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THE PPC
# ACCOUNTING AND AUDITING UPDATE

FEBRUARY 2020, VOLUME 29, NO. 2

## Revised CPE Standards Allow New Self-Study Option

In December 2019, the National Association of State Boards of Accountancy (NASBA) and the AICPA published a revised *Statement on Standards for Continuing Professional Education (CPE) Programs* (CPE Standards), effective as of December 31, 2019. The CPE Standards govern the development, presentation, measurement, and reporting of CPE programs. Accordingly, firms need to be aware of the requirements of the CPE Standards to ensure that CPE programs developed by the firm and CPE taken by professional staff satisfy those requirements. (Because adopting the CPE Standards is discretionary by each state board of accountancy, not every state strictly follows the CPE Standards as developed by NASBA and the AICPA.)

One of the more significant revisions to the CPE Standards permits a new type of self-study program known as *adaptive learning*. An adaptive learning program delivers customized content to learners based on their individual needs, which are assessed during the program. Such a personalized program uses a computer algorithm or other predictive analytics tools to interact with the learner to deliver customized learning activities designed to meet the course's stated objectives. The revisions also specify a methodology for determining the amount of CPE credit to be awarded for an adaptive learning program.

Other significant revisions to the CPE Standards include—

- Clarifying changes made to nano-learning programs, including a revised definition and permitting the use of review questions or other content reinforcement tools.
- Clarifying changes made to assist in the understanding of awarding CPE credit in different instruction delivery methods.
- Adding a table to assist sponsors in understanding the minimum number of monitoring mechanisms required in a group internet-based program in which fractional CPE credit is awarded.
- Stipulating that the CPE program sponsor of independent study learning activities is required to maintain certain documentation.

### In this Issue:



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**Practical Consideration:**

The December 2019 version of the CPE Standards is available on both the AICPA's and NASBA's websites.

# Risk Alert: the 2019/2020 Update

The AICPA has issued its annual edition of the Audit Risk Alert, *General Accounting and Auditing Developments*. The alert provides an overview of recent economic, industry, technical, regulatory, and professional developments and may help identify items that could affect your engagements. Understanding how the issues discussed in the Audit Risk Alert affect your clients helps you assess risks of material misstatement and develop a customized, efficient, and effective audit approach to address those risks. The following matters are discussed in the AICPA Audit Risk Alert, *General Accounting and Auditing Developments-2019/20* (Risk Alert).

**Practical Consideration:**

The Risk Alert is an *other auditing publication* and has no authoritative status but may help auditors understand and apply the SASs.

## Economic and Industry Developments

Auditors need to understand how current economic conditions and industry trends affect their clients. Economic conditions are likely to affect the client's business and financial statements and need to be considered when assessing the risk of material misstatement. The Risk Alert notes that growth slowed in the latter half of 2019 due to new tariffs and Federal Reserve tightening. Gross domestic product (GDP) growth slowed, but unemployment is low and income levels and consumer spending improved. The Risk Alert notes that investors believe the economy and market will continue to strengthen into 2020, albeit slowly. While the overall outlook is positive, there is some risk that the possibility of a market slowdown and continued uncertainty around policy may lead to reduced consumer spending and increased savings.

## Legislative and Regulatory Developments

The Risk Alert summarizes the results of the PCAOB's 2019 *Annual Report on the Interim Inspection Program Related to Audits of Brokers and Dealers*. This report provides auditors of broker-dealers with a summary of PCAOB inspection findings. Deficiencies were noted with regard to the net capital rule, the customer protection rule, revenue, fraud risk, related party transactions, financial statement presentation and disclosure, receivables and payables, and fair value measurements. Auditors of broker-dealers need to review the most recent PCAOB report before beginning their audits. Additionally, the Risk Alert briefly revisits the new tax rates enacted by the Tax Cuts and Jobs Act and discusses changes to reporting and disclosures requirements in the FASB's recently revised proposed ASU, *Income Taxes (Topic 740): Disclosure Framework—Changes to the Disclosure Requirements for Income Taxes*.

## Audit and Attestation Issues and Developments

The Risk Alert also highlights the following matters:

- *AICPA Enhancing Audit Quality Initiative.* The Risk Alert discusses key accomplishments under each component of the AICPA's Enhancing Audit Quality Initiative six-point plan.
- *Emerging Technologies.* The evolution of new technologies directly affects the accounting and auditing profession. The Risk Alert discusses real-time auditing, audit data analytics, blockchain, artificial intelligence, machine learning, and robotic process automation. The Risk Alert also addresses cybersecurity-related risks and trends.
- *Auditing Standards Board (ASB) Developments.* The Risk Alert discusses the following recently issued Statements of Auditing Standards (SASs).
    - SAS No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*.
    - SAS No. 135, *Omnibus Statement on Auditing Standards—2019*.
    - SAS No. 136, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*.

