

THE PPC ACCOUNTING AND AUDITING UPDATE

The Lowdown on Pushdown Accounting



GAAP has historically provided limited guidance for acquired entities who have sought to apply pushdown accounting in their separate financial statements. *Pushdown accounting* is the use of the acquirer's accounting and reporting basis in the acquired entity's separate financial statements. Currently, pushdown accounting guidance can be found in SEC Staff Accounting Bulletin (SAB) Topic 5.J, *New Basis of Accounting Required In Certain Circumstances*, EITF Topic D-97, "Push-Down Accounting," and from comments by the SEC Observer at EITF meetings. However, such guidance has only been directed to SEC registrants.

The EITF had also tackled several issues dealing with pushdown accounting over the years, but reached consensus on only a few limited matters.

Given the lack of pushdown accounting guidance that would apply to a broader range of entities, the FASB issued, in November 2014, ASU 2014-17, *Business Combinations (Topic 805): Pushdown Accounting*, a consensus of the EITF.

What Are the Main Provisions of the ASU?

The ASU adds new subsection titles, "Pushdown Accounting," in FASB ASC 805-50, *Business Combinations—Related Issues*. The guidance in these new subsections addresses whether and at what thresholds pushdown accounting can be applied to the separate financial statements of an acquired entity that is a business or nonprofit activity (the *acquiree*).

Pushdown Election. The guidance provides the acquiree with the option to apply pushdown accounting to its separate financial statements when an acquirer has obtained control of the acquiree. *Control* is deemed to have the same meaning as a *controlling financial interest* as discussed in FASB ASC 810, *Consolidation*.

The pushdown accounting option can be elected when there is a change-in-control event that results in an acquirer obtaining control of the acquiree. The acquiree has to make the election prior to when the financial statements for the

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reporting period in which the change-in-control event occurred are issued or available to be issued. When applied, pushdown accounting must be done as of the acquisition date.

If pushdown accounting isn't elected upon the change-in-control event, the acquirer can elect it in a subsequent reporting period as a change in accounting principle as outlined in FASB ASC 250, *Accounting Changes and Error Corrections*. Again, pushdown accounting must be applied as of the acquisition date.

The election is irrevocable once made. Also, any subsidiary of the acquirer can make the election to apply pushdown accounting to its separate financial statements even if the acquirer didn't make the election for its separate financial statements.

Measurement. When elected, the acquirer will initially reflect in its separate financial statements the acquirer's new basis of accounting that was established for the individual assets and liabilities of the acquirer based on other subtopics of FASB ASC 805. The acquirer is also required to recognize goodwill that arises through the application of pushdown accounting. If the acquirer recognized a bargain purchase gain, the acquirer can't recognize the gain in its income statement. Instead, such gains should be treated as an adjustment to additional paid-in capital.

For the measurement and accounting of assets, liabilities, and equity instruments in subsequent reporting periods, the acquirer should look to other subtopics of FASB ASC 805 that address subsequent measurement.

Disclosure. When elected, the acquirer is required to provide disclosures that allow financial statement users to understand the effect of pushdown accounting. The acquirer is required to consider the disclosure requirements in other subtopics of FASB ASC 805.

Disclosures may include the following: (1) name and description of the acquirer and how control was obtained, (2) acquisition date, (3) acquisition date fair value of the consideration transferred by the acquirer, (4) amounts the acquirer recognized for each major class of assets and liabilities, (5) qualitative information about goodwill recognized, and (6) information to assess the financial effects of current period adjustments related to pushdown accounting that occurred in the current or prior reporting periods.

Effective Date

The ASU was effective on November 18, 2014. After that date, an acquirer may elect to apply pushdown accounting to future change-in-control events or to its most recent change-in-control event. However, if

the financial statements for the period in which the most recent change-in-control event occurred have already been issued or made available to be issued, the application of pushdown accounting would be considered a change in accounting principle.

Practical Consideration:

Concurrent with the issuance of ASU 2014-17, the SEC issued SAB 115 to rescind portions of its SAB series to bring its pushdown accounting guidance into conformity with the new FASB guidance.

