

**CERIFI CPE NETWORK**

# ACCOUNTING & AUDITING REPORT

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## EXECUTIVE SUMMARY

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### AUDIT & ACCOUNTING PART 1

#### Efficiency in Review Engagements..... 4

Review engagements continue to serve as an important level of assurance for small and mid-sized entities, yet many firms struggle with inefficiencies and excessive procedures. This course explores practical methods to streamline review engagements while maintaining compliance with SSARS standards and delivering limited assurance effectively. *[Running time: 47:45]*

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

- Distinguish the scope and assurance level of review engagements under SSARS from compilations and audits, including procedures not contemplated in a review.
- Apply efficiency strategies in review engagements, including early financial statement preparation, separation of bookkeeping services, and intentional analytical procedures.
- Evaluate when additional audit-like procedures and materiality considerations are appropriate in response to identified risks of GAAP departures during a review.

### AUDIT & ACCOUNTING PART 2

#### Analytical Procedures in Review Engagements ... 17

In this session, Kurt Oestrieher explains how review engagements provide limited assurance and rely heavily on inquiry and analytical procedures rather than extensive audit testing. This segment highlights how CPAs can strengthen review quality and efficiency by performing meaningful analytical procedures, developing well-supported expectations, and using predictive tests to identify potential financial statement departures. *[Running time: 48:12]*

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

- Identify the purpose of analytical procedures within review engagements and their role in providing limited assurance under SSARS.
- Apply required analytical procedures, including prior-period comparisons and disaggregated revenue testing, using well-developed expectations.
- Evaluate when additional inquiries or audit-like procedures are necessary based on analytical results and potential framework departures.

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## AUDIT & ACCOUNTING PART 3

### FASB Guidance on Government Assistance ..... 30

Businesses may receive government assistance through grants, forgivable loans, or tangible assets, yet historically lacked specific GAAP guidance for accounting and disclosure. This course reviews the new FASB standards for government grants, including recognition thresholds, measurement approaches, and required disclosures designed to reduce diversity in practice. [*Running time: 46:24*]

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

- Identify the scope, purpose, and recognition threshold of the new FASB guidance for government grants received by business entities.
- Distinguish between the deferred income approach and cost accumulation approach for accounting for government grants related to tangible assets.
- Apply disclosure and repayment considerations required under Topic 832, including treatment of forgivable loans and grant contingencies.

## ABOUT THE SPEAKERS

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

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

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

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### AUDIT & ACCOUNTING PART 1

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#### Efficiency in Review Engagements

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In this segment, Kurt Oestriecher discusses how review engagements often become unprofitable when practitioners mistakenly perform audit-level procedures. He emphasizes that reviews provide limited assurance and are primarily based on inquiry and analytical procedures. Efficiency improves when firms review financial statements early, separate bookkeeping as a non-attest service, limit review team members to experienced personnel, and avoid unnecessary corroborating evidence. Predictive analytical tests are highlighted as powerful tools, especially for revenue. The session also addresses the appropriate use of audit procedures only when departures are suspected and explains how planning materiality under SSARS-25 should inform but not dominate review judgment.

#### Mr. Oestriecher

Hello and welcome to another presentation in the CeriFi series on A&A topics and today we're going to talk about efficiencies in review engagements. My name is Kurt Oestriecher. I've been practicing for roughly 40 years now with a local firm in Alexandria, Louisiana. And in addition to obviously my practice and lecturing and writing on this topic, I was able to spend four years many, many years ago, actually 25 years ago, I served on the Accounting and Review Services Committee of the AICPA.

That's the committee that actually writes the SSARS. It's not as well known as the Auditing Standards Board. And back then, we wrote SSARS-10, which was the first major rewrite of the review standards since SSARS 1 had been issued back in the late 1970s. And so that was about a 23-year time span. And here we are roughly 23 years later, looking at review engagements and there have been some major changes, obviously, when the clarified standards came out. And then with SSARS-25, some major changes to the review report. And the common thread through the 45 plus years that we've had review engagements is practitioners are trying to decide, well, where does this fit between a compilation and a review? Is it an audit? Is it like a mini audit? Is it a super compilation? Where is it?

And it's a good question and I've had various opinions from practitioners that I've discussed with this and CPE courses and other opportunities in my career. And I've kind of vacillated between the two. But ultimately, when you think of a review, the way I like to think about it when you say, where does it land on the spectrum of assurance? It's actually a little bit closer from a standards perspective to a compilation because compilation and review engagements are written as SSARS from the Accounting and Review Services Committee and audits, those standards are written by the Auditing Standards Board.

So from a pure standards perspective, the argument is, okay, they're closer to compilations. But from an assurance argument, we provide limited assurance. In an audit, we provide reasonable assurance. So there's some assurance in both a review and an audit, but just lower level.

And of course, there's no assurance in a compilation engagement. And we're not talking about preparations here. I want to focus on the three engagements where the CPA actually issues a report. So that's the struggle that we've always had. Well, they're written by the company review standards, but there's some assurance involved. What are we supposed to do? And our firm struggled with that for years. I don't want to say struggle. We just did like most people. Our audit work paper or review work papers, rather, looked somewhat similar to audit work papers. We had a lot of evidence.

Now, we didn't have planning. We didn't have the general file that you would see in an audit. We didn't do risk assessment. We didn't have anything about internal controls. But when you look at the work papers and the procedures that we performed in a review to get what we believed would achieve limited assurance, it looked very similar to what you would see in an audit.

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And not surprisingly, we had lot of discounts on reviews because people that were paying us for the review said, well, this isn't an audit. So we don't expect the fee to be anywhere close to an audit. And remember, no one voluntarily has reviews. No one ever just walks into a CPA firm and says, please review me.

No, it's always a bank, a bonding company, regulatory agency maybe the legislative auditor based on your revenue size for a governmental entity, they say, yeah, you're going to have a review. And so because this is just, for lack of a better word, a burden on your client and one that they may not appreciate, the fact they're not even getting an audit, they want you just to get in and out of there, get it done as cheaply as possible so they can get their loan, they can get their bond they can comply for regulatory requirements, whatever their purpose was.

But again, I've never had in 40 years of practice, someone just saying, yes, I want limited assurance that my financial statements are in accordance with an applicable financial reporting framework, which of course would usually be GAAP. So we in our firm had to figure this out because we do a lot of reviews and way back when, 30 plus years ago, we picked up a couple of clients that had a lot of reviews.

The demographics of the area that I live in from a business standpoint lends itself to a lot of smaller businesses where banks or bonding companies don't necessarily need audits, but that review was a great fallback for them because they wanted some level of assurance. So we're like, if we're going to swim in this pool here in central Louisiana, we better learn the rules. And we did this and I'm kind of explaining my journey as to why I decided we even needed to be more efficient in review engagements.

When I became partner in this firm, I became partners immediately promoted to partner in charge of accounting and auditing, which should tell you something. It was less about my knowledge in the area, but more about the fact that the other two partners were more tax-oriented people and we needed to designate someone as the A&A partner.

And since that's an area that I gravitated to and they never could figure out why I could like this sort of stuff because there were more tech people. At some point they just said, look, let's make Kurt a partner and we'll cut his pay, make his increase in pay contingent on bonuses, which he has to grow the firm. He'll have more responsibility, less pay, and he'll have to sign on the debt. And it sounded like a good idea to me. So I took it and became partner in charge of A & A.

And our managing partner, let me know before our first partners meeting that I attended as a full partner in the firm. I was obviously going to be privy to financial data now that I had never before been made available. Obviously, the partners are going to see that type of information. And while I knew that we had some discounts because I'd been in some billing discussions, the managing partner let me know that, Kurt, what you're to find in our A&A world that our back office accounting is very profitable, very little discount, and that's right up compilation. Our audits are pretty good, but reviews, yeah, we get hammered. It's the least profitable part of our firm. And I know you, you're going to try to fix this. You can't fix it, okay? And so I went to the meeting and saw the gory details of the discount rates we had in reviews, and then something dawned on me that evening in my office because our managing partner, I had known him before I came to work here. He was my scout master and boy scout.

And I was a senior patrol leader for three terms for 18 months. And he learned that one of the ways to motivate me is to tell me I couldn't do something. I'm one of those strange people. If you tell me can, okay, that's fine. But if you tell me I can't do it, I'm going to prove you wrong. So I walked down to his office and we all call him Mr. O. That is what our managing partner had always been called.

I called him Mr. O, but after five o'clock I called him Dad. So he obviously knew me from that perspective also. And I said, look, you really want me to look at this. You're doing your Jedi mind tricks from when you were my scoutmaster and other times in my youth when you were trying to motivate me. And he chuckled and he said, yes, I have played mind games with you, but that's when you were a boy. You're a man now, you're 29 years old, you're responsible. I don't need to play tricks, you do your job well. Trust me, you're not going to be able to solve this. It's just a cost of doing business. But remember, our variable costs are nothing, so we still make money on this. We don't really pay overtime for anybody to do these things. It's just the way we do it.

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And so I left his office absolutely convinced now that he wanted me to look at this. And that is the genesis of this course, and it's the genesis of when I lecture about compilation and reviews out there, when we're on the chapters about reviews, I want to explain our journey and what I did to figure out a way to perform review engagements, be cost effective or should say discount effective with them and follow standards.

And the first thing I realized they needed to do was read the standards. That was a tremendous aha moment for me in the development of my career because up until that point, like most people, when I went to work for a small local firm, when I had to do tax research, they said, Kurt, don't go read the tax code. It's impossible to read. We have these third party practice aids, CCH, RIA, y'all know them all. And back then we had books in the library. It wasn't electronic in 1986. And, he said, that's how you find out about the tax code. That we pay a lot to this subscription service. Well, the same thing for review or compilation or audit. Don't go read the standards. We have a third party practice aid that we pay a lot of money.

We have all these books and binders and they explain a lot of stuff and they have all these worksheets. So really our compilation and review report should have said, we have compiled these financial statements in accordance with this third-party practice aid and we hope it's in accordance with SSARS. They didn't say that, but it might as well.

So rather than just look at these third-party practice aids and look at what we'd historically done in our firm, I said, I'm going to read the standards. And I'm going to see what those standards require, what do we have to do? And we use the term review evidence now. We did not use it back then. The word evidence did not exist in review literature because evidence was reserved for audits where we provide reasonable assurance. We now use the term review evidence and just define it as those things we do in a review and engagement in order to obtain limited assurance.

Back then we did not use that term, use the term review procedures. And when I finished reading at the time, it was AR 100, and there's a section of AR 100 that was reserved for the things that we had to do in a review. And there's a couple of observations. The first one was, man, this is short. This did not take me long. And the second observation was, why are we doing all these work papers when the standards not only don't contemplate the standards specifically state that you don't do certain things in a review that you would otherwise do in an audit.

And since that time, we've actually incorporated that language in both the engagement letter and the review report, where it says that a review is substantially less in scope than an audit. Not a little bit less in scope, substantially less in scope than an audit. And a review does not contemplate things such as observation, confirmation, inspection, recalculation, and other procedures ordinarily performed in an audit.

Yet if you looked at our review documentation back 30 years ago, you would see that we would vouch certain additions to fixed assets. We would recalculate depreciation. And we did not observe inventory. We didn't confirm bank accounts or receivables, but we did a lot of other audit-like procedures.

And I'll tell you one thing for certain, and it is still very common in many practices today, we had everything tied to the balance sheet. And this is something we all know. Every item on a balance sheet is reported as a point in time. And there is some sort of a schedule or reconciliation that can tie to everything. A bank reconciliation, a prepaid insurance schedule, a depreciation schedule, an amortization schedule, subsidiary schedule for receivable, inventory count.

Everything can be supported by a work paper. And so we had those in there. And sometimes it was as simple as tying this supporting schedule to the trial balance, but that is still a comparison for something that you might see in an audit. So one of the things that I learned is we have to rethink and get rid of all of our predispositions or expectations of what a review is based on what we've historically done or what we thought we should do. And we need to recalibrate based on what the standards tell us.

And that's what we're going to talk about today. What do we do there to achieve that limited assurance? And when you look at limited assurance, our reports describe what limited assurance is, it describes, it's what I just mentioned, it is less than scope than an audit. And so we don't contemplate doing all these things.

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What are some things? I've got a few items listed and we're going to go each one individual, but this is what we're going to do. We're going to review financial statements and not trial balances because our firm was really, really good at getting a trial balance from a client, making the necessary adjustments, performing inquiry and analytical procedures on the trial balance. And then we were finished with that. We were satisfied and then would write financial statements. Well, folks, the review should be on the financial statement. So we're going to talk a little bit about that.

We're going talk about bookkeeping procedures and how we segregated those out of our review. If we knew that a client needed us to help clean up their books at the end of the year, and we'll talk about the independence rules when we get to this more on this topic, but when we knew that they needed that, we did that as a separate engagement. We did not do that as part of the review. We limit the number of accountants on the review team. Where an audit might have two, three, four, depending on the size company you have, or much more than that, obviously for larger companies.

Review engagements should typically have one person and we'll talk about the skill set of that one person. We need to utilize predictive tests when we talk about analytical procedures. A lot of people just think of ratios or comparisons, but predictive tests are powerful analytical procedures that can help us. We're going to talk about avoiding audit procedures and some traps that our firm got into and how we would do those and when we would in fact justify performing an audit procedure. I'm not saying don't do them, but it should only be in circumstances that are very specific that you should perform audit procedures. And we're going to talk about materiality. That's something fairly new. Came about with SSARS-25, where we now had to calculate or determine a planning or preliminary materiality for review engagements. And we're going talk about how that encompasses or how we incorporate that in getting efficiency for our review engagements.

So that first major topic about reviewing financial statements trial balance, not trial balances. Here were the shortcomings of only focusing on the trial balance. Remember, GAAP, there has three, what I would call basic subsets. There are measurement GAAP issues, presentation GAAP what financial statements are presented and how is the information presented, and disclosure, the footnote. If all you're focusing on is the trial balance, you're only focusing on measurement GAAP issues.

What about disclosure GAAP? What about presentation GAAP? What about how should things be presented on current versus non-current assets and liabilities? Put no disclosures and concentrations. And the reason we weren't very efficient with this is because like most people, we were typically close to a deadline when we were wrapping up a review. And so if you're finishing assisting the client in running the financial statements, just one to two days before the review report is due, you had to ask yourself, well, what have I really done from an inquiry standpoint on presentation issues and disclosure issues? And I'll tell you the answer is, for our firm, it usually was not a lot.

Often we don't need additional inquiries on disclosures, but when you're going through your disclosure checklist, maybe a couple of bells go off in your head and you go, I really need to ask about this. And so, we want to do that earlier on in the engagement. So we need the financial statements earlier on in the engagement. So what do we do? Now I'm going to talk about the client where you have to do bookkeeping a little bit and where we would back up there. Fortunately, a lot of our review clients have highly competent in-house personnel. And even more fortunate, they are a sub-S corporation or a partnership. So we don't even have to worry about a tax accrual. And on some of these clients, I have literally for years had no adjustments to their financial statements.

So that is my expectation when I initially meet with the client and make a few basic inquiries about the entity, because I want to understand, we have to generally understand if there's been any changes in the entity and the type of business they're doing. And if I find that everything's pretty much status quo and my knowledge of GAAP and I'm going to assume that the applicable financial reporting framework for our discussion here today for most review engagements is GAAP.

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So when I talk about GAAP departures, if you happen to do income tax basis, then we'd be talking about income tax basis. Remember, it's framework departures, not tax departures that we're designing our review increase and procedures to detect. So if I am pretty confident that we're not going to have any adjustments, I go ahead and write the financial statements at that point. We're talking way early in the engagement.