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# The PPC Technology Update

by Roman H. Kepczyk, CPA.CITP

## CES Trends/Products for Accountants

The annual International Consumer Electronics Show (CES) is the largest trade show in the world and the launching point for thousands of electronics products that could one day find their way into our lives. While most of the products are targeted toward home/consumer use, we perused the halls to understand key technology trends and to identify specific products that could be used by accountants today as well as to explore possibilities for the future. Below, we highlight the latest laptop and collaboration tools along with the impact of Artificial Intelligence, which is being incorporated in some capacity into virtually every product.

**Hardware Profiles:** CES has consistently been the launching point for the latest laptops as well as the vendors' conceptual designs, and the 2020 show did not disappoint. Dell increased its XPS 13 Ultrabook display size in the same form factor by expanding into the bezel at the bottom, making it our pick for best product of the show. Dell also increased the size of individual keys on both the keyboard and the touchpad to give the XPS a larger laptop feel while still maintaining optimal portability. In addition, HP rolled out new capabilities with its Dragonfly laptop that is the first to incorporate an integrated privacy screen (Sure View) to keep prying eyes from seeing what is on your screen. HP also incorporated a Tile Mate tracking chip in the event the laptop is stolen. Lenovo's X1 Carbon laptop has also always been one of the favored Ultrabooks, but where Lenovo really made a splash was with the ThinkBook Plus and ThinkPad X1 Fold. Imagine a laptop that has "digital paper" on the cover which is actually a second e-screen on which you can take notes, display your calendar, or read an e-book. The ThinkPad X1 Fold is touted as the world's first "foldable PC," which can be carried like a small book but opened to a full-size tablet with either pen input or a small Bluetooth keyboard, creating a new class of portable computing.

**Digital Collaboration:** Vendors at CES noticed that having the right people (regardless of location) working collaboratively on the same data at the same time is the most effective way to complete a project and one of the biggest benefits of moving to the cloud. While most laptops have a webcam and some firms have purchased conference room video cameras, they are not always conducive to working effectively for those sitting around a conference room table (which is the way most meetings are held). To address this problem, Owl Labs created the Meeting Owl Pro, which is a 360-degree smart 1080p video camera that can project everyone in their normal seating position to remote participants so they see everyone all the time. The Meeting Owl Pro also incorporates smart microphones and speakers into a single desktop package that costs under $1,000. Sometimes the most effective way to collaborate is on a flipchart, as Samsung demonstrated with their Flip2 digital flipchart. This 4K UHD interactive screen comes in either a 55-inch ($2,199) or 65-inch ($2,599) version and allows for a realistic "writing on paper" experience that can be shared with remote users. Dell also updated its 4K Interactive Touch Monitor that has grown to 85.6 inches and added USB-C connectivity to compete with Microsoft's Surface Hub for advanced on-screen collaboration. While pricing is not yet available, these new versions of both Dell's and Microsoft's displays were "eye-popping."

**Artificial Intelligence (AI):** Without question, AI was the strongest trend promoted throughout CES. Products are evolving from Level 1 capabilities that promote "efficiency," such as the voice commands in Alexa/Google Assistant-capable products that many of us already use, to Level 2 "personalization," where AI utilizes machine learning to remember your preferences and past actions and make recommendations when those scenarios occur again. To attempt to explain Level 2 AI, I'll start with washing machines and avatars and then apply those concepts to accounting practices. LG featured Level 2 AI in its ThinQ washing machine, which uses Big Data analytics to identify what is being washed and adjust the settings for both the soap and rinse cycles. Then those settings are automatically sent to the dryer so both the washer and dryer settings are "customized" by the load. Level 2 AI was also demonstrated by intelligent assistants such as the Samsung Neons, which are human-looking avatar "companions" that monitor your activity and remind you to attend a meeting, take medication, teach you a skill, give you financial advice, etc. In both these scenarios, data is captured and analyzed and compared to previous examples that inspired an action and then that action is replicated. In the avatar example, a skill such as using an application to identify duplicate or missing invoices within an accounting program could be automated with APIs (application program interfaces) and machine learning to run that process for different clients when requested. The scenarios sound like science-fiction, but the programs to do the data extraction are already here and it is just a matter of time before the accounting application vendors integrate the API/machine learning aspects into their own audit programs.

While we recommend firms wait for concepts such as Artificial Intelligence to be integrated into their existing accounting applications, there are enhancements to existing products, such as laptops and collaboration tools, that can make a difference today.

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- SAS No. 137, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*.

- *Accounting and Review Services Committee (ARSC) Developments.* The Risk Alert discusses SSARS No. 24, *Omnibus Statement on Standards for Accounting and Review Services—2018,* which adds AR-C 100, *Special Considerations—International Reporting Issues*, and expands the requirements related to going concern and other accountants in review engagements. In addition, other topics relating to compilations, reviews, and bookkeeping and financial statement preparation services are also discussed.