Change to Engagement Review Conclusions

In August 2014, the Peer Review Board of the AICPA approved revisions to the Peer Review Standards with regard to the performance of engagement reviews. If your firm is subject to an engagement review, as opposed to a system review, this change could affect how certain deficiencies identified during peer review are considered by your peer reviewer. The change is effective for engagement review reports dated on or after January 1, 2015.

Nature of the Changes to the Review Report

Prior to the change, if your firm had more than one engagement submitted for review, an identical deficiency occurred on each of those engagements, and there were no other deficiencies, your firm may have received a report with a peer review rating of *pass with deficiency*. This occurred due to an exception that was allowed by the Peer Review Standards in that circumstance and only for engagement reviews. However, the exception has not been consistently applied during engagement reviews, creating inconsistency in peer review reporting. Additionally, the existence of such an exception was not apparent from the wording of the engagement review report, which resulted in a lack of transparency to the users of the report. To address those issues, the exception has been eliminated and for engagement review reports dated on or after January 1, 2015, when the previously described circumstance occurs, the firm will receive a report with a peer review rating of *fail*.

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The PPC Technology Update

Saving and Scheduling a Search in Checkpoint

Do you perform the same search in Checkpoint periodically when researching accounting and auditing information? If you do, this article will show you an easy way to schedule Checkpoint to automatically run the same search weekly, monthly, or manually as needed.

To begin the process, perform a manual search to your liking. As you know, this is a one-time search. That is, if this same search is needed in the future, you will have to go through the exact same steps to create a search with comparable results. Remembering the criteria of the initial manual search may be difficult if multiple sources are searched and/or if the search term(s) are more complex. The manual search in this article's illustrative example is to list the FASB Accounting Standards Updates (ASUs) issued to date in 2014. As shown in the following figure, the 2014 ASUs are listed, and clicking on the link circled in red near the top right portion of the figure will begin the saving/scheduling process.

