Nonprofit Organizations Conference

Oct 17, 2022 | 8 a.m. – 4:05 p.m.

8 hours technical CPE credit

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Agenda

8 - 8:10 a.m. | Welcome Messages

8:10 - 9:40 a.m. | Accounting and Auditing Update | Jim Martin, CPA | Martin & Co CPA, P.C.

Popular speaker Jim Martin is back to provide an overview of the pressing A&A issues currently affecting nonprofit organizations. He'll cover the leasing standard, ASU 2020-07 on non-financial contributions and more.

9:40 - 9:50 a.m. | Break

9:50 – 11 a.m. | IRS Challenges and Their Impact on the Not-for-Profit Sector | Eve Borenstein, J.D. | Eve Rose Borenstein, LLC

Tax professionals and not-for-profits alike are frustrated with current IRS errors, backlogs and staffing issues. Gain guidance on how to navigate these challenges and overcome problems specific to the not-for-profit tax world. Explore the context of the IRS's resource constraints and appreciate arenas where you will need to continue to be patient (and flexible). Learn how to document and respond to IRS notices (including erroneous notices) when they're urging only a single response be made.

11 - 11:10 a.m. | Break

11:10 a.m. - 12:25 p.m. | Navigating the New Workforce Paradigm | Hugh Cain, J,D, and Brent Hinders, J.D. | Hopkins & Huebner, P.C.

The COVID-19 pandemic has been one the most impactful events for businesses in recent memory. It has affected many areas of employee management from human resources practices and employment law changes to business growth and recruitment. A business facing these realities must re-evaluate its current employment practices. From the employee handbook, recruitment strategies, reasonable accommodation and more. Safety and OSHA issues have come to the forefront in the last two years as never before. Employers have had to rethink attendance policies and adjust hybrid and remote work to the requirements of the Fair Labor Standards Act. This presentation will guide employers through the legal web of compliance.

12:25 - 1:10 p.m. | Lunch

1:10 - 2:40 p.m. | The Future of Work in Nonprofits: You, Your Employees and Your Prospective Employees | Jim Lindell, CPA, CGMA, CSP | Thorsten Consulting

Our organizations are the sum of our workforces. During Covid, companies had problems finding staff, and virtual work became the norm. Increased layoffs are being announced and employment stability is still a problem. Our long-term strategic success depends on the people we choose to work for us, and our efforts to recruit, retain and develop will dictate how successful we can be in the long run. In this session, discover what the future workforce will look like.

2:40 - 2:50 p.m. | Break

2:50 - 4:05 p.m. | Data Analytics for Nonprofits | Jim Lindell, CPA, CGMA, CSP | Thorsten Consulting

There are stories in your data. Can you identify the stories and their implications? Can you use the story to influence the strategies for your company? Nonprofits need to improve their internal and external data usage to be more successful. In this session, Jim explains how data analytics has become an expectation of accountants, as reporting is a base commodity and can (and must be) improved with data analytics in the accounting/finance department. Learn how visual application can complement and sometimes outweigh traditional financial reporting. Discover the four phases of analytics, their relationship to the accounting function and career advancement, and how business intelligence impacts the accounting role for staffing, data acquisition, analysis and machine learning.

Special thanks

Thanks to the ISCPA 2021-22 Nonprofit Organizations Committee for their help planning this year's conference!

Erik Bonstrom | UHY, West Des Moines

Kristin Clayton | Oakridge Neighborhood, Des Moines

Darlene Danielson | Timmins, Jacobsen, & Strawhacker LLP, Urbandale

Alexis Hahn | Deloitte, Des Moines

Karla Jones-Weber | Community Foundation of Greater Des Moines, Des Moines

Jami McLeod | Igor Inc, West Des Moines

Virgil Minden | Minden Financial Services, Des Moines

Holly Olson | Federal Home Loan Bank of Des Moines, Des Moines

Julie Spencer | Employee & Family Resources Inc, Des Moines

NIck Stanley | Schnurr & Company LLP, Ames

Danielle Tewes | Crowe LLP, Chicago, IL

Genelle Truitt | Goodwill of Central Iowa, Johnston

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8 hours CPE

8:10-9:40 a.m.

Accounting and Auditing Update

Jim Martin

2022 ACCOUNTING AND AUDITING UPDATE FOR THE REAL WORLD (NFP SLANT)

JIM MARTIN, CPA, CGMA, MAcc

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2022 ACCOUNTING AND AUDITING UPDATE
FOR THE REAL WORLD (NFP SLANT)

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SUMMARY OF EDUCATION AND EXPERT QUALIFICATIONS

Education:

Master of Accounting, Kennesaw State University, Kennesaw, Georgia, 2008. Admitted to Beta Gamma Sigma National Honor Society.
Bachelor of Business Administration in Accounting, Mercer University, Macon, Georgia, 1986. Received John Burge Outstanding Senior Award for having the highest academic average in the business school. Voting member of University Honor Council from sophomore through senior years.

Relevant Work Experience:

Currently manage a client base of 200 corporate, individual, partnership, and fiduciary clients. Have been self-employed as a CPA for 25 years. Spent first 11 years employed by two regional CPA firms.

Major areas of applicable expertise include:

- Audits of financial statements of partnerships and corporate entities in accordance with generally accepted auditing standards to determine conformity with generally accepted accounting principles
- Reviews, compilations and preparations of financial statements of partnership and corporate entities in accordance with the Statements on Standards for Accounting and Review Services
- Determination of applicability and subsequent implementation of generally accepted accounting principles to complex transactions, and assisting clients in recording such transactions in the books and records of the organization
- Formation of partnerships and structuring of operating agreements from an accounting, internal control, distribution and operations management perspective
- Reviews of internal control systems
- Preparation of hundreds of partnership income tax returns involving unusual allocations of partnership earnings and profits, guaranteed payments and preferred return distributions and assisting clients in the determination of the amounts of such allocations
- Assisting partnership and corporate clients in structuring merger and acquisition transactions
- Assist clients in local, state, national and international tax audits
- Develop and present full-day continuing professional education courses for Certified Public Accountants throughout the United States on numerous accounting, auditing and taxation topics. Have presented over 2400 seminars to date
- Prepare and present continuing professional education classes for the finance and taxation departments of such major corporations as Cox Enterprises, Inc. and The Coca Cola Companies
- Serve as liaison to other certified public accounting firms in the development of appropriate audit procedures and disclosures related to difficult or unusual transactions
- Perform special fraud audits to assist clients in the criminal prosecution of employees

Professional Designations and Memberships:

Certified Public Accountant #10280, State of Georgia. Certified in 1988.
Member, Georgia Society of Certified Public Accountants
Member, American Institute of Certified Public Accountants
Member, Association of Certified Fraud Examiners
Member, Atlanta Chapter of Certified Fraud Examiners
Past Board Member, Georgia Society of Certified Public Accountants Ethics Committee
Past Board Member, Georgia Society of Certified Public Accountants CPE Committee

A Sampling of Professional Presentations and Awards in the Past Ten Years:

- "Accounting, Auditing, Compilation and Review Update for CPAs" (8 hour presentation) – Prepared the course text and presented it a total of approximately 500 times in the States of Georgia, Alabama, Iowa, Wisconsin, New York, Mississippi, Montana, Tennessee, West Virginia, Nebraska, and South Dakota
- "Auditing for Fraud – Multiple Methods Utilized to Distort Financial Statements and Misappropriate Assets in Small Businesses" (8 hour presentation) – Prepared the course text and presented it approximately 150 times throughout the United States
- "30 Ways to Detect Financial Accounting Fraud" (8 hour presentation) – Prepared the course text and presented it approximately 75 times throughout the United States
- "Financial Statement Analysis : Understanding a Financial Statement" (4 hour presentation) – Prepared the course text and presented it to the finance department of The Home Depot in Atlanta, Georgia
- "Accounting & Auditing Update for Tax People" (8 hour presentation) – Prepared the course text and presented it to the Tax Department of Cox Enterprises, Inc. – 2001-2021
- Awarded the 2012-2013, 2014-2015, 2018-2019 and 2021-2022 Thomas A. Ratcliffe Outstanding Discussion Leader Award by the State of Alabama
- Featured speaker at the Alabama Society of CPAs annual convention – 2010-2020
- Featured speaker at the Alabama Society of CPAs annual meeting – 2012-2021
- Featured speaker at the Iowa Society of CPAs annual convention – 2004, 2006, 2008, 2010 and 2015
- Featured Speaker at the Georgia Spring Conferences – 2010, 2012, 2015, 2016, 2017,2020 and 2021
- Featured Speaker at the Tennessee Society of CPAs annual conference – 2011 and 2012
- Published in July/August 2018 issue of *Connections* (ASCPA) for "The Accountant's Right to Work Act: The Next Three Years"
- Published in September/October 2016 issue of *Current Accounts* (GSCPA) for "The New Leasing Standard: It's Here and It's Huge"
- Published in July/August 2014 issue of *Current Accounts* (GSCPA) for "Clarification Coming to the SSARS: It's About Time"
- Prepared and presented continuing professional education video on "Accounting for Derivatives and Hedging Activities" for CPAs in Fortune 500 companies

CHEAT SHEET FOR GETTING READY FOR THE LEASING STANDARD

1. When is the standard effective?

ASU 2016-02 is effective for non-public enterprises (including non-profits) for annual periods beginning after December 15, 2021. The standard cannot be adopted for interim periods until after it has been adopted for a full annual period.

2. How is the standard adopted?

Choice of retrospective to earliest period presented in comparative financial statements or inception of adoption year. The vast majority of practitioners are adopting at inception of adopting year and leaving comparative years intact. Most capital leases and operating leases will be able to retain their status as finance or operating leases.

3. What are first steps to getting ready for application of the standard?

a. Consolidate all client lease contracts in a single location.

b. Determine which ones meet the definition of a "lease" **[NOTE: PRACTICAL EXPEDIENTS ALLOW ONE TO NOT HAVE TO DETERMINE IF CURRENT OPERATING AND FINANCE LEASES MEET THE DEFINITION OF A LEASE UPON INITIAL ADOPTION OF THE LEASING STANDARD)**

1) "Lease" is defined as "a contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration".[i]

i. "Control the use of an identified asset" can be a tedious determination.
ii. Substantive rights of substitution are the biggest issue in determining if the contract doesn't qualify as a lease. If not, it's a "usage agreement" and "usage expense" is recognized monthly.
   a) To be substantive, the lessor has to be able to substitute the asset throughout the entire period of the lease and
   b) Economically benefit from the substitution[ii]

c. Determine which ones are "short-term leases"

"Short-term lease" is defined as a "lease that, at the commencement date, has a lease term of 12 months or less and does not include an option to purchase the underlying asset that the lessee is reasonably certain to exercise."[iii]

4. Related party leases

"Leases between related parties should be classified in accordance with the lease classification criteria applicable to all other leases on the basis of the legally enforceable terms and conditions of the lease. In the separate financial statements of the related parties, the classification and accounting for the leases should be the same as for leases between unrelated parties."[iv]

5. **Ideas to get related party leases qualified as short-term leases:**

    a. Structure lease for 12-month length term only

    b. “Rollover lease”

        i. Rollover period is not enforceable
        “An entity should determine the noncancellable period of a lease when determining the lease term. When assessing the length of the noncancellable period of a lease, an entity should apply the definition of a contract and determine the period for which the contract is enforceable. A lease is no longer enforceable when both the lessee and the lessor each have the right to terminate the lease without permission from the other party with no more than an insignificant penalty.”[v]

        <u>[A twelve month rollover lease is only enforceable for twelve months = can elect short-term lease treatment]</u>

    c. Don’t have a written lease

6. **Determine lease components**

    a. “Lease components” are payments for the use of the identified asset.

    b. “Nonlease components” are payments for everything else the lessor provides for the benefit of the lessee (security, maintenance, parking, snow removal, workout facility, et al). Payments for these are called “variable lease payments”.

7. **Determine if electing practical expedient of combining nonlease components with lease components is appropriate**

    “As a practical expedient, a lessee may, as an accounting policy election by class of underlying asset, choose not to separate nonlease components from lease components and instead to account for each separate lease component and the nonlease components associated with that lease component as a single lease component.”[vi]

8. **Determine if lease components can be combined based on a “portfolio approach”**

    “Topic 842 specifies the accounting required for an individual lease. Many entities have a large number of leases, and, as a result, some respondents noted practical challenges in applying the model on a lease-by-lease basis. These respondents questioned whether it would always be necessary to apply Topic 842 on a lease-by-lease basis. The Board observed that the way in which an entity applies the model to its leases is not a matter for which the Board should provide specific guidance. Nonetheless, in light of the feedback, the Board decided to explicitly state that lessees and lessors are permitted to apply the leases guidance at a portfolio level. The Board acknowledged that an entity would need to apply judgment in selecting the size and composition of the portfolio in such a way that the entity reasonably expects that the application of the leases model to the portfolio would not differ materially from the application of the leases model to the individual leases in that portfolio. In the discussion, the Board indicated that it did not intend for an entity to quantitatively evaluate each outcome but, instead, that the entity should be able to take a reasonable approach to determine the portfolios that would be appropriate for its types of leases."[vii]

9. For each lease component, identify three items:

a. Length term

b. Payments to be capitalized

c. Discount rate

10. "Length term"

a. "The noncancellable period for which a lessee has the right to use an underlying asset, together with all of the following:

 1) Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option
 2) Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option
 3) Periods covered by an option to extend (or not to terminate) the lease in which exercise of the option is controlled by the lessor."[viii]

b. "At the commencement date, an entity assesses whether the lessee is reasonable certain to exercise or not to exercise an option by considering all economic factors relevant to that assessment – contract based, asset-based, market-based, and entity-based factors. An entity's assessment often will require the consideration of a combination of those factors because there are interrelated. Examples of economic factors to consider include, but are not limited to, any of the following:

 1) Contractual terms and conditions for the optional periods compared with current market rates, such as:
    i. The amount of lease payments in any optional period
    ii. The amount of any variable lease payments or other contingent payments, such as payments under termination penalties and residual value guarantees
    iii. The terms and conditions of any options that are exercisable after initial option periods (for example, the terms and conditions of a purchase option that is exercisable at the end of an extension period at a rate that is currently below market rates).
 2) Significant leasehold improvements that are expected to have significant economic value for the lessee when the option to extend or terminate the lease or to purchase the underlying asset becomes exercisable.
 3) Costs relating to the termination of the lease and the signing of a new lease, such as negotiation costs, relocation costs, costs of identifying another underlying asset suitable for the lessee's operations, or costs associated with returning the

underlying asset in a contractually specified condition or to a contractually specified location.

4) The importance of that underlying asset to the lessee's operations, considering, for example, whether the underlying asset is a specialized asset and the location of the underlying asset."[ix]

11. Payments capitalized

a. Noncancelable fixed payments

b. Essentially fixed[x]

   1) Unavoidable
   2) Minimum amount due under a formula

c. NO variable payments based on revenue or activity are capitalized

d. Payments that are based on a rate itself (not a change in rate) are capitalized based on rate at commencement date.

e. Some other payments which are rare (such as buyout payment if reasonably certain of purchase at lease end)

12. Discount rate

a. Inherent (actual) rate (have to use if known for any lease)

b. Incremental borrowing rate

   "The rate of interest that a lessee would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment."[xi]

c. Risk-free rate
   i. Asset class election

13. Calculation of liability

a. "A lessee's obligation to make the lease payments arising from a lease, measured on a discounted basis."[xii]

b. Offsetting debit is to "Right of use" asset

   "An asset that represents a lessee's right to use an underlying asset for the lease term."[xiii]

14. What type of lease is it?

a. Operating
   "From the perspective of a lessee, any lease other than a finance lease."[xiv]

b. Finance

"A lessee shall classify a lease as a finance lease…when the lease meets any of the following criteria at lease commencement:

1) The lease transfers ownership of the underlying asset to the lessee by the end of the lease term.
2) The lease grants the lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise.
3) The lease term is for the major part of the remaining economic life of the underlying asset. However, if the commencement date falls at or near the end of the economic life of the underlying asset, this criterion shall not be used for purposes of classifying the lease.
4) The present value of the sum of the lease payments and any residual value guaranteed by the lessee that is not already reflected in the lease payments in accordance with paragraph 842-10-30-5(f) equals or exceeds substantially all of the fair value of the underlying asset.
5) The underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term."[xv]

15. P&L impact

a. Operating

"After the commencement date, a lessee shall recognize all of the following in profit or loss, unless the costs are included in the carrying amount of another asset in accordance with other Topics:

1) A single lease cost, calculated so that the remaining cost of the lease (undiscounted future payments) is allocated over the remaining lease term on a straight-line basis unless another systematic and rational basis is more representative of the pattern in which the benefit is expected to be derived from the right to use the underlying asset, unless the right-of-use asset has been impaired in accordance with paragraph 842-20-35-9, in which case the single lease cost is calculated in accordance with paragraph 842-20-25-7
2) Variable lease payments not included in the lease liability in the period in which the obligation for those payments is incurred
3) Any impairment of the right-of-use asset determined in accordance with paragraph 842-20-35-9."[xvi]

b. Finance

"After the commencement date, a lessee shall recognize in profit or loss, unless the costs are included in the carrying amount of another asset in accordance with other Topics:

1) Amortization of the right-of-use asset and interest on the lease liability
2) Variable lease payments not included in the lease liability in the period in which the obligation for those payments is incurred

3) Any impairment of the right-of-use asset determined in accordance with paragraph 842-20-35-9."[xvii]

16. Other matter – OPERATING LEASE LIABILITIES ARE NOT DEBT FOR DEBT COVENANT PURPOSES

a. FASB says operating lease liabilities are a non-debt liability.[xviii] (see attached)

b. FASB says for a number of other reasons operating lease liabilities should not be considered debt, and, further will not harm an entity because of adoption.[xix] (see attached)

c. Fitch (rating agency) says it's a non-debt liability.[xx]

d. ELFA says it's a non-debt liability.[xxi] (see attached)

e. General equity says an organization should not be punished for, in essence, having to adopt a standard when no new debt has been assumed as a result.

[i] ASC 842-10-20 Glossary
[ii] ASC 842-10-15-10
[iii] ASC 842-10-20 Glossary
[iv] ASC 842-10-55-2
[v] ASC 842-10-55-23
[vi] ASC 842-10-15-37
[vii] ASU 2016-2, BC 120
[viii] ASC 842-10-20 Glossary
[ix] ASC 842-10-55-26
[x] ASC 842-10-55-31
[xi] ASC 842-10-20 Glossary
[xii] ASC 842-10-20 Glossary
[xiii] ASC 842-10-20 Glossary
[xiv] ASC 842-10-20 Glossary
[xv] ASC 842-10-25-2
[xvi] ASC 842-20-25-6 (portions from JDM)
[xvii] ASC 842-20-25-5
[xviii] Remarks of FASB Member Susan M. Cosper, PCC Town Hall, AICPA ENGAGE Conference, Las Vegas, Nevada, June 11, 2019
[xix] ASU 2016-02, BC 14
[xx] "Impacts of new accounting standards will play no intrinsic role in ratings decisions, agency announces". Treasury.org
[xxi] ELFA, "FAQ: Answers to Some Frequently Asked Questions About Lease Accounting Changes for Lessees", 2019

250 Accounting Changes and Error Corrections
10 Overall

250-10-00 Status

General Note: The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

250-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Direct Effects of a Change in Accounting Principle	Amended	Accounting Standards Update No. 2015-11	07/22/2015
250-10-45-27	Amended	Accounting Standards Update No. 2020-10	10/29/2020
250-10-45-28	Amended	Accounting Standards Update No. 2020-10	10/29/2020
250-10-50-5	Amended	Accounting Standards Update No. 2012-04	10/01/2012
250-10-50-6	Amended	Accounting Standards Update No. 2015-01	01/09/2015
250-10-50-7A	Added	Accounting Standards Update No. 2020-10	10/29/2020
250-10-50-10	Amended	Maintenance Update 2014-20	09/29/2014
250-10-50-12	Added	Accounting Standards Update No. 2020-10	10/29/2020

250-10-05 Overview and Background

General Note: The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

General

250-10-05-1 This Subtopic provides guidance on the accounting for and reporting of accounting changes and error corrections. An **accounting change** can be a change in an accounting principle, an accounting estimate, or the reporting entity. Guidance for each of these types of changes is presented in separate headings within each Section. Guidance for error corrections is also presented under a separate heading within each Section.

> Accounting Changes

250-10-05-2 This Subtopic establishes, unless impracticable, **retrospective application** as the required method for reporting a **change in accounting principle** in the absence of explicit transition requirements specific to a newly adopted accounting principle.

250-10-05-3 This Subtopic provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and for reporting a change when retrospective application is impracticable.

> Error Corrections

250-10-05-4 The correction of an **error in previously issued financial statements** is not an accounting change. However, the reporting of an error correction involves adjustments to previously issued financial statements similar to those generally applicable to reporting an accounting change retrospectively. Therefore, the reporting of a correction of an error by restating previously issued financial statements is also addressed by this Subtopic.

250-10-05-5 This Subtopic also:

a. Specifies the method of treating error corrections in comparative statements for two or more periods

b. Specifies the disclosures required when previously issued statements of income are restated

c. Recommends methods of presentation of historical, statistical-type financial summaries that are affected by error corrections.

250-10-15 Scope and Scope Exceptions

General Note: The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

General

> Overall Guidance

250-10-15-1 The Scope Section of the Overall Subtopic establishes the pervasive scope for the Accounting Changes and Error Corrections Topic.

> Entities

250-10-15-2 The guidance in this Subtopic applies to all entities.

> Other Considerations

250-10-15-3 The guidance in this Subtopic applies to each of the following items for business entities and not-for-profit entities (NFPs):

a. Financial statements

b. Historical summaries of information based on primary financial statements that include an accounting period in which an **accounting change** or error correction is reflected.

250-10-15-4 This Topic does not change the transition provisions of any existing guidance.

250-10-20 Glossary

General Note: The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

Accounting Change

A change in an accounting principle, an accounting estimate, or the reporting entity. The correction of an error in previously issued financial statements is not an accounting change.

Change in Accounting Estimate

A change that has the effect of adjusting the carrying amount of an existing asset or liability or altering the subsequent accounting for existing or future assets or liabilities. A change in accounting estimate is a necessary consequence of the assessment, in conjunction with the periodic presentation of financial statements, of the present status and expected future benefits and obligations associated with assets and liabilities. Changes in accounting estimates result from new information. Examples of items for which estimates are necessary are uncollectible receivables, inventory obsolescence, service lives and salvage values of depreciable assets, and warranty obligations.

Change in Accounting Estimate Effected by a Change in Accounting Principle

A change in accounting estimate that is inseparable from the effect of a related change in accounting principle. An example of a change in estimate effected by a change in principle is a change in the method of depreciation, amortization, or depletion for long-lived, nonfinancial assets.

Change in Accounting Principle

A change from one generally accepted accounting principle to another generally accepted accounting principle when there are two or more generally accepted accounting principles that apply or when the accounting principle formerly used is no longer generally accepted. A change in the method of applying an accounting principle also is considered a change in accounting principle.

Change in the Reporting Entity

A change that results in financial statements that, in effect, are those of a different reporting entity. A change in the reporting entity is limited mainly to the following:

a. Presenting consolidated or combined financial statements in place of financial statements of individual entities

b. Changing specific subsidiaries that make up the group of entities for which consolidated financial statements are presented

c. Changing the entities included in combined financial statements.

Neither a business combination accounted for by the acquisition method nor the consolidation of a variable interest entity (VIE) pursuant to Topic 810 is a change in reporting entity.

Direct Effects of a Change in Accounting Principle

Those recognized changes in assets or liabilities necessary to effect a change in accounting principle. An example of a direct effect is an adjustment to an inventory balance to effect a change in inventory valuation method. Related changes, such as an effect on deferred income tax assets or liabilities or an impairment adjustment resulting from applying the subsequent measurement guidance in Subtopic 330-10 to the adjusted inventory balance, also are examples of direct effects of a change in accounting principle.

Error in Previously Issued Financial Statements

An error in recognition, measurement, presentation, or disclosure in financial statements resulting from mathematical mistakes, mistakes in the application of generally accepted accounting principles (GAAP), or oversight or misuse of facts that existed at the time the financial statements were prepared. A change from an accounting principle that is not generally accepted to one that is generally accepted is a correction of an error.

Indirect Effects of a Change in Accounting Principle

Any changes to current or future cash flows of an entity that result from making a change in accounting principle that is applied retrospectively. An example of an indirect effect is a change in a nondiscretionary profit sharing or royalty payment that is based on a reported amount such as revenue or net income.

Restatement

The process of revising previously issued financial statements to reflect the correction of an error in those financial statements.

Retrospective Application

The application of a different accounting principle to one or more previously issued financial statements, or to the statement of financial position at the beginning of the current period, as if that principle had always been used, or a change to financial statements of prior accounting periods to present the financial statements of a new reporting entity as if it had existed in those prior years.

250-10-45 Other Presentation Matters

General Note: The Other Presentation Matters Section provides guidance on other presentation matters not addressed in the Recognition, Initial Measurement, Subsequent Measurement, and Derecognition Sections. Other presentation matters may include items such as current or long-term balance sheet classification, cash flow presentation, earnings per share matters, and so forth. The FASB Codification also contains Presentation Topics, which provide guidance for general presentation and display items. See those Topics for general guidance.

General

> Accounting Changes

> > Change in Accounting Principle

250-10-45-1 A presumption exists that an accounting principle once adopted shall not be changed in accounting for events and transactions of a similar type. Consistent use of the same accounting principle from one accounting period to another enhances the utility of financial statements for users by facilitating analysis and understanding of comparative accounting data. Neither of the following is considered to be a **change in accounting principle**:

a. Initial adoption of an accounting principle in recognition of events or transactions occurring for the first time or that previously were immaterial in their effect

b. Adoption or modification of an accounting principle necessitated by transactions or events that are clearly different in substance from those previously occurring.

250-10-45-2 A reporting entity shall change an accounting principle only if either of the following apply:

a. The change is required by a newly issued Codification update.

b. The entity can justify the use of an allowable alternative accounting principle on the basis that it is preferable.

250-10-45-3 It is expected that Codification updates normally will provide specific transition requirements. However, in the unusual instance that there are no transition requirements specific to a particular Codification update, a change in accounting principle effected to adopt the requirements of that Codification update shall be reported in accordance with paragraphs 250-10-45-5 through 45-8. Early adoption of a Codification update, when permitted, shall be effected in a manner consistent with the transition requirements of that update.

250-10-45-4 This requirement is not limited to newly issued Codification updates. For example, if existing Codification guidance permits a choice between two or more alternative accounting principles, and provides requirements for changing from one to another, those requirements shall be followed.

250-10-45-5 An entity shall report a change in accounting principle through **retrospective application** of the new accounting principle to all prior periods, unless it is impracticable to do so. Retrospective application requires all of the following:

a. The cumulative effect of the change to the new accounting principle on periods prior to those presented shall be reflected in the carrying amounts of assets and liabilities as of the beginning of the first period presented.

b. An offsetting adjustment, if any, shall be made to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that period.

c. Financial statements for each individual prior period presented shall be adjusted to reflect the period-specific effects of applying the new accounting principle.

250-10-45-6 If the cumulative effect of applying a change in accounting principle to all prior periods can be determined, but it is impracticable to determine the period-specific effects of that change on all prior periods presented, the cumulative effect of the change to the new accounting principle shall be applied to the carrying amounts of assets and liabilities as of the beginning of the earliest period to which the new accounting principle can be applied. An offsetting adjustment, if any, shall be made to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that period.

250-10-45-7 If it is impracticable to determine the cumulative effect of applying a change in accounting principle to any prior period, the new accounting principle shall be applied as if the change was made prospectively as of the earliest date practicable.

See Example 1 (paragraphs 250-10-55-3 through 55-11) for an illustration of a change from the first-in, first-out (FIFO) method of inventory valuation to the last-in, first-out (LIFO) method. That Example does not imply that such a change would be considered preferable as required by paragraph 250-10-45-12.

250-10-45-8 Retrospective application shall include only the **direct effects of a change in accounting principle**, including any related income tax effects. Indirect effects that would have been recognized if the newly adopted accounting principle had been followed in prior periods shall not be included in the retrospective application. If indirect effects are actually incurred and recognized, they shall be reported in the period in which the **accounting change** is made.

> > > Impracticability

250-10-45-9 It shall be deemed impracticable to apply the effects of a change in accounting principle retrospectively only if any of the following conditions exist:

a. After making every reasonable effort to do so, the entity is unable to apply the requirement.

b. Retrospective application requires assumptions about management's intent in a prior period that cannot be independently substantiated.

c. Retrospective application requires significant estimates of amounts, and it is impossible to distinguish objectively information about those estimates that both:

1. Provides evidence of circumstances that existed on the date(s) at which those amounts would be recognized, measured, or disclosed under retrospective application
2. Would have been available when the financial statements for that prior period were issued.

250-10-45-10 This Subtopic requires a determination of whether information currently available to develop significant estimates would have been available when the affected transactions or events would have been recognized in the financial statements. However, it is not necessary to maintain documentation from the time that an affected transaction or event would have been recognized to determine whether information to develop the estimates would have been available at that time.

> > > Justification for a Change in Accounting Principle

250-10-45-11 In the preparation of financial statements, once an accounting principle is adopted, it shall be used consistently in accounting for similar events and transactions.

250-10-45-12 An entity may change an accounting principle only if it justifies the use of an allowable alternative accounting principle on the basis that it is preferable. However, a method of accounting that was previously adopted for a type of transaction or event that is being terminated or that was a single, nonrecurring event in the past shall not be changed. For example, the method of accounting shall not be changed for a tax or tax credit that is being discontinued. Additionally, the method of transition elected at the time of adoption of a Codification update shall not be subsequently changed. However, a change in the estimated period to be benefited by an asset, if justified by the facts, shall be recognized as a **change in accounting estimate**.

250-10-45-13 The issuance of a Codification update that requires use of a new accounting principle, interprets an existing principle, expresses a preference for an accounting principle, or rejects a specific principle may require an entity to change an accounting principle. The issuance of such an update constitutes sufficient support for making such a change.

> > > Reporting a Change in Accounting Principle Made in an Interim Period

250-10-45-14 A change in accounting principle made in an interim period shall be reported by retrospective application in accordance with paragraphs 250-10-45-5 through 45-8. However, the impracticability exception in paragraph 250-10-45-9 may not be applied to prechange interim periods of the fiscal year in which the change is made. When retrospective application to prechange interim periods is impracticable, the desired change may only be made as of the beginning of a subsequent fiscal year.

250-10-45-15 If a public entity that regularly reports interim information makes an accounting change during the fourth quarter of its fiscal year and does not report the data specified by paragraph 270-10-50-1 in a separate fourth-quarter report or in its annual report, that entity shall include disclosure of the effects of the accounting change on interim-period results, as required by paragraph 250-10-50-1, in a note to the annual financial statements for the fiscal year in which the change is made.

250-10-45-16 As indicated in paragraph 270-10-45-15, whenever possible, entities should adopt any accounting changes during the first interim period of a fiscal year. Changes in accounting principles and practices adopted after the first interim period in a fiscal year tend to obscure operating results and complicate disclosure of interim financial information.

> > Change in Accounting Estimate

250-10-45-17 A change in accounting estimate shall be accounted for in the period of change if the change affects that period only or in the period of change and future periods if the change affects both. A **change in accounting estimate** shall not be accounted for by restating or retrospectively adjusting amounts reported in financial statements of prior periods or by reporting pro forma amounts for prior periods.

250-10-45-18 Distinguishing between a change in an accounting principle and a change in an accounting estimate is sometimes difficult. In some cases, a change in accounting estimate is effected by a change in accounting principle. One example of this type of change is a change in method of depreciation, amortization, or depletion for long-lived, nonfinancial assets (hereinafter referred to as depreciation method). The new depreciation method is adopted in partial or complete recognition of a change in the estimated future benefits inherent in the asset, the pattern of consumption of those benefits, or the information available to the entity about those benefits. The effect of the **change in accounting principle**, or the method of applying it, may be inseparable from the effect of the change in accounting estimate. Changes of that type often are related to the continuing process of obtaining additional information and revising estimates and, therefore, shall be considered changes in estimates for purposes of applying this Subtopic.

250-10-45-19 Like other changes in accounting principle, a change in accounting estimate that is effected by a change in accounting principle may be made only if the new accounting principle is justifiable on the basis that it is preferable. For example, an entity that concludes that the pattern of consumption of the expected benefits of an asset has changed, and determines that a new depreciation method better reflects that pattern, may be justified in making a **change in accounting estimate effected by a change in accounting principle**. (See paragraph 250-10-45-12.)

250-10-45-20 However, a change to the straight-line method at a specific point in the service life of an asset may be planned at the time some depreciation methods, such as the modified accelerated cost recovery system, are adopted to fully depreciate the cost over the estimated life of the asset. Consistent application of such a policy does not constitute a change in accounting principle for purposes of applying this Subtopic.

> > Change in Reporting Entity

250-10-45-21 When an accounting change results in financial statements that are, in effect, the statements of a different reporting entity, the change shall be retrospectively applied to the financial statements of all prior periods presented to show financial information for the new reporting entity for those periods. Previously issued interim financial information shall be presented on a retrospective basis. However, the amount of interest cost previously capitalized through application of Subtopic 835-20 shall not be changed when retrospectively applying the accounting change to the financial statements of prior periods.

> Correction of an Error in Previously Issued Financial Statements

250-10-45-22 As indicated in paragraph 220-10-45-7A, net income for the period shall include all items of profit and loss recognized during the period, including accruals of estimated losses from loss contingencies, but shall not include corrections of errors from prior periods. As used in this Subtopic, the term *period* refers to both annual and interim reporting periods.

250-10-45-23 Any error in the financial statements of a prior period discovered after the financial statements are issued or are available to be issued (as discussed in Section 855-10-25) shall be reported as an error correction, by restating the prior-period financial statements. **Restatement** requires all of the following:

a. The cumulative effect of the error on periods prior to those presented shall be reflected in the carrying amounts of assets and liabilities as of the beginning of the first period presented.

b. An offsetting adjustment, if any, shall be made to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that period.

c. Financial statements for each individual prior period presented shall be adjusted to reflect correction of the period-specific effects of the error.

250-10-45-24 Those items that are reported as error corrections shall, in single period statements, be reflected as adjustments of the opening balance of retained earnings. When comparative statements are presented, corresponding adjustments should be made of the amounts of net income (and the components thereof) and retained earnings balances (as well as of other affected balances) for all of the periods reported therein, to reflect the retroactive application of the error corrections.

> > Corrections Related to Prior Interim Periods of the Current Fiscal Year

250-10-45-25 For purposes of this Subtopic, an adjustment related to prior interim periods of the current fiscal year is an adjustment or settlement of litigation or similar claims, of income taxes (except for the effects of retroactive tax legislation), of renegotiation proceedings, or of utility revenue under rate-making processes provided that the adjustment or settlement meets all of the following criteria:

a. The effect of the adjustment or settlement is material in relation to income from continuing operations of the current fiscal year or in relation to the trend of income from continuing operations or is material by other appropriate criteria.

b. All or part of the adjustment or settlement can be specifically identified with and is directly related to business activities of specific prior interim periods of the current fiscal year.

c. The amount of the adjustment or settlement could not be reasonably estimated prior to the current interim period but becomes reasonably estimable in the current interim period.

The criterion in (b) is not met solely because of incidental effects such as interest on a settlement. The criterion in (c) would be met by the occurrence of an event with currently measurable effects such as a final decision on a rate order. Treatment as adjustments related to prior interim periods of the current fiscal year shall not be applied to the normal recurring corrections and adjustments that are the result of the use of estimates inherent in the accounting process. Changes in provisions for doubtful accounts shall not be considered to be adjustments related to prior interim periods of the current fiscal year even though the changes result from litigation or similar claims.

250-10-45-26 If an item of profit or loss occurs in other than the first interim period of the entity's fiscal year and all or a part of the item of profit or loss is an adjustment related to prior interim periods of the current fiscal year, as defined in the preceding paragraph, the item shall be reported as follows:

a. The portion of the item that is directly related to business activities of the entity during the current interim period, if any, shall be included in the determination of net income for that period.

b. Prior interim periods of the current fiscal year shall be restated to include the portion of the item that is directly related to business activities of the entity during each prior interim period in the determination of net income for that period.

c. The portion of the item that is directly related to business activities of the entity during prior fiscal years, if any, shall be included in the determination of net income of the first interim period of the current fiscal year.

> Materiality Determination for Correction of an Error

250-10-45-27 In determining materiality for the purpose of reporting the correction of an error, amounts shall be related to the estimated income for the full fiscal year and also to the effect on the trend of earnings. Changes that are material with respect to an interim period but not material with respect to the estimated income for the full fiscal year or to the trend of earnings shall be separately disclosed in the interim period.

Pending Content:

Transition Date: *(P) December 16, 2020; (N) December 16, 2021* | **Transition Guidance:** **105-10-65-6**

Editor's Note*: The content of paragraph 250-10-45-27 will change upon transition, together with a change in the heading noted below.*

> **Materiality Considerations for Correction of an Error**

In considering materiality for the purpose of reporting the correction of an error, amounts shall be related to the estimated income for the full fiscal year and also to the effect on the trend of earnings. (See paragraph 250-10-50-12.)

> Historical Summaries of Financial Data

250-10-45-28 It has become customary for business entities to present historical, statistical-type summaries of financial data for a number of periods—commonly 5 or 10 years. Whenever error corrections have been recorded during any of the periods included therein, the reported amounts of net income (and the components thereof), as well as other affected items, shall be appropriately restated, with disclosure in the first summary published after the adjustments.

Pending Content:

Transition Date: *(P) December 16, 2020; (N) December 16, 2021* | **Transition Guidance:** **105-10-65-6**

It has become customary for business entities to present historical, statistical-type summaries of financial data for a number of periods—commonly 5 or 10 years. Whenever error corrections have been recorded during any of the periods included therein, the reported amounts of net income (and the components thereof), as well as other affected items, shall be appropriately restated, with disclosure in the first summary published after the adjustments. (See paragraph 250-10-50-7A.)

250-10-50 Disclosure

General Note: The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

> Accounting Changes

> > Change in Accounting Principle

250-10-50-1 An entity shall disclose all of the following in the fiscal period in which a **change in accounting principle** is made:

a. The nature of and reason for the change in accounting principle, including an explanation of why the newly adopted accounting principle is preferable.

b. The method of applying the change, including all of the following:

1. A description of the prior-period information that has been retrospectively adjusted, if any.

2. The effect of the change on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), any other affected financial statement line item, and any affected per-share amounts for the current period and any prior periods retrospectively adjusted. Presentation of the effect on financial statement subtotals and totals other than income from continuing operations and net income (or other appropriate captions of changes in the applicable net assets or performance indicator) is not required.

3. The cumulative effect of the change on retained earnings or other components of equity or net assets in the statement of financial position as of the beginning of the earliest period presented.

4. If **retrospective application** to all prior periods is impracticable, disclosure of the reasons therefore, and a description of the alternative method used to report the change (see paragraphs 250-10-45-5 through 45-7).

c. If **indirect effects of a change in accounting principle** are recognized both of the following shall be disclosed:

1. A description of the indirect effects of a change in accounting principle, including the amounts that have been recognized in the current period, and the related per-share amounts, if applicable

2. Unless impracticable, the amount of the total recognized indirect effects of the **accounting change** and the related per-share amounts, if applicable, that are attributable to each prior period presented. Compliance with this disclosure requirement is practicable unless an entity cannot comply with it after making every reasonable effort to do so.

Financial statements of subsequent periods need not repeat the disclosures required by this paragraph. If a change in accounting principle has no material effect in the period of change but is reasonably certain to have a material effect in later periods, the disclosures required by (a) shall be provided whenever the financial statements of the period of change are presented.

250-10-50-2 An entity that issues interim financial statements shall provide the required disclosures in the financial statements of both the interim period of the change and the annual period of the change.

250-10-50-3 In the fiscal year in which a new accounting principle is adopted, financial information reported for interim periods after the date of adoption shall disclose the effect of the change on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), and related per-share amounts, if applicable, for those post-change interim periods.

> > Change in Accounting Estimate

250-10-50-4 The effect on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), and any related per-share amounts of the current period shall be disclosed for a change in estimate that affects several future periods, such as a change in service lives of depreciable assets. Disclosure of those effects is not necessary for estimates made each period in the ordinary course of accounting for items such as uncollectible accounts or inventory obsolescence; however, disclosure is required if the effect of a change in the estimate is material. When an entity effects a change in estimate by changing an accounting principle, the disclosures required by paragraphs 250-10-50-1 through 50-3 also are required. If a change in estimate does not have a material effect in the period of change but is reasonably certain to have a material effect in later periods, a description of that change in estimate shall be disclosed whenever the financial statements of the period of change are presented.

> > > Change in Estimate Used in Valuation Technique

250-10-50-5 The disclosure provisions of this Subtopic for a **change in accounting estimate** are not required for revisions resulting from a change in a valuation technique used to measure fair value or its application when the resulting measurement is fair value in accordance with Topic 820.

> > Change in Reporting Entity

250-10-50-6 When there has been a **change in the reporting entity**, the financial statements of the period of the change shall describe the nature of the change and the reason for it. In addition, the effect of the change on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), other comprehensive income, and any related per-share amounts shall be disclosed for all periods presented. Financial statements of subsequent periods need not repeat the disclosures required by this paragraph. If a change in reporting entity does not have a material effect in the period of change but is reasonably certain to have a material effect in later periods, the nature of and reason for the change shall be disclosed whenever the financial statements of the period of change are presented. (Sections 805-10-50, 805-20-50, 805-30-50, and 805-740-50 describe the manner of reporting and the disclosures required for a business combination.)

> Correction of an Error in Previously Issued Financial Statements

250-10-50-7 When financial statements are restated to correct an error, the entity shall disclose that its previously issued financial statements have been restated, along with a description of the nature of the error. The entity also shall disclose both of the following:

a. The effect of the correction on each financial statement line item and any per-share amounts affected for each prior period presented

b. The cumulative effect of the change on retained earnings or other appropriate components of equity or net assets in the statement of financial position, as of the beginning of the earliest period presented.

250-10-50-7A

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Transition Date: *(P) December 16, 2020; (N) December 16, 2021* | **Transition Guidance: 105-10-65-6**

An entity that restates historical, statistical-type summaries of financial data for error corrections shall disclose that information in accordance with paragraph 250-10-45-28.

250-10-50-8 When prior period adjustments are recorded, the resulting effects (both gross and net of applicable income tax) on the net income of prior periods shall be disclosed in the annual report for the year in which the adjustments are made and in interim reports issued during that year after the date of recording the adjustments.

250-10-50-9 When financial statements for a single period only are presented, this disclosure shall indicate the effects of such **restatement** on the balance of retained earnings at the beginning of the period and on the net income of the immediately preceding period. When financial statements for more than one period are presented, which is ordinarily the preferable procedure, the disclosure shall include the effects for each of the periods included in the statements. (See Section 205-10-45 and paragraph 205-10-50-1.) Such disclosures shall include the amounts of income tax applicable to the prior period adjustments. Disclosure of restatements in annual reports issued after the first such post-revision disclosure would ordinarily not be required.

250-10-50-10 Financial statements of subsequent periods shall not repeat the disclosures required by paragraphs 250-10-50-7 through 50-9. See paragraph 250-10-50-2.

> > Error Corrections Related to Prior Interim Periods of the Current Fiscal Year

250-10-50-11 The following disclosures shall be made in interim financial reports about an adjustment related to prior interim periods of the current fiscal year. In financial reports for the interim period in which the adjustment occurs, disclosure shall be made of both of the following:

a. The effect on income from continuing operations, net income, and related per-share amounts for each prior interim period of the current fiscal year

b. Income from continuing operations, net income, and related per-share amounts for each prior interim period restated in accordance with paragraph 250-10-45-26.

> Materiality Determination for Correction of an Error

250-10-50-12

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***Editor's Note**: The content of paragraph 250-10-50-12 will be added upon transition, together with a change in the heading noted below.*
> **Materiality Considerations for Correction of an Error**

In considering materiality for the purpose of reporting the correction of an error, amounts shall be related to the estimated income for the full fiscal year and also to the effect on the trend of earnings. Changes that are material with respect to an interim period but not material with respect to the estimated income for the full fiscal year or to the trend of earnings shall be separately disclosed in the interim period. (See paragraph 250-10-45-27.)

250-10-55 Implementation Guidance and Illustrations

General Note: The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

General

> Implementation Guidance

> > Change in the Composition of Inventory Costs

250-10-55-1 A change in composition of the elements of cost included in inventory is an **accounting change**. An entity that makes such a change for financial reporting shall conform to the requirements of this Subtopic, including justifying the change on the basis of preferability as specified by paragraphs 250-10-45-11 through 45-13. In applying the guidance in this Subtopic, preferability among accounting principles shall be determined on the basis of whether the new principle constitutes an improvement in financial reporting and not on the basis of the income tax effect alone.

> Illustrations

250-10-55-2 This Section presents generalized Examples intended to illustrate how to apply certain provisions of this Subtopic. The Examples do not address all possible situations or applications of this Subtopic, nor do they establish additional requirements.

> > Example 1: Retrospective Application of a Change in Accounting Principle

250-10-55-3 This Example illustrates the guidance in paragraphs 250-10-45-5 through 45-8. Entity A decides at the beginning of 20X7 to adopt the first-in, first-out (FIFO) method of inventory valuation. Entity A had used the last-in, first-out (LIFO) method for financial and tax reporting since its inception on January 1, 20X5, and had maintained records that are adequate to apply the FIFO method retrospectively. Entity A concluded that the FIFO method is the preferable inventory valuation method for its inventory. The **change in accounting principle** is reported through **retrospective application** as described in paragraph 250-10-45-5.

250-10-55-4 The effects of the change in accounting principle on inventory and cost of sales are presented in the following table.

Date	Inventory Determined by LIFO Method	Inventory Determined by FIFO Method	Cost of Sales Determined by LIFO Method	Cost of Sales Determined by FIFO Method
1/1/20X5	$ -	$ -	$ -	$ -
12/31/20X5	100	80	800	820
12/31/20X6	200	240	1,000	940
12/31/20X7	320	390	1,130	1,100

250-10-55-5 This Example is based on the following assumptions:

a. For each year presented, sales are $3,000 and selling, general, and administrative costs are $1,000. Entity A's effective income tax rate for all years is 40 percent, and there are no permanent or temporary differences under Subtopic 740-10 prior to the change.

b. Entity A has a nondiscretionary profit-sharing agreement in place for all years. Under that agreement, Entity A is required to contribute 10 percent of its reported income before tax and profit sharing to a profit-sharing pool to be distributed to employees. For simplicity, it is assumed that the profit-sharing contribution is not an inventoriable cost.

c. Entity A determined that its profit-sharing expense would have decreased by $2 in 20X5 and increased by $6 in 20X6 if it had used the FIFO method to compute its inventory cost since inception. The terms of the profit-sharing agreement do not address whether Entity A is required to adjust its profit-sharing accrual for the incremental amounts. At the time of the accounting change, Entity A decides to contribute the additional $6 attributable to 20X6 profit and to make no adjustment related to 20X5 profit. The $6 payment is made in 20X7.

d. Profit sharing and income taxes accrued at each year-end under the LIFO method are paid in cash at the beginning of each following year.

e. Entity A's annual report to shareholders provides two years of financial results, and Entity A is not subject to the requirements of Subtopic 260-10.

250-10-55-6 In accordance with paragraph 250-10-45-8, recognized **indirect effects of a change in accounting principle** are recorded in the period of change. That provision applies even if recognition of the indirect effect is explicitly required by the terms of the profit-sharing contract.

250-10-55-7 Entity A's income statements as originally reported under the LIFO method are presented below.

250-10-55-8 Income Statement

	20X6	20X5
Sales	$ 3,000	$ 3,000
Cost of goods sold	1,000	800
Selling, general, and administrative expenses	1,000	1,000
Income before profit sharing and income taxes	1,000	1,200
Profit sharing	100	120
Income before income taxes	900	1,080
Income taxes	360	432
Net income	$ 540	$ 648

250-10-55-9 Entity A's income statements reflecting the retrospective application of the accounting change from the LIFO method to the FIFO method are presented below.

250-10-55-10 Income Statement

	20X7	20X6 As Adjusted (Note A)
Sales	$ 3,000	$ 3,000
Cost of goods sold	1,100	940
Selling, general, and administrative expenses	1,000	1,000
Income before profit sharing and income taxes	900	1,060
Profit sharing	96	100
Income before income taxes	804	960
Income taxes	322	384
Net income	$ 482	$ 576

250-10-55-11 Entity A's disclosure related to the accounting change is presented below.

NOTE A:

Change in Method of Accounting for Inventory Valuation

On January 1, 20X7, Entity A elected to change its method of valuing its inventory to the FIFO method, whereas in all prior years inventory was valued using the LIFO method. The new method of accounting for inventory was adopted [state justification for change in accounting principle] and comparative financial statements of prior years have been adjusted to apply the new method retrospectively. The following financial statement line items for fiscal years 20X7 and 20X6 were affected by the change in accounting principle.

Income Statement

20X7

	As Computed under LIFO	As Reported under FIFO	Effect of Change
Sales	$ 3,000	$ 3,000	$ -
Cost of goods sold	1,130	1,100	(30)
Selling, general, and administrative expenses	1,000	1,000	-
Income before profit sharing and income taxes	870	900	30
Profit sharing	87	96 (a)	9
Income before income taxes	783	804	21
Income taxes	313	322	9
Net income	$ 470	$ 482	$ 12

(a) This amount includes a $90 profit-sharing payment attributable to 20X7 profits and $6 profit-sharing payment attributable to 20X6 profits, which is an indirect effect of the change in accounting principle. The incremental payment attributable to 20X6 would have been recognized in 20X6 if Entity A's inventory had originally been accounted for using the FIFO method.

20X6

	As Originally Reported	As Adjusted	Effect of Change
Sales	$ 3,000	$ 3,000	$ -
Cost of goods sold	1,000	940	(60)
Selling, general, and administrative expenses	1,000	1,000	-
Income before profit sharing and income taxes	1,000	1,060	60
Profit sharing	100	100	-
Income before income taxes	900	960	60
Income taxes	360	384	24
Net income	$ 540	$ 576	$ 36

Balance Sheet

12/31/X7

	As Computed under LIFO	As Reported under FIFO	Effect of Change
Cash	$ 2,738	$ 2,732	$ (6)
Inventory	320	390	70
Total assets	$ 3,058	$ 3,122	$ 64
Accrued profit sharing	$ 87	$ 90	$ 3
Income tax liability	313	338	25
Total liabilities	400	428	28
Paid-in capital	1,000	1,000	-
Retained earnings	1,658	1,694	36
Total stockholders' equity	2,658	2,694	36
Total liabilities and stockholders' equity	$ 3,058	$ 3,122	$ 64

12/31/X6

	As Originally Reported	As Adjusted	Effect of Change
Cash	$ 2,448	$ 2,448	$ -
Inventory	200	240	40
Total assets	$ 2,648	$ 2,688	$ 40
Accrued profit sharing	100	100	-
Income tax liability	360	376	16
Total liabilities	460	476	16
Paid-in capital	1,000	1,000	-
Retained earnings	1,188	1,212	24
Total stockholders' equity	2,188	2,212	24
Total liabilities and stockholders' equity	$ 2,648	$ 2,688	$ 40

As a result of the accounting change, retained earnings as of January 1, 20X6, decreased from $648, as originally reported using the LIFO method, to $636 using the FIFO method.

Statement of Cash Flows

20X7

	As Computed under LIFO		As Reported under FIFO		Effect of Change	
Net income	$	470	$	482	$	12
Adjustments to reconcile net income to net cash provided by operating activities						
Increase in inventory		(120)		(150)		(30)
Decrease in accrued profit sharing		(13)		(10)		3
Decrease in income tax liability		(47)		(38)		9
Net cash provided by operating activities		290		284		(6)
Net increase in cash		290		284		(6)
Cash, January 1, 20X7		2,448		2,448		-
Cash, December 31, 20X7	$	2,738	$	2,732	$	(6)

20X6

	As Originally Reported		As Adjusted		Effect of Change	
Net income	$	540	$	576	$	36
Adjustments to reconcile net income to net cash provided by operating activities						
Increase in inventory		(100)		(160)		(60)
Decrease in accrued profit sharing		(20)		(20)		-
Decrease in income tax liability		(72)		(48)		24
Net cash provided by operating activities		348		348		-
Net increase in cash		348		348		-
Cash, January 1, 20X6		2,100		2,100		-
Cash, December 31, 20X6	$	2,448	$	2,448	$	-

> > Example 2: Reporting an Accounting Change when Determining Cumulative Effect for All Prior Years is Not Practicable

250-10-55-12 This Example illustrates the guidance in paragraphs 250-10-45-9 through 45-10. Assume Entity A changed its accounting principle for inventory measurement from FIFO to LIFO effective January 1, 20X4. Entity A reports its financial statements on a calendar year-end basis and had used the FIFO method since its inception. Entity A determined that it is impracticable to determine the cumulative effect of applying this change retrospectively because records of inventory purchases and sales are no longer available for all prior years. However, Entity A has all of the information necessary to apply the LIFO method on a prospective basis beginning in 20X1. Therefore, Entity A should present prior periods as if it had carried forward the 20X0 ending balance in inventory (measured on a FIFO basis) and begun applying the LIFO method to its inventory beginning January 1, 20X1. (The example assumes that Entity A established that the LIFO method was preferable for Entity A's inventory. No particular inventory measurement method is necessarily preferable in all instances.)

250-10-60 Relationships

General Note: The Relationships Section contains links to guidance that may be helpful to, but not required by, a user of the Subtopic. This Section may not be all-inclusive. The relationship items are organized according to the Topic structure in the Codification.

General

> Earnings per Share

250-10-60-1 For guidance on the effect of restatements expressed in per-share terms, see paragraphs 260-10-55-15 through 55-16.

Remarks of FASB Member Susan M. Cosper
PCC Town Hall
AICPA ENGAGE Conference
Las Vegas, Nevada
June 11, 2019

Welcome to the Private Company Council Town Hall. Today's event is one of several Town Halls hosted by the FASB and the Private Company Council—or PCC—at locations around the country. They give us the chance to share information about new accounting standards, answer your questions, and hear your views.

This will be my first Town Hall as a member of the FASB. Before I joined the Board last month, I spent eight years as the FASB's technical director. My time in that role coincided—give or take a year—with the formation of the PCC.

As technical director, I got to know and work closely with PCC members—past and present—as well as its predecessor organization, the Private Company Financial Reporting Committee. Some of those PCC members are in this room today, including current PCC Chair Candy Wright.

It's never easy to get a new group off the ground. Especially one tasked to make accounting standards more understandable—for private companies or anyone else, for that matter.

But PCC members did it. They built a culture that transcends any individual member. A culture committed to high-quality financial reporting. A culture based on collaboration among members and with the Board.

So when I was offered the role of PCC liaison for the FASB, I was honored to accept it. I welcomed the opportunity serve you in this capacity.

For me, it feels like a homecoming. Growing up in a household with a family business, I saw firsthand the amount of hard work and perseverance it takes to make a small business successful— especially when resources are limited. It instilled in me an appreciation for problem solving and numbers, which sparked my interest in accounting.

My first job out of college—other than working for my Dad—was with an accounting firm in Pittsburgh. My clients included small and privately owned companies, community banks, not-for-profits, and small and large public companies. The experience required me to see accounting issues through different perspectives—and taught me the importance of being able to serve *all* stakeholders, not just some.

It's a lesson the PCC helped impart to the Board—one that fueled the FASB's own "cultural evolution."

Before the PCC, the FASB operated on the premise that stakeholders were the same. And a solution, for the most part, was a "one size fits all."

We all know this is not the case. But our prior reluctance to accept differences made us resist alternatives that would improve financial reporting for those who use private company financial statements.

In the FASB's defense, our objective was—and still is—to develop the most comparable standards possible—across industries, organizations, and even nations.

But in reality, differences *do* exist. And to develop the best standards possible for all of our stakeholders, we had to come to terms with the fact that, for some of our stakeholders, the solution may be in search of a problem that does not exist. We also learned from the PCC that reducing cost and complexity, and promoting simplification, is a "win"—not just for private company stakeholders, but for *all* of our stakeholders.

This morning, I'll talk about how the PCC helped us do that. I'll also talk about how our work together continues to improve accounting standards for all stakeholders, not just some. And where you fit into that.

But first, let me pause to remind you that official positions of the FASB are reached only after extensive due process and deliberations. In other words, what I am about to say are my views and only my views.

As a Board, our priority is to improve the relevance of information to investors and other users. We make standard-setting decisions within that context.

We generally support the consideration of differences for private companies in the following areas:

- One, for recognition and measurement—when the information is not relevant
- Two, for disclosures—when considering the cost to provide the information balanced with the relevance of that information for a user, and
- Three, when private companies simply just need more time.

On the flip side—as I'm sure you understand—we can't support differences that compromise information that investors or other financial statement users consider relevant.

If it sounds like a balancing act, it is.

That's where the PCC helps us understand when accounting should be the same for private companies, and when it should be different. A good example is our approach to the leases standard, which illustrates a shift in how we think about accounting alternatives.

During our project outreach, stakeholders told us that leases should be recognized on the balance sheet. The Board agreed, and that's why the standard requires *all* organizations to include lease obligations on the balance sheet.

However, the PCC and other private company stakeholders voiced concerns about the impact that additional liabilities would have on debt covenants and on accounting judgments—particularly among smaller companies that have debt covenants based principally on a prescribed debt-to-tangible net worth ratio.

The FASB listened. The Board observed that operating lease liabilities are not "debt like" and should be characterized as operating obligations in the financial statements. The Board also provided an extended effective date so that covenants would naturally be revised in the normal course given the natural evolution of those arrangements.

It seems obvious that simple is usually better, but the FASB has not always chosen that path. Sometimes we make accounting too hard, even for seasoned experts.

The PCC alerts us to areas of GAAP that may be unnecessarily complex for all stakeholders, not just private companies.

For example: PCC members and other private company stakeholders shared concerns about the cost and complexity of the goodwill impairment test. Furthermore, users of private company financial statements told us they often disregard goodwill and goodwill impairment losses when analyzing a private company's financial condition and operating performance.

Based on this input, the FASB issued an alternative that allows private companies to amortize goodwill and apply a simplified goodwill impairment model.

But private companies weren't the only ones who questioned the relative usefulness of the existing goodwill impairment model. In fact, their feedback was consistent with what we'd heard from not-for-profit organizations and some public companies.

So the FASB looked at ways to extend the private company alternative to a broader audience.

The result? Last month, the FASB issued a new standard that extends the PCC alternative for goodwill and for measuring certain identifiable intangible assets to not-for-profit organizations. In the coming weeks, we'll also issue an Invitation to Comment on a broad project on the subsequent accounting for goodwill and the accounting for certain identifiable intangible assets directed primarily to public business entities.

In another project, we simplified guidance for share-based payments. Based on our work with the PCC, the FASB issued several targeted amendments that makes it easier for all organizations to account for forfeitures and tax withholdings, among other improvements. To further reduce costs for private companies, we allowed them an expedient to determine the expected term of an option and another opportunity to elect using intrinsic value to measure a liability-classified award.

Speaking of share-based payments…last year, the FASB issued a standard that makes it easier for companies to account for the share-based payments they provide to service providers, suppliers, and other people that are not employees. PCC input helped make that happen.

With the help of the PCC, we continue to tackle projects to improve standards for all stakeholders. We will be discussing the PCC's existing project on share-based compensation during our Town Hall today.

Our active agenda project on liabilities and equity will simplify a very complex area of accounting—and provide more relevant information to financial statement users. Again, we turn to the PCC to help us cut through the "noise" to get to the information that's most relevant.

At a meeting last April, the PCC generally supported a reduction in the number of models for convertible debt among some of the other targeted improvements we will be proposing. We'll incorporate this input in an Exposure Draft scheduled to be issued later this summer.

PCC perspectives also inform our work to simplify balance sheet classification of debt. At a recent PCC meeting, members continued to support the view that unused lines of credit should not be considered in determining debt classification. Currently, the staff is working on a revised Exposure Draft to be issued later this year—one that will reflect this feedback.

In the spirit of serving all stakeholders—and inspired by our work with the PCC—the FASB will revisit our philosophy on how we set effective dates for all standards. At a public meeting next month, the FASB will consider whether longer implementation timelines should also be extended for private companies and not-for-profit organizations as well as for smaller public companies—and if so, how we should define a "small public company." At the same time, to the extent we change that philosophy, we will look at the effective dates of certain currently issued ASUs, not yet effective, to determine whether they should be amended to reflect a new philosophy. We will be discussing this philosophy with the PCC later this month.

Serving all our stakeholders is an ongoing process—one that doesn't end when a final standard has been issued. But even the best standard in the world will fall short if stakeholders can't understand or apply it in practice.

The PCC is helping us in this area, too. Every PCC meeting includes discussion about private company implementation issues. These dialogues between Board and Council members help us develop and refine educational resources that address your specific needs and concerns on revenue recognition, leases, credit losses, and all new standards.

We've also been more proactive in developing educational resources to help all preparers and practitioners implement our standards. They include plain-language documents, educational videos, CPE webcasts, transition resource groups, and the FASB implementation web portal—a "one-stop shop" for the information to help you implement standards.

These resources have been well received. But because "one size does *not* fit all," we make it a point to customize resources to meet different stakeholder needs.

For example, to support private company transition to the revenue recognition standard, the FASB staff developed various resources specifically targeted to private companies. They include videos, Q and A documents, and staff papers that focus on certain private company-specific issues developed in conjunction with the PCC and the Technical Issues Committee of the AICPA.

Last December, we also hosted a CPE webinar to specifically address private company implementation questions. To date, more than 1,100 viewers tuned in to the live event or have watched the archived version on our website.

We also know that small firms and private companies often turn to third-party CPE providers to provide supplemental training on our standards. And we knew we needed to do a better job of engaging with the organizations that provide their continuing education.

That's why we created the FASB CPE provider forums several years ago. This series of web-based forums is tailored to stand-alone providers and individuals who offer CPE within their organizations or directly to clients.

We also are working on resources to help small institutions implement the current expected credit losses standard, better known as "CECL." This summer, we'll issue a Q and A document to assist community banks, credit unions, and other smaller companies in understanding how to develop the estimate that includes a reasonable and supportable forecast. Also on tap is a series of "Road Shows" and educational webinars to address implementation questions. Stay tuned for more information.

And we're not just focused on implementation support. We've improved communication around just about everything we do. In addition to these Town Halls, we recently redesigned our PCC web page to make it easier to find PCC meeting minutes and recaps and other resources of interest to private companies.

You may be interested to know we recently started posting video recaps of PCC meetings starring Candy Wright. You'll find those through the PCC web portal, too. I urge you to check it out.

Whether you realize it or not, you helped the FASB make financial reporting better. As private company preparers and practitioners, you told us our standards sometimes failed to provide relevant information. You told us when standards were too complex. And you told us you needed more support to successfully implement our standards.

We listened and we learned. Thanks to you, we improved how we engage with all stakeholders—including not-for-profit organizations and employee benefit plans. We launched a simplification initiative to bring more clarity to financial reporting for public and private companies. And we developed more educational resources to support your implementation efforts.

And both the FASB and the PCC continue to learn from you.

Be proud of what we have accomplished and keep working with us. Continue to follow our activities, share your views, and attend our Town Halls and other presentations.

Stay in touch with us through our website and other social media channels. Connect.

In the end, our ability to develop standards that work for all stakeholders—now and in the future—depends on your continued participation in our process.

Thank you.

FASB Speech

Printable PDF

ASU 2016-02

BC14. The Board further considered the concern that the additional lease liabilities recognized as a result of adopting Topic 842 will cause some entities to violate debt covenants or may affect some entities' access to credit because of the potential effect on the entity's GAAP-reported assets and liabilities. Regarding access to credit, outreach has demonstrated that the vast majority of users, including private company users, presently adjust an entity's financial statements for operating lease obligations that are not recognized in the statement of financial position under previous GAAP and, in doing so, often estimate amounts significantly in excess of what will be recognized under Topic 842. The Board also considered potential issues related to debt covenants and noted that the following factors significantly mitigate those potential issues:

a. A significant portion of loan agreements contain "frozen GAAP" or "semifrozen GAAP" clauses such that a change in a lessee's financial ratios resulting solely from a GAAP accounting change either:

    1. Will not constitute a default

    2. Will require both parties to negotiate in good faith when a technical default (breach of loan covenant) occurs as a result of new GAAP.

b. Banks with whom outreach has been conducted state that they are unlikely to dissolve a good customer relationship by "calling a loan" because of a technical default arising solely from a GAAP accounting change, even if the loan agreement did not have a frozen or semifrozen GAAP provision.

c. Topic 842 characterizes operating lease liabilities as operating liabilities, rather than debt. Consequently, those amounts may not affect certain financial ratios that often are used in debt covenants.

d. Topic 842 provides for an extended effective date that should permit many entities' existing loan agreements to expire before reporting under Topic 842. For those loan agreements that will not expire, do not have frozen or semifrozen GAAP provisions, and have covenants that are affected by additional operating liabilities, the extended effective date provides significant time for entities to modify those agreements.

EQUIPMENT LEASING AND FINANCE ASSOCIATION

FAQ:
Answers to Some Frequently Asked Questions About Lease Accounting Changes for Lessees

- **What is the lease accounting standard?**
  The lease accounting standard is the rule that pertains to the financial accounting and reporting of lease contracts. The standard is developed by the U.S. Financial Accounting Standards Board (FASB), the organization responsible for setting accounting standards for nongovernmental entities in the United States.

- **Why was the standard changed?**
  The lease accounting rule was changed to provide decision-useful information to investors and other users of financial reports, and to respond to a Securities and Exchange Commission (SEC) directive to bring assets and liabilities on the balance sheet.

- **When will the new lease accounting rule take effect?**
  The new standard is scheduled to take effect for financial periods starting after December 15, 2018 for public companies and after December 15, 2019 for private companies. For companies with calendar year ends that means 2019 for public companies and 2020 for private companies.

- **What's changing? What's not?**
  Change: The biggest change is that the new standard will change how leases are accounted for on corporate balance sheets. Instead of appearing as a table of future payments in the footnotes, they will appear on the balance sheet, as an asset and liability but as a non-debt liability.
  No change or limited change: Many of the lease accounting changes are relatively neutral. The new rules have no impact on the income statement. There is a limited effect on debt covenants. The rules for classifying whether a new contract is a Capital (Finance) or an Operating lease are virtually the same as before under GAAP.

- **Does it make good financial sense to lease or finance equipment anymore?**
  Yes. There are many reasons to lease equipment, and the primary reasons will remain intact under the new rules, from maintaining cash flow, to preserving capital, to obtaining flexible financial solutions, to avoiding obsolescence. See the following and the table below of "Leasing Benefits: Before and Now."