## Accounting Issues and Developments

The Risk Alert addresses risks related to auditing newly effective and upcoming accounting standards, including revenue recognition, leases, financial instruments, and other recent and soon-to-be effective accounting standards updates.

## Other Items

This Risk Alert also—

- Discusses recent AICPA independence and ethics developments.
- Provides an overview of various projects and exposure drafts issued by the ASB, PCAOB, FASB, and PEEC to keep auditors abreast of the accounting developments and upcoming guidance that may affect their engagements.
- Provides resources that may be useful to auditors.

**Practical Consideration:**

The Risk Alert is available on Checkpoint at **checkpoint.riag.com**.

# What Has the FASB Been Up To?

2019 was a relatively quiet year for the FASB as entities were busy implementing and adopting recent revenue recognition and lease guidance. Not only did the FASB issue fewer ASUs in 2019 compared to the past several years, most of the ASUs issued were either narrow in scope or impacted the effective dates of previously issued ASUs, as evidenced by ASUs 2019-07 through 2019-09, which are covered in this article.

## ASU 2019-07

In July 2019, the FASB issued ASU 2019-07, *Codification Updates to SEC Sections—Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10532, Disclosure Update and Simplification, and Nos. 33-10231 and 33-10442, Investment Company Reporting Modernization, and Miscellaneous Updates (SEC Update)*. In 2018, the SEC completed an initiative to review and improve disclosure requirements for the benefit of the investors and issuers through the issuance of two Final Rules Releases, which identified and eliminated or amended various redundant, duplicative, overlapping, outdated, or superseded SEC disclosure requirements. ASU 2019-07 amends the SEC portion of the FASB Codification to conform with the many SEC changes. The ASU became effective upon issuance.

The SEC also referred to the FASB (for potential incorporation into the Codification) certain disclosure requirements that overlap with, but require information incremental to, GAAP.

## ASU 2019-08

In November 2019, the FASB issued ASU 2019-08, *Compensation—Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Codification Improvements—Share-Based Consideration Payable to a Customer*, to address unintended consequences of ASU 2018-07, *Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*. This ASU was issued in response to questions that arose after the issuance of ASU 2018-07 as to whether share-based payment awards granted to a customer in conjunction with selling goods or services should be measured in accordance with ASC 606 or ASC 718.

ASU 2019-08 clarifies that an entity should continue to record the amount of share-based payment awards to customers as a reduction of the transaction price in accordance with ASC 606, but the amount should be measured at the fair value of the share-based payment on its grant date following the guidance in ASC 718. The grant date is the date at which an entity (grantor) and a customer (grantee) reach a mutual understanding of the key terms and conditions of a share-based payment award. ASC 718 also applies to the classification and subsequent measurement of the share-based payment

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award to a customer (unless it is subsequently modified and the grantee is no longer a customer).

For entities that have not yet adopted ASU 2018-07, the amendments in ASU 2019-08 are effective for—

- Public business entities, in fiscal years beginning after December 15, 2019, and interim periods within those fiscal years.
- Other than public business entities, in fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020.

## ASU 2019-09

In November 2019, the FASB issued ASU 2019-09, *Financial Services—Insurance (Topic 944): Effective Date*, to defer the effective date of FASB ASU 2018-12, *Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*. The revised effective dates are as follows:

- For public business entities (except those eligible for smaller reporting company status, as defined by the SEC), years beginning after December 15, 2021, and interim periods within those years.
- For all other entities, years beginning after December 15, 2023, and interim periods within years beginning after December 15, 2024.

### Practical Consideration:

The ASUs are available at **www.fasb.org** and on Checkpoint at **checkpoint.riag.com**.

# AICPA Issues Standard on Materiality

The AICPA has now issued SAS 138, *Amendments to the Description of the Concept of Materiality*. The SAS was issued to converge the AICPA definition of *materiality* with those used by the FASB and PCAOB. The differences in the materiality definitions are subtle and aren't expected to significantly change practice, but practitioners need to be aware of the differences. The definition used in AICPA extant guidance states that misstatements are considered material if they *could reasonably be expected to* influence the financial statement user's decisions. In SAS 138, the definition states that a misstatement is *material* if there is a *substantial likelihood* that the misstatement or omission *would* influence the financial statement user's judgement. SAS 138 also notes that judgements about materiality include both qualitative and quantitative considerations.

SAS 138 amends several AU-C sections and is effective for audits of financial statements for periods ending on or after December 15, 2020, and early implementation is permitted.

### Practical Consideration:

The December 2019 issue of this newsletter discusses the exposure draft of this SAS in more detail.