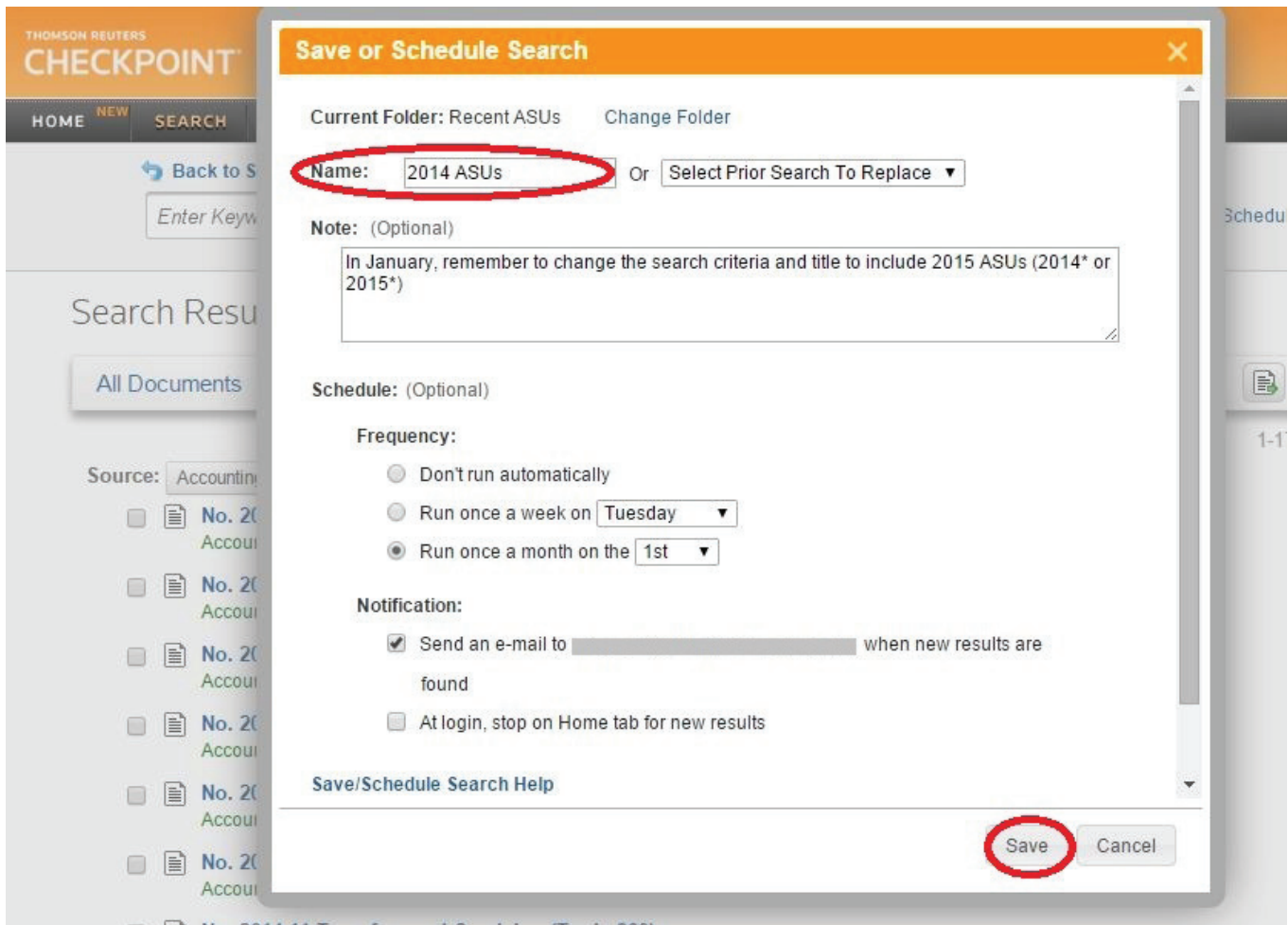
The screenshot shows the Checkpoint search interface. At the top, there is a navigation bar with options like HISTORY, FOLDERS, FLAGGED (0), NOTES, OPTIONS, HELP, and SIGN OUT. Below this is a search bar with the text "Enter Keywords" and a "SEARCH" button. To the right of the search bar, the "Save/Schedule Search" button is circled in red. Below the search bar, the search results are displayed under the heading "Search Results". The results are sorted by "Table of Contents" and show a list of Accounting Standards Updates for 2014. The source is identified as "Accounting Standards Updates". The results include:

- No. 2014-17 Business Combinations (Topic 805)**
Accounting Standards Updates
- No. 2014-16 Derivatives and Hedging (Topic 815)**
Accounting Standards Updates
- No. 2014-15 Presentation of Financial Statements -Going Concern (Subtopic 205-40)**
Accounting Standards Updates
- No. 2014-14 Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40)**
Accounting Standards Updates