- **Is the capitalized asset cost with Operating Leases really *lower* compared to a loan or cash purchase?**
  Yes. Although Operating Leases will add assets and liabilities to the balance sheet, the asset amounts (rental/right of use (ROU) amount) will be lower than the cost of an outright purchase.

By way of further explanation, an Operating Lease's capital asset cost is lower than a lease or cash purchase because the balance sheet presentation of an Operating Lease reflects only the present value of the rents due under the contract as the asset amount. As a result, it is still "partially" off-balance sheet. In addition, since the cost of an Operating Lease is reported as a straight line expense of the full lease payment each period, there is no front-end loaded P&L impact that comes from expensing depreciation and imputed interest costs as there is when you borrow to make an outright asset purchase. The net result is that leasing, compared to borrowing to buy, will show a better ROA, which can be the basis for bonus compensation, and ROA is a measure used by equity analysts.

- **Are the rules retroactive?**
  The new rules are implemented retroactively, so all Operating Leases (except for short-term leases) will need to be capitalized in the financials reported in the transition year. If comparative balance sheets and income statements are presented the Operating Leases must be capitalized in the earliest period presented.

- **Will my credit rating be changed by the additional liabilities?** Your credit rating *should not change* just because the FASB changes the rules for recording and capitalizing Operating Leases. Bank lenders and credit analysts already take into consideration the Operating Lease obligation included in your footnotes. They estimate the value of the implied asset and liability created by Operating Leases to adjust their measures and ratios used to make credit assessments. The proposed formula under the new rules is substantially the same as the method used by rating agencies today.

- **Will I have to recognize all leases on the balance sheet?**
  The answer varies depending on the lease conditions. If you are reporting under International Financial Reporting Standards (IFRS)/ U.S. generally accepted accounting principles (US GAAP), the answer is yes. However, if the contract duration is equal to or less than 12 months, the off-balance-sheet approach previously used for Operating Leases applies. If the contract qualifies as a service, the contract does not have to be recognized on the balance sheet. For IFRS companies, the lease does not have to be recognized if the value of the asset is low (with a benchmark less than $5,000), irrespective of term. (NOTE: This is not the case under US GAAP.)

- **What's the difference between US GAAP and IFRS with respect to lessee accounting?**
  Under both rules, all leases have to be recognized on the balance sheet. Under IFRS, there is a lease model (Finance) for lessees and the costs must be recognized in the P&L, similar to the way Capital Leases were previously booked, *i.e.*, imputed interest costs are a downward sloping curve (relatively higher at the beginning of the lease term) and asset amortization is level, thus creating a front-loaded expense pattern on the P&L. The liability is treated as debt.

  Under US GAAP there are still two kinds of leases: Finance Leases (comparable to current Capital Leases) and Operating Leases (comparable to current Operating Leases) and their costs are reported accordingly in the P&L, which is no change from previous practice. In other words, a Finance Lease reports front-loading of costs and a split in amortization and interest costs, while an Operating Lease shows only single level rental expenses in the P&L. The operating lease liability is a non-debt liability.

Leasing Benefits: Before and Now

Lessee (End-user) Benefits	Before	Now
Capital Needs	• Added source of capital • Fixed rate (vs. revolver)	• No change
Cash flow savings	• 100% financing, level payments • Lower payments resulting from tax benefits and residual investment by Lessor • Skip / seasonal payments • Financing for training and installation costs	• No change
Tax Benefits	• Trade potentially unusable MACRS benefits (AMT, NOL) for lower payments • Expensing of full payment on income tax returns	• No change
Flexibility	• Options to fit varying business needs at end of lease term • Add-ons / upgrades made easy	• No change
Asset Management	• Manage technology cycle/reduce obsolescence risk • Manage asset replacement cycles	• No change
Financial Reporting Benefits (Operating Leases)	• Off-balance sheet asset and obligation • Improves debt, ROA and ROE ratios	• Asset amount on balance sheet is less than cost • Liability on balance sheet, but as non-debt • On-book obligation lower than debt or cash due to residual investment • Will have little impact to debt ratios and financial measures
Convenience	• Streamlined financing process for many transactions • Often available at point of sale	• No change

More Information:
To learn more about this topic, visit the Equipment Leasing and Finance Association's Lease Accounting webpage at www.equipmentfinanceadvantage.org/newLAR.cfm.

Disclaimer: The information in this document is a summary only and does not constitute financial advice. Readers should obtain their own independent accounting advice that takes into account all relevant aspects of a particular lessor's or lessee's business and products.

- **<u>Financial Instruments—Credit Losses (Topic 326) : Troubled Debt Restructurings and Vintage Disclosures</u>**
<u>(ASU 2022-02 issued March 2022)</u>

  The amendments in this Update that are related to TDRs affect all entities after they have adopted Update 2016-13. The amendments related to vintage disclosures affect public business entities with investments in financing receivables that have adopted Update 2016-13.

  The amendments in this Update eliminate the accounting guidance for TDRs by creditors in Subtopic 310-40, Receivables—Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty.

  Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity must apply the loan refinancing and restructuring guidance in paragraphs 310-20-35-9 through 35-11 to determine whether a modification results in a new loan or a continuation of an existing loan.

  For public business entities, the amendments in this Update require that an entity disclose current-period gross writeoffs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost.

  Current GAAP provides an exception to the general recognition and measurement guidance for loan restructurings and refinancings that an entity determines meets specific criteria to be considered a TDR. Modifications are TDRs, and thus are subject to different accounting guidance, if they are made to borrowers experiencing financial difficulty and if the creditor has granted a concession. If a modification is a TDR, an incremental expected loss, if any, is recorded in the allowance for credit losses upon modification. Certain concessions can be captured only through a discounted cash flow or reconcilable model, and, therefore, discounted cash flow models are required for measurement of some TDRs. Additionally, specific disclosures are required for TDRs.

  The amendments in this Update eliminate the TDR recognition and measurement guidance and, instead, require that an entity evaluate (consistent with the accounting for other loan modifications) whether the modification represents a new loan or a continuation of an existing loan. The amendments enhance existing disclosure requirements and introduce new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty.

  For public business entities, the amendments in this Update require that an entity disclose current-period gross writeoffs by year of origination for financing receivables and net investment in leases within the scope of Subtopic 326-20. Gross writeoff information must be included in the vintage disclosures required for public business entities in accordance with paragraph 326-20-50-6, which requires that an entity disclose the amortized cost basis of financing receivables by credit quality indicator and class of financing receivable by year of origination.

For entities that have adopted the amendments in Update 2016-13, the amendments in this Update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years.

For entities that have not yet adopted the amendments in Update 2016-13, the effective dates for the amendments in this Update are the same as the effective dates in Update 2016-13.

The amendments in this Update should be applied prospectively, except as provided in the next sentence. For the transition method related to the recognition and measurement of TDRs, an entity has the option to apply a modified retrospective transition method, resulting in a cumulative-effect adjustment to retained earnings in the period of adoption.

Early adoption of the amendments in this Update is permitted if an entity has adopted the amendments in Update 2016-13, including adoption in an interim period. If an entity elects to early adopt the amendments in this Update in an interim period, the guidance should be applied as of the beginning of the fiscal year that includes the interim period. An entity may elect to early adopt the amendments about TDRs and related disclosure enhancements separately from the amendments related to vintage disclosures.

- **Derivatives and Hedging (Topic 815) : Fair Value Hedging - Portfolio Layer Method**
  (ASU 2022-01 issued March 2022)

The amendments in this Update apply to all entities that elect to apply the portfolio layer method of hedge accounting in accordance with Topic 815.

Current GAAP permits only prepayable financial assets and one or more beneficial interests secured by a portfolio of prepayable financial instruments to be included in a last-of-layer closed portfolio. The amendments in this Update allow nonprepayable financial assets also to be included in a closed portfolio hedged using the portfolio layer method. That expanded scope permits an entity to apply the same portfolio hedging method to both prepayable and nonprepayable financial assets, thereby allowing consistent accounting for similar hedges.

The amendments in this Update allow multiple hedged layers to be designated for a single closed portfolio of financial assets or one or more beneficial interests secured by a portfolio of financial instruments. As a result, an entity can achieve hedge accounting for hedges of a greater proportion of the interest rate risk inherent in the assets included in the closed portfolio, further aligning hedge accounting with risk management strategies.

In applying hedge accounting to multiple hedged layers, an entity has the flexibility to achieve hedge accounting using different types of derivatives and layering techniques that best align with their individual circumstances (for example, spotstarting swaps, forward-starting swaps, or a combination of both). Furthermore, the amendments in this Update specify that an entity hedging multiple amounts in a closed portfolio with a single amortizing-notional swap is executing a single-layer hedge, not hedges of multiple layers.

If multiple hedged layers are designated, the amendments in this Update require that an entity perform an analysis to support its expectation that the aggregate amount of the hedged layers is anticipated to be outstanding for the designated hedge periods. While only closed portfolios may be hedged under the portfolio layer method (that is, no assets can be added to the closed portfolio once established), an entity is permitted to designate new hedging relationships and dedesignate existing hedging relationships associated with the closed portfolio any time after the closed portfolio is established and designated in a portfolio layer method hedge. This allows the accounting to better reflect changes in an entity's risk management activities in a dynamic interest rate environment. If the aggregate amount of the hedged layers is no longer anticipated to be outstanding in future hedged periods (that is, a breach is anticipated), an entity is required to partially or fully dedesignate a hedged layer or layers until a breach is no longer anticipated.

If the aggregate amount of the hedged layers currently exceeds the amount of the closed portfolio (that is, a breach has occurred), an entity is similarly required to partially or fully dedesignate a hedged layer or layers until the aggregate amount of the hedged layers no longer exceeds the closed portfolio. If there are multiple hedged layers, an entity should determine which hedges to dedesignate or partially dedesignate in accordance with an accounting policy election that specifies a systematic and rational approach to determining which hedge or hedges to dedesignate (or partially dedesignate). That policy should be consistently applied when a breach is anticipated and when a breach has occurred.

For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. Early adoption is permitted on any date on or after the issuance of this Update for any entity that has adopted the amendments in Update 2017-12 for the corresponding period. If an entity adopts the amendments in an interim period, the effect of adopting the amendments related to basis adjustments should be reflected as of the beginning of the fiscal year of adoption (that is, the initial application date).

Upon adoption, any entity may designate multiple hedged layers of a single closed portfolio solely on a prospective basis. All entities are required to apply the amendments related to hedge basis adjustments under the portfolio layer method, except for those related to disclosures, on a modified retrospective basis by means of a cumulative-effect adjustment to the opening balance of retained earnings on the initial application date. Entities have the option to apply the amendments related to disclosures on a prospective basis from the initial application date or on a retrospective basis to each prior period presented after the date of adoption of the amendments in Update 2017-12.

An entity may reclassify debt securities classified in the held-to-maturity category at the date of adoption to the available-for-sale category only if the entity applies portfolio layer method hedging to one or more closed portfolios that include those debt securities. The decision of which securities to reclassify must be made within 30 days after the date of adoption, and the securities must be included in one or more closed portfolios that are designated in a portfolio layer method hedge within that 30-day period.

- **Financial Instruments Government Assistance (Topic 832) : Disclosures by Business Entities about Government Assistance**
  (ASU 2021-10 issued November 2021)

  The amendments in this Update apply to business entities (all entities except for not-for-profit [NFP] entities within the scope of Topic 958, Not-for-Profit Entities, and employee benefit plans within the scope of Topic 960, Plan Accounting— Defined Benefit Pension Plans, Topic 962, Plan Accounting—Defined Contribution Pension Plans, and Topic 965, Plan Accounting—Health and Welfare Benefit Plans) that account for a transaction with a government by applying a grant or contribution accounting model by analogy to other accounting guidance (for example, a grant model within IAS 20, Accounting for Government Grants and Disclosure of Government Assistance, or Subtopic 958-605, Not-For-Profit Entities—Revenue Recognition).

  The amendments in this Update require the following annual disclosures about transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy:

1. Information about the nature of the transactions and the related accounting policy used to account for the transactions

2. The line items on the balance sheet and income statement that are affected by the transactions, and the amounts applicable to each financial statement line item

3. Significant terms and conditions of the transactions, including commitments and contingencies

- **Leases (Topic 842) : Discount Rate for Lessees That Are Not Public Business Entities (ASU 2021-09 issued November 2021)**

  The amendments in this Update affect lessees that are not public business entities, including all not-for-profit entities (whether or not they are conduit bond obligors) and employee benefit plans (whether or not they file or furnish financial statements with or to the U.S. Securities and Exchange Commission).

  Topic 842 currently provides lessees that are not public business entities with a practical expedient that allows them to elect, as an accounting policy, to use a risk-free rate as the discount rate for all leases. The amendments in this Update allow those lessees to make the risk-free rate election by class of underlying asset, rather than at the entity-wide level. An entity that makes the risk-free rate election is required to disclose which asset classes it has elected to apply a risk-free rate. The amendments require that when the rate implicit in the lease is readily determinable for any individual lease, the lessee use that rate (rather than a risk-free rate or an incremental borrowing rate), regardless of whether it has made the risk-free rate election.

  The effective date for this Update is different for entities that have not yet adopted Topic 842 as of November 11, 2021, and those that have. Topic 842 becomes effective for private companies and not-for-profit organizations that are not conduit bond obligors for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Because earlier application is permitted (and Topic 842 is already effective for certain not-for-profit organizations that are conduit bond obligors), some private companies and notfor-profit organizations have already adopted Topic 842. Entities that have not yet adopted Topic 842 as of November 11, 2021, are required to adopt the amendments in this Update at the same time that they adopt Topic 842. Those entities should apply the existing transition provisions in paragraph 842-10-65-1.

  Those provisions require that an entity use either of the following transition methods: (1) apply the guidance to existing leases retrospectively with the cumulative-effect adjustment from transition recognized at the beginning of the earliest period presented or (2) apply the guidance to existing leases on a modified retrospective basis with the cumulative-effect adjustment from transition recognized in the opening balance of retained earnings at the beginning of the period of adoption.

For entities that have adopted Topic 842 as of November 11, 2021, the amendments in this Update are effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Earlier application is permitted. Entities are required to apply the amendments on a modified retrospective basis to leases that exist at the beginning of the fiscal year of adoption of a final Update. The adoption of the amendments should not be considered an event that would cause remeasurement and reallocation of the consideration in the contract (including lease payments) or reassessment of lease term or classification.

- **Business Combinations (Topic 805) Accounting for Contract Assets and Contract Liabilities from Contracts with Customers (ASU 2021-08 issued October 2021)**

  The amendments in this Update apply to all entities that enter into a business combination within the scope of Subtopic 805-10, Business Combinations—Overall.

  The amendments in this Update require that an entity (acquirer) recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606. At the acquisition date, an acquirer should account for the related revenue contracts in accordance with Topic 606 as if it had originated the contracts. To achieve this, an acquirer may assess how the acquiree applied Topic 606 to determine what to record for the acquired revenue contracts. Generally, this should result in an acquirer recognizing and measuring the acquired contract assets and contract liabilities consistent with how they were recognized and measured in the acquiree's financial statements (if the acquiree prepared financial statements in accordance with generally accepted accounting principles [GAAP]). However, there may be circumstances in which the acquirer is unable to assess or rely on how the acquiree applied Topic 606, such as if the acquiree does not follow GAAP, if there were errors identified in the acquiree's accounting, or if there were changes identified to conform with the acquirer's accounting policies. In those circumstances, the acquirer should consider the terms of the acquired contracts, such as timing of payment, identify each performance obligation in the contracts, and allocate the total transaction price to each identified performance obligation on a relative standalone selling price basis as of contract inception (that is, the date the acquiree entered into the contracts) or contract modification to determine what should be recorded at the acquisition date. The amendments in this Update also provide certain practical expedients for acquirers when recognizing and measuring acquired contract assets and contract liabilities from revenue contracts in a business combination.

The amendments in this Update primarily address the accounting for contract assets and contract liabilities from revenue contracts with customers in a business combination. However, the amendments also apply to contract assets and contract liabilities from other contracts to which the provisions of Topic 606 apply, such as contract liabilities from the sale of nonfinancial assets within the scope of Subtopic 610-20, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets.

The amendments in this Update do not affect the accounting for other assets or liabilities that may arise from revenue contracts with customers in accordance with Topic 606, such as refund liabilities, or in a business combination, such as customer-related intangible assets and contract-based intangible assets. For example, if acquired revenue contracts are considered to have terms that are unfavorable or favorable relative to market terms, the acquirer should recognize a liability or asset for the off-market contract terms at the acquisition date.

For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. The amendments in this Update should be applied prospectively to business combinations occurring on or after the effective date of the amendments.

Early adoption of the amendments is permitted, including adoption in an interim period. An entity that early adopts in an interim period should apply the amendments (1) retrospectively to all business combinations for which the acquisition date occurs on or after the beginning of the fiscal year that includes the interim period of early application and (2) prospectively to all business combinations that occur on or after the date of initial application.

- **Compensation—Stock Compensation (Topic 718) : Determining the Current Price of an Underlying Share for Equity-Classified Share-Based Awards; a consensus of the Private Company Council (ASU 2021-07 issued October 2021)**

The amendments in this Update apply to all nonpublic entities (as defined in the Master Glossary of the Codification) that issue equity-classified share-based awards and elect the practical expedient in this Update.

As a practical expedient, a nonpublic entity is allowed to determine the current price input of equity-classified share-based awards issued to both employees and nonemployees using the reasonable application of a reasonable valuation method. The practical expedient describes the characteristics of the reasonable application of a reasonable valuation method including (1) the date on which a valuation's reasonableness is evaluated, (2) the factors that a reasonable valuation should consider, (3) the scope of information that a reasonable valuation should consider, and (4) the criteria that should be met for the use of a previously calculated value to be considered reasonable. The same characteristics are used in the regulations of the U.S. Department of the Treasury related to Section 409A of the U.S. Internal Revenue Code (the Treasury Regulations) to describe the reasonable application of a reasonable valuation method for income tax purposes. A reasonable valuation performed in accordance with the Treasury Regulations is an example of a way to achieve the practical expedient.

The measurement objective in Topic 718 for share-based awards is fair value based, and the current price input is measured at fair value. This input is used in determining an award's fair value. The practical expedient in this Update allows a nonpublic entity to determine the current price of a share underlying an equity classified share-based award using the reasonable application of a reasonable valuation method. The practical expedient describes the following characteristics of the reasonable application of a reasonable valuation method:

1. The date on which the valuation's reasonableness is evaluated is the measurement date.
2. The following factors should be considered in a reasonable valuation:

    a. The value of the tangible and intangible assets of the entity.
    b. The present value of the anticipated future cash flows of the entity.
    c. The market value of stock or equity interests in similar entities engaged in trades or businesses substantially similar to those engaged in by the entity for which stock is to be valued.
    d. Recent arm's-length transactions involving the sale or transfer of the stock or equity interests of the entity.
    e. Other relevant factors such as control premiums or discounts for lack of marketability and whether the valuation is used for other purposes that have a material economic effect on the entity, its stockholders, or its creditors.
    f. The entity's consistent use of a valuation method to determine the value of its stock or assets for other purposes.

3. The scope of information to be considered in a reasonable valuation is all information material to the value of the entity.

4. The following criteria must be met for the use of a previously calculated value to be considered reasonable:

    a. The value is updated for any information available after the date of calculation that may materially affect the value of the entity.
    b. The value is calculated no more than 12 months earlier than the date for which the value is being used.

The same characteristics are used in the Treasury Regulations to describe the reasonable application of a reasonable valuation method for income tax purposes. As a result, a reasonable valuation performed in accordance with the Treasury Regulations is an example of a way to achieve the practical expedient.

The population of valuations that would be considered the reasonable application of a reasonable valuation for purposes of the practical expedient is not limited to a valuation by independent appraisal. That is, other valuations, including internal valuations, could have the characteristics described in the practical expedient in this Update. However, it is expected that an independent appraisal will often be the method used by nonpublic entities electing the practical expedient in this Update because of (1) the presumption of reasonableness associated with that method for tax purposes and (2) the requirements associated with, and limiting the availability of, other methods that achieve the presumption of reasonableness.

Currently, some nonpublic entities may obtain separate external valuations to satisfy the requirements of both Topic 718 and the Treasury Regulations. Others may seek to use one formal valuation to serve multiple purposes. The practical expedient in this Update amends certain requirements of Topic 718 to clarify that an acceptable practice is to obtain a single valuation that satisfies both requirements.

The practical expedient in this Update can be elected for equity-classified share-based awards within the scope of Topic 718.

The practical expedient in this Update is not available for liability-classified awards, primarily because those awards may affect an entity’s cash balance upon settlement and because outreach with private company financial statement users indicated that the accounting for a share-based award that may affect an entity’s cash balance was relevant and should not be changed. Additionally, liability-classified awards are required to be remeasured at the end of each reporting period and it is not expected that nonpublic entities would obtain valuations that satisfy the requirements of the Treasury Regulations at each reporting date.

Nonpublic entities can elect the practical expedient in this Update on a measurement-date-by-measurement-date basis. That means that the practical expedient must be applied to all share-based awards within the scope of the practical expedient that have the same underlying share and the same measurement date.

The practical expedient in this Update is effective prospectively for all qualifying awards granted or modified during fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early application, including application in an interim period, is permitted for financial statements that have not yet been issued or made available for issuance as of October 25, 2021.

- **Presentation of Financial Statements (Topic 205), Financial Services – Depository and Lending (Topic 942), and Financial Services – Investment Companies (Topic 946) : Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10786, Amendments to Financial Disclosures about Acquired and Disposed Businesses, and No. 33-10835, Update of Statistical Disclosures for Bank and Savings and Loan Registrants (ASU 2021-06 issued August 2021)**

  This Accounting Standards Update amends various SEC paragraphs pursuant to the issuance of SEC Release No. 33-10786, Amendments to Financial Disclosures about Acquired and Disposed Businesses.

- **Leases (Topic 842), Lessors – Certain Leases with Variable Lease Payments (ASU 2021-05 issued July 2021)**

  The amendments in this Update affect lessors with lease contracts that (1) have variable lease payments that do not depend on a reference index or a rate and (2) would have resulted in the recognition of a selling loss at lease commencement if classified as sales-type or direct financing.

  Topic 842 requires that a lessor determine whether a lease should be classified as a sales-type lease or a direct financing lease at lease commencement on the basis of specified classification criteria (see paragraphs 842-10-25-2 through 25-3). Under Topic 842, a lessor is not permitted to estimate most variable payments and must exclude variable payments that are not estimated and do not depend on a reference index or a rate from the lease receivable. Subsequently, those excluded variable payments are recognized entirely as lease income when the changes in facts and circumstances on which those variable payments are based occur. Consequently, the net investment in the lease for a sales-type lease or a direct financing lease with variable payments of a certain magnitude that do not depend on a reference index or a rate may be less than the carrying amount of the underlying asset derecognized at lease commencement. As a result, the lessor recognizes a selling loss at lease commencement (hereinafter referred to as a day-one loss) even if the lessor expects the arrangement to be profitable overall.

Certain preparers and practitioners have continued to highlight that recognizing a day-one loss for a sales-type lease with variable payments that do not depend on a reference index or a rate results in reporting outcomes that do not faithfully represent the underlying economics either at lease commencement or over the lease term. Those stakeholders emphasized that users of financial statements are not provided with financial information that is relevant or decision useful in those cases. Rather, the reporting of a loss is counter to the economics of those arrangements, and, thus, the accounting previously required fails to represent the underlying economics neutrally and faithfully. Lease arrangements with variable payment structures based on the performance or use of underlying assets are becoming more prevalent, particularly in the energy industry, and stakeholders from that industry requested that the Board amend the leases guidance to address this issue. This issue also may exist for a direct financing lease with variable payments that do not depend on a reference index or a rate.

Those stakeholders further highlighted that lessors did not recognize a day-one loss under Topic 840, Leases, because of the longstanding practice to account for certain leases with variable payments as operating leases based on an interpretation of a classification criterion in Topic 840. That classification criterion was not retained in Topic 842. Additionally, the resulting day-one loss issue was not identified or discussed by the Board in deliberations leading to the issuance of Update 2016-02.

The amendments in this Update address stakeholders’ concerns by amending the lease classification requirements for lessors to align them with practice under Topic 840. Lessors should classify and account for a lease with variable lease payments that do not depend on a reference index or a rate as an operating lease if both of the following criteria are met:

1. The lease would have been classified as a sales-type lease or a direct financing lease in accordance with the classification criteria in paragraphs 842-10-25-2 through 25-3.

2. The lessor would have otherwise recognized a day-one loss.

When a lease is classified as operating, the lessor does not recognize a net investment in the lease, does not derecognize the underlying asset, and, therefore, does not recognize a selling profit or loss. The leased asset continues to be subject to the measurement and impairment requirements under other applicable GAAP before and after the lease transaction (for example, Topic 360, Property, Plant, and Equipment).

The amendments in this Update amend Topic 842, which has different effective dates for public business entities and most entities other than public business entities. The amendments are effective for fiscal years beginning after December 15, 2021, for all entities, and interim periods within those fiscal years for public business entities and interim periods within fiscal years beginning after December 15, 2022, for all other entities.

Entities that have not adopted Topic 842 on or before the issuance date of this Update should follow the transition requirements of Topic 842 in paragraph 842-10-65-1 for the amendments in this Update. This transition is either (1) retrospective to each prior period presented in the financial statements with the cumulative effect of transition recognized at the beginning of the earliest period presented or (2) retrospective to the beginning of the period of adoption with a cumulative effect of transition recognized at the beginning of the period of adoption.

Entities that have adopted Topic 842 before the issuance date of this Update have the option to apply the amendments in this Update either (1) retrospectively to leases that commenced or were modified on or after the adoption of Update 2016-02 or (2) prospectively to leases that commence or are modified on or after the date that an entity first applies the amendments.

Earlier application is permitted.

- **Earnings Per Share (Topic 350), Debt – Modifications and Extinguihments (Subtopic 470-50, Compensation – Stock Compensation (Topic 718), and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40) : Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options, a consensus of the Emerging Issues Task Force**
  (ASU 2021-04 issued May 2021)

  Stakeholders asserted that there is diversity in an issuer's accounting for economically similar modifications or exchanges of freestanding equity-classified written call options due to a lack of explicit guidance in the Codification. Stakeholders requested that the Board provide guidance that will clarify whether an issuer should account for a modification or an exchange of a freestanding equity-classified written call option that remains equity classified after modification or exchange as (1) an adjustment to equity and, if so, the related earnings per share (EPS) effects, if any, or (2) an expense and, if so, the manner and pattern of recognition.

  The amendments in this Update affect all entities that issue freestanding written call options that are classified in equity. Specifically, the amendments affect those entities when a freestanding equity-classified written call option is modified or exchanged and remains equity classified after the modification or exchange. The amendments that relate to the recognition and measurement of EPS for certain modifications or exchanges of freestanding equity-classified written call options affect entities that present EPS in accordance with the guidance in Topic 260, Earnings Per Share.

The amendments in this Update do not apply to modifications or exchanges of financial instruments that are within the scope of another Topic. That is, accounting for those instruments continues to be subject to the requirements in other Topics.

The amendments in this Update do not affect a holder's accounting for freestanding call options.

The amendments in this Update are effective for all entities for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. An entity should apply the amendments prospectively to modifications or exchanges occurring on or after the effective date of the amendments.

Early adoption is permitted for all entities, including adoption in an interim period. If an entity elects to early adopt the amendments in this Update in an interim period, the guidance should be applied as of the beginning of the fiscal year that includes that interim period.

- **Intangibles – Goodwill and Other (Topic 350) : Accounting Alternative for Evaluating Triggering Events**
  (ASU 2021-03 issued March 2021)

The amendments in this Update apply to private companies and not-for-profit entities that elect the accounting alternative.

The amendments in this Update provide private companies and not-for-profit entities with an accounting alternative to perform the goodwill impairment triggering event evaluation as required in Subtopic 350-20 as of the end of the reporting period, whether the reporting period is an interim or annual period. An entity that elects this alternative is not required to monitor for goodwill impairment triggering events during the reporting period but, instead, should evaluate the facts and circumstances as of the end of each reporting period to determine whether a triggering event exists and, if so, whether it is more likely than not that goodwill is impaired. An entity that does not elect the accounting alternative for amortizing goodwill and that performs its annual impairment test as of a date other than the annual reporting date should perform a triggering event evaluation only as of the end of the reporting period.

The amendments in this Update do not require incremental disclosures beyond the existing requirements in Topic 235, Notes to Financial Statements, and Subtopic 350-20.

The amendments in this Update are effective on a prospective basis for fiscal years beginning after December 15, 2019. Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance as of March 30, 2021. An entity should not retroactively adopt the amendments in this Update for interim financial statements already issued in the year of adoption.

The amendments in this Update also include an unconditional one-time option for entities to adopt the alternative prospectively after its effective date without assessing preferability under Topic 250, Accounting Changes and Error Corrections.

- **Franchisors – Revenue from Contracts with Customers (Subtopic 952-606): Practical Expedient**
  (ASU 2021-02 issued January 2021)

  The amendments in this Update apply to entities that are not public business entities that are within the scope of Topic 952. The guidance in that Topic applies to all entities that meet the definition of franchisor, that is, the party who grants business rights (the franchise) to the party (the franchisee) who will operate the franchised business.

  The timing of an entity's adoption of Topic 606 (that is, whether the entity previously adopted Topic 606 or whether it will apply the deferred effective date) does not affect the applicability of the guidance.

  The amendments in this Update introduce a new practical expedient that simplifies the application of the guidance about identifying performance obligations. The practical expedient permits franchisors that are not public business entities to account for pre-opening services provided to a franchisee as distinct from the franchise license if the services are consistent with those included in a predefined list within the guidance.

  Additionally, the Board decided to provide an accounting policy election to recognize the pre-opening services as a single performance obligation.

  If an entity has not yet adopted Topic 606, the existing transition provisions and effective date in paragraph 606-10-65-1 are required. That guidance allows for an option of modified retrospective transition or full retrospective transition and an effective date of annual reporting periods beginning after December 15, 2019, and interim reporting periods within annual reporting periods beginning after December 15, 2020.

If an entity has already adopted Topic 606, the amendments in this Update are effective in interim and annual periods beginning after December 15, 2020. Early application is permitted. For those entities, this guidance should be applied retrospectively to the date Topic 606 was adopted.

- **Reference Rate Reform (Topic 848): Scope**
  (ASU 2021-01 issued January 2021)

  The amendments in this Update are elective and apply to all entities that have derivative instruments that use an interest rate for margining, discounting, or contract price alignment that is modified as a result of reference rate reform. The amendments also optionally apply to all entities that designate receive-variable rate, pay-variable-rate cross-currency interest rate swaps as hedging instruments in net investment hedges that are modified as a result of reference rate reform.

  The amendments in this Update clarify that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. Specifically, certain provisions in Topic 848, if elected by an entity, apply to derivative instruments that use an interest rate for margining, discounting, or contract price alignment that is modified as a result of reference rate reform. Amendments in this Update to the expedients and exceptions in Topic 848 capture the incremental consequences of the scope clarification and tailor the existing guidance to derivative instruments affected by the discounting transition.

  The amendments in this Update are effective immediately for all entities.

- **Financial Services – Insurance (Topic 944): Effective Date and Early Application**
  (ASU 2020-11 issued November 2020)

  The amendments in this Update defer the effective date of LDTI for all entities by one year as follows:

  1. For public business entities that meet the definition of an SEC filer and are not SRCs, LDTI is effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years.

2. For all other entities, LDTI is effective for fiscal years beginning after December 15, 2024, and interim periods within fiscal years beginning after December 15, 2025.

- **Codification Improvements**
(ASU 2020-10 issued October 2020)

  Codification users should review this entire Update to assess any effects that the amendments may have on entities that are within the Update's scope. [Note: Section A was removed from this final Update because the amendments in that section will be addressed in a separate Accounting Standards Update.]

  Section B of this Update contains amendments that improve the consistency of the Codification by including all disclosure guidance in the appropriate Disclosure Section (Section 50). Many of the amendments arose because the Board provided an option to give certain information either on the face of the financial statements or in the notes to financial statements and that option only was included in the Other Presentation Matters Section (Section 45) of the Codification. The option to disclose information in the notes to financial statements should have been codified in the Disclosure Section as well as the Other Presentation Matters Section (or other Section of the Codification in which the option to disclose in the notes to financial statements appears). Those amendments are not expected to change current practice.

- **Debt (Topic 470): Amendments to SEC Paragraphs Pursuant to SEC Release No. 33-10762**
(ASU 2020-09 issued October 2020)

  This Accounting Standards Update amends and supersedes various SEC paragraphs pursuant to the issuance of SEC Release No. 33-10762.

- **Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs**
(ASU 2020-08 issued October 2020)

  The amendments in this Update apply to all reporting entities within the scope of the affected accounting guidance.

  The amendments in this Update clarify that an entity should reevaluate whether a callable debt security is within the scope of paragraph 310-20-35-33 for each reporting period.

For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early application is not permitted.

For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early application is permitted for all other entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020.

All entities should apply the amendments in this Update on a prospective basis as of the beginning of the period of adoption for existing or newly purchased callable debt securities.

- **Not-for-Profit Entities (Topic 958: Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (ASU 2020-07 issued September 2020)**

  The amendments in this Update apply to NFPs that receive contributed nonfinancial assets. Contribution revenue may be presented in the financial statements using different terms (for example, gifts, donations, grants, gifts-in-kind, donated services, or other terms). The amendments address presentation and disclosure of contributed nonfinancial assets. Contribution and nonfinancial asset are both defined terms in the Master Glossary of the Codification and are understood in practice. The term nonfinancial asset includes fixed assets (such as land, buildings, and equipment), use of fixed assets or utilities, materials and supplies, intangible assets, services, and unconditional promises of those assets.

  The amendments in this Update require that an NFP:

  1. Present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets.

  2. Disclose:

     a. A disaggregation of the amount of contributed nonfinancial assets recognized within the statement of activities by category that depicts the type of contributed nonfinancial assets.
     b. For each category of contributed nonfinancial assets recognized (as identified in (a)):

        i. Qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the reporting period. If utilized, an NFP will disclose a description of the programs or other activities in which those assets were used.

ii. The NFP's policy (if any) about monetizing rather than utilizing contributed nonfinancial assets.

iii. A description of any donor-imposed restrictions associated with the contributed nonfinancial assets.

iv. A description of the valuation techniques and inputs used to arrive at a fair value measure, in accordance with the requirements in Topic 820, Fair Value Measurement, at initial recognition.

v. The principal market (or most advantageous market) used to arrive at a fair value measure if it is a market in which the recipient NFP is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial assets.

The amendments in this Update should be applied on a retrospective basis and are effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022. Early adoption is permitted.

- **Debt – Debt With Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Suptopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity**
  (ASU 2020-06 issued August 2020)

  Under current GAAP, there are five accounting models for convertible debt instruments. Except for the traditional convertible debt model that recognizes a convertible debt instrument as a single debt instrument, the other four models, with their different measurement guidance, require that a convertible debt instrument be separated (using different separation approaches) into a debt component and an equity or a derivative component. Convertible preferred stock also is required to be assessed under similar models.

  Feedback from preparers and practitioners indicated that the current accounting guidance for convertible instruments is unnecessarily complex and difficult to navigate, resulting in applying or interpreting the guidance incorrectly or inconsistently. Consequently, accounting for convertible instruments has been the subject of a significant number of restatements.

  Feedback from users of financial statements indicated that most users do not find the current separation models for convertible instruments useful and relevant because they generally view and analyze those instruments on a whole-instrument basis. Because a convertible debt instrument is going to be either repaid at maturity or converted at conversion date(s), users of financial statements asserted that separating the instrument into two components is confusing and creates a result in the financial statements that is inconsistent with their analyses. Many users also indicated that cash (coupon) interest expense is more relevant information for their analyses, rather than an imputed interest expense that results from the separation of conversion features required by GAAP. Overall, most users of financial statements stated that they would prefer a simple recognition, measurement, and presentation approach with sufficient disclosures for convertible instruments to have a simplified and consistent starting point across entities to perform their analyses.

In response to the feedback received, the Board decided to simplify the accounting for convertible instruments by removing certain separation models in Subtopic 470- 20, Debt—Debt with Conversion and Other Options, for convertible instruments. Under the amendments in this Update, the embedded conversion features no longer are separated from the host contract for convertible instruments with conversion features that are not required to be accounted for as derivatives under Topic 815, Derivatives and Hedging, or that do not result in substantial premiums accounted for as paid-in capital. Consequently, a convertible debt instrument will be accounted for as a single liability measured at its amortized cost and a convertible preferred stock will be accounted for as a single equity instrument measured at its historical cost, as long as no other features require bifurcation and recognition as derivatives. By removing those separation models, the interest rate of convertible debt instruments typically will be closer to the coupon interest rate when applying the guidance in Topic 835, Interest.

The amendments in this Update are effective for public business entities that meet the definition of a Securities and Exchange Commission (SEC) filer, excluding entities eligible to be smaller reporting companies as defined by the SEC, for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The Board specified that an entity should adopt the guidance as of the beginning of its annual fiscal year.

- **Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities (ASU 2020-05 issued June 2020)**

  The amendments in this Update defer, for one year, the required effective date of Revenue for certain entities that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of Revenue. Those entities may elect to adopt the guidance for annual reporting periods beginning after December 15, 2019, and for interim reporting periods within annual reporting periods beginning after December 15, 2020. Those entities may elect to follow the original effective date of annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019.

  The amendments in this Update defer the effective date for one year for entities in the "all other" category and public NFP entities that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of Leases. Therefore, under the amendments, Leases is effective for entities within the "all other" category for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Additionally, Leases is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, for public NFP entities that have not yet issued financial statements (or made available for issuance) reflecting the adoption of Leases. Early application continues to be permitted, which means that an entity may choose to implement Leases before those deferred effective dates.

- **Reference Rate Reform (Topic 848) (ASU 2020-04 issued March 2020)**

  The amendments in this Update are elective and apply to all entities, subject to meeting certain criteria, that have contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform.

  The amendments in this Update provide optional expedients and exceptions for applying generally accepted accounting principles (GAAP) to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met.

  The amendments in this Update apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The expedients and exceptions provided by the amendments do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, except for hedging relationships existing as of December 31, 2022, that an entity has elected certain optional expedients for and that are retained through the end of the hedging relationship.

- **Codification Improvements to Financial Instruments (ASU 2020-03 issued March 2020)**

  The amendments apply to all reporting entities within the scope of the affected accounting guidance.

  The amendments in this Update clarify or address stakeholders' specific issues related to financial instruments.

- **Financial Instruments – Credit Losses (Topic 326) and Leases (Topic 842) – Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, *Leases* (Topic 842) (ASU 2020-02 issued February 2020)**

  Various amendments to SEC paragraphs in the Codification.

- **Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) – Clarifying the Interactions between Topic 321, Topic 323, and Topic 815 – a consensus of the FASB Emerging Issues Task Force (ASU 2020-01 issued January 2020)**

  The amendments in this Update affect all entities that apply the guidance in Topics 321, 323, and 815 and (1) elect to apply the measurement alternative or (2) enter into a forward contract or purchase an option to purchase securities that, upon settlement of the forward contract or exercise of the purchased option, would be accounted for under the equity method of accounting.

  The amendments in this Update clarify the interaction of the accounting for equity securities under Topic 321 and investments accounted for under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815,

- **Income Taxes (Topic 740) – Simplifying the Accounting for Income Taxes (ASU 2019-12 issued December 2019)**

  The amendments in this Update affect entities within the scope of Topic 740, Income Taxes.

  The amendments in this Update simplify the accounting for income taxes by removing the following exceptions:

  1. Exception to the incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items (for example, discontinued operations or other comprehensive income)

  2. Exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment

  3. Exception to the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary

  4. Exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year.

  The amendments in this Update also simplify the accounting for income taxes by doing the following:

  1. Requiring that an entity recognize a franchise tax (or similar tax) that is partially based on income as an income-based tax and account for any incremental amount incurred as a non-income-based tax.

  2. Requiring that an entity evaluate when a step up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction.

  3. Specifying that an entity is not required to allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax in its separate financial statements. However, an entity may elect to do so (on an entity-by-entity basis) for a legal entity that is both not subject to tax and disregarded by the taxing authority.

4. Requiring that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date.

5. Making minor Codification improvements for income taxes related to employee stock ownership plans and investments in qualified affordable housing projects accounted for using the equity method.

SELECTED PRIOR:

- **Intangibles – Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958) – Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities (ASU 2019-06 issued May 2019)**

  The amendments in this Update extend the private company alternatives from Topic 350 (Update 2014-02) and Topic 805 (Update 2014-18) to not-for-profit entities.

  Under the amendments to the accounting alternative in Topic 350, a not-for-profit entity should amortize goodwill on a straight-line basis over 10 years, or less than 10 years if the not-for-profit entity demonstrates that a shorter useful life is more appropriate. A not-for-profit entity that elects this accounting alternative is required to make an accounting policy election to test goodwill for impairment at either the entity level or the reporting unit level. A not-for-profit entity is required to test goodwill for impairment when a triggering event occurs that indicates that the fair value of the entity (or a reporting unit) may be below its carrying amount. Under the amendments to the accounting alternative in Topic 805, for transactions occurring after adoption of the alternative, a not-for-profit entity should subsume into goodwill and amortize customer-related intangible assets that are not capable of being sold or licensed independently from the other assets of a business and all noncompetition agreements acquired.

  A not-for-profit entity that elects the accounting alternative in Topic 805 is required to adopt the alternative in Topic 350 to amortize goodwill. However, a not-for-profit entity that elects the accounting alternative in Topic 350 is not required to adopt the accounting alternative in Topic 805.

  The amendments are effective upon issuance of this Update. Consistent with the existing private company alternatives for goodwill and certain intangible assets, not-for-profit entities electing to adopt these alternatives do not have to demonstrate preferability and should follow the transition guidance the first time they elect to adopt the alternatives. Not-for-profit entities have the same open ended effective date and unconditional one-time election that private companies have.

The transition methods for the guidance on each accounting alternative are the same for not-for-profit entities as the previous transition methods for private companies. A not-for-profit entity should apply the accounting alternative in Topic 350, if elected, prospectively for all existing goodwill and for all new goodwill generated in acquisitions by not-for-profit entities. A not-for-profit entity should apply the accounting alternative in Topic 805, if elected, prospectively upon the occurrence of the first transaction within the scope of the alternative.

- **Consolidation (Topic 810) – Targeted Improvements to Related Party Guidance for Variable Interest Entities (ASU 2018-17 issued October 2018)**

  The amendments in this Update affect reporting entities that are required to determine whether they should consolidate a legal entity under the guidance within the Variable Interest Entities Subsections of Subtopic 810-10, Consolidation— Overall, including private companies that have elected the accounting alternative for leasing arrangements under common control. The amendments for the private company accounting alternative apply to all entities except for public business entities and not-for-profit entities as defined in the Master Glossary of the FASB Accounting Standards Codification® and employee benefit plans within the scope of Topics 960, 962, and 965 on plan accounting.

  Under the amendments in this Update, a private company (reporting entity) may elect not to apply VIE guidance to legal entities under common control (including common control leasing arrangements) if both the parent and the legal entity being evaluated for consolidation are not public business entities.
  The accounting alternative provides an accounting policy election that a private company will apply to all current and future legal entities under common control that meet the criteria for applying this alternative. In other words, the alternative cannot be applied to select common control arrangements that meet the criteria for applying this accounting alternative. If the alternative is elected, a private company should continue to apply other consolidation guidance, particularly the voting interest entity guidance, unless another scope exception applies.

  Under the accounting alternative, a private company should provide detailed disclosures about its involvement with and exposure to the legal entity under common control.

  Effectively, the amendments in this Update expand the private company alternative provided by Accounting Standards Update No. 2014-07, Consolidation

(Topic 810): Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements, not to apply the VIE guidance to qualifying common control leasing arrangements. Because the private company accounting alternative in this Update applies to all common control arrangements that meet specific criteria and not just leasing arrangements, the amendments in Update 2014-07 are superseded by the amendments in this Update.

The amendments in this Update are effective for a private company for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. All entities are required to apply the amendments in this Update retrospectively with a cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented. Early adoption is permitted.

- **Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40) - Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (ASU 2018-15 issued August 2018)**

The amendments in this Update on the accounting for implementation, setup, and other upfront costs (collectively referred to as implementation costs) apply to entities that are a customer in a hosting arrangement, as defined in the Master Glossary and as further amended by this Update, that is a service contract.

The amendments in this Update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this Update.

Accordingly, the amendments in this Update require an entity (customer) in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. Costs to develop or obtain internal-use software that cannot be capitalized under Subtopic 350-40, such as training costs and certain data conversion costs, also cannot be capitalized for a hosting arrangement that is a service contract. Therefore, an entity (customer) in a hosting arrangement that is a service contract determines which project stage (that is, preliminary project stage, application development stage, or post mplementation stage) an implementation activity relates to. Costs for implementation activities in the application development stage are capitalized depending on the nature of the costs, while costs incurred during the preliminary project and post implementation stages are expensed as the activities are performed.

The amendments in this Update also require the entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. The term of the hosting arrangement includes the noncancellable period of the arrangement plus periods covered by (1) an option to extend the arrangement if the customer is reasonably certain to exercise that option, (2) an option to terminate the arrangement if the customer is reasonably certain not to exercise the termination option, and (3) an option to extend (or not to terminate) the arrangement in which exercise of the option is in the control of the vendor. The entity also is required to apply the existing impairment guidance in Subtopic 350-40 to the capitalized implementation costs as if the costs were long-lived assets. The amendments in this Update clarify that the capitalized implementation costs related to each module or component of a hosting arrangement that is a service contract are also subject to the guidance in Subtopic 360-10 on abandonment.

The amendments in this Update also require the entity to present the expense related to the capitalized implementation costs in the same line item in the statement of income as the fees associated with the hosting element (service) of the arrangement and classify payments for capitalized implementation costs in the statement of cash flows in the same manner as payments made for fees associated with the hosting element. The entity is also required to present the capitalized implementation costs in the statement of financial position in the same line item that a prepayment for the fees of the associated hosting arrangement would be presented.

The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for annual reporting periods beginning after December 15, 2020, and interim periods within annual periods beginning after December 15, 2021. Early adoption of the amendments in this Update is permitted, including adoption in any interim period, for all entities.

The amendments in this Update should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption.

- **Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20) – Disclosure Framework – Changes to the Disclsoure Requirements for Defined Benefit Plans (ASU 2018-14 issued August 2018)**

  The amendments in this Update modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans.

  The following disclosure requirements are removed from Subtopic 715-20:

  1. The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year.
  2. The amount and timing of plan assets expected to be returned to the employer.
  3. The disclosures related to the June 2001 amendments to the Japanese Welfare Pension Insurance Law.
  4. Related party disclosures about the amount of future annual benefits covered by insurance and annuity contracts and significant transactions between the employer or related parties and the plan.
  5. For nonpublic entities, the reconciliation of the opening balances to the closing balances of plan assets measured on a recurring basis in Level 3 of the fair value hierarchy. However, nonpublic entities will be required to disclose separately the amounts of transfers into and out of Level 3 of the fair value hierarchy and purchases of Level 3 plan assets.
  6. For public entities, the effects of a one-percentage-point change in assumed health care cost trend rates on the (a) aggregate of the service and interest cost components of net periodic benefit costs and (b) benefit obligation for postretirement health care benefits.

  The following disclosure requirements are added to Subtopic 715-20:

  1. The weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates
  2. An explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period.

  The amendments in this Update also clarify the disclosure requirements in paragraph 715-20-50-3, which state that the following information for defined benefit pension plans should be disclosed:

  1. The projected benefit obligation (PBO) and fair value of plan assets for plans with PBOs in excess of plan assets
  2. The accumulated benefit obligation (ABO) and fair value of plan assets for plans with ABOs in excess of plan assets.

The amendments in this Update are effective for fiscal years ending after December 15, 2020, for public business entities and for fiscal years ending after December 15, 2021, for all other entities. Early adoption is permitted for all entities.

An entity should apply the amendments in this Update on a retrospective basis to all periods presented.

958-205-55-13 Format A (a single-column format) is as follows.

Not-for-Profit Entity A
Statement of Activities
Year Ended June 30, 20X1
(in thousands)

Changes in net assets without donor restrictions:	
Revenues and gains:	
~~Contributions~~	~~$ 8,640~~
Contributions of cash and other financial assets	$ 6,790
Contributions of nonfinancial assets	1,850
Fees	5,200
Investment return, net	6,650
Gain on sale of equipment	200
Other	150
Total revenues and gains without donor restrictions	20,840
Net assets released from restrictions (Note D):	
Satisfaction of program restrictions	8,990
Satisfaction of equipment acquisition restrictions	1,500
Expiration of time restrictions	1,250
Appropriation from donor endowment and subsequent satisfaction of any related donor restrictions	7,500
Total net assets released from restrictions	19,240
Total revenues, gains, and other support without donor restrictions	40,080
Expenses and losses:	
Salaries and benefits	15,115
Grants to other organizations	4,750
Supplies and travel	3,155
Services and professional fees	2,840
Office and occupancy	2,528
Depreciation	3,200
Interest	382
Total expenses (Note F)	31,970
Fire loss on building	80
Total expenses and losses	32,050
Increase in net assets without donor restrictions	8,030
Changes in net assets with donor restrictions:	
~~Contributions~~	~~8,390~~
Contributions of cash and other financial assets	7,430
Contributions of nonfinancial assets	960
Investment return, net	18,300
Actuarial loss on annuity trust obligations	(30)
Net assets released from restrictions (Note D)	(19,240)
Increase in net assets with donor restrictions	7,420
Increase in total net assets	15,450
Net assets at beginning of year	270,640
Net assets at end of year	$ 286,090

Note: See paragraph 958-205-55-21 for the notes to financial statements.

958-205-55-14 Format B (a multicolumn format) is as follows.

Not-for-Profit Entity A
Statement of Activities
Year Ended June 30, 20X1
(in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support:			
~~Contributions~~	~~$ 8,640~~	~~$ 8,390~~	~~$ 17,030~~
Contributions of cash and other financial assets	$ 6,790	$ 7,430	$ 14,220
Contributions of nonfinancial assets	1,850	960	2,810
Fees	5,200		5,200
Investment return, net	6,650	18,300	24,950
Gain on sale of equipment	200		200
Other	150		150
Net assets released from restrictions (Note D):			
Satisfaction of program restrictions	8,990	(8,990)	
Satisfaction of equipment acquisition restrictions	1,500	(1,500)	
Expiration of time restrictions	1,250	(1,250)	
Appropriation from donor endowment and subsequent satisfaction of any related donor restrictions	7,500	(7,500)	
Total net assets released from restrictions	19,240	(19,240)	-
Total revenues, gains, and other support	40,080	7,450	47,530
Expenses and losses:			
Program A	13,296		13,296
Program B	8,649		8,649
Program C	5,837		5,837
Management and general	2,038		2,038
Fundraising	2,150		2,150
Total expenses (Note F)	31,970		31,970
Fire loss on building	80		80
Actuarial loss on annuity trust obligations		30	30
Total expenses and losses	32,050	30	32,080
Change in net assets	8,030	7,420	15,450
Net assets at beginning of year	84,570	186,070	270,640
Net assets at end of year	$ 92,600	$ 193,490	$ 286,090

Note: See paragraph 958-205-55-21 for the notes to financial statements.

~~> Contributed Services~~

958-605-50-1 Paragraph superseded by Accounting Standards Update No. 2020-07.~~An entity that receives contributed services shall describe the programs or activities for which those services were used, including the nature and extent of contributed services received for the period and the amount recognized as revenues for the period. Entities are encouraged to disclose the **fair value** of contributed services received but not recognized as revenues if that is practicable. The nature and extent of contributed services received can be described by nonmonetary information, such as the number and trends of donated hours received or service outputs provided by volunteer efforts, or other monetary information, such as the dollar amount of **contributions** raised by volunteers. Disclosure of contributed services is required regardless of whether the services received are recognized as revenue in the financial statements.~~ **[Content amended and moved to paragraph 958-605-50-1B]**

> Contributed Nonfinancial Assets

958-605-50-1A A **not-for-profit entity** (NFP) shall disclose in the notes to financial statements a disaggregation of the amount of contributed **nonfinancial assets** recognized within the statement of activities by category that depicts the type of contributed nonfinancial assets. For each category of contributed nonfinancial assets, an NFP also shall disclose the following:

a. Qualitative information about whether contributed nonfinancial assets were either monetized or utilized during the reporting period. If utilized, a description of the programs or other activities in which those assets were used shall be disclosed.
b. The NFP's policy (if any) about monetizing rather than utilizing contributed nonfinancial assets.
c. A description of any **donor-imposed restrictions** associated with the contributed nonfinancial assets.
d. A description of the valuation techniques and inputs used to arrive at a **fair value** measure in accordance with paragraph 820-10-50-2(bbb)(1), at initial recognition.
e. The **principal market** (or **most advantageous market**) used to arrive at a fair value measure if it is a market in which the recipient NFP is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial assets.

See paragraph 958-605-50-1B for additional disclosures for contributed services.

> **Contributed Services**

958-605-50-1B An entity (NFPs and business entities) that receives contributed services shall describe the programs or activities for which those services were used, including the nature and extent of contributed services received for the period and the amount recognized as revenues for the period. Entities are encouraged to disclose the **{remove glossary link}fair value{remove glossary link}** of contributed services received but not recognized as revenues if that is practicable. The nature and extent of contributed services received can be described by nonmonetary information, such as the number and trends of donated hours received or service outputs provided by volunteer efforts, or other monetary information, such as the dollar amount of **contributions** raised by volunteers. Disclosure of contributed services is required regardless of whether the services received are recognized as revenue in the financial statements. **[Content amended as shown and moved from paragraph 958-605-50-1]**

Implementation Guidance and Illustrations

Contributions Received

> **Illustrations**

> > **Example 22: Contributed Nonfinancial Assets**

958-605-55-70U This Example illustrates the requirements described in paragraph 958-605-50-1A. Those disclosure requirements are not prescriptive on how the information should be disclosed; therefore, this Example demonstrates two alternative formats. This Example does not illustrate all categories of contributed nonfinancial assets, such as intangible assets. An NFP may be required to include disclosure information about valuation techniques and inputs, including assumptions and judgments that an NFP makes, in addition to those included in this Example, which is consistent with the **fair value** disclosures required by Topic 820. The valuation language used in this Example is not intended to provide guidance on how contributions of nonfinancial assets should be valued, including whether the principal market (or most advantageous market) disclosed is appropriate in the circumstances. While not illustrated in this Example, there may be additional information about the nature and extent of contributed services, including nonrecognized contributed services, that an entity may disclose in accordance with paragraph 958-605-50-1B.

958-605-55-70V The following illustration includes a table disclosing the amounts recognized within the statement of activities by category as well as a narrative disclosure about donor-imposed restrictions and valuation techniques and inputs for each category of contributed nonfinancial asset.

[For ease of readability, the new table is not underlined.]

Contributed Nonfinancial Assets

For the years ended December 31, contributed nonfinancial assets recognized within the statement of activities included:

	20X9	20X8
Building	$ 550,000	$ -
Household goods	95,556	100,486
Food	85,407	86,633
Medical Supplies	90,389	115,173
Pharmaceuticals	111,876	113,982
Clothing	85,765	83,890
Vehicles	127,900	-
Services	73,890	65,392
	$ 1,220,783	$ 565,556

NFP K recognized contributed nonfinancial assets within revenue, including a contributed building, vehicles, household goods, food, medical supplies, pharmaceuticals, clothing, and services. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

It is NFP K's policy to sell all contributed vehicles immediately upon receipt at auction or for salvage unless the vehicle is restricted for use in a specific program by the donor. No vehicles received during the period were restricted for use. All vehicles were sold and valued according to the actual cash proceeds on their disposition.

The contributed building will be used for general and administrative activities. In valuing the contributed building, which is located in Metropolitan Area B, NFP K estimated the fair value on the basis of recent comparable sales prices in Metropolitan Area B's real estate market.

Contributed food was utilized in the following programs: natural disaster services, domestic community development, and services to community shelters. Contributed household goods were used in domestic community development and services to community shelters. Contributed clothing was used in specific community shelters. Contributed medical supplies were utilized in natural disaster services. In valuing household goods, food, clothing, and medical supplies, NFP K estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.

Contributed pharmaceuticals were restricted by donors to use outside the United States and were utilized in international health services and natural disaster services. In valuing contributed pharmaceuticals otherwise legally permissible for sale in the United States, NFP K used the Federal Upper Limit based on the weighted average of the most recently reported monthly Average Manufacturer Prices (AMP) that approximate wholesale prices in the United States (that is, the principal market). In valuing pharmaceuticals not legally permissible for sale in the United States (and primarily consumed in developing markets), NFP K used third-party sources representing wholesale exit prices in the developing markets in which the products are approved for sale (that is, the principal markets).

Contributed services recognized comprise professional services from attorneys advising NFP K on various administrative legal matters. Contributed services are valued and are reported at the estimated fair value in the financial statements based on current rates for similar legal services.

958-605-55-70W The following table illustrates the disclosures in paragraph 958-605-55-70V for each category of contributed nonfinancial asset. It includes both amounts and narrative disclosure. For illustrative purposes, only one year is presented.

[For ease of readability, the new table is not underlined.]

Contributed Nonfinancial Assets

	Revenue Recognized	Utilization in Programs/Activities	Donor Restrictions	Valuation Techniques and Inputs
Building	$550,000	General and Administrative	No associated donor restrictions	In valuing the contributed building, which is located in Metropolitan Area B, NFP K estimated the fair value on the basis of recent comparable sales prices in Metropolitan Area B's real estate market.
Household goods	$95,556	Domestic Community Development; Community Shelters	No associated donor restrictions	NFP K estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.
Food	$85,407	Natural Disaster Services; Domestic Community Development; Community Shelters	No associated donor restrictions	NFP K estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.
Medical supplies	$90,389	Natural Disaster Services	No associated donor restrictions	NFP K estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.
Pharmaceuticals	$111,876	International Health Services; Natural Disaster Services	Restricted to use outside the United States	In valuing contributed pharmaceuticals otherwise legally permissible for sale in the United States, NFP K used the Federal Upper Limit based on the weighted average of the most recently reported monthly Average Manufacturer Price (AMP) that approximate wholesale prices in the United States (that is, the principal market). In valuing pharmaceuticals not legally permissible for sale in the United States (and primarily consumed in developing markets), NFP K used third-party sources representing wholesale exit prices in the developing markets in which the products are approved for sale.
Clothing	$85,765	Natural Disaster Services; Domestic Community Development; Community Shelters	No associated donor restrictions	In valuing clothing, NFP K estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.
Vehicles	$127,900	It is NFP K's policy to sell all contributed vehicles immediately upon receipt unless the vehicle is restricted for use in a specific program by the donor. All vehicles received were sold.	No associated donor restrictions	Proceeds from vehicles sold are valued according to the actual cash proceeds on their disposition.
Services	$73,890	Various Administrative Legal Matters	No associated donor restrictions	Contributed services from attorneys are valued at the estimated fair value based on current rates for similar legal services.

RESOURCES

Example gifts-in-kind NFP financial statement disclosures

3 months ago · 5 min read

AICPA MEMBER ACCESS

FASB Accounting Standards Update (ASU) No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, requires not-for-profits (NFPs) to present contributed nonfinancial assets as a separate line item in the statement activities and provide additional disclosures about contributions of nonfinancial assets. Contributed nonfinancial assets, commonly referred to as gifts-in-kind, include fixed assets (such as land, buildings, and equipment), use of fixed assets or utilities, materials and supplies, intangible assets, services, and unconditional promises of those assets. The ASU is effective for annual periods beginning after June 15, 2021 and interim periods within annual periods beginning after June 15, 2022. Early adoption is permitted.

This article provides nonauthoritative, illustrative examples to help you as you prepare financial statement disclosures regarding contributed nonfinancial assets for your NFP or NFP clients. Accurate valuation and revenue recognition of gifts-in-kind can be challenging. Refer to this article and flowchart for assistance with those issues.

Overview of required disclosures regarding contributed nonfinancial assets

ASU No. 2020-07 requires NFPs to disclose a disaggregation of the amount of contributed nonfinancial assets recognized within the statement of activities by category that depicts the type of contributed nonfinancial assets.

For each category of contributed nonfinancial assets, an NFP also must disclose the following:

- Qualitative information about whether contributed nonfinancial assets were either monetized or utilized during the reporting period. If utilized, a description of the programs or other activities in which those assets were used shall be disclosed.
- The NFP's policy (if any) about monetizing rather than utilizing contributed nonfinancial assets.
- A description of any donor-imposed restrictions associated with the contributed nonfinancial assets.
- A description of the valuation techniques and inputs used to arrive at a fair value measure in accordance with paragraph 820-10-50-2(bbb)(1), at initial recognition.
- The principal market (or most advantageous market) used to arrive at a fair value measure if it is a market in which the recipient NFP is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial assets.

An entity (NFPs and business entities) that receives contributed services must describe the programs or activities for which those services were used, including the nature and extent of contributed services received for the period and the amount recognized as revenues for the period. Entities are encouraged to disclose the fair value of contributed services received but not recognized as revenues if that is practicable. The nature and extent of contributed services received can be described by nonmonetary information, such as the number and trends of donated hours received or service outputs provided by volunteer efforts, or other monetary information, such as the dollar amount of contributions raised by volunteers. Disclosure of contributed services is required regardless of whether the services received are recognized as revenue in the financial statements.

Example 1

Note X - Contributed Nonfinancial Assets

The Organization received the following contributions of nonfinancial assets for the year ending June 30:

	20X1	20X0
Medical equipment and supplies	$ 2,250,400	$ 3,059,600
Auction items	33,000	34,000
Rent	-	1,144,200
Nursing services	6,057,900	5,743,300
TOTAL CONTRIBUTED NONFINANCIAL ASSETS	$ 8,341,300	$ 9,981,100

Contributed medical equipment and supplies received by the Organization are recorded as in-kind contribution revenue with a corresponding increase to inventory. The organization utilized three inventory valuation methods during the year ended June 30, 20X1 and 20X0. These methods include (1) current price located on a publicly available website if the inventory item is a match for the website item when donated; (2) percentage of the price located on a publicly available website if the item donated has been used but the item located online is new; (3) the current average price located on a publicly available website for similar items if a group of items are donated and the items range in price depending on model, size, etc.

The Organization receives items to be sold at its annual auction, and it is the Organization's policy to attempt to sell any unsold auction items on various commercial websites used for such purposes. Contributed auction items are valued at the gross selling price received. Donors contributing auction items have restricted the proceeds from sale to purchases of personal protective equipment.

The Organization entered into a lease agreement for office space for which the rental payments stated in the agreement are less than the amount that would be charged for similar space that is rented under similar terms. Using publicly available commercial real estate rental listings, the Organization estimates the rental payments to be half of market price. The amount of contributed rent over the remaining lease term is reported as contributions receivable in the accompanying statements of financial position, and the related rent expense is recorded straight line over the life of the lease in the accompanying statements of activities.

Contributed services are recognized as in-kind revenues at their estimated fair value if they create or enhance nonfinancial assets or they require specialized skills that would need to be purchased if they were not donated. The Organization receives contributed nursing services that are reported using current rates for similar nursing services. The Organization also receives a significant amount of donated services from unpaid volunteers who assist in fundraising and special projects. No amounts have been recognized in the statements of activities for these fundraising and special projects services because the criteria for recognition have not been satisfied.

Contributed medical equipment and supplies and contributed nursing services were utilized in the Organization's partial hospitalization program.

The contributed office space is used for both program and supporting services and is allocated based upon square footage used by each program and supporting service.

Example 2

Note X - Donated Services and Assets

The Organization receives significant in-kind contributions of time and pro bono services from members of the community and volunteers related to program operations, special events, and fund-raising campaigns. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. The Organization recognizes in-kind contribution revenue and a corresponding expense in an amount approximating the estimated fair value at the time of the donation.

During fiscal year 20X0, the Organization received donated services for tax preparation, legal consultation, and other consulting services. The Organization also received contributions of the use of facilities and donated goods.

Program or Supporting Service	Donated Space	Donated Services	Donated Goods	Total
Tax services program	$ 250,500	$ 536,980	$ 7,670	$ 795,150
Tax clinic program	28,900	249,360	-	278,260
Financial capability program	18,030	-	-	18,030
Management and general	28,000	19,900	-	47,900
Fundraising	17,700	-	13,900	31,600
TOTAL	$ 343,130	$ 806,240	$ 21,570	$ 1,170,940

All donated services and assets were utilized by the Organization's programs and supporting services. There were no donor-imposed restrictions associated with the donated services and assets.

Donated space is valued at the fair value of similar properties available in commercial real estate listings. Donated program services are valued using the most recent Bureau of Labor Statistics' average hourly wage for tax preparers (tax services and tax clinic) and credit counselors (financial capability program) in the Organization's metropolitan area. Donated legal services included in management and general are valued at the standard hourly rates charged for those services. Donated goods are valued at the wholesale prices that would be received for selling similar products.

Example 3

Note X - In-Kind Contributions

The Organization receives donated services from a variety of unpaid volunteers assisting the Organization in the operation of the transportation and nutritional programs. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Center. Services valued at approximately $132,000 and $93,000 have not been recognized in the accompanying statements of activities for the years ended June 30, 20X1 and 20X0, respectively, as they do not meet the requirements for recognition.

The Organization also receives the use of donated facilities for its program operations and supporting services. The Organization recognizes in-kind contribution revenue and a corresponding expense in an amount approximating the estimated fair value at the time of the donation. Fair value is estimated using the average price per square foot of rental listings in the Organization's service area. The total amount recognized for donated facilities is approximately $187,000 for each of the years ended June 30, 20X1 and 20X0, and is allocated among program and supporting services based upon the square footage occupied.

Additional considerations

The preceding examples do not illustrate all situations that may apply to every NFP under the new requirements of ASU No. 2020-07. For instance, if the NFP has a policy of monetizing its contributed nonfinancial assets, that would also need to be disclosed. Additional disclosure is also required if a recipient NFP is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial assets in the principal (or most advantageous) market. NFPs and practitioners are encouraged to refer to the illustrative examples within ASU No. 2020-07 for further guidance.

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Practice aid

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Accounting for and auditing of digital assets

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Notice to readers

The objective of this practice aid is to develop nonauthoritative guidance on how to account for and audit digital assets under U.S. generally accepted accounting principles (GAAP) for nongovernmental entities and generally accepted auditing standards (GAAS), respectively. This guidance is intended for financial statement preparers and auditors with a fundamental knowledge of blockchain technology. For the purposes of this practice aid, *digital assets* are defined broadly as digital records that are made using cryptography for verification and security purposes, on a distributed ledger (referred to as a *blockchain*). The distributed ledger keeps a record of all transactions on a blockchain network. Digital assets, as defined herein, may be characterized by their ability to be used for a variety of purposes, including as a medium of exchange, as a representation to provide or access goods or services, or as a financing vehicle, such as a security, among other uses. The rights and obligations associated with digital assets vary significantly, as do the terms used to describe them. It is important to note that the accounting treatment for a digital asset will ultimately be driven by the specific terms, form, underlying rights, and obligations of the digital asset.