Too me, many people that seems like it is backwards would be a good way to say it. It's like, wait, Kurt, but what if you find an adjustment and you have to redo it? Well, folks, that was a problem in 1980 because that means you retyped it. And I mean, type in it on a typewriter. Nowadays, it might take five minutes to make the change. So I'm willing to risk a little bit of inefficiency that if we do find an adjustment that I don't have to go back and maybe redo the cash flow work paper, not maybe I would, and redo the financial statements and maybe just a couple of notes. I'm willing to take that risk to get the efficiency of having a set of financial statements.

And then I'm going to be doing my analytical procedures, especially my comparisons. I'm not going to be doing them at the trial balance level. I'm going to be doing them at the financial statement level. What do I mean by that? If there are seven general ledger accounts that combine make up your cash account, I'm comparing cash this year to last year and maybe the year before. I'm not worried about those individual sub and accounts. So I'm not getting into much granular detail. Now, even if it doesn't make sense for whatever reason to write the financial statements later on, I recommend doing this for you when you're doing your comparison of prior years, which is a required analytical procedure. Do it at the grouping schedule level or the group level, not the individual account level.

Another advantage to getting the financial statements printed or produced as early as possible. Now I have my statement of cash flows. And yes, that's a financial statement and it is deserving of its own inquiry and analytical procedure. There are wonderful ratios that many of y'all have seen over the years that are based on information that comes from the statement of cash flows, especially looking at the last two or three years and comparing what is the quality of earnings. If a company has earnings every year, yet they have negative cash flow from operating activities, that raises the question.

And we know companies can decrease in cash, but usually it's because, they're making money and they're reinvesting in fixed assets or they're paying owner distribution. So it's coming out of investing or financing activities. But if you're showing profits, but you got negative cash flows from operating, what does that mean? That means that you're paying down current liabilities pretty quickly. That means that you are not collecting receivables or you're growing inventory and receivables too fast.

Well, then that gives you clues of other inquiries and additional analytical procedures you may want to perform in the current asset and current liability realm because it doesn't make sense initially that a profitable company would consistently have negative cash flows from operating activities. And we don't know that if we're writing the financial statements two days before the reports do.

So, those are some advantages to having the financial statements written early. There's also just the human advantage of you're going to make fewer mistakes assisting the client in writing the financial statements. Because when you're doing this under the gun, maybe the day before it's due and maybe your review process is going through quickly, you're not going to be as sharp as you are if you're doing this two, three weeks ahead of time, ahead of the deadline meeting, you're taking your time, you're being a little bit more careful.

It's kind of a running joke in our firm that no matter how many times we read or reread a set of financial statements and do cold reads, we always seem the next year to go, how did that comma get there or how did this word get there? It's just the nature of the beast. Fortunately, these are not usually material issues.

So first and most important thing in my opinion, is to perform or review financial statements, not trial balances. Which leads to our second item that we can get for efficiencies is let's don't perform bookkeeping as part of the review engagement.

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I mentioned my wonderful clients that have great in-house CPAs that do a great job and that don't expect adjustments. I wish I could tell you that was all of my clients. I've got some clients that have bookkeepers but not trained accountants, not CPAs, and they do a pretty good job and they meet that threshold of having suitable skill, knowledge, and or experience to oversee certain non-attest services, mainly assistance with closing the books at the of the year end. And one of the very first inquiries I'll ask for that company when we engage them or when they engage us is, you know, is Aunt Jenny still your bookkeeper? Yes, Aunt Jenny's still there.

I know off the top of my bat, off the top of my head, that Aunt Jenny has coded all of the payments to Ford Motor Credit for the Ford F-250, that's an auto expense. And I know we got to reclass that to interest and reduction of depreciation. I know that she hasn't booked certain accruals for paid time off. I know that prepaid insurance is a mess. And I also know that there are going to be certain things that are in an account called Ask My Accountant. And we might have eight, 10 entries to help get, to I have to record appreciation for and help her update the depreciation schedule. We may have to accrue interest on notes. Certainly in the last couple of years, we might have to assist with 842, the lease standard.

So rather than just saying, okay, we know we'll have to do this and then have documentation and work papers in our review engagement, I sent someone to Aunt Jenny's office that is not going to be on the review engagement. I don't want to do this at my high rates, plus I don't want to be jaundiced when I start developing expectations from analytical procedures.

So I'll send Maddie or Sarah's staff out there and Aunt Jenny knows they're coming and they spend whatever time it takes and again they're helping with the client with Excel spreadsheets. All that's client documentation. It's all a non-attest service in assisting the client with the bookkeeping. And when Maddie's finished she will go over those journal entries with Aunt Jenny and she'll say, yeah, I remember you told me that last year about those payments on the note for the truck. I'll be sure and do that next year. We say, I know you will Aunt Jenny, even though we know she's not, okay? We just, she's not, that's just life, okay?

So we get past that and then we send an invoice to the client for assistance with closing the books at the end of the year. I want them to know, hey, because you hired Aunt Jenny rather than someone with a little bit more sophistication and training, it's costing you X number of dollars, which they're okay with because what they're paying in Jenny plus that is still a whole lot less than what they likely have to pay an in-house CPA. But I don't want that as part of my review engagement. So I always bill separately for any non-attest service. I bill separately for the review and I bill separately for the tax return. Because I don't want this client if they're, let's say, in the dry-cleaning business at some convention talking with one of their competitors, but we'll call them friendly competitor and they go, man, Oestriecher and Company charges me this much for my review and the person that might have clean in house bookkeeping that doesn't have as complex a tax return, go, well, you're overpaying. I want them to know what that cost is. And then of course we always will evaluate the performance of that non attest service. That gives us three non-attest services that we are performing for that client. We're assisting them with bookkeeping, we're assisting them in preparing the financial statements, and we are preparing their tax return.

And remember, was about five or six years ago that we had the requirement that when you're performing multiple non-attest services for a client, you have to evaluate the totality, even though you have individual safeguards for each of the three separately, when you combine it, have you crossed a threshold? Do you need to throw a flag on yourself? And generally, in most cases, I would say no. Now, if you're having to go out there every month and you're basically doing all the decisions and Aunt Jenny has lost it, now you might be on the other side of the line.

And I'll tell you, that's not a bad thing either. We have clients that are on that other side of that line, and we are their trusted advisor. We do their tax work, tax planning, all of that. We prepare their financial statements. We use another firm to do the review. You see that in governmental audits a lot also. So while you don't want to perform the bookkeeping as part of the review, you want to do it as a separate non-attest service, I always want to make sure that you understand that that is another item or another issue that you have to evaluate from an independence standpoint.

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And I'll tell you, more than anything, that has probably helped us because we used to have all these amortization schedules or prepaid insurance schedules in our review documentation because we knew we had to make an adjustment. So we had that in there. Well, once that's in there, well, shoot, you got to tie it to something. And it just created all this extra work. So performing that as a non-attest service has really, really helped us over the years.

The next thing we want to do is limit the number of people working on a review. In the vast majority of review engagements, one person can do it. It doesn't even make sense to have two people because it's all interrelated. The information that you glean from the client when you're performing inquiries, the information you develop from performing analytical procedures, all of that works together.

It wouldn't make sense for me to say, Sarah, you're going to go do the inquiries on the balance sheet accounts and Heather, you're going to do the inquiries on the income statement account because they're interrelated. So we assign one person to a review. Right now, every review we perform has one person that is responsible for the entire engagement and one person that reviews.

And at that point, okay, occasionally we're about to talk about if the inquiry and analytical procedures indicate you have to do audit-like procedures, maybe you get a staff involved at that point. But often that person will do it. Another thing that might shock you here, it is a very, very high-level person. It is a very experienced manager or partner that performs reviews. I still perform many reviews in our firm, even at my partnership rates. And by the way, we don't have any discounts anymore. And the reason I do not get first- or second-year staff involved is because in my opinion, it would take a very, very rare person, and it'd almost be impossible because you need the experience, to only have one year, maybe two years of experience that could identify a GAAP departure simply by doing inquiry and analytical procedures.

The learning curve, if any of y'all can remember your learning curve for your first two years, it is amazing.

We all show up within our first two months, we're ready to quit because we're like, okay, nothing that I'm doing here, I did nothing in college to prepare me for this, other than debit score on the left and credit score on the right. And we really don't even do that anymore because it's all digital. Even though the screens for QuickBooks and all still have them on the left and right, but everything else, the procedures, the analytics and all that, you don't get a lot of that in college level courses. You gain it through experience.

And so people say, well Kurt, do you allow first year staff to work on audits? Well, yeah. Audits are more serious than review. If they're smart enough to work on an audit, why aren't they smart enough to work on a review? Remember, my first-year staff are not making any decisions in an audit. They're getting assigned specific work. They're getting valuable experience, but they're not designing the procedures. They're not designing even what samples to pull. They're just comparing A to B and saying, make a note of this doesn't compare to the invoice, whatever it might be.

Whereas in a review, because you're not performing those specific procedures, it takes a certain level of skill and wisdom to be able to recognize areas where you need to make further inquiries or need to perform further analytical procedures. So you know better than I do the ability of the staff within your firm. Some people after two years, they might be seasoned enough, maybe after three. I would say once you get to the four-year level, most people, if they're committed to the profession and have the confidence, they have enough experience to perform a review.

And in our firm, you have to be a CPA. I've got some very experienced people that for whatever reason are still deciding when they're going to sit for the exam. So I don't have them do a review just from a competent standpoint or due professional care. These people do great work on audits. They do great work on tax returns. because I assigned one person, I just don't think it'd be appropriate to have an unlicensed person who's not a licensed CPA performing the vast majority of the work, no matter how good they are. So that's just something internally we do. Even though there's no prohibition, if a partner is a CPA and is willing to take responsibility and believe there's enough supervision, go for it. I'm not saying it's wrong. I'm just telling you what we do in our firm.

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So typically we have one person and it is a higher level person that is responsible for the review. And then one person which is typically a partner level, will perform the review of the engagement.

So once you look at the, what we've discussed at this point, so okay, Kurt, you got one person on there, you went and did the bookkeeping with a separate accountant, they weren't part of the review team, and now you have a set of financial statements, okay, well what do you do? Folks, now you're ready to start the review. Because remember, the two primary, and this say this in the engagement order in the report.

A review consists primarily of inquiry and analytical procedures. So now I have that financial statement and there are some standard inquiries that are in the standards. You have to ask all the financial management or other financial statements in accordance with GAAP. I thought that was funny looking and go, are they? And we go, yeah, we're pretty sure they are, but you have to be responsible for this. And so you go through those initial inquiries. There are mandatory analytical procedures where you compare prior years. Also you have to perform, analytical procedures on revenue, disaggregated to the extent the client has disaggregated information. And the trap we run into, or that our firm ran into, I can't speak for anyone else out there, we used to do so much audit-like work and tie everything down, we were very comfortable that we had identified any departures using those procedures.

And then we go, but we have to do some analytical procedures now. And so we would get our trial balance software to develop, you know, it calculates 40 ratios. Now, we weren't quite sure what they were, but we'd have them in there and look and go, yeah, it looks pretty good. And then we do a comparison to prior year. That's kind of backwards. Remember, ever since I believe it was SSARS-10, you have to develop an expectation for all of your analytical procedures. So for your comparison to prior year, your expectation, don't try to say, hey, anything over a 5% variance we need to make further inquiries. There might be a very reasonable explanation that you already know because of a 5% increase. Like if you have a health insurance plan, folks, your health insurance costs to employee benefits go up more than 5% a year. So you can make some generalities that you say you expect the trends to be similar for various years for various expense categories, whatever it might be. But there should be some thought in it. And again, you always do that after you make the initial inquiry. Every single one of our review engagements starts with a conference with our client.

I prefer to be live, but certainly people do this Zoom or phone conference. And I just update my understanding of their entity. And again, this is not like an audit, but I just want it okay. Do you have any new accounting systems? Do you have any new accounting procedures? Have you implemented any new standards? Have there been changes in personnel? You ask all these, then you start talking about the business. Have you all faced any specific pressures?

Have the tariffs impacted your business? Has other various policies impacted your business? That's what we used to help develop those expectations. And so now, instead of doing this shotgun approach and having 30 or 40 analytical procedures, we are very specific and very intentional in what analytical procedures we performed. And we really focus on predictive tests, especially for revenue. Because so many things come off of revenue growth, profit percentage, salaries as a percentage of revenues. So certainly we're going to do the comparison, but when you take this requirement to perform analytical procedures disaggregated, my favorite is a predictive test.

Folks, you can look at any CPA firm's website and if they have all their personnel up there, you can probably predict within 5% plus or minus what their revenues are. Because you know about how many hours a partner may work a year chargeable and managers and staff, and you can easily get data on what the average chargeable rates are in particular regions. Robert Hoff has that information. And I promise you, could predict a plus or minus 5%.

Restaurants, what's the average ticket per person? How many people fit in there? How many times do they turn it over? Retailers get a little bit trickier now because you have online. And we talk about disaggregated. If you have a retailer that has both in-store sales and online, that's something you'd want to look at separately because the in-store sales, well, you only have so many square feet. How often are you turning over your inventory and what's your average ticket item? So these are things, believe it or not, that interest me that I get very, very specific, no matter what it is. Hotels, how many rooms do you have times 365 days times average room rate times occupancy rate. You go on and on. So we get the revenue first.

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Then we look at gross profit percentage for retailers or manufacturers because that will obviously lead you directly to any potential issues with inventory. We'll also combine that with procedures and analytical procedures like inventory turnover and day sales and inventory. We'll also relate it to the revenue, look at day sales and accounts receivable. So all those work together. And then we'll look at very, very specific procedures or specific analyticals for interest as it relates to long-term debt, employee benefits related to total salaries, and it's going to be in those areas where there's a high dollar volume, so we get good, for lack of a better word, coverage.

I'm not going to be doing analytical procedures on dues and subscriptions and things like that, because again, I'm doing my comparison of previous year, but generally my income statement is generally in administrative expenses. Now, if you have supplementary schedules and you have a lot of detail in there, and your review report covers the supplementary schedules, then you might have to get a little bit more granular, but you're still not going to hopefully be looking at those very, very small accounts. So be very intentional with your analytical procedures and understand that this is one of the two procedures that you're going to perform that's going to lead you to where the GAAP departure might be.

The next one is inquiries. So when you're looking at inquiries and performing inquiries, certainly you're going to do the required inquiries that are in section ARC 90. They say you got to ask about these 12 or 13 items. And then if you're using third party practice aids, generally they have very good inquiries on things such as, you know, have you reconciled your bank balance? Have you tied your receivable subsidiary?

And this is where we used to fail and many firms fail. You believe that you have to get evidence to support management's answer. So if they say, yes, we reconcile the bank account, people believe, I need a copy of that bank reconciliation. Well, no, you don't. How do I know this? Because ARC 90 specifically states that the accountant in a review engagement is not required to obtain corroborating evidence or evidence to corroborate management's response to inquiry. It flat out says you don't. But we used to get that, put it in there, and well, now you got to do audit procedures and tick and tie something. You can't have an audit work paper without pretty tick marks. That's blasphemous, right? So that's where we would fail.

So we had to learn, folks, if our inquiries, analytical procedures make sense and it appears, and if I think management's lying to them, I'm going to fire them, okay? I can tell you I've not been involved in any litigation support where there's ever an alleged failure in a review engagement because management lied about a bank reconciliation or accounts receivable subsidiaries time. Usually if they don't, go, what's an accounts receivable subsidiary? I don't do that. Well, now they say that.

Now you got to go maybe look at it because they didn't know the answer. So that's going to be a client-by-client basis. So make sure you are effective and there's a reason for each question that you're asking.

