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CPE NETWORK

ACCOUNTING & AUDITING REPORT

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Topics for future editions may include:

- FASB Update
- Auditor's responsibility for fraud and NOCLAR
- Quality management SAS 146 and SSARS 26

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EXECUTIVE SUMMARY

PART 1. ACCOUNTING

Russ Madray, CPA explains accounting for restricted stock awards. [*Running time: 24:55*]

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

- Identify the appropriate accounting guidance and how to account for the different types of restricted stock awards
- Identify the IRC section related to restricted stock plans
- Account for RSAs and RSUs

PART 2. AUDITING

Jennifer Louis, CPA discusses guidance on accounting for and auditing of crypto and digital assets. [*Running time: 29:42*]

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

- Identify the differences between crypto assets and digital assets
- Determine the appropriate accounting guidance to record digital assets and how to account for them
- Identify valuation concerns in accounting for digital and crypto assets

PART 3. SMALL BUSINESS

Kurt Oestriecher, CPA, reviews compilation engagement reporting considerations. [*Running time: 35:43*]

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

- Identify the current guidance and the requirements for the standard report
- Determine common modifications to the standard report and recent changes
- Identify engagements with RSI presented typically

ABOUT THE SPEAKERS

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

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

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

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Learning Objectives (Refer to executive summary)	
Program Description (Refer to executive summary)	
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Program Level	Update
Prerequisites (Circle One)	• Basic Accounting and Auditing professional experience
	• Basic Tax professional experience
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Advance preparation	None required
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PART 1. ACCOUNTING

Restricted Stock Awards

Restricted stock awards are frequently awarded to employees as a means of compensation. The accounting for these awards falls under the guidance in Section 718 of the FASB's Accounting Standards Codification.

In practice these awards are referred to as restricted stock awards and restricted stock units, however, the authoritative guidance refers to them as nonvested shares, and the accounting is very similar to that of employee stock options.

For more on accounting for restricted stock awards, let's join Russ Madray, a CPA in Greenville, South Carolina, and CPE Network's Debi Grove Casey.

Ms. Grove Casey

Today we want to talk a little bit about restricted stock awards. Now, the FASB ASC addresses an employer's accounting for a variety of compensation related issues, including restricted stock awards. To begin with, could you give us an overview of the guidance related to these types of awards?

Mr. Madray

Certainly. As you said, the Accounting Standards Codification or ASC provides guidance on a number of employee compensation-related topics, primarily for topics within the ASC that you see on this first slide 710, which is the compensation general topic; ASC 712, which is the non-retirement post-employment benefits; ASC 715, which is retirement benefits; and ASC 718, which deals with stock compensation. And that's going to be our focus for these types of awards – Topic 718. It's important to keep in mind that in practice the terms restricted stock awards or RSAs restricted stock units, RSUs are typically the terms that are used. Topic 718 refers to all of these as "nonvested shares". Accounting for restricted stock awards and restricted stock units is actually very similar to accounting for employee stock options.

The major difference is that valuation is generally much simpler for these types of awards than they are for employee stock options. Also it's important to keep in mind that the term restricted shares is used in Topic 718, but it refers only to fully vested and outstanding shares that are owned by the employee, but whose sale is contractually or governmentally prohibited for a specified period of time. Instead, Topic 718 defines non-vested shares, what we're going to call restricted stock awards, restricted stock units as shares that an entity has not yet issued because they agreed upon consideration such as delivery of goods, services, any other conditions has not yet been satisfied. Non-vested shares generally cannot be sold. And again, we, in practice, typically refer to these things as restricted stock or restricted stock awards.

Ms. Grove Casey

Well, could you explain the difference between a restricted stock award and a restricted stock unit?

Mr. Madray

Sure. Restricted stock units represent an interest in company stock, but they have no tangible value until the shares actually vest and restrictions on the employee lapse. Another way to look at it is, as RSUs are simply an unfunded promise to issue a specific number of shares at some future time, once the vesting conditions for the employee have been satisfied. RSUs can't be sold or treated as owned by the employees until they have the legal right on the vesting date. The restrictions typically include a time based requirement and/or some type of performance metric to be met before the RSUs vest. They often will provide an option to receive the cash value of the RSU in lieu of the shares once they are vested.

That option to receive cash value doesn't exist for a restrictive stock award or an RSA. Another difference is stock is not issued for RSUs until the restrictions lapse. So RSUs would never count as outstanding shares, for example, in an earnings per share calculation. RSAs sometimes simply known as restricted stock is a form of compensation like an RSU, but it does have some key differences. RSAs represent an actual share of stock the recipient receives but the right to sell or transfer the shares are restricted until the vesting period passes. Similar to RSUs a certain investing period or service level needs to be met in order to obtain the full value from the stock, but the difference is the value of the restricted stock cannot be given as cash. Once the vesting period passes the value received has to be in that stock itself. Now after vesting, the owner can sell the shares they've received but they can't receive cash in lieu of shares. Another major difference is restricted stock entitles the owner to dividend and voting rights. Again, although technically RSUs could include some type of dividend equivalent, it's not actually very common. Restricted stock would be treated like any other issued or an outstanding share of stock. When it comes to voting dividend rights again, the major difference is just on the existence of restrictions on the sale or transfer until the shares actually vest with the employee. RSUs or RSAs both are often offered after a private company goes public or reaches some more stable valuation so that like stock options RSUs and RSAs do vest over time.

But unlike those stock options, the employee does have to buy them. And this way they carry less risk than stock options. So, in other words, as long as the stock price doesn't drop to zero, RSAs and RSUs will always be worth something. As an example, if you assume a company grants 10,000 RSUs that vest over four years if the stock price remains at $15 for the entire four years, the value of those RSUs is $150,000. In that same scenario, stock options that have a strike price of $15 would be worthless unless the stock price actually goes up over that period of time. Now, like stock options, they do typically vest over several years. And, also much like stock options these plans do encourage employees to stay with the company longer because they vest over time.

And a little side note here, that restricted stock plans usually are designed to comply with Internal Revenue Code Section 83 to allow employee compensation to be non-taxable to the employee until the date the shares become substantially vested which is when the restrictions are lifted. The flip side is that the employer doesn't get any tax deduction for the compensation until it becomes taxable to the employee. Now, this is as far as down the tax road as I'm prepared to go, but I just want to make that little note clear.

Ms. Grove Casey

Well, you've mentioned that these stock awards are equity, and it seems like they normally would be classified as equity, but would they ever be classified and accounted for as a liability?

Mr. Madray

Yes and no. But the answer to that is in Topic 718 there's some criteria for determining whether an award should be classified as a liability or as equity, and typically RSAs and RSUs would be classified as equity. But if we look on this next slide, you'll see there are certain types of awards that would be classified as liabilities; an award with conditions or other features that are indexed to something other than a market performance or service condition. So, for example, an award that vests based on the appreciation and the price of the commodity and the company shares second an award that meets certain criteria. And Topic 480 distinguishing liabilities from equity. Also a share award with a repurchase feature that permits an employee to avoid bearing the risks and rewards normally associated with equity ownership for a reasonable period of time by allowing the employee to put the shares to the company within six months after the employee vests in the shares.

Also a share award where it's probable that the employer would prevent the employee from bearing the risks and rewards normally associated with stock ownership within six months after the share issuance. And also an option or similar instrument that could require the employer to pay an employee cash or other assets unless cash settlements based on a contingent event that's not probable, and also outside the control of the employee. Now it's important to note here, again, RSAs, that's not possible, but an RSU sometimes does offer a choice in settlement in stock or in cash. And if that's the case, the classification would depend on whether the employee or the company has the choice of the form of settlement. If the employee can choose the form of settlement and potentially could require the company to settle the award in cash, then it would be classified as a liability. If the company has the choice of settlement it could potentially avoid transferring assets by electing to issue stock. And in that case, as long as the company has the ability to deliver the shares, in other words, they have sufficient authorized shares, the award would be classified as equity in that case. So it depends on who has the choice in the case of those RSUs.

And then finally, one other type of award, an option or a similar instrument where the underlying shares are classified as liabilities that also would be, but to answer your question, in most cases, these are classified as equity by the employer. But you see there are some cases, and the most common one would be those RSUs where the employee can elect to receive the cash in lieu of the shares.

Ms. Grove Casey

Well, let's talk about the actual accounting and compensation expense. Could you explain how that's done?

Mr. Madray

Sure. Let's start with RSAs. For restricted stock awards, Topic 718 requires that the restricted stock be valued at the fair value of the shares on the date of the grant. If vesting is based on service or performance conditions, compensation would then be accrued over the service period where for which the participants are receiving the shares. The service period usually would be the period from the date of grant to when the restrictions are lifted, in other words, the vesting date. If the restricted stock is forfeited, then there would be some entries made to reverse this accrual of compensation expense. So let's look at an example to show how this would work. You see on the next slide assume that on December 31st, 2022 ABC company issues 4,000 shares of restricted stock to employees. And let's assume it's classified as equity. These shares will vest over the next four years, 25% one year later, and then each year thereafter. The fair value of the shares on the grant date, let's assume, is $25, and assume the par value is $1. Given all that, the entry to record the issuance of the shares on the grant date of December 31st, 2022, would be a debit to a contra equity account, some type of deferred compensation contra equity of $100,000, a credit to common stock based on the par value of $4,000, and additional paid in capital for the difference, $96,000. Then each year thereafter at the end of each year, as this vesting occurs we'd have an entry like you see here. Stock based compensation expense would be debited for one fourth, $25,000, and that contra equity account would be credited for that same amount. And we would do that each year over that four year period. So fairly straightforward in the case of RSAs.

Ms. Grove Casey

Would the accounting for RSUs be any different?

Mr. Madray

Yes. Although the RSU plans, as you recall, delay the issuance of the shares and avoid some of the administrative complexities, if the RSUs are to be settled in stock, the accounting is essentially the same as the RSAs. So look at the example on our next slide. Assume December 31st, 2022 ABC company issues 4,000 restricted stock units that represent 4,000 shares of its common stock, and it's classified as equity. Assume these shares will vest over the next four years, same as we saw before, 25% at the end of each of the next four years. Let's assume the fair value of the shares on the grant date is $25, par value is $1. So the entries related to those units there's a couple of alternatives that can be used for RSUs. One of them looks identical to what we saw with the restricted stock awards.

Let's call this alternative A. So on the grant date, a contra equity account is debited $100,000. Common stock is credited at par value, additional paid in capital is credited for the difference. And then, at the end of each year thereafter, you'd have stock-based compensation expense, and the contra equity account would be credited. It was essentially identical to our RSAs. It is possible to account pretty slightly differently, we'll call this alternative B on the grant date, there's no entry made, but we calculate the total compensation expense $25 a share times 4,000, shares, $100,000. Then at the end of each year as the vesting occurs, we'd have an entry, like you see here, stock-based compensation expense $25,000 and paid in capital, restricted stock, $25,000. And then on the final date, 12/31/26, we'd make an entry to record the conversion of the RSU to common stock where we would debit to paid in capital, restricted stock, credit the common stock and credit the additional paid in capital.

So there's some choices there because, again, the RSUs don't represent actual shares of stock. We can account for it essentially the same way, or again, as we see in alternative B either way is fine and accomplishes the same end result. Now, the key though is if the employee will receive or can elect to receive cash, the award would be classified as a liability. When an RSU is classified as a liability the determination of fair value at grant date and recognition of the compensation expense over the service period would be consistent with what we saw earlier for an equity-classified award. However, because these awards are considered to be a liability, the entity will have to periodically adjust the value of the liability and the corresponding compensation expense based on changes in the fair value of the stock.

The periodic expense and adjustment to liability is calculated as a fraction of the total compensation earned to date by recipients based on the elapsed fraction of the service period reduced by an amount expensed in prior periods. Now, that's a mouthful, but an example should help us sort through that. So if you look at the next slide, you see a very similar scenario. December 31st, 2022, ABC company issues 4,000 restricted stock units that represents 4,000 shares of common stock, which vest in the same way over the four years. The difference here is the employees can choose to receive cash at settlement. Assume the fair value, again, is $25. Assume the par value is $1. Under this scenario on 12/31/22, there's no entry made. We calculate the total compensation expense, again, $100,000. One year later, we would make an entry to record stock-based compensation expense $25,000, and accrue a liability for the RSU plan of the same amount.

Now, let's assume that one year later, the fair value of the underlying share has gone up to $27. In that case, the stock-based compensation expense would be debited for $29,000. Now, notice how we get that number. It's the current fair value of the stock, $27 times the 4,000 shares times the period of the vesting fraction of the vesting period, two over four years, minus what's already been recognized last year, $25,000. So our stock based compensation expense this year is $29,000, and our liability is increased by that amount. Let's assume a year later, the fair value of the shares has gone up to $28. If that's the case, stock based compensation expense would be debited for $30,000. Again, we get there, as you see with this calculation, $28 times 4,000 shares times three over four, our fraction of the vesting period elapsed, minus what's already been recognized, $25,000 in the first year, $29,000 in the second year, that gives us a $30,000.

Now, let's assume that on 12/31/26, the fair value of the shares has fallen to $23. In that case, stock based compensation expense would be recorded in the amount of $8,000. That's the 23 current fair value times 4,000 shares times the full four over four minus what's previously been recognized, $8,000. And then we would have one final entry to settle the RSU, and I was assuming all the employees choose cash settlement. We would debit the liability for $92,000 and credit cash for the full $92,000 paid out at that time. So RSU can get a little bit more complicated if you have that cash settlement option in there that requires them to be accounted for as a liability.

Ms. Grove Casey

Well, I assume that there are a lot of disclosure requirements because number one, there usually are related to these types of awards, and with so many options available, you could potentially have multiple types of awards going on all at the same time. So let's talk a little bit about what the disclosures are there.

Mr. Madray

Yes. Topic 718 in subsection 50 discusses what is referred to as the minimum information that an entity has to disclose in their annual financial statements related to share-based payments. So this, your stock options, RSAs, RSUs, and other types of share-based payment plans, if you sort through those, typically what you see on the next slide would be what would be applicable to restricted stock awards and restricted stock unit plans. This would include things like a description of the share-based payment arrangement, including the general terms of the awards like the employees' requisite service periods, any other substantive conditions, including those that are related to vesting, the number of shares authorized for awards of equity share options or other equity instruments. Also have to disclose the method that the entity uses for measuring compensation cost for the most recent year where an income statement is provided. The number and weighted average grant date fair value for all of these groups of equity instruments; those non-vested at the beginning of the year, those non-vested at the end of the year and those that during the year were granted, vested, and or forfeited. Further for each year that an income statement is presented there has to be a description of the method used during the year to estimate the fair value of the awards. Under the share-based payment plan, for every year that an income statement is presented, we have to include or disclose the total compensation cost for the share-based payment arrangements this recognized as income as well as the total recognized tax benefit that's related to that. And also, any that's capitalized as part of the cost of an asset.

There has to be a disclosure of the description of any significant modifications that includes terms of the modifications, number of grantees affected, the total or lack of incremental compensation costs that results from these modifications. It goes on as of the latest balance sheet date, the total compensation costs related to the non-vested awards that's not yet recognized, as well as the weighted average period over which it's expected to be recognized. If this is not disclosed elsewhere, the amount of cash that's used to settle equity instruments that are granted under share-based payment arrangements. Also a description of the entity's policy if they have one for issuing shares upon share unit conversion, including the source of those shares. Would they be new shares? Would they be treasury shares, for example? And then if, as a result of the policy the entity expects to repurchase shares in the following annual period, the entity would have to disclose an estimate of the amount or a range, if that's more appropriate of the shares to be repurchased during that period. And then finally, if it's not separately disclosed somewhere else, the policy for estimating the expected forfeitures or recognizing forfeitures as they occur, because that's the policy choice the company can make under these share based payment arrangements.

Accounting for Restricted Stock Awards

by J. Russell Madray, CPA

Overview

The Financial Accounting Standards Board *Accounting Standards Codification* (FASB ASC) provides guidance regarding employee compensation in the following four topics:

- FASB ASC 710, *Compensation–General*
- FASB ASC 712, *Compensation—Nonretirement Postemployment Benefits*
- FASB ASC 715, *Compensation—Retirement Benefits*
- FASB ASC 718, *Compensation—Stock Compensation*

While in practice, the terms restricted stock awards (RSAs) and restricted stock units (RSUs) often are used, FASB ASC 718 refers to these grants as nonvested shares. Accounting for RSAs and RSUs is very similar to accounting for employee stock options. The major difference is that valuation generally is much simpler for nonvested shares.

Observation: As the term is used in FASB ASC 718, "restricted shares," refers only to fully vested and outstanding shares that are owned by the employee, but whose sale is contractually or governmentally prohibited for a specified period of time. FASB ASC 718 defines "nonvested shares" as shares that an entity has not yet issued because the agreed-upon consideration, such as the delivery of specified goods or services and any other conditions necessary to earn the right to benefit from the instruments, has not yet been satisfied. Nonvested shares cannot be sold. Generally, nonvested shares are referred to as restricted stock.

RSUs represent an interest in company stock but have no tangible value until the shares vest and restrictions for the employee lapse. In other words, RSUs are an unfunded promise to issue a specific number of shares at a future time once vesting conditions for the employee have been satisfied. RSUs cannot be sold or otherwise treated as owned by employees until they have the legal right on the vesting date. The restrictions often include a time-based requirement and/or performance metric(s) to be met before the RSUs vest. RSUs also provide an option to receive the cash value of the RSU in lieu of shares once vested. This option to receive cash value does not exist for RSAs. Another difference is that stock is not issued for an RSU until restrictions lapse, so RSUs do not count as outstanding shares.

RSAs, also known as simply "restricted stock," is a form of compensation like an RSU, but with some notable key differences. Restricted stock is an actual share of stock that the recipient receives, but the rights to sell or transfer the shares are restricted until the vesting period passes. Like RSUs, a certain vesting period or service level must be met in order to obtain full value from the stock. However, in contrast, the value of restricted stock cannot be given as cash once the vesting period passes—the value received must be in stock. After vesting, the owner may sell the shares received. Another major difference is that restricted stock entitles the owner to dividend and voting rights; although RSUs could include dividend equivalents, this is optional for the company and not very common. Restricted stock is treated like any other issued and outstanding stock when it comes to entitlement to voting and dividend rights—the major difference is the existence of restrictions on sale or transfer until the stocks vest.

RSUs and RSAs are typically offered after a private company goes public or reaches a more stable valuation. Like stock options, RSUs and RSAs vest over time; but unlike stock options, the employee doesn't have to buy them. In this way, RSUs and RSAs carry less risk than stock options. In other words, as long as the stock price doesn't drop to $0, they will always be worth something.

