in accordance with U.S. GAAP).

However, there may be circumstances in which the acquirer is unable to assess or rely on how the acquiree applied ASC 606, such as if the acquiree does not follow U.S. GAAP, if there were errors identified in the acquiree's accounting, or if there were changes identified to conform with the acquirer's accounting policies. In those circumstances, the acquirer should consider the terms of the acquired contracts, such as timing of

payment, identify each performance obligation in the contracts, and allocate the total transaction price to each identified performance obligation on a relative standalone selling price basis as of contract inception (that is, the date the acquiree entered into the contracts) or contract modification to determine what should be recorded at the acquisition date.

ASU 2021-08 provides practical expedients for acquirers when recognizing and measuring acquired contract assets and contract liabilities from revenue contracts in a business combination. An acquirer may use one or more of the following:

- For contracts that were modified before the acquisition date, an acquirer may reflect the aggregate effect of all modifications that occur before the acquisition date when:
 - Identifying the satisfied and unsatisfied performance obligations
 - Determining the transaction price
 - Allocating the transaction price to the satisfied and unsatisfied performance obligations
- For all contracts, for purposes of allocating the transaction price, an acquirer may determine the standalone selling price at the acquisition date (instead of the contract inception date) of each performance obligation in the contract

For any of the practical expedients that an acquirer uses, the acquirer should apply that expedient on an acquisition-by-acquisition basis. Each practical expedient that is elected should be applied consistently to all contracts acquired in the same business combination. In addition, the acquirer should disclose the expedients that have been used and, to the extent reasonably possible, a qualitative assessment of the estimated effect of applying each of those expedients.

ASU 2021-08 primarily addresses the accounting for contract assets and contract liabilities from revenue contracts with customers in a business combination. However, ASU 2021-08 also applies to contract assets and contract liabilities from other contracts to which the provisions of ASC 606 apply, such as contract liabilities from the sale of nonfinancial assets within the scope of ASC 610-20, *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets*.

ASU 2021-08 does not affect the accounting for other assets or liabilities that may arise from revenue contracts with customers in accordance with ASC 606, such as refund liabilities, or in a business combination, such as customer-related intangible assets and contract-based intangible assets. For example, if acquired revenue contracts are considered to have terms that are unfavorable or favorable relative to market terms, the acquirer should recognize a liability or asset for the off-market contract terms at the acquisition date.

Effective Date and Transition

For public business entities, the amendments in ASU 2021-08 are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. The amendments in ASU 2021-08 should be applied prospectively to business combinations occurring on or after the effective date of the amendments.

Early adoption of the amendments is permitted, including adoption in an interim period. An entity that early adopts in an interim period should apply the amendments (1) retrospectively to all business combinations for which the acquisition date occurs on or after the beginning of the fiscal year that includes the interim period of early application and (2) prospectively to all business combinations that occur on or after the date of initial application.

ASU 2021-09, *Discount Rate for Lessees That Are Not Public Business Entities*

Overview

As part of its post-implementation review of ASC 842, *Leases*, the FASB and staff continue to assist stakeholders by responding to inquiries received and proactively seeking feedback on potential implementation issues that have arisen as public business entities began implementing ASC 842. In September 2020, the FASB hosted two public roundtable sessions to solicit feedback from a cross section of stakeholder groups. During those sessions, some private company stakeholders discussed the costs and complexities of applying the standard. Those stakeholders suggested that the FASB amend the practical expedient that allows the use of a risk-free

discount rate as an accounting policy election (risk-free rate election) to provide lessees that are not public business entities with more flexibility in how they determine the discount rate for their leases and make the risk-free rate election to reduce their initial adoption and ongoing implementation costs associated with ASC 842.

Main Provisions

ASC 842 currently provides lessees that are not public business entities with a practical expedient that allows them to elect, as an accounting policy, to use a risk-free rate as the discount rate for all leases. The amendments in this ASU allow those lessees to make the risk-free rate election by class of underlying asset, rather than at the entity-wide level. An entity that makes the risk-free rate election is required to disclose which asset classes it has elected to apply a risk-free rate. The amendments in this ASU also require that a lessee use the rate implicit in the lease when it is readily determinable, instead of a risk-free rate or incremental borrowing rate.

Effective Date and Transition

The effective date for this ASU is different for entities that had not yet adopted ASU 842 as of November 11, 2021, and those that had. ASC 842 becomes effective for private companies and not-for-profit organizations that are not conduit bond obligors for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Because earlier application is permitted (and ASC 842 is already effective for certain not-for-profit organizations that are conduit bond obligors), some private companies and not-for-profit organizations have already adopted ASC 842. Entities that had not yet adopted ASC 842 as of November 11, 2021, are required to adopt the amendments in this ASU at the same time that they adopt ASC 842. Those entities should apply the existing transition provisions in ASC 842. Those provisions require that an entity use either of the following transition methods: (1) apply the guidance to existing leases retrospectively with the cumulative-effect adjustment from transition recognized at the beginning of the earliest period presented or (2) apply the guidance to existing leases on a modified retrospective basis with the cumulative-effect adjustment from transition recognized in the opening balance of retained earnings at the beginning of the period of adoption.

For entities that had adopted ASC 842 as of November 11, 2021, the amendments in this ASU are effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Earlier application is permitted. Entities are required to apply the amendments on a modified retrospective basis to leases that exist at the beginning of the fiscal year of adoption of a final ASU. The adoption of the amendments should not be considered an event that would cause remeasurement and reallocation of the consideration in the contract (including lease payments) or reassessment of lease term or classification.

ASU 2021-10, *Disclosures by Business Entities about Government Assistance*

Overview

In November 2021, the FASB issued ASU 2021-10, *Disclosures by Business Entities about Government Assistance*. ASU 2021-10 requires business entities to disclose, in notes to their financial statements, information about certain types of government assistance they receive. The issuance of ASU 2021-10 was prompted by the COVID-19 pandemic and related increases in government funding provided to companies. Investors and other financial statement users requested that information about government assistance be disclosed in financial statements (current U.S. generally accepted accounting principles have no specific authoritative guidance on the accounting for, or the disclosure of, government assistance received by business entities).

ASU 2021-10 adds ASC 832, *Government Assistance*, to the Accounting Standards Codification. The guidance in ASC 832 applies to all entities except not-for-profit entities and employee benefit plans within the scope of ASC 960, *Plan Accounting—Defined Benefit Pension Plans*, ASC 962, *Plan Accounting—Defined Contribution Pension Plans*, and ASC 965, *Plan Accounting—Health and Welfare Benefit Plans*. ASC 832 applies to entities that have accounted for transactions with a government by analogizing to a grant or contribution accounting model (for example, a grant model within IFRS Standards or a contribution model within ASC 958-605, *Not-for-Profit Entities—Revenue Recognition*). Transactions with a government, as used in ASC 832, include assistance that is administered by domestic, foreign, local, regional, and national (federal) governments and entities related to those governments.

Main Provisions

ASC 832 requires an entity to disclose the following about transactions with a government within its scope:

- The nature of the transactions, including a general description of the transactions and the form in which the assistance has been received (for example, cash or other assets)
- The accounting policies used to account for the transactions
- The line items on the balance sheet and income statement that are affected by the transactions, and the amounts applicable to each financial statement line item in the current reporting period.

In addition, ASC 832 requires an entity to disclose information about the significant terms and conditions of transactions with a government within its scope. Terms and conditions that might be appropriate to disclose include, but are not limited to, any of the following:

- The duration or period of the agreement
- Commitments made by both the reporting entity and the government
- Provisions, if any, for recapture (for example, when the government can recapture amounts awarded), including the conditions under which recapture is allowed
- Other contingencies

An entity should provide the disclosures required by ASC 832 for annual periods.

Effective Date and Transition

The amendments in ASU 2021-10 are effective for all entities within their scope for financial statements issued for annual periods beginning after December 15, 2021. Early application of the amendments is permitted.

An entity should apply the amendments in ASU 2021-10 either (1) prospectively to all transactions within the scope of the amendments that are reflected in financial statements at the date of initial application and new transactions that are entered into after the date of initial application or (2) retrospectively to those transactions.



Option Pricing Model Inputs

- Strike price of the option
- Current price of the stock
- Time to expiration
- Risk-free rate of return
- Volatility

Characteristics of the Reasonable Application of a Reasonable Valuation Method

- The date on which the valuation's reasonableness is evaluated is the measurement date.
- The following factors should be considered in a reasonable valuation:
 - The value of the tangible and intangible assets of the entity.
 - The present value of the anticipated future cash flows of the entity.
 - The market value of stock or equity interests in similar entities engaged in trades or businesses substantially similar to those engaged in by the entity for which stock is to be valued.
 - Recent arm's-length transactions involving the sale or transfer of the stock or equity interests of the entity.
 - Other relevant factors such as control premiums or discounts for lack of marketability and whether the valuation is used for other purposes
 - that have a material economic effect on the entity, its stockholders, or its creditors.
 - The entity's consistent use of a valuation method to determine the value of its stock or assets for other purposes.
- The scope of information to be considered in a reasonable valuation is all information material to the value of the entity.
- The following criteria must be met for the use of a previously calculated value to be considered reasonable:
 - The value is updated for any information available after the date of calculation that may materially affect the value of the entity.
 - The value is calculated no more than 12 months earlier than the date for which the value is being used.

Effective Date
ASU 2021-07

Prospectively for qualifying awards granted
or modified during fiscal years beginning
after 12/15/2021

Contract Assets and Contract Liabilities



Contract Asset

An entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the entity's future performance).



Contract Liability

An entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer.

Practical Expedients

For contracts that were modified before the acquisition date, an acquirer may reflect the aggregate effect of all modifications that occur before the acquisition date when:

- Identifying the satisfied and unsatisfied performance obligations
- Determining the transaction price
- Allocating the transaction price to the satisfied and unsatisfied performance obligations

For all contracts, for purposes of allocating the transaction price, an acquirer may determine the standalone selling price at the acquisition date (instead of the contract inception date) of each performance obligation in the contract



Effective Date ASU 2021-08

PBEs—fiscal years
beginning after
December 15, 2022

15 Dec. 2022

15 Dec. 2023

Everyone else—
fiscal years
beginning after
December 15, 2023

ASU 2021-09 Risk Free Rate Election

Allows Non-PBE to make the risk-free rate election by class of underlying asset when applying lease literature in ASC 842

ASU 2021-10 Government Assistance

Creates ASC 832

Applies to for-profit entities receiving government assistance

Excludes NFPs and employee benefit plans

ASC 832 Disclosure Requirements

- The nature of the transactions, including a general description of the transactions and the form in which the assistance has been received (for example, cash or other assets)
- The accounting policies used to account for the transactions
- The line items on the balance sheet and income statement that are affected by the transactions, and the amounts applicable to each financial statement line item in the current reporting period.

In addition, ASC 832 requires an entity to disclose information about the significant terms and conditions of transactions with a government within its scope. Terms and conditions that might be appropriate to disclose include, but are not limited to, any of the following:

- The duration or period of the agreement
- Commitments made by both the reporting entity and the government
- Provisions, if any, for recapture (for example, when the government can recapture amounts awarded), including the conditions under which recapture is allowed
- Other contingencies

GROUP STUDY MATERIALS

A. Discussion Problems

1. Briefly describe the practical expedient provided in ASU 2021-07 related to a nonpublic entity determining the current price of a share underlying an equity-classified share-based.
2. Briefly describe the practical expedient provided in ASU 2021-08 related to recognition and measurement of contract assets and contract liabilities acquired in a business combination.
3. Discuss the disclosure requirements set forth in ASC 832 related to information about certain types of government assistance received.

B. Suggested Answers to Discussion Problems

1. The practical expedient in ASU 2021-07 allows a nonpublic entity to determine the current price of a share underlying an equity-classified share-based award using the reasonable application of a reasonable valuation method. The practical expedient describes the characteristics of the reasonable application of a reasonable valuation method. The characteristics of this method are the same as the characteristics used in the current regulations of the U.S. Department of the Treasury related to Section 409A of the U.S. Internal Revenue Code (the Treasury Regulations) to describe the reasonable application of a reasonable valuation method for income tax purposes. A reasonable valuation performed in accordance with the Treasury Regulations is an example of a way to achieve the practical expedient.
 - Commitments made by both the reporting entity and the government
 - Provisions, if any, for recapture (for example, when the government can recapture amounts awarded), including the conditions under which recapture is allowed
 - Other contingencies
2. ASU 2021-08 requires an acquirer to recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with ASC 606. At the acquisition date, an acquirer should account for the related revenue contracts in accordance with ASC 606 as if it had originated the contracts.
3. ASC 832 requires an entity to disclose the following about transactions with a government within its scope:
 - The nature of the transactions, including a general description of the transactions and the form in which the assistance has been received (for example, cash or other assets)
 - The accounting policies used to account for the transactions
 - The line items on the balance sheet and income statement that are affected by the transactions, and the amounts applicable to each financial statement line item in the current reporting period.

In addition, ASC 832 requires an entity to disclose information about the significant terms and conditions of transactions with a government within its scope. Terms and conditions that might be appropriate to disclose include, but are not limited to, any of the following:

- The duration or period of the agreement

PART 2. AUDITING

Audit Issues for Businesses Receiving Government Assistance

The CARES Act and related federal programs initially provided crucial federal funding to state and local governments, not-for-profit organizations, and for-profit entities. According to the U.S. Department of Health and Human Services on July 22, 2020, recipients of Provider Relief Fund payments, as well as other federal programs (including commercial entities), will be subject to compliance requirements if the entity expended \$750,000 or more of federal funds received during its fiscal year. Many for-profit hospitals and other for-profit healthcare providers became subject to these compliance audit requirements.

For more on government-provided assistance and the audit requirements, let's join Jennifer F. Louis, a CPA with Emergent Solutions Group, LLC, and CPE Network's Debi Grove Casey.

Ms. Grove Casey

So today we want to talk about audit issues for businesses that maybe have received government assistance. How is it that businesses receiving government assistance became an issue recently?

