

# THE PPC GOVERNMENTAL UPDATE

JANUARY 2019, VOLUME 26, NO. 1

## GASB Issues Preliminary Views on Recognition of Elements of Financial Statements



In September 2018, the GASB issued Preliminary Views (PV), *Recognition of Elements of Financial Statements*. The GASB's goal with this PV is that a new Concept Statement will ultimately be issued to fill a gap in the conceptual framework as it exists today.

### Preliminary Views

A PV is an early-stage document issued to seek comments on the GASB's current views on a particular topic through broad public response. It is generally used when respondents are expected to be sharply divided on an issue or when the GASB Board itself is sharply divided. Respondents often express a range of differing views on the topic or issue.

### Background on the Project

The GASB began research activities on recognition concepts as far back as August 2005. The GASB had previously issued a PV, *Recognition of Elements of Financial Statements and Measurement*

*Approaches*, in June 2011, out of which came GASB Concepts Statement No. 6, *Measurement of Elements of Financial Statements*.

Subsequently, the GASB coordinated work on recognition of elements of financial statements with its reexamination of the financial reporting model. Two PV's came out of this work: one entitled *Financial Reporting Model Improvements*, which we reported on in the December 2018 issue of this newsletter, and one on recognition concepts, which is the subject of this article.

### Two Aspects of Recognition Concepts

Recognition concepts for financial statements involve both the measurement focus and the related basis of accounting. The measurement focus tells us *what* items to report; the basis of accounting tells us *when* to report items. The GASB's preliminary view on the measurement focus is that either the short-term

### In this Issue:

- GASB Issues Preliminary Views on Recognition of Elements of Financial Statements
- Updated Peer Review Engagement Checklists Available
- Risk Assessment—Special Report



financial resources or the economic resources measurement focus should be used.

The short-term financial resources measurement focus would replace the current financial resources measurement focus for governmental fund financial statements. Government-wide, proprietary fund, and fiduciary fund financial statements would continue to use the economic resources measurement focus. This PV provides the GASB's proposal for a recognition framework for both the short-term and the economic resources measurement focus.

## Clearing Up Recognition Issues with a Hierarchy Approach

You might recall that GASB Concepts Statement No. 4, *Elements of Financial Statements*, defines seven financial statement elements:

- Assets
- Liabilities
- Deferred outflow of resources
- Deferred inflow of resources
- Net position
- Outflow of resources
- Inflow of resources

The GASB noted that some transactions or events meet the definition of more than one financial statement element, which creates several issues, including comparability of financial statements. To clear up these issues, the GASB established a preliminary view that a hierarchy should be used for recognition. Transactions or events should be evaluated against the definitions of the various elements in the following order:

- Asset or liability
- Deferred outflow of resources or a deferred inflow of resources
- Outflow of resources or an inflow of resources

The item should be recognized according to the first definition that it meets in that set of elements. Finally, if an item doesn't meet any of the definitions in the hierarchy, the item should not be recognized in the financial statements.

## Defining Short-term Financial Resources Measurement Focus

As mentioned above, the GASB's preliminary view is that financial statements for governmental funds should utilize the short-term financial resources measurement focus instead of the current financial resources measurement focus. Recognition concepts that the GASB is proposing in this PV are based on whether items arise from short-term or long-term transactions:

- *Short-term transactions* would be those that are *normally* due to generate cash or to convert to cash or other financial assets or require the use of such entirely within one year.
- *Long-term transactions* would be those that are *normally* due to generate cash or to convert to cash or other financial assets or require the use of such in periods that extend beyond one year.

The term *normally* does not refer to the activities of a particular governmental entity, but to governmental entities as a whole, and the GASB recognizes that more guidance would be needed to standardize certain items.

### Practical Consideration:

To see a comparison of the presentation of the short-term financial resources measurement focus and the current financial resources measurement focus, see Appendixes C and D in Chapter 2 of the PV, *Financial Reporting Model Improvements*, available at [www.gasb.org](http://www.gasb.org), under "Projects," then "Documents for Public Comments."

## Presentation of Alternative Views

In Chapter 4 of the PV document, alternative views of some members of the GASB are presented. Some members believe that, while the preliminary views represent meaningful improvements in the concepts for recognition of financial statement elements when compared to the existing framework, the views associated with governmental funds may create unnecessary complexity, reduced reliability and completeness of information, and increased costs.