For example, assume that a company grants 10,000 RSUs that vest over four years. If the stock price remains at $15 for the entire four years, the value of the RSUs is $150,000. In this same scenario, stock options that have a strike price of $15 would be entirely worthless unless the stock price goes up.

Like stock options, RSUs and RSAs usually vest over several years; also, like stock options, restricted stock plans encourage employees to stay with the company longer because they vest over time.

Observation: Restricted stock plans usually are designed to comply with Internal Revenue Code Section 83 to allow employee compensation to be nontaxable to the employee until the date the shares become substantially vested, which is when the restrictions are lifted. Likewise, the employer gets no tax deduction until the compensation becomes taxable to the employee.

Classification of RSAs and RSUs

FASB ASC 718-10-25-6 through 718-10-25-18 provide the criteria for determining whether an award should be classified as a liability or as equity. Typically, RSAs and RSUs would be classified as equity. However, the following types of awards should be classified as liabilities:

- An award with conditions or other features that are indexed to something other than a market, performance, or service condition (e.g., an award that vests based on the appreciation in the price of a commodity and the company's shares)

- An award that meets certain criteria of FASB ASC 480, *Distinguishing Liabilities from Equity*

- A share award with a repurchase feature that permits an employee to avoid bearing the risks and rewards normally associated with equity ownership for a reasonable period of time by allowing the employee to put shares to the company within six months after the employee vests in the shares

- A share award where it is probable that the employer would prevent the employee from bearing the risks and rewards normally associated with stock ownership within six months after share issuance

- An option or similar instrument that could require the employer to pay an employee cash or other assets, unless cash settlement is based on a contingent event that is not probable and outside the control of the employee

Observation: If an RSU offers a choice of settlement in stock or in cash, the classification of the award depends on whether the employee or the company has the choice of the form of settlement. If the employee can choose the form of settlement and potentially can require the company to settle the award in cash, the award should be classified as a liability. If the company has the choice of settlement, it can avoid transferring assets by electing to issue stock. In that case, as long as the company has the ability to deliver shares (i.e., sufficient authorized shares), the award would be classified as equity.

- An option or similar instrument in which the underlying shares are classified as liabilities

Accounting for RSAs

FASB ASC 718 requires that restricted stock be valued at the fair value of the shares on the date of grant if vesting is based on a service or a performance condition. Compensation is then accrued as expense over the service period for which participants receive the shares. The service period usually is the period from the date of grant to when restrictions are lifted (the vesting date). If restricted stock is forfeited, related entries previously made would simply be reversed.

Example 1:

Assume that on December 31, 2022, ABC Company issued 4,000 shares of restricted stock to employees (classified as equity). These shares will vest over the next four years, 25% on December 31, 2023, 25% on December 31, 2024, 25% on December 31, 2025, and 25% on December 31, 2026. The fair value of the shares on the grant date is $25 and the par value is $1. The entry to record the issuance of those shares is as follows:

12/31/22	Contra-equity—deferred compensation	$100,000	
	Common Stock (par value)		$ 4,000
	APIC		$96,000

On December 31, 2023 – 2026, the following entry would be recorded:

12/31/XX	Stock-based compensation expense	$ 25,000	
	Contra-equity—deferred compensation		$25,000

Accounting for RSUs

Although RSU plans delay the issuance of shares and avoid some administrative complexities of RSAs, accounting for RSUs to be settled in stock is essentially the same as for RSAs.

Example 2:

Assume that on December 31, 2022, ABC Company issued 4,000 restricted stock units, representing 4,000 shares of its common stock to employees (classified as equity). These shares will vest over the next four years, 25% on December 31, 2023, 25% on December 31, 2024, 25% on December 31, 2025, and 25% on December 31, 2026. The fair value of the shares on the grant date is $25 and the par value is $1. The entries related to those units can be either of the following:

Alternative A:

12/31/22	Contra-equity—deferred compensation	$100,000	
	Common Stock		$ 4,000
	APIC		$96,000

On December 31, 2023 – 2026, the following entry would be recorded:

12/31/XX	Stock-based compensation expense	$25,000	
	Contra-equity—deferred compensation		$25,000

Alternative B:

12/31/22 No entry; calculate total compensation expense $25 x 4,000 = $100,000

On December 31, 2023 – 2026, the following entry would be recorded:

12/31/XX	Stock-based compensation expense	$25,000	
	Paid-in capital—restricted stock		$25,000

December 31, 2026, the following entry would be recorded to convert the RSUs to common stock:

12/31/26	Paid-in capital—restricted stock	$100,000	
	Common stock		$ 4,000
	APIC		$96,000

If, on the other hand, the employee will receive or can elect to receive cash, the award would be classified as a liability. When an RSU is classified as a liability, determination of fair value at grant date and recognition of compensation expense over the service period is consistent with accounting for an equity-classified award. However, because these awards are considered to be a liability, the entity will need to periodically adjust the value of the liability (and the corresponding compensation expense), based on changes in the fair value of the stock.

The periodic expense (and adjustment to the liability) is the fraction of the total compensation earned to date by recipients of the RSUs (based on the elapsed fraction of the service period) reduced by an amount expensed in prior periods.

Example 3:

Assume that on December 31, 2022, ABC Company issued 4,000 restricted stock units, representing 4,000 shares of its common stock to employees. These shares will vest over the next four years, 25% on December 31, 2023, 25% on December 31, 2024, 25% on December 31, 2025, and 25% on December 31, 2026. The employees may choose to receive cash at settlement. The fair value of the shares on the grant date is $25 and the par value is $1.

12/31/22 No entry; calculate total compensation expense $25 x 4,000 = $100,000

On December 31, 2023, the following entry would be recorded:

12/31/23	Stock-based compensation expense	$25,000	
	Liability—RSU plan		$25,000

Assume that, on 12/31/24, the fair value of the underlying shares is $27. The following entry would be recorded:

12/31/24	Stock-based compensation expense	$29,000*	
	Liability—RSU plan		$29,000
	* ($27 x 4,000 x 2/4) – $25,000 = $29,000		

Assume that, on 12/31/25, the fair value of the underlying shares is $28. The following entry would be recorded:

12/31/24	Stock-based compensation expense	$30,000*	
	Liability—RSU plan		$30,000
	* ($28 x 4,000 x 3/4) – ($25,000 + $29,000) = $30,000		

Assume that, on 12/31/26, the fair value of the underlying shares is $23. The following entry would be recorded:

12/31/24	Stock-based compensation expense	$8,000*	
	Liability—RSU plan		$8,000
	* ($23 x 4,000 x 4/4) – ($25,000 + $29,000 + $30,000) = $8,000		

On December 31, 2026, the following entry would be recorded to settle the RSUs (assuming all employees choose cash settlement):

12/31/26	Liability—RSU plan	$92,000	
	Cash		$92,000

Disclosures

FASB ASC 718-10-50-2 and 50-2A outline the "minimum information" an entity must disclose in its annual financial statements related to share-based payments. The following generally would be applicable to RSA and RSU plans:

- A description of the share-based payment arrangement(s), including the general terms of awards under the arrangement(s), such as:
  - o The employee's requisite service period(s) and any other substantive conditions (including those related to vesting)
  - o The number of shares authorized for awards of equity share options or other equity instruments.
- The method it uses for measuring compensation cost from share-based payment arrangements

- For the most recent year for which an income statement is provided, both of the following:
  - o The number and weighted-average grant-date fair value for all of the following groups of equity instruments:
    - ▪ Those nonvested at the beginning of the year
    - ▪ Those nonvested at the end of the year
    - ▪ Those that during the year were:
      - Granted
      - Vested
      - Forfeited
- For each year for which an income statement is presented, a description of the method used during the year to estimate the fair value of awards under share-based payment arrangements
- For each year for which an income statement is presented, both of the following:
  - o Total compensation cost for share-based payment arrangements
    - ▪ Recognized in income as well as the total recognized tax benefit related thereto
    - ▪ Capitalized as part of the cost of an asset
  - o A description of significant modifications, including:
    - ▪ The terms of the modifications
    - ▪ The number of grantees affected
    - ▪ The total (or lack of) incremental compensation cost resulting from the modifications
- As of the latest balance sheet date presented, the total compensation cost related to nonvested awards not yet recognized and the weighted-average period over which it is expected to be recognized
- If not separately disclosed elsewhere, the amount of cash used to settle equity instruments granted under share-based payment arrangements
- A description of the entity's policy, if any, for issuing shares upon share unit conversion, including the source of those shares (i.e., new shares or treasury shares) (If as a result of its policy, an entity expects to repurchase shares in the following annual period, the entity shall disclose an estimate of the amount (or a range, if more appropriate) of shares to be repurchased during that period)
- If not separately disclosed elsewhere, the policy for estimating expected forfeitures or recognizing forfeitures as they occur

The following is an example of these disclosure requirements from Macy's, Inc.:

Restricted Stock Units

The weighted average grant date fair values of performance-based and time-based restricted stock units granted during 2017, 2016 and 2015 are as follows:

	2017	2016	2015
Restricted stock units (performance-based)	$27.16	$43.72	$61.51
Restricted stock units (time-based)	20.75	35.61	63.71

During 2017, 2016 and 2015, the CMD Committee approved awards of performance-based restricted stock units to certain senior executives of the Company. Each award reflects a target number of shares ("Target Shares") that may be issued to the award recipient. These awards may be earned upon the completion of three-year performance periods ending February 1, 2020, February 2, 2019, and February 3, 2018, respectively. Whether units are earned at the end of the performance period will be determined based on the achievement of certain performance objectives over the performance period. The performance objectives include achieving a cumulative EBITDA level for the performance period, an EBITDA as a percent to sales ratio and a return on invested capital ratio. The performance-based restricted stock units also include a performance objective relating to relative total shareholder return ("TSR"). Relative TSR reflects the change in the value of the Company's Common Stock over the performance period in relation to the change in the value of the Common Stock of a twelve-company executive compensation peer group over the performance period, assuming the reinvestment of dividends. Depending on the results achieved during the three-year performance periods, the actual number of shares that a grant recipient receives at the end of the period may range from 0% to 150% of the Target Shares granted.

The fair value of the Target Shares and restricted stock awards are based on the fair value of the underlying shares on the date of grant. The fair value of the portion of the Target Shares that relate to a relative TSR performance objective was determined using a Monte Carlo simulation analysis to estimate the total shareholder return ranking of the Company among a twelve-company executive compensation peer group over the remaining performance periods. The expected volatility of the Company's Common Stock at the date of grant was estimated based on a historical average volatility rate for the approximate three-year performance period. The dividend yield assumption was based on historical and anticipated dividend payouts. The risk-free interest rate assumption was based on observed interest rates consistent with the approximate three-year performance measurement period.

The fair value of a restricted stock unit award at the grant date is equal to the market price of the Company's Common Stock on the grant date. Compensation expense is recorded for all restricted stock unit awards based on the amortization of the fair market value at the date of grant over the period the restrictions lapse or over the performance period of the performance-based restricted stock units. As of February 3, 2018, the Company had $38 million of unrecognized compensation costs related to nonvested restricted stock units, which is expected to be recognized over a weighted average period of approximately 2.2 years.

Activity related to restricted stock units for 2017 is as follows:

	Shares (thousands)	**Weighted Average Grant Date Fair Value**
Nonvested, beginning of period	1,818	$49.04
Granted – performance-based	971	27.16
Performance adjustment	(312)	61.51
Granted – time-based	1,307	20.75
Forfeited	(431)	40.14
Vested	(196)	50.32
Nonvested, end of period	3,157	$30.51

A. Discussion Problems

1. Explain the difference in restricted stock units (RSUs) and restricted stock awards (RSAs).

2. Describe how an RSU is classified (liability or equity) if it offers a choice of settlement in stock or in cash.

3. Discuss the recognition and measurement of an RSU when it is classified as a liability.

B. Suggested Answers to Discussion Problems

1. RSUs represent an interest in company stock but have no tangible value until the shares vest and restrictions for the employee lapse. In other words, RSUs are an unfunded promise to issue a specific number of shares at a future time once vesting conditions for the employee have been satisfied. RSUs cannot be sold or otherwise treated as owned by employees until they have the legal right on the vesting date. The restrictions often include a time-based requirement and/or performance metric(s) to be met before the RSUs vest. RSUs also provide an option to receive the cash value of the RSU in lieu of shares once vested. This option to receive cash value does not exist for RSAs. Another difference is that stock is not issued for an RSU until restrictions lapse, so RSUs do not count as outstanding shares. RSAs, also known as simply "restricted stock," is an actual share of stock that the recipient receives, but the rights to sell or transfer the shares are restricted until the vesting period passes. Like RSUs, a certain vesting period or service level must be met in order to obtain full value from the stock. However, in contrast, the value of restricted stock cannot be given as cash once the vesting period passes—the value received must be in stock. After vesting, the owner may sell the shares received. Another major difference is that restricted stock entitles the owner to dividend and voting rights; although RSUs could include dividend equivalents, this is optional for the company and not very common. Restricted stock is treated like any other issued and outstanding stock when it comes to entitlement to voting and dividend rights—the major difference is the existence of restrictions on sale or transfer until the stocks vest.

2. If an RSU offers a choice of settlement in stock or in cash, the classification of the award depends on whether the employee or the company has the choice of the form of settlement. If the employee can choose the form of settlement and potentially can require the company to settle the award in cash, the award should be classified as a liability. If the company has the choice of settlement, it can avoid transferring assets by electing to issue stock. In that case, as long as the company has the ability to deliver shares (i.e., sufficient authorized shares), the award would be classified as equity.

3. When an RSU is classified as a liability, determination of fair value at grant date and recognition of compensation expense over the service period is consistent with accounting for an equity-classified award. However, because these awards are considered to be a liability, the entity will need to periodically adjust the value of the liability (and the corresponding compensation expense), based on changes in the fair value of the stock. The periodic expense (and adjustment to the liability) is the fraction of the total compensation earned to date by recipients of the RSUs (based on the elapsed fraction of the service period) reduced by an amount expensed in prior periods.

PART 2. AUDITING

AICPA Crypto and Digital Asset A&A Guide

Digital assets are records made using cryptography for verification and security purposes on a distributed ledger. These assets may be a medium of exchange, a representation to provide or access goods or services, or a means of financing. While crypto assets may function as a medium of exchange, they are not issued by a jurisdictional authority and currently, do not fall under the definition of a "security" under the various SEC-related Acts. Other digital assets can include any collection of binary data that is self-contained, uniquely identifiable, and has value.

For more on the AICPA's practice aid on digital assets, let's join Jennifer F. Louis, a CPA with Emergent Solutions Group, LLC, and CPE Network's Debi Grove Casey.

Ms. Grove Casey

So today we want to talk a little bit about accounting for cryptocurrency and other digital assets. Now, to begin with, we probably need to define what digital assets are, and whether or not they're the same thing as crypto assets.

Ms. Louis

The digital assets are the broader category that they're records that, ultimately, could be using cryptography for verification and security purposes, like on a blockchain or distributed ledger. But it also could be anything that is in a digital format that comes with a right to use, so it ultimately can be a medium of exchange. It could be also a financing vehicle. It could be a collection of binary data, such as audio, video, photography, logos. Digital assets are broader. Crypto assets are the digital assets that do function as an actual medium of exchange. Now they are crypto assets. They're not issued by a jurisdictional authority. They're not a contract between a holder and another party. They're not regulated by the SEC, at least at this point.

So they are though a medium of exchange like Bitcoin, other matters. And then you have just another element of what comes up sometimes in conversation is NFTs, nonfungible tokens. And a nonfungible token is something that could be like digital art. It's unique. It can't be replaced with something else. Bitcoin can be traded for another piece of Bitcoin and you would have the exact same thing. So even though Bitcoin is a crypto asset, it's fungible. Whereas just like tangible art, right, anybody can print a print, but only one person can own the original. The difference is with nonfungible tokens that the copies are just as good as the original, as we think about these NFTs that are out there that are kind of unique.

Ms. Grove Casey

So let's talk about who the major players in the digital asset ecosystem are.

Ms. Louis

Yes. So we need to think about as we're thinking about accounting and auditing, that it's the entity that's actually holding the digital asset. There also can be a third party custodian or wallet company involved. There is an exchange, we're buying and selling these digital assets. There's people that invest in digital assets, could be a fund, for example. There are vendors that accept digital payments. There's also the miners or the validators that are out there. And then we have the accountants and auditors as well.

Ms. Grove Casey

Is there any AICPA guidance about how to account for and report digital assets?

Ms. Louis

There is. There is a document that was started back in December of 2019 that is periodically expanded to address emerging questions related to this digital asset ecosystem. It's based on professional literature as it exists, but then also the experience of those that are sitting on the AICPA's digital assets Working Group. And periodically, they'll go through and update this practice aid. It's called accounting for and auditing of digital assets. It's non authoritative. It's outside of the FASB codification, but yet it's still a useful tool as you're trying to figure out best practices that exist as we are all starting to have a greater effect of digital assets.

Ms. Grove Casey

Well, when you have nothing, then you use what you have available, so there you go. But what's the primary basis of accounting for digital assets per current GAAP?

Ms. Louis

So the, the working group has settled on that the basis of accounting is to use Topic 350, which is related to intangible assets. While they are fungible, like if I have Bitcoin, they're not tangible, you can't touch it. There's no physical substance. And the only exception would be certain qualifying companies that under Topic 946 dealing with financial services, investment companies where they are really treating this more like investments, right? There'd be different accounting for these qualifying investment companies. But for everybody else, if you're not one of these qualifying investment companies, you're going to be treating it as an intangible because it lacks physical substance. And we're going to be applying the initial recognition and measurement concepts related to these intangible assets.

Ms. Grove Casey

So why is it that these assets are not considered to be cash, cash equivalents or some other type of financial asset? Presumably we're talking about Bitcoin and some of the other really what would be currencies

Ms. Louis

Right. And I think that that's a question that a lot of people ask. If I have these crypto currencies, you're calling it currency.

Ms. Grove Casey

I can exchange it for stuff. And governments are taking it in payment of liabilities.

Ms. Louis

Exactly. The key being that it's not a legal tender that is specific to a jurisdiction. It's not backed by a sovereign government. In addition, it can't be another financial asset because there is no contractual right to receive cash or another financial asset in a contract with another party. There's no maturity date there. And so as they think about, well, should these classifications apply, the working group ultimately decided, well, no, that probably doesn't make sense because that's not really what they represent. If you're going and looking at bringing things with similar characteristics and traits together for your financial statement presentation and they're not tangible, so it can't be something like inventory either, right?

Ms. Grove Casey

Why is it considered to be an indefinite lived asset instead of a finite lived asset?