Digital assets and the associated underlying technology are an evolving area, and the expectations and experiences of stakeholders such as preparers, auditors, and regulators may change accordingly. Therefore, questions, examples, challenges, risks, considerations, and potential procedures listed in this practice aid should not be considered exhaustive. Preparers, auditors, and those charged with governance need to stay abreast of developments and consider the implications of those developments.

The guidance in this practice aid is based on existing professional literature and the experience of members of the Digital Assets Working Group. This nonauthoritative guidance represents the views of the Digital Assets Working Group and AICPA staff. This publication is not approved, disapproved, or otherwise acted on by the Auditing Standards Board, the membership, or the governing body of the AICPA, and are not official pronouncements of the AICPA.

Accounting content

The Financial Reporting Executive Committee (FinREC) is the designated senior committee of the AICPA authorized to speak for the AICPA in the areas of financial accounting and reporting. The accounting guidance in this practice aid has been reviewed by FinREC, who did not object to its issuance.

Auditing content

This information represents the views of AICPA staff based on the input of the Digital Assets Working Group and has not been approved by any senior committee of the AICPA. The auditing portion of this practice aid is an other auditing publication as defined in AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*,[1] and is intended to provide nonauthoritative guidance to auditors. Other auditing publications may help the auditor understand and apply GAAS but have no authoritative status. In applying the auditing guidance included in an other auditing publication, the auditor should exercise professional judgment and assess the relevance and appropriateness of such guidance to the circumstances of the audit.

[1] All AU-C sections can be found in AICPA Professional Standards.

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21 If the principal (or most advantageous) market is not active or does not have orderly transactions (that is, not Level 1), how does management weigh inputs from different sources in the determination of the fair value of a crypto asset?

[2] Refer to the definition of a *crypto asset* in Q&A 1 of this practice aid.

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Assume Entity A does not apply any specialized industry guidance (for example, FASB ASC 946 or FASB ASC 940).

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Introduction

The AICPA formed the Digital Assets Working Group (the working group), a joint working group under the Financial Reporting Executive Committee (FinREC) and the Assurance Services Executive Committee (ASEC), with the objective of developing nonauthoritative guidance for financial statement preparers and auditors on how to account for and audit digital assets under U.S. generally accepted accounting principles (GAAP) for nongovernmental entities and generally accepted auditing standards (GAAS), respectively. The working group is split into two subgroups, one focusing on accounting topics and one focusing on auditing topics.

Each subgroup created a list of topics and prioritized those that it believes are the most relevant or critical for practitioners and accountants. As additional topics are completed, they will be added to this practice aid and posted to aicpa.org. The format of each of the accounting and auditing topics will vary based on the necessary context. For example, some topics will be addressed in question and answer (Q&A) format, whereas others requiring more context will be presented in a narrative format.

> **Help desk:** For additional information on what blockchain technology is and how it is affecting the profession, see the white paper "Blockchain Technology and Its Potential Impact on the Audit and Assurance Profession", as well as AICPA-developed CPE courses related to blockchain: aicpa.org/interestareas/information technology/resources/blockchain.html
>
> In addition, see the blockchain podcast series at aicpa-cima.com/disruption.

Accounting subgroup

The accounting subgroup focused on developing nonauthoritative guidance on accounting for digital assets and related transactions under GAAP. The scope of each question is defined within the question (for example, all digital assets versus digital assets that are classified as indefinite-lived intangible assets). The accounting Q&As do not address other factors such as compliance with laws and regulations.

Although many terms and colloquialisms that describe similar assets may be used to describe digital assets and related transactions, it is critical to consider that the accounting treatment for a digital asset and related transactions will ultimately be driven by the specific terms, form, underlying rights, and obligations of a digital asset. Therefore, the conclusions in any given topic may not be applicable to other types of digital assets that are outside the scope of such topic.

Auditing subgroup

The focus of the auditing portion of this practice aid is to provide nonauthoritative guidance on auditing digital assets under GAAS. Audits of issuers, audits performed in accordance with the PCAOB standards, and non-audit attest engagements are not currently contemplated.

Although auditor independence and ethical requirements should be considered prior to the performance of acceptance or continuance procedures for all engagements, such considerations are not within the scope of this practice aid.

> **Help desk:** For information regarding independence and ethics, see the AICPA Code of Professional Conduct at pub.aicpa.org/codeofconduct/Ethics.aspx.

The digital asset ecosystem is an evolving business environment, presenting practitioners with unique risks and more complex audit challenges ranging from obtaining sufficient appropriate evidence to understanding the complex IT environment of entities within the ecosystem. The guidance herein is not intended to be an exhaustive list of challenges or recommended procedures and does not address certain emerging enterprise use cases for blockchain technology such as supply chain use cases, but rather focuses on the present, most widely adopted use cases.

Although many blockchain applications share some fundamental principles of trust and security through cryptography and decentralization, the design of different blockchains may differ significantly. Some are entirely public and permissionless, while others are private and serve a very narrow purpose. Consequently, it is not practical to address every blockchain. The term blockchain, as used throughout this practice aid, does not refer to any particular application of blockchain technology and instead refers to the broad concept of a decentralized ledger that uses the principles of cryptography to transmit or store value securely. That value is generally in the form of one or more digital assets.

Throughout this practice aid, the term *digital asset ecosystem* is used, which is defined as all entities participating or involved with digital assets. This may include entities engaged in various elements of the ecosystem, including development; maintenance; use (for example, the purchase, sale, investment, trading, or exchange); custody or security (for example, hot or cold wallet providers, qualified custodians, or other custodial services); or validating.

Accounting subgroup

Classification and measurement when an entity purchases crypto assets

Question 1:

How should an entity that does not apply specialized industry guidance (for example, it is not applying FASB *Accounting Standards Codification* [ASC] 946, *Financial Services — Investment Companies*) account for purchases of crypto assets for cash?[3]

For purposes of this Q&A, the term *crypto asset* is specific to the type of digital assets that

a. function as a medium of exchange and

b. have all the following characteristics:

   i. They are not issued by a jurisdictional authority (for example, a sovereign government).

   ii. They do not give rise to a contract between the holder and another party.

   iii. They are not considered a security under the Securities Act of 1933 or the Securities Exchange Act of 1934.

These characteristics are not all-inclusive, and other facts and circumstances may need to be considered.

Examples of crypto assets meeting these characteristics include bitcoin, bitcoin cash, and ether.

Response 1:

The FASB ASC Master Glossary defines *intangible assets* as assets (not including financial assets) that lack physical substance. Accordingly, crypto assets with the previously described characteristics meet the definition of intangible assets and would generally be accounted for under FASB ASC 350, *Intangibles — Goodwill and Other*.

These crypto assets generally would not meet the definitions of other asset classes within generally accepted accounting principles (GAAP), and therefore, accounting for them as other than intangible assets may not be appropriate, as described in the following examples:

- Crypto assets will not meet the definition of *cash* or *cash equivalents* (as defined in the FASB ASC Master Glossary) when they are not considered legal tender[4] and are not backed by sovereign governments. In addition, these crypto assets typically do not have a maturity date and have traditionally experienced significant price volatility.
- Crypto assets will not be *financial instruments* or *financial assets* (as defined in the FASB ASC Master Glossary) if they are not *cash* (see previous discussion) or an ownership interest in an entity and if they do not represent a contractual right to receive cash or another financial instrument.
- Although these crypto assets may be held for sale in the ordinary course of business, they are not tangible assets and therefore may not meet the definition of *inventory* (as defined in the FASB ASC Master Glossary).

[3] This question and answer (Q&A) discusses purchases of certain crypto assets that are owned and held by an entity. Refer to Q&A 10 for a discussion of ownership determination when crypto assets are held through a custodian.

[4] Legal tender is specific to a jurisdiction. For example, the *U.S. Code* states, "United States coins and currency (including Federal reserve notes and circulating notes of Federal reserve banks and national banks) are legal tender for all debts, public charges, taxes, and dues" [*Money and Finance, U.S. Code*, Title 31, Section 5103, "Legal tender"]. This statute means that all forms of money identified within are a valid and legal offer of payment for debts when tendered to a creditor.

Under FASB ASC 350, an entity should determine whether an intangible asset has a finite or indefinite life. FASB ASC 350-30-35-4 states that if no legal, regulatory, contractual, competitive, economic, or other factors limit the useful life of an intangible asset to the reporting entity, the useful life of the asset should be considered indefinite. The term indefinite does not mean infinite or indeterminate. The useful life of an intangible asset is indefinite if that life extends beyond the foreseeable horizon — that is, there is no foreseeable limit on the period of time over which the asset is expected to contribute to the cash flows of the reporting entity.

Entities should consider the factors outlined in FASB ASC 350-30-35-3 when determining the useful life of an intangible asset. If there is no inherent limit imposed on the useful life of the crypto asset to the entity, then the crypto asset would be classified as an indefinite-lived intangible asset.

As intangible assets, these crypto assets purchased for cash would initially be measured at cost.

Recognition and initial measurement when an entity receives digital assets that are classified as indefinite-lived intangible assets

Question 2:

Entity A enters into a contract with a customer to deliver a good or service that is an output of its ordinary activities in a concurrent exchange for a fixed number of a digital asset that will be held in its own account and not through a custodian. At contract inception, Entity A transfers control of the good or service to the customer and concurrently receives the digital asset in return. The digital asset received is accounted for as an indefinite-lived intangible asset and the contract is within the scope of FASB ASC 606, *Revenue from Contracts with Customers*.

How should Entity A account for the receipt of the digital asset as consideration under a revenue contract with a customer?[5]

Response 2:

Entity A would treat the receipt of the digital asset as a form of noncash consideration under FASB ASC 606 when determining the transaction price. Entities should apply all aspects of FASB ASC 606 to the transactions in the scope of that guidance (for example, recognition, measurement, presentation and disclosure).

To determine the transaction price for the revenue contract, Entity A would measure the noncash consideration (digital asset) at its estimated fair value[6] at contract inception — that is, the date that all the criteria in FASB ASC 606-10-25-1 are met.

As explained in FASB ASC 606-10-32-23, any changes in the fair value of the digital asset after contract inception due to the form of the consideration would not affect the transaction price for the revenue contract. The entity would apply the relevant accounting guidance for the form of noncash consideration to determine how any change in fair value of the digital asset should be recognized after contract inception. For example, an entity may need to consider the application of the subsequent measurement guidance in FASB ASC 350-30 as discussed in Q&As 4–7.

[5] Entities with transactions outside of FASB *Accounting Standards Codification* (ASC) 606, *Revenue from Contracts with Customers*, (for example, the sale of property, plant, and equipment to a noncustomer in exchange for digital assets) should look to other relevant GAAP, such as FASB ASC 610-20.

[6] As discussed in FASB ASC 606-10-32-22, if the fair value of the noncash consideration is not reasonably estimable, the entity should measure the noncash consideration by reference to the stand-alone selling price of the goods or services promised to the customer.

Question 3:

If the facts in Q&A 2 changed and Entity A were to receive the digital asset in the future rather than concurrently with the exchange of the good or service, what additional considerations, outside of FASB ASC 606, might be necessary for Entity A?

Response 3:

Some transactions may be more complex than the simple concurrent exchange of an entity's good or service for a digital asset. In arrangements that involve the future receipt of a digital asset in exchange for the current delivery of a good or service, entities may need to consider the guidance in FASB ASC 815, *Derivatives and Hedging*, to determine whether the right to receive a digital asset in the future is a derivative or a hybrid instrument containing an embedded derivative.

Subsequent accounting for digital assets classified as indefinite – lived intangible assets

Question 4:

How should an entity account for digital assets that are classified as indefinite-lived intangible assets subsequent to their acquisition?

Response 4:

An indefinite-lived intangible asset is initially carried at the value determined in accordance with FASB ASC 350-30-30-1 and is not subject to amortization.[7] Rather, it should be tested for impairment annually or more frequently if events or changes in circumstances indicate it is more likely than not that the asset is impaired. Paragraphs 18B and 18C in FASB ASC 350-30-35 provide examples of relevant facts and circumstances that should be assessed to determine if it is more likely than not that an indefinite-lived intangible asset is impaired. If an impairment indicator exists and it is determined that the carrying amount of an intangible asset exceeds its fair value, an entity should recognize an impairment loss in an amount equal to that excess. After the impairment loss is recognized, the adjusted carrying amount becomes the new accounting basis of the intangible asset. Refer to paragraphs 15–20 in FASB ASC 350-30-35 for details on the subsequent accounting for intangible assets that are not subject to amortization.

[7] Indefinite-lived intangible assets do not meet the definition of a *financial asset* (as defined in the FASB ASC Master Glossary) or any other eligible items under FASB ASC 825-10-15-4 and therefore are not eligible for the fair value option under that paragraph.

Question 5:

If a digital asset is classified by an entity as an indefinite-lived intangible asset and identical digital assets are reportedly bought and sold on a market at a price below its current carrying value, is this activity an impairment indicator, and if so, should an impairment charge be recorded?

Response 5:

An intangible asset with an indefinite useful life should be tested for impairment annually or more frequently if events or changes in circumstances indicate it is more likely than not that it is impaired. Paragraphs 18B and 18C of FASB ASC 350-30-35 list examples of factors an entity may consider in determining whether it is more likely than not that an indefinite-lived intangible asset is impaired. These examples are not all-inclusive, and other facts and circumstances should be considered. Judgment may be required to identify whether an event has occurred that would result in the need to perform an impairment assessment.

When an identical digital asset is bought and sold at a price below the entity's current carrying value, this will often serve as an indicator that impairment is more likely than not. Entities should monitor and evaluate the quality and relevance of the available information, such as pricing information from the asset's principal (or most advantageous) market or from other digital asset exchanges or markets, to determine whether such information is indicative of a potential impairment.

If an entity determines it is more likely than not that the indefinite-lived intangible asset is impaired, the entity should determine its fair value, following the fair value framework in FASB ASC 820, *Fair Value Measurement*.

If, based on its assessment, the entity concludes that the fair value of the digital asset is less than its carrying value, an impairment loss should be recorded.

Question 6:

If the fair value of a digital asset that is classified as an indefinite-lived intangible asset has declined below the carrying value in the middle of a reporting period (that is, an impairment has occurred), does impairment need to be recorded if the fair value has recovered by the end of the same period?

Response 6:

Yes. Impairment testing of indefinite-lived intangible assets is required whenever events or changes in circumstances indicate it is more likely than not that impairment has occurred. If the entity concludes the fair value of the digital asset is less than its carrying value, an impairment loss is recorded at that time. Pursuant to FASB ASC 350-30-35-20, subsequent reversal of previously recorded impairment losses on indefinite-lived intangible assets is prohibited. This provision applies even if the fair value of the digital asset recovers above the original carrying value within the same accounting period.

Example: ABC Entity holds 1 million units of a digital asset, which it purchased for cash on January 1, 20X1, for $10 per unit. ABC Entity accounts for its holdings of digital asset as an indefinite-lived intangible asset. During the last week of January 20X1, units of the same digital asset were traded on an exchange at prices below ABC Entity's carrying value. After considering the quality and relevance of the available information, ABC Entity concluded that the January trades indicated that it was more likely than not that its digital asset was impaired. ABC Entity determined that the fair value at that time was $8 per unit based on the guidance in FASB ASC 820. ABC Entity concluded that an impairment loss of $2 million had occurred as of January 31, 20X1.

As of March 31, 20X1 (the balance sheet reporting date), units of the digital asset were traded above ABC Entity's original carrying value. Although this may be an indication that the fair value of the digital asset has increased above the original carrying value as of the reporting date, subsequent reversal of previously recognized impairment is prohibited. Accordingly, ABC Entity's results of operations for the period should include a charge for the impairment loss of $2 million.

Question 7:

How should an entity determine the unit of account when assessing impairment of digital asset holdings accounted for as an indefinite-lived intangible asset?

Response 7:

Entities often engage in multiple acquisitions and dispositions of digital assets during a period. Entities should determine the unit of account for purposes of testing the indefinite-lived intangible asset for impairment by applying guidance in paragraphs 21–27 of FASB ASC 350-30-35. Consistent with FASB ASC 350-30-35-24, because entities usually have the ability to sell or otherwise dispose of each unit (or a divisible fraction of a unit) of a digital asset separately from any other units, entities will generally reach the determination that the individual unit (or a divisible fraction of a unit) represents the unit of account for impairment testing purposes. To perform impairment testing, entities should track the carrying values of their individual digital assets (or a divisible fraction of an individual unit).

When performing the impairment testing for an individual digital asset, the entity should compare the carrying value of that specific asset with its fair value. If an entity determines that an individual unit (or a divisible fraction of a unit) represents the unit of account for impairment testing purposes, it would not be appropriate to perform such comparison for a bundle of digital assets of the same type purchased at different prices. This approach could lead to an inappropriate reduction in the amount of the impairment loss by netting (1) losses on units with carrying values above the current fair value against (2) unrealized gains on units with carrying values below the current fair value.

Practically speaking, entities could perform impairment testing for batches of digital asset units (or divisible fractions of a unit) with the same acquisition date and the same carrying value.

Measurement of cost basis of digital assets that are classified as indefinite-lived intangible assets when derecognized

Question 8:

When selling a portion of an entity's digital asset holdings that are accounted for as indefinite-lived intangible assets, how should an entity determine the cost basis of the units sold?

Response 8:

Entities should track the cost (or subsequent carrying value) of units of digital assets they obtain at different times and use this value for each unit of digital assets upon derecognition when they sell or exchange digital assets for other goods or services. Digital assets typically represent fungible units that can be subdivided into smaller fractional units. It may not be possible to identify which specific units of digital assets were sold or transferred in certain cases. For instance, it may be clear that the number of units of digital assets held has gone down (for example, from 10 units to 9 units in the entity's wallet) but not whether the first, last, or some other unit purchased was the one sold. An entity may apply the guidance in these circumstance by developing a reasonable and rational methodology for identifying which units of digital assets were sold and apply it consistently. For example, one reasonable and rational approach could be using the first-in, first-out method.

Derecognition of digital asset holdings that are classified as indefinite-lived intangible assets

Question 9:

How should an entity account for the sale of digital asset holdings that are accounted for as indefinite-lived intangible assets?

Response 9:

An entity may transfer digital assets by exchanging them for fiat currencies (for example, digital asset X for U.S. dollars), in which case, the seller should assess whether the transaction is with a customer. If the counterparty is a customer (that is, selling digital asset X is an activity that constitutes part of the entity's ongoing major or central operations), an entity should account for the sale under FASB ASC 606 and present the sale as revenue when control of the digital assets sold has transferred. If the counterparty is not a customer (that is, selling digital asset X is not part of the entity's ongoing major or central operations), an entity should account for the sale under FASB ASC 610-20, *Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets*, or FASB ASC 845, *Nonmonetary Transactions*, depending on the nature of the transfer. In those circumstances, any gain or loss upon derecognition would typically be presented net, outside of revenue (net gain or loss as determined by subtracting the cost [or subsequent carrying value] from the measured consideration).

Recognition of digital assets when an entity uses a third-party hosted wallet service

Question 10:

When an entity (the depositor) holds its digital asset in a third-party hosted wallet service (the custodian),[8] should the digital asset be recognized on the financial statements of the depositor or the custodian?

Response 10:

It depends. The digital asset should be recognized on the financial statements of the entity that has control over the digital asset. Determining which entity — the depositor or the custodian — has control[9] of the digital asset should be based on the specific facts and circumstances of the agreement between the depositor and custodian and applicable laws and regulations. In that regard, a legal analysis may be needed to evaluate certain aspects of the agreement, including legal ownership.

The form of the agreement between the depositor and the custodian may vary but often will be included within the terms and conditions or initial account-opening documents provided by the custodian.

In addition to assessing the terms of the agreement, an analysis of the characteristics of an asset as defined by FASB Concepts Statement No. 6, *Elements of Financial Statements*, may help determine which party should recognize the digital asset. Some factors an entity may consider include the following:

- Are there legal or regulatory frameworks applicable to the custodian and the depositor (which may also depend on the jurisdiction)? If so, does the framework specify who the legal owner of the digital asset is?
- Do the terms of the arrangement between the depositor and custodian indicate whether the depositor will pass title, interest, or legal ownership of the digital asset to the custodian?
- When the depositor transfers its digital assets out of the custodian's wallet, is the custodian required to transfer the depositor's original units of the digital asset deposited with the custodian?
- Does the custodian have the right (under contract terms, law, or regulation) to sell, transfer, loan, encumber, or pledge the deposited digital asset for its purposes without depositor consent or notice, or both?
- Would the digital asset deposited with the custodian be isolated from the custodian's creditors in the event of bankruptcy, liquidation, or dissolution of the custodian? If not, do the depositors have a preferential claim in such circumstances?
- Can the depositor withdraw the deposited digital asset at any time and for any reason? If not, what contingencies are associated with the rights to receive the deposited digital asset? Are there technological or other factors that would prevent timely withdrawal notwithstanding contractual, legal, or regulatory rights?
- Are there side agreements affecting rights and obligations of the depositor and the custodian?
- Are there "off-chain" transactions recorded outside of the underlying blockchain that should be considered?
- Is the digital asset held in a multisignature wallet, and if so, what are the digital signatures that are required to execute a transaction? Who holds the private keys to the multisignature wallet and how is ownership evidenced through any applicable account agreements?

[8] For purposes of this Q&A, we assume that the custodian is not subject to any industry-specialized guidance.

[9] *Control* is discussed in various parts of GAAP, such as FASB ASC 606.

- Is the custodian required (by contract, law, or regulation) to segregate the digital assets of depositors from the digital assets owned for the custodian's own account? Does the custodian commingle digital assets of multiple depositors?
- Does the depositor bear the risk of loss if the deposited digital asset is not retrievable by the custodian (for example, due to security breach, hack, theft, or fraud)?
- Could the depositor be impeded by the custodian in any way from receiving all economic benefits of controlling the digital asset, including price appreciation?

The previous list is not exhaustive, and there is no single factor that is considered determinative to the control of the digital asset held through a custodian's digital wallet. Each arrangement should be assessed separately.

If it is determined that the depositor has control over the digital asset, then the depositor should recognize the digital asset in its financial statements.

If it is determined that the depositor does not have control over the digital asset — that is, the custodian has control — then the depositor should recognize a right to receive the digital asset (from the custodian) as an asset in its financial statements. The custodian should recognize the digital asset as its asset and recognize a corresponding liability to return the digital asset to the depositor in its financial statements.

The right to receive the digital asset that is recognized by the depositor and the liability to return the digital asset to the depositor that is recognized by the custodian may require further assessment for accounting purposes, including subsequent measurement considerations and assessment for embedded derivatives that may require bifurcation pursuant to FASB ASC 815.

Meeting the definition of an investment company when engaging in digital asset activities

Question 11:

Would participation in digital asset activities (for example, mining activities) disqualify an entity from classification as an investment company within the scope of FASB ASC 946, *Financial Services—Investment Companies*?

Response 11:

It depends. In accordance with FASB ASC 946-10-15-5, a company that is not regulated under the Investment Company Act of 1940 may be an investment company, if it possesses the fundamental characteristics in FASB ASC 946-10-15-6, which are as follows:

a. It is an entity that does both of the following:
   1. Obtains funds from one or more investors and provides the investors with investment management services
   2. Commits to its investors that its business purpose and only substantive activities are investing the funds solely for returns from capital appreciation, investment income, or both.

b. The entity or its affiliates do not obtain or have the objective of obtaining returns or benefits from an investee or its affiliates that are not normally attributable to ownership interests or that are other than capital appreciation or investment income.

As stated in FASB ASC 946-10-15-7, typically, an investment company also has the following characteristics:

a. It has more than one investment.
b. It has more than one investor.
c. It has investors that are not related parties of the parent (if there is a parent) or the investment manager.
d. It has ownership interests in the form of equity or partnership interests.
e. It manages substantially all of its investments on a fair value basis.

However, the absence of one or more of those typical characteristics does not necessarily preclude an entity from being an investment company. An entity should apply judgment and determine how its activities are consistent with those of an investment company.

In accordance with FASB ASC 946-10-55-4, an investment company should have no substantive activities other than its investing activities and should not have significant assets or liabilities other than those relating to its investing activities, subject to certain exceptions outlined in FASB ASC 946-10-55-5.

It is important for an entity to consider evidence of its business purpose and substantive activities in determining appropriate classification as an investment company. Evidence of the business purpose and substantive activities may be included in the entity's offering memorandum, publications distributed by the entity, and other corporate or partnership documents that indicate the investment objectives of the entity. Additional evidence also may include the manner in which the entity presents itself to other parties (such as potential investors or potential investees). An entity's investment plans (for example, potential exit strategies to realize capital appreciation) also provide evidence of its business purpose and substantive activities.

It is important for an entity participating in digital asset activities (for example, buying and selling, mining) to use judgment and determine, considering all available evidence, whether these activities are consistent with those of an investment company in accordance with FASB ASC 946-10. For example, an entity's purchases of digital assets with the objective of selling them for capital appreciation would be considered investing activities consistent with those of an investment company. In contrast, an entity's activities in devoting resources to mining, such as procuring and operating significant computer and networking equipment in order to obtain digital assets in return for providing computing resources to a blockchain, would generally be considered "other than investing activities" that are inconsistent with those of an investment company.

If an entity or its affiliates participates in "other than investing" activities, it would need to evaluate whether those "other than investing activities" are substantive. If they are substantive, the entity would not meet the definition of an investment company. Determining whether noninvestment activities are substantive may require significant judgment.

In addition to the guidance in FASB ASC 946, an entity could consider Q&A section 6910.36, "Determining Whether Loan Origination Is a Substantive Activity When Assessing Whether an Entity Is an Investment Company,"[10] found in Technical Questions and Answers, which provides a framework to evaluate whether an entity's activities represent substantive activities that are inconsistent with the activities of an investment company. For example, the significance of income generated through noninvestment activities should be compared to income generated from capital appreciation, investment income, or both. If such activities are determined to be substantive, it would preclude the entity from qualifying as an investment company.

[10] See https://www.aicpa.org/interestareas/frc/recentlyissuedtechnicalquestionsandanswers.html.

Accounting by an investment company for digital assets it holds as an investment

Question 12:

How should an entity that qualifies as an investment company under FASB ASC 946, *Financial Services — Investment Companies*, account for investments in digital assets?

Response 12:

An investment company applying FASB ASC 946 should determine whether its holdings of digital assets represents a debt security, equity security, or an other investment and apply the guidance in FASB ASC 946-320 for investments in debt and equity securities or FASB ASC 946-325 for other investments. Irrespective of the type of investment, FASB ASC 946 requires an investment company to initially measure its investments at their transaction price, inclusive of commissions and other charges that are part of the purchase transaction.

Subsequently, the investment company should measure investments in digital assets at fair value in accordance with the applicable guidance in FASB ASC 946-320-35-1 or FASB ASC 946-325-35-1, unless an exception applies that would require equity method accounting or consolidation, for example, if the digital asset provides control over an operating entity whose purpose is to provide services to the investment company. See additional guidance in FASB ASC 946-323 and FASB ASC 946-810.

Recognition, measurement and presentation of digital assets specific to broker-dealers

NOTE: Q&As 13–15 address the recognition, measurement and presentation of digital assets specific to broker-dealers in the scope of FASB ASC 940, *Financial Services — Brokers and Dealers*, and the AICPA's Audit and Accounting Guide *Brokers and Dealers in Securities* (Broker-Dealer guide).

Q&As 13–15 do not address how an entity determines whether it is within the scope of FASB ASC 940 and the Broker-Dealer guide. FASB's Emerging Issues Task Force (EITF), in Issue 06-12,[11] considered providing additional guidance on how to determine whether an entity is included in the scope of the Broker-Dealer guide; however, no consensus was reached. The EITF observed that this is an issue for which there is diversity in practice.

If an entity that is an SEC filer, or plans to become an SEC filer, reaches a conclusion that it is within the scope of FASB ASC 940 and the Broker-Dealer guide, it should consider discussing such a conclusion with the SEC's Office of the Chief Accountant.[12] In addition, any entity that applies broker-dealer guidance in FASB ASC 940 and the Broker-Dealer guide should (*a*) not selectively apply certain portions of FASB ASC 940 and the Broker-Dealer guide; rather, it should apply all the guidance, and (*b*) consider[13] the discussion of the SEC's financial responsibility rules provided in the Joint Staff Statement on Broker-Dealer Custody of Digital Asset Securities.[14] The SEC and Financial Industry Regulatory Authority (FINRA) staffs have not provided guidance on how a broker-dealer may demonstrate physical possession or control with respect to a digital asset security, nor have they provided guidance on how a broker-dealer may engage in a digital asset business in compliance with the financial responsibility rules. Moreover, these Q&As do not address other broker-dealer regulatory questions (for example, the deduction from net capital for digital assets or digital asset securities held by a broker-dealer on a proprietary basis).

Question 13:

How should an entity that is a broker-dealer in the scope of FASB ASC 940, *Financial Services — Brokers and Dealers*, present digital assets held or received[15] on behalf of customers on its statement of financial condition?

Response 13:

When an entity holds or receives digital assets on behalf of a customer and has determined that such activities are within the scope of FASB ASC 940-20, the entity should consider the guidance in FASB ASC 940-20-25-1 and, for registered broker-dealers, the discussion of the SEC's financial responsibility rules provided in the Joint Staff Statement on Broker-Dealer Custody of Digital Asset Securities. In accordance with FASB ASC 940-20-25-1, when a broker-dealer is an agent for a customer, the transaction should not be reflected on its statement of financial condition.

NOTE: Q&As 13–15 do not address how an entity determines whether it is within the scope of FASB ASC 940 and the Broker-Dealer guide. See NOTE before Q&A 13 for additional information about considerations for an entity that reaches the conclusion that it is within the scope of FASB ASC 940.

[11] See https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1218220140741&acceptedDisclaimer=true.

[12] See https://www.sec.gov/page/oca-form-delivery-and-content-correspondence-oca-consultations.

[13] Importantly, if the entity is a registered broker-dealer, it must comply with broker-dealer financial responsibility rules, including, as applicable, custodial requirements under Rule 15c3-3 under the Securities Exchange Act of 1934, which is known as the Customer Protection Rule.

[14] See https://www.sec.gov/news/public-statement/joint-staff-statement-broker-dealer-custody-digital-asset-securities#_ftn1.

Question 14:

How should a broker-dealer in the scope of FASB ASC 940 recognize revenue for purchases or sales transactions in digital assets on behalf of its customers?

Response 14:

A broker-dealer may buy and sell digital assets on behalf of its customers in return for a commission. The Broker-Dealer guide notes that *agency transactions* are transactions in which the broker-dealer "is simply a middleman between two counterparties … [and] is acting in a broker capacity."[16] In accordance with FASB ASC 940-20-25-2, commission income is recognized in revenue when (or as) the broker-dealer satisfies its performance obligations under the contract in accordance with FASB ASC 606, *Revenue from Contracts with Customers*.

NOTE: Q&As 13–15 do not address how an entity determines whether it is within the scope of FASB ASC 940 and the Broker-Dealer guide. See NOTE before Q&A 13 for additional information about considerations for an entity that reaches the conclusion that it is within the scope of FASB ASC 940.

Question 15:

How should the digital assets owned by a broker-dealer in the scope of FASB ASC 940 as part of its proprietary trading portfolio be measured?

Response 15:

In accordance with paragraphs 1–2 of FASB ASC 940-320-35, positions resulting from proprietary trading should be measured at fair value with changes in fair value recognized in profit and loss.[17] Given that industry practice has been to interpret the definition of inventory held by a broker-dealer under FASB ASC 940 to include assets such as financial instruments and physical commodities held as proprietary positions, extending the interpretation of inventory to include digital assets that are held for proprietary trading is reasonable.

NOTE: Q&As 13–15 do not address how an entity determines whether it is within the scope of FASB ASC 940 and the Broker-Dealer guide. See NOTE before Q&A 13 for additional information about considerations for an entity that reaches a conclusion that it is within the scope of FASB ASC 940.

[15] Receipt refers to a transaction in which the customer transfers the digital asset to the broker-dealer, and the transfer is recorded on the blockchain native to the digital asset.

[16] See paragraph 5.66 of chapter 5, "Accounting Standards," of the AICPA Audit and Accounting Guide *Brokers and Dealers in Securities* (Broker-Dealer guide).

[17] Paragraph 5.02 of the Broker-Dealer guide states that a broker-dealer accounts for inventory and derivative positions (such as futures, forwards, swaps, and options) at fair value.

Considerations for crypto assets that require fair value measurement

Question 16:

When determining the fair value for crypto assets,[18] what is the principal market?

Response 16:

In accordance with FASB ASC 820-10-35-3, a fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions. Furthermore, FASB ASC 820-10-35-5 states that a fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either (*a*) in the principal market for the asset or liability or (*b*) in the absence of a principal market, in the most advantageous market for the asset or liability. Therefore, a fair value measurement contemplates an orderly transaction to sell the asset or transfer the liability in its principal market (or in the absence of a principal market, the most advantageous market).

There are various markets in which crypto assets trade. The reliability and sufficiency of the information produced could vary market by market. It is important for entities to consider whether these markets provide reliable volume and level of activity information in their determination of the principal market (or in the absence of a principal market, the most advantageous market).

Under FASB ASC 820, *Fair Value Measurement*, a *principal market* is the market with the greatest volume and level of activity for the asset or liability. The determination of the principal market should be based on the market with the greatest volume and level of activity that the reporting entity can access and not on the entity's own level of activity in a particular market. In that regard, it is important for an entity to assess whether there are any regulatory or other restrictions that prevent it from accessing a particular market.

When identifying the principal market — or in the absence of a principal market, the most advantageous market — an entity is not required to undertake an exhaustive search of all possible markets for the asset, but it should consider all information that is reasonably available. In accordance with FASB ASC 820-10-35-5A, the market in which an entity normally transacts for the crypto asset is presumed to be the principal market, unless contrary evidence exists.

To overcome the presumption, an entity must obtain evidence that the market it normally transacts in is not the market with the greatest volume and level of activity for the crypto asset. For example, if an entity normally buys and sells crypto assets through an intermediary or a broker, it would generally identify that market as the principal market, unless it has obtained evidence (considering all information that is reasonably available) that another market (for example, an exchange) has a greater volume and level of activity. For this purpose, a comparison would be made between the other market and the market the entity normally transacts in. Although numerous market participants may transact in crypto assets through intermediaries or brokers, each individual intermediary or broker is not a market. Generally, there is a lack of information regarding volume and pricing of crypto asset transactions in non-exchange markets. Therefore, it may be difficult for an entity to make a comparison between markets in order to conclude that another market (for example, an exchange) has a greater volume and level of activity than the market in which it normally transacts through an intermediary or broker. In this situation, it would be difficult to overcome the presumption that the market it normally transacts in is the principal market.

[18] Refer to the definition of a *crypto asset* in Q&A 1 of this practice aid.

When there is a principal market for the crypto asset being valued, the price in that market should be used to measure fair value, even if there is a more advantageous price in a different market at the measurement date. That is, the most advantageous market concept is applied under FASB ASC 820 only in situations when the entity determines there is no principal market for the crypto asset being valued. The most advantageous market is the market that maximizes the amount that would be received to sell the crypto asset, after taking into account transaction costs (for example, exchange or broker fees). Although transaction costs may factor into determining the most advantageous market, consistent with FASB ASC 820-10-35-9B, such costs are not included in the fair value of the crypto asset.

NOTE: The scope of Q&As 16–21 is specific to crypto assets. In addition, the Q&As interrelate and therefore are intended to be read in conjunction with one another.

Question 17:

What are some items an entity should consider about the markets in which crypto assets[19] trade when determining the fair value of a crypto asset holding?

Response 17:

Crypto assets trade in various markets. The reliability and sufficiency of the information produced that could be used to determine if the market's reported transactions are orderly or the market is active can vary widely from market to market. To determine the fair value of a crypto asset in accordance with FASB ASC 820, *Fair Value Measurement*, an entity would need to, among other things, determine the principal (or most advantageous) market in which a crypto asset trades; assess whether that market is active or inactive; evaluate whether reported market trades are orderly; and determine if the information produced by the market is reliable.

An entity's assessment of these items may significantly affect how the fair value of a crypto asset should be measured. Examples follow:

- If an entity determines that information provided by a market is not reliable, it should not place weight on the information.
- If an entity participates in transactions in its principal market, it would generally not be appropriate to place zero weight on the market information.
- If trades are between willing buyers and sellers, and the exposure to the market allowed for usual and customary marketing activities, it would be difficult to assert that the trades are not orderly because the transaction is not a forced transaction.
- If any entity concludes that the market is inactive, the amount of weight placed on that transaction price when compared with other indications of fair value will depend on the facts and circumstances.

Ultimately, entities need to carefully assess the markets in which crypto assets trade to determine the appropriate inputs or techniques for determining the fair value of a crypto asset. Refer to Q&A 18–20 for further information.

NOTE: The scope of Q&As 16–21 is specific to crypto assets. In addition, the Q&As interrelate and therefore are intended to be read in conjunction with one another.

[19] Refer to the definition of a *crypto asset* in Q&A 1 of this practice aid.

Question 18:

Assume the principal (or most advantageous) market for a given crypto asset[20] is an active market with quoted prices for identical assets. Given the characteristics of the principal market, an entity concludes the fair value would be classified as Level 1. How is the fair value of the crypto asset determined in this circumstance?

Response 18:

If there is a principal market for the crypto asset, the fair value measurement of the crypto asset should be based on the quoted price in that market, even if prices in a different market are potentially more advantageous at the measurement date (FASB ASC 820-10-35-6). FASB ASC 820-10-35-44 states that if a reporting entity holds a position in a single asset or liability (including a position comprising a large number of identical assets or liabilities, such as a holding of financial instruments) and the asset or liability is traded in an active market, the fair value of the asset or liability should be measured within Level 1 as the product of the quoted price for the individual asset or liability and the quantity held by the reporting entity. That is the case, even if a market's normal daily trading volume is not sufficient to absorb the quantity held, and placing orders to sell the position in a single transaction might affect the quoted price.

Accordingly, except in certain circumstances identified in FASB ASC 820-10-35-41C, there should be no adjustment to Level 1 inputs, and the fair value of the crypto asset should be determined based on price times quantity (commonly referred to as "P × Q").

For markets that provide information on bid-ask spreads, FASB ASC 820-10-35-36C requires fair value to be based on the price within the bid-ask spread that is most representative of fair value. Entities may use the bid, ask, mid-point between bid and ask, or some other point within the range. Although the guidance in FASB ASC 820-10-35-36D does not preclude midpoint (or mid-market) pricing convention, there may be situations in which the use of such a convention is not appropriate (for example, when a large bid-ask spread exists).

NOTE: The scope of Q&As 16–21 is specific to crypto assets. In addition, the Q&As interrelate and therefore are intended to be read in conjunction with one another.

Question 19:

Is it appropriate for a reporting entity to adjust the fair value measurement of a crypto asset[21] to reflect the size of the entity's holding of the crypto asset?

Response 19:

No. FASB ASC 820-10-35-36B states the following:

> A reporting entity should select inputs that are consistent with the characteristics of the asset or liability that market participants would take into account in a transaction for the asset or liability (see FASB ASC 820-10-35-2B through 35-2C). In some cases, those characteristics result in the application of an adjustment, such as a premium or discount (for example, a control premium or noncontrolling interest discount). However, a fair value measurement should not incorporate a premium or discount that is inconsistent with the unit of account in the Topic that requires or permits the fair value measurement. Premiums or discounts that reflect size as a

[20] Refer to the definition of a *crypto asset* in Q&A 1 of this practice aid.
[21] Refer to the definition of a *crypto asset* in Q&A 1 of this practice aid.

characteristic of the reporting entity's holding (specifically, a blockage factor that adjusts the quoted price of an asset or a liability because the market's normal daily trading volume is not sufficient to absorb the quantity held by the entity, as described in FASB ASC 820-10-35-44), rather than as a characteristic of the asset or liability (for example a control premium when measuring the fair value of a controlling interest) are not permitted in a fair value measurement.

The response to Q&A 7 indicates that entities will generally reach a determination that the unit of account for a crypto asset is the individual unit (or divisible fraction of a unit.) Further, the response to Q&A 1 explains that a crypto asset is not a financial instrument, financial asset, or a nonfinancial item accounted for as a derivative in accordance with FASB ASC 815, *Derivatives and Hedging*. As a result, the portfolio exception at FASB ASC 820-10-35-18D is not applicable to a crypto asset and, therefore, it would be inappropriate to adjust the fair value measurement of a crypto asset to reflect the size of an entity's holding of a crypto asset.

NOTE: The scope of Q&As 16–21 is specific to crypto assets. In addition, the Q&As interrelate and therefore are intended to be read in conjunction with one another.

Question 20:

Crypto asset[22] markets often operate continuously, without a traditional market close. How should entities determine the fair value of the crypto asset in such circumstances?

Response 20:

In such circumstances, an accounting convention may establish a cut-off time for determining the fair value of the crypto asset. For example, it may be reasonable for an entity to establish an accounting convention based on prices at

- the close of the business day of the entity.
- a fixed Coordinated Universal Time (UTC).
- other timing as deemed reasonable, such as traditional close time based on local market jurisdictions.

Entities should consider transactions that take place after the cut-off time but before the end of the reporting period, similar to the guidance in FASB ASC 820-10-35-41C.

Any convention used should be reasonable and consistently applied, and changes should be made only if facts and circumstances support a change.

NOTE: The scope of Q&As 16–21 is specific to crypto assets. In addition, the Q&As interrelate and therefore are intended to be read in conjunction with one another.

[22] Refer to the definition of a *crypto asset* in Q&A 1 of this practice aid.

Question 21:

If the principal (or most advantageous) market is not active or does not have orderly transactions (that is, not Level 1), how does management weigh inputs from different sources in the determination of the fair value of a crypto asset? [23]

Response 21:

When evaluating the relevance of transaction prices as inputs into the fair value measurement of a crypto asset, entities may consider using the following approach, which is consistent with the guidance in FASB ASC 820-10-35-54J and the related framework in paragraph 8.07 of the AICPA Guide *Valuation of Privately Held Company Equity Securities Issued as Compensation* and paragraph 10.34 of the AICPA Guide *Valuation of Portfolio Company Investments of Venture Capital and Private Equity Funds and Other Investment Companies*.

- If the transaction is orderly and for an identical instrument in an active market that is not the principal (or most advantageous) market, the transaction may require adjustments that market participants would apply to arrive at a fair value consistent with the entity's principal (or most advantageous) market.
- If the transaction is for an identical instrument but not in an active market, or for a related instrument, and the evidence indicates that the transaction is orderly, then that transaction price would be considered. The amount of weight placed on the transaction price when compared with other indications of fair value will depend on the facts and circumstances.
- If evidence indicates that the transaction is not orderly, then little, if any, weight would be placed on the transaction price.
- If the investor does not have sufficient information to conclude[24] whether a transaction is orderly, it should consider the transaction price in its analysis (that is, give it some weight) but may also supplement the transaction price with other valuation inputs or techniques.[25] However, the entity should maximize the use of relevant observable inputs and minimize the use of unobservable inputs when developing a fair value estimate consistent with FASB ASC 820, *Fair Value Measurement*.

NOTE: The scope of Q&As 16–21 is specific to crypto assets. In addition, the Q&As interrelate and therefore are intended to be read in conjunction with one another.

[23] Refer to the definition of a *crypto asset* in Q&A 1 of this practice aid.

[24] FASB ASC 820-10-35-54J states that a reporting entity need not undertake exhaustive efforts to determine whether a transaction is orderly, but it should not ignore information that is reasonably available. When a reporting entity is a party to a transaction, it is presumed to have sufficient information to conclude whether the transaction is orderly.

[25] It would be rare that valuation techniques of a crypto asset apply any other approaches besides a market approach based upon observed transactions or market quotes.

Accounting for stablecoin holdings

Question 22:

How should investors that do not apply specialized industry guidance account for a holding of a stablecoin?

Response 22:

It depends. There are differences among digital assets that are referred to as stablecoins in the market. Some are collateralized and redeemable into the assets used to collateralize the stablecoin, such as U.S. dollars, a specific commodity, a specific crypto asset, or a combination of multiple different assets. Others may not be collateralized or may not be redeemable. Generally, stablecoins differ from a typical crypto asset in that they include mechanisms designed to minimize price volatility by linking their values (for example, a "peg") to the value of a more traditional asset, such as a fiat currency or a commodity. Given the differences in the underlying rights and obligations across digital assets referred to as stablecoins, the proper accounting for an investment in a stablecoin will depend on the relevant facts and circumstances.

When evaluating the relevant facts and circumstances, some key questions an entity may want to consider when determining the accounting for a holding in a stablecoin include the following:

- What is the purpose of the stablecoin, and how does it achieve that purpose?
- What are the rights and obligations of the stablecoin holder? For example, is the stablecoin collateralized? If so, what are the eligible forms of collateral? Can the stablecoin be traded with parties other than the issuing entity?
- Who is the issuing entity or group of entities that is pooling resources to support the stablecoin?
- Does a legal entity that issues the stablecoin exist? If so, does the stablecoin convey to the holder an interest in the issuing entity?
- What is the legal form of the stablecoin (for example, debt or equity)?
- What mechanisms exist to minimize the price volatility? For example, can the stablecoin be redeemed for, exchanged for, or converted into its underlying asset? How do these mechanisms work, and how are the mechanisms governed?
- If it is redeemable, how and how often can it be redeemed?
- If it is collateralized, how is the collateral verified and perfected? If it is collateralized, what is the level of collateral (that is, is it partially, fully or over-collateralized)?
- How well do the mechanisms to minimize the price volatility work? For example, how volatile is the price of the stablecoin versus its intended peg?
- Do any credit or liquidity concerns exist?
- What laws and regulations apply to the stablecoin?

Because of the variety of facts and circumstances that may exist, it is impossible to provide a general rule for accounting for stablecoins. Relevant GAAP should be considered. For example, the ownership of a stablecoin may provide the holder with an ownership interest in the issuing entity. In this case, the stablecoin should be evaluated under relevant GAAP (for example, FASB ASC 321, *Investments — Equity Securities*; FASB ASC 323, *Investments—Equity Method and Joint Ventures*; or FASB ASC 810, *Consolidation*). Other types of stablecoins may be financial assets or financial instruments containing an embedded derivative that should be evaluated under FASB ASC 815, *Derivatives and Hedging*. However, the accounting for stablecoins is not limited to the aforementioned FASB ASC topics.

Question 23:

Entity A owns 100 units of a stablecoin, a digital asset that has a stated value of one U.S. dollar and is collateralized on a one-for-one basis by dollars held in a segregated bank account by the issuing entity. The holders of the units only have the right to redeem each unit for one U.S. dollar. How should Entity A account for its stablecoin?

Assume Entity A does not apply any specialized industry guidance (for example, FASB ASC 946 or FASB ASC 940).

Response 23:

Entity A's stablecoin holding would not be a derivative[26] but does meet the definition of a *financial asset* under U.S. GAAP because it can be redeemed for cash. If the stablecoin also meets the definition of a *security* (as defined in the definition 2 in the FASB ASC Master Glossary), it would generally be accounted for under FASB ASC 320, *Investments — Debt Securities*. If the stablecoin does not meet the definition of a security, it would generally be accounted for under FASB ASC 310, *Receivables*, because it is contractually redeemable for cash. A stablecoin that meets the definition of a *financial asset* would also typically be eligible for the fair value option under FASB ASC 825, *Financial Instruments*. Depending on the relevant facts and circumstances of the stablecoins, entities may also need to consider the definitions of *cash or cash equivalent*.

[26] This is because the stablecoin requires a payment in cash equal to the stated value of the stablecoin at inception — that is, it does not meet the "no initial or small initial net investment" criteria of a derivative. An entity may need to evaluate if an embedded derivative exists under FASB ASC 815, *Derivatives and Hedging*.

Auditing subgroup

Client acceptance and continuance

1. Overview

The topics in this section of the practice aid address matters for auditors to consider regarding accepting or continuing audit engagements of entities in the current digital asset ecosystem. As firms seek to provide audits to entities within the ecosystem, caution and consideration must be given to unique risks and challenges in the digital asset ecosystem.

The topics in this section of the practice aid focus on auditing applications and do not address ethics or independence considerations; it is important to note, however, that these considerations remain critical to an auditor's conformity to professional standards, and engagements in the digital asset ecosystem may introduce new or different compliance risks warranting additional consideration by the auditor. For example, a member of the engagement team may hold digital assets issued by the entity subject to audit. ET section 1.200, "Independence," provides examples of relationships or circumstances that create threats to compliance with the "Independence Rule," and ET section 1.295, "Nonattest Services," addresses threats involving the provision of nonattest services to an audit client, including the following specifically:

- **Self-review threat —** Threat that a member will not appropriately evaluate the results of a previous judgment made or service the member (or colleague) performed or supervised, which the member will rely on when forming a judgment as part of an attest engagement.
- **Management participation threat —** Threat that a member will assume the role of attest client management or perform management responsibilities for an attest client.
- **Advocacy threat —** Threat that a member will promote an attest client's interests or position to the point that his or her independence is compromised.

In addition to the AICPA Code of Professional Conduct, the following standards apply to client acceptance and continuance procedures:

- QC section 10, *A Firm's System of Quality Control*, as it relates to audits
- AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*
- AU-C section 210, *Terms of Engagement*
- AU-C section 220, *Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*[27]

[27] All QC and AU-C sections can be found in AICPA *Professional Standards*.

The topics covered in this section of the practice aid are divided into the following sections:

- **Section 2:** Auditor skill sets and competencies
- **Section 3:** Management skill sets and competencies
- **Section 4:** Management integrity and the entity's overall business strategy
- **Section 5:** Processes and controls, including information technology systems

Each section begins with a detailed summary of the applicable professional standards, then outlines some unique challenges to engagements in the digital asset ecosystem, and ends with practical recommendations auditors may apply to address those challenges and requirements.

2. Auditor skill sets and competencies

Relevant professional standards

QC section 10 and AU-C section 220 each contain requirements related to a firm's evaluation of its personnel's competence to perform an engagement prior to acceptance or continuance of a client relationship or specific engagement.[28]

A firm's evaluation generally encompasses competence, capabilities, resources, and availability of the engagement team. In this context, the engagement team includes the engagement partner, firm personnel assigned to the engagement (including internal specialists), and external specialists, if applicable.

The AICPA Code of Professional Conduct explains the meaning of the term *competence*, stating:

> .03 Competence is derived from a synthesis of education and experience. It begins with a mastery of the common body of knowledge required for designation as a certified public accountant. The maintenance of competence requires a commitment to learning and professional improvement that must continue throughout a member's professional life. It is a member's individual responsibility. In all engagements and in all responsibilities, each member should undertake to achieve a level of competence that will assure that the quality of the member's services meets the high level of professionalism required by these Principles.
>
> .04 Competence represents the attainment and maintenance of a level of understanding and knowledge that enables a member to render services with facility and acumen. It also establishes the limitations of a member's capabilities by dictating that consultation or referral may be required when a professional engagement exceeds the personal competence of a member or a member's firm. Each member is responsible for assessing his or her own competence of evaluating whether education, experience, and judgment are adequate for the responsibility to be assumed.
>
> [ET section 0.300.060, "Due Care"]

[28] See paragraphs .27a and .A11 of QC section 10 and paragraphs .14 and .A7 of AU-C section 220.

The purpose of the firm's evaluation is to provide the firm reasonable assurance that it will only undertake client relationships and engagements for which it can perform the audit in accordance with professional standards and applicable legal and regulatory requirements to enable the issuance of an auditor's report that is appropriate in the circumstances.

Paragraph .A11 of QC section 10 states the following:

> Consideration of whether the firm has the competence, capabilities, and resources to undertake a new engagement from a new or an existing client involves reviewing the specific requirements of the engagement and the existing partner and staff profiles at all relevant levels, including whether
>
> - firm personnel have knowledge of relevant industries or subject matters or the ability to effectively gain the necessary knowledge;
> - firm personnel have experience with relevant regulatory or reporting requirements or the ability to effectively gain the necessary competencies;
> - the firm has sufficient personnel with the necessary competence and capabilities;
> - specialists are available, if needed;
> - individuals meeting the criteria and eligibility requirements to perform an engagement quality control review are available, when applicable; and
> - the firm is able to complete the engagement within the reporting deadline.

The assessment of these items occurs before accepting or continuing an engagement and is meant to mitigate the risk that the firm accepts an engagement it is not capable of effectively performing. If a firm has an insufficient understanding of the industry and environment when it accepts a client and fails to recognize and address the need for additional resources or education, it will be difficult, and may not be possible, for that firm to perform an effective audit or comply with applicable professional standards.

An auditor's ability to obtain a robust understanding of the client and its environment (sections 3 and 4), including its system of internal control (section 5), is critical to an effective risk assessment and audit response. For example, a firm may have deep experience in the financial services industry and may be presented with a client opportunity in that industry that also involves digital assets. Consideration in evaluating the client acceptance and continuance determination include a firm's (1) current industry expertise; (2) understanding of digital assets; and (3) understanding of how digital assets are being used in the specific client situation being evaluated. Knowledge of all three components is necessary for an auditor to effectively perform an engagement, and it is important to assess the ability to perform each for a well-informed client acceptance or continuance decision.

Performing audits in the digital asset ecosystem may require a firm to update, or include additional oversight of, its existing system of quality control. For example, if the firm intends to pursue audit work for entities participating in the ecosystem and its recruitment and training programs do not currently contemplate issues unique to that ecosystem, more thought and attention may need to be placed on assessing whether the firm has sufficient personnel with the necessary competence and capabilities in the client acceptance or continuance and other quality control processes, or the need to engage external specialists.

Paragraph .A11 of QC section 10 acknowledges that firm personnel may not have "knowledge of relevant industries or subject matter or the ability to effectively gain the necessary knowledge." A client acceptance and continuance determination, therefore, requires an assessment both of any gaps in the skill sets of the firm's personnel and of whether the firm can satisfactorily address those gaps if it chooses to accept or continue to be engaged with the client.

Notwithstanding that the standard allows for the ability to gain the necessary knowledge for emerging issues and industries, such as digital assets, for which a firm has no previous expertise, it is important to recognize the risk of overconfidence in client acceptance and continuance decision-making and implement appropriate firm quality controls or oversight to challenge those decisions. The digital asset ecosystem is evolving rapidly; it is important for the firm to understand the level of effort necessary to gain the knowledge about the ecosystem (or relevant parts thereof) needed to make a reasoned client acceptance and continuance determination and competently perform the audit.

Challenges specific to digital assets

Client acceptance and continuance procedures serve as a means of managing and mitigating the firm's own risks (including professional liability or external audit regulation) and informing its quality control strategy for an engagement. Although all industries encounter change, the digital asset ecosystem is evolving rapidly, and auditors' skill sets and competencies may be particularly strained in this environment. In designing procedures to meet the requirements of GAAS and QC section 10, firms may encounter challenges in adapting or maintaining auditors' skill sets and competencies related to the digital asset ecosystem in the following ways:

- Staying apprised of regulatory, industry, technological, or financial reporting developments affecting current or potential clients that may affect the risk assessment or other aspects of the audit
- Recruiting, developing, and retaining talent in a highly competitive market, particularly those qualified in the information technology and cybersecurity aspects of the audit
- Appropriately directing, supervising, and reviewing the work of the engagement team including staff, internal specialists, and multiple external specialists whose skill sets may not be familiar to the audit team
- Adapting to new or different risks as the ecosystem evolves or new issues are identified
- Updating training curricula for current and future auditors to adapt to the rapidly evolving elements of the digital asset ecosystem, new digital assets, and the surrounding business and regulatory environment

When considering engagement acceptance or continuance in accordance with paragraph .27 of QC section 10, the firm takes into account the challenges to possessing appropriate competence indicated previously.

Procedures to consider specific to digital assets

Procedures specific to the digital asset ecosystem that an auditor may perform as part of the acceptance and continuance process include the following:

- Identify, in firm policy or quality control materials, the types of clients or engagements the firm is capable of accepting.
- Determine firm-wide areas of focus or criteria for client acceptance for companies within the digital asset ecosystem. For example, provided the firm's client acceptance criteria are met, some firms may decide to focus on validator entities only, given their level of experience in auditing such entities, and other firms may feel comfortable serving validator and exchange entities. If auditors are generally aware of the types of clients the firm will or will not accept, there is less risk that the firm will inadvertently accept an engagement it is not qualified to perform.

- Build general awareness among firm personnel of the risks inherent in the digital asset ecosystem, so that current auditors understand such risks and what resources are available for existing client engagements. For example, a firm's existing clients may become exposed to the digital asset ecosystem in a variety of ways, whether through vendors, customers, or the client's own strategic choices. To build awareness, a firm could develop a training program that discusses the risks described in this practice aid along with ways the firm is addressing those risks in its internal system of quality control.
- Communicate consultation resources, training, or guidance to relevant firm personnel and when necessary, re-evaluate client acceptance and continuance decisions based on changing facts and circumstances.
- Identify an individual or individuals, either internal or external to the firm, with known, demonstrated competence in auditing entities within the digital asset ecosystem to serve as the firm's subject matter expert(s) (SMEs). Note: the inability to identify such an individual may call into question the firm's ability to gain the necessary competence to perform work in this space.
- Communicate the SME name(s) to the practice for awareness.
- Require SME involvement in client acceptance and continuance decisions to make sure the considerations listed previously are made and documented appropriately.
- Implement training programs to acclimate relevant personnel to unique issues and risks discussed in other sections of this practice aid, commensurate with the needs identified in the client acceptance process; consider AICPA resources[29] or other sources to tailor training appropriately for engagement personnel and internal specialists (for example, IT, valuation, or cybersecurity).
- To the extent external specialists will be engaged, establish protocols for evaluating specialists that might not have been necessary in the past. (Paragraph .09 of AU-C section 620, Using the *Work of an Auditor's Specialist*).

If one or more engagements in the digital asset ecosystem are accepted, a firm may need to consider other potential updates to the system of quality control, including the following types of changes:

- Implement authorized lists of engagement partners and other individuals approved to be assigned to different roles on an audit in the digital asset ecosystem. (Paragraphs .33–.34 of QC section 10)
- Design, implement, and commit to maintaining guidance, practice aids, tools, training, and work programs to promote consistency and quality in engagement performance, supervision, and review, particularly in the risk assessment phase and audit strategy execution on an audit in the digital asset ecosystem. (Paragraphs .35–.36 of QC section 10)
- Establish consultation requirements for unique auditing or financial reporting issues that may be relevant in the digital asset ecosystem. (Paragraph .37 of QC section 10)
- Update the criteria for determining which engagements require an engagement quality control review, tailor review requirements to new or different risks, and assess the technical competence and qualifications of approved reviewers. (Paragraphs .38–.45 of QC section 10)
- Include new or high-risk engagements in the scope of pre- or post-issuance quality control monitoring procedures to evaluate engagement quality and the effectiveness of the quality control measures described herein. (Paragraph .52 of QC section 10)

[29] The AICPA has developed a course titled *Blockchain Fundamentals for Accounting and Finance Professionals Certificate* and also released a white paper titled *Blockchain Technology and Its Potential Impact on the Audit and Assurance Profession*.

In addition to the procedures noted previously, the following are some questions a firm may consider in the client acceptance and continuance process to evaluate its skill sets and competencies. For any negative or unknown answers, the auditor may need to perform additional procedures before accepting or agreeing to perform the audit, or ultimately decline the client or engagement. These examples are neither exhaustive nor always applicable, because facts and circumstance may vary from one engagement to the next.

- Does the firm have other similarly situated clients in the digital asset ecosystem?
- Does the auditor understand the applicable regulatory environment, and whether there is a risk an entity may not comply with laws and regulations?
- Does the auditor understand how the applicable financial reporting framework is applied to the client or its operations?
- Does the auditor understand the client's operations sufficiently to identify appropriate personnel to assign to the engagement (including partner, staff and internal specialists) and to perform an effective risk assessment?
- Are personnel sufficiently knowledgeable? If not, can the gaps be addressed with additional training or assistance from external specialists?

  Note that these questions address the proposed engagement team's ability to understand and interact with management and its specialists on other topics, including sufficient knowledge to remain skeptical and challenge management's positions. As discussed in sections 3 through 5, a firm may identify a need for more dialogue with management prior to client acceptance and continuance, potentially including questions about the extent of digital assets in the entity's operations, the entity's system of internal control related to digital assets, what tools the entity uses, how it values and records transactions, or what custody solutions it uses. In addition, these questions may assist the auditor in evaluating appropriate audit personnel and skill sets.

- Do personnel have the time and resources needed to perform the engagement effectively?

  Note that even if external specialists will be utilized, the ethical requirements relating to due professional care (ET section 0.300.060) and GAAS require the firm have procedures in place to supervise and take responsibility for the sufficiency of the audit work.

  Additionally, in this context, "resources" may encompass investments in technology or tools needed to gather sufficient appropriate audit evidence of digital assets and transactions. Most commonly, these may include transaction validation and valuation resources.

- Does the firm have appropriate processes and resources in place to support the proposed engagement team with questions, consultations, or pre-issuance reviews?

As described previously, firms may need to adapt existing quality control practices to provide more guidance or resources for consultation or pre-issuance review procedures, including engagement quality control review. In addition to providing training and resources to the engagement team, firms may need to do so for personnel performing consultations and reviews.

3. Management skill sets and competencies

Relevant professional standards

AU-C section 210 requires the auditor to obtain the agreement of management that it acknowledges and understands its responsibility for

a. the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework;

b. the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; and

c. providing the auditor with access to all relevant information and persons necessary to obtain audit evidence.

Further, as described in section 4, certain requirements of AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement; and AU-C section 250, Consideration of Laws and Regulations in an Audit of Financial Statements*, are helpful to consider during acceptance and continuance procedures. As such, auditors may perform procedures to understand management's commitment to competence for particular jobs and how those levels translate into requisite skills and knowledge. The auditor should also consider attributes of those charged with governance, such as their experience and stature and whether they have sufficient skills and knowledge to fulfill their responsibilities.

Challenges specific to digital assets

Given the complexity associated with blockchain technology and digital assets, management may lack the skill sets or competencies needed to maintain the entity's books and records and secure its assets. Therefore, the assessment of whether an entity's personnel has the necessary competence and capabilities is likely an important factor related to the auditor's decision to accept or continue an audit engagement. Even if management has integrity and a sound business strategy, but does not have the appropriate skill sets or competencies, an audit may not be possible without management addressing the shortfalls. This may be because appropriate books and records were not maintained, processes and controls have not been implemented, or management over-relies on the auditor, thereby introducing the risk that the auditor is unable to fulfill their responsibility of providing an independent, objective opinion on the financial statements of the entity.

Further, when assessing the risks relative to the period being considered for acceptance or continuance, it is critical to understand *when* management obtained the necessary skill sets and competencies. For example, if an entity recently incorporated digital assets into its operations, it may be important for the auditor to consider management's ability to implement systems, processes, and controls over digital assets sufficient to produce financial statements free of material misstatement. Similarly, if certain actions are not taken when a transaction or control activity occurs, certain types of audit evidence may be difficult to obtain (for example, evidence that a control related to private key management operated effectively). Further, an entity's technical capabilities in developing digital assets technologies, although important, may not be indicative of sufficient and appropriate financial reporting capabilities or technical accounting experience.

Necessary skill sets and competencies of management include a general understanding of, and technical skill sets related to, blockchain technology and digital assets, sufficient for management to do the following:

- Identify the unique risks in the space and design and implement internal controls to respond to such risks. For example, given the pseudo-anonymity[30] associated with digital assets, management may implement internal controls to identify related parties and relationships and transactions with related parties — for example, know-your-customer (KYC) and other procedures.
- Understand the pace at which the technology could evolve and the need for additional controls or personnel.
- Have processes and controls for maintaining appropriate books and records, including maintaining appropriate support for transactions and applying the appropriate financial reporting framework. For example, an entity may maintain an independent record of digital asset transactions and reconcile such to the transaction summary provided from a custodian.
- Have competent personnel with ability to appropriately apply the financial reporting framework.
- Identify applicable laws and regulations or areas of evolving laws and regulations.
- Have access to or ability to identify the need for specialists — for example, competent legal counsel, IT specialists, or cybersecurity specialists.

Procedures to consider specific to digital assets

Given the challenges described previously, evaluating the skill sets and competencies of management in the client acceptance or continuance process may be more involved than typically performed for other new or continuing clients. Client acceptance and continuance procedures may include an evaluation of whether management has the requisite understanding of the risks, necessary controls, and understanding of the applicable financial reporting framework. This includes assessing the entity's ability to identify and address risks within the underlying technology that may introduce risks of material misstatement due to errors or fraud.

The following are some inquiries an auditor may consider incorporating into the acceptance and continuance process to evaluate management's skill sets and competencies.

- Does management have experience in the digital asset ecosystem such that it can identify the unique risks in the space and design and implement internal controls to respond to such risks (for example, risks surrounding private key management, related party transactions and disclosures or other fraud risks)?
- Does management understand the applicable regulatory environment and areas of evolving laws and regulations?
- Does management either (1) maintain books and records that are independent from the blockchain or third party or (2) derive the entity's records of balances and transactions solely from the blockchain or from statements provided by a third party? If the latter, the auditor may want to further understand, as part of the acceptance and continuance process, management's processes and controls over the quality of this information.

[30] In blockchain environments, digital assets are exchanged between blockchain addresses and private keys are used for authorization. However, the specific names and identities of those parties transacting are not explicitly identified with those addresses and keys. While it is possible to determine the identity through various de-anonymizing methods, this offers a level of disguised identity by transacting without publicly providing any personally identifiable information.

- Does management engage appropriate and qualified specialists or accounting consultants as needed when management does not have sufficient knowledge or expertise (for example, in house or external legal counsel or IT specialists, including cryptography and cybersecurity specialists) and perform effective reviews of the work performed by such specialists?
- Does management understand how the applicable financial reporting framework is applied to its operations? (See the "Accounting Subgroup" section of this practice aid.)

In addition to the previous inquiries, reading the accounting policy memorandums prepared by the entity (or performing detailed inquiries with management) assists the auditor in determining whether the entity appears to be sufficiently knowledgeable to assess the applicability of accounting standards, in addition to determining whether the entity has adequately applied the accounting standards. The entity should have competent members of the finance and accounting teams to determine appropriate accounting treatment of digital assets. Digital assets may carry different properties warranting varying classifications in the financial statements. Processes should be in place to assess the proper recognition, derecognition, measurement, classification, and tracking of new digital .new digital assets (See "Accounting Subgroup" section of this practice aid.)

Depending on the results of these inquiries and procedures, auditors may need to further expand inquiries or seek additional information. In addition to evaluating management's skill sets and competencies, the auditor also considers management's integrity and overall business strategy regarding digital assets as a part of the client acceptance and continuance process.

