

THE PPC ACCOUNTING AND AUDITING UPDATE

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The ABCs of the AU-Cs



The AICPA codifies the Statements on Auditing Standards in the Professional Standards using AU-C references. With the continued issuance of new auditing standards and the deferral of effective dates for other auditing standards, the AICPA made some unprecedented changes in how it presents the audit Professional Standards. Here's a brief summary of what goes where.

Professional Standards before SAS 134

If you aren't early implementing SAS 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*, and its related SASs, you want the Professional Standards before SAS 134. Those standards are a complete set of the auditing standards codified using AU-C XXXB references (B as in *before*). For example, you'll find the extant literature for auditor's reports at AU-C 700B. On Checkpoint, this content is labeled as "Pre-SAS No. 134 U.S. Auditing Standards—AICPA (Clarified) [AU-C]".

Some New SASs but Not Quite Everything

The AICPA has issued two new auditing standards—SAS 142, *Audit Evidence*, and SAS 143, *Auditing Accounting Estimates and Related Disclosures*. As those SASs both have effective dates that are a ways out, the AICPA wanted it to be easier for auditors to see the Professional Standards that will be effective sooner or may be early implemented (think the reporting SASs, for example). If an AU-C section is amended by SAS 142 or a later SAS, there will be an AU-C XXXA section (think A as in *after* the reporting SASs and *almost* all the new SASs).

Those AU-C XXXA sections include the professional standards as amended up through SAS 141, *Amendment to the Effective Dates of SAS Nos. 134–140*, but don't contain amendments from SAS 142 or later SASs.

Note that this isn't a complete set of professional standards, but simply a bridge between the AU-C XXXB series and the

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AU-C XXX core series. For example, you'll find the literature for auditor's reports with relevant amendments from SASs 134 through 141 at AU-C 700A because SAS 143 amends AU-C 700. However, you won't currently find an AU-C 705A series because SASs 142 and 143 don't amend AU-C 705.

Practical Consideration:

We'll discuss SAS 142 and 143 in a future issue of *The PPC Accounting and Auditing Update*. SAS 142 will be effective for audits of periods ending on or after December 15, 2022, and SAS 143 will be effective for audits of periods ending on or after December 15, 2023.

Professional Standards with All the SASs

If you want the professional standards with *all* of the SASs incorporated, regardless of effective date, you want the core Professional Standards. The references for those standards don't have any added letters. You'll find the literature for auditor's reports including all changes for all issued SASs at AU-C 700.

Practical Consideration:

If you are implementing the reporting suite, but not the newer SAS 142, SAS 143, or any subsequent SASs, you should use the A series plus any core series AU-C sections for which there is no corresponding A series section (that is, those with no letter immediately after the section number).



SAS 140 Completes ASB's Project on Auditor Reporting

SAS 140, *Amendments to AU-C Sections 725, 730, 930, 935, and 940 to Incorporate Auditor Reporting Changes From SAS Nos. 134 and 137*, was issued in April 2020. It completes the ASB's project to conform U.S. auditing standards with IAASB and PCAOB reporting standards starting with SAS 134 and including SASs

136–140. Some of the significant changes in SAS 140 include the following:

- AU-C 725, *Supplementary Information in Relation to the Financial Statements as a Whole*, and AU-C 730, *Required Supplementary Information*, were amended to require reporting in a separate section in the auditor's report on the financial statements or in a separate report, instead of as an other-matter paragraph.
- AU-C 930, *Interim Financial Information*, was revised to be consistent with PCAOB AS 4105, *Reviews of Interim Financial Information*, including moving the auditor's conclusion to the beginning of the review report on interim financial information.
- AU-C 935, *Compliance Audits*, was revised to be consistent with changes in the OMB Compliance Supplement and issuance of the most recent Yellow Book and *Uniform Guidance*. These changes include amending the definition of *material noncompliance* to conform with SAS 138, *Amendments to the Description of the Concept of Materiality*, and reversing the reporting options order by making a combined report on compliance and internal control over compliance the first and default option, followed by a second option of issuing separate reports on (1) compliance and (2) internal control over compliance.
- AU-C 940, *An Audit of Internal Control Over Financial Reporting That is Integrated With an Audit of Financial Statements*, includes:
 - changes to requirements for separate reports on ICFR,
 - revisions to reporting requirements when issuing an adverse opinion or disclaimer of opinion due to a scope limitation, and
 - addresses situations when management includes additional information in management's report or in a document containing management's report and the related auditor's report.

