

THE PPC ACCOUNTING AND AUDITING UPDATE

SEPTEMBER 2020, VOLUME 29, NO. 9

AICPA Technical Questions and Answers Activity



Technical Questions and Answers (Q&A) compiles popular Q&A from the AICPA's Technical Hotline and provides nonauthoritative guidance. The June and July 2020 *Updates of the AICPA Professional Literature* change the following Q&A sections for the latest FASB and AICPA standards updates and questions received by the AICPA's Technical Hotline.

Revised Q&As

- Q&A 1300.10, "Special Purpose Frameworks"
- Q&A 1300.15, "Presentation of Cash Overdraft on Statement of Cash Flows"
- Q&A 1300.17, "Omission of Reconciliation of Net Income to Cash Flow From Operations"
- Q&A 1300.22, "Negative Amortization of Long-Term Debt in Cash Flows Statement"
- Q&A 1400.26, "Consolidated Versus Combined Financial Statements"
- Q&A 1400.29, "Consolidated Versus Combined Financial Statements Under FASB ASC 810, Consolidation"
- Q&A 1800.05, "Applicability of Fair Value Disclosure Requirements and Measurement Principles in FASB Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, to Certain Financial Instruments"
- Q&A 1800.06, "Applicability of Fair Value Disclosure Requirements in FASB ASC 820 to Financial Statements Prepared in Accordance With a Special Purpose Framework"
- Q&A 2110.06, "Disclosure of Cash Balances in Excess of Federally Insured Amounts"
- Q&A 2220.20, "Determining Whether NAV is Calculated Consistent With FASB ASC 946, Financial Services—Investment Companies"
- Q&A 6910.25, "Considerations in Evaluating Whether Certain Liabilities Constitute 'Debt' for Purposes of Assessing Whether an Investment Company Must Present a Statement of Cash Flows"
- Q&A 6910.26, "Additional Guidance on Determinants of Net Versus Gross Presentation of Security Purchases and

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- FASB Issues ASU 2020-01
- New Auditing Standard on Audit Evidence



Sales/Maturities in the Statement of Cash Flows of a Nonregistered Investment Company”

- Q&A 6931.11, “Fair Value Measurement Disclosures for Master Trusts”
- Q&A 6933.01, “Initial Audit of a Plan”
- Q&A 6933.02, “Investment Allocations Testing in an Electronic Environment”
- Q&A 6933.11, “Audit Procedures When a SOC 1 Report Is Not Available”
- Q&A 6933.12, “Allocations Testing of Investment Earnings When a Type 2 SOC 1 Report is Available”
- Q&A 9510.01, “Testing Prospective Financial Information as Part of Performing Auditing Procedures”
- Q&A 9510.02, “Availability of Criteria for a Fee”
- Q&A 9540.01, “Types of Engagements”
- Q&A 9540.02, “Applicability to an Attest Engagement”
- Q&A 9540.03, “Suitability of Criteria”
- Q&A 9540.04, “Nature of Examination or Review Procedures”
- Q&A 9540.05, “Form and Content of Report”

Deleted Q&As

- Q&A 6980.01, “Auditor’s Report on Internal Control for Broker Dealer [Amended]”

Added Q&As

- Q&A 2130.41, “Determination of the Effective Interest Rate”
- Q&A 2130.42, “Classification of Advances Under the Paycheck Protection Program”
- Q&A 2130.43, “Consideration of the SBA Guarantee Under the Paycheck Protection Program”
- Q&A 2130.44, “Accounting for Loan Origination Fee Received From the SBA”
- Q&A 3200.18, “Borrower Accounting for a Forgivable Loan Received Under the Small Business Administration Paycheck Protection Program”



FASB Issues ASU 2020-01

FASB’s first ASU of 2020 was ASU 2020-01, which clarifies the interaction between accounting for

equity securities under FASB ASC 321, equity method investments under FASB ASC 323, and certain derivatives under FASB ASC 815. FASB’s objective is to reduce diversity in practice and increase consistency and comparability.

The amendments are effective for public business entities for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. The amendments should be applied prospectively, and early adoption is permitted.

Following is a summary of the main clarification points of ASU 2020-01:

- Companies should consider observable transactions that result in either applying or discontinuing the equity method of accounting under FASB ASC 323 for the purpose of applying the measurement alternative in FASB ASC 321. If an entity who accounts for an investment in equity securities under the FASB ASC 321 measurement alternative is required by an observable transaction to transition to the equity method of accounting, the entity’s investment carrying amount would be adjusted to its fair value immediately *before* the equity method is applied. However, if the entity accounts for an investment in equity securities under the equity method and an observable transaction requires the entity to apply the measurement alternative in FASB ASC 321, the entity’s investment should be remeasured at fair value immediately *after* discontinuing the equity method of accounting.
- When determining the accounting for nonderivative contracts and purchased options, entities should *not* consider whether the underlying securities would be accounted for under the equity method under FASB ASC 323 or the fair value option in accordance with the financial instruments guidance in FASB ASC 825.