4. Management integrity and overall business strategy

Relevant professional standards

In accordance with paragraph .27 of QC section 10, a firm should establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide the firm with reasonable assurance that it will undertake or continue relationships and engagements only when, among other things, the firm has considered the integrity of the client and does not have information that would lead it to conclude that the client lacks integrity.

Matters to consider regarding the integrity of a client may include the following:

- The identity and business reputation of the client's principal owners, key management, and those charged with governance
- The nature of the client's operations, including its business practices
- Information concerning the attitude of the client's principal owners, key management, and those charged with governance toward such matters as internal control or aggressive interpretation of accounting standards
- Indications of an inappropriate limitation in the scope of the work
- Indications that the client might be involved in money laundering or other criminal activities
- The reasons for the proposed appointment of the firm and non-reappointment of the previous firm (Paragraph .A12 of QC section 10).

When performing acceptance and continuance procedures, it may also be helpful for the auditor to consider certain requirements in other AU-C sections addressing activities that may occur after client acceptance and continuance, such as AU-C section 315 and AU-C section 250. For example, paragraph .12 of AU-C section 315 requires the auditor to obtain an understanding of the entity's objectives and strategies and those related business risks that may result in risks of material misstatement. Paragraph .15 of AU-C section 315 further requires that the auditor should obtain an understanding of the control environment, including evaluating whether

- management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behavior, and
- the strengths in the control environment elements collectively provide an appropriate foundation for the other components of internal control and whether those other components are not undermined by deficiencies in the control environment.

Elements of the control environment that may be relevant when obtaining this understanding include management's communication and enforcement of integrity and ethical values and commitment to competence, as well as attributes of those charged with governance, such as their experience and stature (paragraph .A79 of AU-C section 315).

The auditors may also consider the requirements in AU-C section 250, which highlights aspects of the legal and regulatory environment. Paragraph .12 of AU-C section 250 requires that the auditor obtain a general understanding of the following:

a. The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates
b. How the entity is complying with that framework

Challenges specific to digital assets

The digital asset ecosystem presents unique considerations for auditors in the client acceptance and continuance process, which relate to both management's integrity and commitment to compliance with laws and regulations and its strategic objectives; for example, the following:

- The pseudo-anonymous nature of the digital asset transactions may present an opportunity for illegal activities such as money laundering or other illegal activities. Noncompliance with KYC procedures, anti-money laundering (AML) procedures, and other regulations could present considerable reputation and business risks to the entity in the form of fines and penalties, both criminal and civil.
- The anonymity of participants in public blockchain transactions may make it difficult to identify transactions with related parties or "bad actors" who may have illegal or fraudulent intentions. It may also provide opportunities to engage in fraud schemes such as roundtrip transactions.

- Ease of entry to the market (that is, anyone can market or create a digital asset) may attract those who lack integrity or a commitment to competence into the digital asset ecosystem.
- Management may not have a sufficient understanding of digital assets, the underlying technology and protocols, or the evolving regulatory environment to identify the risks related to fraud or noncompliance with laws and regulations. Furthermore, although management may assert that activities related to digital assets may not be significant or material to the financial statements, it is important for the auditor to consider noncompliance with laws and regulations (for example, failing to meet the regulatory requirements governing the issuance of a token that might be a "security") regardless of materiality, when completing client acceptance and continuance evaluations.

Procedures to consider specific to digital assets

When making client acceptance and continuance decisions for audits of entities in the digital asset ecosystem, auditors will likely find it important to obtain information necessary to understand the entity's business strategy, planned operations, and role the entity serves or intends to serve in the overall digital asset ecosystem.

Obtaining an understanding of the entity's business purpose in its initial involvement or significant changes in its involvement with digital assets is a key aspect in assessing management's integrity. If a new engagement is accepted or an existing engagement is continued, such understanding will be a critical starting point for identifying and assessing risks of material misstatement associated with those areas where special audit consideration may be necessary (for example, related party transactions).

In addition, each role within the digital asset ecosystem (for example, entities that hold the digital assets, custodians or wallet companies, exchanges, funds that invest in digital assets, vendors accepting digital currency, and validators) may present unique considerations.

Given the challenges described, auditors considering accepting new engagements or continuing existing engagements for clients in the digital asset ecosystem will ordinarily find it appropriate to augment their usual procedures by including some or all of the following. (The examples provided are nonexhaustive, and the nature and extent of these example procedures may vary depending on the entity's role in the ecosystem and the type of digital assets held by the entity.)

- Inquire with management to understand its business purpose related to the entity's current and future anticipated involvement with digital assets. The depth and breadth of these inquiries may vary depending on the nature and significance of the entity's involvement in digital assets (for example, whether entities own, invest, trade, have custodial responsibilities for, or otherwise transact digital assets). For example, if an entity accepts payment in digital assets but immediately converts it to U.S. dollars, the auditor's consideration of the business purpose of the involvement with digital assets may be less complex compared to an exchange offering multiple types of digital assets.
- Inquire with management to understand the control environment and the tone at the top, including management's philosophy, operating style, and level of tolerance for risk. These inquiries may focus on obtaining an understanding of how the entity's involvement in digital assets has been considered as a part of management's risk assessment and the level of risk they are willing to accept in the context of their overall risk appetite.

- Inquire with management to understand the nature of digital assets held or intended to be held and significance of such assets to the business. Inquiries may focus on obtaining an understanding of the type of digital assets held by the entity and the materiality of such assets.
- Inquire with management to understand their policies and procedures to onboard new customers or enter into relationships with other players in the digital asset ecosystem. These may include KYC procedures, AML procedures, and other due diligence procedures to understand the identity and integrity of the counterparty. These procedures may also assist in obtaining an understanding of management's process for identifying related parties and relationships and related party transactions. Inquiry may go beyond the chief executive officer, chief financial officer and chief accounting officer and include discussions with chief compliance officers, the entity's risk management or legal departments, or chief anti-money laundering officers, when applicable.
- Inquire with management to understand their processes and procedures to monitor transactions for illegal or suspicious activity subsequent to new customer onboarding or entering into a new business relationship. This may also include inquiry to understand third parties that may be used to facilitate digital asset transactions (for example, exchanges).
- Inquire with management to obtain an understanding of the legal and regulatory framework applicable to digital asset transactions, including regulations in other jurisdictions in which the entity is engaged, changes in this environment, and management's process for maintaining compliance with legal and regulatory requirements.
- Inquire with management regarding Bank Secrecy Act (BSA), or AML law, reports prepared by a third party or process documentation prepared by the entity. The auditor may inquire whether any known instances of noncompliance with these laws and regulations have occurred, or whether the entity has received communication from regulatory bodies concerning the entity's compliance or noncompliance with these types of laws and regulations.
- Inquire with management to understand policies and procedures, including due diligence procedures, performed when evaluating potential digital assets to transact with. The depth and breadth of these inquiries may vary depending on the role in the ecosystem and the type of digital asset (for example, a more established digital asset may have different risks compared to a lesser known or less liquid digital asset).
- Inquire with management to understand their policies and procedures to identify related parties and relationships and transactions with related parties. Given the pseudo-anonymous nature of the blockchain, the risk of material misstatements associated with related party transactions and disclosures as well as the risk of engaging in fraudulent activity (for example, engaging in transactions with related parties to inflate revenue) may increase. Gaining an understanding of management's policies and procedures to identify related parties and relationships and transactions with related parties, may assist the auditor in evaluating the entity's commitment to developing an ethical culture through the implementation of processes and controls.
- Inquire with management to understand the considerations for maintaining adequate books and records related to the particular digital assets that the entity currently transacts in, including any planned or potential additions to the digital assets currently held. Examples of such considerations include the identification and monitoring of related parties and the ability to prove ownership. The nature and extent of the books and records to support the assertions of management in the financial statements may depend on the particular digital assets.

- Inquire with predecessor auditor, if applicable, regarding matters that will assist the auditor in determining whether to accept the engagement, in accordance with paragraph .11 of AU-C section 210.
- Inquire with management to understand whether management uses third parties (for example, custodians or exchanges) and whether an appropriate SOC[31] report is available. If the services provided by a service organization (and sub-service providers, if applicable) are relevant to the audit of a user entity's financial statements, obtaining an understanding of management's processes and controls in addition to obtaining and evaluating the SOC report will also be relevant. If a SOC report is not likely to be available, inquire with management regarding alternative procedures that could be performed. For example, if the entity uses a third party to maintain custody of its digital assets, inquire with management to understand whether the third party commingles the entity's digital assets in a public address that also includes the digital assets of other depositors. When custodians commingle digital assets, a customer might see its individual account balances for each digital asset through the third party's web interface, but it may not be transparent to the customer whether those digital assets exist in the blockchain. Further, if the transactions (buy/sell or send/receive) are between two customers both using this same entity as the custodian, the custodian might decide to transfer funds only within their internal systems rather than using the public blockchain. When assets are commingled, it might be more challenging for management to maintain adequate books and records and for auditors to obtain sufficient appropriate audit evidence. In situations where there is commingling, it is important for auditors to understand management's processes and controls to validate the existence of, and the entity's rights to, the digital assets prior to acceptance or continuance. This will likely involve understanding whether an appropriate SOC report is available for the third party that maintains custody of the entity's digital assets and the complementary user entity controls, or whether alternate procedures can be performed if a SOC report is not available.
- For companies that have or plan to have initial coin offerings or similar mechanisms to create and distribute digital assets to others, understand the business purpose of the offering (for example, tokenizing a limited partnership interest in a venture capital fund or raising capital to develop a utility platform) and assess management's commitment to, and process for, identifying, staying current with, and complying with applicable laws and regulations (for example, state, local, federal, and international). Consider expanding inquiries to the entity's legal counsel and inspecting additional documentation or correspondence.
- For companies seeking to invest in an initial coin offering or similar offering, understand management's process to evaluate whether the digital asset is considered a security,[32] including the use of management's experts; the due diligence procedures the entity performed on the counterparty; the business rationale for investing in the initial coin offering; and the counterparty's business purpose of the initial coin offering.
- Consider contradictory information obtained by performing media searches and from other sources, including information from background checks on management and indicators that management may not be ethical.

[31] System and organization controls (SOC) is a suite of service offerings CPAs may provide in connection with system-level controls of a service organization or entity-level controls of other organizations. SOC 1® reports focus the controls at a service organization relevant to user entities' internal control over financial reporting and SOC 2® reports focus on controls at a service organization relevant to security, availability, processing integrity, confidentiality, and privacy.

[32] The SEC FinHub staff's "Framework for 'Investment Contract' Analysis of Digital Assets" (April 3, 2019) provides a framework for analyzing whether a digital asset offered or sold as an investment contract is a security.

5. Processes and controls, including information technology

Relevant professional standards

As described in paragraph .06 of AU-C section 210, a precondition for an audit is management's ability to prepare and take responsibility for the fair presentation of the financial statements, and the design, implementation, and maintenance of effective internal controls over financial reporting. The degree to which an auditor evaluates these preconditions in the client acceptance and continuance process may vary significantly. Engagements in the digital asset ecosystem often warrant rigorous inquiries in the client acceptance and continuance process to evaluate these preconditions. This is largely due to the complexity of the underlying technology and the unique risks and the related audit challenges in gathering sufficient appropriate audit evidence. Internal controls, including controls over information technology, have a direct effect on the auditability of the underlying financial activity, and auditors may need to expand traditional acceptance or continuance procedures to understand these challenges. For example, understanding how the entity is dependent on or enabled by IT and the manner in which information systems are used to record and maintain financial information may be more critical in the client acceptance or continuance process for entities engaged in newer technology.

Challenges specific to digital assets

Overview

Obtaining an understanding of how the entity uses digital assets, the underlying IT environment, and the controls implemented by the entity over digital assets is likely to be relevant to the auditor in deciding whether to accept or continue an engagement. In some cases, an auditor may encounter circumstances after the initial acceptance or continuance decision that may be cause for reassessment of the decision, such as instances where the auditor has determined that management has not or is unable to fulfill its responsibilities for the preparation and fair presentation of financial statements. For example, if the entity has entered into material digital assets transactions for the first time or strategically entered into a business that leverages digital assets in everyday operations, management may not have proper skill set and understanding, supporting books and records, or internal controls implemented to effectively account for and fairly present digital assets or associated transactions within the financial statements.

Certain applications of blockchain technology can eliminate the need for a central intermediary (for example, banks) for the completion of transactions. Correspondingly, audit evidence traditionally obtained from these intermediaries surrounding the existence and rights and obligations of assets may not be available. If an entity loses access to the private key, or another party inappropriately accesses the private key and transfers the digital assets to another public address where the entity does not have knowledge of the private key, then the entity may lose control of or access to the digital assets. Due to these characteristics, the knowledge of the private key represents control of the digital assets. Although procedures (for example, sending signed messages or moving assets) may be performed to evidence control of a digital asset, additional procedures may often need to be performed to obtain sufficient appropriate audit evidence of the entity's ownership of digital assets (for example, testing the operating effectiveness of controls over private key management).

Although it is sometimes claimed that blockchain technology eliminates the need for trust among transaction participants, the underlying technology does not make the information contained within it inherently trustworthy. Events recorded on the blockchain are not necessarily accurate and complete, and the reliability of data obtained from a blockchain is highly dependent upon the reliability of underlying complex blockchain technology. In addition, entities may implement new IT applications that interface between the blockchain and financial reporting system. The introduction of an interface system may further increase the complexity of an entity's IT environment.

The pseudo-anonymous nature of a public blockchain often increases risks related to undisclosed related party transactions or transactions with entities subject to sanctions or other regulations. There may be no record of which transactions relate to one another, such as may be the case if there is a side arrangement to an initial contract. Moreover, although the blockchain ledger may provide the public address of the transacting parties and the amount of value exchanged, and transactions can be tracked using a transaction identification number or an address, the technology does not provide any information concerning the identity of the counterparty or the appropriate recognition or classification in the financial statements.

As a result of these factors, the auditor may need to test the effectiveness of certain processes and controls around digital assets because substantive procedures alone may not be sufficient to obtain sufficient appropriate audit evidence.[33] (Note: if the auditor plans on relying on controls, the auditor is required to test those controls.[34]) Consequently, more detailed inquiries or review of relevant documentation surrounding the entity's internal control and IT environment may be appropriate in the client acceptance and continuance process. Such inquiry and review may focus on the following areas:

- The blockchain technology and technology used by and relied on by the entity to track, aggregate, reconcile, and report digital assets balances and transactions
- The entity's method and controls implemented to hold and secure digital assets and to authorize and track digital asset transactions
- The entity's controls established to identify, authorize, and approve related parties and relationships and transactions with related parties

Each of these areas is discussed in more detail in the following subsections.

The blockchain technology and technology used by and relied on by the entity to track, aggregate, reconcile and report digital assets balances and transactions

During the client acceptance and continuance process, obtaining an understanding of the nature of blockchain technology and the technology used to track, aggregate, reconcile, and report digital assets balances and transactions helps the auditor assess the extent of audit procedures that may be required. The nature and extent of procedures performed to obtain an understanding of the technology used by the entity will vary depending on the entity's role in the digital asset ecosystem.

It will be important for the auditor to obtain an understanding of the underlying blockchain technology related to the digital asset transactions. If an entity derives its books and records of balances and transactions solely from the blockchain or from statements provided by a third party, the auditor may want to further understand, as part of the acceptance and continuance process, management's processes and controls over the quality of this information. In certain instances, audit evidence obtained from the blockchain or such third parties may not constitute sufficient appropriate audit evidence, and further procedures may be warranted.

As noted, entities may have separate financial reporting systems apart from the blockchain or from a third party to evaluate whether digital asset transactions have been appropriately recorded with their financial records. For example, reconciliation of digital asset balances and transactions from accounting records to the relevant blockchain or a third party may be accomplished through manual processes or through automated processes. The volume of transactions

[33] Paragraph .31 of AU-C section 315.

[34] Paragraph .07 of AU-C section 330.

and addresses processed by the entity and how the entity processes these balances and transactions, including whether the entity maintains a copy of the blockchain to independently reconcile transactions and whether the systems were developed in house or purchased from third parties may also be important to determine the extent of audit procedures necessary to obtain sufficient appropriate audit evidence.

Additionally, the extent to which balances and transactions are recorded internally by the entity and not transmitted to the blockchain (off-chain transactions) may also be relevant. Some entities, primarily entities operating as digital asset exchanges, may record their customers' transactions on an internal ledger and send transactions to be recorded on the blockchain (on-chain transactions) only if the transaction is taking place between an address controlled by the entity and an address not controlled by the entity. Off-chain transactions may present additional challenges in obtaining audit evidence as compared to a transaction recorded on the blockchain.

Transacting and safeguarding digital assets typically requires a number of IT systems to process and record digital asset activity. As such, the auditor may consider assessing whether substantive procedures alone will provide sufficient appropriate audit evidence. In the instances where substantive procedures alone may not provide sufficient appropriate audit evidence, obtaining an understanding of the design, implementation, and operating effectiveness of IT general controls and application controls may be relevant in the client acceptance or continuance process.

Finally, due to the evolving nature of the industry and the technology used by companies within the digital asset ecosystem, it is important for management and the auditor to stay apprised of current and anticipated changes in the underlying technology used by the entity.

The entity's method and controls implemented to hold and secure digital assets and to authorize and track digital asset transactions

Blockchain transactions are designed to be difficult or impossible to reverse. Although the same could be said for any double-entry bookkeeping application, the peer-to-peer nature of blockchains means that once an entity sends a transaction to a particular wallet address, there is no adjusting blockchain entry that can be made unless the counterparty is actively involved. As such, erroneous or inappropriate digital assets transfers may result in the permanent loss of digital assets. Consequently, controls over initiation and authorization of transactions are critical.

Similarly, given that digital assets are secured using cryptography that results in "private keys" that provide control (that is, the ability to transfer) of the associated digital assets, there is an inherent risk that the private keys could be stolen, lost, or misused by either internal or external parties. One example of misuse could be sharing private keys to facilitate an intentional misreporting of assets through a fraud. Private key security and understanding how private keys are controlled is paramount, because anyone with access to the private keys of the entity's assets can use or send those assets, and thus obtaining an understanding of the entity's methods of storing and safeguarding the private key (for example, hot/cold self-storage or through a third-party custodian) is important.

Digital assets held by the entity

If the entity stores digital assets itself (also referred to as *self-custody*), it may be important for the auditor to consider the entity's related technical capabilities, including the entity's ability to verify existence of the digital asset as well as safeguards in place to prevent digital asset loss due to fraud or error. In most public blockchains, the underlying digital assets are bearer instruments and private keys that are lost or stolen represent irreversible, and typically uninsured, losses for the entity, with no recourse due to the decentralized nature of the blockchain.

Obtaining an understanding of the entity's safeguards related to the storage and transaction initiation/authorization of digital assets, may include, but is not limited to, inquiring about the policies, processes and controls around the following:

- The security of the physical location of the private keys
- The processes surrounding key lifecycle management, including the key generation process (hardware, software, and algorithms associated with generation)
- The security of the entity's data centers
- Access to private keys, including redundant private keys
- The number of users required to process a transaction, whether through encrypting and splitting of keys or multisignature address signing requirements
- Segregation of duties in the authorization of digital asset transactions

The auditor will need to obtain an understanding of how management intends to provide evidence related to the ownership assertion of the digital assets. In some instances, management may assert that the entity's ability to sign messages demonstrates their control of those digital assets and therefore can provide audit evidence of the ownership assertion. In certain instances, operational limitations may prohibit the entity from signing messages using their private keys, which further reduces available substantive evidence to support the ownership assertion. Although control of a digital asset is one consideration in the evaluation of the ownership assertion, the auditor will need to determine whether the demonstration of control in this manner constitutes sufficient evidence of ownership of the related digital assets or whether other considerations or procedures are necessary, such as testing the effectiveness of internal controls. The auditor may determine that substantive procedures alone are not adequate to provide sufficient audit evidence of the ownership assertion.

Digital assets held by a third-party custodian

If an entity relies on a third-party custodian to store its digital assets, the auditor considers additional risks both at the entity and the custodian. Determining the level of interaction between the entity and the custodian, including who has the ability to initiate transactions, may be critical to determining whether the preconditions for an audit are present. For example, audit procedures to test digital asset ownership by obtaining signed messages may require interaction with the custodian. If so, understanding whether the custodian is willing and technically capable to assist in the audit process helps the auditor evaluate whether the preconditions for an audit are present. As noted, professional judgment may be needed for the auditor to determine whether sufficient appropriate audit evidence can be obtained to prove ownership of the related digital asset.

For security, efficiency, or other reasons, the custodian may commingle assets of many customers into the same addresses and maintain the custodian's own off-chain ledger. Commingling and off-chain ledgers can complicate the auditor's verification of the entity's specific assets held by the custodian, because the blockchain is no longer representative of the entity's holdings alone. In these instances, the auditor may need to consider procedures to confirm balances with the custodian. Confirmation procedures require the auditor to determine whether the custodian's confirmation is reliable as audit evidence, which may require additional procedures. As of this writing, there is no widely accepted confirmation form or process for digital asset custodians or exchanges, similar to what exists for cash balances held at financial institutions.

Management is responsible for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of financial statements, including establishing controls over information received from service organizations such as an exchange or controls over the safeguarding of assets that may occur at a custodian. As a part of the acceptance and continuance process, the auditor may seek to understand controls implemented by management to monitor service organizations. Management's controls may include performing appropriate reviews of SOC reports by personnel with the relevant competency and skill set and implementing complementary user entity controls. In the event SOC reports are not available, understanding alternative controls implemented by management (for example reconciliations of third-party data to the entity's independent books and records) will be important. The auditor may wish to obtain the SOC report to consider whether the auditor can rely on the SOC report, as a part of the acceptance and continuance process. If the auditor is unable to determine whether the auditor can rely on the SOC report or that the scope of the report is not relevant for audit purposes, inquiring of the client about the auditor's ability to perform audit procedures at the service organization will help the auditor assess the sufficiency of audit evidence that can be obtained. Often custodians will offer a SOC 2® report in lieu of SOC 1® reports. Although SOC 2 reports may offer greater insights on controls implemented to address trust service principles, they do not necessarily provide insights on the controls over processing of transactions for financial statement reporting. Additionally, SOC 1 reports may not contain control objectives relating to generation, security, and monitoring of the keys used in these transactions, and the lack of this information may affect obtaining a thorough understanding of the relevant controls related to financial reporting. If a SOC report is unavailable, it is important for the auditor to consider whether additional procedures will be necessary and feasible to obtain sufficient appropriate audit evidence for reliance on information produced by the service organization.

Additionally, due to the pseudo-anonymous nature of blockchain transactions, obtaining an understanding of whether customer onboarding and due diligence procedures are performed by the custodian assists the auditor in determining whether business risks at the custodian could result in legal or other risks associated with noncompliance with BSA, AML, or other regulations.

The entity's controls established to identify, authorize and approve related parties and relationships and transactions with related parties

The pseudo-anonymous nature of blockchain transactions may create challenges in determining the identity of the parties with which the entity transacts, hence increasing the risk associated with the completeness of related party relationships, transactions, and disclosures. Understanding the policies, processes, and controls performed by the entity assists the auditor in assessing the risk that a counterparty to the entity's transactions is a potentially undisclosed related party.

The auditor's inquiry surrounding compliance with KYC, AML, and other regulations as discussed in section 4 in tandem with other processes may assist in the identification of related parties and relationships, as well as transactions with related parties.

Procedures to consider specific to digital assets

The preceding section addressed challenges as well as some inquiries or procedures auditors may consider addressing the underlying challenges. Some additional procedures specific to the digital asset ecosystem to consider as part of the acceptance and continuance process may include the following:

- Inquire with management, specifically those from the IT department, to understand the nature of the IT general controls, application controls, processes in place to track, aggregate, and reconcile digital assets as well as mitigate IT risks associated with the underlying blockchain technology and any known deficiencies.
- Evaluate the competence of the entity's personnel involved with the controls and processes and understand the technology used to transact with digital assets.
- Understand the entity's use of IT specialists (internal or external) and whether plans exist to implement new technology to allow for the processing of digital asset transactions. New digital assets that are created and supported by new technologies require management to be able to implement processes to read and process digital asset transactions and account for them.
- Understand the entity's use of service organizations (for example, to secure private keys) and the availability of SOC reports. Obtain and read any SOC reports (including SOC 2 reports) that are available and obtain an understanding of whether management has controls in place to review SOC 1 reports and appropriate complementary user entity controls. The auditor should focus on the responsiveness of the controls in the SOC report to the financial reporting risks.
- Inquire with management to understand their due diligence procedures performed on third-party service providers (for example, custodians), including gaining an understanding of the processes and controls performed by the third party related to customer onboarding and due diligence.
- Understand the entity's due diligence process for transacting in new digital assets, such as how it assesses the consensus protocol, and the governance model and process for evaluating available wallet software that may be needed to transact. Consider whether certain assets that are specifically designed to further increase individual privacy may affect the auditor's ability to obtain sufficient appropriate audit evidence.
- Understand the entity's protection of private keys and other customer information, including the following:
  - The infrastructure used to generate and store private keys, including how private keys are stored (for example, hot wallets and cold wallets)
  - Segregation of duties in the authorization of digital asset transactions
  - The number of users required to process a transaction, whether through encrypting and splitting of keys or multisig address signing requirements
  - Monitoring of addresses for any unauthorized activity
- Understand the entity's process for identifying, accounting for, and disclosing related parties and relationships, as well as related party transactions.
- Understand the existence of cybercrime or fidelity insurance from reputable carriers.
- Understand the wallet software and wallet backup (for example, whether encrypted private key information is backed up to provide the entity with continued access to the private key in case of system failure).

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Q&A Section 3200

Long-Term Debt

.18 Borrower Accounting for a Forgivable Loan Received Under the Small Business Administration Paycheck Protection Program

Inquiry — How should a nongovernmental entity[1] account for a forgivable loan received under the Small Business Administration Paycheck Protection Program (PPP)[2]?

Reply — Given the unique nature of the PPP, questions have arisen relating to how a borrower under the program should account for the arrangement. Although the legal form of the PPP loan is debt, some believe that the loan is, in substance, a government grant. Staff of the Office of the Chief Accountant of the SEC have indicated they would not object to an SEC registrant accounting for a PPP loan under FASB *Accounting Standards Codification* (ASC) 470, *Debt*, or as a government grant by analogy to International Accounting Standard (IAS) 20, *Accounting for Government Grants and Disclosure of Government Assistance*, provided certain conditions are met.

Regardless of whether a nongovernmental entity expects to repay the PPP loan or believes it represents, in substance, a grant that is expected to be forgiven, it may account for the loan as a financial liability in accordance with FASB ASC 470 and accrue interest in accordance with the interest method under FASB ASC 835-30. An entity would not impute additional interest at a market rate (even though the stated interest rate may be below market) because transactions where interest rates are prescribed by governmental agencies (for example, government guaranteed obligations) are excluded from the scope of the FASB ASC 835-30 guidance on imputing interest. For purposes of derecognition of the liability, FASB ASC 470-50-15-4 refers to guidance in FASB ASC 405-20. Based on the guidance in FASB ASC 405-20-40-1, the proceeds from the loan would remain recorded as a liability until either (1) the loan is, in part or wholly, forgiven and the debtor has been "legally released" or (2) the debtor pays off the loan to the creditor. Once the loan is, in part or wholly, forgiven and legal release is received, a nongovernmental entity would reduce the liability by the amount forgiven and record a gain on extinguishment.

If a nongovernmental entity that is not a not-for-profit entity (NFP) (that is, it is a business entity) expects to meet the PPP's eligibility criteria and concludes that the PPP loan represents,

[1] References to nongovernmental entities include business entities and not-for-profit entities.
[2] Please refer to the Small Business Administration website for information regarding the Paycheck Protection Program.

in substance, a grant that is expected to be forgiven, it may analogize to IAS 20 to account for the PPP loan. IAS 20 outlines a model for the accounting for different forms of government assistance, including forgivable loans. Under this model, government assistance is not recognized until there is reasonable assurance (similar to the "probable" threshold in U.S. generally accepted accounting principles[3]) that (1) any conditions attached to the assistance will be met and (2) the assistance will be received. Once there is reasonable assurance that the conditions will be met, the earnings impact of government grants is recorded "on a systematic basis over the periods in which the entity recognizes as expenses the related costs for which the grants are intended to compensate."[4] Specifically, a business entity would record the cash inflow from the PPP loan as a deferred income liability. Subsequent to initial recognition, a business entity would reduce the liability, with the offset through earnings (presented as either [1] a credit in the income statement, either separately or under a general heading such as "other income," or [2] a reduction of the related expenses), as it recognizes the related cost to which the loan relates, for example, compensation expense.

If a nongovernmental entity that is not an NFP (that is, it is a business entity) expects to meet the PPP's eligibility criteria and concludes that the PPP loan represents, in substance, a grant that is expected to be forgiven, the AICPA staff observes it can also analogize[5] to the following guidance: (1) FASB ASC 958-605 or (2) FASB ASC 450-30.

If an NFP chooses not to follow FASB ASC 470 and it expects to meet the PPP's eligibility criteria and concludes that the PPP loan represents, in substance, a grant that is expected to be forgiven, it should account for such PPP loans in accordance with FASB ASC 958-605 as a conditional contribution.

The following table summarizes the key concepts of these models.

Accounting Topic	Overview
FASB ASC 958-605	FASB ASC 958-605 addresses the accounting for contributions by NFPs. Although the scope of FASB ASC 958-605 excludes contributions made by governmental entities to business (for-profit) entities, the FASB staff has acknowledged that entities scoped out of that guidance are not precluded from applying it by analogy when appropriate.[6] Under this model, the timing of recognition for a contribution received depends on whether the contribution is conditional or not. If conditional, the contribution is not recognized until the conditions are substantially met or explicitly waived. Specifically, a nongovernmental entity would

[3] The FASB ASC Master Glossary defines *probable* as "[t]he future event or events are likely to occur."
[4] Paragraph 12 of IAS 20.
[5] FASB ASC 105-10-05-2 explains that, in the absence of explicit guidance, entities should first analogize to other areas of authoritative generally accepted accounting principles before considering other nonauthoritative sources.
[6] The issue of business entities analogizing to the guidance in FASB ASC 958-605 was discussed by FASB staff at the Private Company Council meeting on April 17, 2020, as well as by the FASB Not-for-Profit Advisory Committee during its meetings on September 13–14, 2018, and April 7, 2020.

	initially record the cash inflow from the PPP loan as a refundable advance. The nongovernmental entity would then reduce the refundable advance and recognize the contribution once the conditions of release have been substantially met or explicitly waived.
FASB ASC 450-30	FASB ASC 450-30 outlines a model for gain contingency recognition. Under this model, the earnings impact of a gain contingency is recognized when all the contingencies related to receipt of the assistance have been met and the gain is realized or realizable. As applied to forgivable loans received under the PPP, a business entity would initially record the cash inflow from the PPP loan as a liability. The proceeds from the loan would remain recorded as a liability until the grant proceeds are realized or realizable, at which time the earnings impact would be recognized.

Nongovernmental entities with material PPP loans should adequately disclose their accounting policy for such loans and the related impact to the financial statements.

[Issue Date: June 2020.]

Q&A Section 5270

Other Income

.01 Recipient Accounting for Shuttered Venue Operators Grants and Restaurant Revitalization Fund Grants Received Under the Small Business Administration COVID-19 Relief Programs

Inquiry — How should a recipient[1] account for a Shuttered Venue Operators Grant (SVOG) or a Restaurant Revitalization Fund (RRF) Grant issued under the Small Business Administration COVID-19 Relief Programs?[2]

Reply — Under the terms of both the SVOG and RRF grants, recipients are not required to repay the funding as long as funds are used for eligible uses by the dates specified by each respective program.

Business (For-Profit) Entities

There is no explicit guidance within U.S. GAAP on the accounting for government grants to business entities. When selecting the appropriate accounting model to apply to a government grant, a business entity should consider

a. U.S. GAAP guidance on selecting accounting principles for transactions or events for which no guidance exists (FASB *Accounting Standards Codification* [ASC] 105, *Generally Accepted Accounting Principles*);

b. the specific characteristics and facts and circumstances associated with the grant; and

c. any preexisting accounting policies the entity may have established for government grants.

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[1] Please note that publicly traded entities (as defined in the respective grant programs) are not eligible to receive Shuttered Venue Operators Grants (SVOG) or Restaurant Revitalization Fund (RRF) grants. Furthermore, non-profit organizations are not eligible to receive RRF grants.

[2] Please refer to the Small Business Administration website for information regarding the SVOG and RRF grant programs. Also, the AICPA has web pages dedicated to both SVOG and RRF grants, which it is continuously updating.

FASB ASC 105 describes the decision-making framework for determining the guidance to apply when guidance for a transaction or event is not specified within U.S. GAAP.[3] The AICPA staff has observed that guidance in International Accounting Standard (IAS) 20, *Accounting for Government Grants and Disclosure of Government Assistance*, FASB ASC 958-605, *Not-for-Profit Entities — Revenue Recognition*,[4] (discussed in the reply for not-for-profit entities [NFPs]), or FASB ASC 450-30, *Contingencies — Gain Contingencies*, might be considered for application by analogy.

Under the IAS 20 framework, government grants cannot be recognized in income until there is reasonable assurance that a recipient

a. will comply with the conditions associated with the grant and

b. will receive the grant.

Thus, before recognition can occur, a business entity should have received the grant payments (or have reasonable assurance that it will receive grant payments in an amount that can be reliably estimated) and must be reasonably assured of meeting any compliance requirements associated with receiving or retaining the funds. As used in IAS 20, "reasonably assured" is a threshold generally considered analogous to "probable" as defined in FASB ASC 450-20, *Contingencies — Loss Contingencies*.[5]

Under the IAS 20 framework, once there is reasonable assurance that the conditions will be met, the earnings impact is recorded "on a systematic basis over the periods in which the entity recognizes as expenses the related costs for which the grants are intended to compensate."[6] Thus, with respect to the SVOG and RRF grants, grant income would be recognizable only to the extent that the business entity is reasonably assured that eligible expenses have been incurred at a reporting date. Companies will need to evaluate their individual facts and circumstances in evaluating the extent to which compliance with grant conditions is reasonably assured at a given reporting date. If the amount of payments received or receivable at a reporting date exceeds the amount of the grant for which the reasonable assurance threshold has been met, the difference is reported as a refundable advance (that is, a liability).

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[3] FASB *Accounting Standards Codification* (ASC) 105-10-05-2 explains that, in the absence of explicit guidance, entities should first analogize to other areas of authoritative generally accepted accounting principles before considering other nonauthoritative sources.

[4] The issue of business entities analogizing to the guidance in FASB ASC 958-605, *Not-for-Profit Entities — Revenue Recognition*, was discussed by FASB staff at the Private Company Council meeting on April 17, 2020, as well as by the FASB Not-for-Profit Advisory Committee during its meetings on September 13–14, 2018, and April 7, 2020.

[5] The FASB ASC Master Glossary defines *probable* as "[t]he future event or events are likely to occur."

[6] Paragraph 12 of International Accounting Standard (IAS) 20, *Accounting for Government Grants and Disclosure of Government Assistance*.

Under the IAS 20 framework, a grant related to income may be reported either as income or as a reduction in the related expense that the grant is intended to defray.[7]

FASB ASC 450-30 outlines a model for gain contingency recognition. Under this model, the earnings impact of a gain contingency is recognized when all the contingencies related to receipt of the assistance have been met and the gain is realized or realizable. A business entity would record the payments received under the SVOG or RRF grants as a refundable advance (that is, a liability). Those amounts would continue to be reported as a liability until the grant proceeds are realized or realizable, at which time the earnings impact would be recognized.

Regardless of the accounting model it applies, a business entity with material grants should adequately disclose its accounting policy for such grants (as required by FASB ASC 235, *Notes to Financial Statements*), and the impact of the grants on the financial statements.[8]

Not-for-Profit Entities

NFP entities should account for government grants in accordance with the "contributions received" subsections of FASB ASC 958-605, *Not-for-Profit Entities — Revenue Recognition*. That model requires entities to first determine if a contribution is conditional or unconditional. If a recipient is required to meet conditions imposed by the government to be entitled to receive or keep the funds, then the contribution is conditional, and recognition of contribution revenue is deferred until the conditions are substantially met or explicitly waived. An NFP entity cannot factor in the likelihood that the condition will be met in determining whether a grant is conditional or unconditional.

Because entitlement to the payments is conditioned upon having incurred eligible expenses (that is, a barrier to entitlement), and because noncompliance with the terms and conditions is grounds for recoupment by the Small Business Administration (that is, a right of return), the payments would be considered conditional contributions under FASB ASC 958-605. Thus, contribution revenue would be recognized only to the extent that eligible expenses have been incurred at that date.

NFP entities will need to evaluate their individual facts and circumstances in determining the extent to which conditions have been substantially met at a given reporting date. Payment amounts received that exceed recognizable contribution revenue (for example, because entitlement is conditioned on eligible expenses that are expected to be incurred in the subsequent accounting period) are reported as a refundable advance (that is, a liability).

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[7] Paragraph 29 of IAS 20. Grants related to assets have separate presentation requirements under paragraphs 24–28 of IAS 20.

[8] FASB is expected to issue a final Accounting Standards Update in connection with its project on disclosures by business entities about government assistance. At its May 26, 2021 meeting, FASB tentatively decided that these disclosure requirements should apply to a business entity that has accounted for a transaction with a government by analogizing to a grant or a contribution accounting model (for example, IAS 20 or FASB ASC 958-605). Readers should stay alert for further developments and refer to the FASB website for up-to-date information on this project.

To the extent that conditions have been met (and, thus, contribution revenue is recognizable), FASB ASC 958-605 also requires a recipient to consider whether the government has imposed restrictions on the use of the funds. Because the payments can only be used for eligible expenses, they would be considered to be donor-restricted. Due to the linkage of the conditions with the restrictions, restrictions will likely be satisfied simultaneously with meeting the conditions (but each entity's specific facts and circumstances would need to be considered). Thus, in an NFP entity's statement of operations and statement of changes in net assets, any contribution revenue recognized would be reported as an increase in donor-restricted net assets, along with a reclassification to net assets without donor restrictions to reflect the satisfaction of the restriction. However, an NFP entity that has elected one of the "simultaneous release" accounting policy options described in paragraph 4A–B of FASB ASC 958-605-45 (for donor-restricted contributions whose restrictions are met within the same reporting period) would be permitted to report the contribution revenue directly in net assets without donor restrictions.

[Issue Date: August 2021.]

SAS 137 *“The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports”*

(Effective for Audits of Periods Ending on or after December 15, 2021)

WHAT YOU NEED TO KNOW

AU-C Section 720

THE AUDITOR’S RESPONSIBILITIES RELATING TO OTHER INFORMATION INCLUDED IN ANNUAL REPORTS
Source: SAS No. 137; SAS No. 141.

Effective for audits of financial statements for periods ending on or after December 15, 2021.

INTRODUCTION

Scope of This Section

.01
This section addresses the auditor’s responsibilities relating to other information, whether financial or nonfinancial information (other than financial statements and the auditor’s report thereon), included in an entity’s annual report. An entity’s annual report may be a single document or a combination of documents that serve the same purpose.

.02
This section also may be applied, and adapted as necessary in the circumstances, to other documents to which the auditor, at management’s request, devotes attention. (Ref: par. .A1–.A3)

.03
This section is written in the context of an audit of financial statements by an independent auditor. Accordingly, the objectives of the auditor in this section are to be understood in the context of the overall objectives of the auditor as stated in section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards.* The requirements in the standards are designed to enable the auditor to achieve the objectives specified in the standards, and thereby the overall objectives of the auditor. The auditor’s opinion on the financial statements does not cover the other information, nor does this section require the auditor to obtain audit evidence beyond that required to form an opinion on the financial statements.

.04
This section requires the auditor to read and consider the other information because other information that is materially inconsistent with the financial statements or the auditor’s knowledge obtained in the audit may indicate that a material misstatement of the financial statements or that a material misstatement of the other information exists, either of which may undermine the credibility of the financial statements and the auditor’s report thereon.

.05
Other information may include amounts or other items that are intended to be the same as, to summarize, or to provide greater detail about amounts or other items in the financial statements and

other amounts or other items about which the auditor has obtained knowledge in the audit. Other information may include nonfinancial information.

.06
The auditor's responsibilities relating to other information, other than applicable reporting requirements, apply regardless of whether the other information is obtained by the auditor prior to or after the date of the auditor's report.

.07
The auditor's responsibilities under this section do not constitute an assurance engagement on other information or impose an obligation on the auditor to obtain assurance about the other information.

.08
Law or regulation may impose additional obligations on the auditor in relation to other information that are beyond the scope of this section.

.09
This section does not apply to supplemental information addressed by section 725, *Supplementary Information in Relation to the Financial Statements as a Whole*, or required supplementary information addressed by section 730, *Required Supplementary Information*. (Ref: par. .A2)

Effective Date

.10
This section is effective for audits of financial statements for periods ending on or after December 15, 2021. [As amended, effective for audits of financial statements for periods ending on or after December 15, 2021, by SAS No. 141.]

OBJECTIVES

.11
The objectives of the auditor, having read the other information, are as follows:

a. To consider whether a material inconsistency exists between the other information and the financial statements

b. To remain alert for indications that

   i. a material inconsistency exists between the other information and the auditor's knowledge obtained in the audit or

   ii. a material misstatement of fact exists or the other information is otherwise misleading

c. To respond appropriately when the auditor identifies that such material inconsistencies appear to exist, or when the auditor otherwise becomes aware that other information appears to be materially misstated

d. To report in accordance with this section

DEFINITIONS

.12
For purposes of the auditing standards, the following terms have the meanings attributed:

Annual report. A document, or combination of documents, typically prepared on an annual basis by management or those charged with governance in accordance with law, regulation, or custom, the purpose of which is to provide owners (or similar stakeholders) with information on the entity's operations and the entity's financial results and financial position as set out in the financial statements. An annual report contains, accompanies, or incorporates by reference the financial statements and the auditor's report thereon and usually includes information about the entity's developments, its future outlook and risks and uncertainties, a statement by the entity's governing body, and reports covering governance matters. Annual reports include annual reports of governments and organizations for charitable or philanthropic purposes that are available to the public. (Ref: par. .A4–.A10)

Misstatement of the other information. A misstatement of the other information exists when the other information is incorrectly stated or otherwise misleading. (Ref: par. .A11–.A12)

Other information. Financial or nonfinancial information (other than financial statements and the auditor's report thereon) included in an entity's annual report. (Ref: par. .A13)

REQUIREMENTS

Obtaining the Other Information

.13
The auditor should do the following: (Ref: par. .A14–.A24)

a. Through discussion with management, determine and obtain management's written acknowledgment regarding which document or documents comprise the annual report and the entity's planned manner and timing of the issuance of such documents.

b. Make appropriate arrangements with management to obtain in a timely manner and, if possible, prior to the date of the auditor's report, the final version of the document or documents comprising the annual report.

c. When some or all the documents determined in (*a*) will not be available until after the date of the auditor's report on the financial statements, request management to provide a written representation that the final version of the documents will be provided to the auditor when available, and prior to the document's issuance by the entity, such that the auditor can complete the procedures required by this section. (Ref: par. .A23–.A24)

.14
If the auditor becomes aware that the entity did not provide the auditor with the final version of documents determined in accordance with paragraph .13*a* to be part of the annual report prior to the issuance of those documents to third parties, the auditor should take appropriate action. (Ref: par. .A25)

Communication With Those Charged With Governance

.15
The auditor should communicate with those charged with governance the auditor's responsibility with respect to other information, the procedures performed related to the other information, and the results.

Reading and Considering the Other Information

.16
The auditor should read the other information and consider whether a material inconsistency exists between the other information and the financial statements. As the basis for this consideration, to evaluate their consistency, the auditor should compare selected amounts or other items in the other information (that are intended to be the same as, to summarize, or to provide greater detail about the amounts or other items in the financial statements) with such amounts or other items in the financial statements. (Ref: par. .A26–.A32)

.17
While reading the other information in accordance with paragraph .16, the auditor should remain alert for indications that (Ref: par. .A33–.A42)

a. a material inconsistency exists between the other information and the auditor's knowledge obtained in the audit.

b. a material misstatement of fact exists or the other information is otherwise misleading.

.18
The auditor is not responsible for searching for omitted information or for the completeness of the other information.

Responding When a Material Inconsistency Appears to Exist or Other Information Appears to Be Materially Misstated

.19
If the auditor identifies that a material inconsistency appears to exist (or becomes aware that the other information appears to be materially misstated), the auditor should discuss the matter with management and, if necessary, perform other procedures to conclude the following: (Ref: par. .A43–.A47)

a. Whether a material misstatement of the other information exists

b. Whether a material misstatement of the financial statements exists

c. Whether the auditor's understanding of the entity and its environment needs to be updated

Responding When the Auditor Concludes That a Material Misstatement of the Other Information Exists

.20
If the auditor concludes that a material misstatement of the other information exists, the auditor should request management to correct the other information and

a. if management agrees to make the correction, determine that the correction has been made.

b. if management refuses to make the correction, communicate the matter to those charged with governance and request that the correction be made.

.21
If the auditor concludes that a material misstatement exists in other information obtained prior to the date of the auditor's report, and the other information is not corrected after communicating with those charged with governance, the auditor should (Ref: par. .A48)

a. consider the implications for the auditor's report and communicate to those charged with governance about how the auditor plans to address the material misstatement in the auditor's report (see paragraph .24*c*ii); (Ref: par. .A49)

b. withhold the auditor's report; or (Ref: par. .A51)

c. withdraw from the engagement, when withdrawal is possible under applicable law or regulation. (Ref: par. .A50–.A51)

.22
If the auditor concludes that a material misstatement exists in other information obtained after the date of the auditor's report, the auditor should do the following:

a. If the other information is corrected, perform the procedures necessary in the circumstances. (Ref: par. .A52)

b. If the other information is not corrected after communicating with those charged with governance, take appropriate action considering the auditor's legal rights and obligations to seek to have the uncorrected material misstatement appropriately brought to the attention of anyone in receipt of the financial statements and the auditor's report. (Ref: par. .A53–.A54)

Responding When a Material Misstatement in the Financial Statements Exists or the Auditor's Understanding of the Entity and Its Environment Needs to Be Updated

.23
If, as a result of performing the procedures in paragraphs .16–.18, the auditor concludes that a material misstatement in the financial statements exists or the auditor's understanding of the entity and its environment needs to be updated, the auditor should respond appropriately in accordance with other relevant AU-C sections. (Ref: par. .A55)

Reporting

.24
At the date of the auditor’s report, when the auditor has obtained all the other information, the composition of which was determined through discussion with management and for which the auditor obtained management’s written acknowledgment (pursuant to paragraph .13*a*), the auditor should include a separate section in the auditor’s report on the financial statements with the heading "Other Information" or other appropriate heading. The "Other Information" section in the auditor’s report on the financial statements should include the following: (Ref: par. .A56)

- *a.* A statement that management is responsible for the other information
- *b.* An identification of other information and a statement that the other information does not include the financial statements and the auditor’s report thereon
- *c.* A statement that the auditor’s opinion on the financial statements does not cover the other information and that the auditor does not express an opinion or any form of assurance thereon
- *d.* A statement that, in connection with the audit of the financial statements, the auditor is responsible to read the other information and consider whether a material inconsistency exists between the other information and the financial statements or the other information otherwise appears to be materially misstated
- *e.* A statement that, if, based on the work performed, the auditor concludes that an uncorrected material misstatement of the other information exists, the auditor is required to describe it in the auditor’s report
- *f.* If the auditor has concluded that an uncorrected material misstatement of the other information exists, a statement that the auditor has concluded that an uncorrected material misstatement of the other information exists and a description of it in the auditor’s report

.25
When the auditor expresses a qualified or adverse opinion in accordance with section 705, *Modifications to the Opinion in the Independent Auditor’s Report*, the auditor should consider the implications of the matter giving rise to the modification of opinion for the statement required in paragraph .24*f* of this section. (Ref: par. .A57–.A61)

Documentation

.26
In addressing the requirements in section 230, *Audit Documentation*, as those requirements apply to this section, the auditor should include the following in the audit documentation:

- *a.* The procedures performed under this section
- *b.* The final version of the other information on which the auditor has performed the work required under this section

APPLICATION AND OTHER EXPLANATORY MATERIAL

Scope of This Section (Ref: par. .02 and .09)

.A1
In instances in which the auditor applies this section to other documents to which the auditor, at management's request, devotes attention, the requirements of this section are applicable, adapted as necessary in the circumstances.

.A2
Other AU-C sections provide requirements and guidance with respect to information in certain documents other than annual reports. For example, section 925, *Filings With the U.S. Securities and Exchange Commission Under the Securities Act of 1933*; section 945, *Auditor Involvement With Exempt Offering Documents*; and Statement on Auditing Standards No. 136, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA* (sec. 703).

.A3
This section also addresses other information for which a designated accounting standard setter has issued standards or guidance regarding the format to be used and content to be included when such information is voluntarily presented in an annual report — for example, GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*.

Definitions

Annual Report (Ref: par. .12)

.A4
Law, regulation, or custom may define the content of an annual report and the name by which it is to be referred.

.A5
An annual report is typically prepared on an annual basis. However, when the financial statements being audited are prepared for a period less than or more than a year, an annual report may also be prepared that covers the same period as the financial statements.

.A6
In some cases, an entity's annual report may be a single document and referred to by the title "Annual Report" or by some other title. In other cases, law, regulation, or custom may require the entity to report to owners (or similar stakeholders) information on the entity's operations and the entity's financial results and financial position as set out in the financial statements (that is, an annual report) by way of a single document or by way of two or more separate documents that, in combination, serve the same purpose.

.A7
An annual report may be made available to users in printed form, or electronically, including on the entity's website. A document (or combination of documents) may meet the definition of an *annual report*, irrespective of the manner in which it is made available to users.

.A8
An annual report is different in nature, purpose, and content from other reports, such as a report prepared to meet the information needs of a specific stakeholder group or a report prepared to comply with a specific regulatory reporting objective (even when such a report is required to be publicly available). Examples of reports that, when issued as stand-alone documents, are not

typically part of the combination of documents that comprise an annual report (subject to law, regulation, or custom), and, therefore, are not other information within the scope of this section, include the following:

- IRS Form 990, *Return of Organization Exempt From Income Tax*
- IRS Form 5500, *Annual Return/Report of Employee Benefit Plan*
- Annual statement filed with National Association of Insurance Commissioners
- Separate industry or regulatory reports (for example, capital adequacy reports), such as those prepared in the banking, insurance, and pension industries
- Corporate social responsibility reports
- Sustainability reports
- Diversity and equal opportunity reports
- Product responsibility reports
- Labor practices and working conditions reports
- Human rights reports

.A9
Though a document may be referred to as an *annual report*, such document may not meet the definition of an *annual report* for purposes of this section.

Considerations Specific to Governmental Entities
.A10
The term *annual reports of governments* is intended to include comprehensive annual financial reports or other annual financial reports that include the government's financial statements and the auditor's report thereon.

Misstatement of the Other Information (Ref: par. .12)

.A11
A misstatement of the other information may be

- an inconsistency;
- a misstatement of fact; or
- information that is otherwise misleading, including because it omits or obscures information necessary for a user to appropriately understand a matter disclosed in the other information.

An inconsistency exists when other information conflicts with information contained in the financial statements. A material inconsistency may raise doubt about the audit conclusions drawn from audit evidence previously obtained and, possibly, about the basis for the auditor’s opinion on the financial statements. A misstatement of fact exists when other information that is unrelated to matters appearing in the financial statements is incorrectly stated or presented. A material misstatement of fact may undermine the credibility of the annual report. Information that is otherwise misleading, including because it omits or obscures information necessary for a user to appropriately understand a matter disclosed in the other information, could result in a material misstatement of the other information.

.A12
The concept of materiality may be discussed in a framework applicable to the other information and, if so, such a framework may provide a frame of reference for the auditor in making judgments about materiality under this section. In many cases, however, there may be no applicable framework that includes a discussion of the concept of materiality as it applies to the other information. In such

circumstances, the following characteristics provide the auditor with a frame of reference in determining if a misstatement of the other information is material:

- Materiality is considered in the context of the common information needs of users as a group. The users of the other information are expected to be the same as the users of the financial statements because such users may be expected to read the other information to provide context to the financial statements.
- Judgments about materiality take into account the specific circumstances of the misstatement, considering whether users would be influenced by the effect of the uncorrected misstatement. Not all misstatements will influence the economic decisions of users.
- Judgments about materiality involve both qualitative and quantitative considerations. Accordingly, such judgments may take into account the nature or magnitude of the items that the other information addresses in the context of the entity's annual report.

Other Information (Ref: par. .12)

.A13
The following are examples of amounts and other items that may be included in other information. This list is not intended to be exhaustive:

- Management report, management commentary, or operating and financial review or similar reports by those charged with governance (for example, a directors' report)
- Chairman's statement
- Corporate governance statement
- Management's internal control and risk assessment reports
- Financial summaries or highlights
- Employment data
- Planned capital expenditures
- Financial ratios
- Names of officers and directors
- Selected quarterly data

Obtaining the Other Information (Ref: par. .13–.14)

.A14
Determining the document or documents that comprise the annual report is often clear based on law, regulation, or custom. In many cases, management or those charged with governance may have customarily issued a package of documents that, together, comprise the annual report or may have committed to do so. In some cases, it may not be clear which documents comprise the annual report. In such cases, the timing and purpose of the documents (and for whom they are intended) are matters that may be relevant to the auditor's determination of which documents are the annual report.

.A15
In accordance with paragraph .13*a*, management's written acknowledgment may be included in the engagement letter, an amendment to the engagement letter, a representation letter, or some other written communication.

.A16
Management, or those charged with governance, is responsible for preparing the annual report. The auditor may communicate the following to management or those charged with governance:

- The auditor's expectations in relation to obtaining the final version of the annual report (including a combination of documents that, together, comprise the annual report) in a timely manner prior to the date of the auditor's report such that the auditor can complete the procedures required by this section before the date of the auditor's report, or if that is not possible, as soon as practicable and, in any case, prior to the entity's issuance of such information
- The possible implications when the other information is obtained after the date of the auditor's report

.A17
The communications referred to in paragraph .A16 may be particularly appropriate in the following instances:

- In an initial audit engagement
- When there has been a change in management or those charged with governance
- When other information is expected to be obtained after the date of the auditor's report

.A18
When those charged with governance are to approve the other information prior to its issuance by the entity, the final version of such other information is the version that has been approved by those charged with governance for issuance.

.A19
In some cases, the entity's annual report may be a single document to be released, in accordance with law or regulation or the entity's reporting practice, shortly after the entity's financial reporting period such that it is available to the auditor prior to the date of the auditor's report. In other cases, such a document may not be required to be released until a later time, or at a time of the entity's choosing. There may also be circumstances in which the entity's annual report is a combination of documents, each subject to different requirements or reporting practices by the entity with respect to the timing of their release.

.A20
Obtaining the other information in a timely manner prior to the date of the auditor's report enables any revisions that are found to be necessary to the financial statements, the auditor's report, or the other information prior to their issuance. The audit engagement letter may make reference to an agreement with management to make available to the auditor the other information in a timely manner, and, if possible, prior to the date of the auditor's report.

.A21
When other information is made available to users only via the entity's website, the version of the other information obtained from the entity, rather than directly from the entity's website, is the relevant document on which the auditor would perform procedures in accordance with this section. The auditor has no responsibility in accordance with this section to search for other information, including other information that may be on the entity's website, nor to perform any procedures to confirm that other information is appropriately displayed on the entity's website or otherwise has been appropriately transmitted or displayed electronically.

.A22
The auditor is not precluded from dating or issuing the auditor's report if the auditor has not obtained some or all of the other information.

.A23
When the other information is obtained after the date of the auditor's report, the auditor is not required to update the procedures performed in accordance with section 560, *Subsequent Events and Subsequently Discovered Facts*.

.A24
Section 580, *Written Representations*, establishes requirements and provides guidance on the use of written representations. The written representation regarding other information that will be available only after the date of the auditor's report is intended to support the auditor's ability to complete the procedures required by this section with respect to such information. In addition, the auditor may find it useful to request other written representations, such as the following:

- That management has informed the auditor of all the documents that it expects to issue that may be other information
- That the financial statements and any other information obtained by the auditor prior to the date of the auditor's report are consistent with one another, and the other information does not contain any material misstatements
- With regard to other information that has not been obtained by the auditor prior to the date of the auditor's report, that management intends to prepare and issue such other information and the expected timing of such issuance

.A25
In accordance with paragraph .14, appropriate actions that the auditor may take include the following:

- Obtaining those documents from management and performing the procedures required by this section as soon as practical
- Communicating the matter to those charged with governance, if applicable
- Considering the need to obtain legal advice

Reading and Considering the Other Information (Ref: par. .16–.17)

.A26
Section 200 requires the auditor to plan and perform the audit with professional skepticism. Maintaining professional skepticism when reading and considering the other information includes, for example, recognizing that management may be overly optimistic about the success of its plans.

.A27
In accordance with section 220, *Quality Control for an Engagement Performed in Accordance With Generally Accepted Auditing Standards,* the engagement partner is required to take responsibility for the direction, supervision, and performance of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements. In the context of this section, factors that may be considered when determining the appropriate engagement team members to address the requirements of paragraphs .16–.17 of this section include the following:

- The relative experience of engagement team members
- Whether the engagement team members have the relevant knowledge obtained in the audit to identify inconsistencies between the other information and that knowledge
- The degree of judgment involved in addressing the requirements of paragraphs .16–.17 of this section, for example, performing procedures to evaluate the consistency of amounts in the other information that are intended to be the same as amounts in the

financial statements may be carried out by less experienced engagement team members
- Whether, in the case of a group audit, it is necessary to make inquiries of a component auditor in addressing the other information related to that component

.A28
Other information may include amounts or other items that are intended to be the same as, to summarize, or to provide greater detail about the amounts or other items in the financial statements. Examples of such amounts or other items may include the following:

- Tables, charts, or graphs containing extracts of the financial statements
- A disclosure providing greater detail about a balance or account shown in the financial statements, such as "Revenue for 20X1 was XXX million from product X and YYY million from product Y"
- Descriptions of the financial results, such as "Total research and development expense was XXX in 20X1"

.A29
In evaluating the consistency of selected amounts or other items in the other information with the financial statements, the auditor is not required to compare all amounts or other items in the other information that are intended to be the same as, to summarize, or to provide greater detail about the amounts or other items in the financial statements, with such amounts or other items in the financial statements.

.A30
Selecting the amounts or other items to compare is a matter of professional judgment. Factors relevant to this judgment include the following:

- The significance of the amount or other item in the context in which it is presented, which may affect the importance that users would attach to the amount or other item (for example, a key ratio or amount)
- If quantitative, the relative size of the amount compared with accounts or items in the financial statements or the other information to which they relate
- The sensitivity of the particular amount or other item in the other information, for example, share-based payments for senior management

.A31
Determining the nature and extent of procedures to address the requirement in paragraph .16 is a matter of professional judgment, recognizing that the auditor's responsibilities under this section do not constitute an assurance engagement on the other information or impose an obligation to obtain assurance about the other information. Examples of such procedures include the following:

- For information that is intended to be the same as information in the financial statements, comparing the information to the financial statements
- For information intended to convey the same meaning as disclosures in the financial statements, comparing the words used and considering the significance of differences in wording used and whether such differences imply different meanings
- Obtaining a reconciliation between an amount within the other information and the financial statements from management
- Comparing items in the reconciliation to the financial statements and the other information

- Checking whether the calculations within the reconciliation are arithmetically accurate

.A32
Evaluating the consistency of selected amounts or other items in the other information with the financial statements includes, when relevant given the nature of the other information, the manner of their presentation compared to the financial statements.

.A33
Other information may include amounts or items that are related to the auditor's knowledge obtained in the audit (other than those in paragraph .16). Examples of such amounts or items may include the following:

- A disclosure of the units produced or a table summarizing such production by geographical region
- A statement that "the company introduced product X and product Y during the year"
- A summary of the locations of the entity's major operations, such as "the entity's major center of operation is in country X, and there are also operations in countries Y and Z"

.A34
The auditor's knowledge obtained in the audit includes the auditor's understanding of the entity and its environment, including the entity's internal control, obtained in accordance with section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*. Section 315 sets out the auditor's required understanding, which includes such matters as obtaining an understanding of the following:

a. The relevant industry, regulatory, and other external factors

b. The nature of the entity

c. The entity's selection and application of accounting policies

d. The entity's objectives and strategies

e. The measurement and review of the entity's financial performance

f. The entity's internal control

.A35
The auditor's knowledge obtained in the audit may also include matters that are prospective in nature. Such matters may include, for example, business prospects and future cash flows that the auditor considered when evaluating the assumptions used by management in performing impairment tests on intangible assets such as goodwill, or when evaluating management's evaluation of whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time in accordance with section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern.*

.A36
In the case of a group audit, though the group auditor is required to read the entirety of the other information if, in accordance with section 600, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)*, the group auditor decides to make

reference to a component auditor in the auditor's report on the group financial statements, the group auditor's knowledge does not extend beyond that obtained by the group auditor during the audit of the group financial statements.

.A37
While remaining alert for indications that a material inconsistency exists between the other information and the auditor's knowledge obtained in the audit, the auditor may focus on those matters in the other information that are of sufficient importance that a misstatement of the other information in relation to those matters could be material.

.A38
In relation to many matters in the other information, the auditor's recollection of the audit evidence obtained and conclusions reached during the audit may be sufficient to enable the auditor to consider whether a material inconsistency exists between the other information and the auditor's knowledge obtained in the audit. For example, the auditor may be able to consider whether a material inconsistency exists between the other information and the auditor's knowledge obtained in the audit in light of the auditor's recollection of discussions held with management or those charged with governance or findings from procedures carried out during the audit, such as the reading of board minutes, without the need to take further action.

.A39
The manner in which an auditor resolves a concern regarding whether other information is materially inconsistent with the auditor's knowledge obtained in the audit, is a matter of professional judgment. The auditor may determine that referring to relevant audit documentation or making inquiries of relevant members of the engagement team or relevant component auditors is appropriate as a basis for the auditor's consideration of whether a material misstatement exists. Whether, and if so, the extent to which, the auditor refers to relevant audit documentation or makes inquiries of relevant members of the engagement team or relevant component auditors is a matter of professional judgment.

.A40
It may not be necessary for the auditor to refer to relevant audit documentation or to make inquiries of relevant members of the engagement team or relevant component auditors about any matter included in the other information. This may be the case, for example, when the group auditor decides to make reference to a component auditor in the auditor's report in accordance with section 600, and the group auditor has obtained sufficient knowledge in connection with the group audit about matters in the other information relating to the significant component with respect to which the component auditor has performed an audit of the financial statements.

.A41
Other information may include discussion of matters that are not related to the financial statements and may also extend beyond the auditor's knowledge obtained in the audit. For example, the other information may include statements about the entity's greenhouse gas emissions.

.A42
Remaining alert for indications that a material misstatement of fact exists or the other information is otherwise misleading could potentially result in the auditor identifying such matters as the following:

- Information that omits or obscures information necessary for a user to appropriately understand a matter disclosed in the other information
- Differences between the other information and the general knowledge, apart from the knowledge obtained in the audit, of the engagement team member reading the other

- information that leads the auditor to believe that the other information appears to be materially misstated
- An internal inconsistency in the other information that leads the auditor to believe that the other information appears to be materially misstated

Responding When a Material Inconsistency Appears to Exist or Other Information Appears to Be Materially Misstated (Ref: par. .19)

.A43
The auditor's discussion with management about a material inconsistency (or other information that appears to be materially misstated) may include requesting management to provide support for the basis of management's statements in the other information. Based on management's further information or explanations, the auditor may be satisfied that the other information is not materially misstated. For example, management's explanations may indicate reasonable and sufficient grounds for valid differences of judgment.

.A44
Conversely, the discussion with management may provide further information that supports the auditor's conclusion that a material misstatement of the other information exists.

.A45
It may be more difficult for the auditor to challenge management on matters of judgment than on those of a more factual nature. However, there may be circumstances in which the auditor concludes that the other information contains a statement that is not consistent with the financial statements or the auditor's knowledge obtained in the audit. These circumstances may raise doubt about the other information, the financial statements, or the auditor's knowledge obtained in the audit.

.A46
Because there is a wide range of possible material misstatements of the other information, the nature and extent of other procedures the auditor may perform to conclude whether a material misstatement of the other information exists are matters of the auditor's professional judgment in the circumstances.

.A47
When a matter is unrelated to the financial statements or the auditor's knowledge obtained in the audit, the auditor may not be able to fully assess management's responses to the auditor's inquiries. Nevertheless, based on management's further information or explanations, or following changes made by management to the other information, the auditor may be satisfied that a material inconsistency no longer appears to exist or that the other information no longer appears to be materially misstated. When the auditor is unable to conclude that a material inconsistency no longer appears to exist or that the other information no longer appears to be materially misstated, the auditor may request management to consult with a qualified third party (for example, management's expert or legal counsel). In certain cases, after considering the responses from management's consultation, the auditor may not be able to conclude whether a material misstatement of the other information exists. Actions the auditor may then take include one or more of the following:

- Obtaining advice from the auditor's legal counsel
- Considering the implications for the auditor's report, for example, whether to describe the circumstances when there is a limitation imposed by management
- Withdrawing from the audit, when withdrawal is possible under applicable law or regulation

Responding When the Auditor Concludes That a Material Misstatement of the Other Information Exists

Responding When the Auditor Concludes That a Material Misstatement Exists in Other Information Obtained Prior to the Date of the Auditor's Report (Ref: par. .21)

.A48
The actions the auditor takes if the other information is not corrected after communicating with those charged with governance are a matter of the auditor's professional judgment. The auditor may consider whether the rationale given by management and those charged with governance for not making the correction raises doubt about the integrity or honesty of management or those charged with governance, such as when the auditor suspects an intention to mislead. The auditor may also consider it appropriate to seek legal advice. In some cases, the auditor may be required by law, regulation, or other professional standards to communicate the matter to a regulator or relevant professional body.

Reporting Implications (Ref: par. .21a)
.A49
In rare circumstances, a disclaimer of opinion on the financial statements may be appropriate when the refusal to correct the material misstatement of the other information casts such doubt on the integrity of management and those charged with governance that it calls into question the reliability of audit evidence in general.

Withdrawal From the Engagement (Ref: par. .21c)
.A50
Withdrawal from the engagement, when withdrawal is possible under applicable law or regulation, may be appropriate when the circumstances surrounding the refusal to correct the material misstatement of the other information cast such doubt on the integrity of management and those charged with governance that it calls into question the reliability of representations obtained from them during the audit.

Considerations Specific to Governmental Entities (Ref: par. .21*b–c*)

.A51
In audits of governmental entities, withdrawal from the engagement or withholding the auditor's report may not be possible under law or regulation. In such cases, the auditor may issue a report or written communication to those charged with governance and the appropriate statutory body, if applicable, giving details of the material misstatement.