Ms. Louis

Obviously, because of the pandemic and having the Cares Act, as well as other types of legislation, like the American Rescue Plan that, at first they were focused on critical funding to state and local governments, nonprofits, but then for profits being a part of that, particularly with healthcare entities, as we think about the department of health and human services (DHHS), where I have, various hospitals and other healthcare organizations that were for profit in nature, but still needed as much support and assistance through the pandemic as the not for profits did. And what happens is, that we did have a lot of situations where you had organizations like the governments and the not for profits that were already familiar with regulations and compliance requirements associated with taking federal dollars, but then you had a bunch of businesses, commercial organizations, for profits that weren't as adept at those issues. And it could have been wide ranging, even things like different grants you might get under the shuttered venue operators grant. That was a part of helping with certain eligible organizations like movie theaters and aquariums that helped them get through the time where they didn't have as many people attending. Even the small business administration, focusing on giving assistance for these small businesses that is still being figured out and probably will continue as they still figure out what additional aid needs to be provided to these organizations.

Ms. Grove Casey

Well, it sounds like single audit and uniform guidance could potentially have either an indirect or direct impact on audit requirements of certain businesses receiving this government assistance. Could you give us a high-level overview of these compliance audit requirements?

Ms. Louis

All right. So as we focus on the single audit uniform guidance, as we said, it's focused on a non-federal entity that expends more than \$750,000 or more federal assistance in a given fiscal year. And as we look at uniform guidance, it does define a non-federal entity as being a state or local government, an Indian tribe, an Institute of higher education or nonprofit, right? That's carrying out a federal award as either a primary recipient or a subrecipient. It does not explicitly exclude for profit businesses from single audit requirements. So what may happen sometimes is not that it includes them, but it also says, it's not that you can't have one in some appropriate circumstance. Typically, as we thought about for profits, a lot of for profits might have said, well, if you're going to have a financial statement audit, and if you take this assistance, we want you to have a financial statement audit in conformance with government auditing standards or yellow book, but yet single audit wasn't triggered because you weren't underneath the definition of a non-federal entity, and so that didn't come into play. But what you are finding as a result of the pandemic is that there's certain forms of federal assistance while they say, well, you want to have a compliance audit, so whether that's in conjunction with uniform guidance or whether you have it done another

way, even though you were for profit, we do want you to have a compliance audit over the fact that you took this federal assistance related to these big major programs that are out there.

Ms. Grove Casey

We just want to know that you spent the money the way it was intended to be.

So what other important documents should an entity that may be subject to a compliance audit be aware of?

Ms. Louis

Right. So as we're thinking about, if I do have my audit and I have it in conformance with uniform guidance, even though I'm not a federal entity you can still use that guidance. You can still use the OMB Compliance Supplement from the office of management and budget that details out compliance requirements for various assistance listings. As I took money from the provider relief fund, or I took money related to some other program, it assists the auditors in doing single audits, uniform guidance audits to have quality compliance audits and also lays out some framework for some things that they consistently want you to do as you're designing and performing and reporting on these engagements. So while you may not be directly associated with these audits that I'm required to use these tools, often being familiar with these tools can help as you're trying to figure out if I have to have a compliance audit just under yellow book, not under uniform guidance, because that's what I'm going to do as I think about complying with some sort of compliance audit requirement. Being familiar with what uniform guidance auditors do you can make parallels in helping you figure out what's sufficient and appropriate as I'm also trying to achieve this other audit objective.

Ms. Grove Casey

Well, just because a business accepts federal government assistance, a compliance audit is not always required though, is that correct?

Ms. Louis

Correct. Like not every form of federal assistance triggers a compliance audit.... There are some forms of government assistance, such as the paycheck protection program, if you took a PPP loan, there's no compliance audit requirement associated with that loan. What's important is that the office of management and budget

(OMB) they've put on a website that you can have ([cfo.gov](https://www.cfo.gov)) where they're laying out and you can get guidance that says, well, depending on the program, depending on the assistance listing, is this something that is in the scope of single audit? Is it something where there is a compliance audit element? Or is this something that is just a part of your financial statements? So while I may not have to have a compliance audit, right, there still may be some implications on just my regular financial statement audit because I have to deal with receiving this federal assistance.

Ms. Grove Casey

Well, it sounds like both the client and the auditor may want to go take a look at that website.

Right. Because if you're the client, I would want to know ahead of time whether or not I was going to need to have that kind of an audit, because usually there's, like you mentioned before, increased fees that go with it, not just increased work, so how do financial statement audits consider compliance with laws and regulations? Because we're not usually going to the [cfo.gov](https://www.cfo.gov) to take a look.

Ms. Louis

True. In a financial statement audit the audit standards do say though that like when an auditor comes in, they're going to be getting an understanding about the entity's environment, and part of that understanding will include talking to management and governance about sources of inflows of resources that you've had, where there could be a compliance aspect to what you're doing, whether it's a law, regulation or contracts, or agreements that could have a direct material effect on the financial statements, my debits and credits, my disclosures, because if you think about debt covenants, and if I'm non-compliant with debt covenants, it affects the classification of my debt. It affects the disclosures. It will be the same thing as I think about receiving federal assistance. Even if I'm not subject to a compliance audit, still in an audit, there may be risk that I've taken money that I might have to pay back, as you think about the liability, right? And when are you truly extinguished from this liability, because you've been officially forgiven from having to pay back that obligation? And so how long do I leave it as a liability on my books? When do I get to recognize the revenue associated with this federal assistance? Those are all audit issues that you're going to face just in a regular financial statement audit as well.

Ms. Grove Casey

Well, there's also a concept separate from single audit called a program specific audit. So how is that type of audit different than a single audit?

Ms. Louis

Well, ultimately there's some organizations that can find themselves that I don't need a full blown financial statement audit. If I meet certain criteria, I can do a less burdensome program specific audit where you're only auditing one program. You don't have multiple programs. And there are organizations such as healthcare entities that may only have received funding from one specific program. But it also could be though that there's a variety of assistance listings that are created, say by the department of health and human services (DHHS) that may be that it's really multiple programs, even though it's from the same agency. They may be different assistance listings, and that could preclude me from kind of thinking about this program-specific thing. There may be more than one program that is subject to compliance audit, or entities might have received some assistance through other agencies like Homeland security or FEMA or Department of Justice. So the key being that as I'm making my decision about what am I going to do, like, am I going to really do something more like following uniform guidance and single audit because I have multiple programs, multiple sources of assistance, or if I just got something from a single assistance listing, then could I forget the single audit piece and do more of a program specific audit, but still having a compliance audit over that singular program?

Ms. Grove Casey

Can you talk a little bit more about entities that may have found that they had compliance audit requirements for the first time due to accepting pandemic-related government assistance?

Ms. Louis

Yes, and most of the time, the healthcare facilities are the immediate thing that comes to everybody's mind related to that, but you also could have childcare providers that ended up being a part of receiving assistance, through the department of education or HHS, and that federal funding ultimately might be something that's subject to these compliance audits. If I was getting \$75,000 a month to provide childcare for first responders, and I did that for a year, well, then I

would be over that \$750,000 minimum. And so, we do need to particularly be focused on the things that once you've accepted federal assistance, like not accepted the assistance, but I've expended it, that if I get over that \$750,000 threshold, that's where you need to particularly be concerned about where compliance audits might start kicking in for a variety of types of organizations. Am I a type of group or entity where maybe I do have to do something very specific, particularly maybe for a specific type of program.

Ms. Grove Casey

We've been talking a little bit about both for-profit and nonprofit entities. How does an entity like the department of health and human services define a commercial organization or for-profit entity?

Ms. Louis

Well, it is important that that is clarified because it does have direct implications of I'm assuming I'm going to uniform guidance, or do I have choices? And a commercial organization is an organization, institution, corporation, other legal entity that is included, but not limited to a partnership, a sole proprietorship, a limited liability corporation, but the goal is that it's organized or operated for the profit or benefit of owners or shareholders. This can be a small or large organization as we're trying to look at these for-profit organizations. And so, as we look at for profit companies called commercial organizations by the DHHS, if I did receive provider relief funds, they're saying that if you exceeded expending more than \$750,000 of those funds, even if you're a commercial organization, you still need to have a compliance audit. And so it is important that we consider that and ensure that we are aware of those circumstances.

Ms. Grove Casey

Well, department of health and human services has noted that commercial organizations can choose to have a financial related audit under GAGAS, the rest of us call that yellow book, instead of choosing to have a single audit. How will this financial statement audit differ from the single audit, if you do choose to do the yellow book audit?

Ms. Louis

So under yellow book, your government auditing standards, any organization, for-profit, not-for-profit, government, any organization can have a financial

audit under these standards. Now the financial audit piece of it, if I were to do that, I also do my audit in conformance with just the SASs. So I have my audit in accordance with the SASs as well as yellow book, because what happens is yellow book just sits on top of another set of audit requirements. Now, the commercial organization's consideration of federal awards is limited to in this case, if DHHS is the one that's triggering me to have this compliance audit, it's saying you only have to think about DHHS awards now, not just provider relief funds, it can be any DHHS awards, but they're focused on just that aspect, because as an agency, they're the one that's saying, I want commercial organizations to still have an audit done.

And so you do need to have a statement that you can provide to say, here's the support or the summarization of the expenditures I incurred or the lost revenues that I got reimbursed for, because I need to file that in a reporting format for DHHS, the department of health and human services. But then, as I do the audit of the financial statements, I'm also going to be considering things that have a direct and material effect on the financials as it relates to this award. If I have findings, I only report findings in my yellow book reports. I have my financial statement audit opinion, and then, I have my report on compliance and internal controls and other matters. So any findings that I have would be in this report and I would though have to make sure that any disclosures I had in my financial statements would include a summary of significant accounting policies related to this government assistance, as well as any type of loss contingencies.

Whereas for single audit, I'm going to have my financial statement audit in conformance with yellow book, but also I'm going to have a schedule of expenditures of federal awards (SEFA) that would include all of my federal assistance, not just what I have for DHHS. So if there were other forms of federal assistance that were covered, I would put that on that schedule and I would have to now follow subpart F of uniform guidance that says you have to give an in relation to opinion related to the SEFA to say that this schedule of expenditure of federal awards is not materially misstated in relation to your financial statements as a whole, I would have to determine out of the SEFA, what programs am I going to test? And I would issue a separate report that would be compliance and internal controls just related to these major federal programs that I subjected to testing. So, in essence, you're adding another schedule and another report that

has to be issued. If you say, I'm going to follow single audit, I'm going to follow uniform guidance and you're following all of the requirements that would exist in there. Whereas if it's just a financial statement audit underneath government auditing standards, I am going to be auditing the financials and this statement, but I'm not triggering to create a SEFA and a separate compliance report related to that SEFA.

Ms. Grove Casey

Well, when is it most likely the DHHS compliance requirements will kick in for, for-profit hospitals and healthcare providers for the first time?

Ms. Louis

Well, a lot of them are going to find it for their 12/31/2021 year ends will be the first time that they have an audit requirement if they have a calendar year end. If it's a June 30 year end, then it would become effective for your June 30, 2021 periods and thereafter.

Ms. Grove Casey

Well provider relief funds have been distributed at a variety of intervals. Has there been any guidance released about how to appropriately report these PRF funds?

Ms. Louis

Yes, absolutely. What happened was particularly for this one program there were various funding periods where distributions were made in various phases, starting with April 2020 and moving forward. And there's still disbursements that are being made out of these provider relief funds today. What they wanted to do is to have that DHHS reporting portal that everybody that received these funds would make some submissions into this portal. The problem was that the portal didn't ultimately open until July 2021. And so therefore they had to figure out, well, how do I capture all of this information, because people may have been starting to get money back in April 2020, but yet the portal didn't open until July 2021. How do we deal with that in letting people file information we need, but not cause some sort of huge logistical and administrative burden?

Ms. Grove Casey

Well, an overwhelm the system so much that the portal crashes. Did the special reporting timeframes for PRF-related expenditures apply to nonprofits and for-profits alike?

Ms. Louis

Yes, absolutely. It doesn't matter whether you are a nonprofit or a for-profit, if you were a commercial organization and you received these funds, then you do have these obligations of doing the reporting.

Ms. Grove Casey

Well, can you summarize the reporting requirements for PRF payments that are available to be used through the end of 2022?

Ms. Louis

Right.... They broke them into June 30, December 31, so whether it's we think about where you've got availability for use, so they've broken into these six month intervals, which does make sense because you have some June 30 year ends and I have some calendar year ends, and as we break it into these four reporting periods, what's going to trigger is to say first of all, when did you receive the payment? When you received the payment, what was the period of availability of you to be able to use those funds? Like what was the final deadline for using the funds and what period of time was it available to me for? Sometimes it's six months, sometimes it's 12 months, and then, based on that, they would say, well, when do you need to put it into the PRF portal? And so when I was saying that, if you are an entity that's calendar year end for December 31st, then that created where you may have received things in looking at period one and period two, that finally had you put this information into the portal in the first part of 2022, and that might be now triggering the need for you to now start having audit implications.

Ms. Grove Casey

Well, how do these unique HHS reporting portal requirements impact when the compliance audits would be performed on these reported expenditures, because between the date of receipt, the expenditure date, the reporting date, and now we've got the financial statement audit date, we've got a lot of dates floating around. I might need an Excel spreadsheet just to track when I'm supposed to start doing the audit like you were just talking about.

Ms. Louis

Right. Well, it is that any entity that had a fiscal year that ended prior to June 30, 2021, they would say any of your expenditures that you incurred or lost revenues

you got reimbursed for, don't worry about it. Put it in the first SEFA that you're required to start putting, which beginning on June 30, 2021 through 12/30/2021. So it kind of created if your fiscal year end was in there, then that's when you want to put your period one expenditures. Now, if you're a calendar year end, so you're 12/31/2021 through June 29, 2022, you would put both period one and period two submissions onto your schedule. It says here's how much expenditures I've incurred and why is that important? Well, it's because it's looking to see, did you exceed that \$750,000 threshold that might trigger a compliance audit for you in that time period?

Ms. Grove Casey

Well, can you give us a, a simple example of how the PRF funding fund reporting should work for business?