SAS 140, as issued, was effective for periods ending on or after December 15, 2020, and early implementation wasn't permitted. However, in May, the ASB issued SAS 141, *Amendment to the Effective Dates of SAS Nos. 134–140*, that delays the effective date of SAS 140 for one year in response to the coronavirus pandemic. It also lifts the prior prohibition on early implementation, although the ASB recommends that SASs 134–140 be implemented concurrently. SAS 140 will now be effective for audits of private company financial statements for periods ending on or after December 15, 2021.

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The PPC Technology Update

by Roman H. Kepczyk, CPA.CITP

Expanding Your CAAS Tech Stack

*NOTE: Please note that the specific products listed within this article are not to be construed as direct recommendations but as examples within the various product categories. The author also wishes to disclose that he is an employee of Right Networks which also owns Transaction Pro Importer/Autofy.

There's a major transformation happening in accounting information systems. Traditional client accounting services (CAS) are increasingly being automated by applications that significantly reduce or completely eliminate the manual processes bookkeepers have traditionally performed. Accounting firms utilizing the Thomson Reuters CS suite *internally* have long benefitted and will continue to benefit from the seamless integration of accounting, tax, file cabinet, portal, and other applications, but what about clients that want to build and maintain their own accounting information systems? Astute firms are finding they can expand their CAS practice and help those external accounting clients with their digital transformation by putting the "Advisory" into CAAS (Client Accounting **and** Advisory Services).

The key to expanding towards today's CAAS practice is building an integrated accounting information platform that connects information in real time for more timely analysis and decision making. Accountants have long advised clients on what accounting product they should implement, and many are now advising them on what third party applications can be natively integrated, as well using today's automation tools to robotically enter the data and build that platform. This information platform is referred to as the CAAS *tech stack* and is built around the specific accounting products the firm's clients integrate in the cloud for optimum accessibility, collaboration, and security.

There is a natural progression that most firms go through to create their CAAS tech stack, which is built around their client's accounting products as the core. Firms should identify what external accounting products their clients most utilize and develop expertise around



the tools that integrate with those specific accounting products so they can provide advisory services around those applications. Recent surveys point to QuickBooks Desktop, QuickBooks Online, Sage Intacct, and Xero being the most common external accounting products selected by small and medium businesses. Centralizing the tech stack in the cloud is critical. While QuickBooks Desktop is not natively in the cloud, it can be hosted as such by using Thomson Reuters Virtual Office, Right Networks, and a number of other authorized hosting providers. Firms should obtain expertise on their client's top two accounting applications and then learn the APIs (application program interfaces), data transfer utilities, machine learning/RPA (robotic process automation), and data visualization tools that will create the integrated platform. Please note the most successful CAAS practices are built around truly developing expertise on a smaller number of applications rather than being a generalist and attempting to utilize every tool in the marketplace and never getting really good at any one of them. Below we outline the tool categories that firms will use to build their CAAS tech stack and the progression that most firms will follow:

- **APIs.** Application Program Interfaces (APIs) are programs that natively integrate with the external accounting products the firm supports, and are usually the easiest place to provide advisory services to help the client build out their tech stack. Rather than re-keying data from a payroll report, inventory analysis, or monthly payables summary, this information can

be automatically *synced* to the accounting product. Visiting the accounting product's "app store" will identify the APIs that are already created for specific accounting functions such as payroll (**RunPayroll.ADP.com, Gusto.com, Tsheets.com**), expense reports (**Tallie.com, Expensify.com, Concur.com**), and payables (**Bill.com, Vic.ai, Veem.com**). Firms should limit each API category to no more than two products so they can develop the expertise to provide advisory guidance. If the firm is niche focused, they should also identify which unique APIs work within that niche for practice management, inventory, workflow, etc.