Now let's talk about avoiding audit procedures. And I've talked a lot about this as we move through this course, but I want to kind of recap it here. The appropriate time to perform audit-like procedures or procedures ordinarily performed in an audit is if you're inquiring analytical procedures, indicate that there could be a departure. Okay? That's when you might say, okay, I got to recalculate something, or I want to see this schedule, or I want to do additional work, or I'm going to scan through the journal ledger to find the answer to a question. That's the point in time that you want to do that. Because remember, the standards say a review does not contemplate performing procedures ordinarily in performed in an audit. It doesn't say we prohibited it.

And specifically the reason why we use that language they did not contemplate is because if you're inquiring analytical procedures indicate there's a departure, that's when you have an obligation to review engagements to drill down. Remember in an audit, you're going to do preliminary analytical procedures and you're going to make a lot of inquiries and become aware of the client, its environment, entity, its environment, including internal control.

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And after that you might say, yeah, I'm not expecting any GAAP departures, but you still have to go get audit evidence. And that, ladies and gentlemen, is, that was the actual thought process when the committee was writing source one and they decided to invent something that would be in between a compilation in an audit and they called it limited assurance and a review. The reason why they specifically chose inquiry and analytical is they said those are the two procedures an auditor does to direct them in analytical procedures, especially to where departures might be, in inquiries or where get management's involvement because they are responsible for the financial state.

Now this makes sense because they are very powerful in directing to where the departures may be. So when you're substantially finished with increasing analytical or 100% and you don't believe that there are any departures. In other words, all the analytical procedures made sense. The ones that didn't, you did additional inquiries and the follow-up made you comfortable that there's likely not a GAAP departure there. Folks, you're done and you're ready to move to the report because you don't need to have all those bank reconciliations and accounts receivable, subsidiaries and all those. You will only find specific backup for an account in the financial statement in our review work papers.

If our inquiries and analytical procedures said, know what, this whole gross profit thing seems to be off, management's responses aren't making sense, the analyticals on inventory and inventory turnover don't make sense, we need to look more at that. That's when I might get another staff involved.

Remember I told you primarily it's one person, but once I say I'm going to design this test and it's going to take four to six hours, that's when I might go get that staff person so they get a little bit of experience on review. Now, if it's something regarding fraud or something, okay, now I'm going to go ahead and do that myself. It all depends on the level of severity or what you believe may have caused the departure.

And I can tell you when that happens, if I had to send someone out and do bookkeeping first, usually that's the staff person that would have been going to do these, let's call them further review procedures that are somewhat similar to what you might have in an audit. So avoid them, but it doesn't mean you don't do them. There are reasons on occasion that you have to perform those audit-like procedures.

Now let's talk about materiality to kind of tie all this up because this is where I used to stop until SSARS-25 came out and SSARS-25 said, well, you need to develop materiality in a review engagement. And I will tell you, we considered this when I was on the committee when SSARS-10 was issued. Ultimately, we decided, no, we're not going to do this because the main reason you do this is an audit, comes up with tolerable misstatement, which helps you select sample sizes and other items, and we don't do that in a review.

I can tell you that for the five years now that we've had to calculate materiality in a review, even though it says I should use that number to help me design my review procedures, I haven't had that epiphany where I said, I'm doing this, I'm asking better questions or performing better analytical procedures because I've determined that \$55,000 is my planning materiality.

Now, I'm still going to focus on areas where there have been misstatements in the past, areas where there's new GAAP, areas where they're subject to management estimates, elements of the financial statements that are subject to management estimate. That's where I'm going to focus those items. I will also focus if it is a bonding company or a bank loan and there are certain debt covenants.

And I will look at those debt covenants. Typically, there are ratios. And I will look at the elements of those financial statements that are key to those ratios. And I will kind of load up there. But what I will not do is say, oh, well, materiality is \$55,000. And last year, the accrual for paid time off was \$49,864.72. And by the way, that number hasn't changed.

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Well, I can't say, I'm going to ignore it because it's less than materiality because the likelihood is there is a misstatement because it should have been adjusted. It hadn't been adjusted. And it could be a lot more than that number. Remember, sometimes no change in an account from year to year is far more indicative of a potential GAAP departure than having a substantial change. There could be a good business reason for a change in accounts receivable or accounts payable, but there's very rarely a justification for not having a change in something like accrued interest, accrued paid time off, prepaid insurance, because we also know that those are the types of counselor adjusted to a journal entry.

And if you have Aunt Jenny, there's a high likelihood she didn't know she was supposed to make that journal entry. And hopefully you caught that when you did the cleanup. But if it wasn't caught, now we know that we will look at it. So absolutely follow the standards, calculate your planning materiality, but ultimately do not become so dedicated or so in tune to the materiality that you missed the forest for the trees and started using that materiality number to justify either doing a lot more procedures or a lot fewer procedures.

I haven't done that within our firm and I don't see that we will ever do that. So I hope you enjoyed this discussion on efficiencies and review engagements. It continues to be a very useful level of service for those very small companies.

Mid-sized companies, larger companies need the audit. But those smaller companies that are getting bigger, especially small construction companies, bonding companies are accepting reviews. If you don't do a lot of reviews, it's something you might want to consider. Wait, I can do this. People think it's in the assurance level, but it's not nearly as complicated as an audit. Yes, you'll have to have that higher level of peer review. But we have turned this from a not very profitable area of our firm to a very profitable area.

So appreciate you joining in with this and I look forward to seeing you on a future CeriFi presentation.

## **GROUP STUDY MATERIALS**

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### **A. Discussion Questions**

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1. Why do review engagements often become inefficient, and how can firms correct this?
2. How does separating bookkeeping from review work improve both efficiency and independence?
3. What role does materiality play in review engagements under SSARS-25, and what cautions are noted?

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## **B. Suggested Answers to Discussion Questions**

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### **1. Why do review engagements often become inefficient, and how can firms correct this?**

Review engagements often become inefficient because practitioners mistakenly approach them as “mini audits.” The speaker explains that many firms historically tied every balance sheet account to detailed supporting schedules, recalculated depreciation, and performed excessive documentation even though SSARS does not require those procedures. This audit mindset increases time, cost, and ultimately discounting, making reviews the least profitable service line. The corrective approach is to recalibrate expectations based on the standards. Reviews are designed to provide limited assurance primarily through inquiry and analytical procedures, not audit evidence. Firms can improve efficiency by focusing on financial statements early rather than only trial balances, eliminating unnecessary corroboration, and only performing audit-like procedures when analytics suggest a potential departure. The speaker’s journey shows that reading and applying the standards directly—rather than relying solely on third-party practice aids—can significantly reduce wasted effort. Proper engagement structuring helps firms deliver compliant reviews while maintaining profitability.

### **2. How does separating bookkeeping from review work improve both efficiency and independence?**

The speaker strongly recommends that bookkeeping assistance should not be performed as part of the review engagement. Many small clients require year-end cleanup, such as correcting misclassifications, recording accruals, or updating depreciation schedules. If these tasks are embedded within the review file, they create unnecessary documentation burdens and blur the distinction between attest and non-attest services. By performing bookkeeping as a separate engagement, firms can streamline the review process and maintain clearer independence safeguards. The speaker notes that using different personnel for bookkeeping prevents the reviewer from becoming biased when developing analytical expectations. Billing separately also increases transparency for clients, allowing them to understand what portion of fees relates to accounting cleanup versus assurance services. Additionally, independence standards require evaluating the totality of multiple non-attest services, so firms must remain alert to crossing thresholds where independence could be impaired. Proper segregation ensures that review engagements remain focused on inquiry and analytical procedures rather than becoming bogged down in accounting reconstruction.

### **3. What role does materiality play in review engagements under SSARS-25, and what cautions are noted?**

SSARS-25 introduced the requirement to establish planning materiality in review engagements, which was a notable change because materiality has traditionally been associated with audits and sampling. The speaker acknowledges that while materiality must be calculated, its practical impact on review efficiency is limited. Reviews do not involve tolerable misstatement or extensive substantive testing, so materiality does not drive procedures in the same way it does for audits. Instead, practitioners should continue focusing on areas of known risk: management estimates, new accounting standards, prior-year misstatements, and covenant-sensitive ratios. The speaker cautions against using materiality as an excuse to ignore likely misstatements simply because they fall below a threshold. For example, unchanged accruals year-to-year may signal an error even if quantitatively small. Materiality should inform judgment, but not override professional skepticism or common sense. Ultimately, the goal is balance—avoiding both excessive procedures and overly mechanical reliance on numeric cutoffs.

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## AUDIT & ACCOUNTING PART 2

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### Analytical Procedures in Review Engagements

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In this segment, Kurt Oestrieher discusses why analytical procedures are fundamental to review engagements, tracing their origin back to SSARS-1. Reviews are designed to provide limited assurance primarily through management inquiries and analytical procedures rather than confirmations or observations. Required procedures include comparing financial statement information to prior periods and performing disaggregated revenue analytics. Predictive tests are highlighted as especially effective tools for evaluating revenue reasonableness. The course also explains how materiality under SSARS-25 informs—but does not dictate—review focus. Additional procedures, including audit-like steps, are only appropriate when analytical results suggest possible framework departures.

#### Mr. Oestrieher

Hello and welcome to our latest production or presentation from CeriFi on analytical procedures in review engagements. And my name is Kurt Oestrieher. I've had the pleasure of presenting these quarterly updates on various accounting and auditing topics for many years. And if you've heard some of my presentations in the past, and again, I don't know how many years I've been doing this, but we often circle back to some of the performance or the engagements that CPAs perform under statements on standards for accounting and review services.

And the review engagements, of course, they sit in the middle between the audit, which provides reasonable assurance, and the compilation and preparation, which provide no assurance. And what do we call this middle ground? Well, we call it limited assurance. And it is kind of the half a gangster approach. In other words, we're not kind of all the way in on an audit, but doing more than what we do in a compilation.

And so how is this defined and in what procedures should we perform? And for those limited procedures we do perform, what are our professional responsibilities? And that's what we're going to talk about for the next few minutes. And then some insights that I've had, I've had roughly 40 years in practice myself, including serving on the committee that writes the SSARS, the Accounting Review Services Committee. And the first major rewrite we had, on review engagements was actually SSARS-10 roughly 25 years ago back when I served on the committee.

So there was discussion then as there was discussion when SSARS-25 had been issued, also SSARS-21. These have been major revisions to the SARS over the years where the committee took an in-depth look at what was required, is it enough, and the things that are required, well, what do we have to do?

To understand the role of analytical procedures in review engagements, you have to go all the way back to the very beginning. When SSARS-1 was issued and the committee at the time, which by the way was a subcommittee of the Auditing Standards Board, which when it was first formed, the belief was, hey, we're going to form this committee, we're going to come up with some standards for a couple of things that aren't audit and we'll probably shut the committee down because how much more complicated could this be?

Well, 27 SSARS later, this is a permanent committee and we understand that as the world changes, as the expectation of stakeholders change, then our standards need to be upgraded. But during that very first committee meeting, when the concept of a limited engagement services, which was later named review, was proposed, and the committee discussed, well, what type of procedures need to be performed that would achieve this goal of limited assurance?

And ultimately, the committee decided there were two things that needed to be done by the practitioner in order to provide limited assurance. We needed to make inquiries of management, and we needed to perform appropriate analytical procedures.

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I have been very fortunate in my practice and in my career to share the stage and have conversations with some people that know the history that are much smarter than me. And one of those people is Dr. Alan Winters and he's no longer with us, but he was on that first committee.

And I was discussing the history of review engagements with Dr. Winters. And I asked Dr. Winters, how did y'all wind up with the inquiry and analytical procedures? Why didn't y'all decide that we should do confirmations or inspection or any of these other things that we normally do in an audit. And Dr. Winters walked me through the thought process of the committee at the time and they said, Kurt, the evidence, the specific evidence gathering procedures done in an audit, such as confirmation, inspection, observations, those verify assertions of management.

I don't even know if they used the term assertion back in the 70s, but the concept was the same. And he said, we decided those aren't appropriate because if you're going to go get that direct evidence, then it's appropriate to issue an audit report. Instead, the committee focused on those procedures that would direct an auditor as to where departures might exist.

And that if those audit procedures that direct you to where a departure might exist. Do not indicate there's a departure, then you can stop. Now in an audit, we just use that for planning and even though we go, well, this is where we think we could have a departure and GAAP, but we really don't think there's one, but we're still going to confirm bank accounts, that's what you do in an audit in order to obtain reasonable assurance. For limited assurance and review, we don't take that next step.

Only if your inquiry or analytical procedures tell you or give you enough information that say, you know what, based on those responses and based on our analytical procedures, we believe inventory is misstated or we believe allowance for doubtful accounts is misstated or whatever it might be. Then you move forward and you might go do some of those things that you do in an audit.

If you actually look at the engagement letter for a review, it tells us that a review is substantially less in scope than an audit, that it is primarily incremental analytical procedures. And it also goes along to say that in a review engagement, it is not contemplated that an accountant will confirm, verify, observe, and they list other audit procedures that would normally be performed in accordance of an audit.

But it's key, it says it doesn't contemplate. It doesn't mean that you're restricted, and as an accountant, you can't do those things but it's not contemplated you're going to do them unless those inquiry analytical procedures say, there might be a problem. And that is how we justify, define, whatever you want to say, or draw the line between the reasonable assurance in an audit and the limited assurance that is provided in a review. So when you look at this and you say, wow, so all I'm doing is inquiry analytical procedures.

Well, it tells you that that should give your first clue that you really need to design your analytical procedures well. These should not be an afterthought in just a couple of ratios. And I can tell you from my experience with our firm, and here's what typically happens in a review engagement. We know going in that there might be some limitations of the client because it's less sophisticated entities that don't have maybe the depth to hire a full accounting staff with multiple CPAs where some of our audit clients, especially our construction audit clients or your large governmental clients may have that kind of background.

Well, we know that Aunt Jenny's doing the books on QuickBooks in a review. Well, there are going to be some limitations of Aunt Jenny. And so we might go in on a review, help Aunt Jenny clean up the books. And we have a lot of bookkeeping work papers. And so we throw those depreciation schedules and receivable subsidiaries and prepaid schedules and all that in our review documentation. And we do so much work there in assisting the client that at the end, well, we feel pretty comfortable with the numbers. So at the end, we might say, well, we've got to calculate the quick ratio and current ratio and gross profit ratio and day sales and receivable. And that's really not how the standards are contemplated.

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So did you do analytical procedures? Yes, but you did them because you did a lot of either bookkeeping type procedures or audit type procedures that maybe you shouldn't have to get that limited assurance. And that's what I, I changed this culture in our firm 25 plus years ago, talked to other people about it, that's not the way we go about it.

First of all, if you're assisting the client with that much of the bookkeeping, of course you have to make a determination on independence. And certainly, if they have that individual, if Aunt Jenny has suitable skill, knowledge, and or experience to oversee these bookkeeping and year-end cleanup services, then certainly you can do this and not impair your independence. Just make sure that you document everything and make the assessments in accordance with Ethics 1.295.

But the problem is when we help them with that much, we start to use that as kind of our review evidence and we really shouldn't because that's a separate engagement. In fact, in our office, we do multiple reviews. Some of them have the what I call the Aunt Jenny's and here's how I describe Aunt Jenny. It is a filler term for someone that is very dedicated to the company that knows how to use QuickBooks, Sage or some software, general ledger program.

Functionally well, doesn't understand debits or credits, doesn't ever has any formal training, but at least gets the transactions recorded to a sufficient extent and then understands that yes, when we adjust certain things, she has that limited understanding for suitable skill, knowledge and or experience. So that's my Aunt Jenny client. Whereas I've got other clients that are, no, when we get the trial balance, we don't expect any adjustments whatsoever.