Ms. Louis

So what might happen is that as you had these four different periods that exist, and as we said, if I'm a 12/31 year end versus a June 30 year end, well, if I'm a June 30 year end, I might have received over the course of a year \$3 million, but because some of my funding was period one, and some of my funding was period two, because they broke 'em up into these six month intervals. It might be that only period one ended up on my reporting for my June 30 year end, and the rest of it will be on the next period's financials. Whereas if I'm a calendar year end, right? I might end up with a different answer as [I'm] trying to put together reporting for that. So what I would encourage is that there is through the DHHS that they have put together some charts and you just need to figure out where you fit in that chart depending on all the various factors.

Ms. Grove Casey

Okay. So won't there be differences then between what is reported to HHS and what is included in the GAAP basis financial statements there?

Ms. Louis

Particularly, so as I talk about these provider relief funds where there's this very specific guidance where you basically do a cumulative catch up adjustment to put your expenditures right in your report, but I may have already reported the expenses for GAAP basis financial statements, right? What's important is that you are just able to reconcile whatever ends up getting filed with the federal agency.

Ms. Grove Casey

So I'm going to have a spreadsheet either way.

Ms. Louis

Yes, you're going to need a spreadsheet. That's going to help you figure out how does this reporting under my compliance audit for this supplementary information? How does that relate to what I put in my GAAP basis financial statements, and as long as they're able to be reconciled, that's going to be the most important thing.

Ms. Grove Casey

Well, what's the impact of the scope of a compliance audit when a nonprofit entity includes a for-profit subsidiary within the scope of its single audit?

Ms. Louis

A nonprofit can include expenditures of federal awards of a for-profit subsidiary in their single audit. Uniform guidance permits that for-profit subsidiary to be included, as long as the for-profit subsidiary's operations are also included in the consolidated financial statements that are audited and the program expenditures that might exist in that for-profit are included in the nonprofit's SEFA, their schedule of expenditure of Federal awards.

Ms. Grove Casey

Okay. So I'm about to give you a couple more scenarios because the way that different entities are structured sometimes results in different kinds of financial reporting, and therefore, different potentially kinds of audits. So what if a for-profit has multiple subsidiaries that are consolidated for financial reporting purposes and some of the subsidiaries also do separate reporting?

Ms. Louis

All right. The for-profit entity can fulfill the audit requirement by having one audit of all HHS awards in accordance with yellow book. As we talked about that incorporates all of the entities that would be consolidated underneath GAAP, even if some of my subsidiaries also do separate reporting.

Ms. Grove Casey

What if a for-profit entity just simply issues combined financial statements under common control?

Ms. Louis

That does happen sometimes where you don't meet the requirements for consolidation, but there's common control, and so, we like to show the financial statements together for our own purposes. Each of the for-profit entities can fulfill the audit requirement by having each of them having one financial statement audit of all HHS awards in accordance with yellow book would still be the case. So as we think about, we don't have consolidated financial statements, they're combined in this case, each of the entity's would have their own audit. Whereas if it's consolidated, it can be at the consolidated level.

Ms. Grove Casey

So the OMB actually issued some relief to organizations because of the setup with the portal taking so long and OMB memo M 21-20 provided for a six month extension for audit submissions. Did that extension apply to for-profit organizations?

Ms. Louis

Absolutely. So putting aside the specific requirements of HHS and what they have for provider relief funds, where they've put forth, like here's what we want you to do. They've clarified that and that's what you're going to abide by, but in addition, you could have a commercial organization that has to have a compliance audit, that's not associated with HHS, specifically the provider relief funds. So if there is any type of scenario where I do have these compliance audits needed, that it's meant to be that any extensions are also going to be relevant to the circumstances and it's for audits that would have a fiscal year ran through June 30, 2021, so it doesn't extend past that.

Ms. Grove Casey

Well, I understand that sometimes if you're on the receiving end of federal assistance that there are certain internal controls that may apply to you, that don't necessarily apply in other instances. What types of internal control policies does a company need related to federal funding, even if they're not subject to a single audit?

Ms. Louis

So I want to have internal controls over compliance with whatever the requirements were for me taking this federal money. What types of activities am I allowed to

spend it on? How do I make sure that if there's something like as I'm procuring vendors, that there might be limitations in procurement suspension, department rules, what's the period of performance? What types of reporting do I need to have? So there are compliance requirements that are defined and addressed in single audit situations with uniform guidance and the OMB compliance supplement, and those same things are relevant, even if I'm not covered by that. And that's an area where, for example, to go and look at the OMB Compliance Supplement, say for 2021 and looking to see, well, what if this were single audit? Like, what would I be assessing? Like what types of controls should I have in place that might be useful information for you to design internal controls over your entity's ability to comply with specific requirements?

Ms. Grove Casey

Do you have any suggestions for steps an entity should take when receiving government assistance?

Ms. Louis

The first thing, talk to your accountants. Particularly as we think about the possibility of we might having to have an audit and making sure I have all the necessary documentation and support as we are making these determinations. And particularly as I might be making payments to third parties, like vendors, that I have adequate support for that I need to know where is the money coming from? What's the source of these funds, what's the funding agency? And is there something that could apply to a for profit if I take money from this agency? And that would be really critical for you to really do that first initial assessment.

Ms. Grove Casey

Before we wrap up. And we've talked significantly about the impact on for-profits of HHS regulations in the PRF program in today's segment. Can other federal agency requirements apply to a for-profit as well?

Ms. Louis

Yes, I want to reaffirm that. There can be other agencies that have expectations, and that's why it's important that we are aware of the resources that OMB has put out, that talks about these different assistance listings and what does that mean. For example, the department of energy does have a compliance audit that's required for,

for-profit financial assistance recipients, and it's tied to that \$750,000 threshold. It requires you to have a compliance audit of your department of energy awards, and has guidelines that are laid out that are kind of in alignment with what we've been talking about today. So I don't want to leave the impression that the only time you have to worry about this is if I'm a healthcare entity. That's not necessarily the case.

Audit Issues for Businesses Receiving Government Assistance

by Jennifer F. Louis, CPA

Background

The Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) and related federal programs initially provided crucial federal funding to state and local governments, not-for-profit organizations, and for-profit entities. According to the U.S. Department of Health and Human Services (“DHHS”) on July 22, 2020, recipients of Provider Relief Fund payments, as well as other federal programs (including commercial entities), will be subject to compliance requirements if the entity expended \$750,000 or more of federal funds received during its fiscal year. Many for-profit hospitals and other for-profit healthcare providers became subject to DHHS compliance audit requirements.

The Coronavirus Response and Relief Supplemental Appropriations Act, 2021 (CRRSAA) and the American Rescue Plan provided second and third rounds of funding to Higher Education Emergency Relief Fund (referred to as HEERF II and HEERF III), a subprogram of the Education Stabilization Fund program. Proprietary Institutions are eligible to apply for awards under this program, not just public and private nonprofit organizations.

The Shuttered Venue Operators Grant (SVOG) program was signed into law under the Economic Aid Act. Additionally, the American Rescue Plan Act included amendments to the SVOG. This program will be provided to eligible governments, nonprofits, and for-profit entities that include, among others, live venue operators, movie theaters, museums, zoos, and aquariums. While the Small Business Administration has been clear from the beginning that this program will be subject to audit for governments and nonprofits, SBA recently clarified that for-profit SVOG grantees expending more than \$750,000 in federal funding in one fiscal year will have the option of either providing a single audit or an audited financial statement for the fiscal year during the audit period.

In addition, further federal government assistance was provided in the American Rescue Plan Act of 2021 (ARPA). The ARPA provides additional relief to address the continued impacts of COVID-19 on the economy, public health, state and local governments,

individuals and businesses. The funding laid out in ARPA extends to a wide range of programs, including but not limited to, nutrition, schools and higher education institutions, childcare, COVID-19 testing and treatment, mental health, housing assistance, healthcare and transportation. Funding under ARPA was for new programs, as well as existing programs that are subject to single audit (such as the Emergency Stabilization Fund and Emergency Rental Assistance Program).

One of the new programs created under ARPA is related to the *Coronavirus State and Local Fiscal Recovery Funds (CSLFRF)* disbursed by the U.S. Department of the Treasury. Based on the funding allocation for the Coronavirus State and Local Recovery Funds, many state and local governments will receive direct funding and make sub-awards to qualifying grant recipients (which may include nonprofits and private organizations that have experienced negative economic impacts due to COVID-19).

Applicability of Single Audit and Uniform Guidance

A Single Audit is an audit of a non-federal entity that expends \$750,000 or more of federal assistance during its fiscal year. The audit is conducted under Subpart F of the Office of Management and Budget’s (OMB) *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). There are two main parts of a Single Audit: an audit of the financial statements and a compliance audit of the entity’s major federal award programs. The compliance audit of the entity’s major programs includes gaining an understanding and testing internal controls over compliance and testing compliance with the applicable requirements for each major program.

Uniform Guidance (UG) defines a “nonfederal entity” as “a state, local government, Indian tribe, Institution of Higher Education (IHE), or nonprofit organization that carries out a Federal award as a recipient or subrecipient.” But this does not explicitly exclude for-profit businesses from Single Audit requirements. A for-profit organization may be subject to reporting in compliance with generally accepted government auditing standards (GAGAS), or Yellow Book requirements. An

organization may need a program-specific audit rather than a full-scope Single Audit. Additionally, an organization's role as a recipient, subrecipient, or contractor has an impact, and it isn't black and white. An organization can actually be a recipient, a subrecipient, and a contractor simultaneously.

In addition to federal requirements, some states also require compliance audits related to state awards. Whenever applying for or accepting new funding, it is best to ask if the entity will be receiving any federal funds and, if so, the relevant program(s).

What is the OMB Compliance Supplement?

Most federal awards are assigned an assistance listing, which identifies the funding agency and award program. Annually, OMB issues a Compliance Supplement detailing the compliance requirements for each assistance listing.

The OMB issues an annual Compliance Supplement which discusses compliance requirements and provides suggested audit procedures for several federal award programs. The Compliance Supplement is the primary source for identifying compliance requirements for federal programs. Auditors will use the Compliance Supplement, in conjunction with professional judgment, to determine which of the 12 types of compliance requirements may have a direct and material effect on each major program.

Paycheck Protection Program (PPP)

The PPP is generally thought of as a program for helping small businesses get through the economic fallout from the COVID-19 pandemic by providing them with forgivable loans through the Small Business Administration and lenders. But the program has also been available to nonprofits and other types of organizations that may never have gone through such audits in the past. While PPP is not subject to Single Audit or program-specific audit, it still is required to be properly presented and disclosed in financial statements. This is the subject of the typical financial statement audit under generally accepted auditing standards (GAAS).

Financial Statement Audit Requirements

In a typical financial statement audit, the auditors may look at compliance with laws and regulations in terms of what is material to the financial statements, focusing

mostly on the results of operations. In a Single Audit, auditors are looking more at the risk of material noncompliance with the requirements of the federal program. Federal program requirements could be something more compliance oriented and not number oriented, and maybe not have a financial ramification. If it's material on the compliance side and in the financial statements, that could trigger the need to perform compliance testing, even if the entity is not subject to Single Audit in accordance with Uniform Guidance.

Program-Specific Audit vs. Single Audit

Some organizations may find themselves facing a less burdensome program-specific audit that falls short of being a full-blown financial statement audit, but they need to meet certain criteria. For a program-specific audit, you are only allowed to have one program. You can't have multiple programs. There may be health care entities that have not only been provided relief funds, but also they have some other federal programs through the Department of Health and Human Services as well. Or entities may have some programs through the Department of Justice or FEMA or Homeland Security, because of the things that a hospital does as a first responder. Health care entities in particular could have multiple programs which makes engaging a full-blown single audit more practicable.

Other Entities Possibly Impacted by First-Time Compliance Audit Requirements

Besides health care facilities, childcare providers may also find themselves subject to compliance audits. Some childcare facilities that are charities have been getting this money in the past for different programs that they run under the Department of Education or HHS, but others may not, and now they're getting federal funding in order to provide child-care services for first responders. It's not hard to get over \$750,000. If you get \$75,000 a month in funding to provide first responders with childcare, you're already over the threshold.

Community groups that hand out food to the needy could also find themselves subject to compliance audits. As a community organization that really didn't get federal funding before, it may now have federal funding because they were able to get into one of the USDA food programs.

Department of Health and Human Services (DHHS)

The “Commercial Organization” definition per 45 CFR Section 75.2, is a commercial organization defined as: An organization, institution, corporation, or other legal entity, including, but not limited to, partnerships, sole proprietorships, and limited liability companies, that is organized or operated for the profit or benefit of its shareholders or other owners. The term includes small and large businesses and is used interchangeably with “for-profit organization.”

Based on requirements, for-profit companies, called commercial organizations by DHHS, are to include Provider Relief Funds (PRF) in the basis for determining audit requirements. In addition, DHHS has affirmatively stated that for-profit entities that meet the required threshold (\$750,000 in a reporting period) will be required to have an audit completed.

Provider Relief Fund General and Targeted Distribution payments (93.498) and Uninsured Testing, Treatment, and Vaccine Administration reimbursement payments (93.461) must be included in determining whether a compliance audit is required.

DHHS has noted that commercial organizations can choose to have a financial-related audit (financial audit) under Generally Accepted Government Auditing Standards (GAGAS) instead of choosing to have a single audit or program-specific audit. A financial audit under GAGAS will vary from a single audit in a few key ways:

GAGAS Financial Audit

- A financial statement audit in accordance with generally accepted auditing standards (SASs) and generally accepted government auditing standards (GAGAS or Yellow Book) is required.
- The commercial organization’s consideration of federal awards is limited to all DHHS awards (not just PRF) to meet DHHS audit requirements.
- A statement of costs (including lost revenue) would be issued in accordance with reporting guidance per DHHS, which may be a basis of accounting different than what is recorded in the audited financial statements.
- Follow AU-C 205, *Consideration of Laws and Regulations in an Audit of Financial Statements*.