- **Data Transfer Utilities.** While APIs integrate the most common accounting capabilities, many firms work in specific niches where there are unique applications that do not have APIs written for them. In this scenario, the firm becomes expert at utilizing a data transfer utility to import that information rather than rekeying the information. Most firms traditionally handled these scenarios with Excel by importing the data and manually manipulating it each month to make a journal entry. Firms should instead look at data transfer utilities that can automate this manual process and import the data without rekeying. Tools such as Transaction Pro Importer/Autofy*, SaasAnt, and EntryRocket can be configured to automatically transfer this information on a schedule.
- **Machine Learning/RPA (Robotic Process Automation).** The next level of CAAS automation is training an application to capture, analyze, and import data into the accounting product from other applications, reports, or websites. Machine Learning/RPA tools have been around for decades, but were traditionally so expensive that only the largest advisory firms could afford them. Today however, *bot* programs such as BluePrism, UiPath, and AutomationAnywhere are making inroads into accounting firms and automating increasingly complex tasks to build accounting information systems. These tools can be scripted to emulate the accountant's mouse movements and keystrokes and remember processes similar to how Word/Excel macros were utilized in the past.

- **Data Visualization:** While listed last, data visualization applications should be immediately explored as a solution for any individual providing advisory services. Most people are *visual* learners and providing a business owner with a columnar listing of information does not help them understand what that information means as easily as a well designed dashboard. Presenting KPIs (Key Performance Indicators) in a graphical format that is updated frequently from the live information (captured with the tools above) provides timely information that helps business owners see trends and make business decisions. Tools such as Microsoft Power BI (Business Intelligence), Tableau, and Domo have already made inroads into accounting firms and are being utilized both for clients and for the firm's internal reporting.

Most firms see that expanding advisory services is the natural progression to providing client accounting services. This advisory transformation will be rooted upon the accounting products clients utilize today and will expand into the accounting information platform or *CAAS Tech Stack* of the future. Charting your tech stack transformation will help chart and expand your firm's CAAS practice.

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Practical Consideration:

SAS 140 is available on the AICPA's website at www.aicpa.org/content/dam/aicpa/research/standards/auditattest/downloadabledocuments/sas-140.pdf. SAS 141 is available on the AICPA's website at www.aicpa.org/content/dam/aicpa/research/standards/auditattest/downloadabledocuments/sas-141.pdf.



PPP Loans: Accounting and Auditing Considerations

Companies that received Paycheck Protection Program (PPP) loans under the CARES Act and Small Business Administration (SBA) loan program must now determine how to account for them. The PPP provides loans up to \$10 million that can potentially be forgiven if certain criteria are met. Because there is a loan component and a forgiveness component, questions have been raised about how to account for the loan and whether to account for the funds received as a loan or as a government grant.

On June 10, the AICPA published Technical Question and Answer (TQA) 3200.18, *Borrower Accounting for a Forgivable Loan Received Under the Small Business Administration Paycheck Protection Program*, which provides non-authoritative guidance to assist public and private companies and nonprofit organizations with accounting for these loans. The AICPA developed the TQA with input from the SEC and FASB.

Accounting Options

The AICPA guidance includes several different accounting options based on the type of entity. Nongovernment entities, other than nonprofit organizations, can account for loans as debt under FASB ASC 470, *Debt*, or they may analogize to accounting for government grants under International Accounting Standard (IAS) 20, *Accounting for Government Grants and Disclosure of Government Assistance*. The SEC's Office of the Chief Accountant indicated they would not object to an SEC filer accounting for a PPP loan under either of these

models. These entities also may analogize to FASB ASC 958-605 or FASB ASC 450-30. The TQA indicates nonprofit organizations may account for PPP loans under FASB ASC 470 or FASB ASC 958-605. The accounting outcome of these models is discussed below.