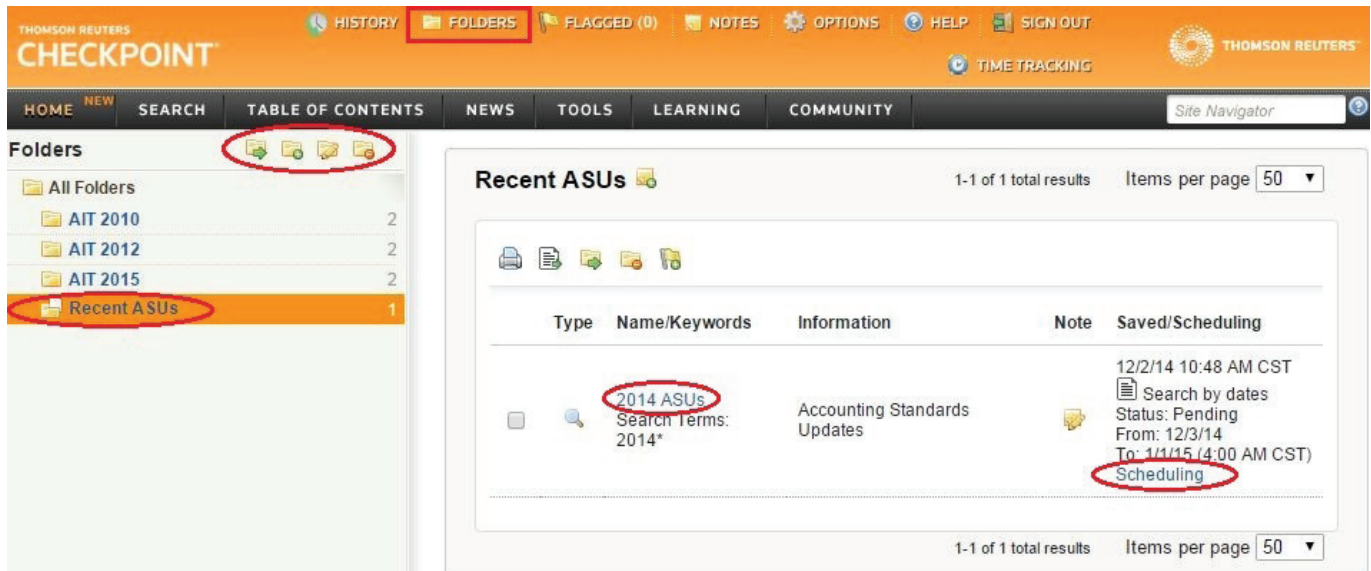
At the bottom right of the search results area, it indicates "1-17 of 17 total results".

As illustrated in the following figure, a pop-up box appears. In this box, you will need to name your saved search. Also, you have the options to add a note to further describe the search or leave reminders as needed, to schedule the search frequency, and to select how you want to receive notification when the search automatically runs, if desired.

For the frequency, you may schedule the search to run weekly, monthly, or not at all. Note that if you only need the results a few times a year, you can still schedule monthly searches and maintain the ability to manually run the saved search as illustrated in the final figure. The notification options include reminder emails sent to you when the automatic search has run, a reminder on your Checkpoint home page, or no notification. After customizing your saved search, don't forget to click the Save button. Note that at the top of the pop-up box, there is a pre-populated field that shows the folder where the saved search will reside. In this example, the "Recent ASUs" folder was previously created. The final figure will illustrate the area to manage folders containing your saved searches.



To access each saved/scheduled search, click on the “Folders” button at the top of the Checkpoint webpage as illustrated in the following figure. The left side of the new webpage is the “Folders” section. From there, you can create, delete, rename, and move folders. This is where the “Recent ASUs” folder was created for this illustration. The main part of this webpage lists the saved search(es) in the selected folder. Note that the link under the Name/Keywords column has the name of the search previously saved. You can run the search anytime you want by just clicking this link. If you want to change the options for a previously saved search, simply click the “Scheduling” link at the end of the Saved/Scheduling column. That’s all it takes to save and schedule recurring searches.



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Changes to the Peer Review Standards

The authoritative guidance with regard to performing engagement reviews has been revised to remove the above-described exception. Those changes affect the definition and/or discussion of the terms *deficiency* and *significant deficiency* (for engagement reviews only), as well as how a reviewer should form conclusions on the type of report to issue in an engagement review. Those changes can be found in the 2015 version of the Peer Review Standards.

AICPA Issues Risk Assessment Audit Guide

The AICPA has released the September 2014 update of its Audit Guide, *Assessing and Responding to Audit Risk in a Financial Statement Audit* (the AICPA Risk Assessment Audit Guide). The AICPA Risk Assessment Audit Guide provides implementation guidance and case studies illustrating the implementation of the risk assessment process. It also includes guidance on performing further audit procedures, including tests of controls. The AICPA Risk Assessment Audit Guide may help the auditor understand and apply generally accepted auditing standards (GAAS).

Practical Consideration:

An AICPA audit guide is considered to be an interpretive publication, which doesn't establish auditing standards but instead provides recommendations on applying GAAS in specific circumstances. Auditors are required to consider applicable interpretive publications in planning and performing audits. If the auditing guidance in an applicable interpretive publication isn't applied, the auditor should document how the GAAS requirements were complied with in the circumstances addressed by the guidance.