Ms. Louis

Well, there's nothing that limits its useful life. There's no legal or regulatory or contractual requirements. There's no economic factors that would limit their life. So when we say indefinite lived, indefinite is not the same as infinite. It's just that beyond the foreseeable horizon, there's a useful life associated with these assets. And, so when is it going to be the period of time in which this asset is expected to continue to be able to contribute to my reporting entity cash flows? Is there future economic value, right? That exists over a given time period. And if I have Bitcoin, I can sit and hold on Bitcoin as long as I want. But it does have an indefinite life to it, there's nothing that's limiting its useful life at this point.

Ms. Grove Casey

What's the initial recognition of a digital asset that's purchased with cash?

Ms. Louis

All right, so when you're looking at cash, we're going to measure it at cost, right? And you can include in that any transaction related costs for the acquisition of that digital asset. So it's measured at cost plus related transaction costs.

Ms. Grove Casey

So how does the accounting change if the digital asset is purchased with something other than cash?

Ms. Louis

When you are using consideration in a form that's not cash it's going to be based on what's clearly evident, reliably measured, as I look at my choices, right? The cost based on fair value of the consideration that I'm giving up, the fair value of the consideration given, the fair value of the assets acquired could be what's more clearly evident, what's more reliably measured between the two. So the fair value of the digital asset or the fair value of the noncash consideration. And you can think about Topic 845 as it relates to nonmonetary transactions in guiding you in the judgements that you might have to make in those circumstances. Now, I do want to highlight that if this is a non-cash consideration, because there's a contract with a customer that is under Topic 606.

So if I'm giving a good or service, I'm the vendor and somebody's paying me in digital assets, then I'm supposed to initially measure at the fair value of the non-cash consideration. And if fair value's not reasonably estimable, then you would measure the transaction at the standalone selling price of the goods or services that were promised to the customer. So if somebody was paying cash, what would the value be? If I can't reasonably estimate the fair value of the digital asset. Now, what's important about Topic 606 is that when you have non-cash consideration to figure out my transaction price for this contract changes in fair value of that non-cash consideration after inception of the contract, don't change the transaction price. Now, the one thing that you would have to consider is, am I getting the non-cash consideration, the digital asset now as I deliver the good and service, or am I delivering the good and service and you're going to pay me in the future using a digital asset? And because there could be fair value changes

Ms. Grove Casey

Substantial changes

Ms. Louis

In the future, then I do have to also consider if there is with Topic 815 related to derivatives and hedging

Ms. Grove Casey

What would the subsequent accounting be for digital assets once they're recognized? Are we marking them to market or I mean adjusting?

Ms. Louis

Since it's an indefinite lived intangible asset it is not eligible for the fair value option and it's indefinite lived, so it's not subject to amortization. However, you do have to test for impairment of this long lived intangible asset at least annually, but more frequently as you might have triggering events and circumstances that indicate that at any given period of time, it's more likely than not that the carrying value of this asset is impaired compared to its current fair value. So you could have impairment, but there's no unrealized gains and losses. There's no amortization that exists related to those digital assets.

Ms. Grove Casey

So what could be a triggering event that may indicate impairment of a digital asset?

Ms. Louis

Well, the biggest one for digital assets, particularly things like Bitcoin are that I can see the identical asset is being bought and sold on a market that's currently below my current carrying value. So this may be my principal market, but it also could be from other digital asset exchanges or markets. And it also can include macroeconomic conditions that might affect the inputs used to determine fair value. It could include legal, political, regulatory factors that also could be a triggering event to say, my current carrying value at cost in essence, typically is that the current market for that is less than my carrying amount.

Ms. Grove Casey

What is the unit of account for testing a digital asset for impairment?

Ms. Louis

So it's tricky sometimes because some entities may engage in multiple acquisitions and disposals of digital assets during a given reporting period. And sometimes even certain digital assets are able to be broken down into divisible fractions. So it's not just a unit, it's a divisible fraction of a unit that might be bought or sold. And so what we need to think about is what's the indivisible unit of account, which couldn't be a divisible fraction of a digital asset. And I may need to track the carrying value of individual digital assets or divisible fractions of those digital assets if I engage in buying or selling those divisible fractions.

Ms. Grove Casey

So what's important to know about recording an impairment loss?

Ms. Louis

You record an impairment loss when I have excess of the carrying value over the fair value of whatever my unit of account is as I'm tracking things that the unit of account could be the individual digital asset, could be the divisible fractions. You should not bundle your digital assets if they were purchased at different prices. So your unit of account has to be that it's the same item at the same price of initial purchase as I think about that carrying value. But if I had the same acquisition date with the same carrying value, then batches of units of accounts could be evaluated. And then as I now write things down to fair value, potentially that becomes the new basis for that intangible asset. And for indefinite lived intangible assets, subsequent reversal of previously recognized impairment losses are prohibited.

Ms. Grove Casey

What if the fair value of a digital asset recovers within that same reporting period? So, the markets fluctuate quite a bit when it comes to the cryptocurrencies.

Ms. Louis

Absolutely. And it could be the case that fair value declines in the middle of a reporting period and then it recovers by the end of that same reporting period. But impairment testing is still required at any point there's a triggering event. So even within the same reporting period, subsequent reversal is going to be prohibited related to the basis of that intangible asset.

Ms. Grove Casey

Well, let's talk about what some of the accounting risks related to fair valuing digital assets are.

Ms. Louis

So in fair value risks, it could be that digital assets are maybe traded on multiple exchanges, which could end up in some inconsistent pricing. In addition, this is kind of a new world, and so operations related to digital assets might not yet be fully developed and institutionalized yet. They're not regulated and not all marketplaces are designed to prohibit self dealing. So if I could self deal to bump up the value of the asset, it could not really be reflective of true market conditions as it relates to self dealing. In addition there, digital assets often don't have any observable inputs. Those might not exist as there might not be an active market, but even unobservable inputs might be difficult because they don't necessarily have defined cash flow streams and things that we can use as an alternative to having observable inputs.

The lack of a market – Topic 820 as it thinks about fair value measurement requires the use of a principal market. Or if you don't have a principal market, what's the most advantageous market? The principal market's one with the greatest level of volume activity that's associated with it. And since markets may be immature, we may not know what's the principal market or what's the most advantageous market. The volume of data might be unreliable as you might have exchanges between related parties. And that certainly creates risk as I'm trying to come up with a fair value determination of these digital assets.

Ms. Grove Casey

The fair value principles in ASC 820 though still apply to digital assets, don't they?

Ms. Louis

They do. So even though it might be hard to fair value these items, I'm still supposed to be using the fair value measurement principles. I do have to consider level one, level two, level three, in my order of priority as I'm determining the inputs that go into fair valuing these digital assets and these, you know, cryptocurrencies that exist. If an entity normally transacts with digital assets, particularly cryptocurrencies through a broker or another intermediary, generally that's considered to be the principal market, but it could be that there's another exchange that has a greater level of volume and activity to it that's different than my market, and I would have to use that other market instead. In addition, as we think about the normal, even in a market where the normal trading volume's not sufficient to absorb the quantity of digital assets that I might be holding, you're still going to use the quoted price in that active market, right? There should be no adjustments to level one inputs. Now if I'm using level two inputs, then observable transaction prices might be adjusted, but you need to follow the same principles that apply as you're looking at fair valuing anything that exists on your financial statements.

Ms. Grove Casey

Well, what else should we know about determining fair value for digital assets?

Ms. Louis

Sometimes fair value is determined by going and looking at bid-ask spreads. Within the spread of bid-ask, use a price that you believe is most representative of fair value. And the other thing is you're not supposed to adjust the fair value measurement of a digital asset to reflect the size of your holding. Like it doesn't matter how much of an asset you hold, fair value is what's the individual unit of account's value. That could be an individual asset or a divisible fraction of that asset. And also, as we look at some of these markets that there isn't really a close of day for these markets. They may operate continuously. And so we may need to establish a policy on what a closing day price is, like is there a particular time of day that we're just going to determine is the close and consistently apply that?

Ms. Grove Casey

And maybe a time zone too.

So how should digital assets be presented in the financial statements?

Ms. Louis

Well, just as you would any intangible asset, you're going to show intangible assets as a separate line on your statement of financial position. And then, ultimately, you're going to potentially present things and break them down into individual asset classes. Either in your footnotes or in a separate line item. You do need to be able to present your amortization expense if there was any amortization expense, but these are indefinite lived intangibles so you don't have that. But then also impairment losses, which you would have related to these indefinite items that would be in your income from continuing operations.

Ms. Grove Casey

Well, what disclosures are required for digital assets?

Ms. Louis

As we think about the indefinite lived items in the period that I acquire it, I'm going to disclose the total amount assigned and the amount assigned to any major asset class through either on the face of the statement or in my footnote. I'm going to break things down by major class of intangible assets. And then in each period that I hold these assets, I'm going to disclose the total carrying amount in total as well as for each major asset class. If there is an impairment loss, I'm going to describe the facts and circumstances that led to that impairment. How much was the loss? How did I determine fair value? And where is this impairment loss included in my financial statements? If you're an entity that's subject to segment reporting, then obviously, that's also going to kick in related to those items.

Ms. Grove Casey

So what's the accounting when we derecognize digital assets, that's the equivalent of selling them, I think.

Ms. Louis

Right. So at that point, remember we're tracking our carrying value, right? At the unit of account so sometimes

Ms. Grove Casey

Say thank God for computers.

Ms. Louis

Yes, so sometimes it might be clear that I sold a hundred units of this cryptocurrency, but I don't know specifically which one. So you're going to just develop a reasonable and rational methodology such as first in, first out as you are reflecting the derecognition of these digital assets. So it's important as we might have these digital assets if they're exchanged for fiat currency, so cash, right? But is something that is backed by a sovereign government. There are going to be differences on where is that income reflected If it's a topic 606 because the counterparty is actually a customer, then it's revenue. If the counterparty is not a customer, then we are going to look at presenting any gain or loss that is typically presented net outside of revenue as the difference between the consideration and the current carrying value that applies in thinking about Topic 610 that deals with other income and Topic 845 that deals with nonmonetary transactions.

Ms. Grove Casey

Well, are there any special considerations if a reporting entity uses a third-party hosted wallet service?

Ms. Louis

Oh, there is, in the fact that we have to figure out, does the third party custodian or wallet service, do they control the digital assets or do I, because whoever's controlling the digital asset during that holding period is who is going to actually reflect the digital asset on their statement of financial position.

Ms. Grove Casey

So let's talk about the factors that we need to consider for determining whether a reporting entity or a custodian has control of that digital asset.

Ms. Louis

Yeah, and this is where the AICPA working group has come up with a listing of factors to consider, and I'm not going to go through all of them, but in general you are talking about, well, what's the actual terms indicating whether the depositor of the crypto asset or the digital asset will pass title, interest, legal ownership to the custodian, whether the custodian is required to give back the original units of deposit or to just give you back like a similar asset? Does the custodian have the rights to sell, transfer, loan, or pledge the digital asset without consent or notice by the depositor of who actually holds the private keys in a multi-signature wallet type situation? Who bears the risk of loss if the digital asset is not retrievable because there was a hack or a theft or fraud or a breach? So those are some examples of factors that you would look at to determine, well, who really has control? Is it the depositor, or is it the custodian or the wallet service provider that exists?

Ms. Grove Casey

What should the accounting be if the custodian has been deemed to have control of the digital asset?

Ms. Louis

So the custodian would then recognize the actual digital asset and a corresponding liability because I owe the depositor something back. The depositor would recognize a right to receive the digital asset. I would not have the actual digital asset. So that certainly is going to change right as I have a receivable versus the actual indefinite lived intangible asset sitting on my books. Now I also need to highlight that it could be in some arrangements that there may be some embedded derivatives that exist. And that's all kind of being sorted out a little bit as we're trying to see some of the complexity of some of the arrangements that are evolving in this ecosystem.

Ms. Grove Casey

So what if the custodian qualifies as being a broker dealer?

Ms. Louis

So if we said the custodian is a broker dealer, so if they're a broker dealer, they're an agent for a customer. In that case, I'm not going to reflect the digital assets on my statement of financial condition. I am going to have commission income that's recognized as revenue. Now if the broker dealer separately owns digital assets and they are a qualifying investment company, then they're going to reflect those investments at fair value if they were a qualifying financial services investment company under Topic 946.

Ms. Grove Casey

So the last thing I want to ask you about is something called stable coin. And with stablecoin, does the accounting we've been talking about here today still apply?

Ms. Louis

It may or may not. Stablecoin hoardings are something where they may be collateralized and redeemable into assets, used to collateralize the stable coin and the collateralization might be US dollars, it might be specific commodities. Even if they're not collateralized or redeemable say in US dollars, there may be other mechanisms designed to minimize price volatility as we are creating more traditional assets. And so as things evolve, as organizations look at kind of blending together digital assets with more traditional assets, a general rule for accounting might be hard to come up with. And so sometimes I might have to apply the most appropriate area of GAAP based on my own professional judgment in the end as we're trying to figure out, is this really a financial asset that might be a receivable or a debt security instead of an actual digital asset.

Accounting for Cryptocurrency and Other Digital Assets

by Jennifer F. Louis, CPA

Introduction

Broadly defined, digital assets are records that are made using cryptography for verification and security purposes, on a distributed ledger (i.e., blockchain). Truly, anything that exists in a digital format and comes with a right to use. They may be a medium of exchange, a representation to provide or access goods or services, or a financing vehicle.

Crypto assets function as a medium of exchange, e.g., bitcoin, ether, etc. They are not issued by a jurisdictional authority and do not give rise to a contract between the holder and another party. They are also not considered to fall under the definition of being a “security” under various SEC-related Acts.

Other digital assets can include any collection of binary data that is self-contained, uniquely identifiable, and has value. For example, audio, videos, photography, logos, digital paintings, presentations, spreadsheets, website, and similar assets.

Non-Fungible Tokens (NFTs) are unique, as they cannot be replaced with something else, like digital art. Bitcoin is fungible because it can be traded for another bitcoin and you would have exactly the same thing. Just like with tangible art, anyone can purchase a print but only one person can own the original. The difference is that copies of NFTs are as good as originals. Most NFTs are part of the Ethereum blockchain, but other blockchains can also house and store NFTs.

The major players in the digital asset ecosystem include:

- Entities that hold the digital assets
- Custodians or wallet companies
- Exchanges
- Funds that invest in digital assets
- Vendors accepting digital currency
- Validators
- Accountants and auditors

AICPA Accounting and Financial Reporting Guidance

In January 2022, the AICPA updated its nonauthoritative practice aid, *Accounting for and Auditing of Digital Assets. O*riginally published in December 2019, it is a “living document” that is periodically expanded to answer emerging questions. It is based on existing professional literature and the experience of members of the AICPA’s Digital Assets Working Group.

Digital assets are generally accounted for under Topic 350, *Intangibles – Goodwill and Other.* They lack physical substance. It you can’t touch it, then it is not tangible.

Intangible Assets are defined as assets (not including financial assets) that lack physical substance. ASC Topic 350-30 provides guidance on the initial recognition and measurement of intangible assets other than goodwill. It applies to all entities, including nonprofits.

Intangible assets may be internally generated. They also may be acquired individually or with a group of assets in a transaction that is not a business combination or an acquisition by a nonprofit entity.

Why is the asset not considered to be cash, cash equivalent, or another type of financial asset? Well, it is not considered legal tender, as legal tender is specific to a jurisdiction. Digital assets, including cryptocurrency, are not backed by any sovereign government.

Why are digital assets not considered to be a financial asset? They do not have a maturity date or experience significant price volatility. They also do not represent a contractual right to receive cash or another financial asset.

Digital assets are also not considered to be inventory. They are not a tangible asset that is held for sale in the ordinary course of business.

Digital assets are also more specifically deemed to be indefinite-lived intangible assets. There is no legal, regulatory, contractual, competitive, economic, or other factors to limit the useful life of the asset. Life extends beyond the foreseeable horizon, where "life" is deemed to be the period of time over which the asset is expected to contribute to reporting entity cash flows. "Indefinite" is not the same as "infinite."

Initial Recognition and Subsequent Measurement

Any digital asset is initially measured at cost if purchased with cash. The cost would include any related transaction costs for acquisition.

If consideration exchanged is not in the form of cash, measurement is based on either of the following, whichever is more clearly evident and reliably measured:

- Cost based on fair value of the consideration given
- Fair value of the assets acquired
- Consider the effects of Topic 845, *Nonmonetary Transactions*

What is the reporting of a payment received from a contract with a customer in the form of a digital asset under ASC Topic 606? The reporting entity would initially measure the intangible asset at fair value as noncash consideration received under Topic 606 in exchange for delivery of a good or service. If fair value is not reasonably estimable, measure the asset at the stand-alone selling price of the goods or services promised to the customer. Any changes in fair value after contract inception do not impact the transaction price. If noncash consideration is to be received in the future (rather than concurrently), consider Topic 815, *Derivatives and Hedging.*

Once an indefinite-lived intangible asset is recognized, it is not subject to amortization. It is also not eligible for the fair value option since it is not a financial asset.

As an indefinite-lived intangible asset, it is tested for impairment annually or more frequently if events or changes in circumstances indicate that it is more likely than not that the asset is impaired.

Examples of impairment triggering events include the following:

- Identical digital assets are bought and sold on a marketplace below current carrying value, may be the reporting entity's principal market or from other digital asset exchanges or markets
- Macroeconomic conditions that could affect significant inputs used to determine fair value
- Legal, regulatory, contractual, political, business, or other factors

As entities often engage in multiple acquisitions and dispositions of digital assets during a period, it may be difficult to determine the unit of account for impairment testing. Because entities usually have the ability to sell or otherwise dispose of each unit (or divisible fraction) of a digital asset separately from any other units, the indivisible unit (or divisible fraction) is the unit of account for impairment testing. It is important to track the carrying values of individual digital assets or divisible fractions.

How would you record an impairment loss? Measure the loss as the excess of carrying value over fair value for the unit of account. Do not evaluate impairment for a "bundle" of digital assets of the same type purchased at different prices. However, you may evaluate impairment for batches of units of account with the same acquisition date and the same carrying value. The adjusted carrying amount becomes the new basis for that intangible asset. Any subsequent reversal of a previously recognized impairment loss is prohibited.

Fair value may decline below carrying value in the middle of a reporting period but recover by the end of the same period. Impairment testing is still required at any point in time there is a triggering event. Recognizing any subsequent reversal, even within the same period, is prohibited.

Fair Value Risks

There are a variety of issues that can be encountered when trying to determine fair value for digital assets. For example, digital asset operations may not be fully developed, institutionalized, or regulated. Plus, trading on multiple exchanges may result in inconsistent pricing. Since not all marketplaces are designed to prohibit self-dealing, even an observable trade may not reflect true fair value.

