



Technical Issues Alert

Information on technical issues affecting small businesses and the CPAs who serve them.

Delay for Leases Standard

In *Accounting Standards Update 2019-10—Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, the Financial Accounting Standards Board delayed the private companies effective date on three major standards on leases, credit losses (CECL) and hedging. In May, TIC sent the board an [unsolicited letter](#) urging postponement of the effective date for the leases standard, given the recent volume of other significant new accounting standards and the implementation challenges that the lease standard will pose for private companies. TIC's letter was reported in *The*

Wall Street Journal, among other publications. The FASB subsequently issued an exposure draft and recently finalized guidance that allows private companies a one-year delay for the hedge accounting and lease accounting guidance to fiscal years beginning after Dec. 15, 2020, and a two-year delay on the credit losses standard for private companies to fiscal years beginning after Dec. 15, 2022. TIC will continue to advocate for simplifications and practical expedients that are in the interest of private companies and the CPAs that serve them. ■

TIC Update with FASB Staff

Complicated new standards and projects in development were among the issues on the agenda when TIC conferred recently with FASB staff members.

Revenue recognition implementation issues. TIC members discussed challenges they are seeing in practice. They discussed the fact that in some instances, a private company may not see any change in reporting disaggregated revenue disclosures under the new standard, [ASC 606](#), versus the previous one, [ASC 605](#), if previous disclosures were robust. TIC has also discussed some potential challenges with regard to independence when

implementing the new standard. The CPEA recently issued a [report](#) on this issue.

Leases. TIC discussed a list of proposed lease relief and simplification ideas to be shared with the FASB and the Private Company Council. The list covers a wide range of topics, including disclosure, the incremental borrowing rate practical expedient, the short-term lease exception, embedded leases, finance vs. operating leases, related party guidance and lessee allocation of variable lease payments. TIC sent some ideas for practical expedients and other simplifications to the FASB staff for consideration.

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Future Meetings

TIC meetings offer local practitioners the chance to provide their unique perspectives in the standard-setting process. All CPAs are invited to attend. Contact Kristy Illuzzi, CPA, TIC Staff Liaison, at the AICPA at (919) 402-4057 to learn about attending or receiving information on upcoming meetings.

The next TIC meetings will be held:

- January 14 and 15, 2020, San Diego, CA: TIC liaison meeting with the ASB
- May 5 and 6, 2020, Nashville, TN
- June 7 to 10, 2020, Las Vegas, NV: Engage Conference and TIC meeting
- September 21 to 23, 2020, Norwalk, CT: TIC's FASB, GASB and PCC liaison meetings
- November 10 and 11, 2020, location TBD

The PCPS Technical Issues Committee (TIC) provides standard setters with the unique perspective of local CPA firms on accounting, auditing and reporting issues. We hope these highlights of issues that affect local firms will help you, your firm or your group to participate in the standard-setting process.

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Accounting by a Joint Venture for Nonmonetary Assets Contributed by Investors. This project in development is meant to address diversity in practice due to a lack of direct existing guidance. It will focus solely on the joint venture's accounting for initial nonmonetary contributions. FASB staff reported on their outreach efforts to public and private entities and TIC members offered feedback on the potential impact of possible requirements.

Not-for-Profit Reporting of Gifts-in-Kind. This project in development will focus on presentation and disclosure at not-for-profits to address diversity in practice. An ED is expected in January 2020.

Identifiable Intangible Assets and Subsequent Accounting for Goodwill. In TIC's comment letter on this Invitation to Comment, it called for maintaining private company alternatives if changes are made to current guidance in this area. TIC and FASB staff discussed the comment letters received and FASB outreach efforts.

Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. The final Accounting Standards Update on this project is expected in December.

ARSC UPDATE

At their most recent meeting, TIC members heard details on the activities of the Accounting and Review Services Committee, from committee staff liaison Mike Glynn.

Materiality in a Review of Financial Statements, Adverse Conclusions, and Special Purpose Frameworks. The committee expects to finalize this standard which, among other changes, will provide a definition of limited assurance, in January.

Shaping the Ethics Work Plan

The AICPA Professional Ethics Division is actively seeking input on its strategy for the next three years. Its consultation paper, *Strategy and Work Plan*, requests comments on potential standard-setting, enforcement and member enrichment projects. The document covers proposed new projects, current projects and projects not to be pursued. Comments are due by February 28, 2020.

The Strategy and Work Plan is one of the topics on a recent "Ethically Speaking," a regular podcast on issues CPAs need to know in the ethics area. That edition covers ethics standard-setting activity related to staff augmentation, inducements, state

Proposed Accounting Standards Update (Revised)—*Income Taxes (Topic 740): Disclosure Framework—Changes to the Disclosure Requirements for Income Taxes.* FASB staff members are reviewing comment letters and preparing a summary for the board.