Maybe we'll have to do a tax, if it is a C-Corp, but that's it. And those are differences. So when we have that Aunt Jenny client, the first thing we're going to do is send a staff person out that's not going to be on the review team to help Aunt Jenny clean up the books. And then we get a trial balance that we can turn into a financial statement that now we are going to be reviewing the financial statement rather than relying on these non-attest procedures.

So that helps us from being jaundiced or placing too much, what I would call review reliance or review procedures on what really is a separate, non-test bookkeeping type of counsel. That's the first thing we want to talk about is that if we aren't using these issues, now are these procedures as kind of review evidence, now we understand those importance of analytical procedures, because truly, we're now down to inquiries and analytical procedures.

Now, another overriding thought process that was not present for the first 40 years that we had review engagements, SSARS-25 now requires that we determine materiality in review engagements. And we did not have to do that until about three years ago. And I get a lot of questions, and I thought about this. Well, now that I have come up with this number on materiality and come up and said, all right, \$37,000 is my planning materiality or preliminary materiality, whatever you want to call it. What do I do with that?

Does that mean I perform an analytical procedure on every account balance above that amount? Does that mean that I have to not do anything below that amount? The answer is no to both those questions. Even though we are extensively required through SSARS, through AR-C 90, to use that materiality number or amount in determining the extent of our procedures, it can assist you, but it is in no way an absolute.

So what we have found since we have implemented the requirement to apply analytical procedures, that hasn't changed what we're doing. In other words, there might be a smaller account below that materiality number, but because it's subject to management estimation, we are still going to perform inquiry and analytical procedures.

Great example of this is your allowance for doubtful accounts or allowance for credit losses. It might be below that amount, but because it is subject to estimation, I'm still going to perform analytical procedures because maybe those analytical procedures will indicate the amount is understated and ultimately there could be a departure in excess of that materiality amount. So again, that materiality is a tool. Let's don't ever use that as a dividing line on things that we refuse to perform analytical procedures or things that we say we have to, because if you have certain expense accounts that are below that amount, but it's based on your inquiries, there's likely not a misstatement, then it's my opinion you do not have to do analytical procedures on those items.

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Remember it's inquiry and analytical procedures to obtain that review evidence. So use your judgment there.

So the next thing we want to look at in our discussion of analytical procedures are which ones are required. Initially, there were no required analytical procedures. It was just up to the judgment of the accountant. And we refer to the practitioner within our competent review standards in AR-C 90 as the accountant, not the auditor, because we're not performing an audit. Well, eventually, and we started this, actually went back to SSARS-10 when we decided, no, there's some specific analytical procedures that should not be left up to your judgment that in the opinion of the committee and it went out for exposure and the comments that we got back were very favorable toward this.

Now here's some minimum analytical procedures that should be expected that we would all perform. And the first one is comparison of appropriate information with the prior period. Now how do most firms do this? They simply run a comparison on the trial balance from this year to last year and then say, we're going to look at anything that appears to be unusual.

Well, define what is unusual. Is it a variance of more than 4%? Is it a variance of more than your materiality? Is it a new account? Is it the no longer existence of account? In other words, there was a balance last year, there is no balance this year. The answer is potentially all of the above. It is based on your judgment. The one thing that we started doing in our firm years ago, we quit doing the two-column comparison where we compared at the trial balance level. Let me explain further.

When you look at section AR-C 90, it says review of financial statements. It does not say review of trial balance. So why am I going to be comparing if there are seven accounts that make up my cash that's presented on the financial statement? I'm not going to do a comparison of those individual seven cash accounts or the individual four prepaid expense accounts or the individual seven property, plant and equipment accounts.

No, I'm going to look at those amounts as they will be grouped on the financial statement. So what our firm does, our trial balance software that can produce the trial balance that can produce that comparison year to year. Well, of course, it also produces our grouping schedule that we use to prepare the financial statements because on all of our review engagements we assist the client in preparing their financial statements.

Even if you don't assist the client and you're one of those rare practitioners that has the client that actually prepares the financial statements, well our documentation requires that we understand the linkage between the client's trial balance and the financial statements so you'll get that grouping schedule from the client. So you're going to have this information available.

We now perform our analytical procedures at the grouping level. So instead of looking at the individual seven cash accounts, we will look at total cash. And if last year was \$385,000 and this year's \$400,000 and we expected minimal changes from year over year, then I'm comfortable with that number. There's no reason for me to go and look at the individual accounts and see where, a payroll went up or our money market went down that's irrelevant because again, it's not the number on the financial statement.

The number on the financial statement is the grouped amount. So that is the first thing that I would encourage you to consider when you're doing the comparison to prior year. Let's do that at the financial statement level, not at the individual account level. And the examples that I just gave you, of course, were balance sheet accounts. Think of your income and expense accounts where if you have a very condensed income statement, and you're just showing general and administrative expenses or cost of sales, and there's 43 general and administrative accounts, well, why are you looking at the change in dues and subscriptions and vehicle expense and telephone expense when that is not even reported on the financial statement?

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Now, if you are reporting schedules that are presented as supplementary information that those 42 individual accounts are going to be grouped into maybe 20 accounts, and then those 20 accounts tie to your general and administrative expenses on your income statement, and you're presenting that as analytical procedures, excuse me, supplementary information, and your report says you subjected the supplementary information to your review procedures. Well, now you have to look at that comparison.

Again, at the group level, and what I mean by the group level for the general administrative, if I have 42 general ledger accounts, but let's say there's, I put telephone utilities and software or something, you know, some other internet costs into some sort of utilities account, I'm not going to look at those three general ledger accounts that make up utilities. Again, I'm just going to look at that one expense item that makes up utilities that goes onto that supplementary schedule. And again, I'm going to do that because my review report says that I reviewed that information.

Now, if your review report does not cover the supplementary information and you just state that you compiled it, then maybe you don't have to look at that at that level. But you understand what you're reporting on and if you're presenting that supplementary information.

The next thing that you have to do is once you decide, okay, at what level am I going to do this comparison from last year to this year, in all analytical procedures, we must develop expectations.

And when you're developing that expectation, it is based on inquiries from the client and an understanding of what's happened this year to last year. And for the vast majority of our clients, after we have that initial interview and initial questions with management, we conclude that we do not have much of an expectation change year over year. It's a steady company. It's a hotel or motel. Room rates haven't changed much. Cost structure hasn't changed much now in the last two to three years.

What has changed? Labor costs have gone up. If you provide health insurance for your employees, you expect increases there. So you always expect health insurance to go up, which would typically be your group level of employee benefits expense. Whether or you have a pension plan, I've seen some people put payroll taxes in there. We don't, payroll taxes is already separate. But you expect those to go up. If I have a client that lets me know that none of our workforce is about the same and we have a nice health plan and their employee benefits for health insurance has gone down 50%.

Well, I'm going to have to do some more work there because that doesn't make sense. If any of y'all have renewed your insurance recently for health insurance, we know that's something that goes up every year. So that's how we would kind of make those preliminary discussions. It might be in general, your expectation is similar prior year.

But in certain areas, you expect increases. This is not a political statement, what I'm about to make. It is a factual statement. We know that in the year 2025, there's a lot of activity with tariffs and that has impacted the cost of goods and services, well, not services, but goods for some entities in some industries. So you might say that is your expectation for the impact because the types of physical goods that are purchased by your client are subject to tariffs and so you'd expect that increase in price.

So even though revenues may stay the same, that's a certain expectation for cost. So again, these are the things that we walk through, that we think through. And when I'm doing my comparison to prior year, I'm never going to make a determination of my expectation for each individual item that's presented. I'm not going to say, here's my expectation for cash. Here's my expectation for receivable.

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Here's my expectation for property, plants, and equipment. I'm going to start with that general thing where it's similar to prior year, and then I will talk about the exceptions, how while things are similar to prior year, the company is expanding in future years and it's starting construction on a new plant. Therefore, I expect to see increase in construction in progress or other fixed asset accounts and an increase in debt because they have a construction line of credit. So that's where you get into the nuances of the of the particular individual accounts or individual items that are presented on the financial statement that might vary from your general expectation of pretty much the same year over year.

Now, if you have a client that has gone completely bonkers and nothing is comparable to last year and they've changed a lot of stuff, then you're going to go more toward, I'm going to make that determination of my expectation more at maybe at the balance sheet level or the asset level, the liability level and you can just say total assets or total liabilities, or you might get down into the individual items that are presented. Again, use your professional judgment. The only way that you go wrong is if there's no documentation of any type of expectation and you just do a comparison and pick out a couple of accounts.

The other thing that I would say would be a not really good business practice would be to tell your software, hey, just extract every account that has changed more than 5% or more than, let's say you came up with \$30,000 for your planning materiality or more than your materiality amount and you only look at those. The reason why I don't think that is a very good approach, a change in an account is not indicative to me always of a gap departure. It could be, and I say GAAP departure, I should say framework departure, but I understand that most of your review statements the underlying financial reporting framework is probably United States GAAP.

So a large change may not be indicative of a departure. Think about it. If your accrued paid time off for that client last year was \$28,465.42 and it's the exact same number this year, well, there's been no change, but that indicates to me there's a departure because they haven't properly accrued it.

And that number might be just under my materiality amount. So I might wind up ignoring this account because there was no change from last year and it was below my materiality amount. But it is an area that is subject to management estimation. It is an area where we've assisted the client and we've found potential journal entries in the past. So that means I'm going to make further inquiries on this. So watch those limiting factors on your analytical procedures. We really have to keep an open mind.

So the comparison to prior year, that's required. The other big required analytical procedure is we have to perform analytical procedures on revenue and it has to be disaggregated to the extent the client disaggregates. Now how do you know what their disaggregation level? Well, look at their general ledger. That's what it's going to tell you. If they just have one revenue account and there's one operating division and there's one physical location, well, you don't have anything to disaggregate, so go ahead.

But let me just think of the books of Oestricher and Company, CPAs. We record revenues for our audit and a test work, our tax work, our CAS, our back office accounting work, special projects such as litigation support that I do. And I think I mentioned them all, personal financial planning. So we have five different ways we disaggregate our revenue.

So if our books were to be, if our financial statements, I should say, were to be reviewed by someone, that's the level that they would disaggregate. And if they saw a big change in audit, and some of y'all might have revenue from governmental audits and non-governmental audits, whatever, however you classify it, but your client kind of leads you there. And we don't have to make our client or force our client to go get disaggregated information they don't have. Now, if we believe that they can manage their company better, we might make a suggestion.

But nowhere do the review standards say we have to force them to record things differently because we think they should. So once you have that disaggregated data, now what do you do? Is it just a comparison to prior year? This is where we get the third element of the required part of review of analytical procedures where it says that you have to consider plausible relationships with other financial data or other data to determine that reasonable is.

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Well, what would that be? We use this in our firm and in other people do, and I call these predictive tests. When you think of the type of analytical procedures you can perform, you can perform an analytical procedure by doing a ratio, a trend analysis, or predictive test. Those are the three big areas, or three big classifications in my opinion. We've already talked about the trends. That's the comparison from last year to this year.

We briefly touched about ratios. We're certainly calculating the current ratio or the days, you know, if it's a banking covenant that you have a certain current ratio, well, then certainly I'm going to look at that and then I'm going to look at also the individual accounts that make up the numerator or denominator, especially if they are very close to what the debt covenant is and the client could violate it. So we use our judgment there. But for the predictive test, I feel like, in my opinion, these are the most powerful of the analytical procedure we have, especially when it comes to revenue recognition.

Because most every entity out there has a maximum revenue capability based on either their level of employment, their square footage, whatever it might be. Let's think of some examples. My CPA firm, if any of you all were to go to my website and you'd see how many partners we have, how many managers, how many staff. Y'all can and you can find data on what average rates are for Louisiana CPA. You can probably guess within 5% what my annual revenues are because that is our capacity. If I am doing a review engagement for a bowling alley that has 40 lanes, well, what's their maximum revenue every day? 40 lanes by the time the hours that they're open times their rental per hour or sometimes they do it per game. Well, how many games can be done per hour?

Restaurants. How many tables do you have? What's your average ticket price? How quickly can you turn it over? As we move more into the virtual world, there's more capability of things. In the retail world, you can just look at, how much square footage do you have? You can only stock so many items. Now that's a little bit different that you can have an internet-based retailer where all of your stuff is stored in a warehouse somewhere and it's drop shipped to the customer. So those have changed because of technology, but most of it still holds true.

So I'm going to do share screen with you and show you an example of what we use in our firm. is what I've developed many years ago that incorporates a lot of these elements that I've just discussed about developing expectations and looking at revenue disaggregation and then how we document them. So the share screen should come up here.

So you'll kind of see the side of my face here a little bit. Hopefully as I'm doing this, you can type in here or you'll be able to see. this is our, let me make this just a little bit bigger so y'all can see it on your screen there. So we'll come in and put in a work paper reference and let's say it's the second analytical procedure for 2025. This will be 2025-02. Whoever's preparing it, KO. And the day, whatever the day might be due, let's say I'm doing this on 2-24-2026 and put in my client name, XYZ company, whoever it might be. And my year end is 12-31-25. And I'm going to do a predictive test here on revenue.

So what am I doing here? I am going to do my required analytical procedures on disaggregated date on revenue. And let's agree amongst us that this particular client is a motel. One of these, you've got Holiday Inn Express, Hilton Gardens, know, hotel on that level where it's your, you know, typical business traveler. Sometimes it is going to be a family or something like that. But the reason I like to use hotels for this is because they, just like the bowling alley and other examples I just gave, there's a finite revenue source.

And you don't have to have an accounting degree to think what are the variables that give me the maximum amount of revenue that a particular hotel can have. Well, the first variable is how many rooms do you have? That's your room rental. And by the way, from a disaggregation, I'm probably going to do some sort of analytical procedure on room revenue. And if they have a restaurant, that'd be another revenue source that I would look at. If they have parking fees, that would be another source.

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Now, if this is a big downtown hotel in New Orleans, then of course I would also be looking at ballroom rental because you rent out these big ballrooms and meeting rooms. Then you also have the catering, which that's huge there. It's about \$300 per gallon of coffee. If you think a gallon of gas is expensive, just go buy a gallon of coffee for one of these big items. So, but this isn't that level. We'll probably just have room revenue and restaurant revenue. And this little Hilton Garden Inn somewhere in middle of Texas.

You don't have to charge parking there. So how many rooms do they have? Let me make this plural. Let's say it's a four story and they have 40 rooms per store, they have 160 rooms. Well, what is the average room rate? Well, we can get that data from historically, where previous data from this particular client, they're going to have the data there. You might even go to their website and see, but let's just say on an average, wherever this is, I'm going to make this 170. So that means that their daily total potential daily revenue is this number times this number.

But we know that you're not 100% occupied. I'm going to insert a couple of rows here. So we look at the occupancy rate. And again, you look back at historical data, you look at has anything happened this year that would either increase or decrease the occupancy rate for this particular area or this particular hotel. Let's say we have an historical occupancy rate of 82% and we're comfortable with that number. So now we know our actual daily revenue can be expected to be this amount, \$22,000, and I got to insert two or three rows here. So that is expected revenue.

Now this is static, there are 365 days in the year. Putting that, so my expected annual revenue is going to be this number times that number. So you got to make this a little bit wider. A lot wider. Wow, \$8 million, I need to go buy a hotel. All right, so that's what that number came out with. Now let's say that that client's general ledger, when you look at it, they have reported less to that's the actual amount they reported. So you have a variance, it's actually a positive variance of \$113,000. They actually recorded \$113,000 more than your expectation. And let's say that your preliminary materiality was \$62,000. Is this where you panic and say, they have a potential departure above my materiality? No, that does not mean that at all.