Digital assets often lack even unobservable inputs from which fair values can be determined. For example, financial assets may have defined cash flow streams, which can be discounted at an appropriate rate to estimate fair value.

Digital assets may lack a clear market. ASC Topic 820 requires use of principal (or, in its absence, the most advantageous) market. The principal market is that market with the greatest volume and level of activity. The most advantageous market maximizes the amount that would be received to sell the asset.

Digital asset markets may be immature, making identifying a clear market difficult. Due to self-dealing, even volume data may be unreliable and pricing information may be between related parties. Plus, market fragmentation may frequently change the market.

Regardless, a reporting entity is expected to apply ASC Topic 820, *Fair Value Measurement* as best it can. If an entity normally transacts crypto assets through a broker or other intermediary, generally that is considered the principal market, unless another exchange has greater volume and level of activity. Transaction costs may factor into determining the most advantageous market, but not in fair value.

If there is a principal market, fair value is based on the quoted price in that market, even if prices in a different market are potentially more advantageous at the measurement date. Even if a market's normal trading volume is not sufficient to absorb the quantity held, use the identical quoted price in an active market.

The following are other important points related to fair value determination:

- There should be no adjustments to Level 1 inputs. If Level 2 inputs are applied, observable transaction prices may be adjusted.
- In a market with bid-ask spreads, use a price that is most representative of fair value.
- Do not adjust the fair value measurement of a crypto asset to reflect the size of an entity's holding of that asset.
- Establish a reasonable "close" for a market that operates continuously, such as the end of a business day of the reporting entity.

Presentation and Disclosure

Aggregate assets and present as a separate line item in the statement of financial position, at a minimum. The rules do not preclude presentation of individual intangible assets or classes of intangible assets as separate line items. Present amortization expense and impairment losses within income from continuing operations.

As it relates to disclosures:

- In period of acquisition – Disclose the total amount assigned and the amount assigned to any major intangible asset class.
- Each period held – Disclose the total carrying amount and the carrying amount for each major intangible asset class.

For any impairment loss, provide the following:

- A description of the impaired intangible asset and the facts and circumstances leading to the impairment.
- Amount of the impairment loss and method for determining fair value.
- Caption in the income statement or the statement of activities in which the impairment loss is aggregated.
- If applicable, the segment in which the impaired intangible asset is reported per ASC Topic 280 on segment reporting.

Nonpublic entities only are not required to disclose the quantitative information about significant unobservable inputs used in fair value measurements categorized within Level 3 that relate to the financial accounting and reporting for an indefinite-lived intangible asset after its initial recognition as normally required by ASC Topic 820.

Derecognizing a Digital Asset

Track cost and any subsequent lowering of carrying value due to impairment for each unit of account obtained at different times. It may be clear that the total number of digital assets has decreased, but not specifically which unit purchased was the one sold. Develop a reasonable and rational methodology that is consistently applied (such as First-In, First-Out).

When derecognizing digital assets exchanged for fiat currency:

- If the counterparty is a customer (as selling digital assets is an activity that is part of the entity's ongoing major and central operations), apply Topic 606 and present the sale as revenue.

- If the counterparty is not a customer, apply Topic 610, *Other Income* or Topic 845, *Nonmonetary Transactions*, where any gain or loss is typically presented net, outside of revenue as difference between measured consideration and current carrying value.

Reporting Entity Uses a Third-Party Hosted Wallet Service

If a reporting entity holds its digital assets with a custodian:

- Recognize the digital assets if the reporting entity has "control" over the digital asset, consistent with "control" as discussed in Topic 606 and elsewhere in U.S. GAAP.

- Consider the specific facts and circumstances of the custodian and depositor agreement, where legal analysis may be necessary.

Factors to consider in determining who has "control" of any asset when a custodian is involved include the following:

1. Legal and regulatory frameworks applicable, which may depend on jurisdiction

2. Terms indicating whether the depositor will pass title, interest, or legal ownership to custodian

3. Whether the custodian is required to transfer the depositor's original units on deposit

4. Whether the custodian has the right to sell, transfer, loan, encumber, or pledge the deposited digital asset without consent or notice

5. Whether the digital asset isolated from the custodian's creditors in the event of bankruptcy, liquidation, or dissolution

6. Whether the depositor can withdraw the digital asset any time and for any reason

7. Existence of any side agreements or "off-chain" transactions affecting the rights and obligations of the two parties

8. Who holds private keys to multi-signature wallets

9. Who bears the risk of loss if the digital asset is not retrievable due to security breach, hack, theft, fraud, or similar

10. Whether the depositor is impeded by the custodian in any way from receiving all economic benefits of control, including price appreciation

What if the custodian has control of the underlying digital asset? The depositor should recognize a right to receive the digital asset as an asset. The custodian would recognize the digital asset and a corresponding liability. Note: An embedded derivative may also require bifurcation per Topic 815 for both the depositor and custodian.

Broker-Dealer Special Considerations

Accounting guidance for subsequent measurement as an indefinite-lived intangible asset excludes entities that apply Topic 946, *Financial Services – Investment Companies,* where subsequent measurement is generally at fair value per Topic 946, unless equity method or consolidation accounting applies.

Agents for a customer should not reflect the digital assets on its statement of financial condition. However, commission income is recognized in revenue. Yet, any digital assets actually owned by the investment company would be reported at fair value.

A company that is not regulated under the Investment Company Act of 1940 may be an "investment company" if it possesses the fundamental characteristics of Topic 946. Professional judgment is required to make such a determination.

Required elements to possess the fundamental characteristics of being an "investment company" include the following:

1. Entity obtains funds from one or more investors and provides the investors with investment management services

2. Entity commits to its investors that its business purpose and only substantive activities are investing the funds solely for returns from capital appreciation, investment income, or both

3. Entity and its affiliates do not obtain or have the objective of obtaining returns or benefits from an investee or affiliates that are not normally attributable to ownership interests or that are other than capital appreciation or investment income

Typical characteristics of an investment company include the following:

1. Has more than one investment
2. Has more than one investor
3. Has investors that are not related parties of the parent (if any) or the investment manager
4. Has ownership interests in the form of equity or partnership interests
5. Manages substantially all of its investments on a fair value basis

Stablecoin Holdings

Stablecoin holdings may be collateralized and redeemable into the assets used to collateralize the stablecoin. For example, USD, specific commodities, specific crypto assets. However, it may not be collateralized or redeemable, but include other mechanisms designed to minimize price volatility by linking value to more traditional assets. Due to the variety of facts and circumstances, a general rule for accounting is not feasible. Apply the most appropriate area of GAAP based on professional judgment.

Stablecoin example facts:

- Entity owns 100 units of stablecoin
- Stated value is $1 USD
- Collateralized on a 1-for-1 basis by dollars held in a segregated bank account by the issuing entity
- Holders only have the right to redeem each unit for $1 USD

In this example, the stablecoin is a financial asset since it is redeemable for cash and may either meet the FASB definition to be a debt security or a receivable.

Contracts Involving Derivatives

The evaluation of contracts involving future delivery of crypto assets would generally first consider Topic 815 at contract inception to see if the transaction contains all the required traits. The entire transaction may be a derivative or there may be an embedded derivative that needs to be bifurcated for separate accounting.

Crypto Asset Lending

Accounting for specific lending transactions depends on the facts and circumstances. The lender should evaluate “control” and whether actual control of lent units has transferred to the borrower, triggering lender’s derecognition of the assets. If “control” never passes to the borrower, then no gain or loss on transfer should be recognized. The lender would reclassify as “Loaned Crypto Assets” and continue lender accounting. Any fees received would be recognized on a straight-line basis.

If “control” passes to the borrower, recognize the assets received at fair value on the measurement date. Record an offsetting obligation to return the assets as a liability to be extinguished upon asset return. Apply subsequent measurement and impairment guidance in Topic 350 for the asset. There may be an embedded derivative under Topic 815.

Critical Internal Controls

Evaluating the design and implementation of an entity’s system of internal control should include the technology used to track, aggregate, reconcile, and report digital asset balances and transactions. Controls should be implemented to hold and secure digital assets and authorize transactions. Additionally, controls should exist to identify involvement with third parties, such as custodial relationships.

If an entity recently incorporated digital assets into its operations, consider the entity’s ability to implement a sufficient system of internal control. Certain types of evidence may be difficult to obtain, such as operating effectiveness of controls related to private key management.

Example critical controls over regulatory concerns include the following:

- The pseudo-anonymous nature of transactions presents opportunity for money laundering and other illegal activities
- Noncompliance with ”Know Your Customer” (KYC) and other regulations pose business and loss contingency risks (e.g., fines and penalties)
- Risk of “round-trip” or “Lazy Susan” transactions to buy/sell the same asset over and over in “wash sales” with no economic substance to manipulate observers into believing there is higher demand than is true

Control considerations when an entity uses a third-party custodian or exchange include:

- Understand processes for evaluating a System and Organization (SOC) Report or alternative procedures if SOC report not available
- Understand complementary user controls
- Understand whether digital assets are comingled in a public address with other depositors and how they are tracked
- Ask – Does the custodian always use the blockchain, or does it sometimes make internal transfers only between two depositors?

SOC Report considerations include:

- Does the SOC1 report contain control objectives related to generation, security, and monitoring of private keys?
- Does SOC2 report provide enough insight into controls over processing transactions?
- Does SOC report address whether customer onboarding and due diligence procedures are performed to ensure compliance with legal and regulatory risks?

Financial reporting system special considerations include:

- An entity may derive its books and records of transactions and balances solely from the blockchain or third party.
- An entity may have a separate financial reporting system, where reconciliation to blockchain or third-party records is required through manual and/or automated processes.
- Does the entity retain a copy of the blockchain?
- Were systems developed in-house or purchased?
- Extent of "off-chain" transactions not transmitted on the blockchain.

Controls over private keys Gain an understanding of factors such as the following:

- Security of physical location of the private keys
- Key generation process
- Security of entity's data centers
- Access to keys, including redundant keys
- Number of users required to process a transaction, including encrypting, splitting (or sharding) keys, or multi-signature requirements
- Segregation of duties

Consider the entity's risk management process, such as the following:

- Evaluate whether processes enable timely identification of new risks
- Changes in applicable laws and regulations
- Changes in GAAP that affect accounting policies
- Changes in blockchain-related technology that may affect safeguarding of digital assets
- Changes in management or key personnel, resulting in changes in skills sets and competencies
- Changes in related party relationships

Consider controls over acquiring digital assets, such as the following:

1. Proper classification of digital assets (e.g., is it a security?)
2. Any regulatory restrictions on the purchase or sale of the digital asset?
3. Any related parties involved in development or governance?
4. Means of providing consideration to pay
5. Accessibility and capability of the network, including any public visibility
6. What technical analysis is performed prior to acquisition, including assessing reliability, integrity, and availability of information obtained from the blockchain?
7. What tools are used to extract transaction and balance date from each blockchain?

8. How does management validate that cut-off times for digital asset balances have been appropriately established and consistently applied?

9. How is the completeness and accuracy of information used in reconciliations ensured?

10. How does management validate that all transactions are appropriately authorized?

11. How does management determine that accounting policies are consistently applied?

12. How would management know if a security breach did (or could) have occurred?

Unique types of transactions that carry higher risk (and stronger controls) include the following:

- Forked digital assets

- Permanent split of the blockchain, where a second path from the original blockchain is created

- Hard forks require updated software to be incompatible with the previous version

- Air-dropped digital assets

- New token is deposited directly into users' wallets e.g., free tokens sent enmasse to encourage adoption

- Unclaimed or unrecorded digital assets

- Illiquid or thinly traded digital assets

Private key special fraud considerations that require special internal control consideration include the following:

- Loss, destruction, or other impairment of private key may be intentionally hidden to mask financial losses

- Management asserts that private keys were lost, records the losses on the entity's books and records, and misappropriates assets for personal use

- Terminated employee access to decryption of private key is not disabled

GROUP STUDY MATERIALS

A. Discussion Problems

1. What are the proper considerations for the initial recognition and subsequent measurement of digital assets, including cryptocurrency?

2. Discuss how digital assets should be presented in the financial statements.

3. Discuss the need for internal controls over digital assets.

B. Suggested Answers to Discussion Problems

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PART 3. SMALL BUSINESS

Compilation Reports

Compilation engagements are by far the most common. Compilations are attest engagements, but provide no assurance. Because no assurance is provided, the accountant does not need to verify the accuracy or completeness of the information provided or gather additional evidence. While there is very little authoritative guidance, there are a variety of reports.

For more on the reporting options for these engagements, let's join Kurt Oestriecher, CPA and a partner with Oestriecher and Company in Alexandria, Louisiana, and CPE Network's Debi Grove Casey.

Ms. Grove Casey

So today we want to talk a little bit about compilation engagements, and in particular, the reports, but to begin with, could you maybe talk about what the basic requirements are?

Mr. Oestriecher

Yes. The compilation report, let's just say it's evolved over the years. Whenever the Accounting and Review Services Committee changes, it, sometimes practitioners don't quite catch on. And so they're issuing reports and, in recent years, it has calmed down since SSARS 21, but they changed it so fast between 19 and 21 some people just completely skipped over the SSARS 19 report and started adopting the 21 report. And one of the things that anyone that follows this very closely, that for a while there, the AICPA was trying to have all of their reports, be it an audit, review, or compilation kind of have the same look and feel. They wanted a title. They wanted paragraph headings, but when SSARS 21 came around, they said, no, no, because the audit and the review are assurance engagements.

We want those to have the same look and feel, and the compilation doesn't provide assurance. So we, we want to kind of go... back to its roots and have a much simpler report that doesn't have all the bells and whistles. Then that's how we're going to pronounce the difference between assurance and nonassurance. And so our basic report has changed and you don't even have to have an addressee or a city and state. You don't start talking about what we do. You start talking about what management does. The standards have the basic requirements, but then they're the sample reports that bring in those required elements. The basic requirement, the first one, is you have to have a statement that management or the owners, if it's not an incorporated entity, they're responsible for the financial statements.

And by the way, sometimes that's a shock to my clients. Cause we're doing all the work and they think, oh, why are we responsible? It's only the people that actually read the engagement letter and report that come to that conclusion. The next thing you have to do, and we're going to go through samples, but you have to identify the financial statements that are subject to the compilation engagement. So if you're just doing a balance sheet and an income statement, that's what you include. If you're putting in a cash flow statement, you add that. So make sure you have those identified and then you have whatever year. So it's the name of the statement. And the years included, you have to identify the entity whose financial statements are presented. And again, it's very easy – 99% of our entities are either corporations or LLCs. It gets a little bit tricky when you have a schedule C that a bank wants a compilation on a schedule C and it's someone's Uber business and they never incorporated. It's not even an LLC.

So how do you describe that? Because the owner of the business says, well, it's my Uber business. So they don't even have a DBA or anything like that. So, I've seen descriptive terms of John Smith's, Uber Contract or whatever you want to call it. So it can get a little sketchy on some of these unincorporated schedule C type entities, but whatever the name, especially if it's tax basis, you put name of the business on the tax return. So that's generally what you would use if it's tax basis. We've already talked about the dates and the period. So it's very, very common in compilations, we have clients that want month to date and year to date. So you say the seven months, the month, one month ended of July, and the seven months ended July 31st. So you have to be very specific when you have interim financial statements.

And then there has to be a statement that includes the three relevant standards, if you will. That you perform the engagement in accordance with statements on standards for Accounting and Review Services, that's one; developed by the Accounting and Review Services Committee, that's two; of the AICPA, that's three. You will see various samples out there. And in most of the samples, you actually see the words, Statements on Standards for Accounting and Review Services spelled out. People used to put SSARS, but then was about 15 years ago, we had the SARS pandemic before the COVID pandemic and SSARS became a bad word. They're like what does that pandemic have to do with accounting? So people spell that out. And instead of saying ARSC, because ARSC is not well known, people typically will spell out the Accounting and Review Services Committee, but many people go ahead and use AICPA because that is a well-known entity.

Most people have that. The other reason I'm recommending that right now is because most people believe AICPA stands for American Institute of Certified Public Accountants. And there is an entity out there still called the American Institute of Certified Public Accountants, but they joined about six years ago – this is still not widely known – forces with CIMA. So if you go to the headquarters of the AICPA in either New York or Raleigh-Durham, North Carolina, the stenciling on the door doesn't say American Institute of Certified Public Accountants. It says Association of International Certified Professional Accountants. And that may come to a shock to a lot of people here, but go look it up on the website. So, both entities exist, but I think the Institute still owns the standards, the SSARS, and that's not clear. So I'm recommending that people just use AICPA that way, whether it's the association and that's what the folks at the headquarters refer to it as, the association, you're covered by using AICPA, and trust me, it was no coincidence that they chose the name of this new organization to have the exact same acronym as the American Institute of CPAs.

They wanted to have continuity there. So those are the basic requirements. Then you have to have a statement on the limitations and believe me with all these requirements you're going to see they're all embedded within four paragraphs of your main report. But, you have to have a statement on the limitations of the compilation. You have to specifically state that you did not perform a review or an audit, or provide any assurance on them. Then you have to have the signature of the accountant, city and state of the accountant and the date the compilation procedures were completed, which is typically the date you read them because that's the last of the procedures when you're performing a compilation.

Ms. Grove Casey

So maybe we want to talk a little bit about what the standard report looks like, and then talk about the report modifications.

Mr. Oestriecher

Yes, well, the standard report, all those things that we just talked about are in four sentences. And, the first one is going to vary tremendously based on what the name of the entity, the periods covered, and the basis of accounting used. And if your compilation report does not start with the word management, you're using an outdated old report. That first requirement you start out, it says management is responsible for the accompanying financial statements of blank, and then identify the company. Then you'll say, which either comprise or consist of, I've seen both of them used, the balance sheet or balance sheet – tax basis. In other words, whatever the title is on the financial statements presented, make sure that that's the title in the report, and then the related statement of income or income statement – tax basis, again, whatever the title is. And I think it's safe to say that in almost 95% plus, and most statistics are made up on the spot and that's one I just made up on the spot. But from my experience, I would say at least 95% of the compilations in our firm are of the variety that are monthly or quarterly as part of our writeup services. So they just get the balance sheet and the income statement. They don't want the statement of cash flows or the statement of changes in members' equity. So we only mentioned those two financial statements, and then you put the year, so balance sheet and income statement as of March 31st, and then for the one and three months ended, or the income statement for the one and three months ended March 31st, then in accordance with blank. And then you put in the applicable financial reporting framework, which I think for most of your compilations now, especially for the writeup type, is going to be income tax basis. I remember seeing some chart, not too long ago in the Journal of Accountancy, that the majority of compilations now are actually on the income tax basis.