Responding When the Auditor Concludes That a Material Misstatement Exists in Other Information Obtained After the Date of the Auditor's Report (Ref: par. .22)

.A52
If the auditor concludes that a material misstatement exists in other information obtained after the date of the auditor's report, and such a material misstatement has been corrected, the auditor's procedures necessary in the circumstances include determining that the correction has been made (in accordance with paragraph .20*a*) and may include reviewing the steps taken by management to communicate with those in receipt of the other information, if previously issued, to inform them of the revision.

.A53
If those charged with governance do not agree to revise the other information, taking appropriate action to seek to have the uncorrected misstatement appropriately brought to the attention of anyone

in receipt of the financial statements and the auditor's report requires the exercise of professional judgment and may be affected by relevant law or regulation in the jurisdiction. Accordingly, the auditor may consider it appropriate to seek legal advice about the auditor's legal rights and obligations.

.A54
When a material misstatement of the other information remains uncorrected, appropriate actions that the auditor may take to seek to have the uncorrected material misstatement appropriately brought to the attention of anyone in receipt of the financial statements and the auditor's report, when permitted by law or regulation, include, for example, the following:

- Providing a new or amended auditor's report to management, including a modified section in accordance with paragraph .25, and requesting management to provide this new or amended auditor's report to anyone in receipt of the financial statements and the auditor's report. In doing so, the auditor may need to consider the effect, if any, on the date of the new or amended auditor's report, in view of the requirements of GAAS or applicable law or regulation. The auditor may also review the steps taken by management to provide the new or amended auditor's report to such users.
- Bringing the material misstatement of the other information to the attention of known users of the financial statements and the auditor's report.
- Communicating with a regulator or relevant professional body about the uncorrected material misstatement.
- Considering the implications for engagement continuance (see also paragraph .A51).

Responding When a Material Misstatement in the Financial Statements Exists or the Auditor's Understanding of the Entity and Its Environment Needs to Be Updated (Ref: par. .23)

.A55
In reading the other information, the auditor may become aware of new information that has implications for the following:

- The auditor's understanding of the entity and its environment, which may indicate the need to revise the auditor's risk assessment
- The auditor's responsibility to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements The auditor's responsibilities relating to subsequent events

Reporting (Ref: par. .24–.25)

.
A56
Illustrative examples of the "Other Information" section in the auditor's report are included in the exhibit.

Reporting Implications When the Auditor's Opinion on the Financial Statements Is Qualified or Adverse (Ref: par. .25)

.A57
A qualified or adverse auditor's opinion on the financial statements may not have an impact on the statement required by paragraph .24*f* if the matter with respect to the auditor's opinion has been modified is not included or otherwise addressed in the other information, and the matter does not affect any part of the other information. For example, a qualified opinion on the financial statements because of nondisclosure of directors' remuneration as required by the applicable financial reporting

framework may have no implications for the reporting required under this section. In other circumstances, there may be implications for such reporting as described in paragraphs .A58–.A61.

Qualified Opinion Due to a Material Misstatement in the Financial Statements

.A58

In circumstances in which the auditor's opinion is qualified, consideration may be given to whether the other information is also materially misstated for the same matter as, or a matter related to, the matter giving rise to the qualified opinion on the financial statements.

Qualified Opinion Due to Limitation of Scope

.A59

When there is a limitation of scope with respect to a material item in the financial statements, the auditor will not have obtained sufficient appropriate audit evidence about that matter. In these circumstances, the auditor may be unable to conclude whether the amounts or other items in the other information related to this matter result in a material misstatement of the other information. Accordingly, the auditor may need to modify the statement required by paragraph .24*f* to refer to the auditor's inability to consider management's description of the matter in the other information with respect to which the auditor's opinion on the financial statements has been qualified, as explained in the Basis for Qualified Opinion paragraph. The auditor is, nevertheless, required to report any other uncorrected material misstatements of the other information that have been identified.

Adverse Opinion

.A60

An adverse opinion on the financial statements relating to a specific matter or matters described in the Basis for Adverse Opinion paragraph does not justify the omission of reporting of material misstatements of the other information that the auditor has identified in the auditor's report in accordance with paragraph .24*f*. When an adverse opinion has been expressed on the financial statements, the auditor may need to appropriately modify the statement required by paragraph .24*f*, for example, to indicate that amounts or items in the other information are materially misstated for the same matter as, or a related matter to, the matter giving rise to the adverse opinion on the financial statements.

Disclaimer of Opinion

.A61

When the auditor disclaims an opinion on the financial statements, providing further details about the audit, including a section to address other information, may overshadow the disclaimer of opinion on the financial statements as a whole. Accordingly, in those circumstances, as required by section 705, the auditor's report does not include a section addressing the reporting requirements under this section.

EXHIBIT — ILLUSTRATIONS OF OTHER INFORMATION SECTIONS TO BE INCLUDED IN AUDITOR'S REPORTS RELATING TO OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

.A62

Illustration 1 — The auditor has not identified an uncorrected material misstatement of the other information.

Illustration 2 — The auditor has concluded that an uncorrected material misstatement of the other information exists.

Illustration 1: The Auditor Has Not Identified an Uncorrected Material Misstatement of the Other Information

> ***Other Information [Included in the Annual Report]***
>
> Management is responsible for the other information [*included in the annual report*]. The other information comprises the [*information included in the annual report*] but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.
>
> In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Illustration 2: The Auditor Has Concluded That an Uncorrected Material Misstatement of the Other Information Exists

> ***Other Information [Included in the Annual Report]***
>
> Management is responsible for the other information [*included in the annual report*]. The other information comprises the [*information included in the annual report*] but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.
>
> In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report. As described below, we have concluded that such an uncorrected material misstatement of the other information exists.
>
> [*Description of material misstatement of the other information*]

SAS 142 "Audit Evidence"

(Effective for Audits of Periods Ending on or after December 15, 2022)

WHAT YOU NEED TO KNOW

What happened? [1]

In July 2020, the AICPA Auditing Standards Board (ASB) issued Statement on Auditing Standards (SAS) No. 142, Audit Evidence. SAS No. 142 supersedes AU-C section 500, Audit Evidence and amends various other sections of SAS 122, Statements on Auditing Standards: Clarification and Recodification, as amended.

SAS No. 142 explains what constitutes audit evidence in an audit of financial statements and sets out attributes of information that are taken into account by the auditor when evaluating information to be used as audit evidence. Taking these attributes into account assists the auditor in maintaining professional skepticism.

What has changed?

The revisions to SAS No. 142 address the evolving nature of transacting business as well as the evolution of audit services. Issues addressed include use of emerging technologies and techniques by both preparers and auditors, the application of professional skepticism, the expanding use of external information sources to provide audit evidence, and more broadly, the relevance and reliability of audit evidence. Following is a brief description of the key changes resulting from the issuance of SAS No. 142:

- **Expanded guidance on evaluating whether sufficient appropriate audit evidence has been obtained.**
  Expands the objective of the extant standard to be more broadly focused on considering the attributes of information to be used as audit evidence in assessing whether sufficient appropriate audit evidence has been obtained. Previously, the objective focused on the design and performance of audit procedures to obtain sufficient appropriate audit evidence rather than evaluating the sufficiency and appropriateness of the audit evidence itself. This change in focus is accomplished by establishing attributes of information to be used as audit evidence when evaluating whether sufficient appropriate audit evidence has been obtained by the auditor. Attributes of reliable information include its accuracy, completeness, authenticity, and susceptibility to bias.

- **Automated tools and techniques**
  Provides examples to illustrate how automated tools and techniques, such as audit data analytics, drones or remote observation tools, may be used by the auditor and, thus recognizes more prominently in the standard the increased use of automated tools and techniques. SAS No. 142 also states that an auditor may use automated tools and techniques to perform both a risk assessment procedure and a substantive procedure concurrently if the objectives of both types of procedures are achieved. The standard also contains an exhibit illustrating this concept.

[1] "At a Glance SAS 142", AICPA

- **Professional skepticism**
  Incorporates the concepts surrounding professional skepticism throughout the standard. This content includes the auditor's consideration of susceptibility of information to bias and whether the audit evidence obtained corroborates or contradicts management's assertions.

- **Management specialists**
  Includes an amendment relocating content dealing with management's specialists from section 500 to section 501, Audit Evidence — Specific Considerations for Selected Items.

SAS 143 “Auditing Accounting Estimates and Related Disclosures”

(Effective for Audits of Periods Ending on or after December 15, 2023)

WHAT YOU NEED TO KNOW

What happened?[1]

In July 2020, the AICPA Auditing Standards Board (ASB) issued Statement on Auditing Standards No. 143, Auditing Accounting Estimates and Related Disclosures. SAS No. 143 addresses the auditor’s responsibilities relating to accounting estimates, including fair value accounting estimates, and related disclosures in an audit of financial statements. This standard enables auditors to appropriately address the increasingly complex scenarios that arise from new accounting standards that include estimates. SAS No. 143 supersedes SAS No. 122, Statements on Auditing Standards: Clarification and Recodification, as amended, section 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures, and amends various other AU-C sections in AICPA Professional Standards.

What is changing?

The following are some of the fundamental aspects of SAS No. 143 that enhance the auditing standards relating to auditing accounting estimates and the auditor’s focus on factors driving estimation uncertainty and potential management bias. The SAS:

- explains the nature of accounting estimates and the concept of estimation uncertainty,
- provides information about scalability of the SAS for all types of accounting estimates, from those that are relatively simple to those that are complex,
- requires a separate assessment of inherent risk and control risk at the assertion level,
- includes an enhanced risk assessment intended to address the challenges auditors face when auditing accounting estimates by providing risk assessment requirements that are more specific to estimates and addresses the increasingly complex business environment and complexity in financial reporting frameworks,
- emphasizes that the auditor’s further audit procedures need to be responsive to the reasons for the assessed risks of material misstatement at the relevant assertion level,
- refers to relevant requirements in other AU-C sections and provides related guidance to emphasize the importance of the auditor’s decisions about controls relating to accounting estimates,
- addresses the exercise of professional skepticism when auditing accounting estimates, and
- requires the auditor to evaluate, based on the audit procedures performed and the audit evidence obtained, whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework.

[1] “At a Glance SAS 143”, AICPA

SAS 144 “Amendments to AU-C Sections 501, 540, and 620 Related to the Use of Specialists and the Use of Pricing Information Obtained from External Information Services”

(Effective for Audits of Periods Ending on or after December 15, 2023)

WHAT YOU NEED TO KNOW

<u>What happened?</u>[1]

In June 2021, the AICPA Auditing Standards Board (ASB) issued Statement on Auditing Standards No. 144, Amendments to AU-C Sections 501, 540, and 620 Related to the Use of Specialists and the Use of Pricing Information Obtained from External Information Sources.

SAS No. 144 amends AU-C section 501, Audit Evidence—Specific Considerations for Selected Items, AU-C section 540, Auditing Accounting Estimates and Related Disclosures, and AU-C section 620, Using the Work of an Auditor’s Specialist.

<u>What is changing?</u>

The following is a summary of the changes to extant AUC sections 501, 540, and 620 that the ASB believes are the most significant:

<u>AU-C Section 501</u>
Amendments to various application material paragraphs provide guidance on applying AU-C section 540 when management has used the work of a specialist in developing accounting estimates. Certain amendments enhance guidance about evaluating the work of the management’s specialist. Other amendments are made to no longer refer to using the work of an external inventory-taking firm as using the work of a management’s specialist. These amendments are not intended nor expected to change existing practice.

<u>AU-C Section 540</u>
AU-C section 500, Audit Evidence, requires the auditor to take into account the relevance and reliability of information to be used as audit evidence, including its source, and contains an appendix addressing the use of external information sources. AU-C section 540 has been amended to add a new appendix, “Use of Pricing Information From Third Parties as Audit Evidence,” to provide guidance on using such information as audit evidence for estimates related to the fair value of financial instruments.

The appendix is based on appendix A, “Special Topics,” of PCAOB Auditing Standard 2501, Auditing Accounting Estimates, Including Fair Value Measurements, which contains requirements for auditors of issuers. The ASB believes that the requirements included in appendix A of AS 2501 are consistent with procedures that would be performed by auditors to comply with the principles based requirements in AU-C section 540 when using pricing information from third parties as audit evidence for estimates related to the fair value of financial instruments.

[1] “At a Glance SAS 144”, AICPA

AU-C Section 620

Amendments to various application paragraphs in AU-C section 620 enhance the guidance related to using the work of an auditor's specialist.

AICPA

At a glance

From the Audit & Attest Standards Team

Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement

What happened?

Deficiencies in the auditor's risk assessment procedures are a common issue identified by practice monitoring programs in the United States and worldwide. In 2020 U.S. peer reviews, the currently effective AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, was the leading source of *matters for further consideration*.

In October 2021, the AICPA Auditing Standards Board (ASB) issued Statement on Auditing Standards No. 145, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*.

SAS No. 145 supersedes SAS No. 122, as amended, section 315 of the same title, and amends various AU-C sections in AICPA *Professional Standards*.

What is changing?

SAS No. 145, for example, enhances the following:

- requirements and guidance related to obtaining an understanding of the entity's system of internal control and assessing control risk; and
- guidance that addresses the economic, technological, and regulatory aspects of the markets and environment in which entities and audit firms operate.

SAS No. 145 also includes revised and new requirements and guidance, including the following:

- a revised definition of significant risk;
- revised requirements to evaluate the design of certain controls within the control activities component, including general information technology (IT) controls, and to determine whether such controls have been implemented;
- a new requirement to separately assess inherent risk and control risk;
- a new requirement to assess control risk at the maximum level such that, if the auditor does not plan to test the operating effectiveness of controls, the assessment of the risk of material misstatement is the same as the assessment of inherent risk;
- a new "stand-back" requirement intended to drive an evaluation of the completeness of the auditor's identification of significant classes of transactions, account balances, and disclosures;
- revised requirements relating to audit documentation;
- new guidance on scalability; and
- new guidance on maintaining professional skepticism.

SAS No. 145 does not fundamentally change the key concepts underpinning audit risk. Rather, it clarifies and enhances certain aspects of the identification and assessment of the risks of material misstatement to drive better risk assessments and, therefore, enhance audit quality.

Next steps?

SAS No. 145 is effective for audits of financial statements for periods ending on or after December 15, 2023. Early implementation is permitted.

SAS No. 145 is available for auditors to read and consider in order to adequately prepare for implementation, and can be viewed on the AICPA's website by clicking here.

Financial Statement Account	Description of Fraud	Audit Techniques
Cash	Skimming (cash receipts theft) Very easy in system where general ledger is not integrated with cash register (cash receipts) system	❑ Compare deposit slips to detail entries in cash and system reports ❑ Look hard at cash over and short accounts ❑ Evaluate segregation of duties ❑ Make management aware as to how it's done
	Overstated (cash per general ledger doesn't agree with bank reconciliation)	❑ Compare bank rec balance to general ledger amount ❑ Evaluate segregation of duties on bank reconciliations
	Unauthorized payments to employees/officers/owners: • Loans • Bonuses • Payments of personal expenses	❑ Perform related party disbursement test ❑ Examine authorization for all checks or disbursements to related parties ❑ Review all credit card statements and support and vendor for reasonableness ❑ Evaluate appropriate approvals for independence of reviewer
	Unauthorized salary payments to employees	❑ Use outside payroll provider ❑ Test for same addresses, social security numbers, names ❑ Manually hand out checks ❑ Check for strange endorsements on manual checks

Cash	Skimming (cash receipts theft) Very easy in system where general ledger is not integrated with cash register (cash receipts) system	❑ Compare deposit slips to detail entries in cash and system reports ❑ Look hard at cash over and short accounts ❑ Evaluate segregation of duties ❑ Make management aware as to how it's done
	Overstated (cash per general ledger doesn't agree with bank reconciliation)	❑ Compare bank rec balance to general ledger amount ❑ Evaluate segregation of duties on bank reconciliations
	Unauthorized payments to employees/officers/owners: • Loans • Bonuses • Payments of personal expenses	❑ Perform related party disbursement test ❑ Examine authorization for all checks or disbursements to related parties ❑ Review all credit card statements and support and vendor for reasonableness ❑ Evaluate appropriate approvals for independence of reviewer
	Unauthorized salary payments to employees	❑ Use outside payroll provider ❑ Test for same addresses, social security numbers, names ❑ Manually hand out checks ❑ Check for strange endorsements on manual checks

		❑ Compare salary expense per g/l to payroll reports ❑ Unusual age/position combinations ❑ Review time cards and compare to number of employees on payroll ❑ Compare payroll recipients to terminated employee list ❑ Watch for one "good Samaritan" depositing checks for others
	Expense reimbursement fraud/abuse: • Purchase of personal items at the pro shop • Multiple submissions of the same receipts • Multiple submissions of the same expense report • Fraudulent first class travel • In-room items abuse • Mini-bar abuse	❑ All expense reports should be accompanied by original receipts ❑ Submit within 30 days of incurrence of expense ❑ Compare receipts to expense report for agreement and "sanity" ❑ Individual employees expense reports should be consistently reviewed by the same persons ❑ Avoid paying travel advances ❑ Have boarding passes attached to the expense reports ❑ Consider having accommodation policies for out-of-town travel ❑ Consider utilizing an outside expense reimbursement service
	Restrictions on cash not disclosed in the financial	❑ Still important to get bank confirmations

	statements: • Debt cross-collateralized by owner	❑ Confirm orally with bank officer or individual signing bank confirm the representations made on the confirm
	Cash doesn't exist	❑ Confirm all cash accounts, no matter how insignificant ❑ Consider calling banks and talking with signer
	Deposit issues • Cash deposits in small amounts • Deposits in transit • Checks in drawer not deposited	❑ Trace ALL deposits in transit to timely clearance ❑ Question cash deposits in a non-cash receipts business ❑ Look for/inquire about undeposited checks and inquire about reason for delays
	Fraudulent outstanding checks (Unauthorized checks cut at month-end to pay fraudulent invoices. Wait for the period to be audited. Re-cut checks with different payee)	❑ Look for significant amounts of checks written right at year-end and trace to clearance. Look at actual check for proper dating ❑ Compare a sample of outstanding checks that haven't cleared to the underlying invoice ❑ Consider confirming o/s check or calling recipient
	Payee change (Fraudulent invoice, paid with check, payee is altered, check cashed or deposited, fraudster interrupts check coming back from bank or bank doesn't return check copy)	❑ Perform a full debit test on bank statement (trace all debits to their original source documents) ❑ Scan the checks returned with the bank statement for evidence of inappropriate payee

		changes
	Presentation of overdraft	❑ True overdraft should be labeled as such; otherwise its "outstanding checks in excess of bank balance" ❑ Look at actual bank statements and confirm the balances!!
	Credit risk disclosures	❑ Still required to be considered if amounts routinely on deposit exceed federally insured limits
Prepaid Items	Intentional overstatement	❑ Trace to underlying invoice AND cancelled check
	Failure to amortize	❑ Prepaids must be amortized over their useful life
	Amortize over incorrect life	❑ Compare useful life to actual invoice terms
	Barter "parking"	❑ Evaluate fair-market value on all barter transactions ❑ Add inquiry related to "barter transactions" to questions to be asked of management
Accounts receivable	Allowance reserves (cookie jars)	❑ Compare acquisition document details to general ledger entries ❑ Review allowance accounts for any unusually large round amounts. Examine supporting documentation ❑ Examine bad debt expense for credit entries ❑ Examine sales

		accounts for manual credit (or debit) entries
	Employee receivables	❑ Document ALL loans to employees ❑ Document resolution of employee unauthorized credit card use
	Economic dependency disclosures	❑ 10% rule violations
	Aging frauds (changing invoice dates)	❑ Inquire as to the potential to override system assigned invoice dates ❑ Trace out interim months past dues to collection or continued inclusion on list for a sample of past dues ❑ Compare past due %'s to prior years
	Side letters (agreement to transact business at other than the organizations standard terms)	❑ Confirm all material terms of the receivable (date, invoice number, amount of original invoice, amount outstanding, payment terms, etc.)
	"Insured loss" receivables	❑ Be very skeptical of any insurance policy that reimburses for operating losses
	Related party issues	❑ High level of professional skepticism required ❑ Confirm the terms of the transactions with the related parties ❑ High level staff area of audit ❑ Consider amount of these transactions that are occurring, when they are occurring

	Channel stuffing	❑ Look for distributor arrangements ❑ Look for significant amounts of "last week of the period" sales to distributors ❑ Look for a high degree of returned merchandise
	Sales-type lease issues	❑ Evaluate discount rate closely ❑ Determine that revenue recognition of service agreements is also being done appropriately ❑ Make sure term of receivable is consistent with document
	Top-side adjustments	❑ Consolidations of divisions requires a high level staff ❑ Look for any excel spreadsheet consolidations ❑ Inquiry and do follow-up procedures relating to any combining entries that materially change any accounts on the consolidation
	Multiple sets of books	❑ Inquiry if client has an investor or creditor reporting package ❑ Compare reporting package to internal financial statements for any differences ❑ Consider discussions with significant creditors (with client approval of course)
	In general	❑ Look for receipts that are held ❑ Look for significant

		past dues where the customer has not been notified of the past due balance ❑ Who grants credit to customers ❑ Who is authorized to write-off a/r ❑ Review rationale fro write-offs
Deferred income taxes	Manipulation of deferred tax rate	❑ Evaluate average income tax rate versus actual tax return results
	"More likely than not" interpretations	❑ Basically means 51% ❑ Amount of valuation allowance needs to be disclosed
	Net operating loss valuations	❑ Valuation is how much is more likely than not to be utilized to offset taxable income in the future. Be very careful to document rationales for conclusions
	Income tax refunds and interest	❑ Determine if tax refunds received and interest income associated with them has been immediately recorded in income
	Uncertainty in income taxes	❑ Client receive any tax notices? Any known mistakes?

Inventories	Obsolesence reserves	❑ Determine and evaluate reasonability of methodology ❑ Observe inventory listed as obsolete ❑ Determine that all obsolete inventory has been included in calculation ❑ Look for material entries into the reserve accounts immediately preceding or following a year-end ❑ Who is authorized to write items off as obsolete ❑ Does obsolete inventory have a book value?
	Cookie jar acquisitions schemes	❑ Compare inventory valuation amounts between asset acquisition documents and entries into the general ledger ❑ Look for significant aje's made to any contra-inventory accounts soon after business acquisition ❑ Look for spikes in gross margin within 90 days of business acquisition
	Intentional double counting	❑ Make sure there is no movement of inventory quantities during the physical inventory count or during test counts ❑ Consider dropping inventory numbers into a sort program and look for same inventory numbers

		appearing ❑ Consider dropping inventory quantity value extensions into a sort program and look for the exact same inventory extended amounts
	Costing errors (decimal issues)	❑ Look for obviously unreasonable cost extensions ❑ Expand cost testing scope ❑ Assign cost test to high level audit staff ❑ Look at all manually entered adjustments to inventory right before and after year-end and physical inventory
	Bill-and-hold sales	❑ Does client understand bill-and-hold accounting? ❑ Has client requested it? ❑ Is there a reasonable rationale for the request by customer? ❑ Is inventory complete, ready to ship and segregated for the bill-and-hold sale? ❑ Has client invoiced bill-and-hold inventory to customer
	Consigned items	❑ Confirm consigned inventory ❑ Do not mail confirm to a P.O. box ❑ Strongly consider visually inspecting consigned inventory ❑ Speak directly with individual(s) signing the consigned

		inventory confirmation
	Sham sales to related parties	- Professional skepticism on ALL related party transactions - Confirm the terms of all related party transactions - Make sure all related party transactions, unless CLEARLY insignificant, are disclosed - Compare margins on all related party transactions to margins from arms-length customers - Look for sales returns or lack of repayment on related party transactions
	Fixed asset versus inventory issues	- Any inventory of a long-lived nature used in the ordinary course of the clients business should be removed from inventory and expensed or depreciated (i.e., loaner cars in an auto dealership)
	Distributor frauds	- Examine all distributorship agreements for reasonableness - Look for any significant “dumping” of inventory into distributor channels at or near year-end - Look at margins of inventory sold to distributors versus sold in the ordinary

		course of business ❑ Pay close attention to past due receivables from distributors
	Obsolesence theft	❑ What are controls over obsolete inventory ❑ Who has capability to write off inventory as obsolete? ❑ What are physical safeguards over obsolete inventory ❑ Ask to view obsolete inventory
Costs and estimated earnings in excess of billings on uncompleted contracts, and Billings in excess of costs and estimated earnings on uncompleted contracts	Estimation of percentage complete on work in progress	❑ Consider having a construction expert at your disposal ❑ Most CPAs are not good at determining accurate percentages of completion ❑ Strongly suggest visiting all construction sites at or near (within a week or two) of year-end
	Estimation of profit or loss on jobs	❑ Consider having a construction expert at your disposal ❑ These engagements require a technically strong staff ❑ Create a database in your records on profit/loss of all jobs to continually refer to in future engagements ❑ Spend a lot of time in follow-up of last years actual jobs profits and losses

Investments	ASC classifications (trading, AFS, HTM)	❑ Refresh yourself on requirements before every job where they are applicable ❑ Be very skeptical of any client changes between the three classifications ❑ Remember available for sale securities unrealized gains and losses are in the equity section of the balance sheet ❑ Be familiar with overall stock market performance so that you can judge reasonableness of the reported portfolio results
	Valuations of non-publicly traded equity securities	❑ Should mainly utilize cost as a basis. Look closely for impairment of that amount however
	Ownership/custody issues	❑ Consider calling broker or custody agent to orally follow-up on confirmed amounts ❑ View securities if not held by broker
	Disclosures inadequate	❑ Derivative disclosures are very complicated ❑ Unrealized gain/loss disclosures

Property and equipment and long-lived physical assets	Capitalization of expenses	❑ Examine supporting documentation for all acquisitions over a reasonable threshold amount ❑ Examine actual asset for reasonableness and "sanity" ❑ Expand scope if multiple additions are just under the scope amount
	Failure to depreciate	❑ Make sure all client long-lived assets are being depreciated or amortized ❑ Closely examine depreciation schedule for "exempt" assets
	Inappropriate changing of assets useful lives	❑ Useful life changes should be rare ❑ All assets in the classification should be changed ❑ Changes should be accounted for prospectively
	Personal versus business assets (contribution of fixed assets)	❑ Trace contributions of fixed assets by owners to written, supporting documentation ❑ Be very skeptical of the amount any non-cash contributions are valued ❑ View any written title documents or deeds
	Sale of assets to related parties	❑ Determine if transaction is consummated on arms length terms ❑ Scrutinize very carefully any such transaction that results in income to the seller
	Decentralization security	❑ Touch every asset,

	issues	every year that has a title associated with it ❑ Visit at least some of the decentralized locations on an annual basis as part of system understanding and testing work
	Section 179 depreciation on books	❑ Depreciation should be "over the useful life of the assets" ❑ Using Section 179 for books results in an overstatement of depreciation in one year and an understatement the next
	Land valuation (it's not a marketable security!)	❑ Land (and real property improvements) is held at cost, unless impaired
	Salvage value issues	❑ Salvage value is somewhat rare in the 21st century ❑ Be very skeptical of changes in salvage value or the recording of salvage value at purchase of an asset ❑ Changes in salvage value are accounted for prospectively
	Landfill accounting	❑ Landfills are depreciable
Intangibles	Impairment issues	❑ Is carrying value greater than implied fair value? ❑ Is the fair market value of the business greater than equity = no impairment
	Cookie jar initial recording	❑ Compare the acquisition documents

		to the entries in the general ledger ❑ Make sure appropriate lives are attached ❑ Look for intangibles other than goodwill
	Failure to amortize	❑ Understand amortization rules ❑ Most intangibles, other than goodwill, are amortizable
	Failure not to amortize	❑ Goodwill is not amortizable
	Revaluation timing (once a year)	❑ Client must document impairment testing of goodwill on an annual basis at the same time each year
Accounts payable	Cookie jar acquisition schemes	❑ Compare detail per asset acquisition agreement to what is recorded in the general ledger ❑ Look for manual adjustments to general ledger accounts within 90 days of an acquisition
	Aging frauds	❑ Test aging of accounts payable for proper "rolling forward" by tracing accounts payable in one month to payment in the next or proper presentation in accounts payable detail report
	Classification as long-term	❑ Be very skeptical of any account payable classified as long-term. Should have written agreement ❑ Consider these items for confirmation

Compensated absences	Cookie jar schemes, especially in business acquisitions	❑ Look for any unsubstantiated debits or credits in reserve accounts ❑ Study substantiation for significant changes in reserve accounts ❑ Look for consistency of calculation
	Discount rate manipulation	❑ Discount rate should be the borrowing rate of the entity ❑ Anything below a prime rate should have appropriate substantiation ❑ Anything above prime plus 3% should also have substantiation (may also give rise to going concern concerns)
	Salary rate manipulation	❑ Salary rate used should be rate that will be due upon utilization of the compensated absence time
Environmental liabilities	Cookie jar schemes (typically overstated)	❑ Most calculations should be substantiated by an expert report ❑ The calculation should be updated year by year ❑ There should be written documentation underlying any changes in the reserve balances
	Discount rate manipulation	❑ Discount rate should be the borrowing rate of the entity ❑ Anything below a prime rate should have appropriate

		substantiation ❑ Anything above prime plus 3% should also have substantiation (may also give rise to going concern concerns)
Branch/factory closing reserves	Cookie jar schemes (almost always overstated)	❑ There should be written, board approved documentation as to how the calculation is derived ❑ There should be written documentation as to how any changes are calculated ❑ Look for substantiation for any significant manual entries to this account
Accrued payroll	Failure to record accrued payroll taxes (mainly related to booked bonuses payable)	❑ Make sure bonus accruals include payroll tax accruals
	Bonuses not approved	❑ Check for substantiation of approval for all bonuses in the minutes of the enterprise (big problem in non-owner run enterprises and decentralized enterprises)
Current maturities of long-term debt	5-year maturity errors	❑ Reviewer should look at documentation supporting 5 year maturities schedule ❑ Have to have agreement approved to refinance in order to refinance current to long-term
	Lack of 5-year maturity	❑ 5 year maturities have

	disclosure	got to be disclosed in accrual or cash basis statements that purport to have full disclosure
	Rate disclosure errors (what is prime?)	❑ What is the current prime rate in most banks? ❑ LIBOR is a very popular benchmark rate as well
	Collateral disclosures (mainly cross collateralization)	❑ Many times there will be cross-collateralization "sweep" agreements where one entity has many loans with the same bank. These cross collateralizations must be disclosed
Income taxes payable	Deferred tax netting	❑ Long-term amounts cannot be netted against short-term amounts
	Payroll versus income tax deposits	❑ Should inquire as to whether the organization has had any types of notices or communications with the IRS ❑ Examine payment documentation to insure that what the client represents as income tax deposits were actually credited as income tax deposits and not payroll tax deposits
	Undisclosed litigation	❑ Should inquire as to whether the organization has had any types of notices or communications with the IRS
		❑ Look for any evidence

		of illegal acts committed by the entity or it's management
Long-term debt	5-year maturity errors	❑ Reviewer should look at documentation supporting the 5-year maturity schedule
	Covenant violation disclosures	❑ Hitting the covenant amounts "right on the numbers" should be a cause for concern" ❑ Violations of covenants need to be documented by a "cure" letter or be disclosed ❑ Covenant violations have got to be documented in the workpapers as to how they are resolved
	Collateralization issues	❑ Cross-collateralization issues described above under "current maturities"
Equity	Failure to disclose classes of common stock	❑ All classes of common stock need to be disclosed
	Notes receivable issued in exchange for common stock	❑ Notes receivable issued in exchange for common stock need to be shown as a reduction of equity
	Stock option accounting/valuation	❑ New FASB out calling for fair value accounting

Income statement items	Round-trip transactions (multiple varieties)	❑ Be on the look out for vendors who are also customers and conduct significant transactions near a period-end
	Revenue recognition	❑ Inquire of multiple firm personnel about revenue recognition techniques
	Excessive valued bartering	❑ Be very skeptical of any bartering transactions ❑ Bartering transactions should be accounted for at fair market value ❑ A transaction value at greater than the normal arms length cash transaction value should be reduced to the cash transaction value
	"Insured losses"	❑ Be very skeptical of any insurance policies that guarantee return of an operating loss ❑ What is premium on these policies?
	False sales	❑ Do extensive testing of sales transaction documentation for sales in the last two weeks of the fiscal period, especially if the related receivable is still outstanding or was written off prior to your fieldwork
	Bartering for long-lived assets	❑ Be very skeptical of any bartering transactions ❑ Bartering transactions should be at their fair market value

		❑ A transaction value at greater than the normal arms length cash transaction value should be reduced to the cash transaction value
	Expense acceleration	❑ Look for unusual expense payments at or near year-end for amounts that should have been classified as prepaids
	Margin normalization techniques	❑ Look for topside adjustments that have no paper substantiation or documentation ❑ Margins each period that are exactly, or near exactly the same, should be investigated by looking closely at cost of sales or revenue manual entries at or near year-end
	Classification offsets	❑ It is not appropriate for expense errors to offset income errors or vice versa
Detail General ledger tests		❑ Aje's are highest risk ❑ AJes in non-aje accounts ❑ Large rounded aje amounts ❑ Ajes made at odd times ❑ Ajes made by unusual persons ❑ Ajes that are on the "wrong" side of the T-account ❑ Unusual payees for the account type ❑ Item labeled "plug" or

		"to balance" ❑ AJE with no explanation ❑ AJE for significant amount ❑ Reversing entries posted early in the year or posted right after y/e of current year ❑ Others? ❑ Benford testing
General	Materiality reliance	❑ Know definition of materiality ❑ Can you sleep at night?

Nonprofit Organizations Conference

Oct. 17 | 8 a.m.-4:05 p.m.
8 hours CPE

9:50-11:00 a.m.

IRS Challenges and Their Impact on the Not-for-Profit Sector

Eve Borenstein

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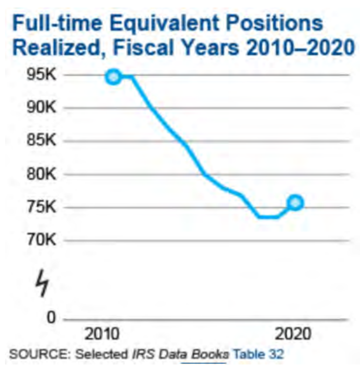
ISCPA Nonprofit Organizations Conference

October 17, 2022

Total IRS (& EO Division) Staffing Reductions

- End of Q-3 FY2020, IRS overall had 80,229 employees. End of Q-2 FY2022, number had dropped to <75,000. IRS in unable to hire and is anticipating retirements.



- BETWEEN FY 2010 and 2020, number of full-time equivalent employees **decreased almost 20 percent**
- TEGE Operating Div. houses Exempt Organizations and its EO Division at the **end of FY21 had ~540 employees**! (Contrast that to Division having ~750 EO staff at end of FY10, and 2000s-decade peak of 1,000.)
- TEGE overall reported in October 2021 having interviewed 245 people to fill 132 revenue agent positions. They extended offers to 185, ut only had 21 acceptances.
- EO Division brought on total of 60 agents IN FY 22 Q-1 but has not reported any further hires thru Q-4. Those hires were 30 in exams, 30 in rulings/agreements: 540 + 60 = ??? (and don't forget that all those new hires need be trained!)

1

Fun fact: estimated that as of the end of IRS's FY 2020 that its cost in collecting $100 of tax was 33 cents (0.33%), this is one-tenth or less of a normal credit card processor's charge!

Also of interest is upcoming "brain drain" and overall personnel shrinkage due to occur via RETIREMENT (figures here relate to 6/30/2020 employment levels at IRS, and this of course is pre-COVID-19):

- 38% of IRS's workforce was over the age of 55 – minimum retirement age is 57 for those born after 1970, *less if born in 1970 or before* [IRS retirement eligibility under the government's defined benefit plan is function of age + years of service]

- 25,883 employees (33%) had more than 20 years of service

- Only 5,965 employees were under 30 years of age

2022 INFO/FINDINGS of IRS's Nat'l Taxpayer Advocate & TIGTA

National Taxpayer Advocate's (NTA) "Annual Report to Congress" comes out end of each calendar year. 12/31/2021 Report discussed (and NTA testified), at 2/8/20-22 House Ways and Means Committee's "Oversight" hearing. The report and Collins' testimony (quote following) speak to the IRS COVID-years' backlog as almost insurmountable –

"Paper is the IRS's Kryptonite and . . . the IRS is still buried in it"

The Report's intro says (understatement) that **calendar year 2021 was "the most challenging year taxpayers and tax professionals have ever experienced"!**

Treasury Inspector General for Taxpayer Administration (TIGTA) 3/18/2022 Report, "PROGRAM AND ORGANIZATIONAL CHANGES ARE NEEDED TO ADDRESS THE CONTINUED INADEQUATE TAX ACCOUNT ASSISTANCE PROVIDED TO TAXPAYERS," is critical of IRS's Accounts Management ("AM") function which handles problematic returns-in-process and taxpayer correspondence related to IRS notices and other correspondence. Report cites delays and caseloads that are not being handled better:

- in late Nov 2021, AM had 7.8M cases open (56.8% of those "over age") **and** 14.6M returns awaiting processing still outside of AM; and
- at 10/31/2021 AM was "working" 1.9M pieces of general correspondence in inventory (45.6% of those "over age")

2

Further Statistics from NTA's 2021 Annual Report

On Access by Taxpayers/Practitioners to IRS Phone lines:

IRS received ~282 million telephone calls in FY 2021 (the year ending 9/30/2021)

Customer service reps were able to answer only 32 million (**11%)** of those calls.

[Fun fact:] On March 15, 2021, the IRS received 1,500 calls <u>per second</u>!

Role of IRS's National Taxpayer Advocate and the Taxpayer Advocate's Service (TAS) Overall:

Similar to the Big IRS, TAS is also overwhelmed by increased demand: from FY17 to FY21 their case load increased from 167,000 annually to 264,000 with 6% less funding

- Triage needs here have led to TAS <u>not</u> accepting cases *that are based solely on processing delays*

IRS IS DESPERATE FOR WORKERS

CURRENT IRS TAXPAYER ADVOCATE, ERIN COLLINS, House Ways and Means Committee Oversight hearing 2/8/2022: "recently the IRS advertised for **5,000 positions in the campuses** [the three locations with on-site personnel who process returns] . . . but received <200 individual applicants"

Washington Post (3/3/2022) article, ***"IRS rushes to hire 10,000 workers, but giant backlog expected to persist through 2022",*** notes that:

- These new jobs would represent a 14 percent increase in the IRS workforce.
- Narrates the hiring problem – "For years, the IRS has struggled to attract local job applicants, as nearby employers boost their own wages. A local Amazon facility is offering $19 an hour, she said. A nearby Target just began advertising $24 an hour wages. Entry level IRS employees in Kansas City make $15 an hour. The staffing crunch in Kansas City could worsen . . . Nearly half of the campus's 5,000 workers will be eligible for retirement in the next two years."
- Speaks to *IRS* Comm'r Charles Rettig's February announcing that he was temporarily reassigning 1,200 employees as part of a "surge team" to help – "Their work details only were initiated this week and a second surge team was being formed." (PRESENTER's NOTE: hope was that the teams, pulled from multiple IRS departments, would address the IRS's backlogs by the end of FY2022).

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Washington Post article cited above is available at: https://www.washingtonpost.com/business/2022/03/03/irs-tax-backlog-hiring/.

Longer quote from that article (relating to slideswhich 2nd bullet point is drawn:

> At the agency's Kansas City, Mo., tax processing center, employees are working six-day weeks with mandatory overtime, said Shannon Ellis, president of the local chapter of the National Treasury Employees Union, which represents IRS employees.
>
> For years, the IRS has struggled to attract local job applicants, as nearby employers boost their own wages. A local Amazon facility is offering $19 an hour, she said. A nearby Target just began advertising $24 an hour wages. Entry level IRS employees in Kansas City make $15 an hour. The staffing crunch in Kansas City could worsen, she said. Nearly half of the campus's 5,000 workers will be eligible for retirement in the next two years.
>
> Plans to hire more employees could improve morale and productivity, Ellis said, but she and her colleagues remain skeptical. They've seen the IRS advertise for job openings previously, only for the agency to fall well short of its recruitment goals or for newly hired colleagues to leave their jobs within months because of frustrating working conditions.

IRS SOFTWARE PLATFORM IS 1960's COBOL!

COBOL, a computer programming system, that is no longer taught is the backbone for the IRS's database on all "business" entities! IRS employees who were adept at programming the database's input fields for nonprofit entities (both exempt and taxable) have retired or died! Pre COVID-19, the Big IRS had planned to implement Business Master File ("BMF") improvements in FY24. That goal reflects multiple prior-postponements and no one believes any such change will happen this decade (if ever)!

The BMF's entries on "exempt organizations" are byzantine, requiring hundreds of fields' entries that expand or are altered every time Congress changes a filing requirement or imposes a new "classifications" arena (such as those required for sponsors of DAFs and supporting organizations having "types")

Updating the BMF's records on EOs was always a nightmare, but in this time of over-stretched employees, the individuals doing so are novices in all-things-EO. Many inexplicable BMF errors have surfaced in COVID-times (especially for EOs who have changed their name and for group ruling holders and their subordinates) . . . .

Haven't the Past FOUR Year's Filing Seasons Been Fun??

- 2017 Forms (filed in 2018): TCJA had just passed and your clients (businesses and individuals) wanted projections for 2018 on then still-unknown aspects of the new law – exempt sector faces UBIT tax-rate for most entities increase of 40% and new "silo-ing rules" which disallow one arena's loss from offsetting another arena's profit.
- 2018 Forms (filed in 2019): Government shuts down for 35 days – start of tax filing season postponed
- 2019 Forms (filed in 2020): COVID lock-down announced in Minnesota of Friday the 13th (of March)
- 2020 Forms (filed in 2021): IRS backlog in processing 2019 Forms (from 2020 filing season) rolls into 2021 filing season yielding unbelievable number of paper-filed Form-990 series filings (incl. extensions) sitting unopened in trailers at the Ogden UT Service Center; in addition: computer systems used by IRS in detailing exempt organizations are inexplicably glitching; callers cannot get through to EO "Customer Account Services" OR to IRS's collections phone lines; and incredibly frustrating notices are being issued . . .
- And now, 2021 Forms being filed in 2022 . . . NOT MUCH OF ABOVE HAS CHANGED!

6

THIS PRESENTATION'S CONTENT, SLIDE NUMBERS, and PERSPECTIVE

- Already discussed via prior slides: RECORD LOW NUMBER OF EMPLOYEES STAFF IRS'S EXEMPT ORGANIZATIONS DIVISION
- IRS WEBSITE IS CONFUSING (AND SOMETIMES WRONG) – slide 8
- Exempt Organizations Business Master File Public Abstract (a/k/a "EO BMF") ERRORS ABOUND – slides 9 - 17
- Penalty Relief, Erroneous Notices, BIG IRS's phones and TE/GE Customer Account Services phone line ARE ALMOST NEVER ANSWERED – slides 18 - 28
- E-filing issues – slides 29 – 33
- Know Your Client – slides 34 - 43
- KEEP IN MIND **THIS BAD NEWS**: BIG IRS IS REORGANIZING NEXT CALENDAR YEAR AND THE TEGE OPERATING DIVISION IN PLACE SINCE the LAST IRS REORG (2000) WILL BE DISSOLVED AND ALL OVERSIGHT OF EXEMPT ORGANIZATIONS WILL BE UNDER A COMPLIANCE OFFICER THAT DEALS WITH **ALL TAXPAYERS IN A DE-SILOED IRS. THIS CHANGE IS BEING INITIATED AS OF JANUARY 2023!**

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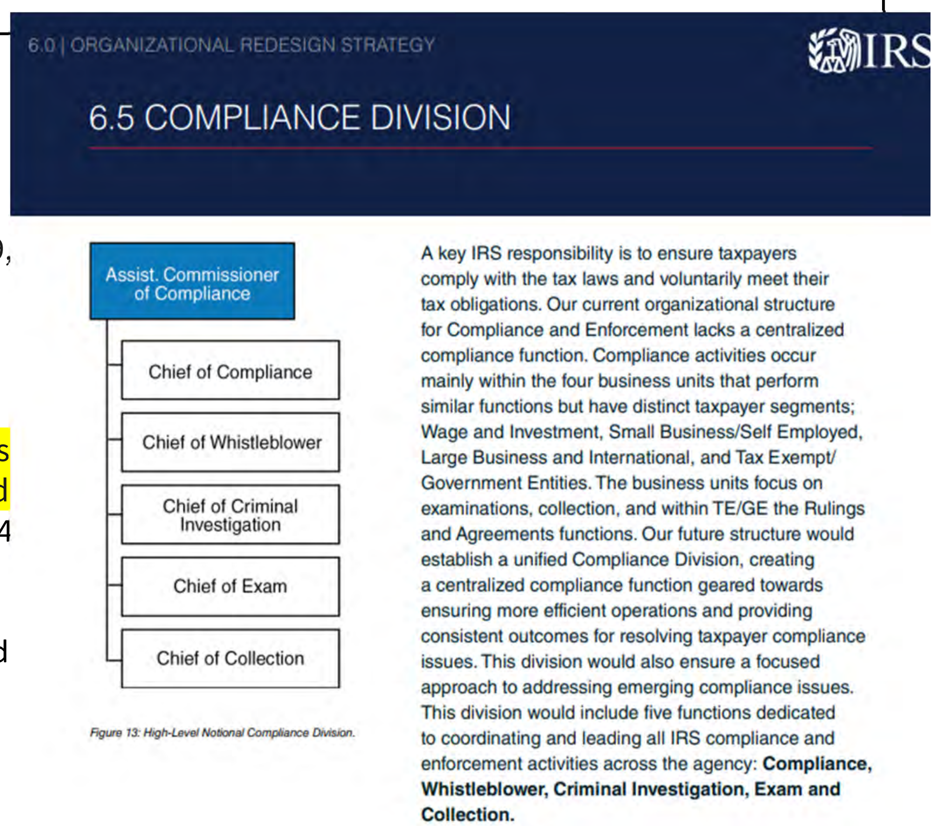
The **Taxpayer First Act** (enacted 7/1/2019) required the Treasury Dept. to develop a comprehensive organizational redesign of the IRS. The plan was to be submitted to Congress by 9/30/2020, but due to COVID-19, it was not submitted until 1/1/2021. Initial implementation of the plan's reorg began one year later; its new structure goes into effect on 1/1/2024.

The new structure "streamlines the agency's structure to minimize duplicate services and responsibilities." The 1/1/2021 plan runs 254 pages and includes an organizational chart that reflects the complete "de-siloing" of the IRS from the four operating Divisions initiated in the last, 2000, reorg.

Aside from the plan's citation of existing publications, prior law, budgetary considerations, and included source Appendices, the terms "exempt organization" and "tax exempt" appear in only three paragraphs.


6.0 | ORGANIZATIONAL REDESIGN STRATEGY

IRS

6.5 COMPLIANCE DIVISION

Figure 13: High-Level Notional Compliance Division.

A key IRS responsibility is to ensure taxpayers comply with the tax laws and voluntarily meet their tax obligations. Our current organizational structure for Compliance and Enforcement lacks a centralized compliance function. Compliance activities occur mainly within the four business units that perform similar functions but have distinct taxpayer segments; Wage and Investment, Small Business/Self Employed, Large Business and International, and Tax Exempt/ Government Entities. The business units focus on examinations, collection, and within TE/GE the Rulings and Agreements functions. Our future structure would establish a unified Compliance Division, creating a centralized compliance function geared towards ensuring more efficient operations and providing consistent outcomes for resolving taxpayer compliance issues. This division would also ensure a focused approach to addressing emerging compliance issues. This division would include five functions dedicated to coordinating and leading all IRS compliance and enforcement activities across the agency: **Compliance, Whistleblower, Criminal Investigation, Exam and Collection.**

Replacing the IRS's current FOUR operating divisions will be ONE Compliance Division, which is spoken to in the report at 6.5 (excerpted above).

IRS EO DIVISION'S WEBPAGE UPDATES & INTERSECTION WITH IRS'S SOFTWARE PLATFORMS ARE FRAUGHT

- IRS spokespeople beg taxpayers and their representatives to "use the IRS website" which is being continually updated. However, information is hard to locate (trust me – I am a very frequent user and I have trouble!) More to the point, much of it is inaccurate, confusing, and/or contradictory.
  - ❑ Whether this is due to the EO Division not being able to properly coordinate with the IRS's software folks or the software people not "getting" EOs, understaffing per se, or ??, we don't know!
- Pay.gov hosting of exemption applications (in place for all three full exemption applications: Forms 1023 (for (c)(3) rulings), 1024-A (for 501(c)(4) rulings) and 1024 (for all other 501(c)(*x*)-rulings) has seen 1st of those site plagued by "software updates" undoing access to prior-inputted application data.

Exempt Organizations Data in the Business Master File

As mentioned earlier, the IRS's overall "Business Master File" (BMF) includes nonprofit associations and corporations. Those who have been ruled as currently exempt under 501(c) have 318 of the BMF's FIELDS that are available to the "public." That same data is also used by the IRS to populate the IRS's Publication 78 (available as one of the *Tax Exempt Organizations Search* (TEOS) app's five databases) and is the basis of many non-IRS sites that provide info on both 501(c)(3) and non-(c)(3) exempt organizations. This open-to-the-public data is called the EO BMF Extract ("EO BMF"). Key public data includes:

- Organization name, "d/b/a" name, EIN, and current qualification for charitable contributions deductibility as a 501(c)(3) entity
- Current 501(c)(3) sub-classification as public charity or private foundation
- Current exemption classification if other than 501(c)(3)
- Date organization's tax year ends (a/k/a 'accounting year')
- Information if organization holds a "group exemption" and information on subordinates thereunder (note that subordinates are NOT listed in Pub. 78)

Problems Abound When EO BMF Has "Issues" (1 of 2)

The EO BMF provides public info on taxpayers who are currently tax-exempt each month (except January). **When it is wrong, those who rely on its data – donors and reporters and State and federal agencies – as well as the IRS's computers – will be "fooled"!**

Major SHORT CUTS to accessing key data within the current EO BMF include:
(1) both ProPublica's Nonprofit Explorer as well as Guidestar's Charity Check; and
(2) the five databases found upon the IRS's *Tax Exempt Organization Search tool* (https://apps.irs.gov/app/eos/): Pub. 78, copies of Forms 990, copies of determinations letters, data from all Form 990-N filings, and permanent list of all dates auto-revocation was effected. For further info on the databases *see* https://www.irs.gov/charities-non-profits/tax-exempt-organization-search. PRO TIP! Users of the TEOS tool itself (the "app" link above), need cut and paste the EO's name or EIN for each of the data-bases!

- Finding "wrong" data (for example, errors in an organization's name, EIN, 501(c)-"type", or classification as a PC versus PF typically) is in place is typically confronted when a donor refuses to make a grant or gift to a 501(c)(3) (donors <u>are entitled to rely on Pub. 78 OR the EO BMF data</u> to confirm deductibility of gifts under Rev. Proc. 2018-32, reprinted in notes view of this slide!)
- It is also the case that federal granting agencies are withholding scheduled grants payouts when requirement is that recipient be 501(c)(3)-qualified and grantee is no longer rostered as 501(c)(3) in the EO BMF! (this is a double whammy for such groups!!)

Rev. Proc. 2018-32 notes that the IRS's EO BMF Abstract contains more information, in a slightly different format, than Tax Exempt Organization Search's Pub. 78 data. It also includes far more information on almost all tax-exempt organizations, rather than just the summary info provided on EOs eligible to receive tax-deductible contributions under §170 who are listed in Pub. 78.

Grantor and contributor "reliance" on data confirming qualification of grantee/donee as eligible for deductibility of contributions was updated completely **via Rev. Proc. 2018-32** … "to simplify compliance for grantors and contributors." That simplification comes from the Rev. Proc. combining the safe harbors of Rev. Procs. 81-6, 81-7, and 89-23 as well as the reliance provisions set out in Rev. Proc. 2011-33 into one UNIFIED Rev. Proc. addressing deductibility and reliance issues for grantors and contributors.

The "reliance" section of the cited Rev. Proc. is here reprinted in full --
SECTION 6. CERTAIN LIMITATIONS ON TAX-EXEMPT AND PUBLIC CHARITY STATUS RELIANCE

.01 Reliance Provisions Apply Only to Certain Names of Organization:
The reliance on tax-exempt and public charity status provided by sections 4 and 5 of this revenue procedure applies only to grants or contributions made to an organization listed in or covered by Tax Exempt Organization Search (Pub. 78 data) or the EO BMF Extract ***in the organization's official name, its recognized popular name, or a contraction of either of these names that is reasonably identifiable or widely known.***

.02 Reliance Provisions Do Not Apply to Organizations Until They Are Listed in or Covered by Tax Exempt Organization Search (Pub. 78 Data) or the EO BMF Extract: *The provisions of sections 4 and 5 of this revenue* **procedure <u>do not apply to an organization until it is listed in or covered by Tax Exempt Organization Search (Pub. 78 data) or the EO BMF Extract.</u>**

ANOTHER Issue When EO BMF Has "Issues" is . . .

The reality of potentially disastrous e-filing ramifications! Knowing of an EO BMF error before a return NEEDS be filed gives you time to ACT! (larger e-filing topic follows, but this slide's emphasis concerns . . .

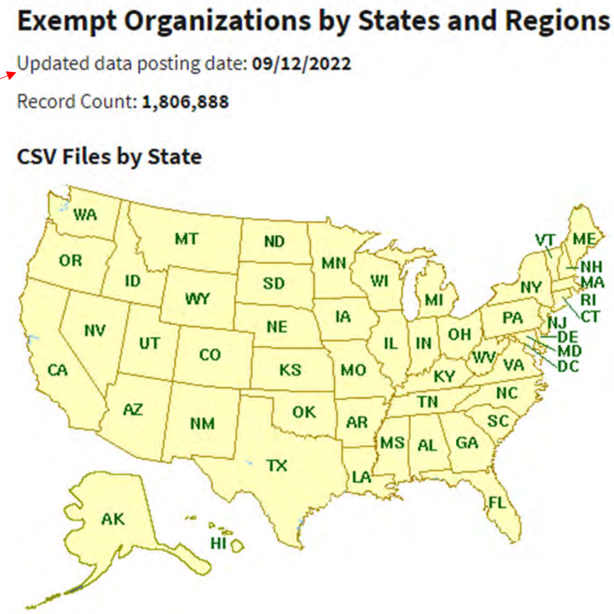
- Ability to file appropriate 990-series annual return will be hampered by a public charity's being recorded as a private foundation (and vice versa)
- Errors in 501(c)-classification will be a bar to the organization's ability to e-file Forms 990/990-EZ/990-PF and Form 990-T.
  - Since IRS no longer accepts paper-filed returns, this "catch-22" means that late-filing penalties now need be battled!
- Additional issues relate to errors in tax year-end date or other key metrics (for example, if organization is coded as a supporting organization although it holds classification under 509(a)(1)/170(b)(1)(A)(vi) or 509(a)(2) as a public charity).

Working with EO BMF Data <u>on Your Own</u>

Anyone may download the files by state (or region) in excel or csv formats. Each month (except for January), the data is posted on the 2nd Monday or Tuesday. Each month the number of total records goes up (reflecting new EO rulings minus those who lost exempt status).

Note that the posting date is just that – the day that culled data (which itself reflects a date certain at least a week or more prior) has been <u>UPLOADED</u>. But the upload date does NOT reflect all EO BMF entries actually in place at that date!

PRO TIP: ***if you can get IRS staff on the phone, they may tell you that the EO BMF data you knew was wrong HAS ALREADY BEEN CORRECTED. However, what they see won't be visible to the public (and thus relied upon) until the corrected data is included in a following month's post!***



12

Tips for Correcting EO Business Master File (1 of 2)

- Warning! Getting adjustments to the EO BMF database effected will take time – potentially *a lot of time!* Make sure the affected organization knows this!
- Accumulate documentation to support the change(s) sought – discuss with the filer how a change might have occurred. (For example, was there a change made for payroll purposes that led to the error?)
- If the organization has completely fallen out of the EO BMF Public Abstract (which means that the IRS no long posts it as tax-exempt!), try:
  - Checking TEOS to see if the IRS posts the entity as having been subject to auto-revocation.
  - Altering your search: use the EO BMF Abstract to search IN OTHER STATES' or REGIONS' sub-databases as perhaps the IRS has corrupted the organization's name **and** address. (Pro TIP! When using down-loaded EO BMF excel files, search by EIN as there are 1000s of rows!)
  - Using the web's "Wayback Machine" (https://archive.org/web/) to see when the organization was last listed on the EO BMF Public Abstract with correct information. Proving "it had been right" is typically important to prove fact of corruption!

Tips for Correcting EO Business Master File (2 of 2)

- If the organization WAS automatically revoked for not having filed either annual information returns or the 990-N e-postcard) across three consecutive years, first check to see if what was to be the 3rd year filing *indeed had been timely made by or at a properly-extended due date*. If that is the case, the IRS likely has a timing issue in "not having seen the extension" (very typical with paper-filed extensions!)

  Pro TIP! Once an organization is NOT recognized by the IRS as a result of having posted as subject to automatic revocation, it will no longer be reported within the EO BMF until it is either awarded a reinstatement ruling (which MUST be made via a new Form 1023, 1024, or 1024-A seeking reinstatement), OR the fact of an "incorrect" revocation has been proven to the IRS who will then back-correct the EO BMF!

  NOTE: this is such a frequent problem that there is a **dedicated FAX Number to report inaccurate (i.e., erroneous) revocations and seek correction for them! That number # is 855-247-6123!**

- Any one OTHER than an Officer of the taxpayer will need provide the IRS a Form 2848, Power of Attorney, in order to have "representative" authority allowing the IRS to communicate with that individual on the taxpayer's behalf.

Addressing EO Master Business File Public Abstract (EOBMF) "Errors"

- Before you contact the IRS review with an issue relating to an error in the EO BMF (other than having incurred an erroneous auto-revocation), review the pertinent section of Internal Revenue Manual ("IRM") 21.3.8 to note who to call/fax (and understand what information the IRS office will require!)

  Pro TIP! IRM 21.3.8 is voluminous; use pdf search function to find pertinent info!

  - For example, IRM 21.3.8.12.12.1 addresses **Publication 78 Data Omissions**
  - EO Entity [Control] is where most EO BMF matters are handled and the cited IRM at Exhibit 21.3.8-15 provides addresses and fax number for that Unit/function. IRS's EO & Government Entities Division Director Rob Malone and his Senior Advisor Tim Berger shared those addresses shortly after the TEGE EO Council's March 3, 2022 "EO Division Update Panel". **THOSE contact means (delivery, mail, and fax number) are reproduced on the next slide!**
- You may also want to contact IRS Taxpayer Advocate to let them know there is an issue and to see if they might provide any assistance.

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How to Communicate with EO Entity [Control]

The below information was published by the TEGE EO Council (www.eocouncil.org) to its membership (and shared with the tax press) in the days immediately following the 3/3/2022 “EO Division Update Panel” that is held at each of the EO Council’s thrice/year meetings. At that meeting, TEGE’s Exempt Organizations Division Director Rob Malone, and his Technical Advisor, Tim Berger, heard our complaint that the absence of a “place to contact” (aside from the C.A.S. phone number) was causing huge resource drains on both the IRS’s and the taxpayers’ sides. The IRS folks noted then that the IRM places responsibility for corrections with “EO Entity [Control]” and followed up with contact info, *see* below.) Note that there is NO expedite process, correspondence will be handled in the order received (Malone and Berger confirmed that at the next EO Division Update Panel which occurred on 6/17/2022!)

UPDATE 3/8/2022: We today received info from the IRS as Rob Malone promised. First, and as stated on the EO BMF Extract page on irs.gov, the **phone number** for contacting the IRS on any EO BMF issues is that of Customer Account Services: 877-829-5500. **Written correspondence may be provided to EO Entity** (per IRM Exhibit 21.3.8-15) **at the following mailing and delivery addresses and fax number:**

Area	USPS Address	Private Delivery Service Address	Phone/Fax Number
EO Entity	Internal Revenue Service Attn. EO Entity, M/S 6273 Ogden, UT 84201	Internal Revenue Service 1973 N Rulon White Blvd. Attn. EO Entity, M/S 6273 Ogden, UT 84404	Fax: 855-214-7520

PRO TIP! TEGE EO Council’s programs have a modest registration fee ($50-$75 for a single day program) but membership is free and CPAs and lawyers practicing in this arena really SHOULD JOIN!

EO Master Business File – Other Considerations

- New organizations that have yet to be determined exempt (i.e., those with pending applications as well as those operating as "self-described") may need notify the IRS in order to be in the system and "allowed to e-file."
- IRS's officials stated (at the TEGE EO Council's EO Division Update Panel held on 6/17/2022) that when a taxpayer files Form 8976 to notice the IRS that it IS taking the position it is described in 501(c)(4) and thus exempt, the IRS then "codes" the taxpayer in the BMF as a 990 filer. Similar result was stated for all SS-4 applicants from 1/1/2021 forward who stated they are nonprofit and tax-exempt.
  - But note that organizations who have pending Forms 1023 are typically not so "coded" until 501(c)(3) ruling letter is issued!
  - Churches also are not coded as a 990 filer (unless they have filed accepted 990s) and they will need be coded properly if they want to file a 990-T!
- **SUGGESTION:** Charities awaiting EO BMF-entry are best advised to access a fiscal sponsor while application (or EO BMF correction) is pending. Their employ allows solicitation of donations from funders who follow Rev. Proc. 2018-32 (i.e., DAF sponsors, PFs, and most other high-$$ donors) or access to federal grants from agencies requiring 501(c)(3) status.

IRS Returns Processing Backlog Led to Erroneous "Return Delinquency Notices" or "Return Investigation Notices" – Some Now Suspended

On February 9, 2022, the IRS suspended sending out Form CP259, but failed to note the "CAP-A" thru "CAP-H" versions that relate to exempt org filings (this notice is used when there is no record of a prior year return being filed and tells the affected "business" filer that is the subject of a Return Delinquency Notice). **On March 25, 2022, the IRS expanded the prior notice to specifically denote EO-specific CP259-subtypes; *see* next slide.**

Two other time-consuming/nuisance notices were also suspended by the IRS on Feb. 9th:

- **CP501** – Reminder of Outstanding Balance Due
  - The entirety of such notices (initial notice and "reminder" 2nd and 3rd Notices, comprised of Forms CP503 and CP504, respectively) indicating the IRS "intended to levy taxpayer's income and seize property" were "called off".
- **CP80** – this notice is sent when IRS has credited payments to a taxpayer's account but hasn't received the associated return. This notice was rampant and incredibly difficult to deal with. Witness this explanation on the IRS's webpage, "Understanding Your CP80 Notice":

  Due to processing delays for 2019 and 2020 tax returns, the issuance of CP80 and CP080 (Unfiled Tax Return – Credit on Account) notices has been suspended. If you received a notice for your **2019 return** and you filed timely, please refile the return. If you received a notice for your **2020 return** DO NOT refile.

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Rob Malone at 3/3/2022 TEGE EO Council's "EO Division Update Panel" emphasized they know that paper-filed 990s or extensions are getting "failure to file" notices due to IRS having yet processed entirety of 2019 and 2020 paper returns or their associated extensions. IRS's suspension of these letters, which otherwise could have gone to 1000s of taxpayers, will save everyone heartburn. He urged taxpayers who have to date received these notices to NOT resend the return or the extension!

As to responding to notices that have been received as to amounts or when the taxpayer has filed a return on time, the message repeatedly from the IRS is **just hang tight. There isn't much you can do but wait for the IRS to catch up on the backlog!** *See,* for example, *Washington Post, https://www.washingtonpost.com/business/2022/02/15/irs-suspends-taxpayer-notices/ . . . :* "The IRS is first in, first out," [National Taxpayer Advocate Erin M.] Collins said. "So if you continue sending subsequent correspondence, it's not going to get anyone's attention quicker. You'll go to the bottom of the pile. I know people do not want to hear this, but you're just going to have to be patient."

PER March 25, 2022 “Notice Updating”, EOs Receiving Any of These Notices May Ignore Them

CP259A	First Taxpayer Delinquency Investigation Notice – Form 990/990EZ/990N (for 501(c) entities)
CP259B	First Taxpayer Delinquency Investigation Notice – Form 990PF
CP259D	First Taxpayer Delinquency Investigation Notice – Form 990T
CP259F	First Taxpayer Delinquency Investigation Notice – Form 5227 (this is for split-interest trusts)
CP259G	First Taxpayer Delinquency Investigation Notice – Form 1120-POL
CP259H	First Taxpayer Delinquency Investigation Notice – Form 990/990EZ (this is for 527 “political organizations”)

Then, FINALLY, IRS released Notice Granting "Penalty Relief for Certain Taxpayers Filing Returns for Taxable Years 2019 and 2020"

- On **August 24, 2022**, the IRS issued Notice 2022-36. **The notice was good and bad:**
  - ✓ On the "good side" – it grants the exempt organization sector an AUTOMATIC waiver of timely filing penalties imposed against TAXES under Code section 6651(a)(1) (i.e., **BOTH** the net investment income tax assessed on 501(c)(3) private foundations and the unrelated business income tax imposed on any/all exempt organizations.) Affected filings must have been made by 9/30/2022!
  - ✓ The above "sounds great" except those late filing penalties are tax-specific to 990-PF and 990-T filers and have nothing to do with the penalties on late filing of ANNUAL INFORMATION RETURNS *per se*. The "bad side" is that no waiver applies for delinquency penalties imposed by Code section 6652 for not timely filing:
    - Form 990, Return of Organization Exempt from Income Tax;
    - Form 990-EZ, Short Form Return of Organization Exempt from Income Tax;
    - Form 990-BL, Information and Initial Excise Tax Return for Black Lung Benefit Trusts and Certain Related Persons; and
    - Form 990-PF, Return of Private Foundation (or Section 4947(a)(1) Trust Treated as Private Foundation)

    {Also not reached are the "failure to file" penalties imposed upon organizations who have late filed Form 4720 to report their liability for various excise taxes unique to the tax-exempt sector.}
- AUTOMATIC RELIEF means paid penalties will be refunded and new filings will not be assessed! THIS relief applies only to returns for tax years 2019 and 2020 *that were filed on or before September 30, 2022.*

Exploring This New World of Odd Notices: 1

- And time is the villain causing many errant late filing penalty assessments typically because the filed Form 990-series return has been processed but a paper-filed extension for the tax year was still languishing in the as-yet unprocessed backlog. GOSSIP: we had heard rumor that there were 70 UNOPENED trailers of paper filings and correspondence sitting in Ogden.
- What YOU HAD experienced in past until Letter CP259D, "You didn't file a Form 990-T," was suspended per slide two back . . . HERE now note that was appears to have generated these notices on tax periods closed 12/31/2019 or into successive months through calendar 2020 yearend was:
  - The filer having filed a 990-T multiple years ago (in one case, sole 990-T filing was on 2016 year) and no others BECAUSE in no years had their UBI-reached gross receipts exceeded the filing threshold. (Indeed, in some cases, sole 990-T filing was to report in line with the later-repealed 512(a)(7) "parking" tax!)
  - The CP259D Letter has CAS phone number (and a fax number on it) and its requirements were idiotic (*see* excerpt from the letter in notes view below).