- The auditor would issue a report under *Government Auditing Standards* (Yellow Book or GAGAS) on compliance with contracts and agreements and internal control over financial reporting.
- The auditor would only be required to report findings, if applicable, in the GAGAS report.
- Disclosures should include summary of significant accounting policies and any loss contingencies relevant to government assistance.

Single Audit

- A financial statement audit in accordance with generally accepted auditing standards (GAAS) and *Government Auditing Standards* (GAGAS or Yellow Book) is required.
- Under a Single Audit, consideration would need to be given to all federal awards expended by the commercial organization (both HHS and other federal awards).
- A Schedule of Expenditures of Federal Awards (SEFA) would be issued as a required supplemental schedule to the audited financial statements.
- Issue an in-relation-to opinion related to the SEFA.
- The auditor would perform a compliance audit of the entity’s major federal programs in accordance with the Uniform Guidance, which includes testing of the entity’s internal controls over compliance.
- Use the applicable OMB *Compliance Supplement* to plan and perform the compliance audit.
- The auditor would issue a Schedule of Findings and Questioned Costs in accordance with Uniform Guidance, regardless of whether any findings were noted.

For many for-profit hospitals and health care providers, the December 31, 2021 year-end will be the first time that the DHHS audit requirement becomes effective if they have a calendar year-end. If the entity has a June 30th year end, then the DHHS audit requirement would have become effective for June 30, 2021 and periods thereafter.

Audit reports of commercial organizations must be submitted via email to HRSA’s Division of Financial Integrity at PRFaudits@hrsa.gov.

Provider Relief Fund Reporting Requirements

The AICPA issued a technical Q&A Section 9160.36 related to *Reporting on the Provider Relief Fund in the Schedule of Expenditures of Federal Awards in Relation to the Financial Statements in a Single Audit Background on the Provider Relief Fund*. PRF distributions have been disbursed in various phases beginning in April 2020 and include both general and targeted distributions. PRF recipients may use payments for eligible expenses and lost revenues attributable to coronavirus.

The program is subject to single audit requirements, including the provision in the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), section 2 CFR 200.514, which requires the auditor to determine and report on whether the Schedule of Expenditures of Federal Awards (SEFA), presented as supplementary information (SI), is fairly stated in all material respects, in relation to the financial statements as a whole. Unlike other federal programs subject to single audit where the amounts to be reported on the SEFA generally represent expenditures incurred during an entity's fiscal year, HHS linked the amounts

to be reported on a recipient's SEFA to expenditures and lost revenue required to be calculated and reported to HHS in the HHS Reporting Portal. This HHS decision was originally set forth in the Office of Management and Budget (OMB) 2020 Compliance Supplement Addendum.

However, the HHS Reporting Portal was significantly delayed and eventually opened for submissions in July 2021. When the HHS Reporting Portal opened, HHS rolled out a unique reporting timeframe for recipients based on the date of receipt of PRF funds rather than the period to which the funds were expended.

Similar to non-federal entities, a for-profit entity's SEFA (or other schedules) is linked to its report submissions to the Provider Relief Fund Reporting Portal. Similar to non-federal entities, for-profit entities will include Provider Relief Fund expenditures and/or lost revenues on their SEFAs or other schedules for fiscal year ends (FYE) ending on or after June 30, 2021.

A Reporting Entity must report only when they have retained over \$10,000 in aggregated Provider Relief Fund payments received during a single Payment Received Period.

The following illustrates the HHS Portal Reporting requirements:

Reporting Portal Period	Payment Received Period (Payments Exceeding \$10,000 in Aggregate Received)	Period of Availability	Deadline to Use Funds	PRF Portal Reporting Time Period
Period 1	April 10, 2020 to June 30, 2020	January 1, 2020 to June 30, 2021	June 30, 2021	July 1, 2021 to September 30, 2021
Period 2	July 1, 2020 to December 31, 2020	January 1, 2020 to December 31, 2021	December 31, 2021	January 1, 2022 to March 31, 2022
Period 3	January 1, 2021 to June 30, 2021	January 1, 2020 to June 30, 2022	June 30, 2022	July 1, 2022 to September 30, 2022
Period 4	July 1, 2021 to December 31, 2021	January 1, 2020 to December 31, 2022	December 31, 2022	January 1, 2023 to March 31, 2023

As a result of delays in opening the HHS Reporting Portal, HHS indicated in the OMB 2021 Compliance Supplement that entities with years ending prior to June 30, 2021, would not include PRF on the related SEFA. HHS also provided the following in the OMB 2021 Compliance Supplement to describe the SEFA reporting requirements for fiscal years ending on or after June 30, 2021.

Entity Fiscal Year End	What is included on the SEFA?
Before 6/30/2021	No PRF
Beginning On 6/30/2021 through 12/30/2021	Total expenditures and lost revenues from the Period 1 report submission to the PRF Reporting Portal
Beginning On 12/31/21 through 6/29/22	Total expenditures and lost revenues from BOTH Period 1 and Period 2 report submissions to the PRF Reporting Portal
Beginning On 6/30/22 or after	SEFA reporting guidance related to Period 3 and Period 4 to be provided at a later date in the 2022 Compliance Supplement

The following scenario illustrates the resulting SEFA presentation using the tables above:

A PRF recipient with a June 30, 2021 fiscal year-end has received \$3,000,000 in total PRF funding since April 2020. This funding was received as follows:

1. \$2,000,000 in April 2020 (Period 1); and
2. \$1,000,000 in July 2020 (Period 2).

Assume that the entity had incurred \$3,000,000 in expenditures and lost revenue by June 30, 2021, which includes some expenditures and lost revenue from the prior period (for example, from the fiscal year ending June 30, 2020) and some expenditures and lost revenue from the current period (e.g., fiscal year ending June 30, 2021).

- The recipient would report \$2,000,000 in expenditures and lost revenue on the June 30, 2021, SEFA, which includes expenditures and lost revenue from the prior period (for example, from the fiscal year ending June 30, 2020).
- It is expected that the \$1,000,000 in expenditures and lost revenue will then be reported on the June 30, 2022, SEFA (which will also include prior period amounts (for example, from the fiscal year ending June 30, 2021)).
- Therefore, both the June 30, 2021 and the June 30, 2022 SEFAs will include expenditures and lost revenues from the prior period (for example, from the fiscal years ended June 30, 2020 and June 30, 2021, respectively).

The amount of prior period expenditures and lost revenues versus current year expenditures and lost revenues to be included on a PRF recipient's SEFA will be dependent on the facts and circumstances of each situation.

Differences Between Portal Reporting and Audited Financial Statements

The issuance of HHS PRF reporting guidance led to questions about how an auditor can meet the single audit requirement to report on the SEFA in relation to the audited financial statements (an in relation-to opinion), in accordance with AU-C § 725, *Supplementary Information in Relation to the Financial Statements as a Whole*, when expenditures and lost revenues included on the SEFA do not relate to the same period as the financial statements (that is, they are out-of-period amounts). An auditor can report on a SEFA with PRF funding in relation to the audited financial statements when some of the SEFA amounts relate to amounts reported in an entity's prior fiscal year financial statements.

There are many situations in practice where the SEFA and financial statements do not align exactly. For example, it is common for some entities to prepare the SEFA on the cash basis of accounting, which results in timing differences between the basis of accounting and the financial reporting framework used to prepare the audited financial statements. In those cases, the auditor may provide an in-relation-to opinion on the SEFA as long as the schedule can be reconciled back to the underlying accounting and other records used in preparing the financial statements or to the financial statements themselves, and as long as the other conditions and requirements of AU-C § 725 are met.

Applicability of Compliance Audit Questions Per DHHS

A non-profit corporation can include the expenditures of federal awards of its for-profit subsidiary in its Single Audit. Uniform Guidance permits a for-profit subsidiary to be included in the Single Audit, as long as the for-profit subsidiary's operations are included in the

consolidated financial statements and program expenditures are included in the Schedule of Expenditure of Federal Awards (SEFA). The inclusion of the for-profit subsidiary in the consolidated entity's Single Audit would meet the for-profit entity's responsibility for an audit under 45 CFR § 75.501(i).

If a for-profit corporation has multiple subsidiaries that are consolidated for financial reporting purposes, and some of the subsidiaries also report separately, the for-profit entity can fulfill the 45 CFR § 75.501 audit requirements by having one financial-related audit of all HHS awards in accordance with GAGAS that incorporates all entities that are consolidated under Generally Accepted Accounting Principles (GAAP).

If multiple for-profit entities under common control issue combined financial statements, each of the for-profit entities can fulfill the 45 CFR § 75.501 audit requirements by having one financial-related audit of all HHS awards in accordance with GAGAS that incorporates each of the entities.

OMB Memo M-21-20

Both commercial organizations and non-federal entities are granted a six-month extension to the submission of audits that have a fiscal-year end through June 30, 2021. As a reminder, audits are due 30 calendar days after receipt of the audit report or nine months after the end of the audit period – whichever is earlier.

On March 19, 2021, the Office of Management and Budget (OMB) Memo (M-21-20) extended the deadline for Single Audit submissions to six months beyond the normal due date, and on October 28, 2021, HHS granted the same extension to commercial organizations.

The following are highlights from the memo:

- *Single Audit Submission Extension:* Recipients and subrecipients that have not yet filed their single audits with the Federal Audit Clearinghouse as of March 19, 2021, that have fiscal year-ends through June 30, 2021, have a six-month extension beyond the normal due date for the completion and submission of the single audit reporting package. Recipients and subrecipients must maintain documentation of the reason for the delayed filing. Although a six-month extension was provided, the "30 calendar days after receipt of the auditor's report" aspect of the single audit due date continues to apply.

- *For-Profit Recipient Guidance.* For purposes of ARPA implementation, federal awarding agencies are expected to follow the requirements as directed by OMB in 2 CFR part 200 for financial assistance awards to for-profit organizations to the maximum extent authorized by law. It states that agencies should consider whether single audit or some other audit is most appropriate for for-profit entities.
- *Higher Risk Program Identification.* Federal agencies are required to perform a risk analysis for ARPA programs and request OMB to designate any higher risk programs as single audit major programs. OMB will use the 2 CFR Subpart F Compliance Supplement to notify auditors of compliance requirements that should be tested for ARPA programs.
- *Waivers, Flexibilities, and More.* Encourages federal agencies to provide various waivers and flexibilities to reduce burden for federal financial assistance. There is also a strong emphasis on transparency of spending and performance.

What Internal Control Policies Does a Company Need Related to Federal Funding?

Management should develop and review policies and procedures for internal controls in place over federal funds received and gain an understanding of applicable compliance requirements. There are 12 basic compliance requirements; however, not all of the requirements listed below will be applicable for a given major program. Entities need to ensure they understand the specific requirements applicable to each federal award received.

Compliance requirements:

1. Activities Allowed or Unallowed
2. Allowable Costs/Cost Principles
3. Cash Management
4. Eligibility
5. Equipment and Real Property Management
6. Matching, Level of Effort and Earmarking
7. Period of Performance
8. Procurement, Suspension and Debarment
9. Program Income

10. Reporting

11. Subrecipient Monitoring

12. Special Tests and Provisions

Steps to Take When Receiving Government Assistance

Whether a nonprofit or a for-profit entity is receiving federal government assistance, either directly or indirectly, the following are important steps to take:

1. Talk with their accountants about preparing for the possibility of being audited and make sure they have the necessary documentation.
2. Keep and protect appropriate supporting documentation.
3. Make sure to retain copies of any signed agreements.
4. Retain remittances and documentation as it relates to payments to vendors for services received.
5. Understand where the money came from, what the source of those funds is, who the funding agency is.
6. Consult the appropriate OMB Compliance Supplement, where organizations can look up specific federal assistance programs and find out the requirements – even if not subject to Single Audit.
7. Make sure that your staff and yourself are properly trained.

Department of the Energy For-Profit Entity Audit Requirements

The following summarizes guidance from the Department of Energy (DOE) related to Compliance Audits for For-Profit Financial Assistance Recipients per § 910.501 Audit requirements, which are not related only to pandemic government assistance:

(a) Audit required.

A for-profit entity that expends \$750,000 or more during the non-Federal entity's fiscal year in DOE awards must have a compliance audit conducted for that year in accordance with the provisions of this Part.

(b) Compliance audit.

(1) If a for-profit entity has one or more DOE awards with expenditures of \$750,000 or more during the for-profit entity's fiscal year, they must have a compliance audit for each of the awards with \$750,000 or more in expenditures. The remaining awards do not require, individually or in the aggregate, a compliance audit.

(2) If a for-profit entity receives more than one award from DOE with a sum total of expenditures of \$750,000 or more, but does not have any single award with expenditures of \$750,000 or more; the entity must determine whether any or all of the awards have common compliance requirements (i.e. are considered a cluster of awards) and determine the total expenditures of the awards with common compliance requirements. A compliance audit is required for the largest cluster of awards (if multiple clusters of awards exist) or the largest award not in a cluster of awards, whichever corresponding expenditure total is greater. The remaining awards do not require, individually or in the aggregate, a compliance audit;

(3) If a for-profit entity receives one or more awards from DOE with a sum total of expenditures less than \$750,000, no compliance audit is required;

(4) If the for-profit entity is a subrecipient, 2 CFR 200.501(h) requires that the pass-through entity establish appropriate monitoring and controls to ensure the sub-recipient complies with award requirements. These compliance audits must be conducted in accordance with 2 CFR 200.514 Scope of audit

(c) Program-specific audit election. Not applicable.

(d) Exemption when Federal awards expended are less than \$750,000.

A for-profit entity that expends less than \$750,000 during the for-profit's fiscal year in DOE awards is exempt from DOE audit requirements for that year (except as noted in § 910.503 Relation to other audit requirements) but records must be available for review or audit by appropriate officials of the Federal agency, pass-through entity, and Government Accountability Office (GAO).

- (e) Federally Funded Research and Development Centers (FFRDC).

Management of an auditee that owns or operates a FFRDC may elect to treat the FFRDC as a separate entity for purposes of this Part.

- (f) Subrecipients and Contractors.