Proposed Accounting Standards Update (Revised)—*Debt (Topic 470): Simplifying the Classification of Debt in a Classified Balance Sheet (Current Versus Noncurrent).* The FASB staff discussed comment letters received and plans to present the results to the board. In its comment letter, TIC had concerns about the accounting for certain variable rate demand obligations and other operational issues for private companies such as proposed waiver requirements.

EITF Issue No. 19-C: *Warrant Modifications: Issuers' Accounting for Modifications of Equity Classified Freestanding Call Options That Are Not within the Scope of Topic 718, Compensation—Stock Compensation, or Topic 815, Derivatives and Hedging.* A TIC member will serve as a resource as the staff works on this project, which was recently added to the EITF agenda. ■

SSARS practice issues. TIC noted issues in implementing Statements on Standards for Accounting and Review Services in light of major new accounting standards, such as the FASB revenue recognition guidance. There was also a discussion of possible implementation guidance needed by practitioners to address these issues. The AICPA staff as well as the CPEA will consider developing additional guidance in this area. ■

and local government, IT and cloud-based services, the AICPA tax standards revision project, non-compliance with laws and regulations (NOCLAR), and the records request interpretation, as well as an update on the activities of the International Ethics Standards Board for Accountants. A subsequent edition discusses independence issues when implementing FASB ASC 606, on revenue recognition.

In addition, the December issue of the *Journal of Accountancy* features an article on a revised ethics interpretation on information system services. ■

ASB Proposal on Auditing Estimates

The Auditing Standards Board's proposed SAS on [Auditing Accounting Estimates and Related Disclosures](#) is intended to enable auditors to address auditing issues that arise from new and complicated U.S. accounting standards and to address issues raised in recent estimates projects of the International Auditing and Assurance Standards Board and the Public Company Accounting Oversight Board.

In its [comment letter](#), TIC thought the proposed changes would help auditors to perform appropriate audit procedures for accounting estimates and related disclosures and improve audit quality by encouraging auditors to exercise

professional skepticism. TIC was pleased to see that the proposal contains guidance on how the requirements can be scaled to various levels of estimation uncertainty. TIC also offered suggestions on addressing management bias as a risk factor, noting among other things that the differences between management's recorded amounts and auditor estimates might reflect management's failure to understand estimation uncertainty rather than bias. TIC offered recommendations on related documentation requirements. TIC also questioned a reference to management's intention to mislead, since this is not something an auditor could determine. ■

Audit Update

- Against the backdrop of constant change and evolving technology, the AICPA Auditing Standards Board has released its [Proposed Strategy and Work Plan](#) consultation for comment in order to obtain and understand the views of its stakeholders about its standard-setting strategy over the period through 2022. The consultation identifies environmental drivers that have resulted in the ASB identifying five strategic initiatives and related strategic actions that the ASB believes will ultimately allow the board to continue establishing high-quality audit and attestation standards in the public interest and doing so in a more efficient manner. Comments are requested by January 31, 2020.
- The ASB has issued Statement on Standards for Attestation Engagements No. 19, [Agreed-Upon Procedures Engagements](#), to supersede SSAE No. 18 AT-C section 215 of the same title in *AICPA Professional Standards*. SSAE No. 19, which also amends SSAE No. 18 AT-C section 105, *Concepts Common to All Attestation Engagements*, provides flexibility to a practitioner's ability to perform an AUP engagement by (1) removing the requirement that the practitioner request a written assertion from the responsible party; (2) allowing procedures to be developed over the course of the engagement; (3) allowing the practitioner to assist in developing the procedures, (4) no longer requiring intended users to take responsibility for the sufficiency of the procedures and instead requiring the engaging party to acknowledge the *appropriateness* of the procedures prior to the issuance of the practitioner's report, and (5) allowing the practitioner to issue a general-use report. The SSAE becomes effective for AUP reports dated on or after July 15, 2021. Early implementation is permitted. Visit the hub site, [Auditing and Attestation Standards Issued in 2019: Information and Resources](#), for the latest information on this standard.
- The ASB also issued Statement on Auditing Standards No. 138, [Amendments to the Description of the Concept of Materiality](#), and Statement on Standards for Attestation Engagements No. 20 of the same title to respectively amend various AU-C and AT-C sections in *AICPA Professional Standards*. The ASB's current description of the concept of materiality is consistent with the definition of materiality used by the International Accounting Standards Board and the International Auditing and Assurance Standards Board. These pronouncements align the materiality concepts discussed in *AICPA Professional Standards* with the description of materiality used by the U.S. judicial system, the auditing standards of the PCAOB, the U.S. Securities and Exchange Commission, and the Financial Accounting Standards Board. The ASB believes it is in the public interest to eliminate inconsistencies between the *AICPA Professional Standards* and the description of materiality used by the U.S. judicial system and other U.S. standard setters and regulators. The ASB believes that, because the revised definition is aligned with the FASB, the revised description is substantially consistent with current U.S. firm practices with respect to determining and applying materiality in an audit or attest engagement and accordingly U.S. practice is neither expected nor intended to change. The SAS and SSAE become effective for periods ending, or for practitioners' examination or review reports dated, on or after December 15, 2020,

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respectively. Visit the hub site, [Auditing and Attestation Standards Issued in 2019: Information and Resources](#), for the latest information on these standards.