It just means that probably within your expectation, if we had changed this to 23%, that's our variance. Okay? So whenever you come up with a deviation or a deviation from your expectation, you say, okay, is this because of possibly the lack of specific or the lack of specific is the wrong word, but precision is the correct word, the lack of precision in my estimates, the values that went into my estimate or is it because we think things were recorded wrong?

And if this all holds true, if I had said 82%, I'm still going to do a couple of other inquiries on analytical procedures, excuse me, inquiries on revenue. And by the way, I might do an analytical procedure, and this absolutely scanning a general ledger is analytical, and this is where we use some of our AI tools. I might dump that client's general ledger into an Excel file, and then for the revenue account, I'll say, okay, my expectation is that every day, based on the software that they use, I expect to see one line item for room rental revenue that comes from a revenue journal or something like that.

And so then I ask it to look for general journal entries or any other entry or more than one entry on one day because now I'll say, someone accidentally coded something to the wrong account. But if I come up with this variance and then I do another analytical procedure where there are no unusual entries, that all entries were what we expected, one entry per day from the appropriate journal. Folks, I'm stopping. I feel pretty good about my revenue number.

And this is where my brain goes, but Kurt, that's not enough evidence. Well, it's not enough evidence for an audit, but it's enough review evidence to provide limited assurance. And by the way, I would also, if I had a prior year history with that client, before I put in the actual amount, so actually this part here, I kind of jumped the gun here, this part down here, this is where it had my so I would say here, let me see, so my expected revenue is this. So it's the expectation. Forwarded amount, variance.

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And by the way, up here, I would have had my previous years, maybe one, two, three, four, as many as you think is necessary. But before I ever compared it to my general, clients records, don't know about, I'm generally going to round off these expectations to \$8,140,000. But I would do all that before I would compare it. Then I would compare it. This variance in my opinion is not enough to get me all worked up at this point. And so I'll say it's within expectations.

But then I will say, because this is revenue, we will perform a further analytical procedure. And I will describe that procedure I just discussed where we would scan the general ledger for unusual transactions. And I may also talk about inquiries that I would have them refer to my inquiries work papers. Now, if the amount that was recorded in the general ledger is \$10,000,000, okay, that's going to be a problem. Because there should be enough precision in my expectations that we don't have a 2.7 million gap and I'm going to do further work there.

And so people said well, Kurt, how do you know between 113,000 and 2.7 million where do you get that? Folks that is your judgment so if I had that hundred you know it'd all pretty much be based on those other procedures that would perform also I might find out that oh wait no we this is out in West Texas when there was an oil boom this year in our occupancy rate we were at 98% well once I do that that's still, even if you're 100% occupied, we're still over a million dollars. Well, guess what, Kurt? Because we're 100% occupied, our average rate went up to \$210. We didn't even have to go up that much, \$185.

Now we're more back in line. So this is what we do. And by the way, this is also a procedure we do in audits. We believe analytical procedures are a powerful tool in audits. So this is how we document and we get those required analytical procedures on revenue. And by the way, we use this template, we'll have probably seven or eight of these on all of our review engagements. We're about to go through a couple of other things on documentation, but I just wanted you to see how we document those review engagements.

So those are your required analytical procedures and I've given you within the written documentation there, just some areas that you may want to use. I can't tell you that, you know, people talk about AI and the impact of AI on our profession. Folks, we've been doing Google searches for years on industry data, and really that, in essence, is what AI does. Now, obviously there are AI tools that get much more specific that are looking for very specific things, but there's just a tremendous treasure trove of resources that you can get simply by Googling things. For those of you that are major, remember when Ask Jeeves came out? I think that was actually the first AI, thing that we could have called AI, but they just never called it AI.

So what do we need to consider when we are determining appropriate analytical procedures and how much we have? Folks, again, we do not look much at that material amount. I look at, what accounts, what is presented on the financial statements that are subject to management estimates that have been recent, there have been GAAP changes recently, like the lease standard or revenue recognition areas where the client has had trouble in the past, and then areas that are subject to management estimation, such as the allowance for credit losses, if they are intangible assets, such as licenses or goodwill things from a business combination, and you're worried about impairment, that is where I'm going to focus.

But even things like impairment, it's not going to be an analytical procedure because the client probably didn't record an impairment. That's going to be more focused toward the inquiries.

What the analytical procedure is, I generally don't expect my clients to write off an impairment. So if I see that goodwill or some other intangible asset is decreased, then I'm going to want to know how much, and then I'm going to ask questions, and then of course I go, well, was it enough? Because a lot of times when you have a write down, especially with the smaller clients, maybe all the goodwill should have been written down. So that's where you just have to use your judgment. You will not find detailed work papers like that Excel spreadsheet that I just showed you where our firm is doing that type of level of detail on dues and subscriptions.

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In fact, what you're going to see, we always start off with that comparison to prior year, which is required. The next analytical, that's going to be analytical procedure if it's the year 2025, 2025-01, 2025-02 or 3 or 4, depending on how many we do on revenue, the next are going to be our revenue items. Because once we are comfortable with the revenue amount that's reported, then cost of sales, which we almost always do a gross profit percentage. Anything that's in retail or manufacturing, we're certainly going to perform analytical procedures on gross profit percentage, day sales and inventory, all those accounts that make up your cost of sales are in the inventory. Those are the two things that work hand in hand. But once I know my revenue numbers, those flow from it. And then labor costs as a percentage of revenue.

So it gives us those key items. Depreciation isn't going to be a percentage of revenue. I'm going to do depreciation as a percentage of assets and service. So, and again, I'm not going to be doing dues and subscriptions, utilities, telephone expense. It's going to be those larger accounts. Labor costs are typically a large item that's reported. And so I might do that as percentage of revenues, but I also might say, okay, what are the salary for full-time equivalent?

And I might disaggregate that between management and frontline workers if it's something like a fast food chain or something along those lines. So it's fun and exciting, probably overstates it, because it's hard to get really excited when you're doing a review and most people wouldn't classify it as fun.

But interesting and challenging might be better because our challenge is always to make sure that we are following the standards in that we are designing appropriate analytical procedures that are truly directing us to areas where misstatements may occur. And not just allowing our trial balance software to print off 40 different ratios that we really don't know what half of them even mean. And we pass that off as analytical procedures because we did a few ratios.

And I can tell you 30 years ago, that's what our firm did, that's what most firms did. But we want to accept that challenge to really think about what financial statement elements could have misstatements. And then what are the appropriate analytical procedures? Is it a ratio? Is it a comparison of prior year? Or is that predictive type test?

And I can tell you that predictive type test is my favorite, but ratios absolutely come into play as I discussed earlier with if they impact owners' compensation, if they impact bonding covenants or debt covenants. Absolutely, I'm going to want to look at those ratios.

Now, once you perform those analytical procedures and you feel comfortable that they're there, it's investigating those results. And that's, I gave you that example on that revenue item where use your judgment as to whether or not it's within a reasonable amount of your expectation.

And if it is, then you're still going to consider, based on the nature of this account, I'm going to do some inquiries. I might even do a couple of other analytical procedures and then I'll shut it down if those don't direct to an area where I believe there could be a misstatement. But sometimes you look at that and you go, wait, there's a problem here. And I'm specifically remembering back to an inventory issue years ago with the client where they switched inventory systems not once but twice. They went from a periodic to a perpetual. The first one didn't take very well. They scrapped the project. They had problems taking their physical inventory. So I found that out during inquiries.

And folks, my analytical procedures gross profit percentage was way off of expectation, day sales and receipt in inventory. And so we wound up performing audit procedures because the review, we went as our analyticals gave us the answer. Both cost of sales and inventory was misstated. And we went and went out to the old toolbox, got the inventory things, had them take an inventory, rolled it back because we were not comfortable and had they not done all that work we would have not issued an unmodified, and it's not an opinion, an unmodified conclusion in the review, we would have had a modified conclusion.

So always your next steps are going to be additional inquiries, additional analytical procedures, or in some circumstances audit procedures to find if there's a departure. And then once you do those procedures, you'll either conclude, no, there's not a departure, there's actually an issue in my expectations.

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I did not use the right variables or you say, no, there's a problem and you look forward. But that's the thought process that you want to go through when you investigate the results of your analytical procedures. And so perform additional, want to make kind of going through the list here to make sure I've got it.

Now, the last thing we want to talk about is the documentation of your analytical procedures. Now I've already shown you how we document our predictive test and I've already described how we document our comparison to prior year in that we do it at the financial statement level and not the individual account level. That is always just an Excel spreadsheet. We reduce the grouping schedule to an Excel spreadsheet. I know many of y'all are using different products. We happen to use Engagement Manager.

So in the end of the day, all of our documentation are Excel files because those are so much easier to work with than a PDF or anything else or a Word document when you talk about dealing with numbers. So these are all Excel files. They're stored in engagement manager and then of course locked down at the end of the engagement.

The one thing I want you to avoid are those ratios. Just having your trial balance software produce a bunch of ratios that really had no purpose or meaning. I think you want to avoid that. And remember, I'm going to go back and do a share screen real quick. Even if we decide to do a ratio for a particular client then we're still going to be using this spreadsheet. It's just instead of saying it's a predictive test, we will say it's a ratio and we'll put days, sales, and AR, which is something we almost always do as one of the analytical procedures we'll be doing for the client estimate for current expected credit loss.

And then of course, all this amount down here is going to be changed, because all this data now is going to be related to that ratio. So whether it's a ratio or predictive test this Excel file is what we use within our firm to document our analytical procedures in our review engaged.

I hope this course has been helpful for you and given you some insights on how to be more efficient in performing your analytical procedures in a review engagement. And for many of y'all, if not most of y'all, it gives you a comfort level that, we've got this and we've been doing it right. I look forward to seeing you on a future A&A presentation from CeriFi.

## **GROUP STUDY MATERIALS**

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### **A. Discussion Questions**

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1. Why are analytical procedures essential to achieving limited assurance in review engagements?
2. How do predictive tests enhance analytical procedures, especially for revenue?
3. What is the proper relationship between analytical procedures, materiality, and follow-up work in reviews?

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## **B. Suggested Answers to Discussion Questions**

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### **1. Why are analytical procedures essential to achieving limited assurance in review engagements?**

Analytical procedures are essential in review engagements because they are one of the two foundational methods—along with inquiry—used to obtain limited assurance. The speaker explains that when SSARS-1 was developed, the committee intentionally avoided audit-level evidence such as confirmations or inspections. Instead, they selected analytical procedures because these methods help direct attention toward areas where misstatements or framework departures might exist. In an audit, analytical procedures are primarily planning tools, but in a review they are central to the engagement’s assurance. Because reviews do not involve extensive substantive testing, the quality of analytical design becomes critical. The accountant must develop expectations, investigate unusual variances, and consider plausible relationships among financial and nonfinancial data. Properly executed analytics allow the practitioner to conclude whether financial statements appear free of material modifications without performing full audit procedures. Thus, analytical procedures are not an afterthought—they are the backbone of review evidence and must be intentional, well-documented, and responsive to client-specific risk areas.

### **2. How do predictive tests enhance analytical procedures, especially for revenue?**

Predictive tests enhance analytical procedures by providing a reasonableness estimate based on an entity’s operational capacity rather than simply comparing historical numbers. The speaker emphasizes predictive analytics as the most powerful tool for revenue testing because most businesses have a finite revenue potential. For example, a hotel’s expected revenue can be estimated using room count, average rate, occupancy percentage, and days in the year. Restaurants can be evaluated based on seating capacity and average ticket size, while CPA firms can be estimated based on staffing levels and billing rates. These tests help accountants develop stronger expectations than simple ratio outputs from software. Predictive procedures also support disaggregated revenue testing, which is required under review standards to the extent the client disaggregates revenue in its ledger. When predictive estimates fall within a reasonable range, the accountant may conclude the revenue is plausible without additional audit-level work. When results differ significantly, further inquiry or procedures may be necessary. Predictive tests therefore improve both the effectiveness and efficiency of review engagements.

### **3. What is the proper relationship between analytical procedures, materiality, and follow-up work in reviews?**

The presentation explains that analytical procedures, materiality, and follow-up work must operate together through professional judgment rather than rigid rules. SSARS-25 now requires accountants to determine planning materiality in review engagements, but the speaker cautions that materiality is not an absolute dividing line. A balance below materiality may still require attention if it involves management estimates, such as allowance for credit losses, or if it could grow into a larger misstatement. Analytical procedures should focus on areas most likely to contain departures, including revenue, inventory, debt covenants, or accounts subject to new GAAP standards. When analytical results align with expectations, the accountant can conclude without further work. However, if unusual variances arise, the next steps include additional inquiry, expanded analytics, or audit-like procedures when necessary. The key is that reviews do not routinely require confirmations or observations, but such procedures may be justified when analytics suggest a possible departure. Materiality helps inform the extent of work, but sound judgment remains paramount.

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## AUDIT & ACCOUNTING PART 3

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### FASB Guidance on Government Assistance

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In this segment, Jennifer Louis discusses new FASB guidance addressing how for-profit entities account for government assistance, particularly after inconsistent practices emerged during the pandemic. The new rules align more closely with IAS 20 and require businesses to recognize government grants when it is probable conditions will be met and the grant will be received. Grants may be monetary, forgivable loans, or tangible non-monetary assets. Businesses may apply either a deferred income approach or cost accumulation approach for asset-related grants. The course also explains exclusions (Topic 606, Topic 740, intangible benefits), repayment accounting, disclosure requirements, effective dates, and dissenting concerns about comparability and financial statement transparency.

#### Ms. Louis

Hi, I'm Jennifer Louis and I want to talk to you today about some new requirements that have come out of FASB guidance that's been issued related to businesses receiving some form of government assistance. Before we get into too much of the details, let's talk about why it is that we got here.

It is such that a for-profit organization, it's feasible that it would receive some form of assistance. It may come from a government. It might come from a nonprofit. It may be loans. It might be grants. It might be other forms of government aid. There's also tax credits that could be provided. The goal is to look at the situation and say, how do I recognize and measure this assistance that I'm getting in these circumstances?

And particularly for businesses, there isn't specific guidance about how to handle these cases where there's a non-exchange activity. This government or this nonprofit is not a customer, but yet they're giving me consideration or some form of value as an asset is being created for this organization.

And absent specific guidance, the FASB codification says follow something that is similar, that's incorporated within the FASB codification, or you can use guidance from other sources such as international accounting standards. International accounting standards does have rules for accounting for government grants and disclosures of government assistance.

This wasn't necessarily highlighted as far as a huge need until we had things occur like the pandemic. And after the result of the pandemic, organizations, there was diversity in how organizations were handling this government assistance. Some were using by analogy, what nonprofits do underneath FASB convocation topic 958. Some were using the international accounting standard that I just mentioned. And some were using other variations like trying to just turn to codification topic 450 that deals with contingencies.

As far as I have a transaction or event where there is uncertainty about a possible gain or possible loss that will be resolved in the future at some point. And there's guidance on how to account for gain contingencies and loss contingencies. There's also guidance related to things like debt, as I might have debt that might be forgivable. Well, how do I account for that? These cases then were such that at first, back in 2021, there was ASU 2021-10 that just had disclosures.

Talk about the nature of your government assistance transactions. What accounting policy did you choose to use? Where are the financial statement line items impacted by this government assistance? And what are the terms and conditions of the assistance, including any commitments or contingencies that might exist?