An auditee may simultaneously be a recipient, a subrecipient, and a contractor. Federal awards expended as a recipient are subject to audit under this Part. The payments received for goods or services provided as a contractor are not Federal awards. Section 2 CFR 200.330 Subrecipient and contractor determinations should be considered in determining whether payments constitute a Federal award or a payment for goods or services provided as a contractor.

- (g) Compliance responsibility for contractors.

In most cases, the auditee's compliance responsibility for contractors is only to ensure that the procurement, receipt, and payment for goods and services comply with Federal statutes, regulations, and the terms and conditions of Federal awards. Federal award compliance requirements normally do not pass through to contractors. However, the auditee is responsible for ensuring compliance for procurement transactions which are structured such that the contractor is responsible for program compliance or the contractor's records must be reviewed to determine program compliance. Also, when these procurement transactions relate to a major program, the scope of the audit must include determining whether these transactions are in compliance with Federal statutes, regulations, and the terms and conditions of Federal awards.

- (h) For-profit subrecipient.

Since this Part does not apply to for-profit subrecipients, the passthrough entity is responsible for establishing requirements, as necessary, to ensure compliance by for-profit subrecipients to DOE Federal award requirements. The agreement with the for-profit subrecipient should describe applicable compliance requirements and the for-profit subrecipient's compliance responsibility. Methods to ensure compliance for Federal awards made to for-profit subrecipients may include pre-award audits, monitoring during the agreement, and post-award audits.

The annual compliance audit report(s) must be submitted to DOE within the earlier of thirty days after receipt of the auditor's report(s) or nine months after the end of the audit period (Recipient's fiscal year-end). The compliance audit report must be submitted, along with audited financial statements (if applicable), to the appropriate DOE Contracting Officer and the DOE Office of the Chief Financial Officer (CFO).

Unless prohibited by law, the costs of compliance audits made in accordance with the provisions of the regulations are allowable charges to DOE Federal awards. The charges may be considered a direct cost or an allocated indirect cost, as determined in accordance with the provisions of the Federal Acquisition Regulation (FAR) Part 31, or other applicable cost principles or regulations. No audit costs may be charged to DOE Federal awards when compliance audits required by Regulation 2 CFR 910.501 have not been performed, or have been performed, but not in accordance with the regulations or this guidance.

CFO.GOV

Priority Areas

Policies & Guidance

Knowledge Sharing

JFMIP

FRPC

CXO Fellows

HHS
Commercial
Organization

An organization, institution, corporation, other legal entity that is included, but not limited to a partnership, a sole proprietorship, a limited liability corporation, but the goal is that it's organized or operated for the profit or benefit of owners or shareholders.

Compliance Requirements

Audit and
potential SEFA
plus separate
reporting

Requirements
likely kick in 2021
year ends

Compliance Supplement

	Payment Received Period (Payments Exceeding \$10,000 in Aggregate Received)	Deadline to Use Funds	PRF Portal Reporting Time Period	Schedule of Expenditures for Federal Awards (SEFA) Reporting
Period 1	April 10, 2020 to June 30, 2020	June 30, 2021	July 1, 2021 to September 30, 2021	Fiscal Year End (FYE) of June 30, 2021 through June 29, 2022
Period 2	July 1, 2020 to December 31, 2020	December 31, 2021	January 1, 2022 to March 31, 2022	FYEs of December 31, 2021 through FYEs June 29, 2022
Period 3	January 1, 2021 to June 30, 2021	June 30, 2022	July 1, 2022 to September 30, 2022	Guidance will be included in 2022 Compliance Supplement
Period 4	July 1, 2021 to December 31, 2021	December 31, 2022	January 1, 2023 to March 31, 2023	Guidance will be included in 2022 Compliance Supplement

No extension but a grace period for the first period

OMB Memo M-21-20

Provided a 6 month extension for
audit submissions for fiscal years
ending June 30, 2021



Internal Controls

Look to 2021 OMB Compliance Supplement
for internal controls over compliance with
grant requirements

GROUP STUDY MATERIALS

A. Discussion Problems

1. Describe what a Single Audit is and who is required to get one.
2. Discuss what the Compliance Supplement is.
3. Discuss the differences between a financial statement audit under Generally Accepted Government Auditing Standards (GAGAS) and a Single Audit.

B. Suggested Answers to Discussion Problems

1. A Single Audit is an audit of a non-federal entity that expends \$750,000 or more of federal assistance during its fiscal year. The audit is conducted under Subpart F of the Office of Management and Budget's (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). There are two main parts of a Single Audit: an audit of the financial statements and a compliance audit of the entity's major federal award programs. The compliance audit of the entity's major programs includes gaining an understanding and testing internal controls over compliance and testing compliance with the applicable requirements for each major program.
2. Annually, OMB issues a Compliance Supplement detailing the compliance requirements for each assistance listing. The OMB issues an annual Compliance Supplement which discusses compliance requirements and provides suggested audit procedures for several federal award programs. The Compliance Supplement is the primary source for identifying compliance requirements for federal programs. Auditors will use the Compliance Supplement, in conjunction with professional judgment, to determine which of the 12 types of compliance requirements may have a direct and material effect on each major program.
3. A financial audit under GAGAS will vary from a single audit in a few key ways:

GAGAS Financial Audit

- A financial statement audit in accordance with generally accepted auditing standards (SASs) and generally accepted government auditing standards (GAGAS or Yellow Book) is required.
- The commercial organization's consideration of federal awards is limited to all DHHS awards (not just PRF) to meet DHHS audit requirements.
- A statement of costs (including lost revenue) would be issued in accordance with reporting guidance per DHHS, which may be a basis of accounting different than what is recorded in the audited financial statements.

- Follow AU-C 205, *Consideration of Laws and Regulations in an Audit of Financial Statements*.
- The auditor would issue a report under *Government Auditing Standards* (Yellow Book or GAGAS) on compliance with contracts and agreements and internal control over financial reporting.
- The auditor would only be required to report findings, if applicable, in the GAGAS report.
- Disclosures should include summary of significant accounting policies and any loss contingencies relevant to government assistance.

Single Audit

- A financial statement audit in accordance with generally accepted auditing standards (GAAS) and *Government Auditing Standards* (GAGAS or Yellow Book) is required.
- Under a Single Audit, consideration would need to be given to all federal awards expended by the commercial organization (both HHS and other federal awards).
- A Schedule of Expenditures of Federal Awards (SEFA) would be issued as a required supplemental schedule to the audited financial statements.
- Issue an in-relation-to opinion related to the SEFA.
- The auditor would perform a compliance audit of the entity's major federal programs in accordance with the Uniform Guidance, which includes testing of the entity's internal controls over compliance.
- Use the applicable OMB *Compliance Supplement* to plan and perform the compliance audit.

The auditor would issue a Schedule of Findings and Questioned Costs in accordance with Uniform Guidance, regardless of whether any findings were noted.

PART 3. SMALL BUSINESS

Subsequent Events

Subsequent events need to be evaluated by management to determine if measurement or disclosure in the financial statements are necessary. There are two types of subsequent events—recognized and disclosed. Events occurring before the financial statement date that are confirmed after year end or result in an estimable amount after year end may be recognized, while events that occur after year end that may have a material impact on the financial statements may result in disclosure.

For more on what these events may be and how to reflect them in the financial statements, let's join Kurt Oestrieher, CPA and a partner with Oestrieher and Company in Alexandria, Louisiana, and CPE Network's Debi Grove Casey.

Ms. Grove Casey

So today we want to talk a little bit about subsequent events and I know the authoritative guidance is in the Accounting Standards Codification Topic 855. Did you want to talk about that a little bit?

Mr. Oestrieher

Yes. This is one of those that it was a few years ago now, but growing up earlier years, if you will, in the profession, this is something that was in the auditing standards that eventually the FASB looked at that and said, you know what? These are footnote disclosure issues. These are not audit issues. It's informative disclosures in some cases. And then in some cases, we use this information to determine, well, should we actually book something? So all the guidance now is in the FASB codification. And so if you're issuing financial statements and United States GAAP is your applicable financial reporting framework, this is where you go. But we have a very interesting issue for people that are using something like income tax basis of accounting, which I know many small businesses use income tax basis, the guidance, as far as whether or not you accrue something is not applicable.

But remember if you're doing income tax basis financials with full disclosures and some entities do that, then you need to use the disclosure portion of this. So the first thing I want to make sure is that we all understand that these are U.S. GAAP standards. We're talking about always applicable. If the financial statements are in accordance with U.S. GAAP, but then some of this is going to be applicable. The disclosure part, if you're doing income tax basis, financials. And first of all, what is a subsequent event? A subsequent event is different from subsequent discovery of facts in both auditing and review guidance. We talk about

subsequent discovery of facts, which are things that might have come to the attention of the reviewer or the auditor. And that had that reviewer auditor been aware of that information when they were performing their review or audit procedures, then they may have done something else or issued a different report.

Those are facts. These are events. So what is a subsequent event? It is a condition or something that happens, an event that happens, after the balance sheet date, but before the financial statements are issued and we have that term available to be issued and issued pretty much as the date of either the compilation, the review, or the audit report. So if there are things that happen within that time period, which I guess is usually two to maybe two and a half months. Sometimes people get their financial statements out a little bit quicker. Those are the issues that we're talking about here today. And when you're looking at subsequent events,... this condition or event is either going to lead you to recognize something, and we call those recognized events, or you're not going to recognize it, but you might disclose it. So that's kind of the context when we're talking about what exactly is a subsequent event.

Ms. Grove Casey

So let's talk about the difference between a recognized event and non-recognized events, because some require measurement and some are just disclosures. Like you mentioned that it, the type of basis of accounting that they're using, would we end up recognizing some things under one basis and not necessarily recording it under another?

Mr. Oestrieher

Right. Well, for, for recognized events, this is when information an event, or something happens. They say circumstances or event conditions or events that happen

that now it provides additional evidence, information, whatever you want to call it, that an asset or liability should be recognized or should not be recognized as of the balance sheet date. So the next thing that we're going to talk about that not recognized that stuff that Hey, even it happened, but no way would it affect, let's just use December 31st as the example, the financial statements. Let's assume we have a calendar year company, but a recognized event is, I had some sort of a contingency or some sort of an unknown item and management did not know whether or not to book it. While sometimes these things could be a revenue and expense at the same time, usually it impacts the balance sheet.

In other words, it is an accrual of some sort or something that you haven't accrued and that you need to accrue. So if a condition or event occurs and you go, whoa, wait, the underlying circumstances were there at December 31st, and now I know the resolution, so now I know what I need to accrue. And of course the classic example, they actually have this in some of the examples in the Codification is the settlement of a lawsuit. So you have an entity out there and they have a lawsuit and someone is suing them. It's not a gain contingency. It's a loss contingency. And of course you get the attorney letter or you talk to the attorneys and they say, oh, it's remote. We're going to win this thing. We're going to blow 'em out of the water. So you look at the guidance for contingencies and because management and their counsel believe it's remote, they don't do anything with it.

You don't even disclose it, or they might say that it's reasonably possible. So now they're just going to disclose the fact that there are lawsuits out there, but they're not going to accrue it. And by the way, one of the things I've learned in litigation, anything is reasonably possible in litigation. So anytime someone says, it's remote that you're going to either win or lose a lawsuit. I say, eh, you haven't seen juries the way that I've seen especially in a recent memory, on some cases that I've assisted with. So most people go with the reasonably possible and they disclose this out there and life goes on, but let's say it's March 13th is the date that you're probably going to sign the audit report. And let's just assume this is an audit, but please understand this applies to any set of financial statements under U.S. GAAP, whether you're disclosing or not, even compilations without disclosures.

When you're talking about recognized events, this standard could apply. So I don't care if it's a compilation, review, or an audit. Let's say the date you

are anticipating is going to be March 13th. And on March 9th, the company enters into a settlement and pays \$85,000 to settle that lawsuit. Okay. This is now a recognized event because the conditions and events that gave rise to the lawsuit were in existence as of December 31st through whatever alleged misdeeds you had done. They had already happened, and it doesn't matter that you're settling the lawsuit. You still say, look, I didn't admit liability. I'm just doing this to save future litigation costs. And, this is a question that has actually come up at a CPE course one time, and it was a really good question. Someone said, we're denying. We don't think that the conditions or events that happened are the reason we're settling this. We're settling this because we're trying to save \$150,000 of future legal fees by paying \$85,000 now. So the motive behind what we're doing is for future periods, not what's happened in the past, should we accrue it?

That's probably one of the top five questions I've ever been asked in a CPE course because it means someone was thinking. And, so I said, that's such a great question. I'm going to look at the background and basis of conclusions and see if I can see something I thought you should say. What I found was that there's no definitive guidance on it. The way I interpreted that situation was, I called on my conservatism in accounting and said, but you never would've paid that. Had it not been for whatever you were alleged to have done wrong and the lawsuit existed as of December 31st. Now, if the lawsuit would've been filed after December 31st, and I doubt you would ever have a file of a lawsuit and a settlement in that short a period of time. But maybe there's more of an argument there, but I told the class that day and then, and I emailed and followed up later once had had a chance to research that, I do believe it was settlement of the lawsuit. So I think you should accrue it. But again, it, it was a great question and it showed that somebody was thinking.

Ms. Grove Casey

At least they were listening.

Mr. Oestricheer

Yes, at least they were listening, but it wasn't after lunch. Usually people sleep after lunch, but lawsuits are the classic example. But, there's some other things out there, especially in light of COVID and the Cares Act. A lot of questions came up on PPP loan forgiveness. And so, the question was there's some people that said, okay, I'm going to keep that loan on the books until I get forgiveness and get the little letter from the SBA,

from my bank that said it's forgiven. And there's still some people out there that still have round two PPP loans that they're still waiting for forgiveness on because they had the full 24 weeks, and then they had 10 months as we're taping this. There's still some people out there that have these PPP loans.