And then, if it's not income tax basis, it's most likely going to be United States GAAP and you could have cash basis or some others, eight different frameworks, but that's going to be a variation and a very, very common mistake that we see. And I don't do peer reviews, but I've talked to a lot of people. When they pick up a new client, they never start from scratch on the report. They just find a similar company copy and paste and change the name. But they may be pulled from a client that wants GAAP-based statements, and so that's what they start with. They're smart enough to realize, oh, well, I'm going to change balance sheet to balance sheet – income tax basis. So I've seen reports that have said management is responsible for the accompanying financial statements of X, Y, Z balance sheet – income tax basis, income statement – income tax basis for the years ended whatever.

Then it says in accordance with generally accepted accounting principles, generally accepted in the United States. So you're contradicting yourself in the first sentence because you don't have the right framework for the title. So that first sentence is actually where you have to spend a lot of time to make sure you have the periods covered, as we discussed earlier, that you have the proper financial statement titles and that you have the appropriate, applicable financial reporting framework. So focus on that sentence and that covers so much of those required elements.

Now, the next sentence will be very boilerplate. I can't imagine that you never want to change it. It says we have performed a compilation engagement in accordance with... Statements on Standards for Accounting and Review services promulgated by the Accounting and Review Services Committee of the AICPA.

So that covers all those elements about where it came from. And again, the only time that will ever change is in the rare circumstance that you also use international comp and review standards, and yes, those exist, but you always have to start with American. You can't just do international only if you're licensed in any jurisdiction. So read Section AR-C 100, if you ever do that, but I just can't imagine we ever would, but I had to put that caveat in there that that's the only time that I think that sentence would ever change.

Then the next sentence is the limitations. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Again, I can't see where that will ever change.

And, this is commentary. Now we're all on the ed-op page. Here's the interesting thing. For many of my small business clients, where I have awesome bookkeepers or staff accountants do the work. They do more work on this than they do an audit, because we're the ones coding the checks for them. So they're going through the American Express statement and then they call the clients. So the reality is, we do the work, but we're not obviously getting evidence on the underlying documentation. And so that's why we're not doing an audit, but trust me, the compilations we do are typically more accurate if you will, than the financial statements of audit clients, because we're the ones classifying everything. We don't have admin doing that and passing on micro adjustments. But the reason I'll bring that up, Debbie is that question comes up in live CPE courses. Remember back when we did a lot of CPE courses live and people go, but we put that in there, but we did do procedures because, Aunt Edna puts everything in, ask my accountant, and then, we have to go find out what's in ask my accountant. So is that a fair statement to put in there? The answer is yes. Cause what you did was there's a required procedure in compilations that if information supplied by the client appears to be inaccurate, incomplete or otherwise unsatisfactory, and that's a really nice way of saying it's wrong, then you have to follow up and make follow up inquiries. That's what you do when you fix the ask my accountant that you're still not getting evidence. So do not take that sentence out. And if you do get evidence, then you should have gotten an audit engagement letter. Don't do what you're not supposed to do.

Ms. Grove Casey

That engagement letter is really helpful in that first sentence, I would think in your report, right?. Because if you match the stuff up and that's almost, it's not a checklist, but, that will keep you out of a lot of peer review issues.

Mr. Oestriecher

I probably should not accept engagements from attorneys because they actually read the engagement letters. And when they see that, one attorney pointed out to me, he goes, Kurt, I've got nine responsibilities. You've only got two, and you're the one doing all the work! How does that work? So I said, you're a lawyer. It's cause of y'all we have to have this engagement letter. He goes, Touché! I get you. I get you there. But it is for the clients that read that, they're shocked to see how much they are responsible for. So, then the last sentence, again, completely boilerplate should never be changed. You say accordingly. So we just had that third sentence on all the limitations. So we say accordingly, we do not express an opinion, conclusion or provide any other form of assurance on these financial statements, remember opinions refer to audits, conclusions refer to reviews.

So that is the basic report, and in the text we have a sample of that basic compilation report, and is of course signed. You can sign in ink, toner, blood for all I care, just electronic signatures are fine. Your city and state again, if it's like we have one office in Alexandria, Louisiana, and it's on our letterhead, so we don't have to put the city and state, but we do. We always have Oestriecher and Company CPAs, Alexandria, Louisiana. And then the date of the report, which is the date that you read the report. And I know a lot of bookkeeping usually accompanies these, but remember the bookkeeping is the nonattest service. And then after the financial statements are done in the bookkeeping department of office, when it gets to my desk, I think that I'm reviewing the work. Actually, I'm doing the compilation because I'm reading the financial statements, which is a required compilation procedure. And if I have a question about something, I email the client and get clarification and either determine an adjustment needs to be made or not. That's all part of the compilation. That's not the bookkeeping that was done. The standards are based on the premise that we start with a set of financial statements provided by the client, which again, I know rarely happens, but that's the premise of the standard. And if the financial statements come from my bookkeeping department, it's still as if it came from the client, but now we've done all these non-attest services, which probably has impaired independence, because we probably don't have the client overseeing and doing all the things required under Ethics 1.295.

So that's the basic report, which is rarely used because it means that we have what is in accordance with United States GAAP. We have all four of the financials required there. We don't have supplementary here. We're about to talk about all sorts of modifications to the report. So you can have this report with just one paragraph, but the reality is, typically, your report is going to go way beyond that.

Ms. Grove Casey

So let's talk about the modifications. There are a myriad of ones that are available. So, let's start and see how far we can get.

Mr. Oestriecher

Well, let's start with the most common, with the omission of disclosures. If anyone doing monthly financial statements is also writing all the disclosures, you're getting a fee way larger than your client should be paying. And thankfully we're allowed to do this in compilations since the birth of SSARS 1, but if informative disclosures are not included, now the question comes up with, well, wait, if I'm doing tax basis I've read the tax code practitioners so forth. Maybe not all of it, but most practitioners are familiar with the tax code and they say, well, there's nothing in the tax code that says I have to have disclosure. So do I have to have that paragraph? And the answer is yes. It's actually kind of been lost over time, but at one time, this all started back with SAS 62, but there is guidance out there, trust me, somewhere that says, if you're using a special purpose framework and that framework does not require specific disclosures, then you would use the related GAAP disclosures. So if I have long-term debt on an income tax basis, balance sheet, even though the tax code, doesn't say, by the way, if you use the tax code for financial statement purposes, I'd like these disclosures, trust me, it's not in the tax code, but GAAP has disclosures on long term debt – terms, maturities, prepayment penalties, all that. So you do have disclosures on any framework that you're using. If the framework doesn't specify the disclosures, then you use the GAAP disclosures. So it's required on any framework and you always start, it says management has elected to omit substantially all the disclosures. Now a lot of times management is actually shocked to read that. They didn't realize that they had.

So don't say that I, or we, management did that. And when you have that, you say it is, if it is a GAAP based statement or like our IFRS, you say required by the United States, generally accepted accounting principles or accounting principles generally accepted in the United States. If it is something like income tax basis, trust me, there's no book of income tax basis. There's no set of written standards anywhere that says, this is what you have to do. That's the concept behind special purpose frameworks. That's the Artist formerly known as OCBOA. We used to call it other comprehensive basis of accounting. So we don't use the words ‘required by’ we say, ‘ordinarily included’. So if it's tax basis, you'll say, management has elected to omit substantially all of the disclosures ordinarily included in financial statements presented on the income tax basis of accounting. Now I haven't seen peer reviewers get real bent out of shape if you say required by income tax basis. Again, there's that link. I could probably get all the way back to SAS 62. But generally, people use ordinarily included rather than required by. You can't stop there though. So you informed, you tell them, this is what, this is an overall GAAP departure, but now we have to talk to the user about the severity of this. So we say, if the omitted disclosures were included in the financial statements, they might influence the users' conclusions about the company's assets, liabilities, equity, revenue, and cash flow, accordingly, the financial statements are not designed for those who are not informed about such matters, which is odd because these often go to banks and they really aren't informed about such matters, such as related parties and all the things that are in disclosures, but the banks use them and that's okay.

So, but we've warned them, or management has warned them. If concentrations of risk, if subsequent events, if any of these things are of interest to you, you're not going to get them from this set of financial statements, which again, to you and I seems rather obvious, but this is as you know, the standards as they developed over the years. We are balancing the needs of our clients, the needs of third parties, the duty to the public, but also regulatory and litigation. All those pressures can collide when you're writing these reports to try to get something that protects the public, limits our liability, but also conveys the proper information to the user. And I served on this committee for four years back in 2004

Ms. Grove Casey

That's a big ask.

Mr. Oestriecher

And anytime we tried to modify our report, that's what we're trying to do is to balance all those things. So it can be a challenge sometimes.

Ms. Grove Casey

So did you want to talk a little bit about the prescribed formats?

Mr. Oestriecher

Yes. When you have a prescribed format and I probably should have on the report modifications, let me go back to a couple things before we get there. Okay. Some standard modifications lack of independence. When you are not independent with respect to a client, you must have a statement that says we are not independent with respect to XYZ company. Now you are allowed to describe the reasons. So if it is a covered member has a direct financial interest in the company, you would disclose that. I don't recommend doing that because if you disclose one reason, you have to disclose them all, and that's an administrative headache. So I just recommend, we are not independent with respect to XYZ company. If there's a departure from the framework, which we generally refer to as a GAAP departure, but you can have an departure from tax basis, you have to have a paragraph that describes the departure.

The most common ones out there are when you have U.S. GAAP financial statements, but the client is using tax depreciation. They don't keep two separate depreciation schedules. They use tax depreciation. That's an example of a departure, because you have all the bonus depreciation out there. Maybe you're not accruing interim taxes if it's a C Corp. So make sure that you identify departures or that you have a paragraph there. And most importantly, if it is a special purpose framework, in other words, something that is not United States GAAP or IFRS or IFRS for SMEs, even though that first paragraph that we talked about discloses the framework, you must have a second paragraph and it'll always be the second paragraph that will disclose the framework. And it reads these financial statements are prepared on the income tax basis of accounting, which is a basis other than generally accepted accounting principles in the United States.

So we still have this premise, if you will, on the reports that the user believes that he or she is looking at GAAP-based financial statements. So we really warn them these aren't U.S. GAAP so, if you want U.S. GAAP statements, you've come to the wrong place. So of all of those report modifications out there, these are the most common ones. So I should have talked about that earlier, but now let's talk about some other weird ones, which is the prescribed format that we don't see as often. And the, the prescribed format used to have a wonderful place. There, it was Section AR 300 and the AICPA committee recognized that sometimes our clients get a form from a bank or from a regulatory agency say, and here, fill out this form and it has like your assets, what you own, and then, what you owe, and then, equity.

And they agree, well, that's a balance sheet and they may not call it a balance sheet, but trust me, it's a balance sheet or they want income and expenses. Most common of these is the personal financial statement form from the American Banking Association. But like the ABA form is not in accordance with GAAP because they don't have estimated taxes on the difference between your fair value of your assets and your tax basis. So it's not a GAAP presentation, it's not a GAAP measurement. So recognizing this when SSARS 3 was issued, that's how long ago this was, we had a special report that said that we have compiled, and now I'd say management is responsible. We have compiled the accompanying blank in accordance with the format prescribed by the American Banking Association. And so that's something that's neither an accounting framework or a special purpose framework.

It's a GAAP framework or it's just whatever it might be, and then there's special language that said, by the way, if you're not familiar with the American Banking Association then, and there were no departures, because you just simply filled in the blanks; now, I guess if you departed from the instructions, there'd be a departure, but I can't imagine you would ever depart from the instructions, you would put whatever information they wanted. So it was a wonderful thing. And then when SSARS 21 came along, when they clarified the standard, they eliminated section AR 300 believing that there was enough flexibility within section AR-C 80 in the reporting that prescribed forms would just fit in there, but it didn't. And it doesn't. And so the AICPA recognized that, but they didn't issue a standard. So there's not a SSARS anymore on prescribed forms, but the AICPA preparation, compilation and review guide, which is updated annually by the AICPA, and it's authoritative so they have a section in there on prescribed forms.

Again, we have a sample of this in the text, but it is very confusing to a lot of CPAs when they read it because it starts out by saying management is responsible for the, and again, I'll say for the statement of financial condition of Mr and Mrs. Jane person included in the accompanying prescribed form in accordance with accounting principles generally accepted in the United States. And so you want to say which one is it? Is it either a prescribed form or accounting principles generally accepted? And then they have another paragraph similar to our special purpose framework paragraph that reads the financial statements included in the accompanying prescribed form are presented in accordance with the requirements of the American Banking Association and are not intended to be a presentation in accordance with the accounting principles generally accepted in the United States. So it seems to contradict itself.

Once I asked Mike Glynn the AICPA staff liaison he said, Kurt, what we've determined is that the numbers you put on the prescribed form have to be in accordance with GAAP. You have to measure them in accordance with GAAP, but the presentation may not be a GAAP presentation. Maybe they don't have current assets and current liabilities. Right? So what they really should have said was that management is responsible for the blank, including the accompanying prescribed form measured in accordance with the accounting principles generally, accepted that's really what they mean there, and he said, yes, I guess we could have put that. Even then I kind of object to that because again, I've already said the American Banking Association form actually doesn't measure everything in accordance, net worth is not measured in accordance with GAAP. They go, well fine. Then you have to put in a GAAP departure paragraph, except, that's the whole intent of the original prescribed form. Then I didn't have to go see, well, where does this prescribed form from a regulatory agency depart from GAAP and add seven paragraphs describing that we alerted the person to the prescribed form, just use it. So I have not believe it or not a little CPA firm from out of Alexandria, Louisiana, been able to convince the AICPA to bring back section AR 300 and give us back our old prescribed form report. But you are not exempt from SSARS. The moral of the story here is, you're not exempt from SSARS, when someone hands you and you fill out the blanks. If it looks like a financial statement, determine if you're preparing or compiling, and if you're compiling, then you have to attach a report, but use that prescribed form report.

Ms. Grove Casey

Well, let's talk about restrictions to the report.

Mr. Oestriecher

You can restrict the report, but it’s generally not a good idea. We've talked about this in other modules and audits and stuff, but really compilations are meant to be general purpose. So I can tell you that we haven't, the only time you're required to is if it is a contractual or regulatory basis of accounting, then you need to restrict the report, but otherwise I would not recommend doing that.

Ms. Grove Casey

All right. Well, the last thing that we want to talk about is supplementary information. Now, sometimes it's required supplementary information, but that's a pretty specific meaning. Other times though, where we just have supplementary information. So let's talk about how we handle the report modifications there?

Mr. Oestriecher

Right? So if it's just supplementary information, it is anything that I decide I just want to put there. I want to put a schedule of general & administrative expenses. Maybe I want to attach a schedule of aging of accounts receivable or management does. Well, if anything, other than the basic financial statements are included, that is considered supplementary information, and you must have a paragraph, either separate report or a paragraph, I recommend adding a paragraph to the basic compilation report. Then you just simply say the attached supplementary information and you must identify it, so either schedule one or page four, whatever, make sure you identify it, and you either say you have compiled it, or you have not compiled it. In most cases, if it comes from the same data source and general ledger as was used for the balance sheet or income statement, then you did compile it because you read it.

But we had a great example of compiled information that we never compiled, reviewed, or audited. We used to do work for off-track betting facilities in the state of Louisiana and each month we issued compiled financial statements, but there's all sorts of data that came from the company that shows how, what the handle was on each race and how much went to the various breeders associations. It was independent of their accounting process. When we just got that, this was long before emails, they mailed it to us and it was attached. So do we say we did not compile it? So use that for supplementary information. Required supplementary information is supplementary information that is required to be included by a recognized GAAP standard setter so for us GAAP, the only thing that I'm aware of is that schedule of improvements and betterments for like homeowners' associations and funds available. That's it.

In the governmental realm, that's where you have budget versus actual, management discussion and analysis, certain pension information, other OPEBs, you got a lot of it in governmental. But the difference is, if someone just says, I don't want to put any supplemental information, well then you don't mention the fact you didn't because you're not required to, but if it's required, there's an assumption. The users know, oh, I'm looking at governmental financial statements. I really want to read their management discussion and analysis. Well, if management doesn't include it, it's not a GAAP departure because it's not part of the basic financial statements, but you still have to put in a paragraph that it has been omitted. So you might have a paragraph that says management has omitted disclosures. Then another paragraph that says management has omitted the required supplemental information required by United States GAAP, and then, delineate the management discussion and analysis and pension information. If they include it, then you have to say that they've included it, but now you actually have criteria. In other words, you can never have a departure of just supplementary information because there's no requirement. So there's no criteria. But if GASB says I want this information and they include something, but it's not correct, now that's a departure, so you have to report the departure. If it is in accordance with it, then you report that. So there are like six different options. It's almost like two, I don't want to say opinions because we're talking about compilations, but it's two different analyses that you make. Is there a departure from GAAP on the basic financial statements? And if there is, I have a paragraph there, and then, is there a departure from the required supplementary information? And if there is, then I have a paragraph. There's also an option that if you have unresolved doubts, which I don't know what that could be, it's either there or it's not, but RSI is fairly new concept, I guess the last five or six years is when it's come out. But again, pretty much you don't have to worry about it unless you're doing a homeowner's association or a governmental entity.

Ms. Grove Casey

Well, we have a few more things that we want to highlight where we see these common report modifications. One of those is for comparative financial statements. Usually it's a bank that's very interested in that. So maybe we want to talk about that a little bit and obviously options where maybe you do a compilation one year and you're doing a different service another year or vice versa. And then going concern. And sometimes we disclose selected information, right? So let's talk about those.

Mr. Oestriecher

And all three of those things, it doesn't happen often, but a lot of people believe that. Well if we did review last year and now it's just a compilation and the bank still requires comparative statements, we can't do that. It's a different level of service. Well yes you can. It's called split level reporting and you refer to the previous review report, different rules if maybe you did the review or another firm did the review, but you just have to clearly label on the face of the financial statements, which years are reviewed, which years are compiled. And again, just make a reference to the previously issued report. So it's certainly permitted, what you can't do with comparative financial statements is maybe last year they were a U.S. GAAP and this year you say, ain't no way we're doing that lease standard. So now we're going to do income tax basis. You can't compare two different frameworks. So that's the only restriction on comparative statements.