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IF return WAS filed within last 4 weeks, disregard this notice.

IF filed more than 4 weeks ago, *or used a different name or EIN [!]*, complete the response blank and mail it with a signed and dated copy of the return in the envelope provided.

IF taxpayer was required to file but has yet to do so, . . . get the return done and send it in with the Form's response blank, again doing so using the envelope provided.

Finally, if non-filing is because "you don't think you have to file Form 990-T for [the cited tax period], complete the Form's response blank to indicate whether any of the "not-required-to-file" circumstances apply to you.

Exploring This New World of Odd Notices: 2

- For a long time, the IRS was sending 296C letters which returned paper-filed 990-Ts filed on certain years initiated in 2019. Letter 269C stated that the filed return had to be made electronically for tax years beginning on or after July 1, 2020 (see example of one such send in notes section below). Problem is it went to groups whose TAX YEARS **ended after** July 1, 2020. The letter required the taxpayer “to resubmit your form electronically.” These folks all had to resubmit the original paper-filing and then deal with assessed late filing fees. Ouch!
- Time lags have been common, for example, a practitioner shared a CP259D that addressed their client’s 12/31/2019 tax year. It was dated 1/3/2022 and sought a response no later than 2/2/2022. However, the taxpayer did NOT receive the letter well after 1/3/2022!

IRS Department of the Treasury
Internal Revenue Service

OGDEN UT 84201-0046

In reply refer to: 0422811921
Mar. 31, 2021 LTR 2696C 1
[redacted] 202010 34 R
00028891

Taxpayer identification number: [redacted]
Tax period: Oct. 31, 2020
Form: 990T
Document locator number:

Dear Taxpayer:

We can't process your Form 990-T and are returning it to you. The Taxpayer First Act requires tax-exempt organizations to electronically file information returns and related forms for tax years beginning on or after July 1, 2020. Please resubmit your form electronically. You can find more information on how to file in the form's instructions or by visiting www.irs.gov.

In addition to providing the missing or incomplete information, you might want to include a reasonable cause explanation of why you didn't initially submit all the required information with your return. We may charge you a penalty if you fail to provide both the missing or incomplete information, and a reasonable cause explanation.

And Now Some REALLY ODD Notices:

- Note I received from CPA 5/4/2022 – “EO filed 2019 Form 990 (FYE 2020) via paper-filing due to name change [this was a 2019 Form e-file exception!] and the 990 was returned with an explanation that “you either didn’t provide or didn’t complete Schedule B” [the IRS further “explained” that the Schedule is required for filers who received contributions of $5k or more from a contributor OR to explain why a filer is not required to file it.] Return showed $-0- in contribution revenue and Part IV, Line 2 was checked “No.” What gives???
- Constant subject of notes I receive – Group Return filers with Part VII-A listees with compensation of >$1M are getting “you didn’t file Form 4720 to report section 4960 taxes inquiry” letter.
- One the IRS acknowledged around yearend 2021 was Form 990-T notice that disallowed “all deductions” (IRS said this was a recurring issue but formal letter was unreviewed and apparently was generated when IRS outsourced processing of paper-filed Form 990-Ts to other IRS units.)

Letter CP141L cites maximum $100/day penalty on large organizations failing to note BOTH the $1M definition of large organization and the "cap" on penalty amount are subject to an "annual inflation adjustment. Same is also true with respect to $10,000 maximum penalty amount on non-large organizations.

Notice	CP141L
Tax period	December 31, 2020
Notice date	December 20, 2021
Employer ID number	[redacted]
Page 3 of 4	

Payments credited to your account for tax period ending December 31, 2020

Our records show no payments, deposits, or credits for this account. Please call 877-829-5500 if our information is incorrect.

Penalties

We are required by law to charge any applicable penalties.

Failure-to-file - Exempt Organizations and certain trusts

Description	Amount
Total failure-to-file	**$1,575.00**

We charged a penalty because you filed your return late.

For Forms 990, 990EZ, and 990PF, the penalty is:

(1) $20 a day for each day your return is late or incomplete, if your gross annual receipts are equal to or less than $1 million. The penalty may not be more than $10,000 or 5% of your gross annual receipts, whichever is less.

(2) $100 a day for each day your return is late or incomplete, if your gross receipts exceed $1 million. The penalty may not be more than $50,000.

Other Matters to be Aware Of (In the "You Are Not Alone" Department)

- Many organizations *are still waiting* for their 512(a)(7) tax refunds that are due given the repeal of TCJA's so-called "parking tax"!
  - IRS compliance contacts and/or a full scale "claims 'audit'" relating to the 990-T filing for the refund were common, a quite frustrating reality for the affected filers!

- Form 4720 filings by EOs appear to NOT be properly processed by the IRS when a sec. 4958 excess benefit transaction or sec. 4941 self-dealing is reported as having occurred with a disqualified person. IRS believes this is USER-error (not checking the right box to note that no tax is vesting on the exempt organization!)
  - The EO's returns are being flagged in the IRS's system because the filing correctly reports no tax due on the part of the organization and the IRS's letters dun the EO as liable to pay *the disqualified person's excise tax* – even though doing so would comprise another act of private foundation self-dealing! or, for a public charity or 501(c)(4), another excess benefit transaction!

Responding to IRS Correspondence: 1 of 2

EO Assessment and Collections Notices to Filers MEETS IRS's Limited Capacity to Handle Taxpayers' Responses – Worlds Collide and No One is Happy!

- Letter CP141L assesses 990 late filing penalties – remember that Notice 2022-36 does not cover these **notices as ones that are "suspended"! Why?** Likely answer is that exempt sector has no effective lobbying power . . . .
- The phone number provided on notices of late filing / late payment penalty assessments against Form 990-series filings IS that of the CUSTOMER ACCOUNT SERVICES (CAS) call center: 877-829-5500. End of calendar 2021 started assessment parade on "supposedly" late-filed 990s for year ended 12/31/2020; had same issue on earlier tax years (those ended 12/31/2019 through 11/30/2020). It's been REALLY hard (oftentimes impossible) to get through to CAS uniformly throughout 4th quarter 2021, 1st quarter 2022, on- and off- again at start of 2nd quarter 2022, and then back to horrendous most of April through present day).

Responding to IRS Correspondence: 2 of 2

- When one can get through to CAS, they WILL TAKE a reasonable cause abatement request *from the taxpayer or its duly-authorized representative.* Staff are typically very receptive and helpful – the problem has been getting your call answered. If you make a written response, how do you know it's been received and/or being worked? (that's a rhetorical question!)
  - But I have several times had penalties abated while on the phone with the customer service rep, BUT NOT THE INTEREST on those penalties. ARGGG!
- IRS EO Division (and Big IRS as well) has been begging taxpayers and their advisors to NOT SEND MULTIPLE LETTERS [this was noted earlier in this presentation!] Sending duplicative responses adds the "backlog" of unprocessed correspondence – and worse, if multiple letters are addressed, further corruption/errors on IRS systems may populate! But, see next slide . . . .

Practitioner's Responsibilities Re IRS Correspondence to A Client

- Obligation to respond is yours? REALLY? Just because the filer may initially perceive the correspondence as stemming from practitioner's error, IT WASN'T. Having to deal with inefficient IRS and its computers for free is not a burden the practitioners' community should embrace.
- Ethical issues: if you are providing the client with assistance on tax matters overall and specifically with respect to tax filings you prepared and/or facilitated, can you abandon them now?
- Professional responsibility and malpractice issues: just because the IRS is suspending some notices doesn't absolve the taxpayer from having to respond to dispute a penalty (or other) assessment within the specific statutorily-provided period.
- **IRS "holds" on collections are still only available for a 30-day period** – but if the issue is that the timely-filed extension has yet to be processed or preceding correspondence is stuck in the backlog, what are you to do?? (Also, IRS will not shut off notices that have not been suspended!)

HOWEVER – PRACTITIONERS FEEL DUTY-BOUND to "DO SOMETHING" FOR TAXPAYERS FACING COLLECTION NOTICES

As we all know, paid preparers and tax advisors face ethical constraints and/or professional responsibility needs in utilizing/applying the IRS's "suspension of notice" pronouncements and/or "we've written twice and the letters keep coming" scenarios. NOT responding to tax assessment notices may implicate the record as to whether a taxpayer's position has been protected particularly in respect to protect their position to exhaust administrative remedies and preserve statute of limitations posturing under pertinent procedures and statutes. Fact that IRS suggests same may not be immediately required doesn't mean the practitioner has sufficiently acted to protect the taxpayer. Having to live with such judgment calls is a ___________________ [nightmare?]

Tips to AVOID (or Have Ammo To VOID) Erroneous IRS Notices

- E-file returns (and extensions!) if possible [990-EZs are the last group subject to mandatory e-filing (applies on tax years ending 7/31/2021 and thereafter); it is the case that 2020 Forms 990, 990-PF, 990-T, and 4720 all were already subject to that mandate
- Taxpayers should ask their paid preparers who are e-filing on their behalf for the ERO sheet that shows all e-file attempts by date and result
- Fax correspondence, rather than using USPS, to IRS whenever possible
- Taxpayers should monitor their mailboxes for physical correspondence <u>FROM IRS</u>
- Mailing to IRS of any paper-filed return, as well as of any other correspondence, should always be undertaken "return receipt requested" **<u>and</u>** that receipt alone is not enough – keep a contemporaneous record of the contents of that mailing!
- Hard as it is – DO NOT MAKE multiple mailings or faxes on same subject. IRS doesn't want them (see note below) as these only add to to the IRS's mail backlog. Furthermore, there's the chance that IRS processing of a successive send may collide with or be processed "out of order" and cause additional system conflicts or errors (and you don't want that!)

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As to this slide's last bullet point, both Rob Malone, IRS EO Division Director in both his 3/3/2022 and 6/17/2022 comments to the TE/GE EO Council repeatedly said to NOT effect multiple correspondence on the same subject, and the National Taxpayer Advocate also made this point, noting that IRS is working all correspondence on a FIFO basis and successive sends thus will not get any faster attention!

Practitioners NEED BE AWARE of these comments and recommendations *by the IRS* in order to have clients understand that the practitioner is correct in representing that "there is no point in responding to multiple notices on same issue" or "in communicating to multiple IRS entry points on same issue."

This presentation stresses that in preceding slides!

Electronic Filing is Mandatory (you know that!)

- Most organizations with tax years starting after July 1, 2019 have been required to e-file their annual filings. The specific mandate (set by Congress via Taxpayer First Act of 2019) was modified by the following date-applicable rules with respect to 2020 Forms:
  - Form 4720 for private foundations is to be e-filed except for paper-filings postmarked prior to 6/15/2021
  - Form 990-T could only be e-filed as of tax years ending December 2020 and forward (2020 Form 990-Ts could be paper filed until 3/15/2021)
  - Form 990-EZ filers had transition relief by which the IRS was required to accept paper filings for tax years ending before 7/31/2021
- Ultimately (taking into consideration the above on 2020 returns), EO filers' annual information returns as well as their actual "tax" returns (i.e., Forms 990-T and 4720) must be e-filed on the 2020 and forward years!
- This mandate includes any amended filings on the 2020 and successive years' Forms!

Electronic Filing Overall

- The IRS website has these helpful materials about what is required to e-file and the absence of exceptions :
  - Publication 4163: https://www.irs.gov/pub/irs-pdf/p4163.pdf
  - IRS Approved Software Providers: https://www.irs.gov/e-file-providers/exempt-organizations-mef-providers

- Benefits of e-filing modality:
  - Ensures the returns is completed when transmitted as it will be "rejected" by both the software vendor and/or the IRS if critical fields are not properly filled out.
  - Have immediate record on file of when the return is "accepted" by the IRS.
  - When an e-file attempt is made on the deadline there is a 10-day "perfection period" (a grace period) to resolve any issues.

Electronic Filing Issues/Considerations - 1

- Organizations that have historically paper filed (such as Form 990-EZ filers) must access suitable software from sources (who ideally will e-file on their behalf, otherwise the organization will need become an authorized e-file provider!) Alternatively, they can work with a paid preparer who is an authorized e-file provider and who has suitable software. [List of authorized e-file providers is available at: https://www.irs.gov/e-file-providers/exempt-organizations-mef-providers]
- TIP! efile.form990.org provides a long-tested, very usable "do it yourself" software platform for preparing and e-filing Forms 990/990-EZ/8868). The platform is run by a nonprofit provider and was created as part of the States' desire to see uniform state registration forms. Small and large organizations are ably served in using it!
- Important to use software that will adequately meet the filer's needs!
- Prior to e-filing, the organization or their paid preparer need ensure the organization is properly set up in the EO BMF – as noted earlier, the EO BMF must have them listed as an entity eligible to file 990-series returns (this is true as well for the 990-N).

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efile.form990.org

Pricing

- **FREE** to file Form 990/990-EZ for organizations with less than $100,000 in gross receipts.
- For organizations with gross receipts greater than $100,000, we have a sliding scale fee structure starting at $41.
  Fee schedule (Updated 3/1/2021)
- **FREE** to file Form 8868 (request for extension).
- **FREE** to file State Forms in HI, MI and NY. You pay any State fees you may owe directly to the State after you have completed the process.

Electronic Filing Issues/Considerations - 2

- There may be situations where changes need to be made to the submitted return in order for it be acceptable for e-filing. When that occurs, USE THE IRS's "e-file support team" (phone # is given when return rejects) for help with required changes).
- AICPA Blog Post has more "tips": https://www.aicpa.org/professional-insights/article/tips-to-overcome-challenges-of-e-filing-the-form-990-series
- Current problem arenas for e-filing (other than EO BMF issues):
  - Filing a short-year return that is not an initial or final return. IRS says this will be fixed for 2022 returns . . .
  - Filing a short-year return that begins in 2022 on 2021 forms (even though this required per the instructions). IRS is trying to fix this . . .
  - Private Foundations' fifth year in 60-month termination period ability to file as a public charity is rejected (workaround is to show net investment excise tax on the return!) Only way to avoid this is to timely meet the 90 day post-fifth year submission to IRS Determs that shows 60 months public support has been achieved.
- Finally, the IRS Website's e-filing information is sometimes out-of-date (for example, it notes instances in which returns may be paper-filed although "no filing exceptions" are noted for both 2020 and 2021 Forms in Publication 4163 (https://www.irs.gov/pub/irs-pdf/p4163.pdf)).

Electronic Filing Issues/Considerations - 3

- The IRS is pushing toward having returns being transmitted wholly in HTML without any attachments allowed to be included as part of the return. (Won't that be fun?)
- Some software providers require foreign filing information be inputted in their software (others still allow attachments).
- Many software providers are still providing enhancements to their Form 990-T software to meet the needs of every organization. (This is especially the case for trusts that are subject to the passive activity loss and at-risk rules.)

KNOW YOUR CLIENT!
Research Exempt-Status and Related Data
PARTICULARLY IF YOU ARE ISSUING AN
INDEPENDENT OPINION!!

IS ENTITY EXEMPT?
IRS IS POSTING FAVORABLE INITIAL EXEMPTION RULING LETTERS VIA "TAX EXEMPT ORGANIZATIONS SEARCH" (TEOS)

Info in box below was ADDED to the "Where's My Exemption Application?" webpage **as of 3/4/2022**. It tells APPLICANTS TO CHECK TEOS' POST OF DETERMINATION RULING LETTERS. Web access to TEOS's "app" function is available at: https://apps.irs.gov/app/eos/.

> **Note:** When we make a determination of your tax-exempt status, we mail you a determination letter. We also post determination letters approving tax-exempt status to Tax Exempt Organization Search (TEOS). You may wish to search TEOS to see if you have been issued a determination letter approving your tax-exempt status, which you may not yet have received in the mail, before contacting us to check on the status of your application.

WE ALL WILL FIND NEWLY-ISSUED DETERMINATION LETTERS THERE LONG BEFORE ONE COMES BY MAIL (IF IT EVER COMES!) AND REGARDLESS OF REV. PROC., A CURRENT-DATE EXEMPTION RULING MAY WELL PERSUADE A FUNDER TO MAKE A GIFT EVEN PRIOR TO PUB. 78 OR EO BMF LISTING!

The IRS's Tax Exempt Organization Search (TEOS)

https://www.irs.gov/charities-non-profits/tax-exempt-organization-search (describes what's available overall, including a link, https://www.irs.gov/charities-non-profits/search-for-tax-exempt-organizations#990, that gets you to descriptions of the available databases AS WELL AS the shortcut to TEOS' actual search function: https://apps.irs.gov/app/eos/.

The TEOS search function is a bit clunky but it has five separate databases:

- Pub. 78 (lists all currently-recognized 501(c)(3) entities and notes their status as PC, POF, PF, under a group ruling, or more – see next slide)
- IRS determination letters since 2014
- Form 990s (but note two slides upcoming on the reality of "COVID-19 delays")
- Form 990-N filing details
- List of all entities EVER auto-revoked

TEOS Main Page (info here was last checked 5/20/2022* which is why you see April dates for last data posting within each database)

Form 990-Series Returns

You can review the list of organizations that have filed forms in the Form 990 Series:

- Form 990
- Form 990–EZ
- Form 990–PF (501(c)(3) Private Foundations)
- Form 990–T (990–T returns for 501(c)(3) organizations only)

Note: JAWS users will need to request these files.

Latest data posting: **April 20, 2022**

For more information about the Form 990 Series, see Form 990 Resources and Tools

Form 990–N (e-Postcard)

Form 990-N (e-Postcard) is an annual electronic notice most small tax-exempt organizations (annual gross receipts normally $50,000 or less) are eligible to file instead of Form 990 or Form 990-EZ.

Latest data posting: **April 18, 2022**

Determination Letters dated on or after January 1, 2014

IRS issues a determination letter recognizing an organization as tax-exempt under the sub-section for which it applied. An organization must apply and pay a user fee to receive a determination letter.

Note: JAWS users will need to request these files.

Latest data posting: **April 13, 2022**

Pub. 78 Data

Lists of organizations that can receive tax-deductible contributions.

- Users may rely on this list in determining deductibility of their contributions.
- If an organization uses a "doing business as" (DBA) name, that name will not be listed in the Pub. 78 Data. Only the organization's official name submitted to the IRS is included in the data set.
- Some donees (i.e., churches, group ruling subordinates, and governmental units) eligible to receive tax-deductible charitable contributions may not be listed in Pub. 78 Data. For more information see, Other Eligible Donees.

Latest data posting: **April 11, 2022**

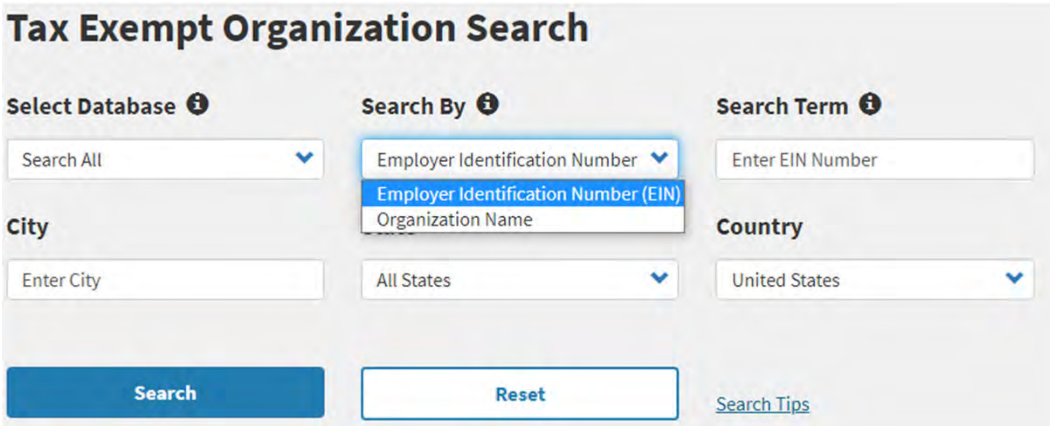
Auto-Revocation List

By law, tax-exempt status is automatically be revoked if an organization does not file the required Form 990-series returns or notices yearly for 3 consecutive years. The automatic revocation date is historical. It is the organization's effective date of automatic revocation (the date for the filing of the third annual Return or notice), but doesn't necessarily reflect its current tax-exempt status.

An organization may have applied for reinstatement of its tax-exempt status after the automatic revocation date had posted. IRS will recognize the reinstatement of the organization's tax-exempt status if the application is approved. You can find out if the exemption status has been reinstated by reviewing the Pub. 78 Data (for 501(c)(3) organizations) or reviewing its determination letter, which would show an effective date on or after the automatic revocation date, with the online tool or the bulk data download files. You may also review the EO BMF Extract to check the organization's current exempt status.

Latest data posting: **April 11, 2022**

Using the TEOS App Function https://apps.irs.gov/app/eos/



Each database can be searched individually – so when you enter an organization's EIN or name for a search of one database, **copy it** (because you'll want to paste it in when you go to another of the databases!)

Pub. 78 “Coding” of a Listed Organization’s “Deductibility”

Code	Type of organization and use of contribution.	Deductibility Limitation
PC	A public charity.	50%
POF	A private operating foundation.	50%
PF	A private foundation.	30% (generally)
GROUP	Generally, a central organization holding a group exemption letter, whose subordinate units covered by the group exemption are also eligible to receive tax-deductible contributions, even though they are not separately listed.	Depends on various factors
LODGE	A domestic fraternal society, operating under the lodge system, but only if the contribution is to be used exclusively for charitable purposes.	30%
UNKWN	A charitable organization whose public charity status has not been determined.	Depends on various factors
EO	An organization described in section 170(c) of the Internal Revenue Code other than a public charity or private foundation.	Depends on various factors
FED	An organization to which contributions are deductible if made for the use of a federal governmental unit.	50%
FORGN	A foreign-addressed organization. These are generally organizations formed in the United States that conduct activities in foreign countries. Certain foreign organizations that receive charitable contributions deductible pursuant to treaty are also included, as are organizations created in U.S. possessions.	Depends on various factors
SO	A Type I, Type II, or functionally integrated Type III supporting organization.	50%
SONFI	A non-functionally integrated Type III supporting organization.	50%
SOUNK	A supporting organization, unspecified type.	50%

TEOS Webpage Posts Two Warnings

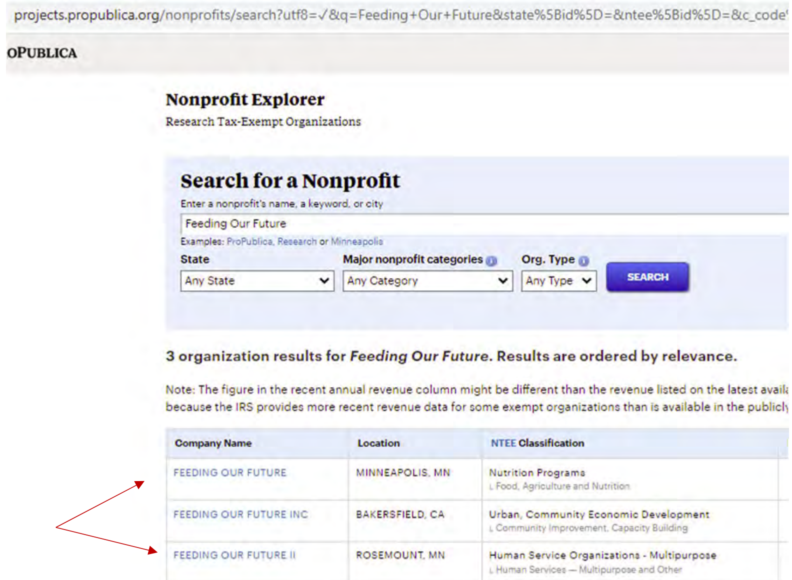
- **"Data Updates Delayed" (this re copies of Forms 990 and 990-EZ)**

  Webpage states they are still processing (for upload to the available here database of 990s/990-EZs), paper-filed 990 series returns received 2021 and later.

- **System Limitations Cause[d] Some Inaccurate Revocation Dates**
  Webpage text here explains that organizations appearing on the auto-revocation list *with a revocation date between April 1 and July 14, 2020, have been been posted with an incorrect* "effective revocation date" of 5/15/2020. That due date, as well as all due dates falling in the April 1 – July 14 2020 period, had been extended due to COVID circumstances to 7/15/2020. Accordingly, if there is a posted date of revocation at 4/15, 5/15, or 6/15 2020 IT IS WRONG, and the accurate effective date is 7/15/2020. There is a link noted for further information: https://www.irs.gov/node/86866#revoke2.

KNOW YOUR CLIENT – INVESTIGATE THEIR "STATUSES" with IRS & State Offices

In MN we have a huge "charity scandal" – Feeding Our Future. They were subject of 200 FBI-coordinated raids in Jan. 2022. At issue was $40M in costs (reimbursed by federal $$s) for feeding school kids during the pandemic. Problem was no one saw delivery of food at FOF-partners' "meal sites!" A search here in <10 seconds yielded not ONE, but TWO Minnesota entities with that name!



- What a surprise (?): the first of the two **Feeding Our Future** orgs, **("FOF-1")** was shown as no longer rostered as tax-exempt when I first checked March 2022 (**although they had been shown as 501(c)(3)-exempt in the past).**
- A separate inquiry on the TEOS' database of automatically-revoked entities shows they were revoked effective 2/15/2020 for having failed to file three sequential years' 990s (those on years ended 9/30, 2017, 2018, and 2019) by the due date of that last year's filing.

ProPublica's Nonprofit Explorer at work – my "go-to":

projects.propublica.org/nonprofits/organizations/814343304

FEEDING OUR FUTURE

MINNEAPOLIS, MN 55418-2500 | TAX-EXEMPT SINCE FEB. 2017

EIN: 81-4343304

Read this box! When you see it, there's trouble and you are the hero who either found it or has found data filings on back year that otherwise might be unavailable!

This organization is not listed in the IRS's most recent list of tax exempt organizations, but we have data associated with this Employer Identification Number. We have reconstructed basic information about the organization (like its name and tax code designation) from an old list of exempt organiations. **However, this information may be out of date.** It's even possible that the organization no longer has tax exempt status or no longer exists.

Classification (NTEE)
Nutrition Programs (Food, Agriculture and Nutrition)

Nonprofit Tax Code Designation: 501(c)(3)
Defined as: Organizations for any of the following purposes: religious, educational, charitable, scientific, literary, testing for public safety, fostering national or international amateur sports competition (as long as it doesn't provide athletic facilities or equipment), or the prevention of cruelty to children or animals.

Donations to this organization are tax deductible.

More Resources: GuideStar

Get notifications: Sign up for updates about our data.

- Via MN S.O.S. filings, we see info on "Feeding Our Future II" --

  It's a MN nonprofit with registered agent Aimee Bock (FOF-1's CEO) and it was formed on 1/4/2021.

- Per TEOS, we find this "new" MN nonprofit filed a Form 1023-EZ that same day, 1/4/2021!
  (that is evidenced by favorable 501(c)(3) ruling letter that is dated March 23, 2021.

  PRO TIP: TEOS letters' naming convention shows the date of 1023 submission, not the date it was issued.

As to FOF-1's saga, there was NO initial press coverage of the fact that FOF-1 had been automatically-revoked ~23 months before the FBI raids! Also, in early 2021, a MN court had ruled in FOF-1's favor to compel the State to continue releasing federal funds to the organization. The court may not have been aware that the entity at that time (indeed, back to 2/15/2020 per prior slide) had NO 501(c)(3) status. That lack of 501(c)(3) status was later cured by FOF-1's successfully making a reinstatement application, a fact that one can see via TEOS as well!)

QUESTIONS? CONCERNS? TIME FOR YOUR FEEDBACK?

- Thanks for your work assisting tax-exempt organizations – it is much needed!

Eve Borenstein, J.D. – two contexts in which I provide services:

- Harmon, Curran, Spielberg & Eisenberg, LLP (legal advice, albeit ***I am just now going on semi-retired status*** but will stay *Of Counsel*)
- Eve Rose Borenstein, LLC (teaching/education/consulting with nonprofits and advisors) [see shameless promotion of 990 courses below in notes]

To reach me:

for speaking/teaching or educational consults: eve@taxexemptlaw.org

for legal representation or intra-firm referrals: eborenstein@harmoncurran.com

Phone (cell) is: 612.978.1205 (email contact preferred)

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Borenstein's Form 990 Webinars for 2022-2023 CPE Year (as of 5/1/2022) available through CPA Crossings (www.cpacrossings.com)	Course Code	Level	Credits	Eve refers to webinar as:
The "990 Foundational Series (including Intro)" follows...				
Note that the ORDER of these sessions is synchronized to the preparation sequencing called for in the 990 instructions				
Understanding the Form 990 and Its Preparation Prerequisites	EB9*FD0* 02	Overview	2.0	990INTRO
Finding & Reporting Filers' Related Organizations	EB9*FD1* 02	Basic→Inter.	2.0	990FDN_1
Reporting Managers & Their Compensation: Form 990 Part VII-A	EB9*FD2* 25	Basic→Inter.	2.5	990FDN_2
Transactions with Interested Persons: Form 990 Schedule L	EB9*FD3* 25	Basic→Inter.	2.5	990FDN_3
Reporting Fundraising Results: Form 990 Part VIII (& Sch. M)	EB9*FD4* 25	Basic→Inter.	2.5	990FDN_4
Financial Statements Display: Form 990 Parts VIII, IX, X & XI	EB9*FD5* 25	Basic→Inter.	2.5	990FDN_5
Program Services & Governance: Form 990 Parts III & VI	EB9*FD6* 25	Basic→Inter.	2.5	990FDN_6
Understanding the "Most Common" Form 990 Schedules: A, B & C	EB9*FD7* 25	Basic→Inter.	2.5	990FDN_7
Intro to Remaining "Most Common" Form 990 Schedules: D & G	EB9*FD8* 25	Basic→Inter.	2.5	990FDN_8
Form 990 Parts V (Other Tax Issues) & I (Summary Financials)	EB9*FD9* 15	Basic→Inter.	1.5	990FDN_9
The four "Master Classes" follow....				
Public Charity Qualification Under the Public Support Tests	EB9*PST* 25	Inter.→Adv.	2.5	990_PSTs
Complex Manager Comp Scenarios: Core Form VII-A & Schedule J	EB9*MGR* 25	Inter.→Adv.	2.5	990MGR$
"Insider" Dealings and Sunshine: Schedule L's Parts II-IV	EB9*SCL* 25	Inter.→Adv.	2.5	990SCH_L
Handling Complex Related Org Issues: Schedule R's Parts II-V	EB9*SCR* 25	Inter.→Adv.	2.5	990SCH_R
Registrants using a CPA Crossings' Partner Code get a discount! IF you need a code, use mine (Eve Rose Borenstein, LLC): erb	Total CPE Credits Available		33	

Nonprofit Organizations Conference

Oct. 17 | 8 a.m.-4:05 p.m.
8 hours CPE

11:10 a.m.-12:25 p.m.

Navigating the New Workforce Paradigm Hugh Cain & Brent Hinders

Successfully Navigating Changes in The Workplace Due to COVID-19

Hugh J. Cain
Brent L. Hinders
Eric M. Updegraff

1 Monday, October 17, 2022

HOPKINS & HUEBNER, P.C. ATTORNEYS AT LAW

1

COVID-19 (2020-Current) Important Workplace Statistics

- Iowa
  - 74% of Construction Firms are unable to find sufficient workers for existing projects.
  - 4% growth in jobs requiring no advanced education (food service, manufacturing, and retail).
- Federal
  - 35.4% of workers teleworked due to the Coronavirus Pandemic in May 2020. (7.1% current).
  - 19.2% of workers had business closure or layoff due to the Coronavirus in May 2020 (0.8% current).

2 Successfully Navigating Changes in The Workplace Due to COVID-19

HOPKINS & HUEBNER, P.C. ATTORNEYS AT LAW

2

Remote Work

- 59% of workers who can do their jobs from home are currently teleworking (high of 71% in October 2020).
  - o Most workers are choosing which workplace they feel more productive when working.
- 1.2 million more individuals with disabilities were identified as workers between 2020-2021 with numbers likely to continue to rise.

Remote Work (Cont.)

- Remote Work may be appropriate for an employee with a disability or where workspace is unavailable, unsafe, or too expensive.
- Factors in determining whether to allow remote work:
  - o What are the employee's essential job functions?
  - o Can the employer effectively supervise the employee and provide necessary tools to accomplish the job?
  - o How often does the employee "need" to be in the office to accomplish essential job functions?

Remote Work (Cont.)

- Remote Work Policy in a Handbook
  - Employer agrees to supply appropriate equipment to the employee to accomplish the job functions.
  - Employee agrees to maintain a safe and appropriate workspace at home including furnishings, maintaining passwords/confidentiality, and an injury risk free environment.
  - Monitoring and reporting of overtime work if appropriate by employer and employee.
  - Other appropriate arrangements based on job, circumstances, and length of the remote work agreed to by employer and employee.

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Pandemic Workplace Safety

- Social Distancing
  - Study shows for jobs that are information gathering, knowledge based, and independent. Less likely for problem-solving, interdependent, and customer-facing positions. Supervision is independent of social-distancing factors.

HOPKINS & HUEBNER, P.C. ATTORNEYS AT LAW

Pandemic Workplace Safety (Cont.)

- OSHA Guidance on Social Distancing (6' separation of workers) in the workplace:
  - o Encourage workers to stay home if they are sick.
  - o Isolate any worker who begins to exhibit symptoms until they can either go home or leave to seek medical care.
  - o Establish flexible worksites (e.g., telecommuting) and flexible work hours (e.g., staggered shifts), if feasible.

Pandemic Workplace Safety (Cont.)

- o In workplaces where customers are present, mark six-foot distances with floor tape in areas where lines form, use drive-through windows or curbside pickup, and limit the number of customers allowed at one time.
- o Stagger breaks and rearrange seating in common break areas to maintain physical distance between workers.
- o Move or reposition workstations to create more distance, and install plexiglass partitions.
- o Encourage workers to bring any safety and health concerns to the employers' attention.

HOPKINS & HUEBNER, P.C. ATTORNEYS AT LAW

Pandemic Workplace Safety (Cont.)

- OSHA Recommendations on future pandemic outbreaks:
  - Develop an Infectious Disease Preparedness and Response Plan for your workplace, workers, and worksites.
  - Implement Basic Infection Prevention Measures (Hand washing, covering coughs, staying home if sick, etc.).
  - Develop Policies and Procedures for Identification and Isolation of Sick workers.
  - Develop, Implement, and Communicate Workplace Flexibility Options and Infection Protocols.
  - Implement Workplace Controls (Engineering, Administrative, Safe practices, and PPE.
  - Stay up-to-date on existing OSHA standards and requirements for workplace safety.

Lay Off and Furlough Policies

- In the first quarter of 2020 American Businesses experienced:
  - An estimated 70% of private businesses saw decreased sales and profits.
  - 28% of businesses laid off or furloughed workers causing 15.9 million out of work Americans.

Lay Off and Furlough Policies (Cont.)

- Difference between *Layoff* and *Furlough*
  - *Layoff*
    - The temporary or permanent termination of employment by an employer for reasons unrelated to the employee's performance.
  - *Furlough*
    - A mandatory temporary leave of absence from which the employee is expected to return to work or to be restored from a reduced work schedule.

Lay Off and Furlough Policies (Cont.)

Iowa

- Applies to Companies of **25+ employees**.
- Triggered by permanent or temporary shutdown or mass layoff of 25 or more employees for a period of 6 months.
- **30 days** notice.
- Enforced by **Iowa Workforce Development**.

Federal

- Applies to Companies of **100+ employees**.
- Triggered by:
  - Closing: 50 or more employees affected for 30 day period OR
  - Mass Layoff: 500 employees or 1/3 of workforce losing jobs for 30 day period.
- **60 days** notice.
- Enforced by **US Dept. of Labor and Federal Courts**.

Lay Off and Furlough Policies (Cont.)

- Information in a WARN Act Notice
  - Company Name and Address
  - Business Contact Information
  - Date of Event
  - Names and Addresses of Affected Employees
- Penalties for Violation
  - **Iowa**: A covered employer who violates the notice requirements is subject to a civil penalty of not more than $100 for each day of the violation (Max $3,000).
  - **Federal**: A covered employer who violates the notice requirements is subject to a civil penalty of $500 for each day of violation (no maximum) AND payment of lost wages and benefits to all affected employees for each day of violation.

Lay Off and Furlough Policies (Cont.)

Sample Employment Handbook Policy

Due to the economic impact of an unforeseen event, [COMPANY] may need to implement either a layoff or furlough of employees to ensure the financial stability of the company. The general procedure for either a layoff or furlough is detailed below. [COMPANY] reserves the right to change or alter this procedure based upon the circumstances.

Layoff

Any layoff of certain positions at [COMPANY] will be effective from a designated date until such time as circumstances warrant a return to work. [COMPANY] will recall laid-off employees as business needs warrant based first on job function and then on seniority.

Lay Off and Furlough Policies (Cont.)

Furlough

Any furlough will be for any positions deemed by [COMPANY] to be nonessential for the operation of the Company. Any effected employee will be given notice of the temporary, unpaid leave of absence and the beginning date of the furlough.

You may be eligible for unemployment benefits under these circumstances. Contact your local unemployment office for information on eligibility and applying for unemployment benefits. Present this letter to your local unemployment office as evidence of your employment status.

[COMPANY] will communicate with you regularly during this period. If your personal phone number, email or mailing address has changed recently, please provide your current contact information to human resources immediately.

Lay Off and Furlough Policies (Cont.)

Furlough (Cont.)

Please feel free to contact human resources at [COMPANY] with any questions. If you find alternate employment during this period and do not intend to return to work at [COMPANY] , please notify human resources immediately of your voluntary resignation.

It is important to note that your employment continues to be at-will and nothing in either this policy or any notice or communication about either a layoff or furlough is intended as an express or implied contract.

Medical Record Inspection and Retention

- The EEOC's Enforcement Guidance provides that:

Medical examinations are procedures or tests that seek information about the existence, nature, or severity of an individual's physical and mental impairment, or that seek information regarding an individual's physical or psychological health.

Medical Record Inspection and Retention (Cont.)

- The Americans with Disabilities Act (ADA) requires that employee medical records be maintained **confidentially and separate from an employee's general personnel file**.

- This includes the following employee documents:
    - medical exams,
    - disability benefits claim forms,
    - notes from doctors,
    - requests for Family and Medical Leave Act (FMLA) leave,
    - requests for ADA accommodations,
    - worker's compensation history, claims and related documents,
    - fitness-for-duty results, functional capacity assessments,

Medical Record Inspection and Retention (Cont.)

- This includes the following employee documents (Cont.):
  - referrals concerning an employee's participation in the company's employee assistance program,
  - results of drug/alcohol tests,
  - reimbursement requests for medical expenses,
  - health-related information about an employee's family members,
  - any documentation about past or present health, medical condition, or disabilities,
  - health insurance enrollment, continuation forms and COBRA notices.

Medical Record Inspection and Retention (Cont.)

- OSHA definition of a medical record:

Employee medical record means a record concerning the health status of an employee which is made or maintained by a physician, nurse, or other health care personnel or technician, including…
  - Medical and employment questionnaires or histories (including job description and occupational exposures).
  - The results of medical examinations and laboratory tests.
  - Medical opinions, diagnoses, progress notes, and recommendations.
  - First Aid Records.
  - Descriptions of treatments and prescriptions, and
  - Employee medical Complaints.

Medical Record Inspection and Retention (Cont.)

- Under the ADA medical records should be maintained by the employer for 7 years.
- Under OSHA medical records "shall be preserved and maintained for at least the duration of employment plus thirty (30) years."
  - Exceptions:
    - Health Insurance Records.
    - First Aid Records of non-serious medical conditions (i.e. cuts, burns, splinters, etc.).
    - Records of employees who have worked less than 1 year but those records need to be given to the employee at the end of employment.

Family Medical Leave Act ("FMLA")

- Provides job protection for eligible employees who work for covered employers. Must maintain health benefits during this period.
- Basis for leave:
  - Birth of child.
  - Placement for adoption of child.
  - ***Care for spouse, son, daughter, or parent of employee with serious health condition***.
  - Serious health condition of employee.
  - Qualifying exigency for son, daughter, spouse, or parent on covered active duty of Armed Forces.

Family Medical Leave Act (Cont.)

- Amount of Leave – 12 weeks
  - o Can be taken in single increment.
  - o Can be taken intermittently with reduced work schedule.
- Eligible Employee
  - o Worked for at least 1 year.
  - o Worked at least 1,250 hours.
- Covered Employer
  - o Private employer with 50 or more employees within 75 mils of one another.
  - o All state and local governments regardless of size.

Family Medical Leave Act (Cont.)

- Special Service Member Family Leave
  - o Care for service members.
  - o Up to 26 weeks leave.
  - o For spouse, child, parent, or next of kin.
- Federal forms exist for request for leave, certification of leave, and designation of leave.
- Can sue for violation – discrimination or interference with rights
  - o Back pay – benefits
  - o Attorney fees
  - o Liquidated damages
  - o Interest
  - o Equitable Relief

Family Medical Leave Act (Cont.)

- Serious health condition
    - o Inpatient care in hospital, hospice or residential care facility, or
    - o Continuing treatment by healthcare provider.
- Covered Active Duty
    - o For member of regular Armed Forces, deployment to foreign county.
    - o For member of reserves, either deployment to foreign country or call to active duty.

Nonprofit Organizations Conference

Oct. 17 | 8 a.m.-4:05 p.m.
8 hours CPE

1:10-2:40 p.m.

The Future of Work in Nonprofits: You, Your Employees and Your Prospective Employees

Jim Lindell

Future of Work
Not-for-Profit Conference

Presented by: Jim Lindell, CSP, CPA, CGMA
Thorsten Consulting Group, Inc.

Where are we?

- Our organizations are the sum of our workforces. During Covid, companies had problems finding staff, and virtual work became the norm. Increased layoffs are being announced and employment stability is still a problem. Our long-term strategic success depends on the people we choose to work for us, and our efforts to recruit, retain and develop will dictate how successful we can be in the long run. In this session, we will discuss:
- What will the future workforce look like? **Boomers retiring – Young↓ Older↑ part-time workers, Less experienced, Lower STEM, Me-first focus,**
- How has the pandemic altered businesses, and what are the implications for future staffing? **Great Resignation, Quiet Quitting, Adversarial, Remote/hybrid**
- What will be the impact of volatility on the workforce? **More movement to Me-first, less productivity**
- How to create a process to identify and qualify future staff. **Vetting skills are paramount, Understanding what your organization desires/needs in each position is critical. Are prior requirements/credentialing still relevant.**

Great Resignation

FORTUNE RANKINGS MAGAZINE NEWSLETTERS PODCASTS MORE SEARCH SIGN IN Subscribe N

Great Resignation | Compensation | Return to Work | Careers | Labor Unions | Success Stories

SUCCESS · GREAT RESIGNATION

The Great Resignation is far from over

BY CHLOE BERGER

September 25, 2022 at 8:00 AM CDT

Most I

The Great Resignation is NOT over: Unemployed Americans who quit their jobs rose 15.9% in September - reaching a 30-year high

- The percentage of unemployed people who voluntarily left their job rose 15.9 percent in September
- According to the Bureau of Labor Statistics, this is the highest the number has been in 30 years
- Industries hit hardest by 'The Great Resignation' include manufacturing, education, retail, and hospitality
- The U.S. also added 263,000 new jobs in September
- Unemployment rate fell to 3.5 percent, the lowest level since January 2020
- The median period Americans stay unemployed is 8.3 weeks. This marks the shortest period of time between jobs in 20 years

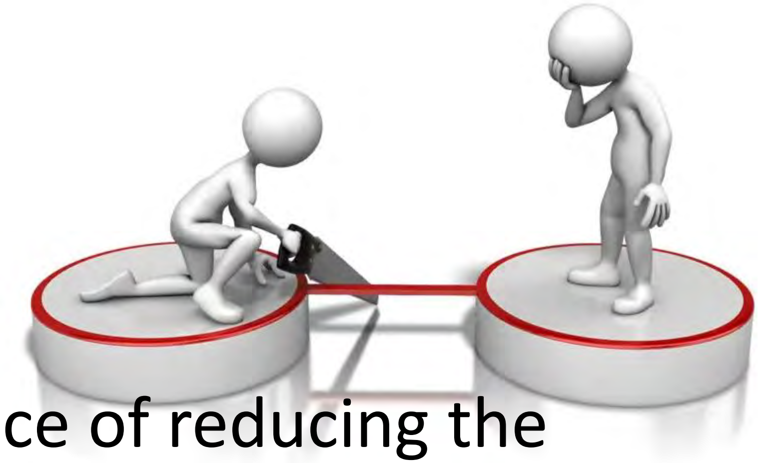
By HOPE SLOOP FOR DAILYMAIL.COM

PUBLISHED: 13:36 EDT, 10 October 2022 | **UPDATED:** 17:45 EDT, 10 October 2022

The Great Resignation Update: Limeade Employee Care Report

- Burnout
- Flexibility / Remote
- Caring Culture

Quiet Quitting



- *Quiet quitting* is an informal term for the practice of reducing the amount of effort one devotes to one's job, such as by stopping the completion of any tasks not explicitly stated in the job description. The term implies that this is done secretly or without notifying one's boss or manager.
- Quiet quitting is often discussed in the context of worker dissatisfaction, burnout, disengagement, and the trend of deprioritizing work in favor of other aspects of life. It is often used alongside other terms used in the same context, such as anti-ambition, lying flat, and the Great Resignation.

https://www.dictionary.com/e/slang/quiet-quitting/

Top experts' economic forecasts over the next year

4.4% Average forecast for the **unemployment rate** a year from now

97K Average number of **jobs added each month** over the next year

3.79% Average forecast for the **10-year Treasury yield** a year from now

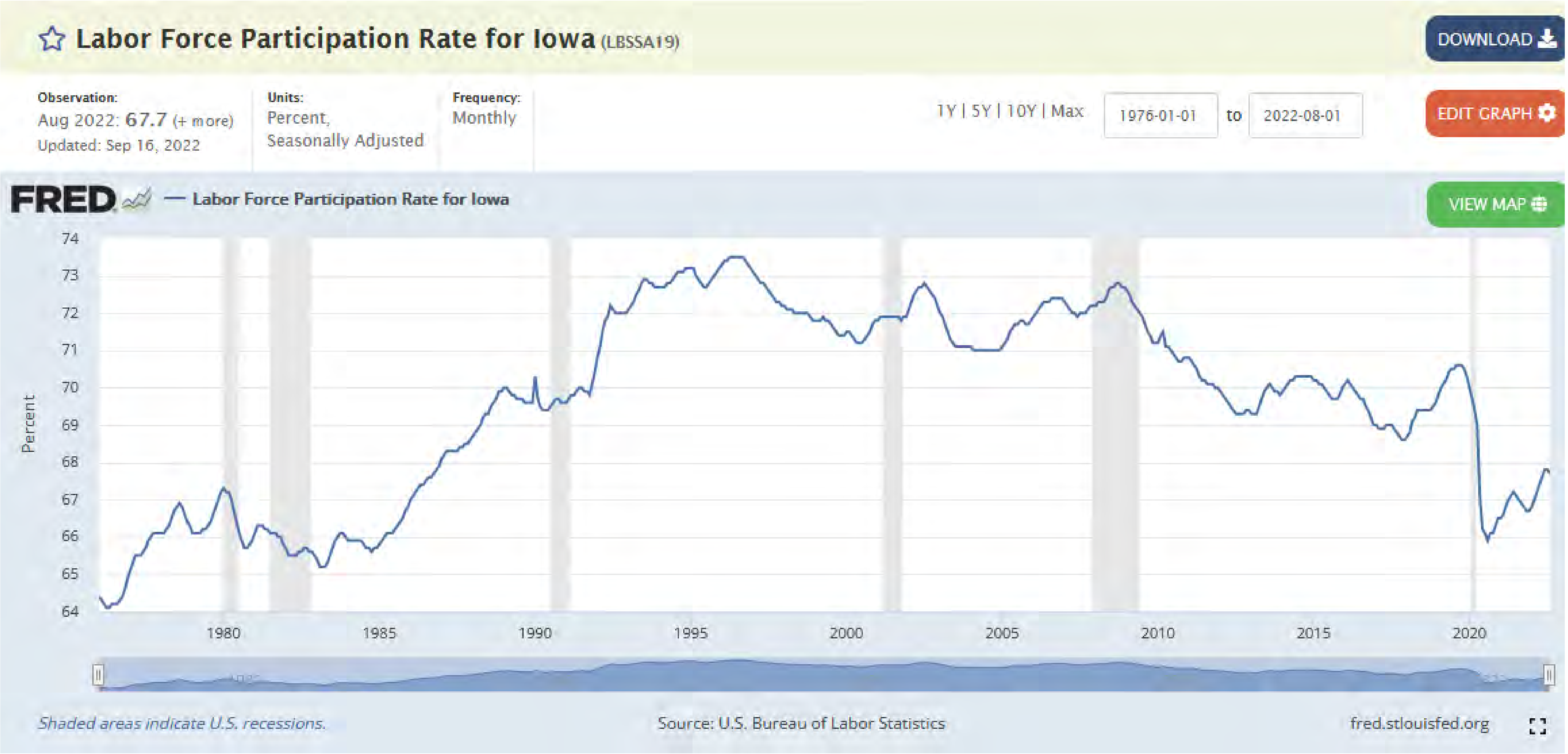
4.71% Average forecast for where the **federal funds rate** will peak

65% **Recession odds** over the next 12-18 months

43% Percentage of economists who say **inflation** over the next 12-18 months will be more significant than expected

86% Percentage of economists who say **risks for the U.S. economy** are tilted toward the downside

Source: Bankrate's Third-Quarter Economic Indicator Survey, October 2022


Labor Force Participation Rate for Iowa (LBSSA19)
DOWNLOAD
Observation:
Aug 2022: 67.7 (+ more)
Updated: Sep 16, 2022
Units:
Percent,
Seasonally Adjusted
Frequency:
Monthly
1Y | 5Y | 10Y | Max
1976-01-01
to
2022-08-01
EDIT GRAPH
FRED
— Labor Force Participation Rate for Iowa
VIEW MAP
74
73
72
71
70
69
68
67
66
65
64
Percent
1980
1985
1990
1995
2000
2005
2010
2015
2020
Shaded areas indicate U.S. recessions.
Source: U.S. Bureau of Labor Statistics
fred.stlouisfed.org


1Y | 5Y | 10Y | Max
1990-01-01
to
2022-08-01
EDIT GRAPH
FRED
All Employees: Total Nonfarm in Iowa
Resident Population in Iowa
Thousands of Persons
3,200
3,000
2,800
2,600
2,400
2,200
2,000
1,800
1,600
1,400
1,200
1992
1994
1996
1998
2000
2002
2004
2006
2008
2010
2012
2014
2016
2018
2020
2022
1925
1950
1975
Shaded areas indicate U.S. recessions.
Sources: U.S. Bureau of Labor Statistics; U.S. Census Bureau
fred.stlouisfed.org

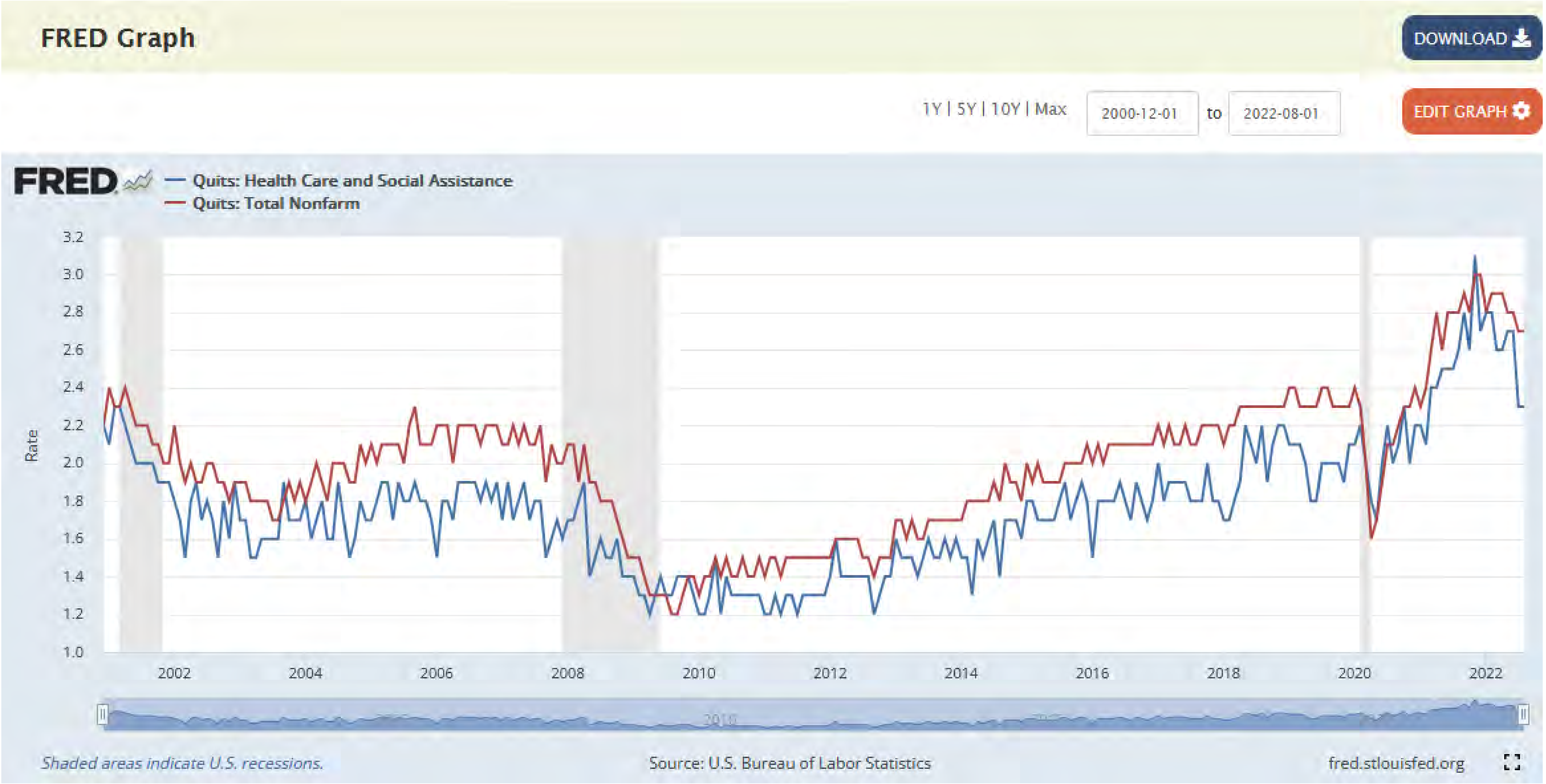
Bankrate Survey

- Most Americans (55 percent) who are either employed or looking for a job — what economists would describe as being in the workforce — say they are likely to look for new employment in the next 12 months, according to Bankrate's August 2021 Job Seeker Survey.
- More than half (55 percent) of Americans in the workforce say they're either somewhat or very likely to look for a new job in the next year.
- Americans are prioritizing flexible work arrangements (56 percent), higher pay (53 percent) and job security (47 percent) in their careers in wake of the coronavirus pandemic.
- More than two-fifths (41 percent) of Americans in the labor market expect to work remotely at least one day a week over the next year.
- More than 1 in 5 (or 21 percent) of U.S. adults lost income or became unemployed during the pandemic.

Source: Bankrate

Great Resignation

- A great deal of job openings
- Take this job and shove it – Johnny Paycheck



FRED Graph
DOWNLOAD
1Y | 5Y | 10Y | Max
2000-12-01
to
2022-08-01
EDIT GRAPH
FRED
Quits: Health Care and Social Assistance
Quits: Total Nonfarm
Rate
3.2
3.0
2.8
2.6
2.4
2.2
2.0
1.8
1.6
1.4
1.2
1.0
2002
2004
2006
2008
2010
2012
2014
2016
2018
2020
2022
Shaded areas indicate U.S. recessions.
Source: U.S. Bureau of Labor Statistics
fred.stlouisfed.org

Employment, Unemployment, and Openings, Hires, and Separations

Data series	Back data	Jun. 2022	Jul. 2022	Aug. 2022	Sep. 2022
Employment (in thousands)					
Employment, all employees (seasonally adjusted)		20,560.6	20,649.3	(P) 20,709.5	(P) 20,784.9
Employment, production and nonsupervisory employees		18,000.2	18,072.4	(P) 18,117.8	
Unemployment					
Unemployment rate		2.4%	2.6%	2.4%	2.6%
Job openings, hires, and separations (in thousands)					
Job openings		1,900	2,127	(P) 1,664	
Hires		855	866	(P) 779	
Separations		790	758	(P) 678	

Footnotes
(P) Preliminary

(Source: Current Employment Statistics, Current Population Survey, Job Openings and Labor Turnover Survey)

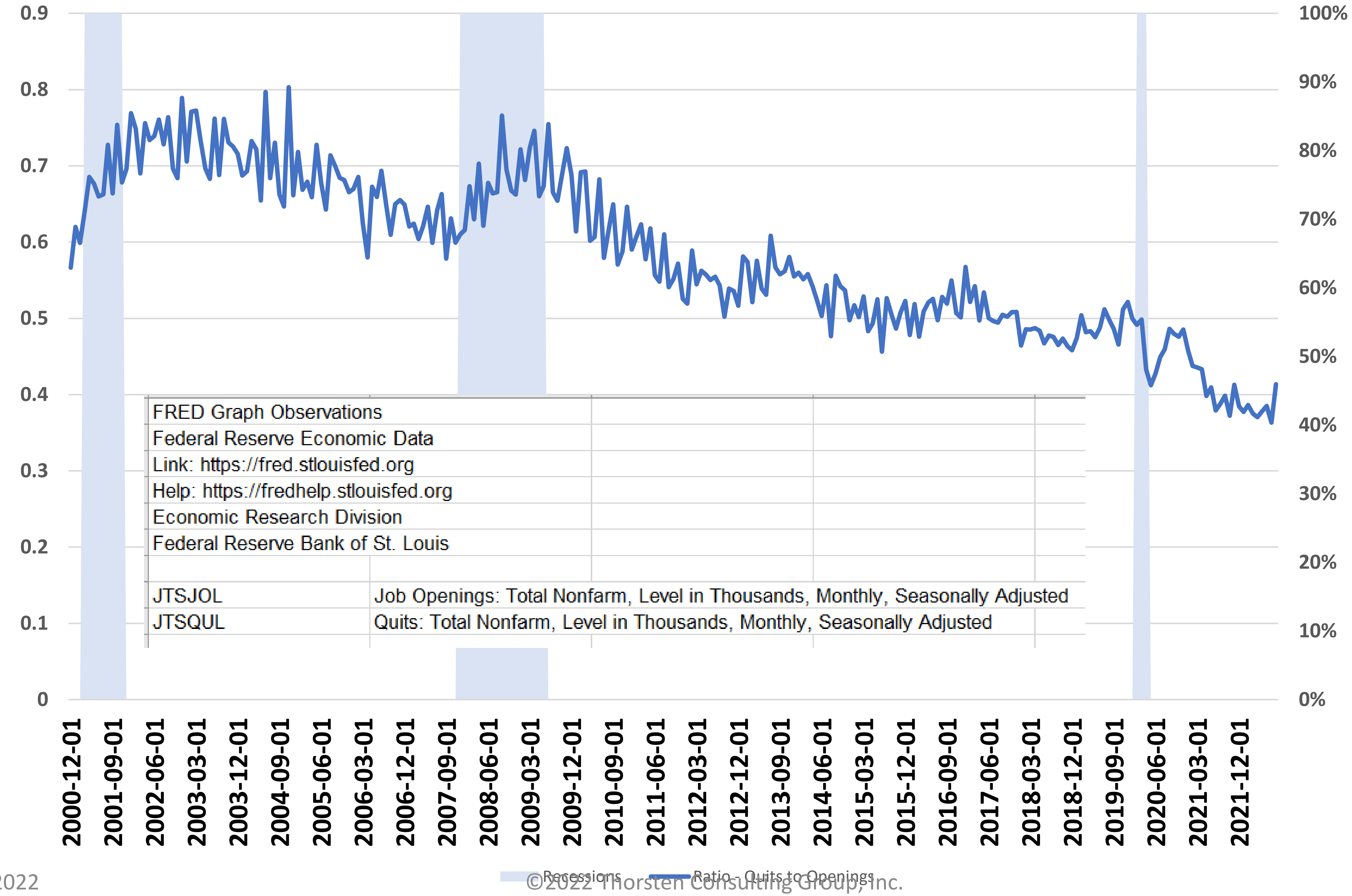
The health care and social assistance sector consists of these subsectors:

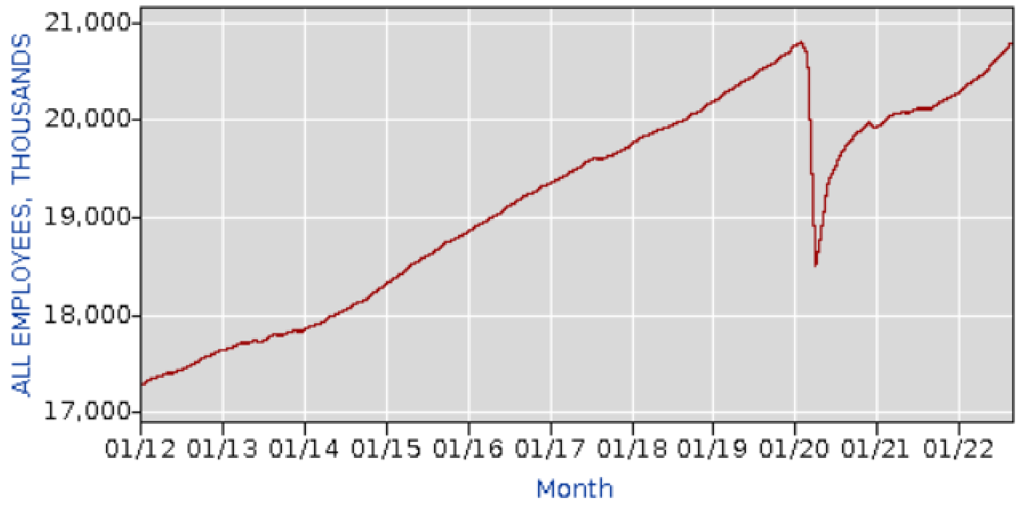
- Ambulatory Health Care Services: NAICS 621
- Hospitals: NAICS 622
- Nursing and Residential Care Facilities: NAICS 623
- Social Assistance: NAICS 624

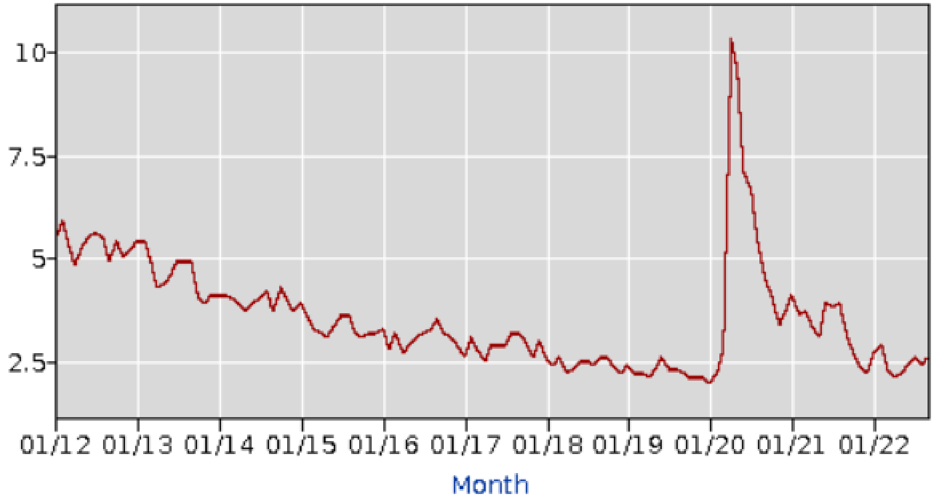
Workforce Statistics

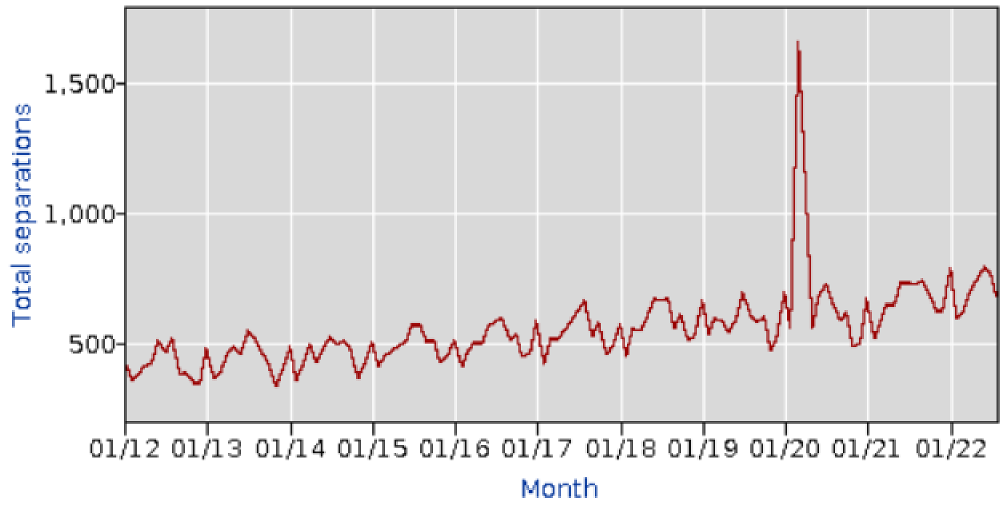

FRED Graph
DOWNLOAD
1Y | 5Y | 10Y | Max
2000-12-01
to
2022-08-01
EDIT GRAPH
FRED
— Job Openings: Total Nonfarm
— Quits: Total Nonfarm
Level in Thousands
12,000
10,000
8,000
6,000
4,000
2,000
0
2002
2004
2006
2008
2010
2012
2014
2016
2018
2020
2022
Shaded areas indicate U.S. recessions.
Source: U.S. Bureau of Labor Statistics
fred.stlouisfed.org

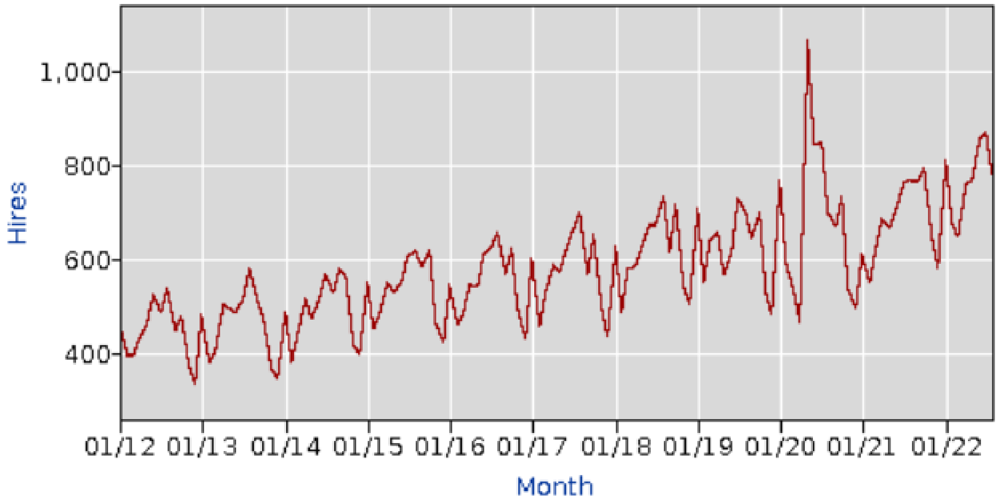
Ratio - Quits to Openings as of 8/1/2022

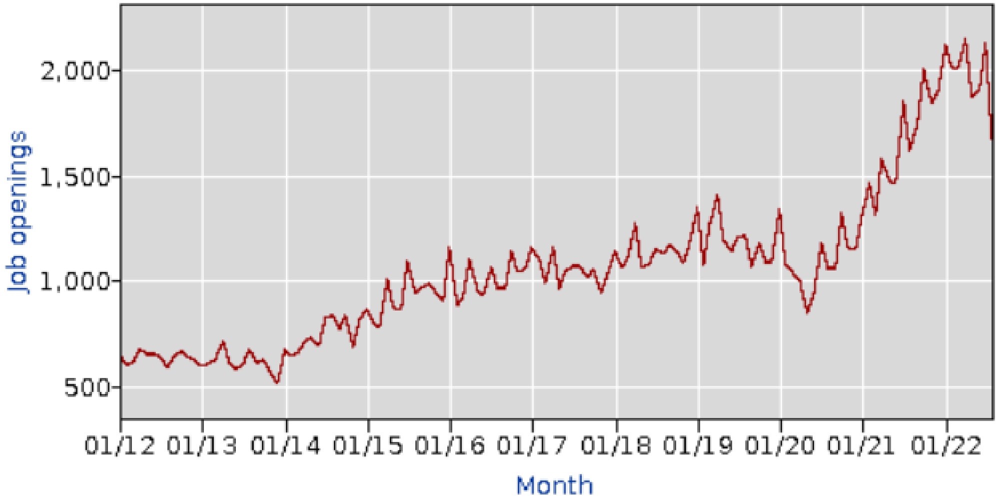


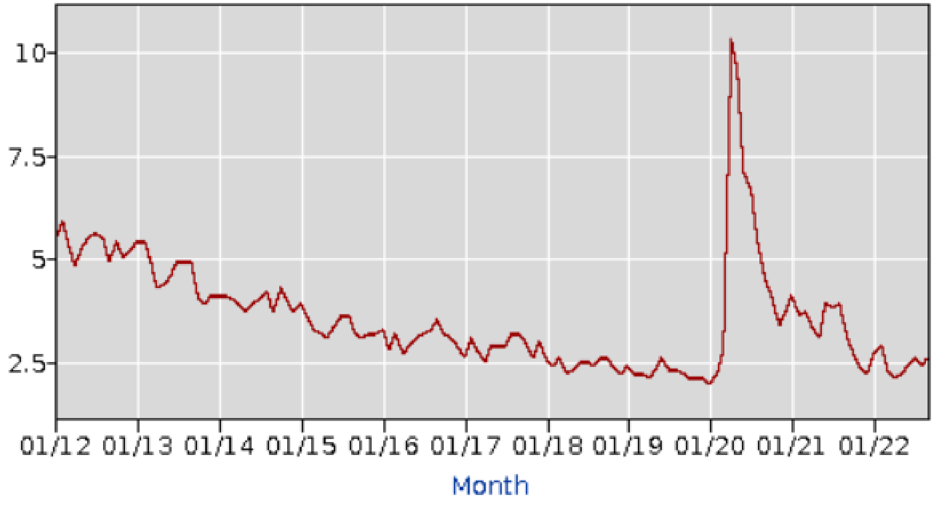

ALL EMPLOYEES, THOUSANDS
21,000
20,000
19,000
18,000
17,000
01/12 01/13 01/14 01/15 01/16 01/17 01/18 01/19 01/20 01/21 01/22
Month


10
7.5
5
2.5
01/12 01/13 01/14 01/15 01/16 01/17 01/18 01/19 01/20 01/21 01/22
Month


Total separations
1,500
1,000
500
01/12 01/13 01/14 01/15 01/16 01/17 01/18 01/19 01/20 01/21 01/22
Month


Hires
1,000
800
600
400
01/12 01/13 01/14 01/15 01/16 01/17 01/18 01/19 01/20 01/21 01/22
Month


Job openings
2,000
1,500
1,000
500
01/12 01/13 01/14 01/15 01/16 01/17 01/18 01/19 01/20 01/21 01/22
Month


10
7.5
5
2.5
01/12 01/13 01/14 01/15 01/16 01/17 01/18 01/19 01/20 01/21 01/22
Month

How did we get here?