So the question is, so let's say you have December 31st financials and that PPP loan of let's say \$200,000 is on your books and on February 11th, which is after the date of the financial statements, but before the date you issue the financials, let's say they're not expected to be issued until late February or early March that you actually get that PPP loan forgiveness. So is this a recognized event? There the FASB was like, look, there's other guidance out there. They weren't about to issue specific standards on this issue. There's also a lot of good stuff that you could read at the AICPA website. And the conclusion I came up with by taking my existing knowledge of all these things is the conditions and events that were there at December 31st where you had obtained the SBA loan and if your 24-week period was up or eight-week period, whatever period you elected, you had finished that period. You complied with everything that was necessary to get 100% loan forgiveness. Then I believe once it's recognized or once it's given in February, that is a subsequent event that now you go in and pick up that nontaxable income. Again, it doesn't matter nontaxable, not from GAAP, but go ahead and get that loan off your books, because that is a, to me a very clear example of a subsequent event that now solidifies or gives you the final resolution of a contingency, which in this case, it was the contingency of the forgiveness of PPP loan. As of the balance sheet date, you have resolution of tax uncertainties. And of course, one of the biggest tax uncertainties you have right now is employee retention credit. A lot of my clients are getting a lot of pressure from nonCPA sources to be filing to get their fair share of the employee retention credit.

And there are these advisory companies again, which are not CPAs and are more than happy to do this for a contingency fee, I've seen a range between 10% and a third, but I can tell you that those companies are taking an extraordinarily liberal view of exactly what qualifies for employee retention credit as it comes to government orders or government orders or the supply chain, how it affects people on the supply chain. That's probably a whole other course for a whole other day somewhere, but the question is, if you file that 941X, okay, is that something, is that subsequent event, something that you

should go now book for 2021, because you're saying, Hey, I'm amending my 2021 financials, but what year should that go in? Or should it go in the year that the expenses were incurred, which is the salaries that are subject that qualify for the credit, right? Or should it be the year that you receive it? And again, if information comes to your attention between December 31st and the date you issue the financial statement where management now decides, Hey, am I going to go ahead and file my amended 941X? The question is, is that the event, or do I have to wait until the IRS tells me? And, again, no definitive guidance out there. The filing is a subsequent event, and that's something that, because this is such a huge dollar amount for some people it's definitely material. It might go into the non-recognized, which we're about to discuss. So it's tax uncertainties and it may not be just employee retention credits, but it's not just lawsuits. That's the most common example out there for recognized events or lawsuits, but it is any event or condition that now solidifies or makes clear management's estimate or not accrual, if you will, of an asset or liability that now you say I have all the information I need, so I'm going to accrue it. That is what we have as a recognized event.

Ms. Grove Casey

Well, you mentioned the non-recognized events, and we talked about the need for disclosure already, but let's talk about what kinds of evidence about conditions, what's our other situation here, right? So we have a situation that occurred before the balance sheet date, and then we get more information confirming what happened in terms of an amount that we then have to recognize. But then we have these other events that we're not actually putting a number on the balance sheet, but we still need to tell people about it.

Mr. Oestrieher

Yes, it's the non-recognized event. So these are the things that are significant. In other words, the conditions and events did not exist at the balance sheet date, but something happens after the balance sheet date that is of significance and importance that it would enhance a user's conclusions about the results of operations or the financial position of the company. And the FASB actually [has] been working on its disclosure framework and you are starting to see more information there, say, folks, look, we give y'all minimum required disclosures, but it's minimum. Remember, disclosures are used by users of the

financial statements, so let's inform them. So if you have things like you issue stock, you have a major acquisition of a company, there's a natural disaster, that's something we're used to in Louisiana, of course, fortunately for us, most of our hurricanes come in August and September, we've issued our year end financials. But if you have a June 30th year end a couple of times we've had hurricanes mentioned as a subsequent event down here, but it could be a fire, could be something like COVID 19. I think that was probably the greatest worldwide example in other countries besides the United States that use U.S. GAAP because it was about in early March when people started saying, wait a second, this thing's real. So we saw a lot of subsequent event disclosures on COVID 19. And, of course, management was saying, and we're not sure how this is going to impact us, and of course, everyone was putting it in there, but I think any astute user of the financial statements by the time they got those financial statements understood A) COVID 19 was here; and B) there were some pretty drastic government intervention programs within the form of tax credits and vast mandates and things like that.

So it could be a significant contract. Let's say that you guarantee the debt, you increase your guarantee on the debt of a related company. Well, that's something that people would want to know if you have a \$2 million guarantee, and now you have a \$4 million guarantee. So any significant actions that have happened that would impact or influence... a user's conclusions, those are significant events. And we're probably about to get into this when we talk about the procedures, but remember, for these things, that means there was no debit or credit,... we always tend to look at the general ledger when we're preparing financial statements to see where is the information coming from, but we have to be cognizant of these events that would happen. And again, it depends on your role. Some people here might be part of management and they're issuing the financial statements. Some people here might be in public accounting if they're auditing, reviewing, or compiling those financial statements. So those are the type two things. We have subsequent events, things after the balance sheet date, before the date of the issuance of the financial statement, and then you have your recognized and your non-recognized events.

Ms. Grove Casey

Well, before we look at the procedures, did you want to talk a little bit about the disclosures and what's required there?

Mr. Oestricheer

Sure. We hit on some of this and again, on the disclosures there, first of all, and everyone has this disclosure. Now, even if you have no subsequent events, everyone discloses the date to which the entity is evaluated to determine if there are subsequent events that need to either be accrued or disclosed, but then when you have recognized subsequent events, in other words, those things that you made a journal entry form the nature of the event, and I've seen this commonly, but looking back over the Codification, it actually isn't explicit in there, but generally people will say, Hey, this is where it impacted the financial statement. We now have a long-term liability. We have a current liability. It impacted earnings. So just where in the financial statements did you record this item? And again, when you talk about the nature of the event it should be enough so that a reader of the financial statements, who's not a member of management or not a member of governance understands enough background information to know that either this was a lawsuit and the lawsuit was filed in whatever court, the date it was filed, the date it was settled, and the amount it was settled for in broad terms of the settlement, such as this is it, there's no more appeals, those are the type things we're looking for with the nature of the event. Then for things that aren't lawsuits such as, widespread things, we saw examples of things from COVID or if it's a tax uncertainty maybe that it was resolved in Tax Court, or resolved with the IRS settlement. Just the nature of it, so people can understand the finality of this subsequent event.

Now, if it is a non-recognized subsequent event, obviously now you don't have to direct them to the financial statements, and where are the financial statements elements that were impacted because you don't record it. So then you just go to, again, the same nature of the event, all the things that we just discussed there, but an estimate of the financial impact of it. And then, this is where you always get into the interesting discussions with management or folks on my side of it, on the audit team, okay, well, what's the range? Trying to get an attorney, if it's a lawsuit, to give an estimate of the range you need some Novocain to pull some teeth to get that out sometimes, but generally management will come [up with an estimate.]

Ms. Grove Casey

And it's still the broad side of a barn.

Mr. Oestricher

Yes, well, you know how much they're asking for generally, not generally, it should be most of the time when they file a lawsuit they say the damages that they're seeking. So you have a ceiling, so somewhere between zero and that amount, but if you cannot make a reasonable estimate, then you just disclose that you cannot make a reasonable estimate. And, I think that is the most common language that I see in these types of disclosures. I don't think it's people kicking the can down the road, but when you're talking about litigation or IRS issues, things like that, then it is hard to make a reasonable estimate. However, on the PPP loan, if it has not been forgiven by the time you've issued them, you can still say, we reasonably estimate that the amount will be forgiven. We've applied for full forgiveness and we expect it. So it depends on the nature of the subsequent event as to, I think, exactly what language you would have here.

Ms. Grove Casey

Let's talk a little bit about review procedures.

Mr. Oestricher

Look at this from the side of your CPA in public practice, what do I need to do as it relates to subsequent events? Well, obviously the two primary things that we perform in reviews are inquiries and analytical procedures, and understand there's an overarching principle within our review standards that we do not need to obtain evidence to support management's response to inquiry. That's why we provide limited assurance instead of reasonable assurance. So you're going to make inquiries of management, do you have any of these? And it should be a candid conversation. It is a standard inquiry in every review out there, but sometimes we have to explain just as we went through the last 15 or 20 minutes, making sure management understands what is a subsequent event, especially if they do not have CPAs in house.

Then the representation letter, those are the two things that we get. And if there are significant subsequent events out there I have seen representation letters where they detail the subsequent events that will be disclosed. So they'll say that there are no other subsequent or no subsequent events other than these noted below, and then you would have C or D whatever you would have from a subsequent event standpoint. So those are the very limited procedures you're going to have in a review. You don't have to go back and do a lot of the

things that we're about to talk about from an audit perspective, but inquiries and analytical procedures are what you're going to do in a review. I guess I should also mention if it's a compilation with full disclosures, then remember you don't have to do any particular procedures, but often when we are the accounting firm for our company, and we're performing a compilation with full disclosures, often, even our independence is impaired with those clients because we're doing a lot of the background accounting. So when you read the financial statements, if you happen to be aware of a significant subsequent event, and often you do because the clients, a lot of times, fortunately the first person they call when they have something that would be considered a subsequent event is their CPA, and you see that, they're not disclosed, well then, Hey, I read the financial statement. I know this subsequent event happened. So you have an obligation to talk to management about putting it in there. And again, often your independence is impaired because you're the one that's writing the financial statements anyway, but that doesn't mean you still get to skip over it. So you would have that disclosure in a compilation, but you don't have to do any procedures to become aware of them or even ask the client. You don't have to make inquiries, but if you are aware of it, then make sure it's disclosed in a compilation.

Ms. Grove Casey

Well, and now we're going to talk about the other end of the spectrum there, and that's an audit, right? And so since we have a different level of assurance with an audit than we do with a review or compilation, obviously, we do more work. And when we do more work, we typically have more procedures. So let's talk about the procedures that we perform in an audit.

Mr. Oestricher

There's actually been some recently issued auditing standards, SAS 134, which actually dealt with the audit report, it's become the redheaded stepchild, but there's some great stuff in there about auditing disclosures. And again, if you have a subsequent event, whether it's recognized or not recognized, there's going to be a disclosure. So you have to perform procedures to determine if the disclosures are properly stated and that they have all of the disclosures. So it is a completeness of disclosure assertion that we're concerned with. So again, just like we have in a review, you're going to make management inquiries. Management's there every day. You're not there every day. So you're going to have

management inquiries and you're going to have the representation letter. So we start with where we are in the review, but there are other procedures that we can do scanning transactions beyond year end. So on those accounts where there are major rules. So if there's a big general journal entry in January or February, and you see a big accrual of something, well, then you're going to ask management, what are you accruing? Oh, well that's that whole asbestos thing that's been going on for years? Huh? Okay. That something should trigger in your head subsequent event or you see some other unusual transactions. So skimming general ledger transactions, even reviewing financial statements. So if the company's issuing monthly financial and you see an expense that's really standing out or an item of an income, that's really standing out, that's now being recognized in January or February, you would want to make inquiries. So scanning subsequently issued financial statements is a big thing that you'll do in an audit. And then also reading the minutes of governance meetings, whether you have a board of directors, obviously this is a little bit easier when you have a not for profit or a privately held company that actually has an active board.

Now the privately held companies that don't have an active board, typically they don't have board meetings. So you do not have this particular procedure that it will provide any meaningful audit evidence to you. So now you're basically relying on management inquiries and the representation letter, and also the legal representation letter is another area where you might obtain information on subsequent events because the attorney might say, Hey, this was settled, and management did not tell you of the settlement. Maybe it was an oversight. Most people know when lawsuits are settled. But you also, when you're out there performing the audit, you might just hear things. We always want to keep our eyes and ears open in an audit. I was recently assisting in a project. And I want to say there was over seven or eight individual subsequent events that were disclosed by a company because they were expanding their operations. They were acquiring subsidiaries. They were increasing their debt. They were doing things that had a substantial impact on the company moving forward. None of them were related to lawsuits. There was no lawsuit settlement, but it showed a tremendous shift in the focus of the company, on how they were going to grow and the type of business activities they were going to undertake that could have either very good or very bad consequences, depending on how well those decisions played out. So

those are the type things that you would want to look at. It was a pretty long subsequent event. They had about five, six months between the date, the balance sheet date and the date the financial statements would be issued.

So please, we want to remind everybody that the subsequent event footnote is not just the date in which you did it through, even though that's the most common one, you see. That's the minimum you have to do. There should be an evaluation. If you're in management, you should be prepared to perform that evaluation to inform, if you have an outside auditor, or reviewer, or compiler, that firm of the conclusion that you reach, and if you are a public practice, depending on the level of service, you need to be prepared to perform the appropriate procedures to support the type of report that you're issuing.

SUPPLEMENTAL MATERIALS

Subsequent Events

by Kurt Oestrieher, CPA

Introduction

Subsequent events are events that occur subsequent to the balance sheet date but before the financial statements are issued or available to be issued. It is important that the accountant understand the requirements of the Accounting Standards Codification related to subsequent events when the accountant is responsible for the financial statements or has been engaged to prepare, compile, review or audit financial statements in accordance with accounting principles generally accepted in the United States.

Authoritative Guidance

ASC 855 provides the guidance for subsequent events when preparing financial statements in accordance with Accounting Principles Generally Accepted in the United States. When preparing financial statements in accordance with a Special Purpose Framework, ASC 855 should be consulted in the Special Purpose Framework does not contain guidance related to subsequent events. The two most common frameworks that would fall in this category would be the income tax basis of accounting and the cash or modified cash basis.

Subsequent events are broadly characterized as recognized subsequent events and non-recognized subsequent events.

Recognized subsequent events

When the subsequent event provides evidence about conditions that existed at the balance sheet date, the information should be used to adjust the financial statements as of the balance sheet date. The following are examples of issues that may exist at the balance sheet date, but sufficient evidence does not allow for accrual until a date subsequent to year end:

- Settlement of litigation
- Resolution of tax uncertainties
- PPP loan forgiveness

The most common type of recognized subsequent event related to contingencies. Loss contingencies are not recorded until the amount is probable and can be

reasonably estimated. Reporting entities are hesitant to book such liabilities, and the grey areas of “probable” and “reasonably estimated” are often cited as reasons not to book accrued liabilities for contingencies. However, if the uncertainties surrounding the contingency are resolved prior to issuance of the financial statement, such losses are now probable and the amount can be reasonably estimated because the amount is known.