Going concern – you just have to make sure you pay attention to the requirements of whatever your framework states and in United States GAAP, and because tax basis doesn't have specific guidance, then you to revert back to U.S. GAAP, but remember it is a disclosure issue. That's what going concern is. So you have no obligation to force management to include disclosures. So if management has historically omitted substantially all disclosures, then going concern is a moot point. Nothing you have to do about it. However, if management has historically provided disclosures, maybe on the annual financial statements, not the interim, but the annual, and this year, there's a going concern, and they said, oh, let's just omit them on the annual one. No, you actually said no. And I know the reason you don't want to do that. You don't want to include the going concern language in there. So you would be prohibited then from issuing the report. Now what do you do when you say, okay, you've never had disclosures. I can't force you into going concern, but I'm not comfortable as a CPA issuing a compilation report, because I know you're using this for credit or to obtain other capital. And if you don't, you're going kaput I don't have to issue that report if the client doesn't want to put in the going concern disclosure, but they may not want to put in all the disclosures. So the compromise is we've always had this ability. We can have ABC company and then we label it substantially all disclosures omitted, selected information presented, then you would describe the going concern. Selected information, I used the going concern as an example, but it may be there's a significant subsequent event.

Ms. Grove Casey

Could be a significant concentration too.

Mr. Oestriecher

Concentration or related party transaction. There's just something that you believe is of such significance that people that read this financial statement need to know. So understand we always have that option rather than withdrawing. If we're not comfortable with the omission of disclosures, I guess, negotiating with the client is the proper word that, Hey, this is of such importance and you always have that option. So, and, and then you don't, you still have the paragraph that says you've omitted disclosures, and there's no other paragraph in your report that refers to the selected information. You just have it sitting there behind the financial statements.

Compilation Reporting Requirements

by Kurt G. Oestriecher, CPA

Introduction

Errors on compilation reports are often cited on peer review deficiency lists, so the accountant should be familiar with all of the elements of the compilation report, as well as the necessary modifications when appropriate.

Compilation Reporting Requirements

An accountant must issue a report when compiling financial statements. The objective of the report is to prevent misinterpretation of the degree of responsibility the accountant is assuming when associated with those financial statements. The report must contain the following required elements (AR-C 80.17):

- Include a statement that management (owners) are responsible for the financial statements

- Identify the financial statements that are subject to the compilation engagement

- Identify the entity whose financial statements are subject to the report

- Specify the dates and periods covered by the financial statements

- Include a statement that the accountant performed the engagement in accordance with SSARS issued by the ARSC of the AICPA.

- Include a statement on the limitations of a compilation, that the accountant did not review or audit, no procedures were performed, and no assurance is provided

- The signature of the accountant

- The city and state of the accountant

- Date of the compilation procedures were completed

Basic Compilation Report – Sample

Management is responsible for the accompanying financial statements of XYZ Company, which comprise the balance sheets as of December 31, 2022 and 2021 and the related statements of income, changes in stockholder's equity, and cash flows for the years then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. I (we) have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I (we) did not audit or review the financial statements nor was (were) required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I (we) do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

[Signature of accounting firm or accountant]

[Accountant's city and state]

[Date of the accountant's report]

Additional Reporting Issues

Reporting on Financial Statements that Omit Substantially All Disclosures

An accountant may issue a compilation report when management elects to omit substantially all of the disclosures required by the applicable financial reporting framework. The accountant may not issue such a report unless the accountant believes that the omission of disclosures is not undertaken in order to mislead those who might reasonably be expected to use the financial statements. When reporting on such financial statements, the accountant should include a paragraph after the paragraph describing the accountant's responsibilities that has the following elements:

- A statement that management has elected to omit substantially all disclosures
- A statement that if the omitted disclosures were included, they may influence the user's conclusions about the company's financial position, results of operations, and cash flows
- A statement that, accordingly, the financial statements are not designed for those who are not informed about such matters.

The following is an example paragraph when management omits substantially all disclosures and the statement of cash flows

> *Management has elected to omit substantially all the disclosures and the statement of cash flows required by accounting principles generally accepted in the United States of America. If the omitted disclosures and cash flows were included in the financial statements, they might influence the user's conclusions about the company's assets, liabilities, equity, revenue, and expenses. Accordingly, the financial statements are not designed for those who are not informed about such matters.*

If the framework used by management is a special purpose framework, such as the income tax basis, the paragraph should be modified to refer to the income tax basis and refer to "disclosures ordinarily included" because there is no authoritative guidance that requires disclosures to accompany income tax basis financial statements.

> *Management has elected to omit substantially all the disclosures ordinarily included in financial statements prepared in accordance with the income tax basis of accounting. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the company's assets, liabilities, equity, revenue, and expenses. Accordingly, the financial statements are not designed for those who are not informed about such matters.*

It is ***not*** appropriate to issue a compilation report on ***prospective financial information*** that excludes the summary of significant assumptions. Those assumptions are critical information that is needed for the user to understand the prospective information.

Reporting When the Accountant Is Not Independent

An accountant may issue a compilation report when independence is impaired, but the impairment must be disclosed in the final paragraph of the report. The following is an example of such a disclosure:

> *I am (we are) not independent with respect to XYZ Company.*

The accountant may disclose the reasons for the lack of independence, but if the accountant chooses this option, then all reasons for lack of independence must be disclosed.

An example disclosure for independence impairment resulting from the performance of non-attest services is as follows:

> *We are not independent with respect to XYZ Company as of and for the year then ended because we perform certain accounting services that impair our independence.*

Departures from the Applicable Financial Reporting Framework

An accountant is required to disclose any material departures from the applicable financial reporting framework in the compilation report if the departure is not already disclosed by management in the notes to the financial statement. This disclosure should be in a separate paragraph, and should state the nature of the departure and the effects of the departure if they are known. If the effects are not known, then a statement to that effect should be in the paragraph.

If the accountant believes that the departures are so pervasive as to make the financial statements misleading, and that disclosure of the departure is not adequate, the accountant should withdraw from the engagement. The accountant should not issue a statement that the financial statements are not in accordance with the applicable financial reporting framework.

The accountant should not include a statement in the report that the financial statements are not in conformity with the applicable financial reporting framework.

Legend

Each page of the financial statements may include a reference such as "See Accountant's Report". The guidance for the legend is now contained in the explanatory material, therefore it is not required. The guidance indicates that when an accountant believes the financial statements could be separated from the report, the accountant may believe that it is appropriate to place the footer on the financial statements.

Special Purpose Frameworks

The initial paragraph of a compilation report on financial statements prepared using a special purpose framework should make reference to management's responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances when management has a choice of financial reporting frameworks in the preparation of such financial statements.

If the special purpose framework is in accordance with a regulatory or contractual basis of accounting, the accountant should include in the report the purpose for which the financial statements are prepared or refer to the note that includes such information.

The compilation report should include a separate paragraph that indicates the following:

- An indication that the financial statements are prepared in accordance with a special purpose framework
- Refers to the note that describes the special purpose framework (unless management has elected to omit substantially all disclosures)
- An indication that the special purpose framework is a framework other than GAAP.

Prescribed Format

The AR Standards had specific guidance related to reporting on prescribed forms from December, 1981 until the issuance of SSARS 21. SSARS 21 restated all existing guidance, and did not bring forward any of the standards related to prescribed forms. Noting the necessity of such guidance, the AICPA has now included guidance related to prescribed forms in the Guide, which is the second level of authoritative guidance. Because there is no reference to prescribed format in AR-C 80, this is the guidance that is applicable.

Paragraphs 2.89-2.94 of the Guide allow for a report on a financial statement presented in a format prescribed by a third party. There is a glaring difference in the current guidance on prescribed format financial statements and the guidance that used to exist in AR 300. AR 300 specifically defined a prescribed format, therefore it was understood that the presentation, measurement, and disclosures were not intended to be in accordance with either a GAAP or a Special Purpose Framework. The new guidance begins with the assumption that the elements of the financial statement will be ***measured*** under either GAAP or a Special Purpose Framework, and ***presented*** using the prescribed format. This now requires an accountant to determine if ***measurement*** departures exist between the prescribed form and United States GAAP, and disclose such departures in the compilation report (paragraph 2.78).

The report that is described in the Guide must be used because this is the highest level of authority that provides a sample report. The report makes reference to a ***presentation*** in accordance with a prescribed form, with the underlying elements ***measured*** in accordance with United States Generally Accepted Accounting Principles. The sample report also includes a paragraph that restricts the report in accordance with paragraph 2.94 of the Guide.

Restricting the Use of an Accountant's Compilation Report

While nothing in the standards precludes an accountant from restricting a compilation report, compilation reports are generally considered to be of general use and are not restricted. The guidance on this issue has been moved from the AR Section and is now included in the Guide in Paragraph 2.86 and 2.87.

Supplementary Information

When supplementary information is included with the basic financial statements, the accountant should clearly indicate the degree of responsibility, if any, the accountant is taking with respect to the supplementary information. This communication can be presented in the basic compilation report as an other matter paragraph, or the accountant may issue a separate report. When the accountant has compiled the supplementary information, the following issues must be addressed in the other matter paragraph:

- State that the information is presented for purposes of additional analysis and is not a required part of the basic financial statements
- State the information is the representation of management
- State the information was subject to the compilation engagement, but was not audited or reviewed, and no opinion, conclusion or assurance is provided on such information.

When the accountant has not performed compilation procedures on the supplementary information, the accountant shall include an other-matter paragraph in the compilation report that contains the following elements:

- State that the information is presented for purposes of additional analysis and is not a required part of the basic financial statements
- State the information is the representation of management
- State the information was not subject to the compilation engagement, and therefore, no opinion, conclusion or assurance is provided on such information.

A sample paragraph for supplementary information that has been compiled is as follows:

> *The schedule of general and administrative expenses included as schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information is the representation of management. The information was subject to our compilation engagement, however, I (we) have not audited or reviewed the information, and, accordingly, do not express an opinion, a conclusion, nor provide any assurance on such information*

Required Supplementary Information

Required supplementary information is defined as supplementary information that is required to be included by a designated GAAP standard setter. The accountant may either compile or not compile the required supplementary information, but when supplementary information is required, an accountant must address the required supplementary information in the compilation report, even when the required supplementary information is not presented.

If the accountant compiled the required supplementary information, the report will state that the accountant compiled it. If the accountant did not compile the required supplementary information, the report shall state the accountant did not compile it.

There are multiple scenarios that are possible with required supplementary information, and the standards address each of the following situations:

- The RSI is properly included and the accountant compiled the RSI
- The RSI is properly included and the accountant did not compile the RSI
- The RSI is not included
- Some RSI is included and some is omitted
- The RSI is included, but there are departures
- The accountant has unresolved doubts

Reporting on Comparative Financial Statements

Standards permit reporting on comparative financial statements, but the report must cover all periods presented. The guidance on comparative financial reporting has been moved from AR 200 and is now included in the Guide in paragraphs 2.58 – 2.70. The following guidance is provided for unusual circumstances.

Client Prepared Financial Statements Included for Comparative Purposes

Financial statements that have been prepared by the client that are included for comparative purposes, but have not been audited, reviewed, or compiled by the accountant are permitted. However, the accountant may advise their client that a clear indication should be included so that a user does not inappropriately extend the compilation report to such financial statements.

Omission of Substantially All Disclosures

An accountant that compiles financial statements in which management has elected to omit substantially all disclosures may not issue comparative financial statements when disclosures are omitted for only one of the periods presented. In this case, the disclosures must be either omitted or included for all periods presented.

An accountant may be requested to report on comparative financial statements when the previous year included disclosures and management requests to omit disclosures in the current year. In this case the accountant must omit disclosures for both years and include in his or her report an additional paragraph indicating the nature of the previous services rendered with respect to those financial statements and the date of his or her report.

Continuing Accountant – Same or Higher Level of Service in Current Year

A continuing accountant who performs the same or higher level of service with respect to the financial statements of the current period should update his or her report on the financial statements of a prior period presented with those of the current period. A report is updated when the accountant considers information performed during the current year engagement on the report that has been previously issued. If the accountant concludes that it is not necessary to modify the previously issued report, the report is updated by including a paragraph in the audit or review report referencing the compilation report of the previous period.

Continuing Accountant – Lower Level of Service in Current Year

An accountant performing a lower level of service in the current year (i.e. compiled current year, audited or reviewed in the prior year) should either:

1. Include a separate paragraph of his or her report a description of the responsibility assumed for the financial statements of the prior period. This description would include the date of the report on the prior period financial statements and that the accountant has not performed any procedures in connection with that review or audit engagement after that date.
2. Reissue his or her report on the financial statements of the prior period.

A reissued report will bear the same date as the original report. If the accountant has become aware of facts and circumstances that would cause him or her to modify the originally issued report, the accountant should modify the report for those circumstances and dual date the report.

Previous Reporting Framework Departure Corrected

When an accountant issues a report on comparative financial statements that contained a departure from the applicable reporting framework in the previous year, and the client has now corrected that departure, the accountant should include a separate explanatory paragraph indicating the following:

- The date of the accountant's previous report
- The circumstances that caused the report to be changed
- When applicable, that the financial statements of the prior period have been changed.

Prior Year Financial Statements were Compiled by a Predecessor Accountant

Predecessor reissues his or her report

A predecessor accountant may reissue his or her report at the request of the successor accountant, but is not required to do so. If a predecessor accountant reissues his or her report, the predecessor accountant should consider the impact if he or she becomes aware of information that would have affected the compilation report if that information had been known at the time of issuance. The predecessor is not required to perform any additional compilation procedures, but subsequent events may lead to a modification of the report when the accountant becomes aware of such issues.

Predecessor does not reissue his or her report

When the predecessor does not reissue his or her report, the successor accountant should either:

1. Make reference to the predecessor's report in his or her report
2. Compile, review, or audit the prior period and issue the appropriate report.

When an accountant chooses to make reference to the predecessor's report, the following items should be included in the report:

- A statement that the prior period financial statements were audited, reviewed, or compiled by an other accountant
- The date of the report
- If the prior year was compiled, a statement that the other accountants did not audit or review the financial statements, and they were not aware of any modifications (if applicable)
- If the prior year was reviewed, a statement that based on his or her review, the other accountants were not aware of any material modifications, other than any modifications indicated in the report
- If the prior year was audited, the type of opinion issued
- A description of any emphasis of a matter paragraphs issued by the previous accountant or auditor

Going Concern

Going concern is a financial statement disclosure that is the responsibility of management. If management elects to omit substantially all disclosures, the accountant is prohibited from including an emphasis paragraph in his or her report.

If a compilation includes disclosures and the accountant becomes aware of issues related to going concern during the application of compilation procedures, he or she should determine that the going concern issue is properly disclosed. If going concern is not properly disclosed, then the effects of the departure should be considered in the compilation report. If the going concern issue is properly disclosed, the accountant may include an emphasis-of-matter paragraph describing the going concern, but is not required to do so.

If an accountant becomes aware of going concern issues and management elects to omit substantially all disclosures, the accountant has the following options:

- Issue the report with substantially all disclosure omitted
- Encourage management to include disclosures
- Encourage management to include disclosure of the going concern as selected information
- Withdraw from the engagement

An accountant may not issue a compilation report if management elects to omit disclosures if full disclosure compilations have been prepared in the past and the accountant believes the reason for the step-down is to avoid disclosure of going concern.

Disclosing Selected Information

In certain circumstances, management may wish to disclose selected information so as to not make the financial statements misleading, however management does not want to go through the time and expense of composing all disclosures required under the applicable reporting framework. Guidance for including such information is included in paragraph 2.52 of the Guide. In this instance, management may select no more than a few disclosures and include them under the heading “Selected Information – Substantially All Disclosures Required by Generally Accepted Accounting Principles are not Included”. The accountant shall still include a paragraph in his or her report that management has elected to omit substantially all disclosures. The most common disclosures under “Selected Information” are:

- Going Concern
- Related Party Transactions
- Subsequent Events
- Significant Uncertainties or Concentrations

Summary

When reporting on financial statements under SSARS, the accountant must be aware of the applicable reporting requirements. Deficiencies in compilation reports are often cited in peer review due to the large number of potential options available to management that are not available in audits and reviews (omission of disclosures, independence requirements). A firm should construct quality control procedures to ensure that all of the reporting requirements under AR-C 80 have been followed and that the reports are in compliance. Special consideration should be given to comparative financial statements that have unusual elements, such as split-level reporting and other accountants compiling the previous year.

GROUP STUDY MATERIALS

A. Discussion Problems

1. Discuss the required elements of a compilation report.

2. Discuss what is required supplementary information (RSI) and how the accountant should report on it.

3. Discuss impact of the going concern disclosure on the compilation report.

B. Suggested Answers to Discussion Problems

1. The report must contain the following required elements (AR-C 80.17):

   - Include a statement that management (owners) are responsible for the financial statements
   - Identify the financial statements that are subject to the compilation engagement
   - Identify the entity whose financial statements are subject to the report
   - Specify the dates and periods covered by the financial statements
   - Include a statement that the accountant performed the engagement in accordance with SSARS issued by the ARSC of the AICPA.
   - Include a statement on the limitations of a compilation, that the accountant did not review or audit, no procedures were performed, and no assurance is provided
   - The signature of the accountant
   - The city and state of the accountant
   - Date of the compilation procedures were completed

2. Required supplementary information is defined as supplementary information that is required to be included by a designated GAAP standard setter. The accountant may either compile or not compile the required supplementary information, but when supplementary information is required, an accountant must address the required supplementary information in the compilation report, even when the required supplementary information is not presented.

   If the accountant compiled the required supplementary information, the report will state that the accountant compiled it. If the accountant did not compile the required supplementary information, the report shall state the accountant did not compile it.

3. Going concern is a financial statement disclosure that is the responsibility of management. If management elects to omit substantially all disclosures, the accountant is prohibited from including an emphasis paragraph in his or her report.

   If a compilation includes disclosures and the accountant becomes aware of issues related to going concern during the application of compilation procedures, he or she should determine that the going concern issue is properly disclosed. If going concern is not properly disclosed, then the effects of the departure should be considered in the compilation report. If the going concern issue is properly disclosed, the accountant may include an emphasis-of-matter paragraph describing the going concern, but is not required to do so.

GLOSSARY OF KEY TERMS

Air Drops—a marketing strategy that involves sending coins or tokens to wallet addresses for free or in return for a small service

Compilation—presenting information obtained from a client in financial statement format. There is no assurance being provided by the accountant.

Cryptocurrency—a digital currency, which is an alternative form of payment created using encryption algorithms

Digital Asset—anything that is created and stored digitally, is identifiable and discoverable, and has or provides value.

Encryption—the process of converting information or data into a code, especially to prevent unauthorized access

Hard Forks—refers to a radical change to the protocols of a blockchain network

NFTs—nonfungible tokens are unique cryptographic tokens that exist on a blockchain and cannot be replicated

Private Key—also known as a secret key, is a variable in cryptography that is used with an algorithm to encrypt and decrypt data

Public Key—a public key is a large numerical value that is used to encrypt data

RSAs—RSAs represent an actual share of stock the recipient receives but the right to sell or transfer the shares are restricted until the vesting period passes

RSUs—Restricted stock units represent an interest in company stock, but they have no tangible value until the shares actually vest and restrictions on the employee lapse.