- Belle to Ebeneezer Scrooge – “Another idol has displaced me.”

Attitude towards work

- Meaning of work – purpose, vision, contribution to society

Work Hours

Moved to 2nd generation business owners

We live in the social media world

Selfishness

As The Pandemic Recedes, Millions Of Workers Are Saying 'I Quit'

Jonathan Caballero made a startling discovery last year. At 27, his hair was thinning. The software developer realized that life was passing by too quickly as he was hunkered down at home in Hyattsville, Md.

"I think the pandemic has changed my mindset in a way, like I really value my time now," Caballero says.

As pandemic life recedes in the U.S., people are leaving their jobs in search of more money, more flexibility and more happiness. Many are rethinking what work means to them, how they are valued, and how they spend their time. It's leading to a dramatic increase in resignations — a record 4 million people quit their jobs in April alone, according to the Labor Department.

Source – NPR.org – Andrea Hsu

Basic needs are met

- Big Screen TV
- Basement
- Transportation
- Internet
- Don’t want Mom and Dad’s life

Misery loves company

- Acquisitions
- Lack of loyalty

Falling behind other countries

Where are we going?

Employment by occupation

Table 1.1 Employment by major occupational group, 2021 and projected 2031 (Numbers in thousands)

2021 National Employment Matrix title	2021 National Employment Matrix code	Employment, 2021	Employment, 2031	Employment change, 2021-31	Percent employment change, 2021-31	Median annual wage, 2021[1]
Total, all occupations	00-0000	158,134.7	166,452.1	8,317.4	5.3	$45,760
Management occupations	11-0000	11,685.3	12,569.2	883.9	7.6	$102,450
Business and financial operations occupations	13-0000	9,987.4	10,702.5	715.1	7.2	$76,570
Computer and mathematical occupations	15-0000	4,951.5	5,716.3	764.8	15.4	$97,540
Architecture and engineering occupations	17-0000	2,562.5	2,653.7	91.3	3.6	$79,840
Life, physical, and social science occupations	19-0000	1,436.0	1,534.7	98.7	6.9	$72,740
Community and social service occupations	21-0000	2,843.2	3,137.8	294.6	10.4	$48,410
Legal occupations	23-0000	1,368.0	1,499.0	131.0	9.6	$82,430
Educational instruction and library occupations	25-0000	9,151.2	9,809.3	658.2	7.2	$57,220
Arts, design, entertainment, sports, and media occupations	27-0000	2,789.1	2,973.7	184.6	6.6	$51,190
Healthcare practitioners and technical occupations	29-0000	9,228.2	10,023.5	795.3	8.6	$75,040
Healthcare support occupations	31-0000	7,026.0	8,279.7	1,253.8	17.8	$29,880
Protective service occupations	33-0000	3,482.2	3,554.8	72.6	2.1	$46,590
Food preparation and serving related occupations	35-0000	11,761.8	13,081.6	1,319.9	11.2	$28,400
Building and grounds cleaning and maintenance occupations	37-0000	5,415.0	5,705.8	290.8	5.4	$30,240
Personal care and service occupations	39-0000	3,868.4	4,413.2	544.8	14.1	$29,450
Sales and related occupations	41-0000	14,719.9	14,555.4	-164.5	-1.1	$30,600
Office and administrative support occupations	43-0000	19,587.0	18,706.2	-880.8	-4.5	$38,050
Farming, fishing, and forestry occupations	45-0000	1,069.6	1,078.0	8.4	0.8	$29,860
Construction and extraction occupations	47-0000	7,026.0	7,278.9	252.9	3.6	$48,210
Installation, maintenance, and repair occupations	49-0000	6,038.7	6,342.6	304.0	5.0	$47,940
Production occupations	51-0000	8,787.1	8,623.5	-163.6	-1.9	$37,710
Transportation and material moving occupations	53-0000	13,350.7	14,212.6	861.8	6.5	$36,860

Footnotes:

[1] Data are from the Occupational Employment and Wage Statistics program, U.S. Bureau of Labor Statistics. Wage data cover non-farm wage and salary workers and do not cov

Note: Data is unavailable for values denoted with a "—".

Source: Employment Projections program, U.S. Bureau of Labor Statistics

Employment by occupation (continued)

Table 1.4 Occupations with the most job growth, 2021 and projected 2031 (Numbers in thousands)

2021 National Employment Matrix title	2021 National Employment Matrix code	Employment, 2021	Employment, 2031	Employment change, 2021-31	Percent employment change, 2021-31	Median annual wage, 2021[1]
Total, all occupations	00-0000	158,134.7	166,452.1	8,317.4	5.3	$45,760
Home health and personal care aides	31-1120	3,636.9	4,560.9	924.0	25.4	$29,430
Cooks, restaurant	35-2014	1,255.6	1,715.6	459.9	36.6	$30,010
Software developers	15-1252	1,425.9	1,796.5	370.6	26.0	$120,730
Fast food and counter workers	35-3023	3,195.6	3,438.8	243.2	7.6	$25,100
General and operations managers	11-1021	3,118.4	3,328.2	209.8	6.7	$97,970
Waiters and waitresses	35-3031	1,904.4	2,101.4	197.0	10.3	$26,000
Registered nurses	29-1141	3,130.6	3,326.0	195.4	6.2	$77,600
Laborers and freight, stock, and material movers,	53-7062	2,806.5	2,974.8	168.4	6.0	$31,230
Stockers and order fillers	53-7065	2,472.7	2,630.6	157.9	6.4	$30,110
Market research analysts and marketing specialists	13-1161	792.5	942.8	150.3	19.0	$63,920
First-line supervisors of food preparation and serving workers	35-1012	1,093.1	1,238.7	145.7	13.3	$36,570
Medical and health services managers	11-9111	480.7	616.9	136.2	28.3	$101,340
Financial managers	11-3031	730.8	854.0	123.1	16.8	$131,710
Medical assistants	31-9092	743.5	861.3	117.8	15.8	$37,190
Maids and housekeeping cleaners	37-2012	1,237.4	1,353.8	116.4	9.4	$28,780
Nurse practitioners	29-1171	246.7	359.4	112.7	45.7	$120,680
Light truck drivers	53-3033	1,109.7	1,220.4	110.7	10.0	$38,280
Management analysts	13-1111	950.6	1,059.0	108.4	11.4	$93,000
Bartenders	35-3011	514.0	606.0	92.0	17.9	$26,350
Heavy and tractor-trailer truck drivers	53-3032	2,094.7	2,185.6	90.9	4.3	$48,310
Animal caretakers	39-2021	290.7	377.6	86.9	29.9	$28,600
Janitors and cleaners, except maids and housekeeping cleaners	37-2011	2,298.4	2,383.9	85.5	3.7	$29,760
Computer and information systems managers	11-3021	509.1	591.5	82.4	16.2	$159,010
Accountants and auditors	13-2011	1,449.8	1,531.6	81.8	5.6	$77,250
Lawyers	23-1011	833.1	913.3	80.2	9.6	$127,990
Managers, all other	11-9199	1,305.8	1,384.3	78.4	6.0	$124,650
Substance abuse, behavioral disorder, and mental health counselors	21-1018	351.0	428.5	77.5	22.1	$48,520
Maintenance and repair workers, general	49-9071	1,539.1	1,615.3	76.3	5.0	$43,180
Preschool teachers, except special education	25-2011	483.1	556.0	72.9	15.1	$30,210
Construction laborers	47-2061	1,358.4	1,430.3	71.9	5.3	$37,770

Footnotes:
(1) Data are from the Occupational Employment and Wage Statistics program, U.S. Bureau of Labor Statistics. Wage data cover non-farm wage and salary workers and do not cover the self-employed, owners and partners in unincorporated firms, or household workers.

Note: Data is unavailable for values denoted with a "—".
Source: Employment Projections program, U.S. Bureau of Labor Statistics

Employment by occupation (continued)

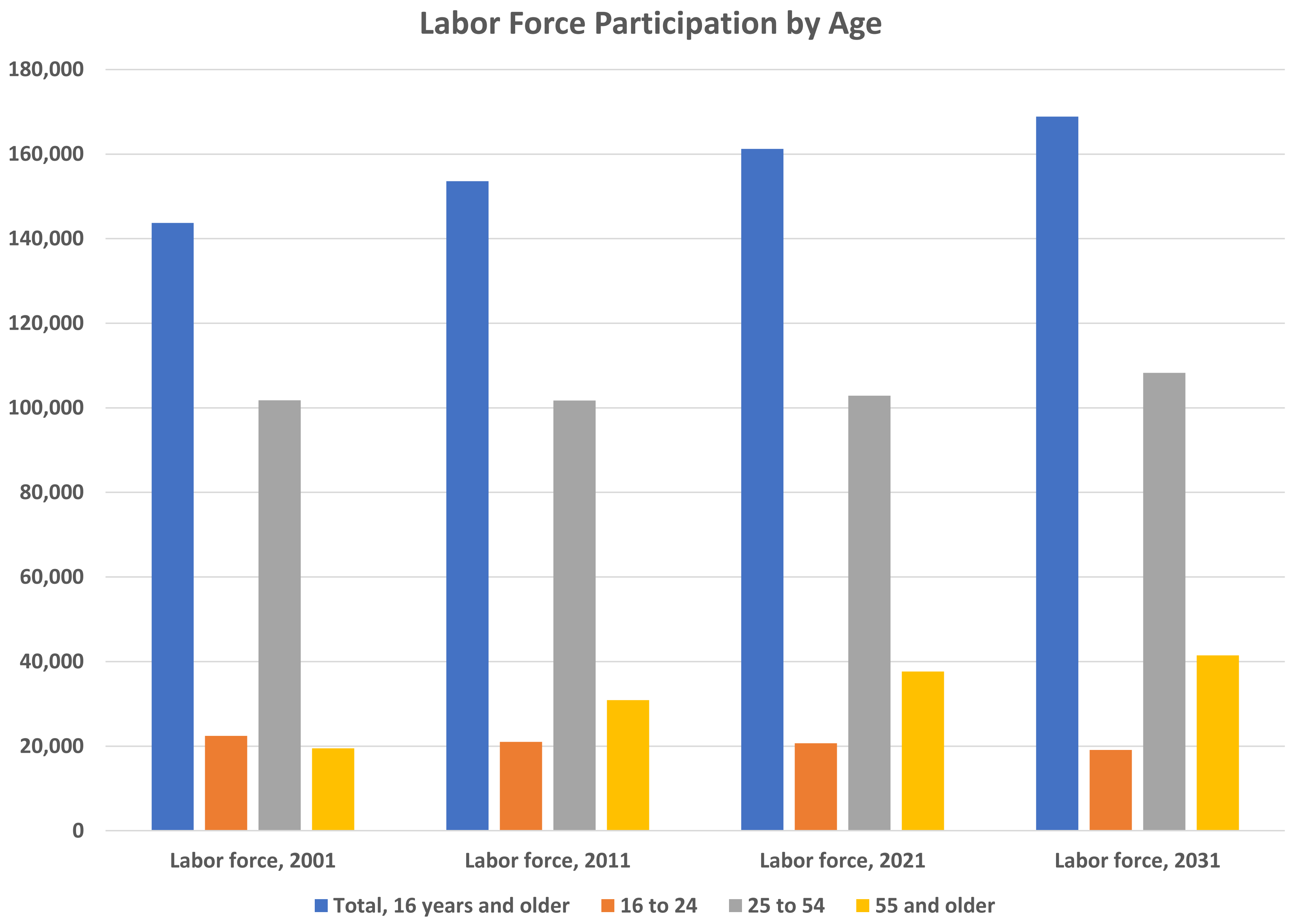
	A	B	C	D	E	F	G
1	Table 1.6 Occupations with the largest job declines, 2021 and projected 2031 (Numbers in thousands)						
2	2021 National Employment Matrix title	2021 National Employment Matrix code	Employment, 2021	Employment, 2031	Employment change, 2021-31	Percent employment change, 2021-31	Median annual wage, 2021(1)
3	Total, all occupations	00-0000	158,134.7	166,452.1	8,317.4	5.3	$45,760
4	Cashiers	41-2011	3,371.6	3,036.0	-335.7	-10.0	$27,260
5	Secretaries and administrative assistants, except legal, medical, and executive	43-6014	2,075.6	1,868.0	-207.6	-10.0	$37,880
6	Office clerks, general	43-9061	2,751.8	2,621.1	-130.8	-4.8	$37,030
7	Customer service representatives	43-4051	2,898.9	2,793.6	-105.3	-3.6	$36,920
8	Executive secretaries and executive administrative assistants	43-6011	508.0	405.4	-102.6	-20.2	$62,060
9	Miscellaneous assemblers and	51-2090	1,367.1	1,270.7	-96.4	-7.1	$36,590
10	First-line supervisors of retail sales	41-1011	1,505.7	1,427.5	-78.2	-5.2	$39,230
11	Bookkeeping, accounting, and auditing clerks	43-3031	1,707.8	1,630.6	-77.2	-4.5	$45,560
12	Cooks, fast food	35-2011	792.3	723.2	-69.1	-8.7	$24,180
13	Shipping, receiving, and inventory clerks	43-5071	814.3	757.2	-57.1	-7.0	$36,890
14	Tellers	43-3071	378.0	334.3	-43.7	-11.6	$36,310
15	Correctional officers and jailers	33-3012	402.2	360.6	-41.6	-10.3	$47,920
16	Data entry keyers	43-9021	155.9	117.4	-38.5	-24.7	$35,630
17	Buyers and purchasing agents	13-1020	459.8	427.5	-32.2	-7.0	$63,470
18	Legal secretaries and administrative assistants	43-6012	157.8	127.5	-30.4	-19.2	$47,710
19	First-line supervisors of office and administrative support workers	43-1011	1,521.8	1,493.5	-28.3	-1.9	$60,590
20	Order clerks	43-4151	143.9	119.7	-24.2	-16.8	$37,920
21	Payroll and timekeeping clerks	43-3051	157.7	133.9	-23.8	-15.1	$47,610
22	Printing press operators	51-5112	153.1	129.4	-23.7	-15.5	$37,770
23	Farmers, ranchers, and other agricultural managers	11-9013	847.6	824.0	-23.6	-2.8	$73,060
24	Telemarketers	41-9041	115.7	94.7	-21.0	-18.2	$28,910
25	Chief executives	11-1011	283.9	263.3	-20.6	-7.3	$179,520
26	Claims adjusters, examiners, and investigators	13-1031	314.3	295.9	-18.3	-5.8	$65,080
27	Computer programmers	15-1251	174.4	156.6	-17.8	-10.2	$93,000
28	Word processors and typists	43-9022	46.1	28.5	-17.6	-38.2	$44,030
29	Bill and account collectors	43-3011	215.4	197.9	-17.5	-8.1	$37,700
30	Inspectors, testers, sorters, samplers, and weighers	51-9061	571.6	554.5	-17.2	-3.0	$38,580
31	Helpers--production workers	51-9198	206.9	190.3	-16.5	-8.0	$30,000
32	Postal service mail carriers	43-5052	322.9	307.4	-15.4	-4.8	$52,440
33	Farmworkers, farm, ranch, and aquacultural animals	45-2093	228.5	213.6	-14.8	-6.5	$29,630

Footnotes:

(1) Data are from the Occupational Employment and Wage Statistics program, U.S. Bureau of Labor Statistics. Wage data cover non-farm wage and salary workers and do not cover the self-employed, owners and partners in unincorporated firms, or household workers.

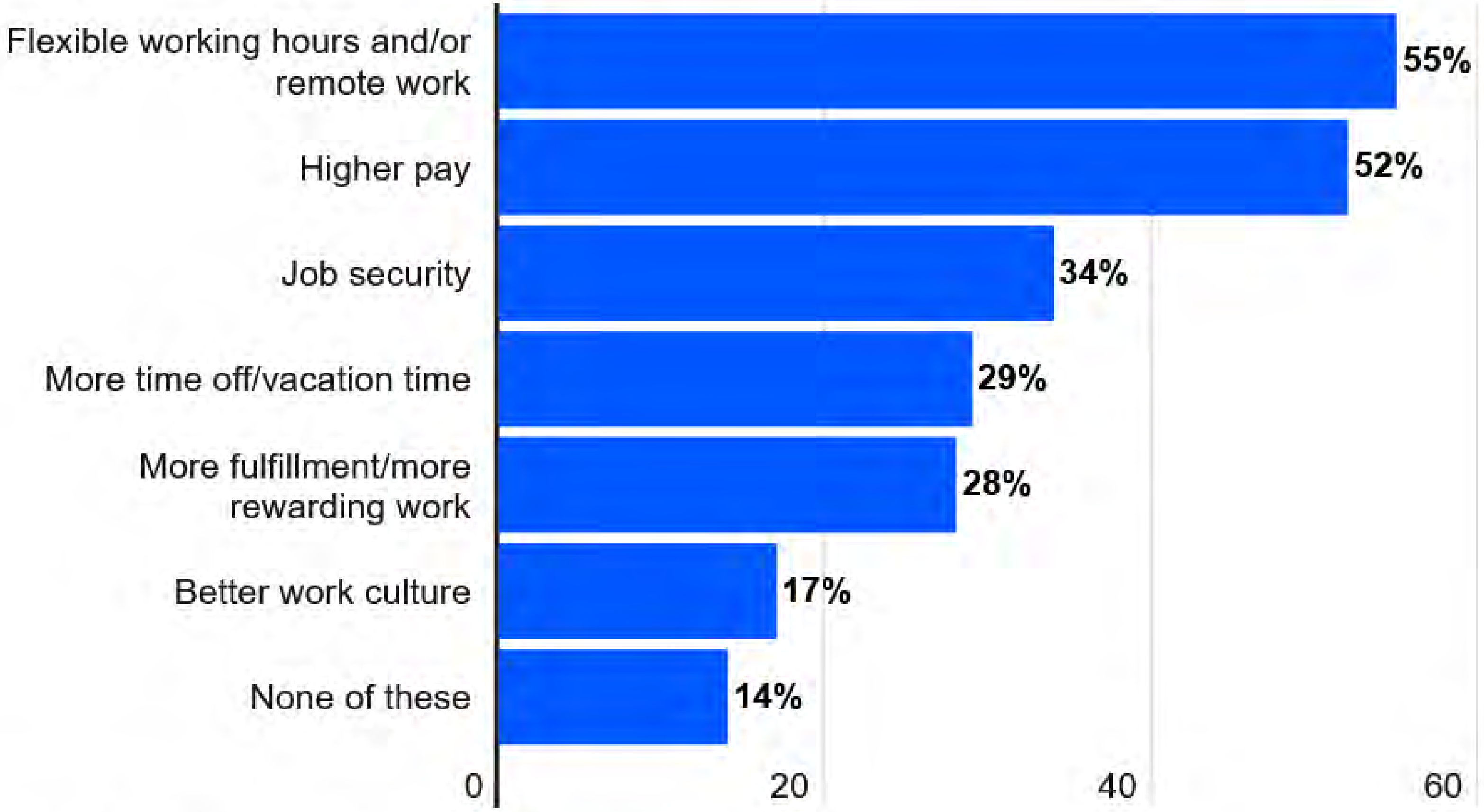
Note: Data is unavailable for values denoted with a "—".

Source: Employment Projections program, U.S. Bureau of Labor Statistics


Labor Force Participation by Age
180,000
160,000
140,000
120,000
100,000
80,000
60,000
40,000
20,000
0
Labor force, 2001
Labor force, 2011
Labor force, 2021
Labor force, 2031
Total, 16 years and older
16 to 24
25 to 54
55 and older

Job seekers value flexible hours and remote work

We asked: Thinking of your employment moving forward, which, if any, of the following are more important to you now than they were prior to the Covid-19 outbreak? Please select all that apply.

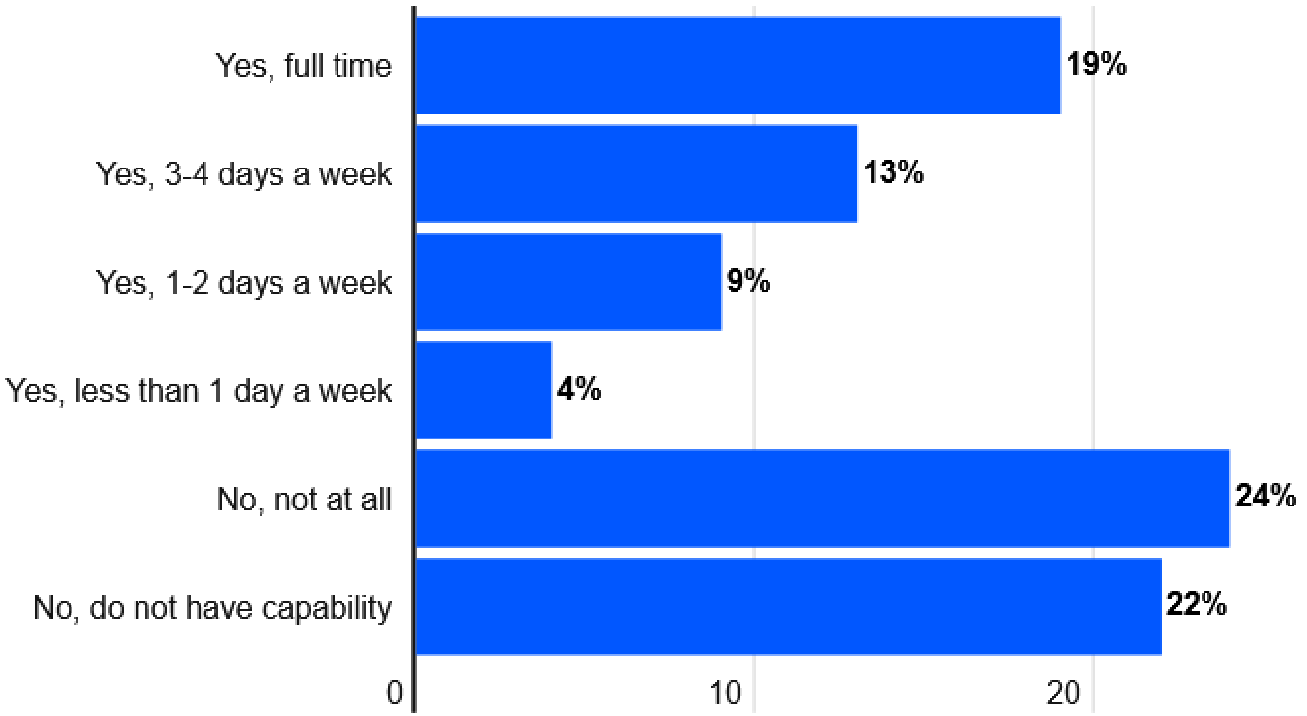


Note: Respondents could select multiple answers.
Source: Bankrate Job Seeker Survey, February 16-18, 2022

Americans expect to continue working remotely

Americans have a remote work expectation

We asked: Do you expect to work remotely, or from home, at least part of the time in the next 12 months?

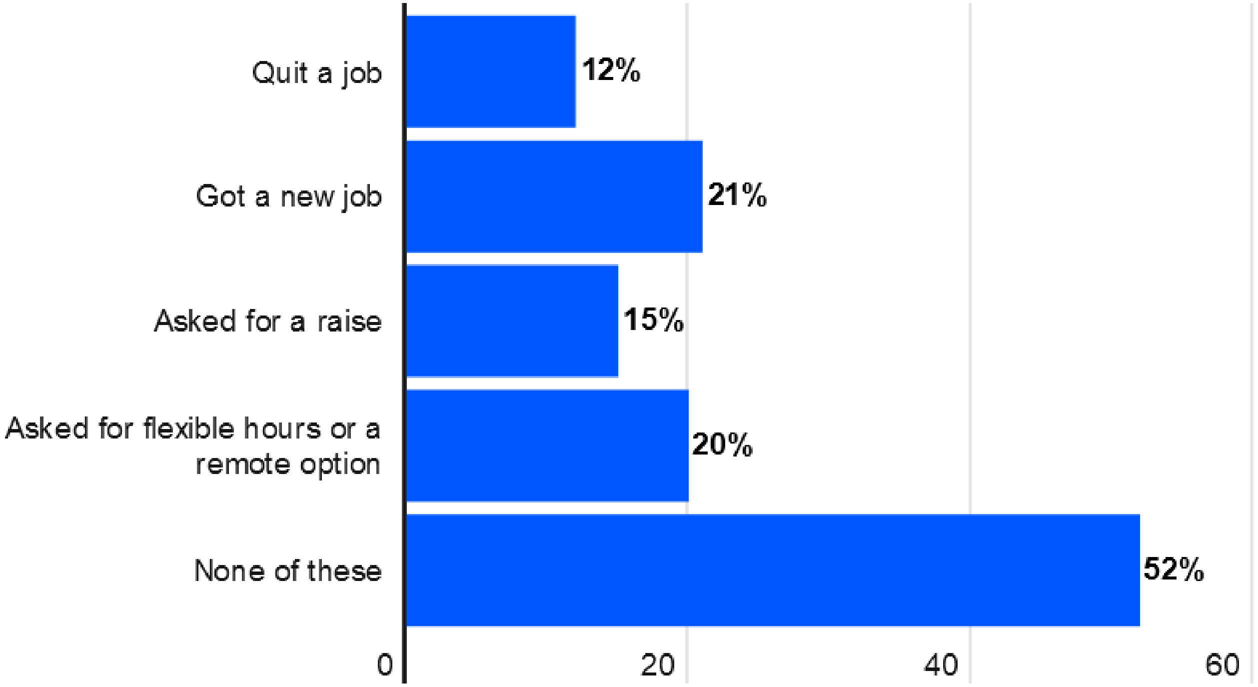


Note: Percentages may not total 100 due to rounding. 10 percent selected "Don't know."
Source: Bankrate Job Seeker Survey, July 28-30, 2021

More than half of Americans likely to look for a new job in the next 12 months

Some workers are leaving their jobs, others are asking their employers to be more accommodating

We asked: Which, if any, of the following have you done in the past year (i.e., since February 2021)? Please select all that apply.



Note: Respondents could select multiple answers.
Source: Bankrate Job Seeker Survey, February 16-18, 2022

Table 4. Quits levels and rates by industry and region, seasonally adjusted

Industry and region	Levels (in thousands)	Column1	Column2	Column3	Column4	Column5	Rates(2)	Column6	Column7	Column8	Column9	Column10
	Aug. 2021	Apr. 2022	May 2022	June 2022	July 2022	Aug. 2022(p)	Aug. 2021	Apr. 2022	May 2022	June 2022	July 2022	Aug. 2022(p)
Total	4,126	4,327	4,274	4,253	4,058	4,158	2.8	2.9	2.8	2.8	2.7	2.7
INDUSTRY												
Total private	3,925	4,088	4,048	4,012	3,850	3,937	3.1	3.2	3.1	3.1	3	3
Mining and logging	10	13	17	16	13	13	1.7	2.2	2.7	2.5	2.1	2
Construction	189	213	230	181	210	229	2.6	2.8	3	2.4	2.7	3
Manufacturing	283	333	317	327	287	285	2.3	2.6	2.5	2.6	2.2	2.2
Durable goods	157	176	164	173	161	160	2	2.2	2.1	2.2	2	2
Nondurable goods	126	157	153	154	127	124	2.7	3.3	3.2	3.2	2.6	2.6
Trade, transportation, and utilities	995	956	916	933	869	867	3.6	3.3	3.2	3.3	3	3
Wholesale trade	145	123	113	121	90	94	2.5	2.1	1.9	2.1	1.5	1.6
Retail trade	674	645	611	603	578	565	4.4	4.1	3.9	3.8	3.7	3.6
Transportation, warehousing, and utilities	176	188	192	209	200	208	2.6	2.7	2.7	3	2.8	2.9
Information	51	51	52	62	44	57	1.8	1.7	1.8	2.1	1.5	1.9
Financial activities	123	193	132	142	156	152	1.4	2.2	1.5	1.6	1.7	1.7
Finance and insurance	82	112	85	101	109	100	1.3	1.7	1.3	1.5	1.6	1.5
Real estate and rental and leasing	41	80	47	41	47	52	1.8	3.4	2	1.8	2	2.2
Professional and business services	745	783	766	763	776	682	3.5	3.5	3.4	3.4	3.5	3
Education and health services	585	604	624	609	534	538	2.5	2.5	2.6	2.5	2.2	2.2
Educational services	55	73	68	58	52	52	1.5	1.9	1.8	1.5	1.3	1.4
Health care and social assistance	530	530	555	551	482	486	2.6	2.6	2.7	2.7	2.3	2.3
Leisure and hospitality	821	803	859	827	833	956	5.7	5.2	5.5	5.3	5.3	6.1
Arts, entertainment, and recreation	81	73	89	78	83	88	3.9	3.2	3.9	3.4	3.6	3.8
Accommodation and food services	741	730	770	749	750	869	6	5.5	5.8	5.6	5.6	6.5
Other services	123	139	136	151	127	157	2.2	2.5	2.4	2.7	2.2	2.8
Government	201	239	225	241	208	221	0.9	1.1	1	1.1	0.9	1
Federal	23	23	23	23	21	22	0.8	0.8	0.8	0.8	0.7	0.8
State and local	178	216	203	218	187	199	0.9	1.1	1	1.1	1	1
State and local education	93	109	96	110	97	101	0.9	1.1	0.9	1.1	0.9	1
State and local, excluding education	85	107	106	108	90	98	0.9	1.2	1.2	1.2	1	1.1
REGION(3)												
Northeast	573	592	573	543	581	580	2.2	2.2	2.1	2	2.1	2.1
South	1,718	1,806	1,840	1,963	1,746	1,911	3.1	3.2	3.3	3.5	3.1	3.4
Midwest	922	936	871	829	831	760	2.9	2.9	2.6	2.5	2.5	2.3
West	913	993	990	918	900	907	2.7	2.8	2.8	2.6	2.5	2.6

What to do about your work force?

Great teams require great leaders, great players - greatness is subjective

- Most Americans (55 percent) who are either employed or looking for a job — what economists would describe as being in the workforce — say they are likely to look for new employment in the next 12 months, according to Bankrate's August 2021 Job Seeker Survey.
- "We have changed. Work has changed. The way we think about time and space has changed," says Tsedal Neeley, a professor at Harvard Business School and author of the book *Remote Work Revolution: Succeeding From Anywhere.* Workers now crave the flexibility given to them in the pandemic — which had previously been unattainable, she says.

Emphasis on efficiency and automation

WEF

- In 2025, analytical thinking, creativity and flexibility are among the top skills needed; with data and artificial intelligence, content creation and cloud computing the top emerging professions

  The most competitive businesses will be those that choose to reskill and upskill current employees

Skill Changes

- Upgrade - skills more important than jobs
- Degrees – not as important
- Focus on customers
- Data-literate
- Comfortable AI, Robots
- Desire to be empowered
- Mission, Equity, Environment

Hybrid - Virtual and in-person

- Erosion of work-life balance
- Consistency and fairness
- Objectivity - can it truly be a better way

Comparison of alternate jobs -

- Walmart $110K drivers
- Roundy’s warehouse $25/hr.

Gig employment

Profiling

- Moneyball
- Silhouettes
- DiSC, Culture Index, Myers Briggs
- Humanmetrics.com – Jung typology

Important factors that impact employee experience

- Transparency, trust, and communications from employers
- The availability of a frictionless, collaborative work environment with digital experiences embedded in the flow of work
- An organizational culture of belonging and inclusion
- Employee listening, engagement and recognition from management and peers
- Career development and upskilling opportunities
- Demonstrated corporate social responsibility

Source: IDC

Questions, Comments & Follow-up

- Questions
- Comments
- Follow-up
- Contact Jim
  - Thorsten Consulting Group, Inc.
  - 34085 Hidden Valley Drive
  - Dousman, WI 53118
  - 414-403-5806
  - Jim@thorstenconsulting.com

Nonprofit Organizations Conference

Oct. 17 | 8 a.m.-4:05 p.m.
8 hours CPE

2:50-4:05 p.m.

Data Analytics for Nonprofits
Jim Lindell

Data Analytics for Nonprofits

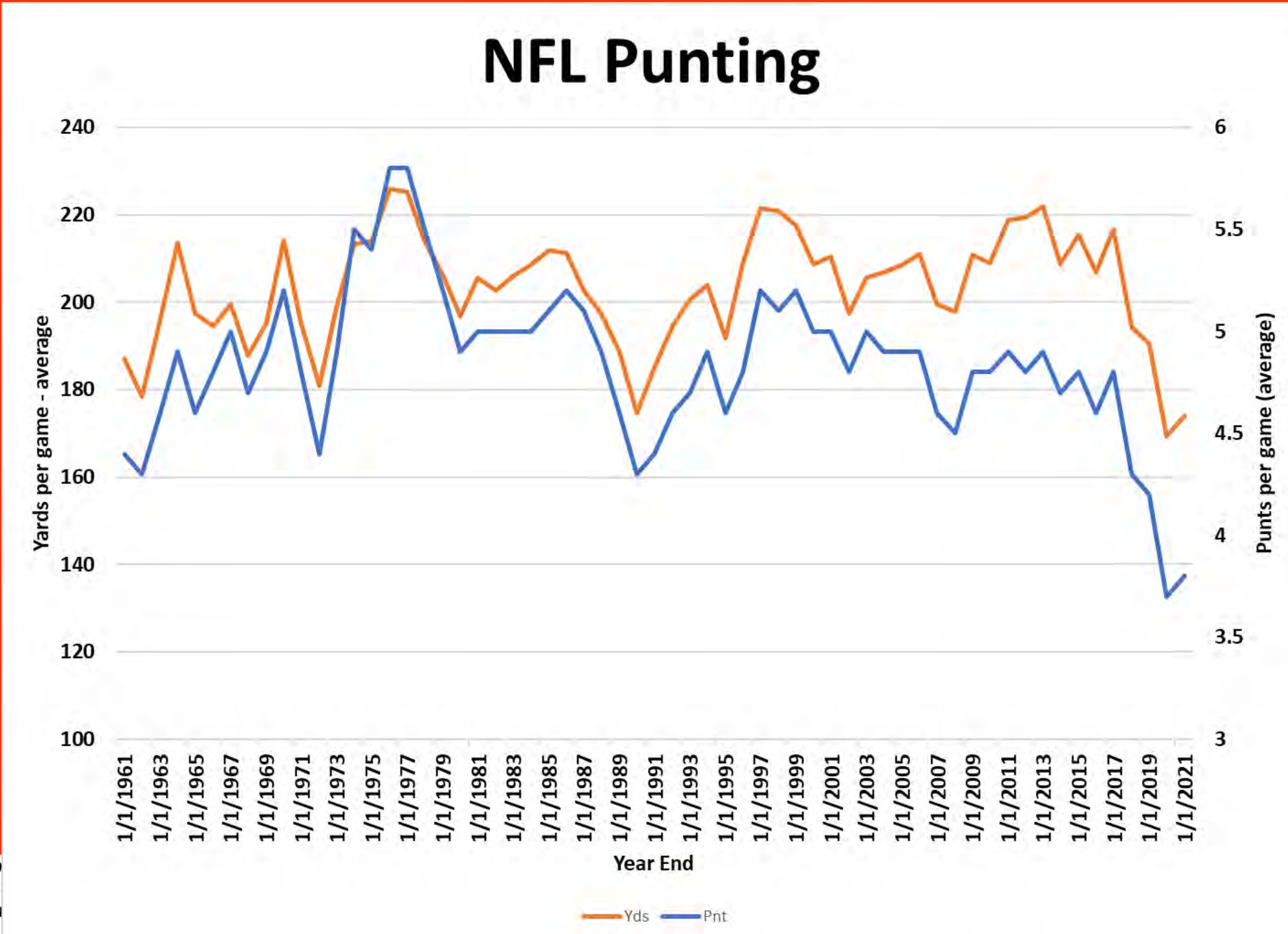
Predictive Analytics and Business Intelligence — Evolution of the Accountant

by Jim Lindell, CPA, CSP, CGMA

Improving People's Lives and Their Businesses

Objectives

- Data analytics and business intelligence have enabled accountants to morph from transaction aggregation and reporting to providers of value-added insights derived from data.
- Understand how reporting can be improved with data analytics.
- Learn how visual application can complement and sometimes outweigh traditional financial reporting.
- Identify the four phases of analytics and their relationship to the accounting function and career advancement.
- Discover how business intelligence impacts the accounting role for staffing, data acquisition and analysis, and machine learning.


NFL Punting
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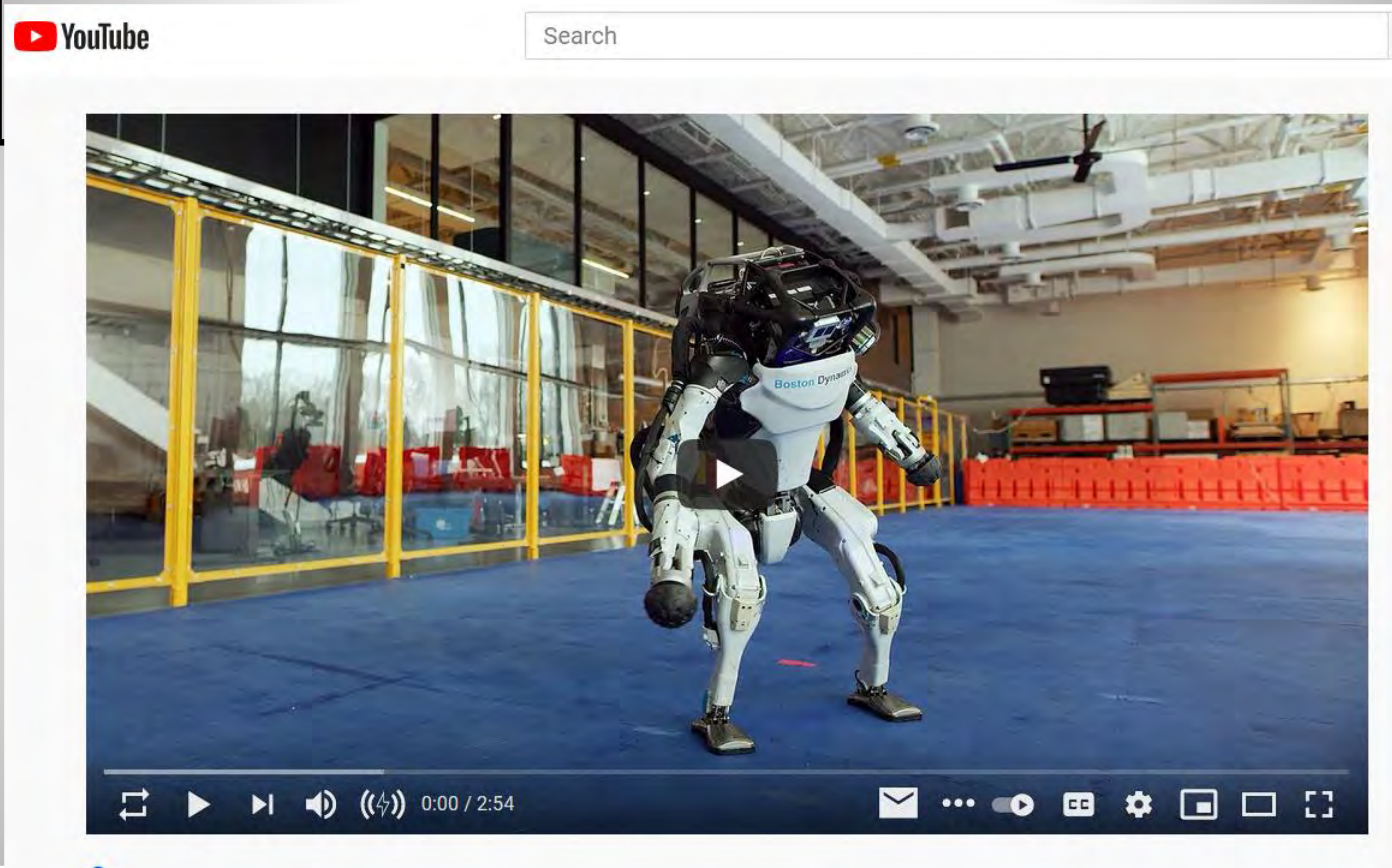
Setting the Stage

Expanding CXO Value

AI, BI, Analytics. Software Tools

Thorsten



Improving People's Lives and Their Businesses

Data analytics - Defined

The simplest definition of data analytics is the science of identifying patterns in data and gaining insights from that data. Use data analytics to make evidence-based decisions that are transparent, verifiable, and robust. This involves using techniques, tools, and systems that help:

- Identify and clarify patterns in data
- Identify trends and changes
- Validate the next best action to achieve desired change

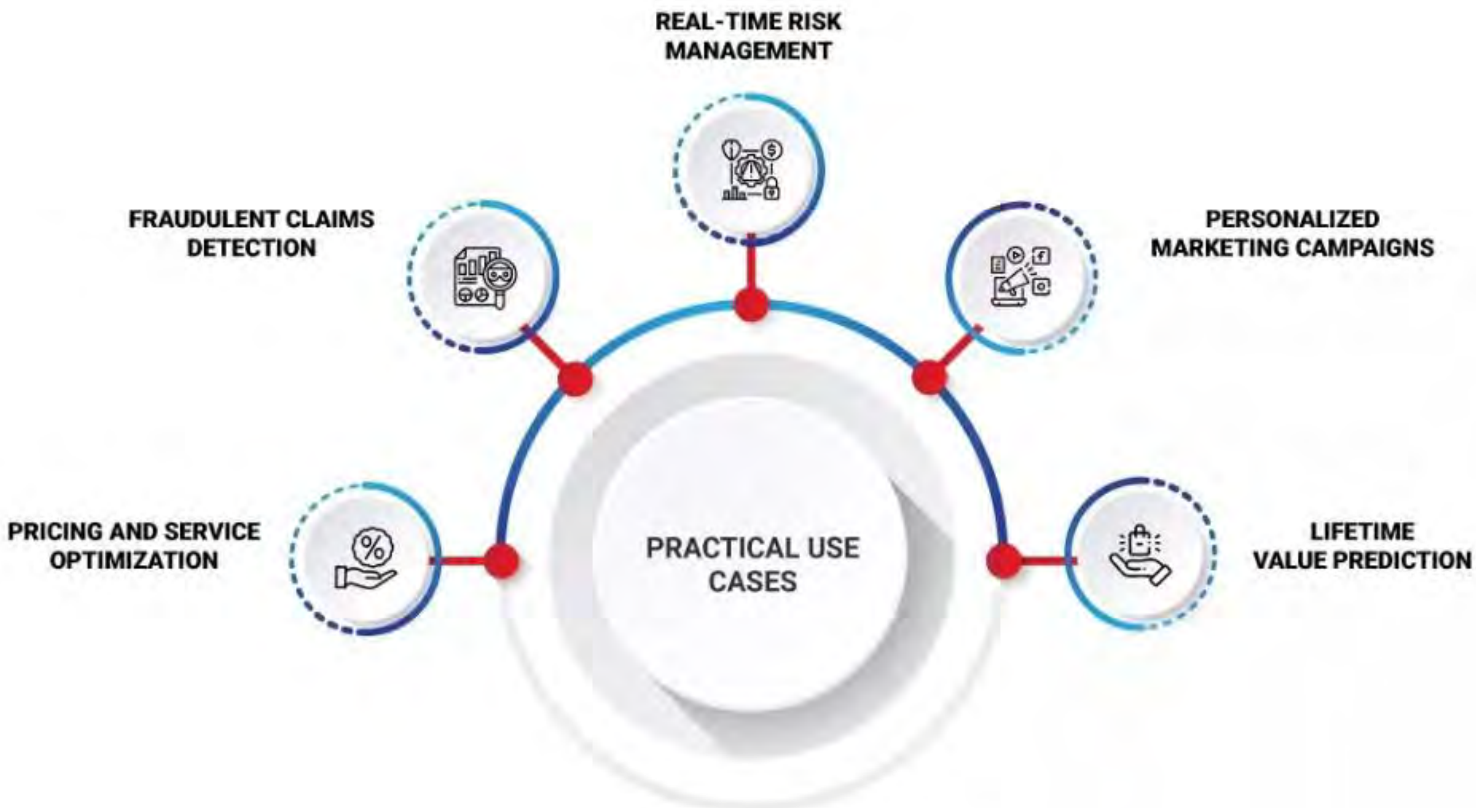
Source: Independence

- Ability to create models to predict future hospitalizations and readmissions, the onset of diabetes, and the likelihood of high-risk pregnancies — issues that affect communities of color at a higher rate — to make more informed decisions to help reduce racial health disparities and improve health outcomes.
- Advanced analytics have the potential for use in many different realms of health care. These range from clinical and operations research to clinical decision support, population health management, fraud prevention, and evaluating the effectiveness of specific programs.

Top use cases of analytics in healthcare for clinical, financial, and operational improvement:

1. Detecting fraud risk
2. Ensuring data security
3. Forecasting patient loads
4. Monitoring real-time data
5. Predicting disease outcomes
6. Predicting treatment plans
7. Predicting benefits of certain drugs
8. Prescription auditing
9. Tracking patient prescriptions and refills
10. Identify patient risk of substance abuse

Top Use Cases of Data Analytics in Insurance



Source: https://www.rishabhsoft.com/blog/data-analytics-in-insurance

Analytic Approaches

- Predictive modeling
- Link analysis
- Duplicate and gap testing
- Entry date validation
- Risk scoring
- Spike analysis (consider COVID)
- Cluster analysis
- Trend analysis

Challenges – Integrating Analytics

- Diversity in data formats
- Data storage
- Data technologies and staff

Big Picture

Generate Revenue

VALUE

Generate Efficiency

The Accountant Position

Improving People's Lives and Their Businesses

The Story is in the Data

Improving People's Lives and Their Businesses

Data Scientist

- Use trends to predict the future, explore data from numerous sources
- Emphasis on programming, statistical skills, machine learning, mathematics and algorithmic techniques
- Goal to derive insight by digging through large piles of raw data

Improving People's Lives and Their Businesses

Data Scientist

- Use this insight to develop “evidence-based analytical accuracy and strong decision capabilities
- Excellent communication skills and data visualization skills
- Develop the business questions that data looks to solve

Improving People's Lives and Their Businesses


TECTONIX
52k

Data Analyst

- Takes the business questions created by the data scientist and business team and finds the data and tools to solve them.
- Process and perform analysis on the data.
- Use the data to draw conclusions and solve problems.
- Package the data for use by others in the form of data reports.

Improving People's Lives and Their Businesses

Data Storyteller

- Use data visualization to communicate the information in a way that everyone can understand

Data discovery - Visualization

da·ta dis·cov·ery

/ˈdeɪtə dɪsˈkʌvəɹi/, *n* <comp>
is the business user driven and iterative process of discovering patterns and outliers in data.

What is data discovery?

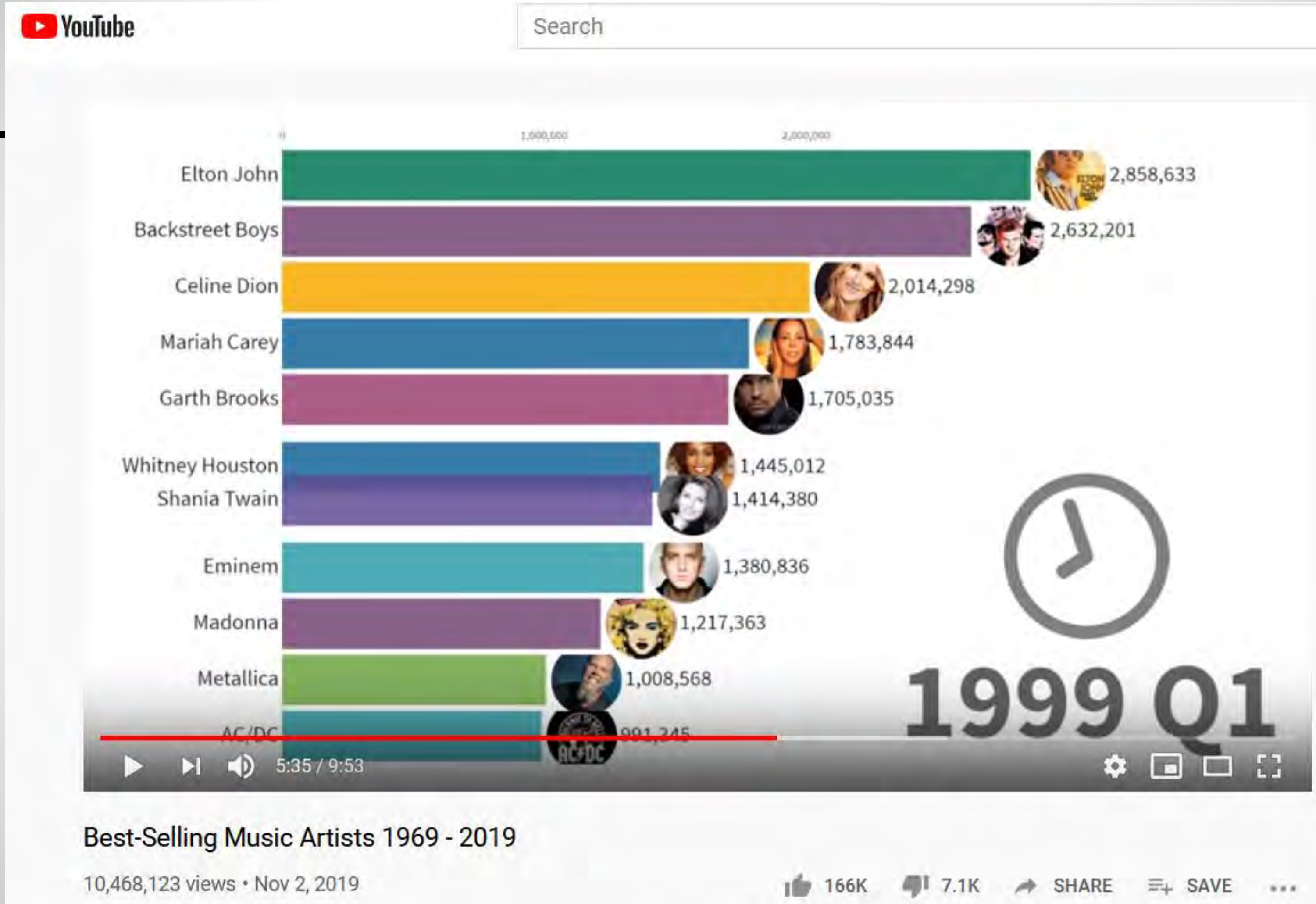
- **Data discovery** is not a tool. It is a business user oriented process for detecting patterns and outliers by visually navigating data or applying guided advanced analytics. Discovery is an iterative process that does not require extensive upfront model creation and has three main categories:
  - data preparation;
  - visual analysis; and
  - guided advanced analytics.

What is data discovery?

- Data discovery requires skills in understanding data relationships and data modeling as well as in using data analysis and guided advanced analytics functions to reveal insights.
- Data integration and data preparation capabilities.
- Interactive and new visualization types enable decision-makers to see, within an instant, major trends, as well as spot outliers.

What is data discovery?

- Visualizations make use of our brains' pattern recognition capabilities to digest information at a glance or even pre-attentively. Users are better at finding insights and detecting outliers if data is presented in charts and graphs on one page, versus being buried in data tables spanning multiple pages.
- Visual analysis is an important feature that is increasingly being sought by enterprises seeking more efficient ways for decision-makers to absorb and act on data.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Mariah Carey
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Garth Brooks
1,705,035
Whitney Houston
1,445,012
Shania Twain
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Eminem
1,380,836
Madonna
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Metallica
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AC/DC
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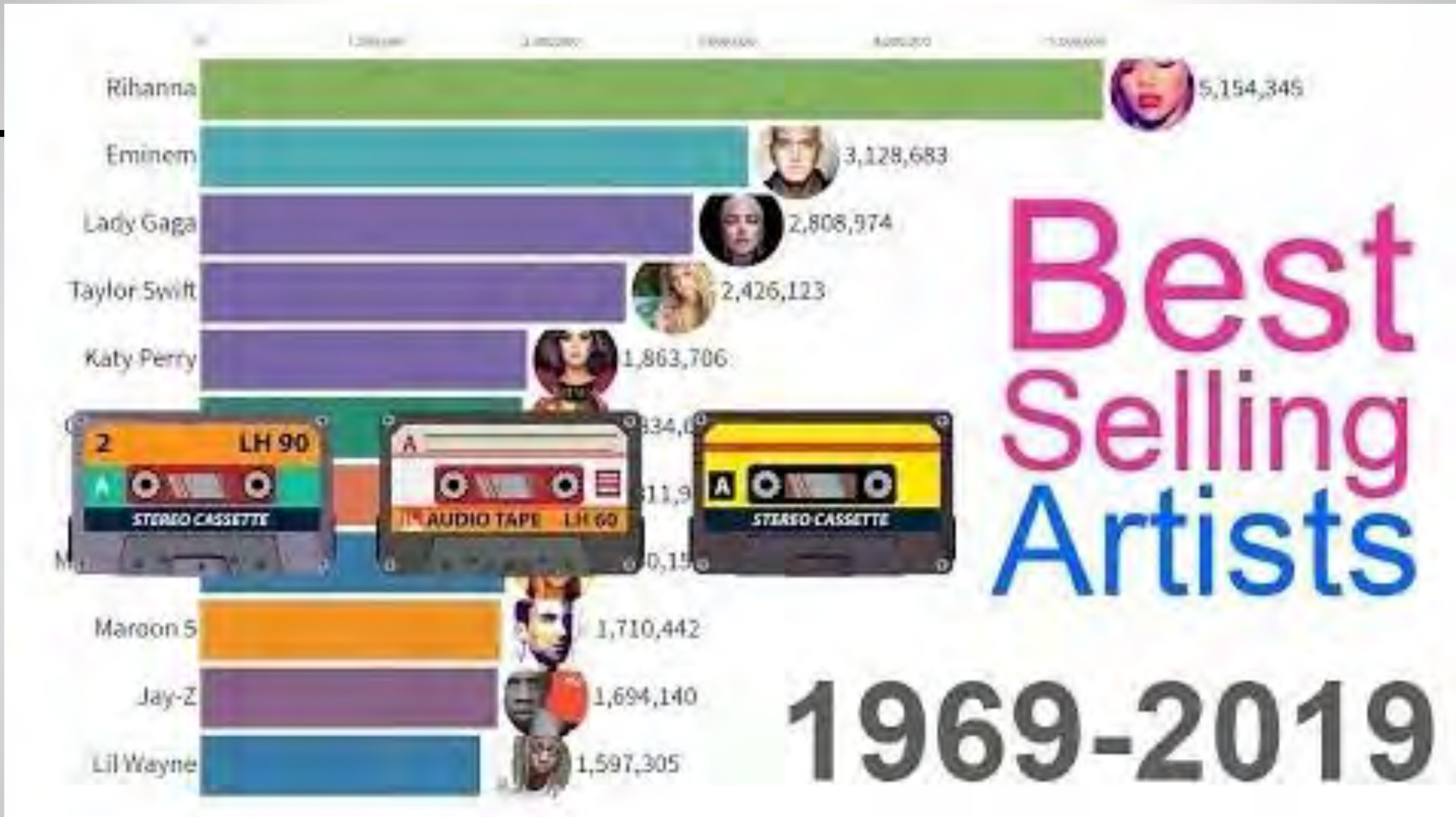
5:35 / 9:53
Best-Selling Music Artists 1969 - 2019
10,468,123 views • Nov 2, 2019
166K
7.1K
SHARE
SAVE



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Eminem
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Lady Gaga
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Taylor Swift
2,426,123
Katy Perry
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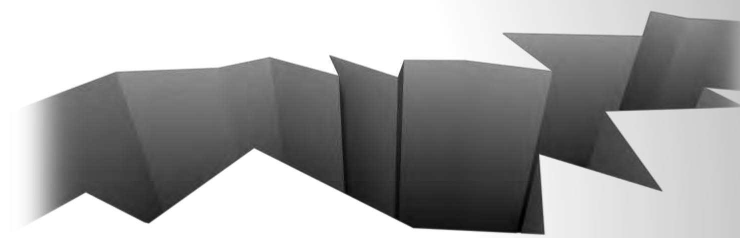
2
LH 90
STEREO CASSETTE
AUDIO TAPE
LH 60
A
STEREO CASSETTE
Maroon 5
1,710,442
Jay-Z
1,694,140
Lil Wayne
1,597,305
Best Selling Artists
1969-2019

Accountants with data analytics skills are few and far between

- Among technical skills, here's what is missing the most:
  - Identifying key data trends (29 percent)
  - Data mining and extraction (28 percent)
  - Operational analysis (28 percent)
  - Technological acumen (27 percent)
  - Statistical modeling and data analysis (27 percent)



- The most significant gaps in nontechnical skills, or soft skills, are found in:
  - Decision analysis (37 percent)
  - Process improvement (35 percent)
  - Strategic thinking and execution (32 percent)
  - Adaptability to change (31 percent)
  - Communication skills (29 percent)

Bramwell, Jason. "Accountants with Data Analytics Skills Are Difficult to Find." AccountingWeb, April 27, 2016. https://www.accountingweb.com/practice/team/accountants-with-data-analytics-skills-are-difficult-to-find.

Improving People's Lives and Their Businesses

Accountants - **data science** skills gap

- Advanced Excel
- Data Mining/SQL Programming
- Advanced Revenue Analytics
- Mathematical Optimization
- Analytical Segmentation
- Visualization
- Real-time models

Hernandez, Robert. The 7 Data Science Skills That Will Change the Accounting Career

Improving People's Lives and Their Businesses

Business Intelligence and Data Analytics

- Definition BI - Business intelligence (BI) combines business analytics, data mining, data visualization, data tools and infrastructure, and best practices to help organizations to make more data-driven decisions. (Tableau)

- Definition DA - Data analytics is the science of analyzing raw data in order to make conclusions about that information. Many of the techniques and processes of data analytics have been automated into mechanical processes and algorithms that work over raw data for human consumption. (Investopedia)

Artificial Intelligence & Neural Networks

- At its simplest form, artificial intelligence is a field, which combines computer science and robust datasets, to enable problem-solving. It also encompasses sub-fields of machine learning and deep learning, which are frequently mentioned in conjunction with artificial intelligence. (IBM)
- Neural Networks - A computer system that is designed to mimic the human brain or some other biological system in its functioning. They were developed to deal with problems, such as pattern recognition, that the brain does well but that traditional computer systems cannot handle easily. (dictionary.com)

IMPROVING PEOPLE'S LIVES AND THEIR BUSINESSES

Four levels of analytics illustrated with financial statements

- Descriptive
- Diagnostic
- Predictive
- Prescriptive

Top Strategic Technology Trends for 2022

- Data Fabric
- Cybersecurity Mesh
- Privacy-Enhancing Computation
- Cloud-Native Platforms
- Composable Applications
- Decision Intelligence
- Hyperautomation
- AI Engineering
- Distributed Enterprise
- Total Experience
- Autonomic Systems
- Generative AI

Gartner

Gartner Top 10 Data and Analytics Trends, 2021

Accelerating Change

1 Smarter, Responsible, Scalable AI

2 Composable Data and Analytics

3 Data Fabric Is the Foundation

4 From Big to Small and Wide Data

Operationalizing Business Value

5 XOps

6 Engineering Decision Intelligence

7 D&A as a Core Business Function

Distributed Everything

8 Graph Relates Everything

9 The Rise of the Augmented Consumer

10 D&A at the Edge

- Accelerate change in data & analytics
- Operationalize business value by making data & analytics an integral part of business
- Embrace distributed everything, empowering an ever-wider audience of people and objects

gartner.com/SmarterWithGartner

Source: Gartner

Gartner.

Improving People's Lives and Their Businesses

Self-Service BI

- What happens when end users replace the services that accountants used to provide?

Scotty

https://www.youtube.com/watch?v=LkqiDu1BQXY&feature=youtu.be

IMPROVING PEOPLE'S LIVES AND THEIR BUSINESSES


HD

Data Analytics – The Story is in the Data!