Practical Consideration:

ASU 2020-01 is available on the FASB’s website at www.fasb.org or on Checkpoint at checkpoint.riag.com.



New Auditing Standard on Audit Evidence

In July 2020, the AICPA issued SAS 142, *Audit Evidence*. SAS 142 supersedes the current AU-C 500 and moves guidance on the use of management specialists to AU-C 501. SAS 142 is effective for audits for periods ending on or after December 15, 2022.

SAS 142 aims to improve audit quality in evaluating information used as audit evidence and concluding whether sufficient appropriate audit evidence has been obtained. SAS 142 is intended to assist auditors in fulfilling responsibilities included in other AU-C sections, and it should be read in conjunction with other AU-C sections.

The body of the standard has only 10 paragraphs, but the explanatory and application materials provide extensive new guidance and helpful examples. It doesn't impose additional specific audit procedures, but it does considerably expand explanations of the types of evidence available, tools and techniques that may be used to obtain evidence, and how to think about and evaluate the persuasiveness of evidence obtained.

Key areas of change or potential improvement in audit quality covered by SAS 142 and amendments to related AU-C sections are as follows:

- **Automated Tools and Techniques.** Audit procedures can be performed either manually or by using automated tools and techniques, and SAS 142 provides guidance and many examples of how automated tools and techniques *may be* used. The tools and techniques identified include audit data analytics (ADA), artificial intelligence (AI), machine learning, remote observation tools (e.g., drones), testing distributed ledgers (e.g., block chain) in real time, text-recognition programs, and robotic process automation (RPA). These tools can generate useful information that can be used as audit evidence, including in risk assessment procedures, substantive procedures, and to obtain evidence about internal controls.

SAS 142 addresses the question of whether ADA may be used to concurrently perform both a risk assessment procedure and a substantive procedure. Exhibit A illustrates, in case-study format, the use

of ADA simultaneously as a risk assessment and substantive procedure.

- **Corroborative and Contradictory Information.** SAS 142 requires the auditor to evaluate information to be used as audit evidence by taking into account whether the information corroborates or contradicts financial statement assertions or financial statement amounts AU-C 330, as amended by SAS 142, explicitly requires that further audit procedures be designed and performed *in a manner that isn't biased towards obtaining evidence that may be corroborative or towards excluding audit evidence that may be contradictory*.
- **Conscious and Unconscious Bias.** SAS 142 spotlights the need to consider the susceptibility of information used as audit evidence to management bias, as well as the potential for the auditor's own bias in planning and performing the audit—both in the design of audit procedures and the evaluation of audit evidence. It observes that audit evidence is generally more reliable when it is obtained from external parties because it is less susceptible to management bias, and information with a higher susceptibility to management bias is less reliable unless audit procedures have specifically addressed that bias.
AU-C 200, as amended by SAS 142, notes that unconscious or conscious auditor biases may affect professional skepticism and professional judgment. It provides examples of unconscious biases, such as tendencies to place more weight on information that is readily available (availability bias) or that corroborates an existing belief (confirmation bias).
- **External Sources of Information.** SAS 142 defines an *external information source* as an external individual or organization that provides information used by the entity in preparing financial statements or that has been obtained by the auditor as audit evidence, when such information is suitable for use by a broad range of users. Examples are media, securities pricing services, governmental organizations, central banks, recognized stock exchanges, or academic journals. Appendix A, "Considerations Regarding the Use of External Information Sources," provides guidance on considering the relevance and reliability of this information.
- **Reliability of Information.** The reliability and quality of information used as audit evidence, from any source, is affected by its accuracy, completeness, authenticity, and susceptibility to management bias. Prior guidance included broad generalizations, like reliability is increased when obtained from independent sources outside the entity. In contrast, SAS 142 points out that

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consideration of the sources of information to be used as audit evidence includes the possibility that the information source, even an external source, may not be reliable.

SAS 142's delayed effective date allows auditors time to consider how to adapt their audit methodology to incorporate the tools and techniques it provides. Firms' expanded use of automated tools and techniques, including ADA, can result in more efficient and effective audits and permit testing 100% of a population instead

of a sample, in less time. Additionally, firm policies and practices on hiring, training, professional development, and allocation of resources might be affected.

Practical Consideration:

SAS 142 is available at www.aicpa.org and on Checkpoint at checkpoint.riag.com.