## Next Steps

Prior to any final accounting standard, the GASB is required to issue an Exposure Draft (ED) for public

comment. The GASB's website currently indicates an ED is expected in June 2020, with a final standard targeted for issuance in early 2022.

The information discussed in the PV may change significantly before a final standard is issued. If you and your clients have an opinion on the views in the PV, this is your opportunity to weigh in. The comment period ends on February 15, 2019, and the GASB will also hold public hearings and user forums on the PV in March 2019, after the comment period has ended. As always, PPC is committed to keeping you informed on all the governmental hot topics and will provide additional information as this project progresses.

### Practical Consideration:

The full text of the PV document is available at [www.gasb.org](http://www.gasb.org), under "Projects," then "Documents for Public Comments."



## Updated Peer Review Engagement Checklists Available

Recently, the AICPA Peer Review Board completed revisions to the engagement checklists used by reviewers when performing peer reviews. Updated checklists were issued in December 2017 and April, May, June, and September of 2018. Generally, engagement checklists are effective for peer reviews commencing on or after the first day of the month after the checklist is issued. For example, the checklists issued in September are effective for peer reviews commencing on or after October 1.

Twenty-eight engagement checklists have been updated, including many that relate to governments, so there is a good chance that your next peer review will be performed using one or more of these revised engagement checklists. The updated checklists will be used for audit, attestation, review, compilation, preparation, public company, and SEC-registered broker-dealer engagements. Revised engagement checklists have

been issued for both system reviews and engagement reviews.

### Updated Engagement Checklists Affecting Governments

Updated engagement checklists that may relate to governments include—

- PRP Section 20,400, *General Audit Engagement Checklist*;
- PRP Section 20,500, *Governmental Audit Engagement Checklist*;
- PRP Section 22,100—Parts A and B—UG, *Supplemental Checklists for Review of Single Audit Engagements*;
- PRP Section 22,130, *Supplemental Checklist for Review of Audit Engagements of State and Local Governments Participating in Defined Benefit Pension Plans*; and
- PRP Section 23,400, *Engagement Reviews—Agreed-Upon Procedures Engagement Checklist*.

Engagement checklists not recently updated but that may affect certain governments include—

- PRP Section 22,110, *Supplemental Checklist for Review of Audit Engagements Performed in Accordance with Government Auditing Standards (Yellow Book) December 2011 Revision*, and
- PRP Section 22,120, *Supplemental Checklist for Review of Agreed-Upon Procedures and Other Attestation Engagements Performed in Accordance with Government Auditing Standards (Yellow Book) December 2011 Revision*.

### Authoritative Guidance

The recent updates to the engagement checklists listed above include revisions through the following authoritative guidance—

- GASB 85, *Omnibus 2017*;
- SAS 132, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*;
- SSAE 18, *Attestation Standards: Clarification and Recodification*; and
- SSARS 23, *Omnibus Statement on Standards for Accounting and Review Services—2016*.

### Firm Use of AICPA Checklists

While the engagement checklists are designed to be used by peer reviewers, they may also be used by firms to perform inspections and reviews of their own engagements as part of the firm's monitoring process

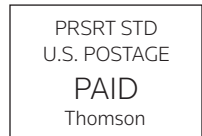
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required by QC 10, *A Firm's System of Quality Control*. Using the same checklist as peer reviewers can help firms understand what to expect during their next peer review and potentially improve a firm's peer review results.

### Practical Consideration:

Firms that subscribe to the AICPA's Peer Review Program Manual, either through the AICPA or Checkpoint, have ready access to the AICPA engagement checklists. Additionally, AICPA members may access the engagement checklists from the AICPA's website at

**[www.aicpa.org/interestareas/peerreview/resources/teamandreviewcaptainchecklists/teamcaptainchecklists.html](http://www.aicpa.org/interestareas/peerreview/resources/teamandreviewcaptainchecklists/teamcaptainchecklists.html)**

## Risk Assessment— Special Report

In September 2018, Thomson Reuters issued a special edition of *The PPC Accounting and Auditing Update* newsletter to share the AICPA Peer Review Board's concerns about risk assessment in recent audits. That special report revisits the risk assessment standards, discusses the PPC methodology and how auditors may be misusing our forms in certain situations, and provides an understanding of what to expect in future peer reviews. The special report is available from our customer help center at **[thomsonreuterstaxsupport.force.com/pkb/servlet/fileField?id=0BE0c000000XcXE](http://thomsonreuterstaxsupport.force.com/pkb/servlet/fileField?id=0BE0c000000XcXE)**.