In addition to measuring the asset or liability related to the subsequent event, management must also provide disclosures related to the event. The disclosures are discussed in a later section.

Non-recognized subsequent events

Events that occur subsequent to the balance sheet date, but before the financial statements are issued, that do not provide evidence of conditions that did not exist at the balance sheet date are considered to be non-recognized subsequent events. Examples of such events are:

- Issuance of stock
- Business combinations
- Disaster losses
- Significant contracts
- Global pandemic

Because these types of events do not provide evidence of conditions that existed at the balance sheet date, no recognition of these events will be recorded. However, such events shall be disclosed due to their significance, and such disclosure requirements are discussed in the next section.

Disclosure Requirements

Date through which subsequent events have been evaluated

All entities are required to disclose the date through which subsequent events have been evaluated. This is the date the financial statements are issued or available to be

issued, and will typically coincide with the date of the audit, review, or compilation report if such a report is issued. In the rare circumstance that financial statements are subject to a preparation engagement under AR-C 70 and also contain disclosures, the date the financial statements are issued would be used. There is no report in a preparation engagement, therefore, the only reference to the date would be in the disclosure itself.

Example 1

Note 9. SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 23, 2022, the date on which the financial statements were available to be issued. There were no subsequent events to disclose.

Recognized Subsequent Event

The nature of the event and the underlying facts that existed both at the balance sheet date and events subsequent to the balance sheet date shall be disclosed. If not obvious on the face of the financial statements, the elements of the financial statements that were impacted as a result of recording the subsequent events should be disclosed, as well as the amounts recorded.

Example 2

Note 9. SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 23, 2022, the date on which the financial statements were available to be issued. The following subsequent event occurred.

The Company was a defendant in a lawsuit that was filed in 9th Judicial District Court in Louisiana on May 4, 2020. The Company vigorously defended the claims and believed that it would prevail at trial. However, due to the cost of defending the lawsuit and the uncertainties of a jury trial, the Company entered into a formal settlement agreement with the Plaintiff on January 29, 2022. The settlement agreement stated that the Company did not admit to any fault. The Company agreed to a settlement amount that exceeded the insurance policy deductible of \$100,000. The company had previously paid \$65,500 in costs related to the lawsuit and paid the remaining \$34,500 under the deductible on January 29, 2022. The \$34,500 was accrued as of December 31, 2021 and is reflected on the balance sheet as accrued claims payable.

The \$34,500 of expense was included in general and administrative expenses as claims expense, along with \$32,000 of expenses incurred and paid during 2021 as a result of the lawsuit.

Example 3

Note 7. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 16, 2022, the date on which the financial statements were available to be issued. The following subsequent event occurred.

The Company received a Round 2 PPP loan on May 7, 2021 in the amount of \$475,000. The company spent the funds on amounts that were allowable for loan forgiveness, and filed for loan forgiveness on January 6, 2022. The Small Business Administration approved the application for loan forgiveness on February 4, 2022. The covered period for the Company ended in the fiscal year December 31, 2021, and all requirements for loan forgiveness had been met as of December 31, 2021. The Company also recorded \$3,097 in accrued interest expense on the loan. Therefore, the Company recognized loan forgiveness as of December 31, 2021 and reflected the \$478,097 in loan forgiveness as other income of the Statement of Income. The note payable and accrued interest were removed from the balance sheet as a result of the recognition of the loan forgiveness as of December 31, 2021.

Non-recognized Subsequent Event

Subsequent events that do not provide evidence of conditions that did not exist at the balance sheet date should disclose the nature of the event, and an estimate of its financial effect on the Company. If such an estimate cannot be made, a statement to that effect should be included in the disclosure.

Example 4

Note 11. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 22, 2022, the date on which the financial statements were available to be issued. The following subsequent event occurred.

The Company maintains warehouses in Oklahoma and Kansas. On February 21, 2022, an F4 tornado destroyed the largest warehouse of the company in Enid,

Oklahoma. The total square footage of warehousing space lost was 18.5% of the total capacity of the Company. The loss was insured, but the Company expects to pay the full \$100,000 deductible of the policy. The losses that will occur as a result of the reduction in warehouse capacity for an indeterminable amount of time have not been determined.

Review Procedures

When performing a review engagement, an accountant is required to obtain sufficient appropriate review evidence as a basis to provide a conclusion in the Accountant's Review Report. Review procedures are limited to inquiry and analytical procedures and the management representation letter.

Analytical procedures typically will not provide review evidence related to subsequent events, therefore, the accountant will rely on inquiries of management and the management representation letter. The accountant may also become aware of subsequent events through consultation with the client on other matters, such as income tax preparation.

Audit Procedures

An auditor is required to obtain sufficient appropriate audit evidence that will allow the auditor to provide an opinion on the financial statements, therefore it is expected that procedures in an audit will be more comprehensive than in a review engagement. However, because subsequent events are not necessarily recorded in the accounting records, significant challenges may be present for an auditor.

The auditor will initially rely on inquiries of management and the management representation letter to obtain evidence about subsequent events. In addition to these procedures, the auditor will typically perform the following:

- Scanning accounting records subsequent to year end
- Reading minutes of governance meetings
- Obtain a legal representation letter
- Inquiry of board members when there is an independent board

Summary

Financial statement disclosures may be of equal, or sometimes, more relevance to the users of financial statements than the statements themselves. Subsequent events provide unique challenges to the preparer of the financial statements as well as the accountant that may be providing a compilation, review, or audit report. A clear understanding of United States GAAP disclosure requirements related to subsequent events is necessary so that the accountant may properly perform duties.

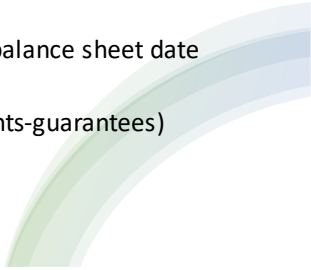


Authoritative Guidance – ASC 855

Recognized Events

- Evidence about conditions that existed at the Date of the Balance Sheet
- Settlement of litigation
- Resolution of tax uncertainties
- PPP Loan Forgiveness

Non-recognized events

- Evidence about conditions **that did not** exist at the balance sheet date
 - Issuance of stock
 - Business combination after the balance sheet date
 - Losses due to disasters
 - Significant contracts (commitments-guarantees)
- 

Disclosures

Date through which subsequent events are evaluated

Recognized subsequent events

- Nature of the event
- Elements of the financial statements impacted by the recognition

Non-recognized subsequent events

- Nature of the event
- Estimate of its financial effect, or statement that an estimate cannot be made.

Review procedures



Inquiries of management



Representation letter

Audit procedures

- Management inquiries
- Representation letter
- Scanning transactions subsequent to year end
- Reading of minutes of governance meetings

GROUP STUDY MATERIALS

A. Discussion Problems

1. Discuss recognized subsequent events.
2. Discuss non-recognized subsequent events.
3. Discuss disclosure requirements related to subsequent events.

B. Suggested Answers to Discussion Problems

1. When the subsequent event provides evidence about conditions that existed at the balance sheet date, the information should be used to adjust the financial statements as of the balance sheet date. The following are examples of issues that may exist at the balance sheet date, but sufficient evidence does not allow for accrual until a date subsequent to year end:

- Settlement of litigation
- Resolution of tax uncertainties
- PPP loan forgiveness

The most common type of recognized subsequent event is related to contingencies. Loss contingencies are not recorded until the amount is probable and can be reasonably estimated.

2. Events that occur subsequent to the balance sheet date, but before the financial statements are issued, that do not provide evidence of conditions that did not exist at the balance sheet date are considered to be non-recognized subsequent events. Examples of such events are:

- Issuance of stock
- Business combinations
- Disaster losses
- Significant contracts
- Global pandemic

Because these types of events do not provide evidence of conditions that existed at the balance sheet date, no recognition of these events will be recorded. However, such events shall be disclosed due to their significance.

3. All entities are required to disclose the date through which subsequent events have been evaluated. This is the date the financial statements are issued or available to be issued, and will typically coincide with the date of the audit, review, or compilation report if such a report is issued. In the rare

circumstance that financial statements are subject to a preparation engagement under AR-C 70 and also contain disclosures, the date the financial statements are issued would be used. There is no report in a preparation engagement, therefore, the only reference to the date would be in the disclosure itself.

GLOSSARY OF KEY TERMS

ARPA—American Rescue Plan Act

Cares Act—The Coronavirus Aid, Relief, and Economic Security Act, also known as the CARES Act, is a \$2.2 trillion economic stimulus bill passed by the 116th U.S. Congress and signed into law by President Donald Trump on March 27, 2020, in response to the economic fallout of the COVID disease.

Commercial Organization—an organization, institution, corporation, other legal entity that includes, but is not limited to a partnership, a sole proprietorship, a limited liability corporation, that is organized or operated for the profit or benefit of owners or shareholders.

Contract Asset—an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditional on something other than passage of time.

Contract Liability—an entity's obligation to transfer goods or services to a customer for which the entity has already received consideration from the customer

DHHS—Department of Health and Human Services

Nonfederal Entity—a state, local government, Indian tribe, institution of higher education (IHE), or nonprofit organization that carries out a Federal award as a recipient or subrecipient.

SEFA—Schedule of Federal Awards

Single Audit—previously known as the OMB Circular A-133 audit, is an organization-wide financial statement and federal awards' audit of a non-federal entity that expends \$750,000 or more in federal funds in one year. It is intended to provide assurance to the Federal Government that a non-federal entity has adequate internal controls in place, and is generally in compliance with program requirements.

Strike Price—the price at which a put or call option can be exercised.

Subsequent Events—an event that occurs after a reporting period, but before the financial statements for that period have been issued or are available to be issued.

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BY SPEAKER

Speaker	Month	Speaker	Month
Russ Madray	Jan-Feb, May-Jun	Kurt Oestrieher	Jan-Mar, May-Jun
Jennifer Louis	Jan, Mar, May-Jun		

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

1. According to Russ Madray, which of the following provides a practical expedient related to the current price input of equity-classified share-based awards?
 - A. ASU 2021-07.
 - B. ASU 2021-08.
 - C. ASU 2021-09.
 - D. ASU 2021-10.

2. According to Russ Madray, the guidance provided on equity-classified share-based awards uses the characteristics provided in which of the following?
 - A. ASC Topic 606.
 - B. Treasury Regs related to IRC §409A.
 - C. Treasury Regs related to IRC §401K.
 - D. Treasury Regs related to IRC §160.

3. According to Russ Madray, which of the following ASUs relates to discount rates for lessees under ASC 842?
 - A. ASU 2021-07.
 - B. ASU 2021-08.
 - C. ASU 2021-09.
 - D. ASU 2021-10.

4. According to Russ Madray, the discount rate practical expedient for nonpublic business entity lessees under ASC 842 provides for which of the following?
 - A. The risk-free rate election to only be done at the entity-wide level.
 - B. The risk-free rate election by class of underlying asset.
 - C. The risk-free rate election by lease.
 - D. The risk-free rate election by asset.

5. According to Russ Madray, the accounting guidance recently released on disclosure related to government assistance is found in which of the following Accounting Standards Codification sections?
 - A. Topic 606.
 - B. Topic 750.
 - C. Topic 832.
 - D. Topic 958.

Continued on next page

6. According to Jennifer Louis, single audit uniform guidance is focused on which of the following?
 - A. Federal agencies receiving more than \$500,000 in federal awards.
 - B. Federal agencies passing through more than \$500,000 in awards to subrecipients.
 - C. Non-federal entities expending more than \$750,000 in awards or assistance in a year.
 - D. Nonprofits receiving more than \$750,000 in awards over a 5-year period.
7. According to Jennifer Louis, which of the following provides important annual guidance to an entity that may be subject to a compliance audit?
 - A. SASs.
 - B. OMB Compliance Supplement.
 - C. Yellow Book.
 - D. Green Book.
8. According to Jennifer Louis, which of the following websites provides guidance indicating if an assistance listing is within the scope of single audit?
 - A. OMB.gov.
 - B. GAO.gov.
 - C. SBA.gov.
 - D. CFO.gov.
9. According to Jennifer Louis, as defined by DHHS, an organization, institution, corporation, other legal entity that is included, but not limited to, a partnership, a sole proprietorship, a limited liability corporation, but has the goal of being organized or operated for the profit or benefit of owners or shareholders, is which of the following?
 - A. A commercial entity.
 - B. A nonprofit entity.
 - C. An agency.
 - D. A quasi-governmental entity.
10. According to Jennifer Louis, DHHS compliance requirements will kick in for for-profit hospitals and health care providers for the first time with calendar year-ends for which of the following year-ends?
 - A. June 30, 2021.
 - B. June 30, 2022.
 - C. December 31, 2021.
 - D. December 31, 2022.
11. According to Kurt Oestrieher, the disclosure guidance on subsequent events is found in which of the following?
 - A. ASC Topic 450.
 - B. ASC Topic 605.
 - C. ASC Topic 855.
 - D. ASC Topic 860.

Continued on next page

12. According to Kurt Oestrieher, things that might have come to the attention of the reviewer or the auditor, and that had that reviewer/auditor been aware of that information when they were performing their review or audit procedures, then they may have done something else or issued a different report, is which of the following?
- A. Subsequent discovery of facts.
 - B. Subsequent events.
 - C. Recognized events.
 - D. Disclosed events.
13. According to Kurt Oestrieher, when an event occurs prior to an entity's year end that would result in a loss, but resolves after year end but prior to the release of the financial statements and the financial statement impact is estimable, management should do which of the following?
- A. Record the amount of the loss plus a 10% cushion in the financial statements.
 - B. Recognize the amount in the financial statements.
 - C. Only disclose the event in the footnotes.
 - D. Only disclose the event in the financial statements.
14. According to Kurt Oestrieher, when conditions or events that did not exist at the balance sheet date have a significant impact, on an entity, management should do which of the following?
- A. Accrue for the estimated loss.
 - B. Disclose the non-recognized event.
 - C. Disclose the recognized event.
 - D. Contact the entity's attorney.
15. According to Kurt Oestrieher, in a compilation with full disclosures related to subsequent events, which of the following is required?
- A. Inquiries.
 - B. Analytical procedures.
 - C. Examination of tax returns.
 - D. Disclosure of known subsequent events.