- [Proposed Statement on Auditing Standards, Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes from SAS No. 134](#). TIC did raise concerns in its [comment letter](#) on this proposal, including questions about the impact it would have on organizations using the Financial Reporting Framework for Small- and Medium-Sized Entities. The ASB has a call in December to discuss the comment letters further and plans to finalize the proposal at their January 2020 meeting.
- The ASB has issued [auditing interpretation No. 5](#), "Communicating Critical Audit Matters When Reporting on Audits Conducted in Accordance With Auditing Standards Generally Accepted in the United States of America and the Standards of the PCAOB," to AU-C section 700A (AICPA, [Professional Standards](#)). Interpretation No. 5 provides guidance on how an auditor complies with AU-C section 700A in the context of the PCAOB reporting standards when the communication of critical audit matters pursuant to PCAOB standards is required. This interpretation is in addition to the March 2018 issuance of auditing interpretation No. 4 to AU-C section 700A, [Forming an Opinion and Reporting on Financial Statements](#), that provides guidance on how an auditor complies with AU-C section 700A in the context of PCAOB Auditing Standard (AS) 3101, [The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion](#). Although determined to be consistent with GAAS, the interpretations should not be construed to be interpretations of PCAOB standards. Moreover, the interpretations have not been approved or acted upon by the PCAOB.
- AICPA [Technical Question and Answer \(TQA\) 8100.04](#) (AICPA, [Technical Questions and Answers](#)) provides nonauthoritative reporting guidance relevant to the initial implementation of SAS No. 134, [Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements](#). The TQA discusses the circumstance in which a continuing auditor is engaged to perform an audit of comparative financial statements in the first year of implementation of SAS No. 134, and whether the continuing auditor is permitted to express an opinion on all periods presented in one report, in accordance with that standard.
- The Auditing Standards Board has issued an [exposure draft of Proposed Statement on Auditing Standards \(SAS\) Amendments to AU-C Sections 725, 730, 930, 935, and 940](#). In addition to the ASB's effort to conform the sections to SASs No. 134, [Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements](#), and No. 137, [The Auditor's Responsibilities Relating to Other Information Included in Annual Reports](#), the proposed SAS also amends certain AU-C sections, in particular AU-C section 935, [Compliance Audits](#), to reflect practice issues that have arisen since the most recent revisions that were made to them. In addition, the proposed SAS reflects the amended requirements to AU-C section 700, [Forming an Opinion and Reporting on Financial Statements](#), made by SAS No. 138, [Amendments to the Description of the Concept of Materiality](#). The comment period ends February 10. ■

GASB Update

- A Governmental Accounting Standards Board ED on [Replacement of Interbank Offered Rates](#) addresses how governments should respond to global reference rate reform in light of the expiration of the London Interbank Offered Rate (LIBOR) as a standard interbank offered rate at the end of 2021. Since governments may have agreements in which variable payments made or received are based on LIBOR or a similar reference rate, the new guidance would address the requirements when shifting to a new rate, including when leases are pegged to LIBOR. The guidance would be effective for periods beginning after December 15, 2020.
- TIC members discussed issues they are seeing in practice related to the implementation of GASB

Statement No. 87, [Leases](#), including lessors' difficulty in determining an interest rate to use when one is not stated in the contract. TIC has shared its input with the GASB and expects the issues will be addressed in an upcoming Implementation guide to be exposed in December.

- TIC members also discussed GASB's [Big Three](#) projects on the financial reporting model, revenue and expense recognition, and note disclosures. The GASB has said that the timing of the projects is staggered so that they can be issued consecutively and that the time horizon for the projects is relatively lengthy. An ED of a proposed Concepts Statement on note disclosures is expected in February 2020. ■

HFMA Releases Issue Analysis on Capitation and Risk Sharing Arrangements

The Healthcare Financial Management Association, through its Principles and Practices Board, has released a nonauthoritative [Issue Analysis](#), "Revenue Recognition Implications Under Topic 606 for Capitation and Risk Sharing Arrangements," to provide some clarity to the healthcare industry on certain accounting and reporting issues resulting from FASB Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This issues analysis highlights the current issues and considerations in accounting for revenue

resulting from healthcare providers entering into contracts that obligate the healthcare providers to provide healthcare services to patients (that is, enrolled qualified beneficiaries) in exchange for payments established under a variety of methods. These payment model arrangements expose the healthcare providers to the uncertainty of financial gain or loss. The HFMA publishes issues analyses to provide short-term practical assistance on emerging issues in healthcare financial management. ■

Let Us Hear from You

If you have questions, local firm advocacy issues or suggestions for TIC, contact:

Danielle Supkis Cheek, CPA

TIC Chair

Email: dcheek@pkftexas.com

Kristy Illuzzi, CPA

TIC Staff Liaison

E-mail: kristy.illuzzi@aicpa-cima.com

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