Sharding—involves splitting and distributing one logical data set across multiple databases that share nothing and can be deployed across multiple servers.

Stablecoin—cryptocurrencies where the price is designed to be pegged to a reference asset. The reference asset may be fiat money, exchange-traded commodities (such as precious metals or industrial metals), or a cryptocurrency.

CUMULATIVE INDEX 2022

BY TOPIC

BY CITATION

BY SPEAKER

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

1. According to Russ Madray, the compensation general topic is which of the following?

   A. ASC 710.
   B. ASC 712.
   C. ASC 715.
   D. ASC 718.

2. According to Russ Madray, accounting for restricted stock awards is similar to accounting for which of the following?

   A. Treasury stock.
   B. Employee stock options.
   C. Convertible stock.
   D. Convertible bonds.

3. According to Russ Madray, which of the following is correct related to restricted stock units (RSUs)?

   A. They have tangible value at the time of issue.
   B. They have no vesting or time restrictions.
   C. They are a funded promise to issue a specific number of shares at some future time.
   D. They cannot be sold or treated as owned by the employee until they have the legal right on the vesting date.

4. According to Russ Madray, restricted stock plans usually are designed to comply with which of the following IRC Sections?

   A. Section 83.
   B. Section 401(k).
   C. Section 403(b).
   D. Section 408(a).

5. According to Russ Madray, for restricted stock awards (RSAs), how is the compensation expense measured?

   A. Restricted stock is valued at the par value of the shares backdated to the start date of the employee.
   B. Restricted stock is valued at the par value of the shares on the date of grant.
   C. Restricted stock is valued at the fair value of the shares on the date of grant.
   D. Restricted stock is valued at the fair value of the shares backdated to the start date of the employee.

Continued on next page

6. According to Jennifer Louis, crypto assets are which of the following?

   A. Broader than digital assets.
   B. Function as an actual medium of exchange.
   C. Issued by a jurisdictional authority.
   D. A contract between a holder and another party.

7. According to Jennifer Louis, the primary basis of accounting for digital assets per current GAAP is which of the following?

   A. Topic 321.
   B. Topic 350.
   C. Topic 410.
   D. Topic 606.

8. According to Jennifer Louis, a digital asset acquired with cash is initially recorded at which of the following?

   A. Fair market value.
   B. Cost.
   C. Cost plus related transaction costs.
   D. Cost minus commission.

9. According to Jennifer Louis, which of the following is correct related to recording an impairment loss of a digital asset?

   A. Digital assets purchased at different prices should be bundled.
   B. Indefinite lived intangible assets may subsequently reverse previously recognized impairment losses.
   C. An impairment loss is recognized when there is an excess of the carrying value over the fair value of whatever the unit of account is that is being tracked.
   D. The initial basis of the digital asset remains even if a loss is incurred.

10. According to Jennifer Louis, related to determining the fair value of digital assets, which of the following levels under ASC 820 should ***not*** result in an adjustment?

    A. Level I inputs.
    B. Level II inputs.
    C. Level III inputs.
    D. All levels may result in an adjustment.

11. According to Kurt Oestriecher, the changes in the compilation report occurred so quickly between two SSARS that some people skipped over which of the following reports?

    A. SSARS 10 reports.
    B. SSARS 19 reports.
    C. SSARS 21 reports.
    D. SSARS 23 reports.

Continued on next page

12. According to Kurt Oestriecher, which of the following is a change to the basic compilation report?

    A. A statement that management or the owners is/are responsible for the financial statements at the beginning of the report.
    B. A statement that the accountant is responsible for the financial statements.
    C. The report has an addressee.
    D. The report has a city and state listed.

13. According to Kurt Oestriecher, the compilation report specifically states which of the following?

    A. The report provides reasonable assurance.
    B. The accountant performed a review of the financial statements.
    C. The accountant did not perform an audit.
    D. The date the compilation procedures were started.

14. According to Kurt Oestriecher, which of the following modifications to the compilation report is most common?

    A. Basis of accounting other than GAAP.
    B. Omission of disclosures.
    C. Prescribed formats.
    D. Report restrictions.

15. According to Kurt Oestriecher, which of the following engagements typically result in Required Supplementary Information (RSI) being presented?

    A. Off-track betting facilities.
    B. Retail entities.
    C. Manufacturing facilities.
    D. Governmental organizations.

CPE Network®
Accounting & Auditing Report
Volume 35, Issue 10 **November 2022**

Subscriber Survey

Evaluation Form

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

How would you rate the topics covered in the November 2022 **CPE Network® A&A Report?** Rate each topic on a scale of 1–5 (5=highest):

	Topic Relevance	Topic Content/ Coverage	Topic Timeliness	Video Quality	Audio Quality	Written Material
Restricted Stock Awards	|______|	|______|	|______|	|______|	|______|	|______|
AICPA Crypto and Digital Asset A&A Guide	|______|	|______|	|______|	|______|	|______|	|______|
Compilation Reports	|______|	|______|	|______|	|______|	|______|	|______|

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

____

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____

____

Which segments of the November 2022 issue of **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 **CPE Network® A&A Report?**

____

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____

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

	Overall	Knowledge of Topic	Presentation Skills
Russ Madray			
Jennifer Louis	|______|	|______|	|______|
Kurt Oestriecher	|______|	|______|	|______|

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

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

____

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

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

Were program materials accurate? Yes ☐ No ☐ ________________________________

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

____

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

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

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

Specific Comments: ____

____

Name/Company ____

Address ____

City/State/Zip ____

Email ____

Once Again, Thank You…

Your Input Can Have a Direct Influence on Future Issues!

CPE Network®

CPE Group Attendance Sheet

Firm/Company Name: ____________________

Account #: ____________________

Location: ____________________

Program Title: CPE Network Accounting and Auditing Report, November 2022 Date: __________

Name	Email	Total Hrs	IRS PTIN ID (if applicable Tax only)	Sign In	Sign Out

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

Instructor Name: ____________________ Date: __________

E-mail address: ____________________

License State and Number: ____________________

CPE Network/Webinar Delivery Tracking Report

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

			First CPE Hour			**CPE Hour 2**			**CPE Hour 3**			**FOR TR USE ONLY**
First Name	**Last Name**	**Student Email**	**Poll 1**	**Poll 2**	**Poll 3**	**Poll 1**	**Poll 2**	**Poll 3**	**Poll 1**	**Poll 2**	**Poll 3**	**Certificate Issued?**

CHECKPOINT LEARNING NETWORK

CPE NETWORK®
USER GUIDE

REVISED March 11, 2022

Welcome to CPE Network!

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

This User Guide has the following sections:

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

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

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

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

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

Copyrighted Materials

“Group Live” Format

CPE Credit

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

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

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

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

Advertising / Promotional Page

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

Monitoring Attendance

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

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

Real Time Instructor During Program Presentation

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

Elements of Engagement

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

Make-Up Sessions

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

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

Awarding CPE Certificates

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

Subscriber Survey Evaluation Forms

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

Retention of Records

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

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

Finding the Transcript

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

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

Requesting Participant CPE Certificates

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

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

Email: **CPLgrading@tr.com**

Fax: 888.286.9070

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

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

Incomplete submissions will be returned to you.

“Group Internet Based” Format

CPE Credit

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

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

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

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

Advertising / Promotional Page

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

Monitoring Attendance in a Webinar

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

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

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

Examples of polling questions:

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

Additional Notes on Monitoring Mechanisms:

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

Real Time Moderator During Program Presentation

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

Make-Up Sessions

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

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

Awarding CPE Certificates

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

Subscriber Survey Evaluation Forms

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

Retention of Records

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

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

Finding the Transcript

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

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

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

Requesting Participant CPE Certificates

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

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

Fax: 888.286.9070

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

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

Incomplete submissions will be returned to you.

“Self-Study” Format

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

Self-Study—Print

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

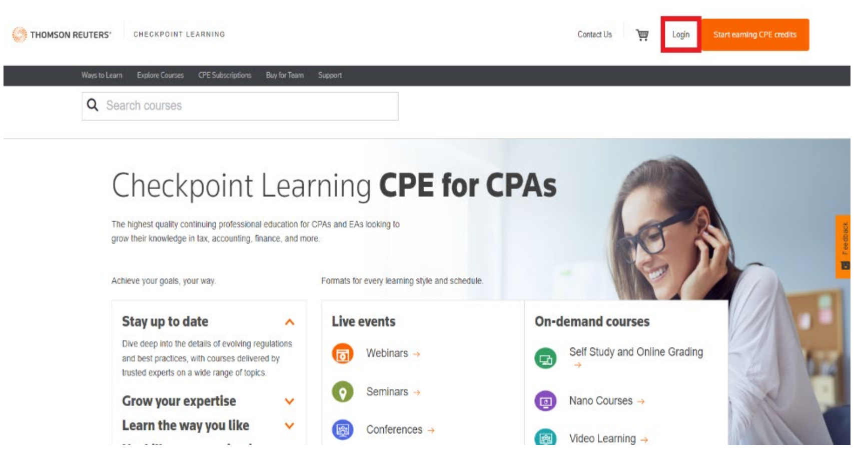
- Watch the DVD.
- Review the supplemental materials.
- Read the discussion problems and the suggested answers.
- Complete the quizzer by filling out the bubble sheet enclosed with the transcript package.
- Complete the survey. We welcome your feedback and suggestions for topics of interest to you.
-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

  Thomson Reuters
  PO Box 115008
  Carrollton, TX 75011-5008

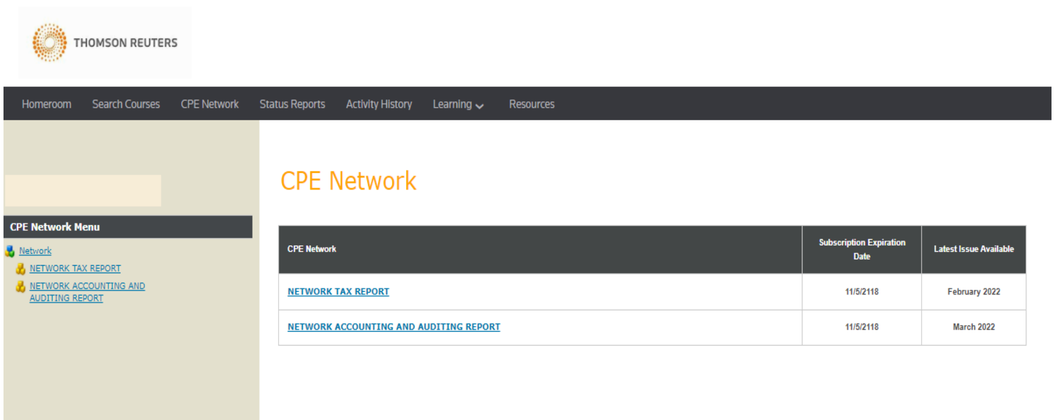
Self-Study—Online

Follow these simple steps to use the online program:

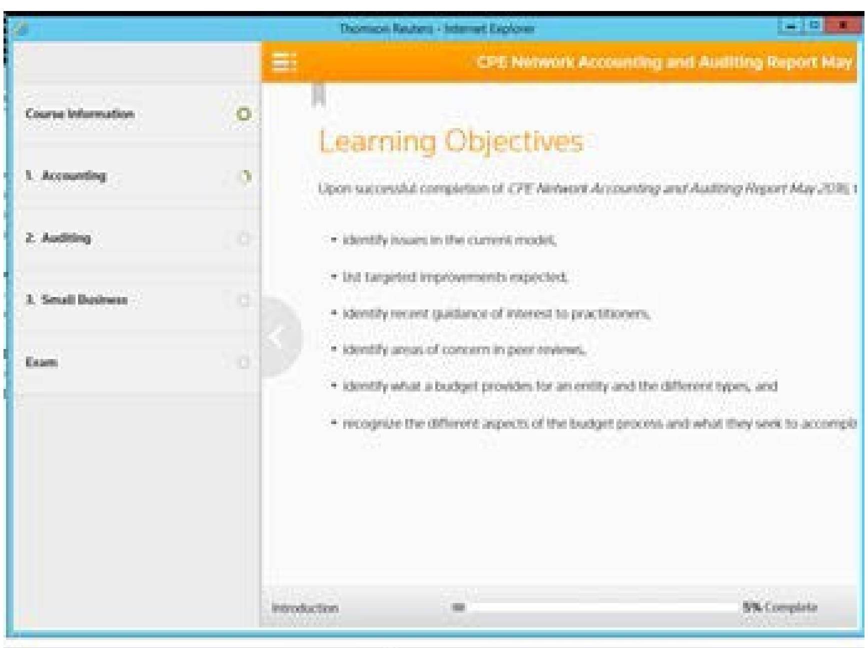
- Go to www.checkpointlearning.thomsonreuters.com .
- Log in using your username and password assigned by your firm’s administrator in the upper right-hand margin (“Login or Register”).



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

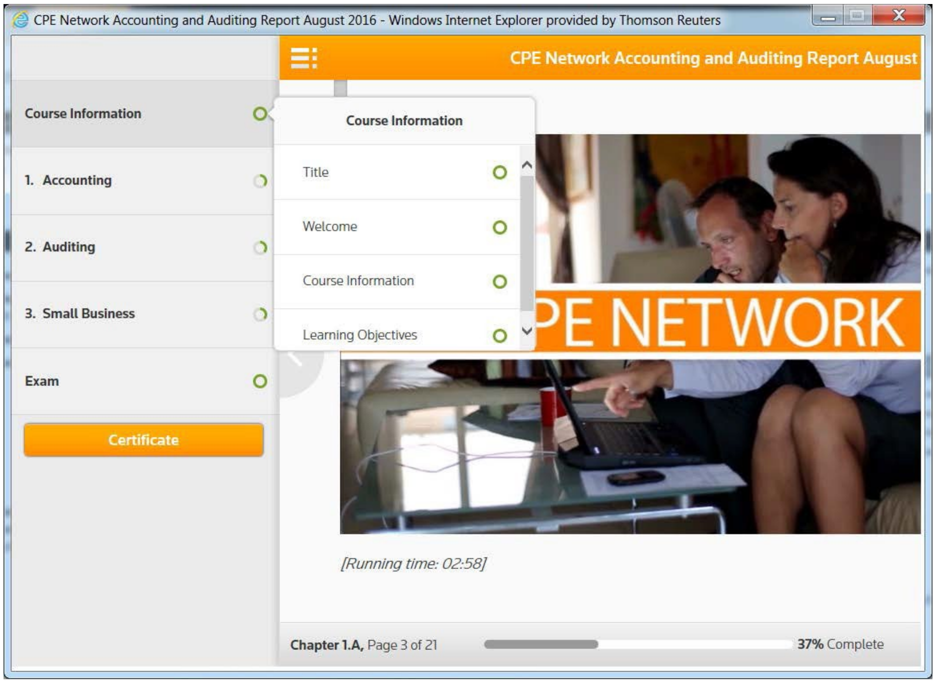


The Chapter Menu is in the gray bar at the left of your screen:

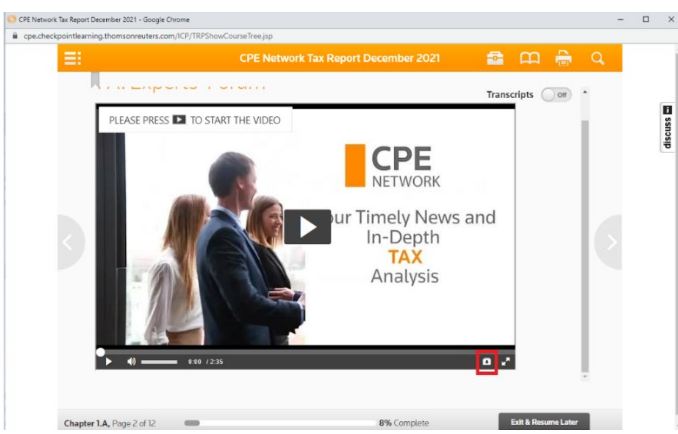


Click down to access the dropdown menu and move between the program Chapters.