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Now, I want to differentiate this from a nonprofit. A nonprofit already has in codification topic 958-605 that gives guidance for recognizing revenue when I'm in a non-exchange activity. When do I recognize the revenue? How do I recognize things like non-cash consideration and other factors? The nonprofits, even though there's a new ASU I'm going to talk about here for businesses, the nonprofits will continue their same accounting.

What will happen though is if I'm a non-profit, I mean if I'm a for-profit that was using the non-profit guidance as my approach, my policies for dealing with government forms of assistance in a non-exchange activity scenario, you will discontinue that and you'll switch to the new FASB rule.

The new FASB rule is more an alignment with the International Financial Reporting Standards Rule. It's more in alignment with that of, however, through the process of issuing this final FASB, the FASB GAAP decided to have some differences with the international version. But yet there's convergence with the international version more than there's convergence with how a business and a nonprofit will account for the exact same transactions essentially underneath GAAP. And I'm going to highlight where those differences are.

But one of the reasons why the FASB felt that there needed to be differences is that there are just differences in what's the motivation of a for-profit organization compared to a nonprofit organization, the nonprofit attempting to achieve its mission. There's not a, there is, we think about the performance metrics that would be looked at between the two organizations, there'll be differences in the key performance metrics.

There's also for not for profits, there can be restrictions that are such that it is a condition before I could even start recognizing revenue is there was a barrier to overcome. And if I don't overcome it, I don't get the money.

They have to defer any revenue recognition until these barriers are substantially satisfied or explicitly waived. But there are conditional non-exchange transactions for a nonprofit that makes you defer revenue until I've substantially met those conditions or they've been explicitly waived. But even when I start recognizing revenue, there may be donor-imposed restrictions on how I can use it.

And there's two different net asset categories for nonprofits, those with donor-imposed restrictions, those without. That concept does not exist for a business. And so there are going to be cases where you're going to say, well, there should be differences as we think about the form and content and use of these financial statements for making certain economic decisions.

Now, there is the sense of where it is that I am receiving cash or I'm receiving an asset itself, like here's some equipment. There's forms of assistance that could be monetary or non-monetary in nature. There's also some form of government assistance that is here's a loan and then given certain conditions the loan might be forgivable. So accounting for the liability until it's no longer a liability, but then the question becomes, well, when is that liability extinguished?

And it may be that as upon the formal notification of forgiveness from the federal agency that I would continue to show that liability. And that liability will be classified as current or non-current just in a performance with the contractual terms. The debt, as long as I have it on my books, would be included in my debt maturity disclosures.

So the sense of really looking at the forms of assistance and as we look at for profits or not for profits, it can be the same. I can get monetary assistance. I can get a forgivable loan. I can get a tangible asset.

And each of those need to have their considerations around how do I account for it, most particularly around when can I recognize the income that might be coming from these transactions or events. But also where do I put these things on my statement of cash flows as we do look at the inflows and outflows of cash that might result from these different types of arrangements.

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And if we follow the predominance principle on the statement of cash flows, if I had a loan that I received and I treat it as a financing activity, it's an inflow from financing activities. If I had a forgiveness of that loan, it would be a non-cash financing activity disclosure. If I ended up having to repay the loan because it wasn't forgiven, it would be an outflow from the financing activity section as I try to match what's the underlying intention behind this.

Now, putting aside nonprofits, I don't want to get too far into that, but looking at IAS 20, when they had rules related to these grants and the income recognition on those grants, IAS 20 said a grant cannot be recognized even if the payments are received upfront until there's reasonable assurance that A, the entity will comply with any conditions associated with the grant and B, it is also there's reasonable assurance that the entity will receive the grant.

So when there's reasonable assurance that that's probable to occur, more likely than not, then we can go ahead and recognize that income. This is contradictory to other types of gain contingencies underneath the FASB. Underneath the FASB, if I have uncertainty with an income, I have to wait until that uncertainty is resolved.

So let's give an example. If I were to have a loss event and an insurance company said was going on looking at coverage from the insurance company until it is such that the insurance company has said, yes, you're covered and here's how much I'm going to cover you for. I could not credit a receivable or any related income related to that transaction.

Now there are cases where I could maybe recognize up to my losses that I've incurred, but I wouldn't be able to recognize anything above that without it being the uncertainties no longer there. Whereas here we're diluting that and saying when there is reasonable assurance or where it's as the language I use in international standards in FASB GAAP is going to say where it's probable that I'm going to comply and receive the grant, I'm going to start triggering the recognition of that grant. And so how is that going to happen?

Well, this is for this ASU that has been released is something that is only related to businesses. If I'm a not-for-profit, I'm going to continue to apply the rules under topic 958 because oftentimes I am heavily financed through soliciting contributions and funding from third parties, whether it's from a government or a corporation or an individual.

Employee benefit plans are also exempt from this new rule because they tend to not receive any significant amount of government grant money. They're isolating this to businesses where generally if I receive some form of government grant, it's generally incidental to my business. It's because there's something that occurred like a catastrophic event where I'm getting this form of assistance.

A government grant can be a transfer of a monetary asset or a tangible non-monetary asset. We are exempting from the scope of this as far as the grants that are received from a government to a business entity. It does not include Topic 606, exchange transactions where the government is my customer. Even if the terms and conditions of the exchange transaction are not consistent with normal terms and conditions, as long as it's an exchange transaction, it's not a grant.

It also would exclude below market interest rate loans. It would exclude a government guarantee and it would include also exclude anything that's covered by topic 740 of the FASB codification that deals with income tax matters. Now we have to make sure that it's covered by topic 740. For example, a non-refundable, non-transferable income tax credit is covered under topic 740. A refundable tax credit is not under the scope of topic 740, so therefore it could be included underneath this ASU related to a government grant.

Sometimes I have a grant that would be related to here's cash to reimburse you for expenditures that already had incurred, like to cover your payroll in the time period where your organization had experienced some sort catastrophic loss. So covering payroll during the pandemic or covering your payroll after there was a major flood or hurricane. It could be for expenditures I've already incurred and now you're giving the money to cover my payroll or it could help me fund future expenditures. It may be capital expenditures, wages, training, research, other operating expenses.

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It can be any form of expenditure, but there will be a difference in how you recognize the income if it's meant to be that it's reimbursing me for things already happening versus helping me fund future expenditures. You also can have as far as transferring ownership of a tangible non-monetary asset like equipment or building or even land.

There also can be forgivable loans that would be included underneath this definition of being a grant. So if I have a loan where the government is agreeing to waive repayment under certain prescribed conditions, now maybe I get the loan directly from the government or whether I get the loan from a lender that is giving it to me under conditions established by the government.

It is a forgivable loan, which is economically similar to the government just giving me cash with conditions attached to it.

What about intangible assets? So these could be things like free or reduced rent, patent protections, environmental credits. If it's not a tangible asset, it's not equipment, building, land, inventory. If it's intangible, it also is exempt from this ASU, mostly because part of what we have to do when we account for this is to determine the fair value of what we're receiving. And determining the fair value of these intangible assets would often be too costly or complex. And there would be too many questions about implementation. So rather than doing that, following that rabbit hole, they decided to go ahead and let's exempt intangible things.

There's also exclusions for things like if the government is giving me a service for free. There is also other things like a reduction of my liabilities, like giving me a tax abatement or reduction in my property taxes. Also, if there is a contribution to a business entity from a non-governmental source, like a nonprofit, a grant from a nonprofit is not in the scope of this arrangement because you're not a government.

There also may be gains or losses from the derecognition of non-financial assets under topic 610 that deals with other income, which could be as I receive things from an insurance company. So if it's not from a government, it's not incorporated into this rule. Now it may be sometimes as well, when I look at what am I getting from the government, it might be that I'm getting both. I'm getting a monetary asset and you're also giving me a grant related to an asset.

And I may need to figure out a way of accounting and bifurcating the accounting for each of those elements as they're want to make sure that we're doing something that seems fair. So there's no specific approach that's prescribed for breaking apart into portions of a grant for different purposes. It's just that you need to consider the intention of the grant, how the grant was determined, the conditions I need to satisfy to obtain or retain the grant.

Those will all be factors that I'll consider as I go through and look towards how to handle the accounting for this grant. The standard also does not stipulate how to measure the grant when it is not fixed, if there is a variable element that exists. But it would be something where I think an estimate of the amount that I expect to receive, that that would be used underneath FASB area 832 as we think about this amount.

And then I might need to update my estimates based on changing facts and circumstances around how much I think the award might be. And there could be cumulative catch-up adjustments that are made. Similar to topic 606, when there's variability in my transaction price, I just update my assessment and cumulative catch up to where I think I should be on a periodic basis.

That mechanism still would be a fair thing to do as I look at similar transactions, but there's no specific guidelines embedded within this ASU related to that.

A government can be a foreign, domestic, local, state, regional organization. It also could include departments or agencies or boards that are underneath that government. But it also can be where I have something that is administered by a non-government organization, but it's under the authority of a government to administer that grant on its behalf.

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The example you saw with that were things like the PPP loans, right? So a non-government organization was administering this program on behalf of the government, but in the context of the authority and the requirements that were stipulated by the government. Though it can be outsourced for it to still be a government grant. Underneath the new rules, as I think I mentioned earlier, that you'll recognize income related to this government grant when it is both probable, is the words that are used underneath the FASB, that A, I'll comply with the conditions attached and it's also probable that I'll receive the grant. But it also says that you have to follow what the relevant revenue recognition guidance is within this ASU.

And I'm going to talk about what that recognition guidance is because there is two different approaches. There's a deferred income approach and there is a cost accumulation approach. Now, could you have the case where I comply with the conditions on day one because I received a grant that was to use for previously incurred costs? So as soon as I have day one, I've met the conditions. The answer is yes.

You could have immediate recognition because it relates to previously incurred only. There are no future costs. As I think about what is the intention for what the grant is intended to reimburse me for. When I have grant related to income, you're going to use a deferred income approach. But what you'll do as you earn it, right, as I think about a systematic rational way, to show I've incurred the operating expenses for which this grant was intended to compensate, I have to defer the revenue until I have earned it. So there will be a systematic rational basis of moving deferred income to income.

You can either credit a line item called 'other income' or you can instead deduct from a related expense. If this is meant to help me cover my payroll, I could credit the payroll expense instead of crediting other income. It gives me a choice. You do an accounting policy election and you just consistently follow that election. If I'm receiving a tangible non-monetary asset, you can have two ways that you can account for that asset.

A deferred income approach would be that I initially measure this tangible non-monetary asset, the equipment, the supplies, the inventory, the building, the land. I initially measure it at fair value as I debit that asset that you're handing me, an actual asset, and I will credit deferred income. And then as I have costs related to that asset like depreciation, I would move from deferred income to income. So you're spreading the income over the period of time that is intended to be the costs that this grant relates.

If it's not a depreciable asset, you still need to figure out a grant period and you still need to defer the costs and spread them in some systematic, rational way. So this is a choice that I could use the deferred income approach when I have tangible non-monetary assets. Debit the asset at fair value, credit deferred income, and systematic rationally over the grant period to spread those costs accordingly.

The cost accumulation approach would instead be, I'm going to, as I think about the, so let's say that I am getting an asset. I'm going to not recognize that asset at fair value.

What I'm going to do is I'm going to start incurring costs related to this asset. And yeah, it is possible that there are no costs as I think about the costs to the entity, if any, that I'm getting in the fact of directly receiving this asset. But the carrying value of the asset is just simply what it costs me.

What they're saying is by showing it at my cost, effectively, it's the same as I acquired an asset and then received a cash reimbursement and I debit it against the asset. This means that my basis in this asset may be zero or may be nominal if there were nominal costs to transfer that asset from the government to me.

So this is one of the areas that's different because underneath international standards, they would still debit the asset at its fair value. And then for that grant amount. But for the cost accumulation approach underneath the FASB requirement, you only debit the cost. What did it cost me?

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It may be that I'm in a situation though where I may have a case where company receives a hundred thousand dollar grant to buy an equipment. So you gave me the money to buy the equipment, assuming that it cost me a hundred thousand dollars to buy the equipment.

The equipment's cost basis becomes zero there were no other costs. So this means that the equipment has a zero basis and has no depreciation expense related to that over the life of that equipment. The basis is zero.

Let's assume instead that I receive \$30 million to construct an asset and it costs \$50 million. Well, if it costs me 50 and you gave me 30 from the government, the basis of that asset will be \$20 million. It'll be the difference. And it's the \$20 million. Once the building is placed in operation, that will end up being depreciated.

So I can get as far as a grant related to an asset, it could be that you physically just give me the asset or you give me money that is conditioned on the purpose, the construction or acquisition of a tangible asset. And I will recognize something on my balance sheet if I'm incurring related costs for which the grant is intended to compensate.

So when we're looking at this, as it relates to an asset, I can either use the deferred income approach where I am reflecting the asset at its fair value, deferring income, spreading it as I have depreciation and impairment and other things, or I can use the cost accumulation approach which is basically only showing the basis of the asset is what is not reimbursed by the government grant, like \$20 million of a \$50 million project when \$30 million came from the government.

All right, let's give another example of this because I know it's a little complicated just to say one more variation or one more different way of looking at it. Let's say that I did receive a \$5 million grant to help me towards the cost of purchasing a building. I get the money once I purchase the building. The building is going to have a 40-year useful life to it. So I build the building or purchase the building once it's placed in operation.

If I'm using the deferred income approach, I will spread over a 40-year period that \$5 million grant because of the fact that it was intended to benefit me for 40 years, if that's the use of life for the building. If I use the cost accumulation approach, whatever it cost me to purchase the building, I will reduce it by \$5 million.

And when I place the building in service, the amount that I will be depreciating will be \$5 million less. You adjust the carrying amount of the building instead of having an earnings impact.

So it's interesting as we think about this cost accumulated approach is the part that is really substantively different than what a nonprofit does. And certainly it is something that you could elect to do. You're not required to use the cost accumulation approach, but I'll talk about later how there was some dissent related to that particular principle.

But before we get there, let's just in general stick with what we are required to do versus why people aren't happy potentially with this rule is you also have to think about, what if I went ahead and I was starting to recognize this government grant because I could do it when it became probable, right, that I'm going to comply with the conditions and receive the grant. But what if in the end, as I was starting to book income, I booked the asset, I booked the income, and now I don't, I have to repay the government.

If it's a grant related to income, I'm going to first apply against unamortized deferred income to get any deferred income off the books. And then I'm also going to immediately recognize any difference in earnings. If it's a grant related to an asset, I will increase the carrying amount of the asset if I'm using the cost accumulated approach. And with all related expenses that would have been recognized in earnings to date, recognized in my earnings.

If I am using the deferred income approach in a grant related to an asset, I would reduce instead the deferred income and then apply any excess to my earnings. If I acquire another entity that has grants there, then you do have guidance in this rule that talks about the principles of recognizing any liabilities associated with these grants.

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And particularly as we think about the deferred income that the acquirer would recognize deferred income unless the acquirer has already fully complied with the conditions associated with the grant. But generally the acquirer would just pick up the deferred income underneath this codification topic 832.

There's disclosures related to the nature of the government grant received and providing a general description of the grant, the form it was received, the fair value of any tangible non-monetary asset received. Even if you're using the cost accumulated approach, if I received a building or equipment or land inventory supplies, I still have to disclose the fair value of that non-monetary tangible asset. You're going to disclose what policies am I applying

Am I using the deferred income approach or the cost accumulated approach if it relates to a grant related to an asset? What are the line items that are affected? And what's the use of life of any asset that's associated with a grant related to an asset. What's the duration of the grant? What provisions might exist where I might trigger the need to have to repay the government and other contingencies that might exist? As we understand the nature and the form of these grants, we understand the impact on the financials, we understand the significant terms and conditions, including any risks and uncertainties that exist.

