

2022 AICPA Peer Review Conference Additional Questions and Answers From Session 09 AICPA Technical Hotline's Top A&A Issues Facing CPAs

Attendees at this year's peer review conference submitted many relevant thought-provoking questions during Session 09 AICPA Technical Hotline's Top A&A Issues Facing CPAs. Unfortunately, due to time constraints, many questions were unanswered. What follows is a listing of select questions submitted during the session and the related answers. Some questions were edited for readability/clarity.

1) How could you have your risk assessments in your engagement letter? Our engagement letters are completed well before our planning is completed.

A: Some third-party practice aides are rolling forward prior year significant risks to comply with new requirements in SAS No. 134 and updates are made as appropriate.

2) What if you identify a significant risk during the audit?

A: Communication of significant risks to those charged with governance for significant risks identified after the planning phase of the engagement is not addressed by AU-C No. 260. Therefore, this is a matter of auditor discretion. It should be noted that communication may be required by other communication requirements, such as those pertaining to misstatements or audit difficulties.

3) On the pass-through entity tax, if the entity and not the individual is subject to audit does that not make that a tax to the entity?

A: The guidance on attributing the tax from the examples in FASB ASC 740 indicate the factors to consider in making this judgment. Based on those examples, we do not think that the existence of an audit right by the jurisdiction (and not the individual) is determinative. We feel, based on the examples, that the ability for the individual to receive a credit for tax incurred by the entity is a strong factor leaning toward attribution to the owner/equity transaction.

4) If a firm accounts for state and local taxes (SALT) under ASC 740 when should this be accounted for as equity transaction? Is there a finding depending on materiality?

A: We think it would depend on the tax regime in question. Some of the SALT tax workaround regimes could be treated differently based on reasonable interpretations of the FASB ASCs and tax law. We do not think those would be an error. Conversely, in other cases, we think it is clear that a SALT tax workaround regime is an equity transaction and treating it as an entity tax would be an error.

5) Does the employee retention credit treatment change if the financial statements were issued after the tax return but the tax guys didn't provide the information? Is this a reportable subsequent event?

A: GAAP recognition would be based on meeting the recognition threshold of the accounting model used (for example, IAS 20, FASB ASC 958-605), it is not clear what information was lacking in the question but recognition for GAAP should be based on meeting the recognition threshold of the applicable model.

6) Is there a good source for reliable/trustworthy lease accounting software options?

A: There is not a publicly available source that we are aware of. We have put out some guidance on things to consider where diversity in software product exists. This includes: pricing model, implementation fee, minimum fee, addressing disclosures, cloud or desktop, foreign currency, ability to partition clients, audit trail, report delivery.

7) In a related party lease, there may also be a mortgage against the property guaranteed by the tenant. Isn't that proof of a legally enforceable obligation, even if there is no written lease?

A: This is a legal determination, and we are not lawyers so we can't make a determination here. With that said, state law deals with this question in different ways. For example, in some states leases of tangible property must be in writing to be enforceable.

8) So far most of my peer review clients are missing certain elements in the new revenue recognition standards. Primarily the missed items are opening balances for contract assets and liabilities, disaggregation of revenue, and year of implementation disclosures. These clients had taken adequate and relevant CPE on the topic and documented consultation in their engagement workpapers but still had misses. How can we either develop better education products or provide better implementation tools to members of the AICPA?

A: These are all topics we covered extensively in our CPEA material and recommend firms take advantage of (or join CPEA if they haven't).

9) Many related party leases are month-to-month. Wouldn't that exclude them from the standard since less than one year?

A: You need to determine what the legally enforceable lease term is, based on the law in the jurisdiction in which the contract is governed this could include implied/unwritten terms. See the CPEA February report on the topic.