Account for the loan as debt under FASB ASC 470.

The entire amount of the loan received would be accounted for as debt on the balance sheet (with classification as a current or noncurrent liability). Despite any potential forgiveness of interest, interest on the loan would be accrued and expensed over the loan term at the stated rate, using the interest method. Although the stated interest rate on PPP loans is assumed to be below market rate, FASB ASC 835 does not require imputing interest in transactions with a government agency. The related cash inflows are a financing activity on the cash flow statement. Interest paid is an operating cash outflow, and principal repaid is a financing cash outflow. If any amount of the loan is forgiven, it is disclosed as a non-cash financing activity.

Forgiveness of loans. If the loan is spent as intended for specified payroll, mortgage interest, rent and lease payments, and utilities within a specified number of weeks after the funds are received, the loan is potentially eligible for forgiveness. These expenses should be accounted for on the income statement as they normally would be and should not be netted against the loan. Under FASB ASC 405, *Liabilities*, debt is treated as extinguished and the liability is derecognized only when the borrower is legally released from being the primary obligor or the amount is repaid. PPP loan obligations should only be derecognized when the loan is formally forgiven by the Small Business Administration, which could take months from the date the borrower applies for forgiveness. The gain on extinguishment when the loan is forgiven is based on the net carrying value of the loan, including any accrued interest forgiven and debt issuance costs on the loan.

Account for the loan as a government grant. To apply this approach, borrowers should conclude they qualify for and can comply with loan forgiveness terms under the program. Companies that have an accounting policy for accounting for government grants should apply it to the PPP loan.

If not, the TQA states that if companies expect to meet PPP eligibility criteria and conclude the loan represents, in substance, a grant expected to be forgiven, they can look to IAS 20's model for accounting for government grants and forgivable loans. The loan proceeds are recognized as a deferred income liability when there is reasonable assurance that conditions will be met and

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assistance will be received. The liability is reduced and income is recognized systematically over the recognition period for the related costs the PPP loan is compensating for. IAS 20 permits loan income to be presented as other income on the income statement or as a reduction of the related expenses.

The TQA also permits business entities to look to non-profit organization guidance for accounting for conditional contributions in FASB ASC 958-605, *Revenue Recognition*, or FASB ASC 450-30, *Gain Contingencies*. Under FASB ASC 958-605, conditional contributions are not recognized until the conditions are substantially met or explicitly waived. Using this model, PPP loan proceeds are recognized as a refundable advance liability until the loan is forgiven, and then the liability is reduced and a contribution is recorded for the amount forgiven. Under FASB ASC 450-30, gain contingencies are recognized when all contingencies relating to receiving the assistance are met and the gain is realized or realizable. Under this model, PPP loan proceeds are recorded as a liability that is reversed, with the income from the gain contingency recognized, only when the loan is forgiven.

If material, all nongovernmental entities should disclose their PPP loan accounting policies and the related financial statement impacts.

Audit Considerations

In addition to audit issues relating to accounting and disclosures for PPP loans, there are numerous compliance issues for companies and auditors to be aware of.

These include compliance with laws and regulations under the CARES Act and the SBA program, including eligibility and use of funds, administrative requirements relating to loan applications and forgiveness, and compliance with debt terms. The CARES Act is new, and the provisions of the PPP are being examined and modified. There is also likelihood that the SBA will audit certain businesses that received these loans.

Auditors should be aware of internal controls over the PPP loan process and the potential for fraud. Adequate documentation should be maintained to support applications for loans and forgiveness, the definitions of expenses by category, and how funds were used. Because most small businesses are eligible, they may not have the same internal controls in place as larger organizations that regularly deal with lenders and regulators. Auditors should also be aware of changes in the PPP, along with other new programs that may be introduced, so they can assist their clients and avoid potential audit issues.

Practical Consideration:

The AICPA TQA can be found on the AICPA's website at www.aicpa.org/interestareas/frc/recentlyissuedtechnicalquestionsandanswers.html.