There is an effective date for this new ASU for public business entities. It's for fiscal years beginning after 12-15-2028. So it would affect your calendar year 2029 financials moving forward. For everybody else besides the public business entity, it would be for a year after that, fiscal years beginning after December 15, 2029.

So it'd be my 12-15-2030 calendar years going forward. However, early adoption is permitted. So this is a situation where if I'm receiving some form of government assistance and I'm not sure how to account for it, I might want to early adopt this provision because it gives me a means of accounting for it. If you do early adopt, it has to be because your financials have not yet been issued or made available for issuance.

And you also have to adopt as of the beginning of an annual period when you're adopting this new rule. But it is an area where there isn't anything out there right now. And there's diversity in how we've been accounting for these things. And now we'll have more cohesion on how businesses are accounting for these government grants.

I mentioned how there was some dissent. And so let me talk about why it is that there were actually three FASB board members that did not want to pass this new ASU. And part of it was that we talked about with the deferred income approach that a deferred grant liability would be recognized after potentially the conditions of the grant are met.

So, when we're looking at that deferred liability, I'm systematically, rationally spreading the income over the period that's intended to compensate. And so a liability is, is there a present obligation to transfer an economic benefit. And this might be where there's a case where the deferred income really doesn't meet the liability definition. Also wonder that cost accumulated approach.

A granted asset would not be recognized. And they would say that's violating the definition of an asset where there is a present right to an economic benefit. And this might violate recognition principles because an asset exists, but I'm not putting it on the books.

Because remember, under the cost-accumulated approach, I only record what it cost the entity, which is above and beyond what is being provided by the government. There also is where in thinking about this, one of the things that investors and other stakeholders said, there's too much optionality in current practice. I could be using the nonprofit way of accounting. I could be using the IAS for international standards of accounting. I could use topic 450 that deals with contingencies.

There's right now, there's too much variability. We want you to increase comparability. But in the end, when we have this ASU, it's almost like you're codifying diversity in practice. It doesn't really do anything to enhance comparability because even as this ASU is put in place, while there's rules, it says, well, your financial reporting is going to depend.

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Who's giving you the money? If it's a government, use this ASU. If it's not a government, if it's a nonprofit or an insurance company, it doesn't apply. It also has differences as I am the entity receiving the government grant. If I'm a not-for-profit as the recipient, I'll follow topic 958, but if I'm a business, I'm going to follow topic 832 and there's differences in the accounting.

It also has differences in the type of grant. If I'm receiving income, a monetary amount, which does include forgivable loans, that would be accounted for solely as deferred income. But if I'm receiving a grant of an asset, which could be receiving the actual tangible asset, or you're giving me money that must be used for a tangible non-monetary asset, I can either use the deferred income approach or I can use this cost accumulation approach. So, in essence, there is still a lot of diversity. It's just that we have formalized to say that we're permitting all of this diversity.

And particularly with the cost accumulation approach, there's concern that because this balance sheet does not include assets received as government grants, then in essence, it's going to inflate my return on assets metric. And it also is something where my operating margins might be inflated because I'm not showing this over on my income statement and it could be deceiving because these granted tangible assets might require ongoing maintenance.

They might become obsolete and so without like having an awareness that this asset exists we're not anticipating those things because my assets will not reflect these government grants of assets.

Also, I only need to disclose the fair value of government grants in the year that I receive it. There's no ongoing disclosures, which further exasperates the fact that investors might not be aware of the existence of an asset that came from a government. What's its useful life and anticipating that, if it only has two more years of life yet, well, now I'm to have to go out and buy this asset, but I don't know that I have this asset that needs to be replaced if we're not reflecting it on the balance sheet.

So those were some of the concerns that were related to these issues. But ultimately, the majority of the FASB board said, we think it's more important to be convergent with international rules while we are going to put some differences in that they felt as if that would be the proper way of handling things as it relates to the businesses that are receiving this government grant. They were calling it government assistance and now they're calling them government grants.

It can be a grant that you receive as a startup based on a grant from the Small Business Administration. It can be something that I receive as a result of a catastrophic event that the government is giving me an asset or giving me monetary amounts towards an asset or giving me cash. So these are things that do exist out there.

It's not the primary thing that businesses will turn to, but it is things that the, that entities do face over the course of time. So hopefully you've gotten some useful information of understanding why did this project come to fruition. Understanding what the rules are going to be and how it is that there might be differences in other types of entities that you might see as far as their accounting.

## GROUP STUDY MATERIALS

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### A. Discussion Questions

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1. Why did FASB determine that new government grant guidance was needed for businesses?
2. Compare the deferred income approach and cost accumulation approach for asset-related government grants.
3. What were the primary concerns raised by dissenting FASB board members regarding the new ASU?

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## **B. Suggested Answers to Discussion Questions**

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### **1. Why did FASB determine that new government grant guidance was needed for businesses?**

FASB issued this guidance because businesses lacked specific GAAP direction for accounting for non-exchange government assistance. Unlike nonprofits, which follow Topic 958 for contributions, for-profit entities historically applied inconsistent analogies, including IAS 20, Topic 450 contingencies, debt guidance, or nonprofit models. This diversity became especially visible during the pandemic, when large numbers of entities received assistance such as PPP loans, payroll reimbursement grants, and other programs. Stakeholders expressed concern that financial reporting was not comparable across entities, even when similar grants were received. ASU 2021-10 initially required disclosures, but the new Topic 832 framework goes further by establishing recognition thresholds, measurement approaches, and required presentation guidance. The standard also improves convergence with international accounting rules while acknowledging differences between nonprofit mission-driven reporting and business performance metrics. Overall, the project was intended to provide structure and reduce uncertainty in how government assistance is reflected in financial statements.

### **2. Compare the deferred income approach and cost accumulation approach for asset-related government grants.**

The new guidance provides two accounting approaches for government grants related to tangible assets. Under the deferred income approach, the entity records the asset received at fair value and credits a deferred income liability. Income is then recognized systematically over the grant period, often aligned with depreciation expense or the asset's useful life. This approach reflects the grant as a form of earnings support over time. In contrast, the cost accumulation approach records the asset only at the entity's unreimbursed cost. If the government fully funds the asset, the asset may have a zero carrying value and no depreciation expense. This approach treats the grant more like a reimbursement of acquisition cost rather than income. The two approaches can significantly affect financial ratios, return on assets, and operating margin. Critics argue that the cost accumulation method reduces transparency because the granted asset may not appear on the balance sheet, potentially misleading users. Therefore, the choice requires careful policy election and consistent application.

### **3. What were the primary concerns raised by dissenting FASB board members regarding the new ASU?**

Three FASB board members dissented because they believed the ASU still permits excessive diversity and may conflict with conceptual definitions of assets and liabilities. They questioned whether deferred grant income truly meets the definition of a liability, since it may not represent a present obligation to transfer economic resources. They also raised concerns about the cost accumulation approach, which may prevent recognition of granted tangible assets, even though an economic resource clearly exists. This omission could inflate return on assets and distort performance metrics. Another major concern was comparability: while the ASU aimed to reduce inconsistent practice, it introduces optionality between approaches and different accounting depending on whether the recipient is a nonprofit or business entity. Additionally, disclosures of fair value are only required in the year the asset is received, limiting ongoing transparency. The dissenters argued the standard may codify diversity rather than eliminate it, leaving investors with incomplete information about government-provided resources.

## GLOSSARY

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**Analytical Procedures**—Evaluations of financial information through comparisons, ratios, and predictive tests to identify unusual relationships.

**Audit-Like Procedures**—Procedures such as confirmation, observation, and recalculation that are ordinarily performed in audits but not contemplated in reviews.

**Cost Accumulation Approach**—Method that records assets only at the entity's unreimbursed cost, reducing or eliminating depreciation.

**Deferred Income Approach**—Accounting method that records grant-related assets at fair value with income recognized systematically over time.

**Government Grant**—A transfer of monetary or tangible non-monetary assets from a government to a business entity, often with conditions attached.

**Limited Assurance**—A lower level of assurance than an audit, indicating no material modifications are likely needed.

**Planning Materiality (SSARS-25)**—A threshold amount used to guide the extent of review procedures, not as a strict cutoff.

**Predictive Test**—An analytical procedure estimating an expected account balance based on operational or external data.

**Probable Recognition Threshold**—Grant income is recognized when it is probable the entity will comply with conditions and receive the grant.

**Review Engagement**—An attest service providing limited assurance that no material modifications are needed for financial statements to conform with the applicable framework.

**Topic 832 (Government Grants)**—New FASB codification topic establishing recognition, measurement, and disclosure rules for business entities receiving government assistance.

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

1. When should audit-like procedures be performed during a review?
  - A. Always, to ensure completeness
  - B. Never, under any circumstances
  - C. Only if inquiry or analytics indicate a possible departure
  - D. Only for revenue accounts
  
2. What is the best practice for bookkeeping work needed before a review?
  - A. Include it within the review engagement
  - B. Perform it as a separate non-attest service
  - C. Delegate it entirely to first-year staff
  - D. Avoid bookkeeping entirely
  
3. The speaker suggests most review engagements should typically involve:
  - A. One experienced person with one reviewer
  - B. Large teams similar to audits
  - C. Only unlicensed staff to reduce cost
  - D. Separate staff for balance sheet and income statement inquiries
  
4. Which analytical procedure does the speaker emphasize as especially powerful?
  - A. Random ratio generation
  - B. Predictive tests
  - C. Bank reconciliation tie-outs
  - D. Tick-mark documentation
  
5. The speaker recommends reviewing what early in the engagement to improve efficiency?
  - A. The trial balance only
  - B. Only adjusting journal entries
  - C. Internal control documentation
  - D. Financial statements

*Continued on next page*

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6. Why did the SSARS committee originally avoid requiring confirmations or observations in reviews?
- A. Because clients refuse those procedures
  - B. Because reviews require the same evidence as audits
  - C. Because such procedures would justify issuing an audit report
  - D. Because analytical procedures are optional
7. Which analytical procedure is specifically required in every review engagement?
- A. Confirmation of revenue balances
  - B. Comparison of appropriate information with the prior period
  - C. Inventory observation
  - D. External verification of receivables
8. What is the speaker's preferred approach for performing analytical comparisons?
- A. At the trial balance account level
  - B. Only on accounts exceeding materiality
  - C. At the financial statement grouping level
  - D. Only on expense accounts
9. Which type of analytical procedure does the speaker describe as most powerful for revenue?
- A. Predictive tests
  - B. Random ratio generation
  - C. Tick-and-tie schedules
  - D. Bank reconciliations
10. How should materiality under SSARS-25 be used in a review engagement?
- A. As an absolute cutoff below which no procedures are performed
  - B. Only for revenue accounts
  - C. To eliminate inquiry procedures entirely
  - D. As a tool to help determine the extent of procedures

*Continued on next page*

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11. Why did FASB issue new guidance on government assistance for businesses?
- A. Because businesses already had consistent GAAP treatment
  - B. Because nonprofits lacked accounting guidance
  - C. Because government assistance increased and accounting diversity emerged
  - D. Because Topic 606 requires it
12. Which type of entity is primarily affected by the new government grant ASU?
- A. Not-for-profit organizations
  - B. Business entities
  - C. Employee benefit plans
  - D. Governments as grantors
13. When should a business recognize income from a government grant under the new guidance?
- A. Only when all uncertainty is resolved
  - B. Immediately upon receiving cash
  - C. When it is probable the entity will comply and receive the grant
  - D. Only after repayment is no longer possible
14. Which accounting approach records a tangible asset grant at fair value with deferred income?
- A. Cost accumulation approach
  - B. Deferred income approach
  - C. Contingency approach under Topic 450
  - D. Tax credit recognition under Topic 740
15. Which of the following is excluded from the scope of Topic 832 government grant guidance?
- A. Forgivable loans
  - B. Monetary payroll reimbursement grants
  - C. Tangible equipment received from a government
  - D. Below-market interest rate loans

## Subscriber Survey

### Evaluation Form

Please take a few minutes to complete this survey related to **Cerifi CPE Network A&A Report** and return with your quizzer or group attendance sheet to Cerifi, LLC. All responses will be kept confidential. Comments in addition to the answers to these questions are also welcome. Please send comments to [grading-cpedge@cerifi.com](mailto:grading-cpedge@cerifi.com).

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

	Topic Relevance	Topic Content/ Coverage	Topic Timeliness	Video Quality	Audio Quality	Written Material
Session 1						
Session 2						
Session 3						

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

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

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

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

	<b>Overall</b>	<b>Knowledge of Topic</b>	<b>Presentation Skills</b>
Mr. Kurt Oestrieher	_____	_____	_____
Ms. Jennifer Louis	_____	_____	_____

Are you using **CeriFi CPE Network A&A Report** for: CPE Credit  Information  Both

---

Were the stated learning objectives met? Yes  No  \_\_\_\_\_

If applicable, were prerequisite requirements appropriate? Yes  No  \_\_\_\_\_

Were program materials accurate? Yes  No  \_\_\_\_\_

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

---

Were the time allocations for the program appropriate? Yes  No  \_\_\_\_\_

Were the supplemental reading materials satisfactory? Yes  No  \_\_\_\_\_

Were the discussion questions and answers satisfactory? Yes  No  \_\_\_\_\_

Specific Comments:

---

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Name/Company \_\_\_\_\_

Address \_\_\_\_\_

City/State/Zip \_\_\_\_\_

Email \_\_\_\_\_

**Once Again, Thank You...**

**Your Input Can Have a Direct Influence on Future Issues!**

# Cerifi CPE Network



## CPE Group Attendance Sheet

Firm/Company Name: \_\_\_\_\_  
Account #: \_\_\_\_\_  
Location: \_\_\_\_\_  
Program Title: \_\_\_\_\_ Date: \_\_\_\_\_

<u>Name</u>	<u>Email</u>	<u>Total Hrs</u>	<u>IRS PTIN ID (if applicable Tax only)</u>	<u>Sign In</u>	<u>Sign Out</u>
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____

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

Instructor Name: \_\_\_\_\_ Date: \_\_\_\_\_

E-mail address: \_\_\_\_\_

License State and Number: \_\_\_\_\_



# CERIFI CPE NETWORK USER GUIDE

REVISED August 2025

## Welcome to CeriFi CPE Network!

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

This User Guide has the following sections:

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

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

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

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

**We are happy that you chose CeriFi CPE Network for your training solutions.**

**Thank you for your business and HAPPY LEARNING!**

#### **Copyrighted Materials**

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

# “Group Live” Format

## CPE Credit

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

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

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

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

## Advertising / Promotional Page

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

## Monitoring Attendance

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

Use the **attendance sheet**. This lists the instructor(s) name and credentials, as well as the first and last name of each participant attending the seminar. The participant is expected to initial the sheet for their morning attendance and provide their signature for their afternoon attendance. If a participant arrives late, leaves early, or is a “no show,” the actual hours they attended should be documented on the sign-in sheet and will be reflected on the participant’s CPE certificate.

## **Real Time Instructor During Program Presentation**

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

## **Elements of Engagement**

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

## **Make-Up Sessions**

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

- If the emailed materials are used, the user should read the materials, watch the video, and answer the quizzer questions on the CPE Quizzer Answer Sheet. Send the answer sheet and course evaluation to the email address listed on the answer sheet and the CPE certificate will be mailed or emailed to the user. Detailed instructions are provided on Network Program Self-Study Options.
- If the online materials are used, the user should log on to her/his individual CeriFi 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 CeriFi CPE Network after the “group live” documentation is received (and providing the course is delivered as 3 CPE credits). The certificate of completion will reflect the credit hours earned by the individual, with special calculation of credits for those who arrived late or left early.