Changes in 2014

The AICPA Risk Assessment Audit Guide was last updated in March 2012. The September 2014 edition has primarily been updated for:

- SAS 128, *Using the Work of Internal Auditors*. SAS 128 is effective for audits of financial statements for periods ending on or after December 15, 2014.

- COSO's updated *Internal Control—Integrated Framework* (2013 Framework). Issued in May 2013, the 2013 Framework is intended to help entities design and implement internal control in light of changes affecting businesses since the original internal control framework was issued in 1992. The 2013 Framework superseded the original 1992 framework on December 15, 2014.

Many paragraphs and discussions were updated and revised for clarification.

Practical Consideration:

Appendix L of the AICPA Risk Assessment Audit Guide provides a schedule of changes made from the previous edition.

Two appendixes that were in previous editions of the AICPA Risk Assessment Audit Guide have been deleted. Those appendixes were:

- Appendix E, "Conditions and Events That May Indicate Risks of Material Misstatement." The previous Appendix E came from AU-C 315.A144, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*.
- Appendix F, "Conditions and Events That May Indicate Risks of Material Misstatement at a Small Business Entity."

Organization and Benefits

Part 1 of the AICPA Risk Assessment Audit Guide consists of seven chapters. Those chapters provide guidance on the auditor's risk assessment in a financial statement audit. The chapters are:

- Chapter 1, "Overview of Applying the Audit Risk Standards."
- Chapter 2, "Key Concepts Underlying the Auditor's Risk Assessment Process."
- Chapter 3, "Planning and Performing Risk Assessment Procedures."
- Chapter 4, "Understanding the Client, Its Environment, and Its Internal Control."
- Chapter 5, "Risk Assessment and the Design of Further Audit Procedures."
- Chapter 6, "Performing Further Audit Procedures."
- Chapter 7, "Evaluating Audit Findings, Audit Evidence, and Deficiencies in Internal Control."

The AICPA Risk Assessment Audit Guide also contains additional resources for the auditor, including a comprehensive case study. Appendix K, "Illustrative Audit Documentation Case Study: Young Fashions, Inc.," illustrates certain types of audit documentation

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an auditor might prepare to apply some of the guidance provided in the AICPA Risk Assessment Audit Guide. Note that Appendix K is not a full set of audit documentation and may not represent the most efficient documentation approach.

Practical Consideration:

You can access the 2014 edition of the AICPA Risk Assessment Audit Guide on Checkpoint at checkpoint.riag.com if you subscribe to the AICPA materials. [You can purchase a subscription by calling (800) 431-9025.] It also can be purchased from the AICPA at www.cpa2biz.com.

Accountants Can Now Perform Financial Statement Preparation Engagements

Section 70, *Preparation of Financial Statements*, of SSARS 21, *Statements on Standards for Accounting and Review Services: Clarification and Recodification*, applies when an accountant in public practice is engaged to prepare financial statements but isn't engaged to perform an audit, review, or a compilation on those financial statements.

Although SSARS 21 isn't required to be implemented until periods ending on or after December 15, 2015, early implementation is allowed. Consequently, many practitioners are anxious to start implementing the preparation services section of the standard.

There are definite advantages to this new service, such as:

- A report is not required. (The accountant is, however, required to include a statement on each page of the financial statements that indicates that "no assurance is provided.")
- The financial statements may be given to third parties.
- Since the preparation of financial statements is considered a nonattest service, the accountant isn't required to consider whether he or she is independent.

However, other than the advantages just mentioned, the requirements of the preparation of financial statement service are essentially the same as the requirements of a compilation engagement. In both types of engagements, among other things, the accountant is required to:

- Prepare the financial statements in conformity with a specified financial reporting framework.
- Obtain a written engagement letter that should be signed by the accountant and management.
- Disclose the departure in the financial statements if the financial statements contain a known departure from the financial reporting framework.

Because of this, many accountants who may have been anxious to early-implement the new preparation services portion of the standard may decide not to do so.