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

How would you rate the topics covered in the June 2022 **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
FASB Update	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Audit Issues for Businesses Receiving Government Assistance	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Subsequent Events	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

Which segments of the June 2022 issue of **CPE Network® A&A Report** did you like the most, and why?

Which segments of the June 2022 issue of **CPE Network® A&A Report** did you like the least, and why?

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

How would you rate the effectiveness of the speakers in the June 2022 **CPE Network® A&A Report**? Rate each speaker on a scale of 1–5 (5 highest):

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

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

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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 ☐ _____

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CHECKPOINT LEARNING NETWORK

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REVISED SEPTEMBER 3, 2021

Welcome to CPE Network!

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

This User Guide has the following sections:

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

IMPORTANT: This User Guide outlines in detail what is required for each of the 3 formats above. Additionally, because you will be delivering the training within your firm, you should review the Sponsor Responsibilities section as well. To get certificates of completion for your participants

following your training, you must submit all the required documentation. (This is noted at the end of each section.) Checkpoint Learning Network will review your training documentation for completeness and adherence to all requirements. If all your materials are received and complete, certificates of completion will be issued for the participants attending your training. Failure to submit the required completed documentation will result in delays and/or denial of certificates.

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

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

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

Copyrighted Materials

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

“Group Live” Format

CPE Credit

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

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

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

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

Advertising / Promotional Page

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

Monitoring Attendance

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

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

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

Real Time Instructor During Program Presentation

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

Elements of Engagement

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

Make-Up Sessions

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

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

Awarding CPE Certificates

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

Subscriber Survey Evaluation Forms

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

Retention of Records

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

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

Finding the Transcript

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

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

Requesting Participant CPE Certificates

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

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

Email: CPLgrading@tr.com

Fax: 888.286.9070

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

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

Incomplete submissions will be returned to you.

“Group Internet Based” Format

CPE Credit

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

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

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

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

Advertising / Promotional Page

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

Monitoring Attendance in a Webinar

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

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

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

Examples of polling questions:

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

Additional Notes on Monitoring Mechanisms:

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

Real Time Moderator During Program Presentation

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

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

Make-Up Sessions

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

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

Awarding CPE Certificates

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

Subscriber Survey Evaluation Forms

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

Retention of Records

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

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

Finding the Transcript

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

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

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

Requesting Participant CPE Certificates

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

Mail: Thomson Reuters
PO Box 115008
Carrollton, TX 75011-5008
Email: CPLgrading@tr.com
Fax: 888.286.9070

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

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

Incomplete submissions will be returned to you.

“Self-Study” Format

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

Self-Study—Print

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

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

Thomson Reuters
PO Box 115008
Carrollton, TX 75011-5008

Self-Study—Online

Follow these simple steps to use the online program:

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



the answer company

THOMSON REUTERS

CHECKPOINT LEARNING

Contact Us



Sign In or Register

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Need to get up to speed on
new revenue standards?

We can help.

Virtual Conference: Nov. 13 – 14

Register Now

Move forward

Checkpoint Learning provides training and tools to keep you and your team up to date and looking forward in an industry full of change and opportunity.



Webinars

Fit learning into your schedule with instructor-led webinars ranging from one to eight hours.

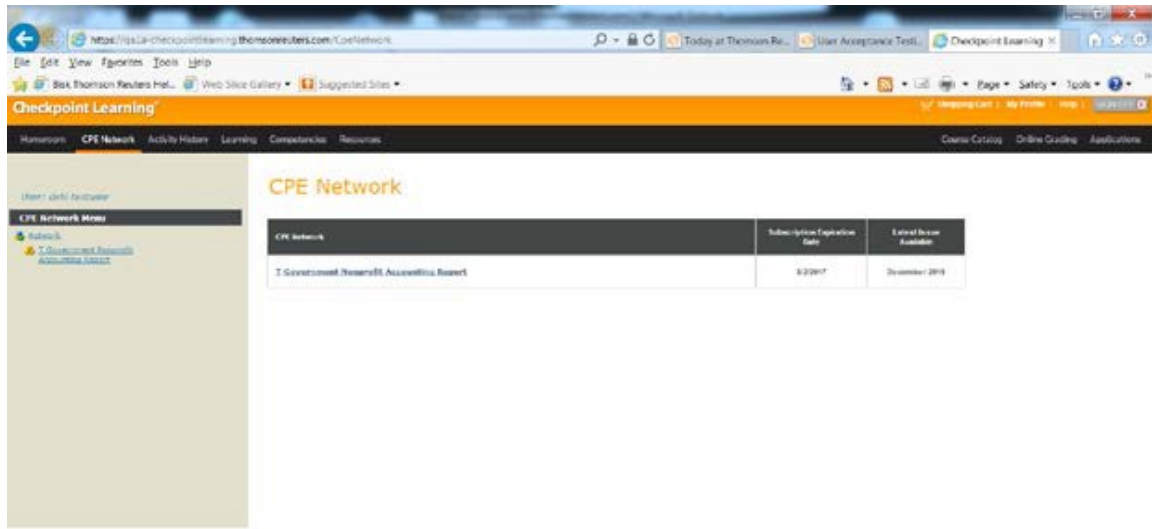


Seminars and conferences

In-person networking, dynamic instructors, nationwide locations plus vacation destinations.

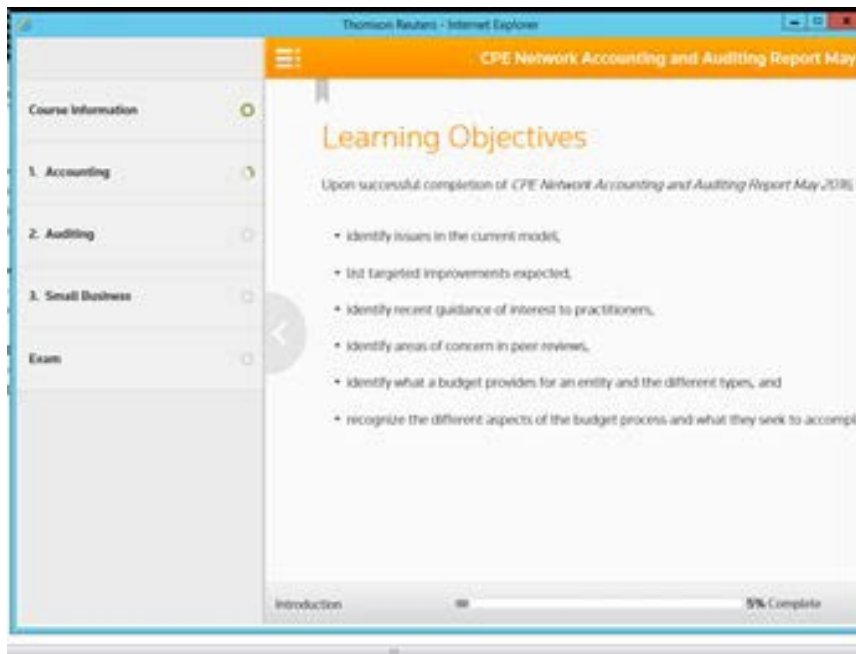


- In the **Network** tab, select the Network Report for the month desired.



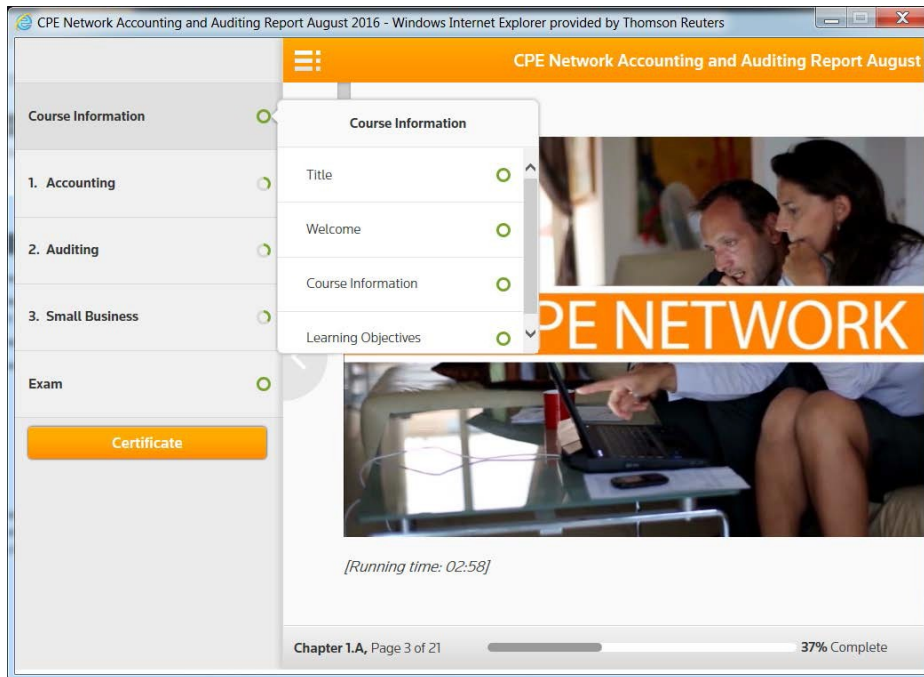
<https://go1a-checkpointlearning.thomsonreuters.com/CpeNetwork/CpeNetworkDetails/Page?SubscriptionId=177994>

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

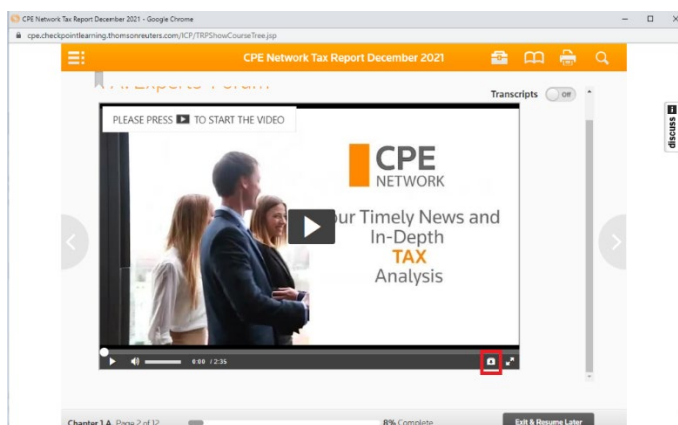


Click down to access the dropdown menu and move between the program Chapters.

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



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



Video segments may be downloaded from the CPL player by clicking on the download button.

Thomson Reuters - Internet Explorer

CPE Network Accounting and Auditing Report May 2016

Transcripts ☒

Chapter 1 Liabilities and Equity: Another Look at the Model

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

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

Ms. Grove Casey

Today, we want to talk a little bit

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

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

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

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

Transcripts ☒

Chapter 1 Liabilities and Equity: Another Look at the Model

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

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

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

CHAPTER 1: ACCOUNTING

Liabilities and Equity: Another Look at the Model

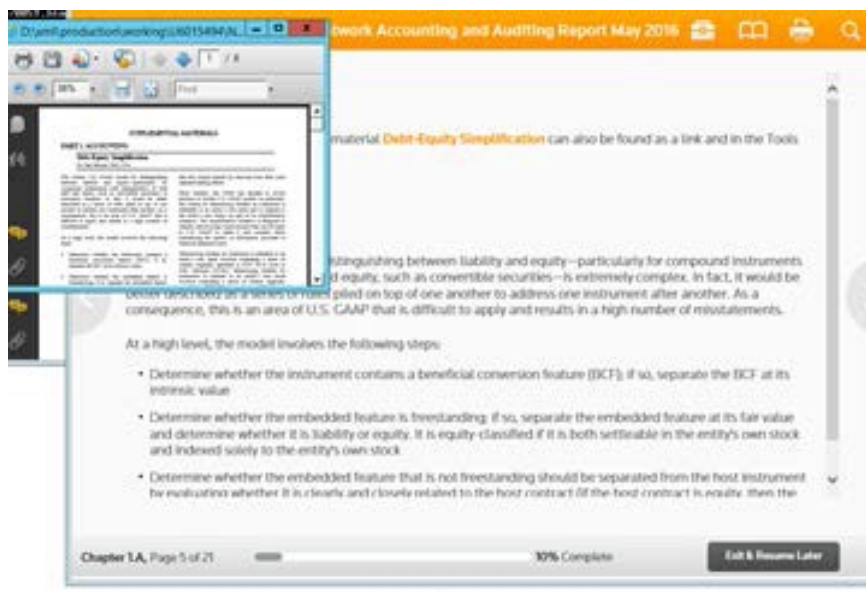
Both the FASB and the AICPA have targeted improvements to the guidance related to liabilities and equity instruments. The current debt-equity model in U.S. GAAP is very complex, making it difficult for both preparers and accountants to implement.

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

Ms. Grove Casey

Today, we want to talk a little bit

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



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

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

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

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

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

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

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

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

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

You have completed the exam for this course.

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

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

Review My Answers

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

Grade My Answers

The footer shows "Course, Completed", a progress bar at 100% Complete, and an "Exit & Resume Later" button.

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

Additional Features Search

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

Search Results are displayed with the number of hits.

Print

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

What Does It Mean to Be a CPE Sponsor?

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

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

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

CPE Sponsor Requirements

Determining CPE Credit Increments

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

Program Presentation

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

information available in advance:

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

Disclose Significant Features of Program in Advance

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

Monitor Attendance

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

Real Time Instructor During Program Presentation

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

Elements of Engagement

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

Awarding CPE Certificates

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

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

Seminar Quality Evaluations for Firm Sponsor

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

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

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

Retention of Records

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

- Record of participation (the original sign-in sheets, now in an editable, electronic

signable format)

- Copy of the program materials
- Timed agenda with topics covered and elements of engagement used
- Date and location of course presentation
- Number of CPE credits and field of study breakdown earned by participants
- Instructor name(s) and credentials
- Results of program evaluations

Appendix: Forms

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

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

Getting Help

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

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