## **Subscriber Survey Evaluation Forms**

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

### Retention of Records

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

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

### Finding the Transcript

The entire transcript is available as a pdf via the link in the email sent to administrators.

### Requesting Participant CPE Certificates

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

Email: [grading-cpedge@cerifi.com](mailto:grading-cpedge@cerifi.com)

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

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

**Incomplete submissions will be returned to you.**

# “Group Internet Based” Format

## CPE Credit

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

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

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

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

## Advertising / Promotional Page

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

## Monitoring Attendance in a Webinar

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

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

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

Examples of polling questions:

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

#### **Additional Notes on Monitoring Mechanisms:**

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

## **Real Time Moderator During Program Presentation**

“Group internet based” programs must have a **qualified, real time moderator while the program is being presented**. Program participants must be able to interact with the moderator while the course is in progress (including the opportunity to ask questions and receive answers during the presentation). This can be achieved via the webinar chat box, and/or by unmuting participants and allowing them to speak directly to the moderator.

Where individual participants log into a group live program they are required to enable two-way video to participate in a virtual face-to-face setting (with cameras on), elements of engagement are required (such as group discussion, polling questions, instructor posed questions with time for reflection, or a case study with engagement throughout the presentation) in order to award CPE credits to the participants. Participation in the two-way video conference must be monitored and documented by the instructor or attendance monitor in order to authenticate attendance for program duration. The participant-to-attendance monitor ratio must not exceed 25:1, unless there is a dedicated attendance monitor in which case the participant-to-attendance monitor ratio must not exceed 100:1.

## **Make-Up Sessions**

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

- If emailed materials are used, the user should read the materials, watch the video, and answer the quizzer questions on the CPE Quizzer Answer Sheet. Send the answer sheet and course evaluation to the email address listed on the answer sheet and the CPE certificate will be mailed or emailed to the user. Detailed instructions are provided on Network Program Self-Study Options.
- If the online materials are used, the user should log on to her/his individual CeriFi CPE 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 CeriFi CPE Network after the “group internet based” documentation is received (and providing the course is delivered as 3 CPE credits). The certificate of completion will reflect the credit hours earned by the individual, with special calculation of credits for those who may not have answered the required amount of polling questions.

## **Subscriber Survey Evaluation Forms**

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

## **Retention of Records**

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

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

## **Finding the Transcript**

**The email sent to administrators each month has a link to the pdf for the newsletter. The email may be forwarded to participants who may download the materials or print them as needed.**

## Requesting Participant CPE Certificates

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

Email: [grading-cpedge@cerifi.com](mailto:grading-cpedge@cerifi.com)

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

Advertising /		Complete this form and circulate to your audience
Webinar Delivery		Use this form to track the attendance (i.e., polling
Evaluation Form		Circulate the evaluation form at the end of your training session so that participants can review and comment on the training. Return to CeriFi any evaluations that were completed. You do not have to

**Incomplete submissions will be returned to you.**

# “Self-Study” Format

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

## Self-Study—Email

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

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

**[grading-cpedge@cerifi.com](mailto:grading-cpedge@cerifi.com)**

## Self-Study—Online

Follow these simple steps to use the online program:

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

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

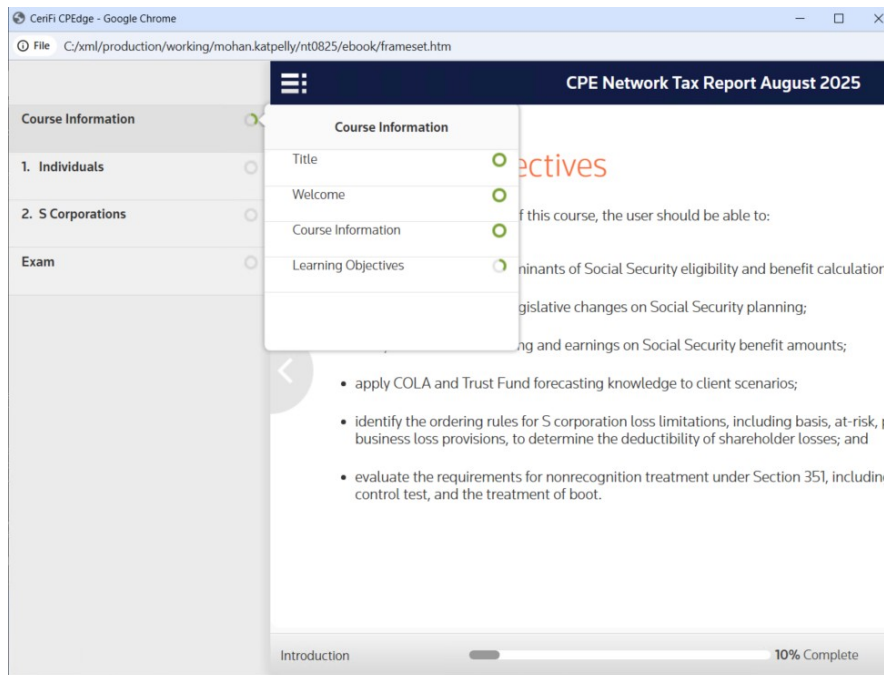
- In the **CeriFi CPE Network** tab, select the desired Network Report and then the appropriate edition.

CPE Network	Subscription Expiration Date	Latest Issue Available
<a href="#">NETWORK TAX REPORT</a>	11/5/2118	July 2025
<a href="#">NETWORK ACCOUNTING AND AUDITING REPORT</a>	11/5/2118	July 2025
<a href="#">GOVERNMENTAL NONPROFIT ACCOUNTING REPORT</a>	9/19/2027	July 2025

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

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

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



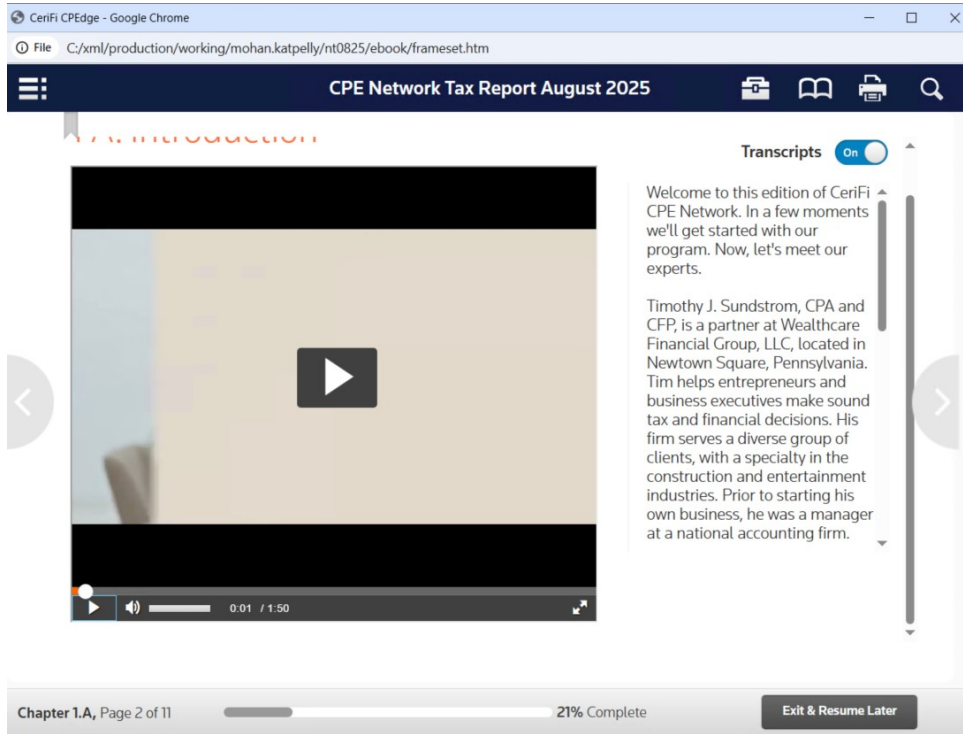
- **Each Chapter is self-contained.** Each chapter contains the executive summary and learning objectives for that segment, followed by the interview, the related supplemental materials, and then the self-study questions. This streamlined approach allows administrators and users to more easily access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



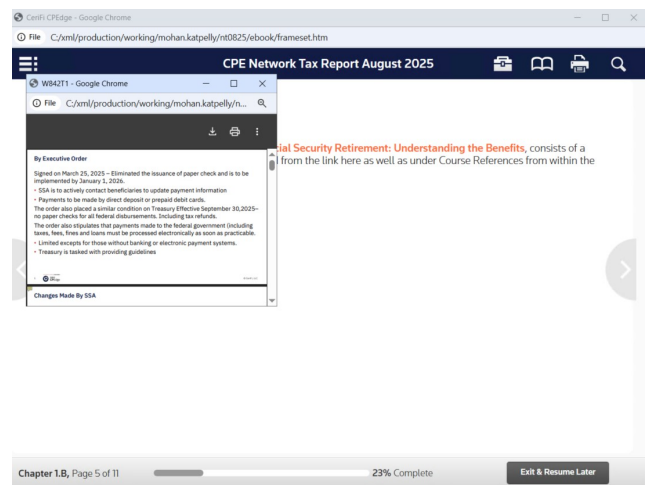
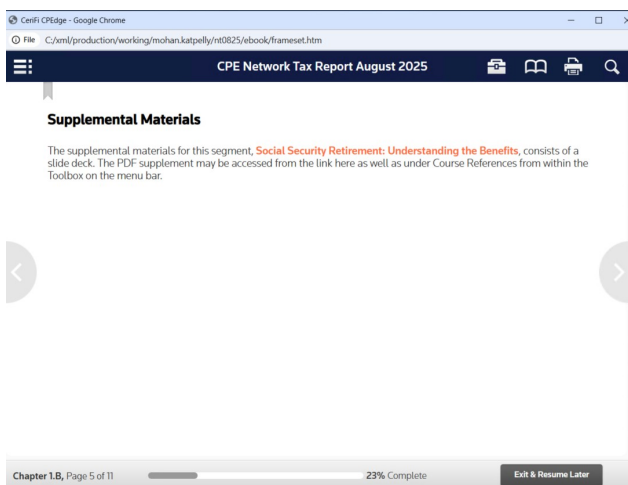
Video segments may be downloaded from the player by clicking on the download button. *Tip: you may need to scroll down to see the download button.*

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

Click the arrow at the bottom of the video to play it, or click the arrow to the right side of the screen to advance to the supplemental material.



The supplemental materials are available via the toolbox and the link will pop up the pdf version in a separate window.



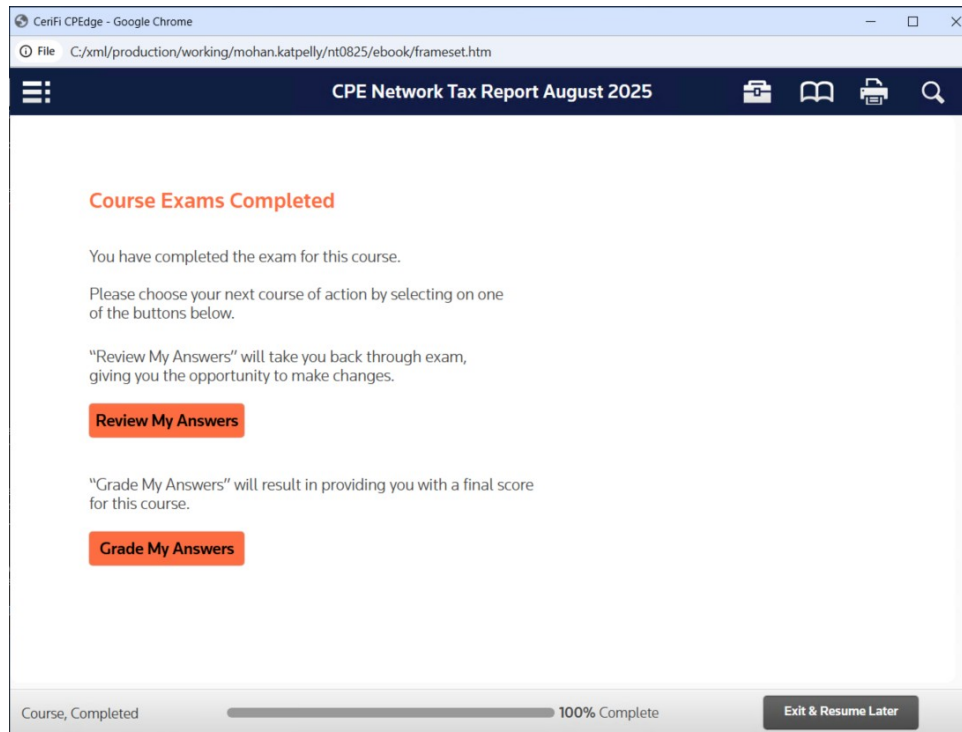
Continuing to click the arrow to the right side of the screen will bring the user to the self-study questions related to the segment.

The screenshot shows a web browser window with the following elements:

- Browser Title Bar:** Cerifi CPEdge - Google Chrome
- Address Bar:** File C:/xml/production/working/mohan.katpelly/nt0825/ebook/frameset.htm
- Page Header:** CPE Network Tax Report August 2025
- Section Header:** Chapter 1: Study Question
- Instruction:** Select the best answer.
- Question:** What determines the amount of earnings required to earn a quarter of coverage?
- Options:**
  - A. Average Wage Index (AWI)
  - B. CPI-W adjustments
  - C. Individual work history
  - D. Federal budget limits
- Navigation:** Left and right arrows on the sides of the question area.
- Footer:** Chapter 1.B, Page 6 of 11 | 26% Complete | Exit & Resume Later

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

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



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

### Additional Features Search

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

**Search Results** are displayed with the number of hits.

### Print

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

# What Does It Mean to Be a CPE Sponsor?

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

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

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

## **CPE Sponsor Requirements**

### **Determining CPE Credit Increments**

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

## **Program Presentation**

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

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

## **Disclose Significant Features of Program in Advance**

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

## **Monitor Attendance**

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

### **Real Time Instructor During Program Presentation**

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

### **Elements of Engagement**

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

### **Awarding CPE Certificates**

The CPE certificate is the participant’s record of attendance and is awarded at the conclusion of the seminar. It should reflect the credit hours earned by the individual, with special calculation of credits for those who arrived late or left early.

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

### **Seminar Quality Evaluations for Firm Sponsor**

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

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

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

## **Retention of Records**

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

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

# Appendix: Forms

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

<b>Delivery Method</b>	<b>Form Name</b>	<b>Location</b>	<b>Notes</b>
“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:

<b>Support Group</b>	<b>Phone Number</b>	<b>Email Address</b>	<b>Typical Issues/Questions</b>
Technical Support	844.245.5970	<a href="mailto:cpedgesupport@cerifi.com">cpedgesupport@cerifi.com</a>	<ul style="list-style-type: none"><li>• Browser-based</li><li>• Certificate discrepancies</li><li>• Accessing courses</li><li>• Migration questions</li><li>• Feed issues</li></ul>
Product Support	844.245.5970	<a href="mailto:cpedgesupport@cerifi.com">cpedgesupport@cerifi.com</a>	<ul style="list-style-type: none"><li>• Functionality (how to use, where to find)</li><li>• Content questions</li><li>• Login Assistance</li></ul>
Customer Support	844.245.5970	<a href="mailto:cpedgesupport@cerifi.com">cpedgesupport@cerifi.com</a>	<ul style="list-style-type: none"><li>• Billing</li><li>• Existing orders</li><li>• Cancellations</li><li>• Webinars</li><li>• Certificates</li></ul>