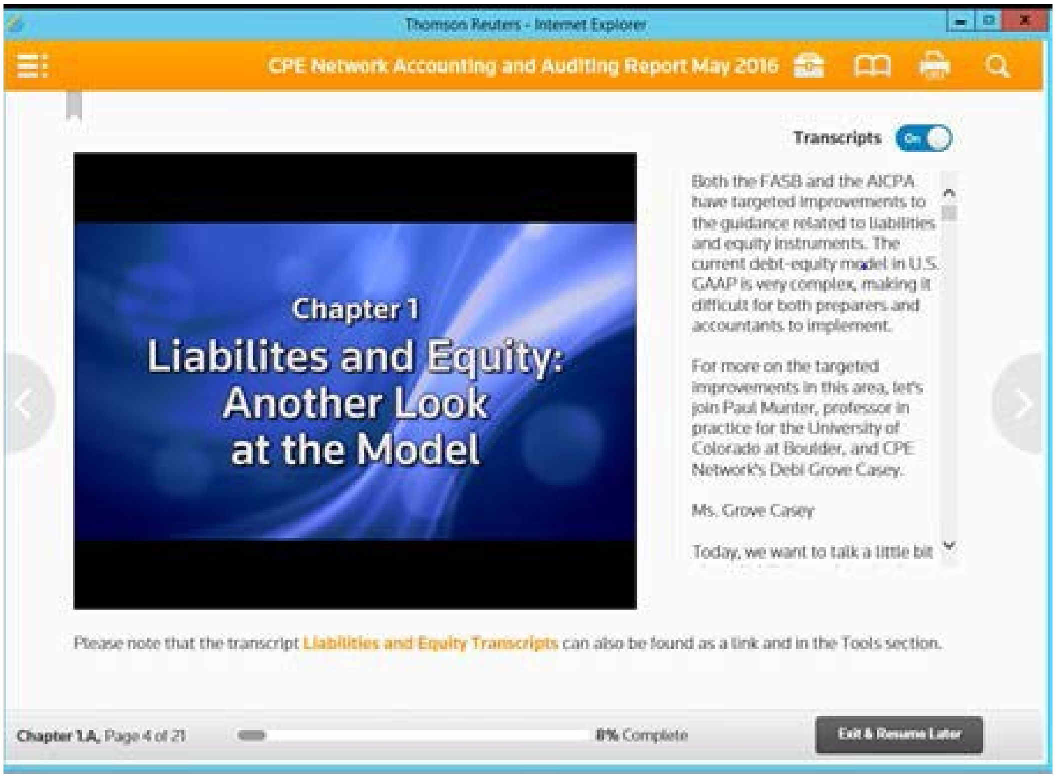
- **Course Information** is the course Overview, including information about the authors and the program learning objectives



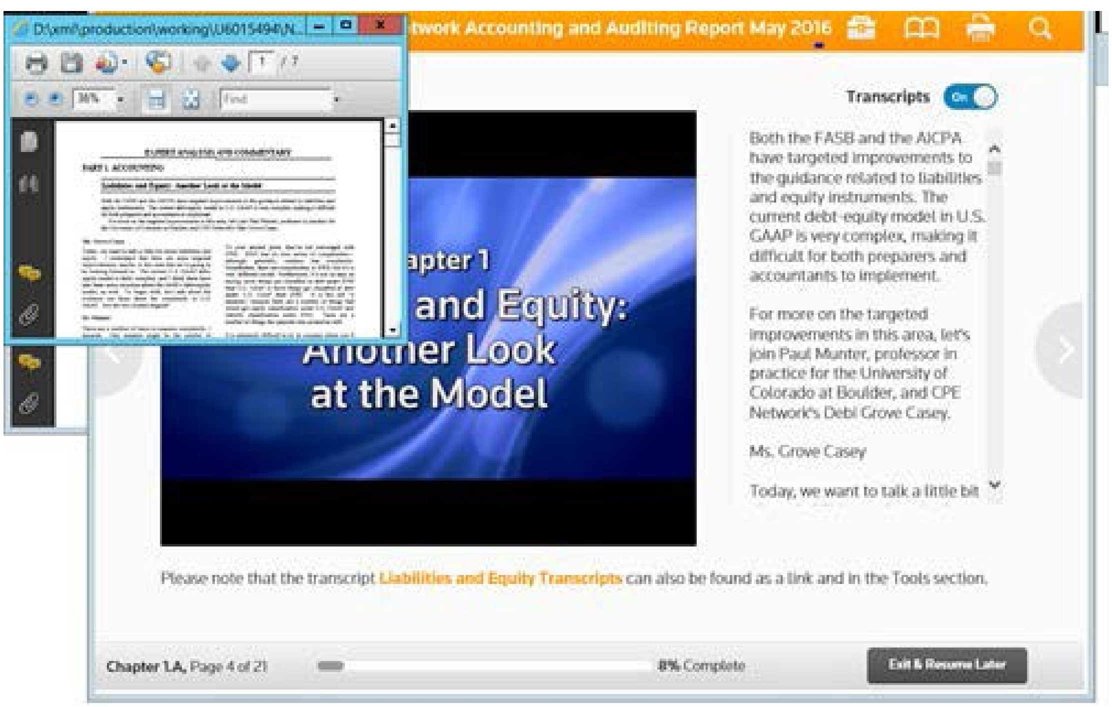
- **Each Chapter is now self-contained.** Years ago, when on the CPEasy site, the interview segments were all together, then all the supplemental materials, etc. Today, each chapter contains the executive summary and learning objectives for that segment, followed by the interview, the related supplemental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



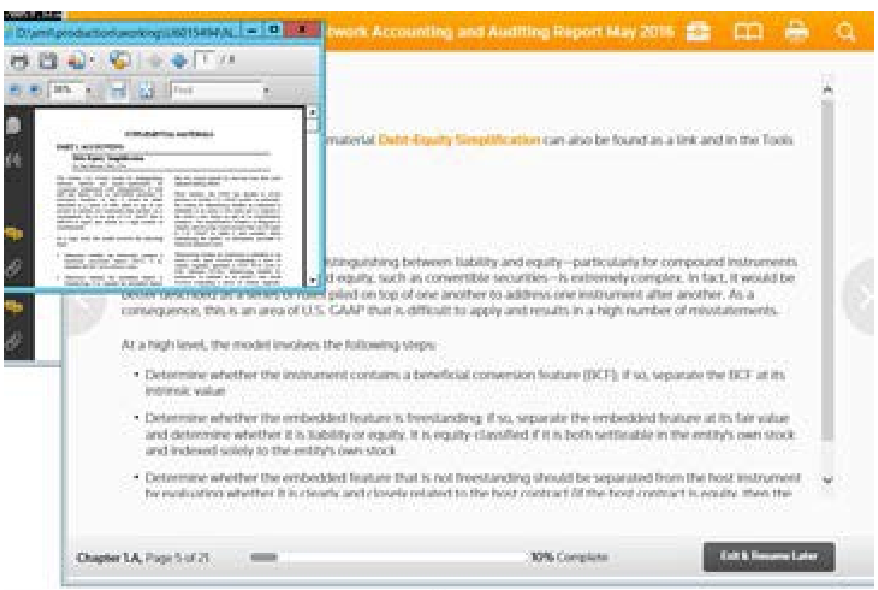
Video segments may be downloaded from the CPL player by clicking on the download button. Tip: you may need to scroll down to see the download button.



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

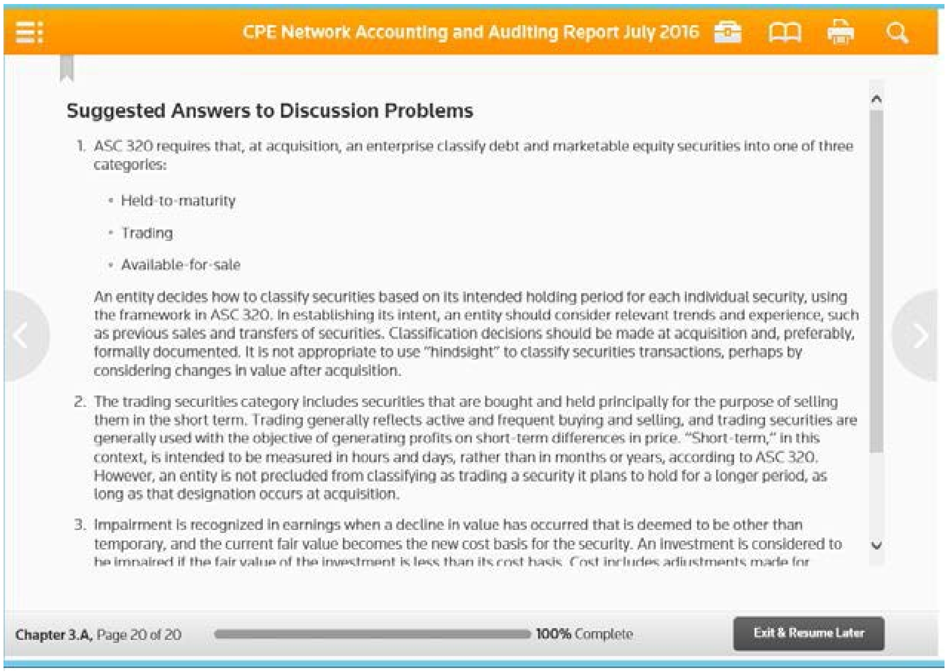


Click the arrow at the bottom of the video to play it, or click the arrow to the right side of the screen to advance to the supplemental material. As with the transcripts, the supplemental materials are also available via the toolbox and the link will pop up the pdf version in a separate window.



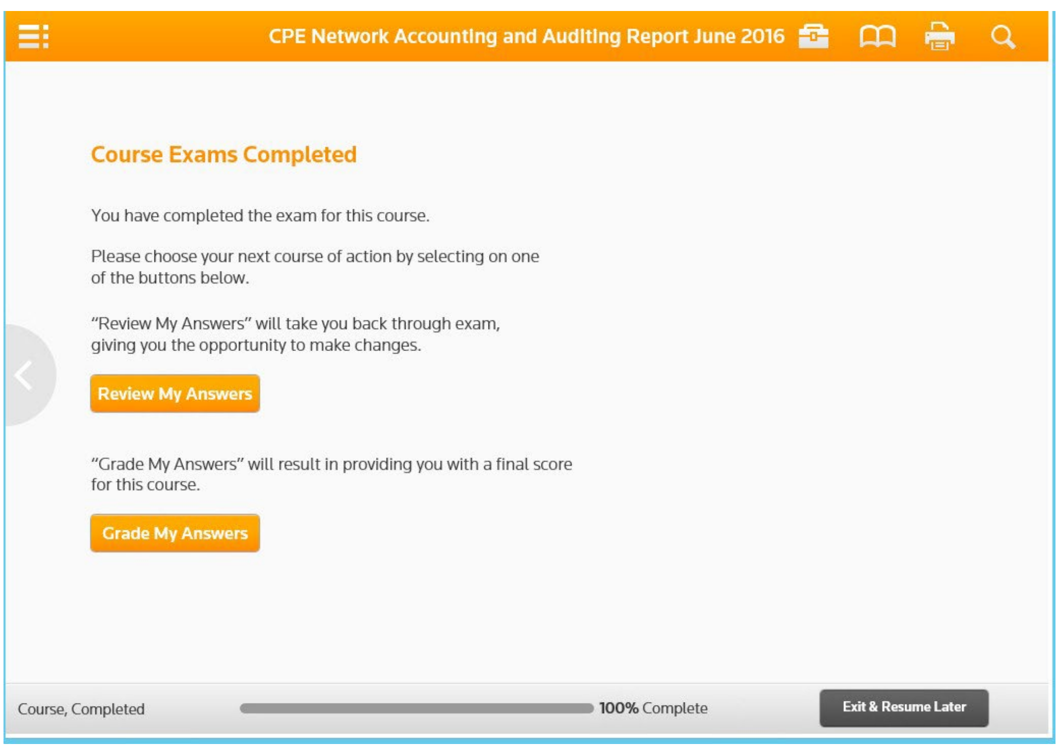
Continuing to click the arrow to the right side of the screen will bring the user to the Discussion p roblems related to the segment.

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



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

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



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

Additional Features Search

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

Search Results are displayed with the number of hits.

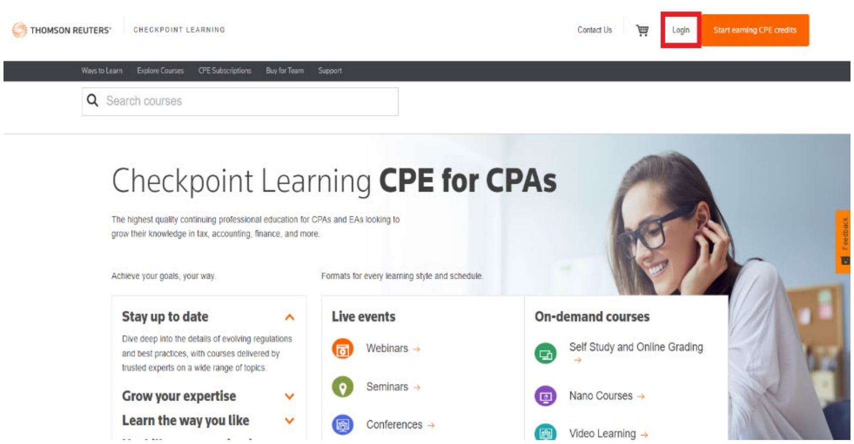
Print

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

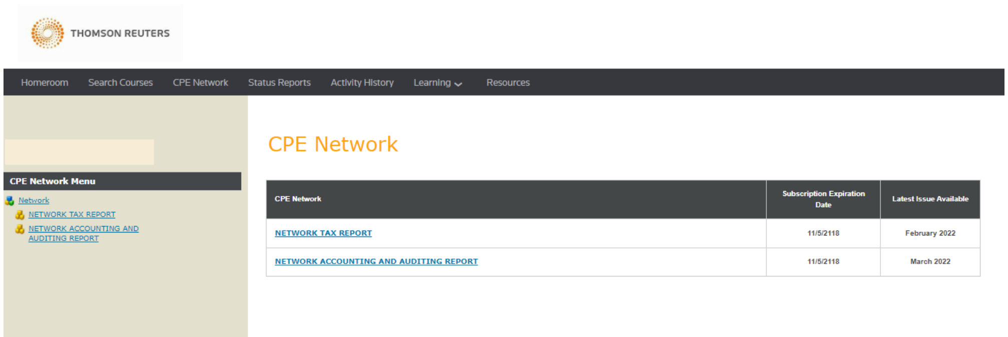
Transitioning From DVDs

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

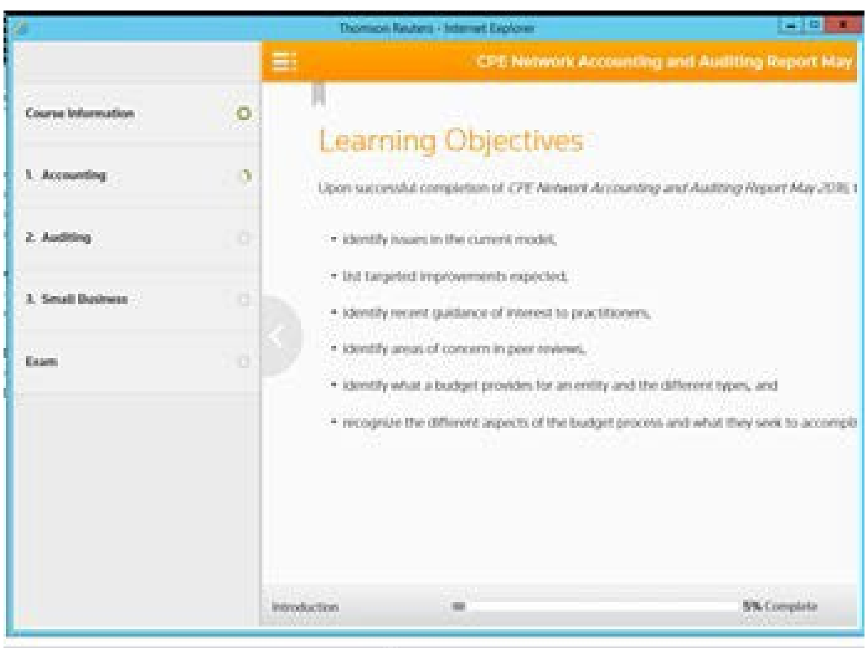
- Go to www.checkpointlearning.thomsonreuters.com .
- Log in using your username and password assigned by your firm's administrator in the upper right-hand margin ("Login or Register").



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

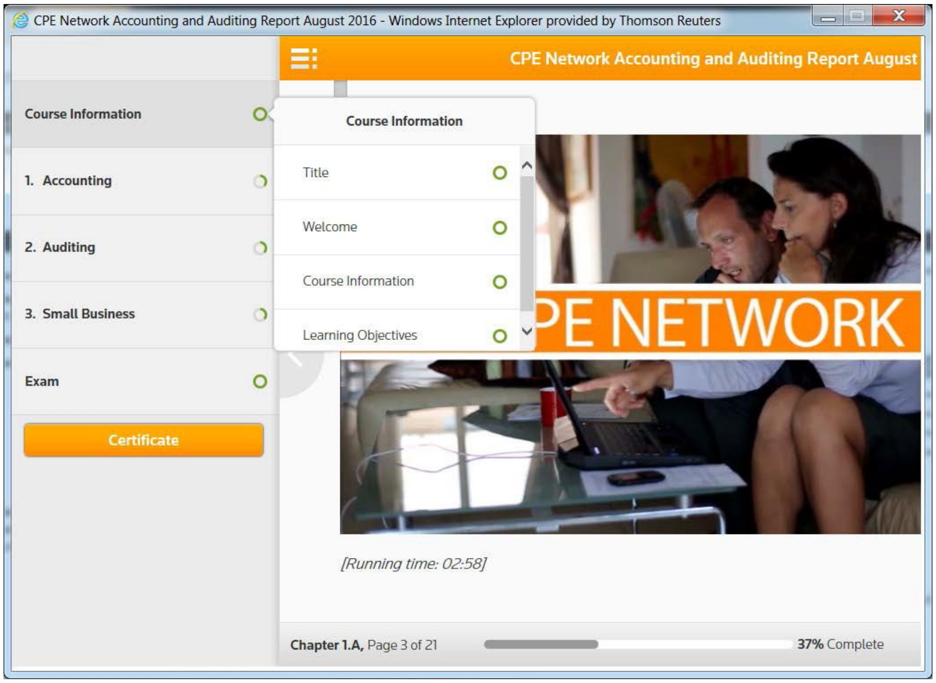


The Chapter Menu is in the gray bar at the left of your screen:

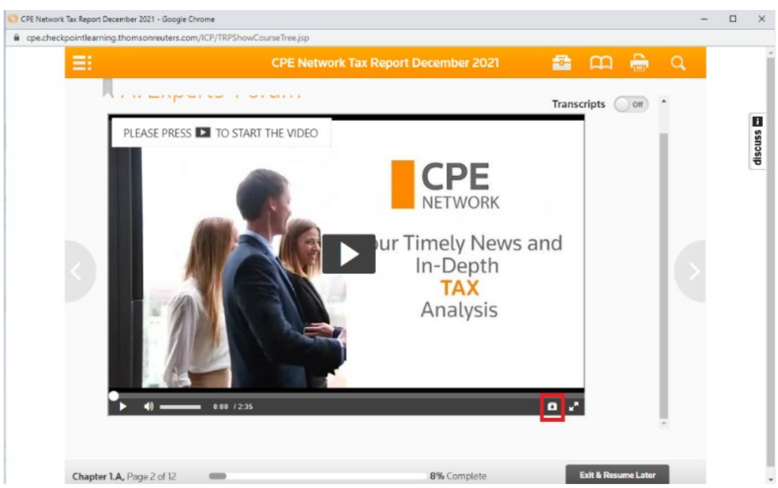


Click down to access the dropdown menu and move between the program Chapters.

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



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



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

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

What Does It Mean to Be a CPE Sponsor?

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

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

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

CPE Sponsor Requirements

<u>Determining CPE Credit Increments</u>

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.

<u>Real Time Instructor During Program Presentation</u>

"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).

<u>Awarding CPE Certificates</u>

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

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

<u>Seminar Quality Evaluations for Firm Sponsor</u>

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

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

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

Retention of Records

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

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

Appendix: Forms

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

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

Getting Help

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

Support Group	**Phone Number**	**Email Address**	**Typical Issues/Questions**
Technical Support	800.431.9025 (follow option prompts	checkpointlearning.techsupport@ thomsonreuters.com	• Browser-based • Certificate discrepancies • Accessing courses • Migration questions • Feed issues
Product Support	800.431.9025 (follow option prompts	checkpointlearning.productsupport@ thomsonreuters.com	• Functionality (how to use, where to find) • Content questions • Login Assistance
Customer Support	800.431.9025 (follow option prompts	checkpointlearning.cpecustomerservice@ thomsonreuters.com	• Billing • Existing orders • Cancellations • Webinars • Certificates