- Microsoft BI
- Qlik
- Tableau

Figure 1: Magic Quadrant for Analytics and Business Intelligence Platforms

Source: Gartner (February 2021)

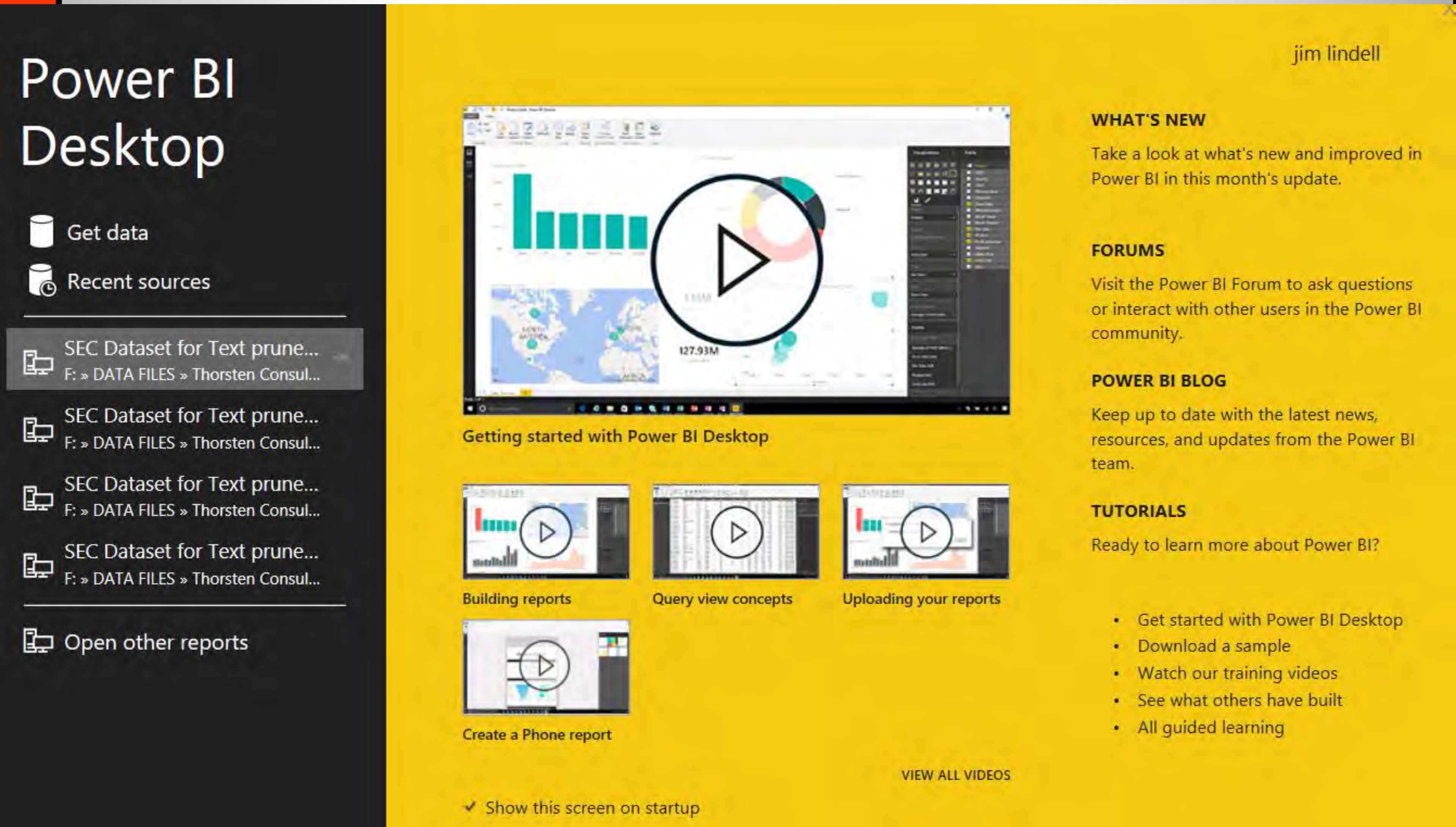
Power BI Desktop

With Power BI Desktop, you can:

- Connect securely to hundreds of data sources —in the cloud and on-premises
- Transform and mash up data from multiple sources—in just a few clicks
- Extend your data models with DAX formulas
- Choose from more than 100 cutting-edge data visuals—or create your own
- Dig deep into data to find patterns and discover insights
- Build out your design with intuitive formatting tools and themes
- Create mobile reports for on-the-go users
- Share visual analytics with everyone in your organization
- Publish securely to the web or an on-premises report server, or embed visuals in your website or app

Source:Microsoft.com

Improving People's Lives and Their Businesses


Power BI Desktop
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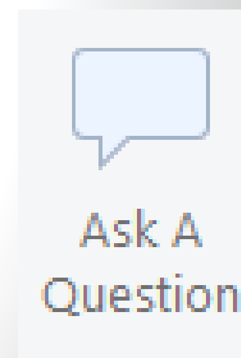
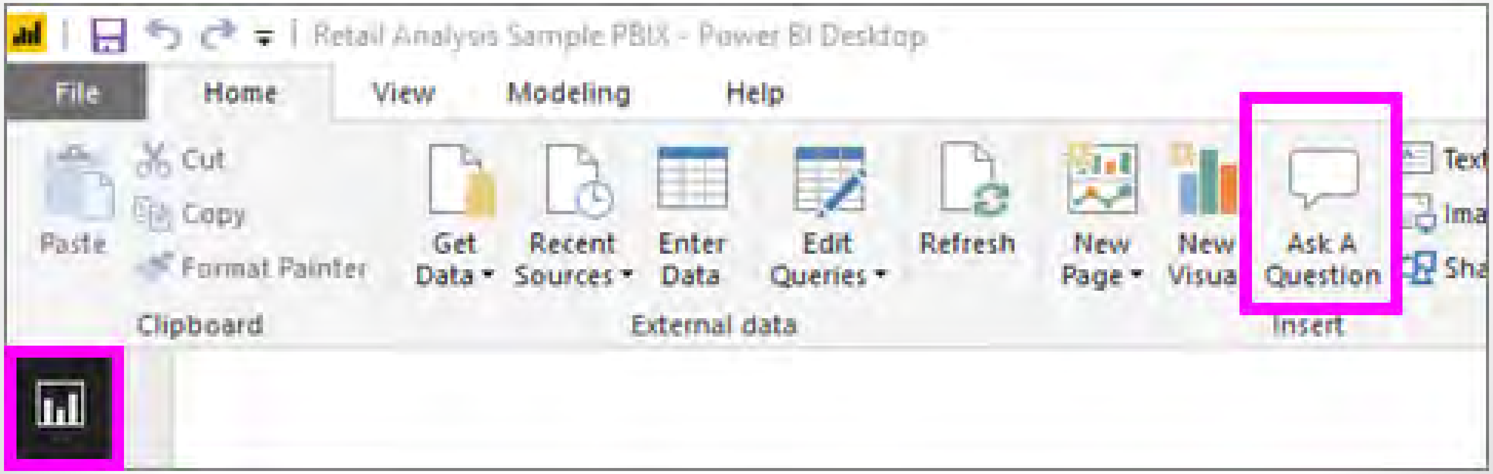
Open other reports
jim lindell
Getting started with Power BI Desktop
Building reports
Query view concepts
Uploading your reports
Create a Phone report
VIEW ALL VIDEOS
Show this screen on startup
WHAT'S NEW
Take a look at what's new and improved in Power BI in this month's update.
FORUMS
Visit the Power BI Forum to ask questions or interact with other users in the Power BI community.
POWER BI BLOG
Keep up to date with the latest news, resources, and updates from the Power BI team.
TUTORIALS
Ready to learn more about Power BI?
Get started with Power BI Desktop
Download a sample
Watch our training videos
See what others have built
All guided learning

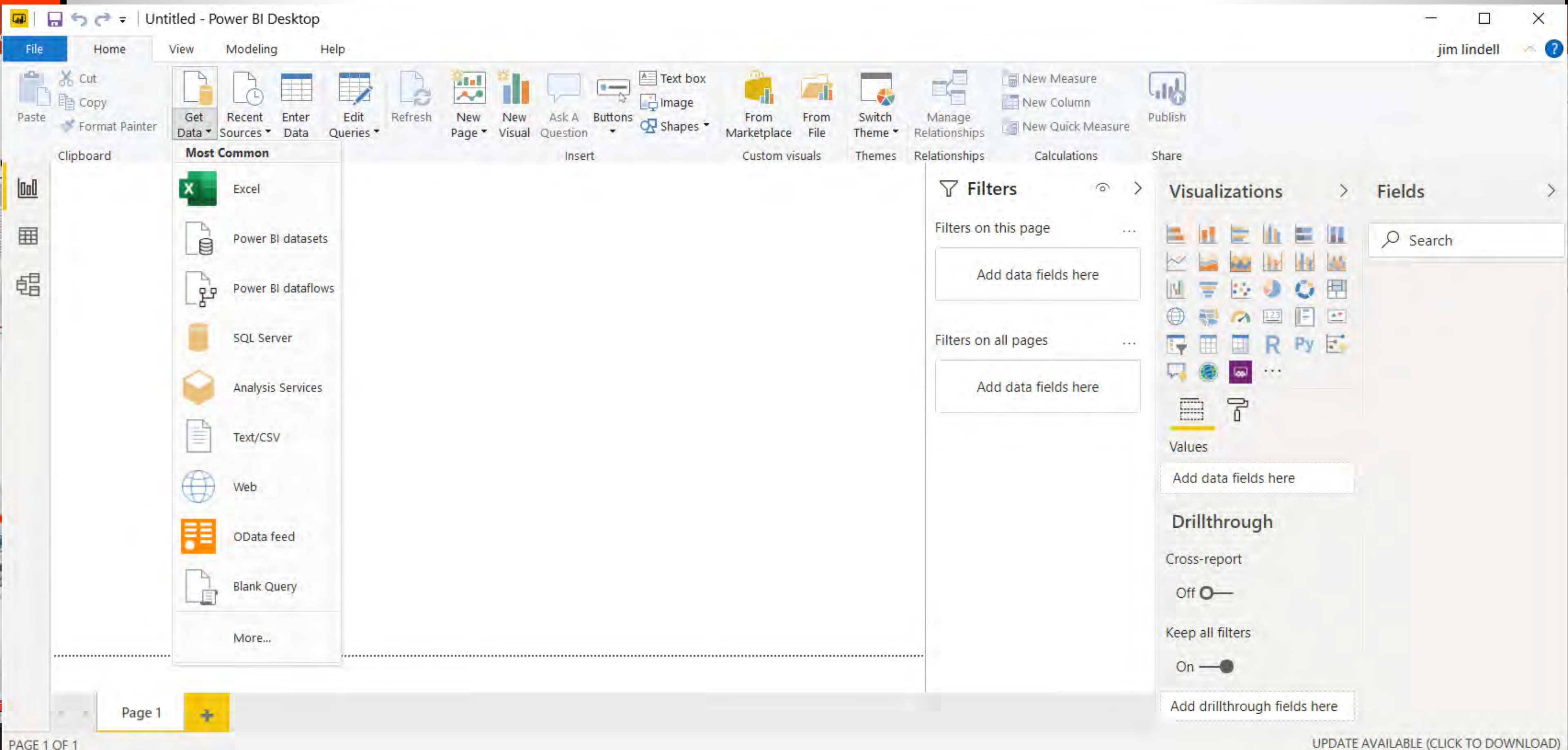

Ask a
Question


Ask A
Question

Power BI

- This little box is the future of the accounting profession if we don't adapt

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PAGE 1 OF 1
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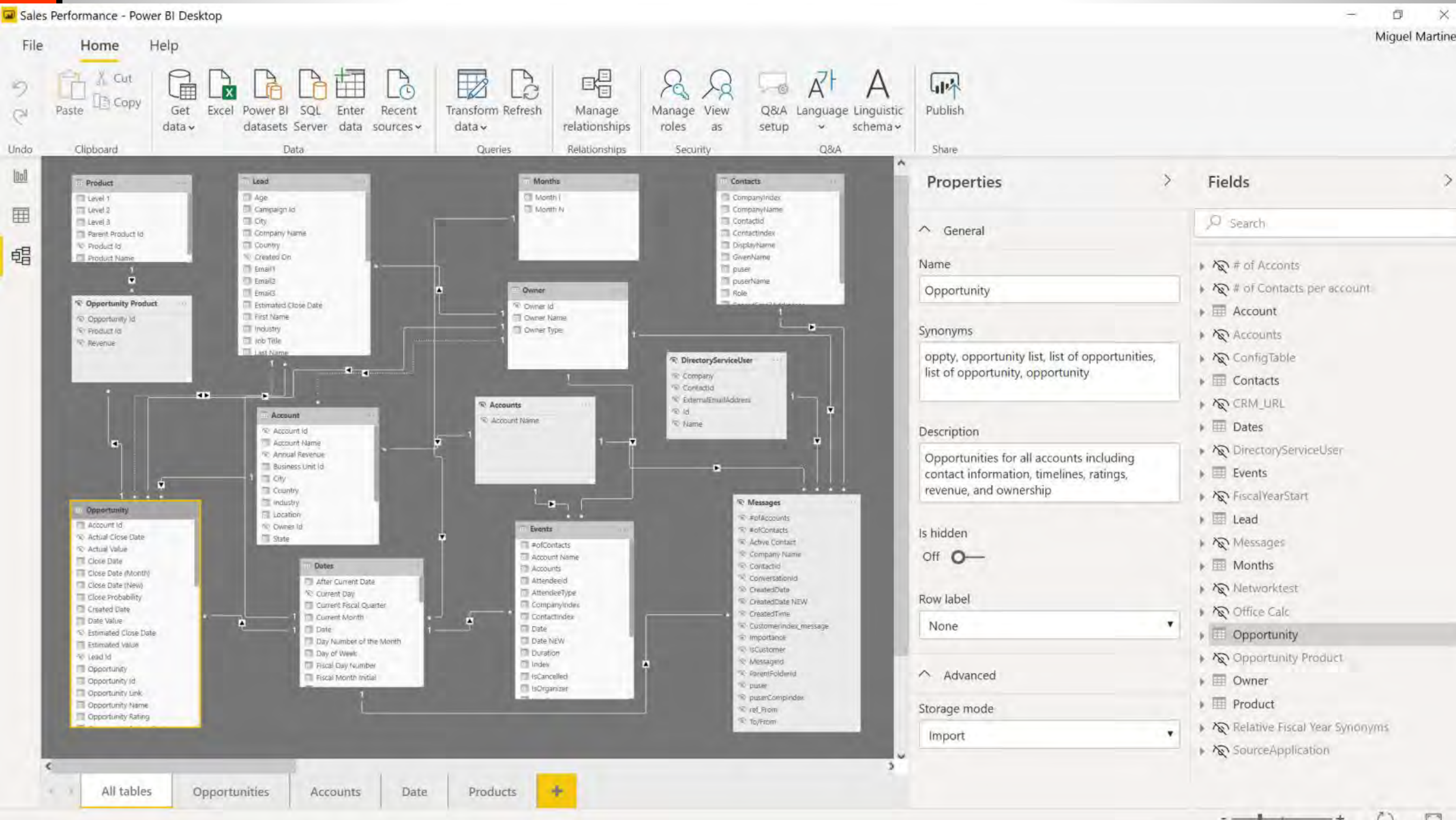
Sales Performance - Power BI Desktop
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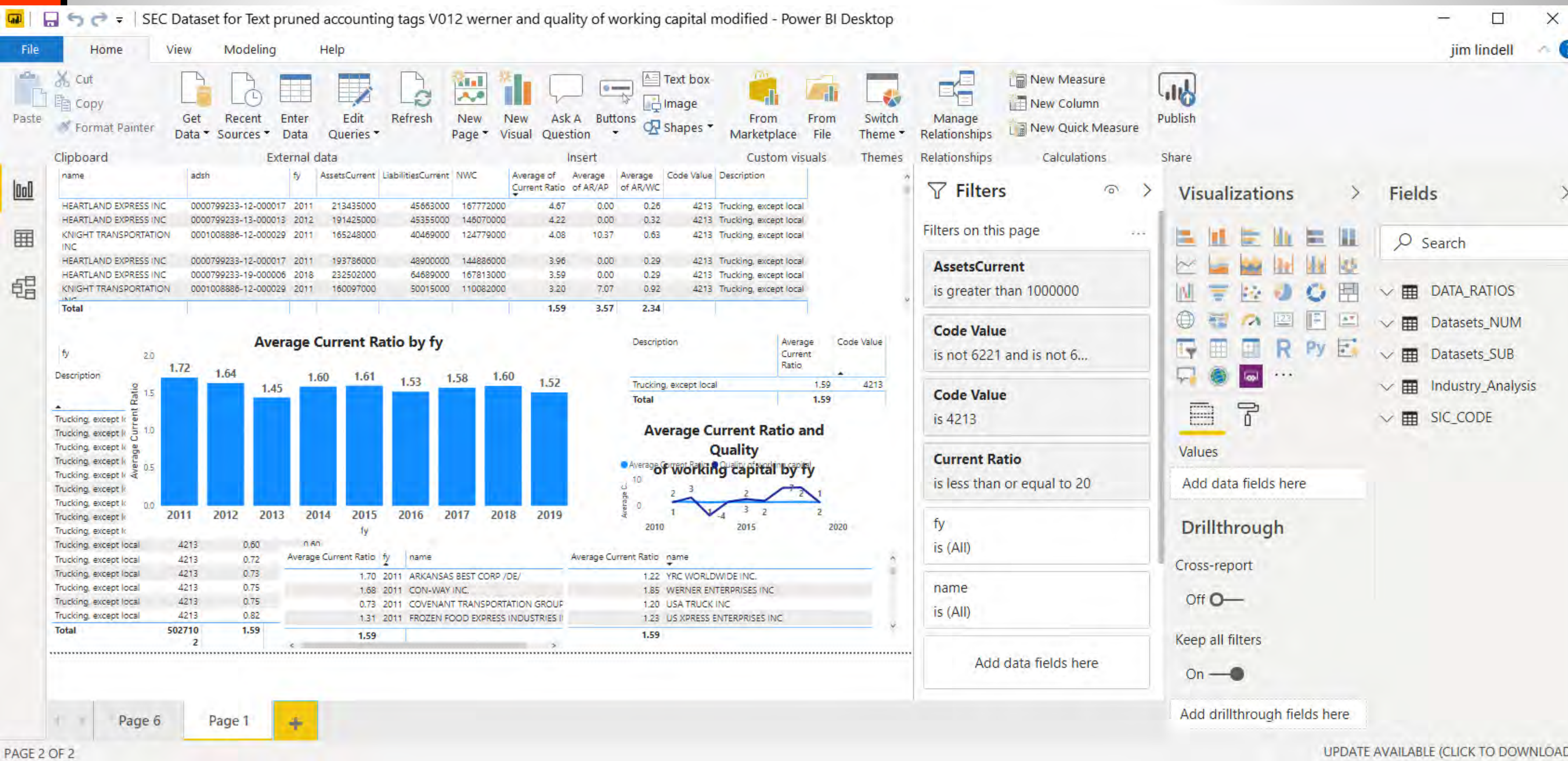
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PAGE 2 OF 2
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Resources for Data Discovery

- FRED
- Data.GOV
- CDC
- NIH
- SEC
- SimFin

Improving People's Lives and Their Businesses

TOPICS

- Campus News
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- Quick Facts

SCIENCE & HEALTH

Relationship Between Low Income and Obesity is Relatively New

DECEMBER 11, 2018

It's a fact: poverty and obesity are intimately connected.

But this relationship is only about 30 years old, according to a new study coauthored by UT researchers and published in *Palgrave Communications*, an open-access, online journal.

"We found that the relationship between low income and high rates of

Monthly Archives

Select Month

Popular Posts

Robot Food Delivery Service Officially Launches on Rocky Top
posted on March 8, 2022

Forbes Names UT One of America's Best Employers
posted on February 10, 2022

Students Headed to LA to Work Super Bowl
posted on February 10, 2022

Celebrating "Twosday" with Tennessee Traditions

U of TN (extract)

- Poverty and obesity are intimately connected.
- Relationship is only about 30 years old, new study coauthored by UT researchers and published in *Palgrave Communications,* an open-access, online journal.
- "We found that the relationship between low income and high rates of adult obesity in the U.S. is not observable until the early 1990s, as recently as 1990, this was not a detectable problem,"
- For the research, scientists analyzed obesity data collected by the Centers of Disease Control and the Robert Wood Johnson Foundation between 1990 and 2017 at state level, and 2004 and 2013 at county level. Researchers then compared these obesity rates with the median household income from the U.S. Census.
- The study shows that since 1990, the correlation between household income and the obesity rate has grown steadily, from virtually no correlation to a very strong correlation by 2016.

Improving People's Lives and Their Businesses

Centers for Disease Control and Prevention
CDC 24/7: Saving Lives, Protecting People™

A-Z Index
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Advanced Search

Division for Heart Disease and Stroke Prevention

CDC > Heart Disease and Stroke Maps and Data

- Interactive Atlas Home
- View Tables
- Sample Maps
- How to Use the Atlas
- Data Sources
- Statistical Methods

Related CDC Web Sites

- Heart Disease
- Stroke
- High Blood Pressure
- Salt
- Cholesterol
- Million Hearts®
- WISEWOMAN

Interactive Atlas of Heart Disease and Stroke

CDC's Interactive Atlas of Heart Disease and Stroke is an online mapping tool that allows users to create and customize county-level maps of heart disease and stroke by race and ethnicity, gender, age group, and more.

Launch the Interactive Atlas

Select one of the buttons below to view a map of the complete US, or select a state/territory in the map or from the dropdown below.

US Map - County Level   US Map - State Level

Territories AS GU PR VI MP

Select an Item
Alabama Go

Improving People's Lives and Their Businesses

- [Stroke]
- [High Blood Pressure]
- [Salt]
- [Cholesterol]
- [Million Hearts®]
- [WISEWOMAN]

Territories AS GU PR VI MP

Select an Item

Alabama | Go

View Tables by Geographic Area or Report Data

Sample Maps

How to Use the Atlas

Other Map Resources

Data Sources

Download the Data

Statistical Methods

Citation

Recommended Citation: Centers for Disease Control and Prevention. Interactive Atlas of Heart Disease and Stroke. http://nccd.cdc.gov/DHDSPAtlas. Accessed on [insert date].

Page last reviewed: March 13, 2020
Content source: National Center for Chronic Disease Prevention and Health Promotion , Division for Heart Disease and Stroke Prevention

Improving F
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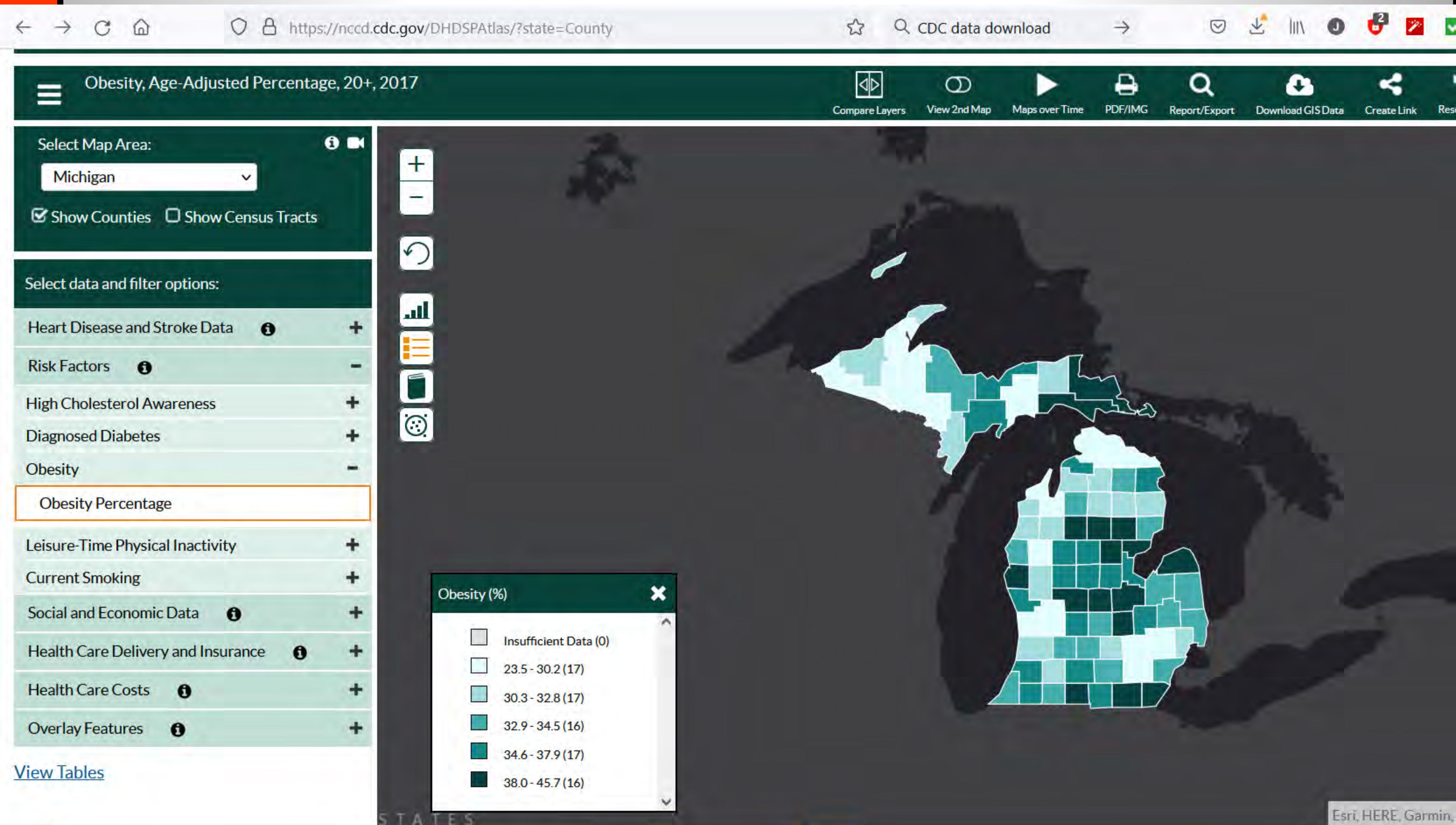
Businesses



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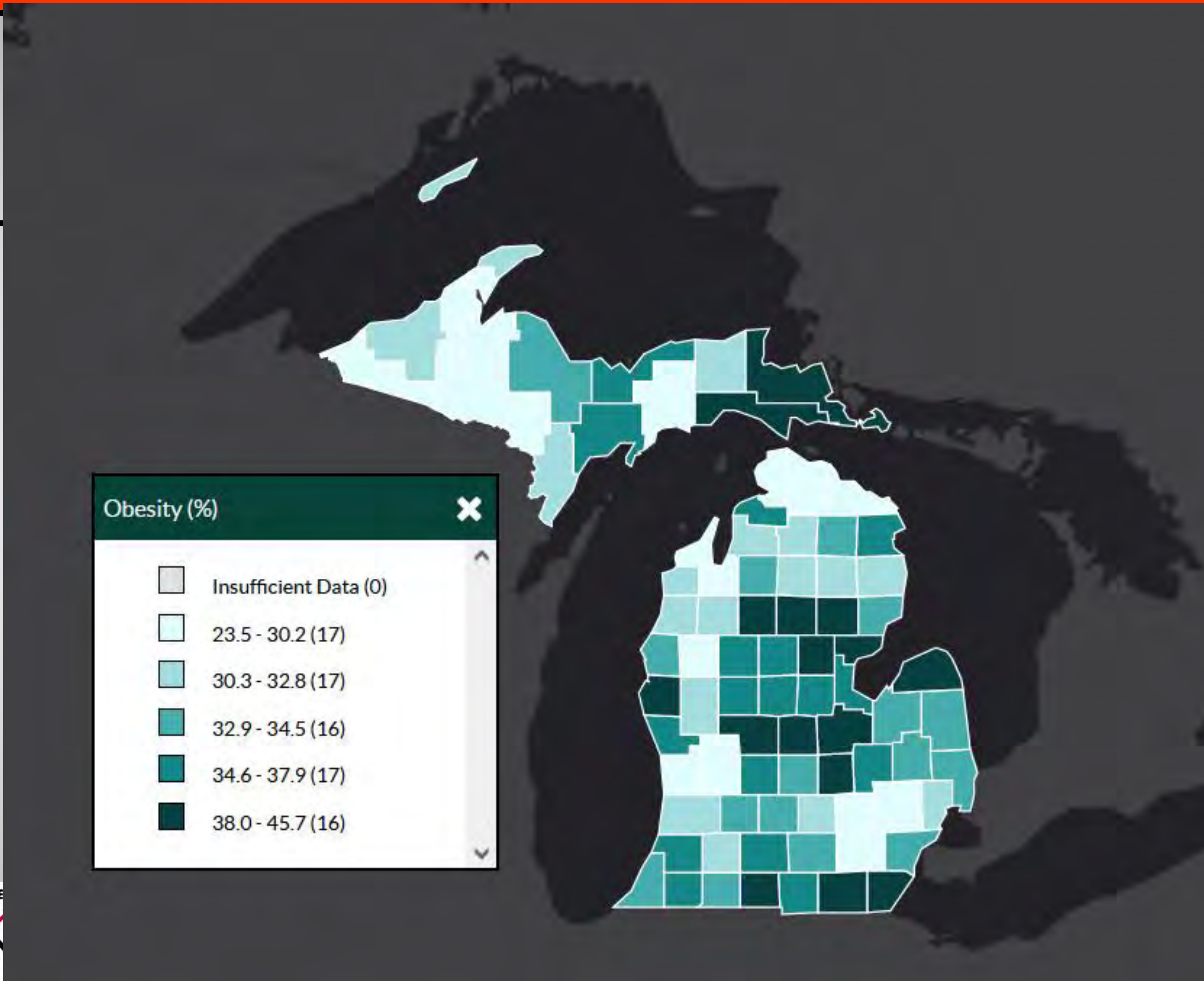

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FIPS Code	Name	Value	Range
26005	Allegan, (MI)	31.8	30.3 - 32.8 (17)
26011	Arenac, (MI)	38	38.0 - 45.7 (16)
26015	Barry, (MI)	33.8	32.9 - 34.5 (16)
26017	Bay, (MI)	35.2	34.6 - 37.9 (17)
26019	Benzie, (MI)	32.7	30.3 - 32.8 (17)
26021	Berrien, (MI)	34.2	32.9 - 34.5 (16)
26023	Branch, (MI)	38.7	38.0 - 45.7 (16)
26025	Calhoun, (MI)	36.9	34.6 - 37.9 (17)
26027	Cass, (MI)	35.9	34.6 - 37.9 (17)
26035	Clare, (MI)	36.4	34.6 - 37.9 (17)
26037	Clinton, (MI)	34.2	32.9 - 34.5 (16)

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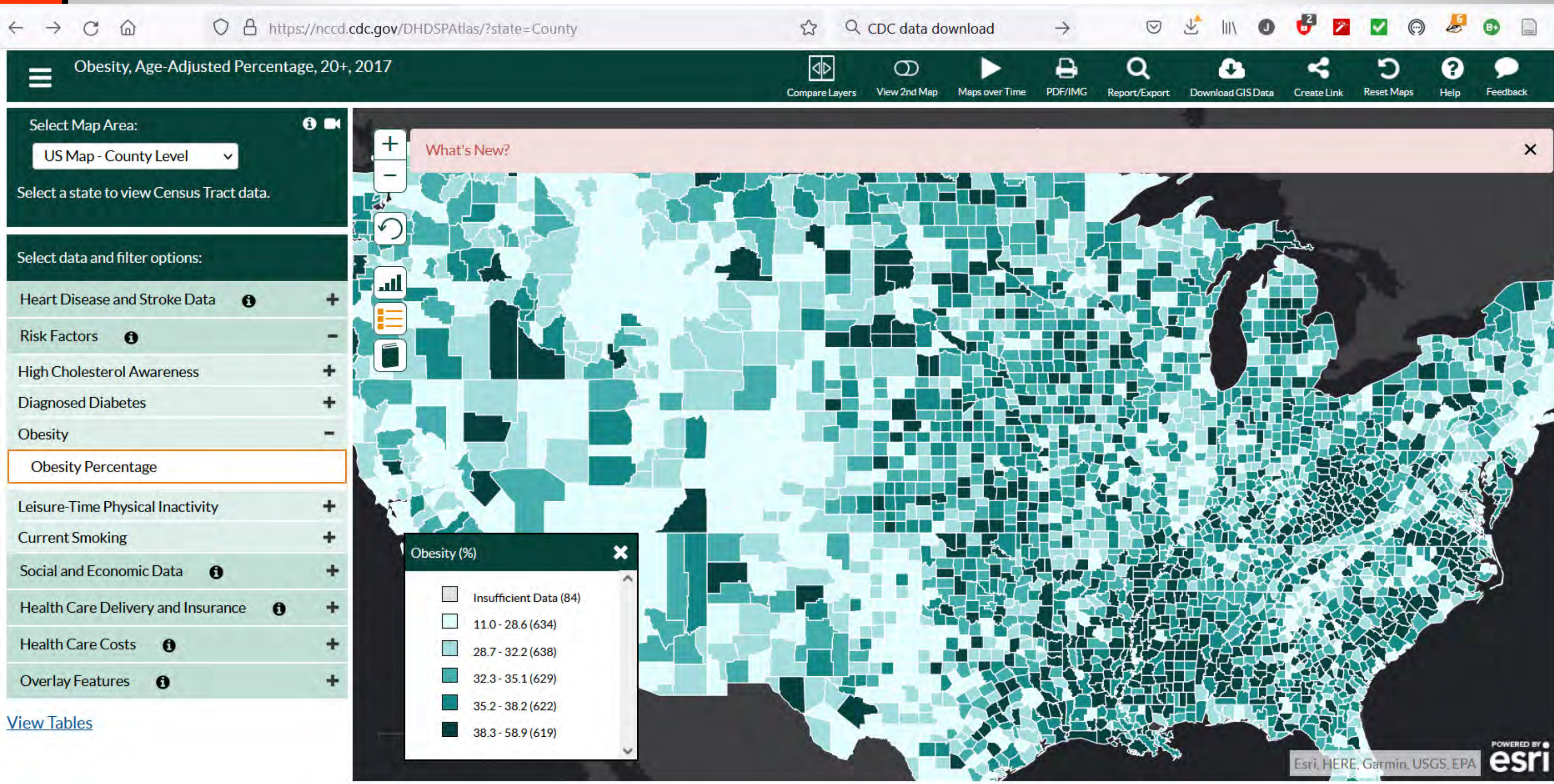
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Health Care Costs
Overlay Features
View Tables
What's New?
Obesity (%)
Insufficient Data (84)
11.0 - 28.6 (634)
28.7 - 32.2 (638)
32.3 - 35.1 (629)
35.2 - 38.2 (622)
38.3 - 58.9 (619)
Esri, HERE, Garmin, USGS, EPA
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Filters:

Year: 2017-2019

Race/Ethnicity: All Races/Ethnicities

Gender: Both Genders

Age: 35+

Spatial Smoothing: Smoothed

Show Results

Summary Statistics | County Statistics

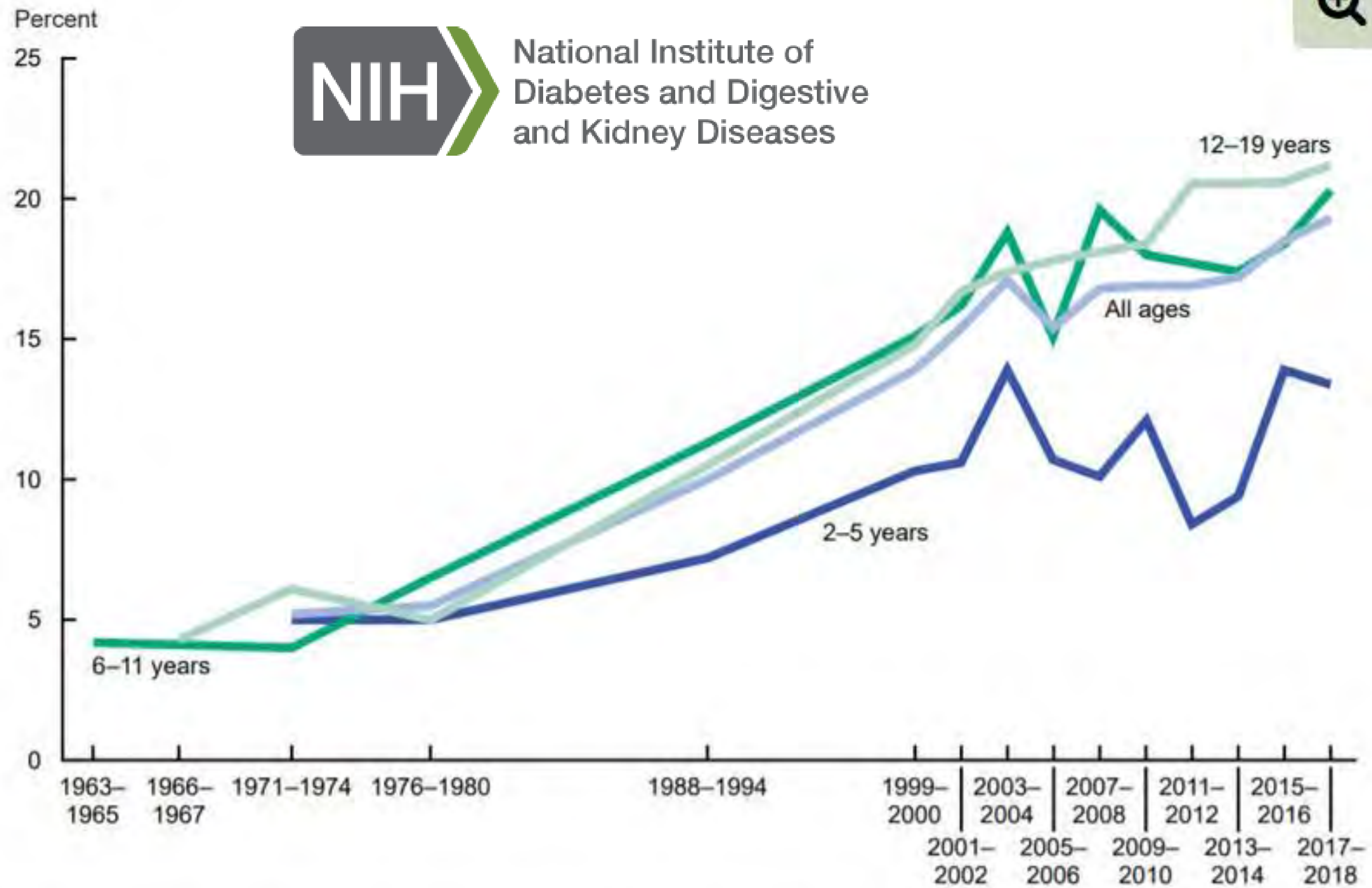
National Statistics

Total Cardiovascular Disease Death Rate per 100,000, 35+, All Races/Ethnicities, Both Genders, 2017-2019

Race or Ethnicity	National Value
All Races/Ethnicities	419.2
Black (Non-Hispanic)	553.6
White (Non-Hispanic)	424.4
Hispanic	307.1
American Indian and Alaskan Native	370
Asian and Pacific Islander	248.1

Youth

Trends in obesity among children and adolescents ages 2–19 years, by age: United States, 1963–1965 through 2017–2018[3]



NOTE: Obesity is defined as body mass index (BMI) at or above the 95th percentile from the sex-specific BMI-for-age 2000 CDC Growth Charts.

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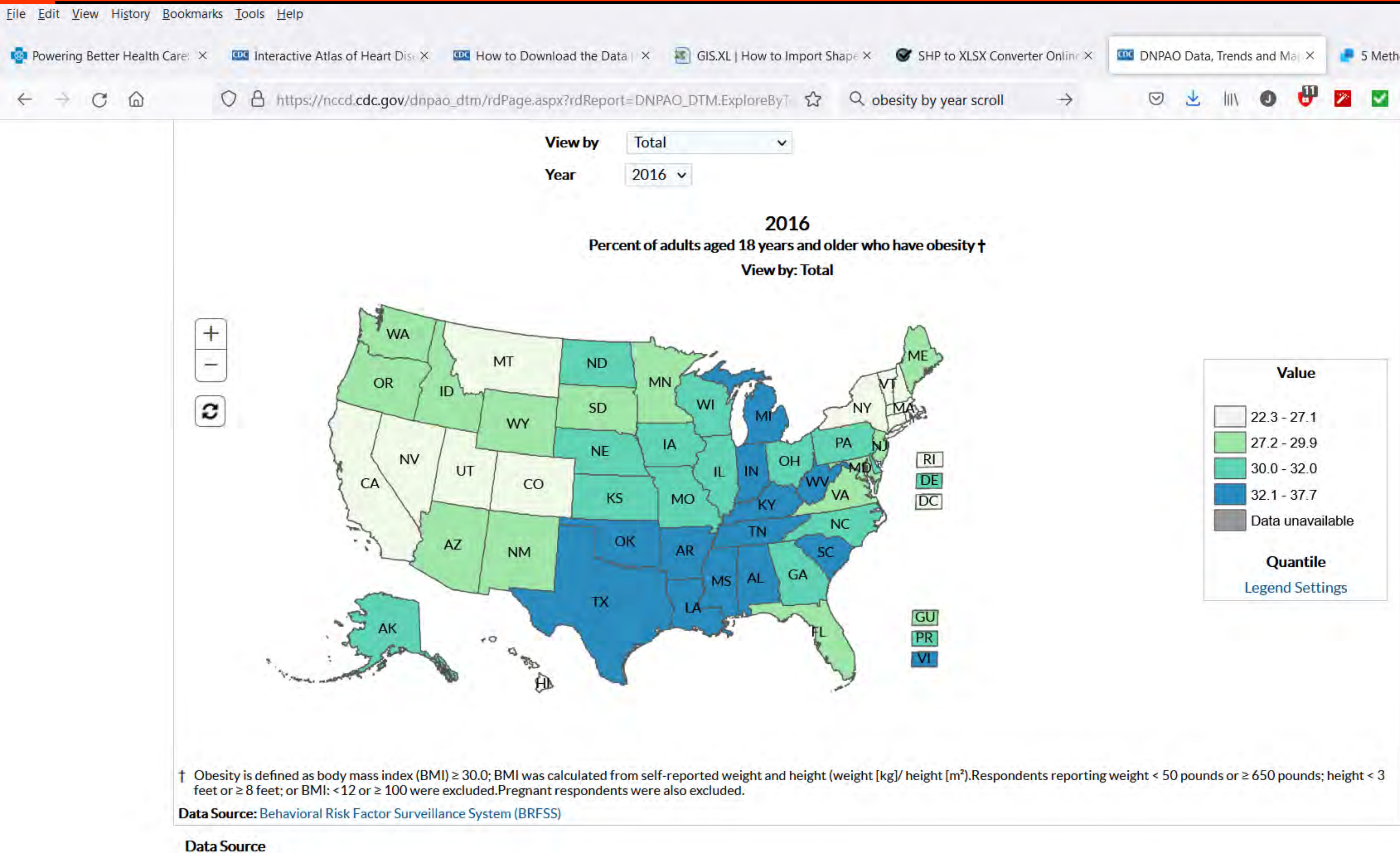
- https://www.slate.com/content/dam/slate/articles/news_and_politics/map_of_the_week/2013/04/130417-MOTW-obesity-map.gif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obesity by year scroll
View by Total
Year 2016
2016
Percent of adults aged 18 years and older who have obesity †
View by: Total
WA
OR
ID
MT
ND
MN
SD
WY
WI
MI
ME
VT
NY
MA
CA
NV
UT
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NE
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FL
AK
HI
RI
DE
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GU
PR
VI
Value
22.3 - 27.1
27.2 - 29.9
30.0 - 32.0
32.1 - 37.7
Data unavailable
Quantile
Legend Settings
† Obesity is defined as body mass index (BMI) ≥ 30.0; BMI was calculated from self-reported weight and height (weight [kg]/ height [m²]).Respondents reporting weight < 50 pounds or ≥ 650 pounds; height < 3 feet or ≥ 8 feet; or BMI: < 12 or ≥ 100 were excluded.Pregnant respondents were also excluded.
Data Source: Behavioral Risk Factor Surveillance System (BRFSS)
Data Source

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obesity by year scroll

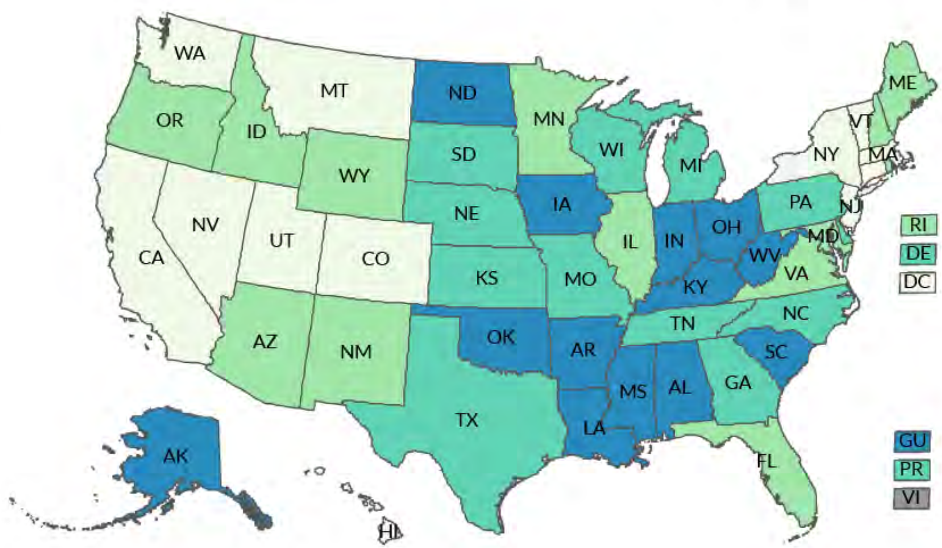
View by Total

Year 2017

2017

Percent of adults aged 18 years and older who have obesity †

View by: Total



Value

22.6 - 27.7

27.8 - 31.3

31.4 - 33.0

33.1 - 38.1

Data unavailable

Quantile

Legend Settings

† Obesity is defined as body mass index (BMI) ≥ 30.0; BMI was calculated from self-reported weight and height (weight [kg]/ height [m²]).Respondents reporting weight < 50 pounds or ≥ 650 pounds; height < 3 feet or ≥ 8 feet; or BMI: < 12 or ≥ 100 were excluded.Pregnant respondents were also excluded.

Data Source: Behavioral Risk Factor Surveillance System (BRFSS)

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obesity by year scroll

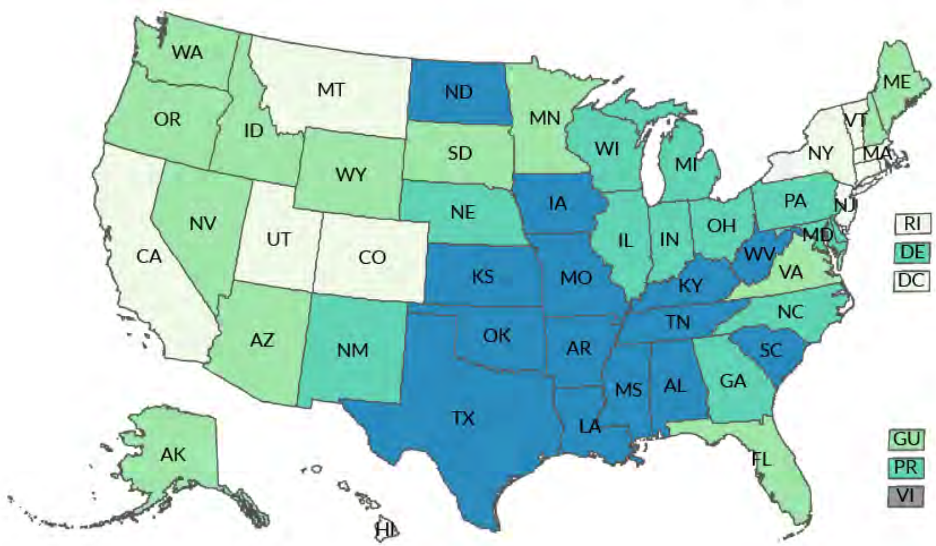
View by Total

Year 2018

2018

Percent of adults aged 18 years and older who have obesity †

View by: Total



Value

	23.0 - 27.8
	27.9 - 30.7
	30.8 - 34.1
	34.2 - 39.5
	Data unavailable

Quantile

Legend Settings

† Obesity is defined as body mass index (BMI) ≥ 30.0; BMI was calculated from self-reported weight and height (weight [kg]/ height [m²]).Respondents reporting weight < 50 pounds or ≥ 650 pounds; height < 3 feet or ≥ 8 feet; or BMI: <12 or ≥ 100 were excluded.Pregnant respondents were also excluded.

Data Source: Behavioral Risk Factor Surveillance System (BRFSS)

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obesity by year scroll

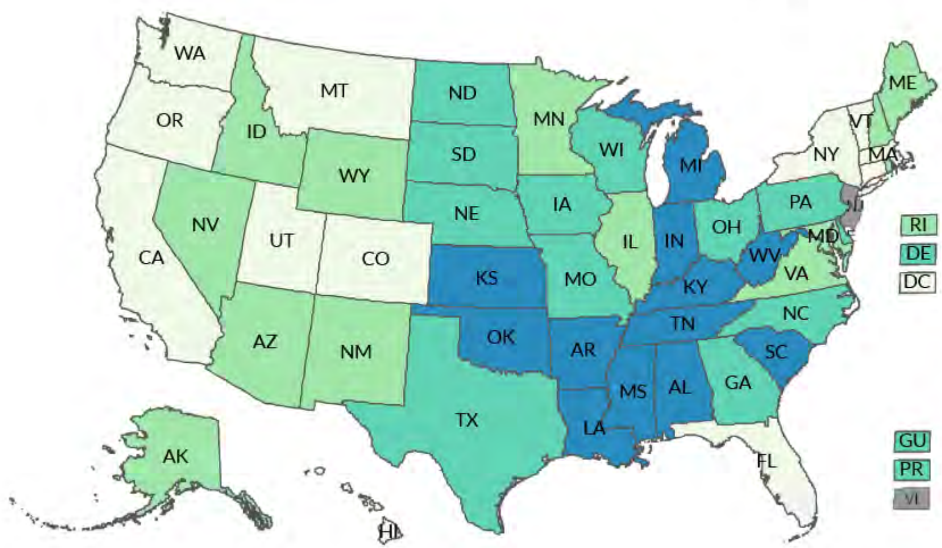
View by Total

Year 2019

2019

Percent of adults aged 18 years and older who have obesity †

View by: Total



Value

- 23.8 - 29.2
- 29.3 - 32.3
- 32.4 - 34.8
- 34.9 - 40.8
- Data unavailable

Quantile

Legend Settings

† Obesity is defined as body mass index (BMI) ≥ 30.0; BMI was calculated from self-reported weight and height (weight [kg]/ height [m²]).Respondents reporting weight < 50 pounds or ≥ 650 pounds; height < 3 feet or ≥ 8 feet; or BMI: < 12 or ≥ 100 were excluded.Pregnant respondents were also excluded.

Data Source: Behavioral Risk Factor Surveillance System (BRFSS)

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obesity by year scroll

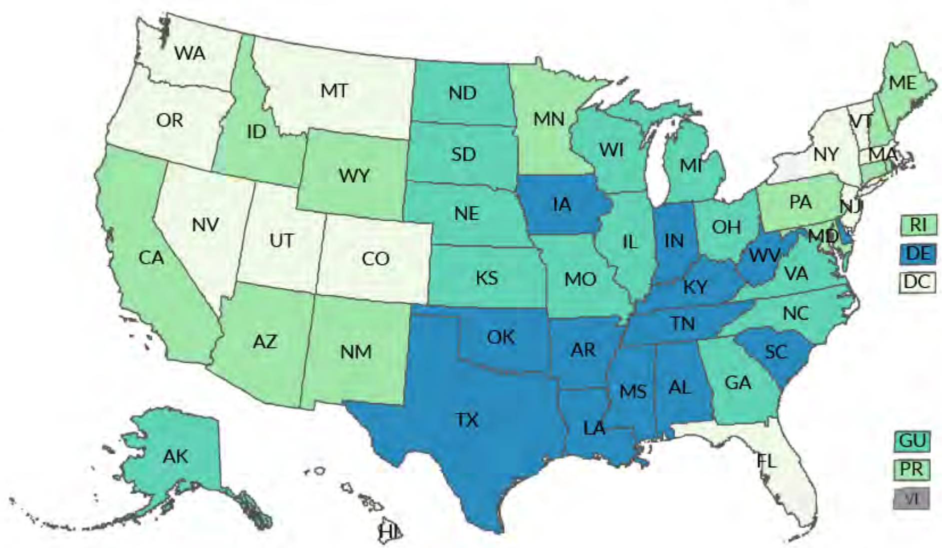
View by Total

Year 2020

2020

Percent of adults aged 18 years and older who have obesity †

View by: Total



Value

- 24.2 - 28.7
- 28.8 - 31.5
- 31.6 - 35.5
- 35.6 - 39.7
- Data unavailable

Quantile

Legend Settings

† Obesity is defined as body mass index (BMI) ≥ 30.0; BMI was calculated from self-reported weight and height (weight [kg]/ height [m²]).Respondents reporting weight < 50 pounds or ≥ 650 pounds; height < 3 feet or ≥ 8 feet; or BMI: < 12 or ≥ 100 were excluded.Pregnant respondents were also excluded.

Data Source: Behavioral Risk Factor Surveillance System (BRFSS)

Data Source

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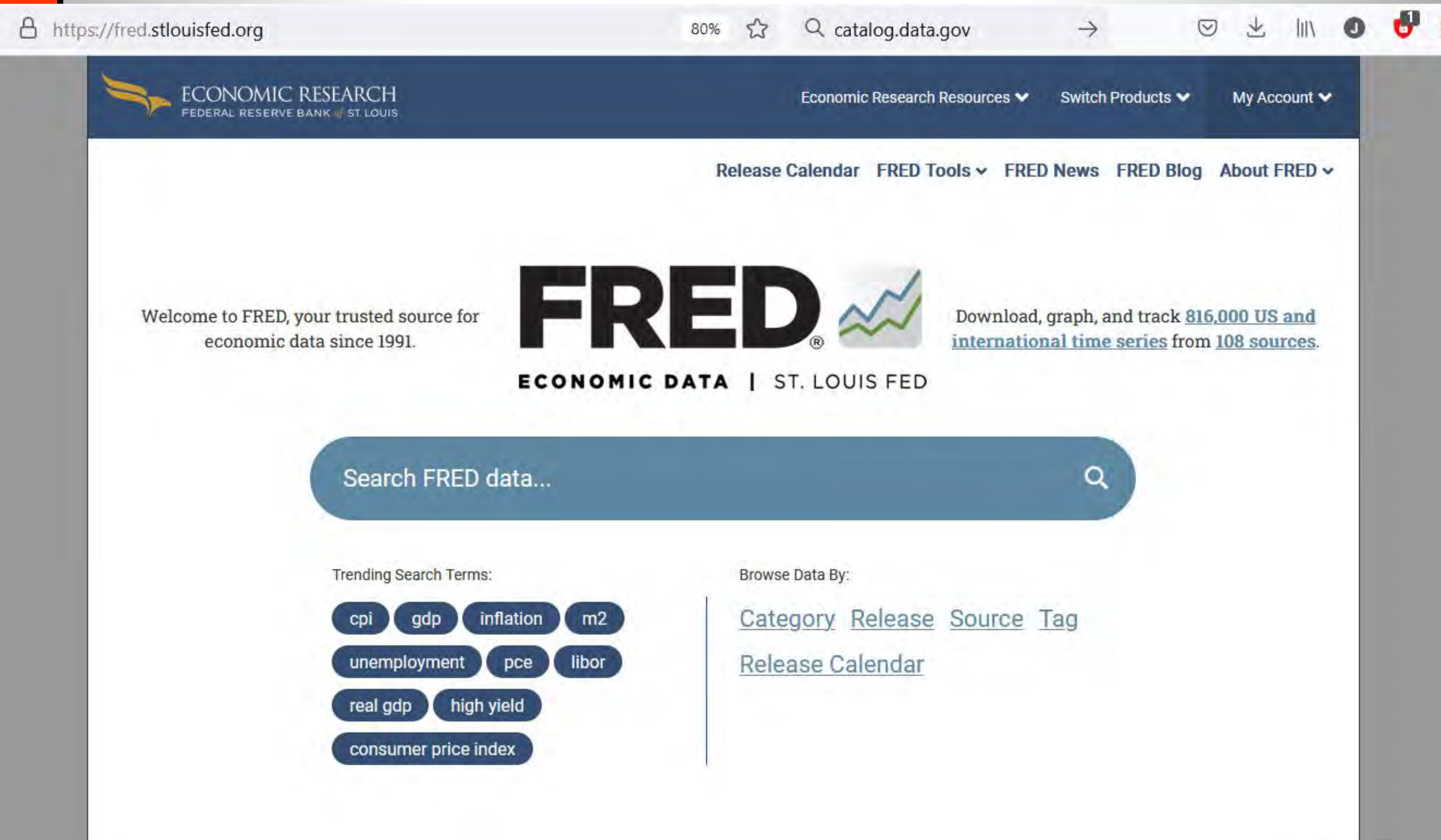

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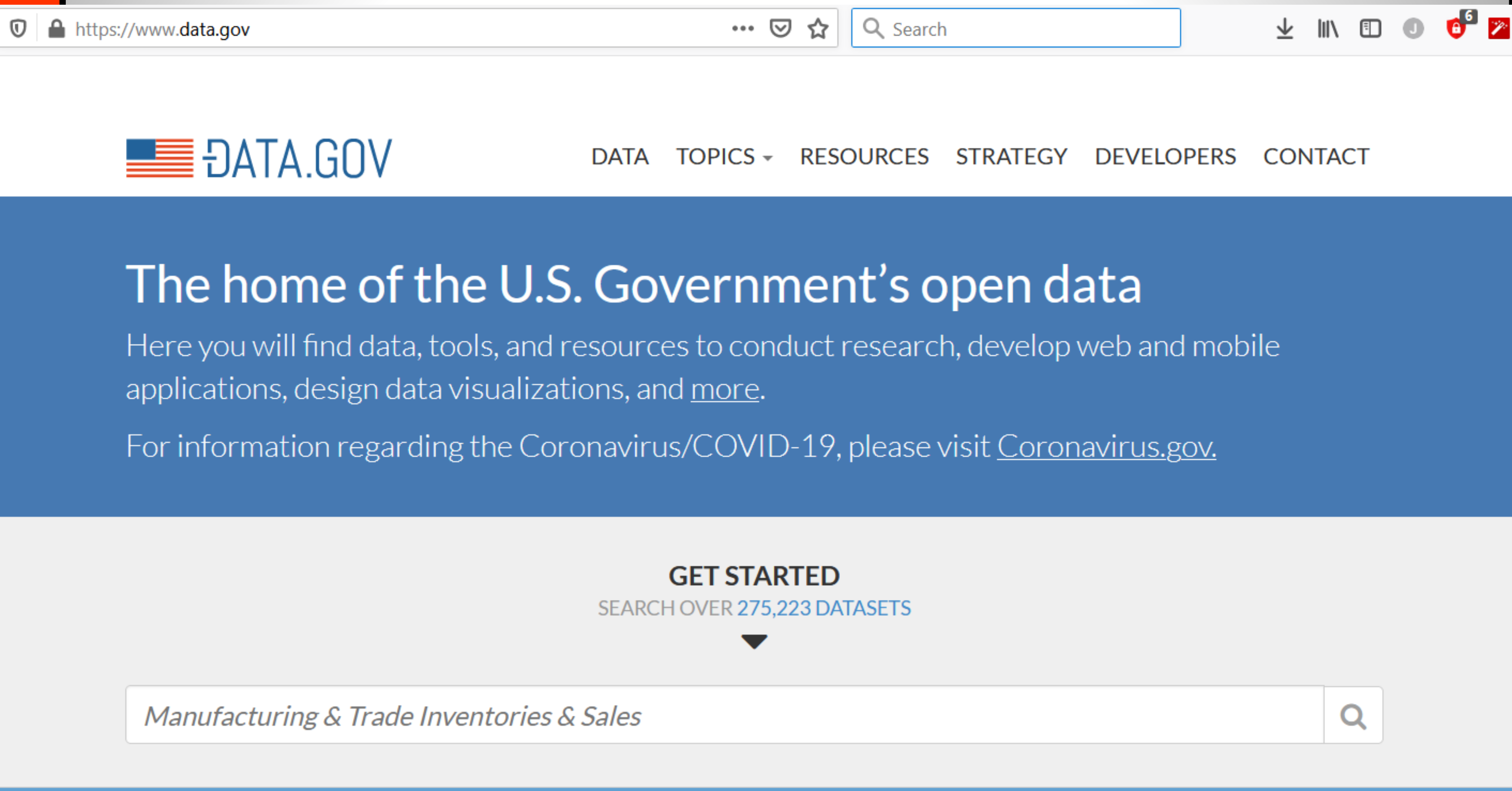
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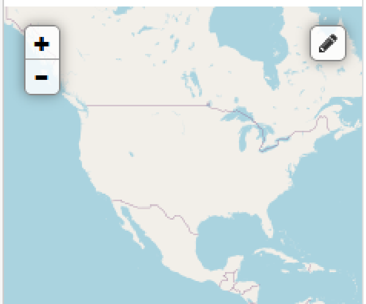

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https://www.census.gov/retail/index.html

United States Census Bureau

You are here: Census.gov › Business & Industry › Retail › Monthly

Monthly Retail Trade

Main | About the Surveys | Get Forms | Historical Data | State Retail Sales | How the Data are Collected | Definitions | FAQs

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- Advance Monthly Retail
- Monthly Retail
- Quarterly E-Commerce

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- Annual Retail Trade
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- Economic Census
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- E-Stats
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- Manufacturing & Trade Inventories & Sales
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Monthly Retail Trade

Advance Monthly Retail Trade Report

Notice of Revision: This report no longer contains the most up to date estimates. Monthly retail sales estimates were revised on April 26, 2021 based on the results of the 2019 Annual Retail Trade Survey and Service Annual Survey and the results of the 2017 Economic Census.

Statement Regarding COVID-19 Impact: The Census Bureau continues to monitor response and data quality and has determined that estimates in this release meet publication standards. For more information, see COVID-19 FAQs.

The **March 2021** Advance Monthly Sales for Retail Trade and Food Services report was released on April 15, 2021 at 8:30 a.m., and available as:

- Full Publication in Excel [86KB] | PDF [320KB]
- Time Series (Adjusted Sales Data/Seasonal Factors—1992 to present)

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Monthly Retail Trade Report

Notice of Revision: Monthly retail sales, inventories, and inventories-to-sales ratios were revised on April 26, 2021 at 10:00 a.m. based on the results of the 2019 Annual Retail Trade Survey and Service Annual Survey and the results of the 2017 Economic Census.

Statement Regarding COVID-19 Impact: The Census Bureau continues to monitor response and data quality and has determined that estimates in this release meet publication standards. For more information, see COVID-19 FAQs.

- Retail and Food Services Sales: Excel (1992-present) [756KB]
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NOW AVAILABLE! New monthly state retail sales data were published as an experimental data product for the first time on September 30, 2020. Please visit here for the data, interactive

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Monthly Retail Trade

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Retail Trade Survey and Service Annual Survey and the results

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Survey and Service Annual Survey and the results of the 2017 E

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visualization, and documentation

IMPR LIVES AND THEIR BUSINESSES

Estimates of Monthly Retail and Food Services Sales by Kind of Business: 2022

[Estimates are shown in millions of dollars and are based on data from the Monthly Retail Trade Survey, Annual Retail Trade Survey, Service Annual Survey, and administrative records]

NAICS Code	Kind of Business	Jan. 2022	Feb. 2022	Mar. 2022(p)	CY CUM	PY CUM
	NOT ADJUSTED					
	Retail and food services sales, total	587,961	579,139	681,430	1,848,530	1,645,842
	Retail sales and food services excl motor vehicle and parts	474,414	462,148	541,440	1,478,002	1,304,230
	Retail sales and food services excl gasoline stations	538,863	529,564	617,085	1,685,512	1,526,767
	Retail sales and food services excl motor vehicle and parts and gasolir	425,316	412,573	477,095	1,314,984	1,185,155
	Retail sales, total	518,146	506,400	596,787	1,621,333	1,467,255
	Retail sales, total (excl. motor vehicle and parts dealers)	404,599	389,409	456,797	1,250,805	1,125,643
	GAFO(1)	105,279	103,278	124,332	332,889	317,563
441	Motor vehicle and parts dealers	113,547	116,991	139,990	370,528	341,612
4411,4412	Automobile and other motor vehicle dealers	104,500	108,112	129,210	341,822	316,269
4411	Automobile dealers	96,689	99,008	117,124	312,821	292,839
44111	New car dealers	84,442	86,147	101,236	271,825	256,315
44112	Used car dealers	12,247	12,861	15,888	40,996	36,524
4413	Automotive parts, acc., and tire stores	9,047	8,879	10,780	28,706	25,343
442,443	Furniture, home furn, electronics, and appliance stores	17,141	17,111	20,221	54,473	53,588
442	Furniture and home furnishings stores	10,423	10,685	12,566	33,674	32,749
4421	Furniture stores	5,549	5,996	6,996	18,541	18,740
4422	Home furnishings stores	(S)	(S)	(S)		
44221	Floor covering stores	(S)	(S)	(S)		
442299	All other home furnishings stores	(S)	(S)	(S)		
443	Electronics and appliance stores	6,718	6,426	7,655	20,799	20,839
443141	Household appliance stores	1,547	1,564	1,828	4,939	5,006
443142	Electronics stores	5,171	4,862	5,827	15,860	15,833
444	Building mat. and garden equip. and supplies dealers	33,771	33,529	44,531	111,831	103,184
4441	Building mat. and supplies dealers	29,770	29,463	38,819	98,052	89,288
44412	Paint and wallpaper stores	1,051	1,096	1,424	3,571	3,293
44413	Hardware stores	2,728	2,631	3,254	8,613	8,174
445	Food and beverage stores	74,984	69,315	76,252	220,551	205,233

2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003

Estimates of Monthly Retail and Food Services Sales by Kind of Business: 2021

[Estimates are shown in millions of dollars and are based on data from the Monthly Retail Trade Survey, Annual Retail Trade Survey, Service Annual Survey, and administrative records]

NAICS Code	Kind of Business	Jan. 2021	Feb. 2021	Mar. 2021	Apr. 2021	May 2021	Jun. 2021	Jul. 2021	Aug. 2021	Sep. 2021	Oct. 2021	Nov. 2021	Dec. 2021	TOTAL
	NOT ADJUSTED													
	Retail and food services sales, total	518,300	492,597	634,945	629,451	644,652	638,109	636,312	633,403	609,406	638,069	654,469	711,673	7,441,386
	Retail sales and food services excl motor vehicle and parts	417,671	393,273	493,286	490,560	507,052	505,812	507,189	509,783	490,752	517,883	538,632	589,369	5,961,262
	Retail sales and food services excl gasoline stations	481,306	456,524	588,937	582,495	594,839	587,217	583,234	580,562	557,412	583,335	602,186	659,844	6,857,891
	Retail sales and food services excl motor vehicle and parts and gasolin	380,677	357,200	447,278	443,604	457,239	454,920	454,111	456,942	438,758	463,149	486,349	537,540	5,377,767
	Retail sales, total	462,558	438,933	565,764	557,874	567,461	560,679	554,845	553,822	532,840	557,737	579,687	632,849	6,565,049
	Retail sales, total (excl. motor vehicle and parts dealers)	361,929	339,609	424,105	418,983	429,861	428,382	425,722	430,202	414,186	437,551	463,850	510,545	5,084,925
	GAFO(1)	100,170	93,197	124,196	117,693	124,204	121,517	123,638	125,034	116,392	125,223	137,115	163,597	1,471,976
441	Motor vehicle and parts dealers	100,629	99,324	141,659	138,891	137,600	132,297	129,123	123,620	118,654	120,186	115,837	122,304	1,480,124
4411,4412	Automobile and other motor vehicle dealers	92,943	91,835	131,491	129,053	128,180	122,624	119,419	113,791	109,222	110,342	106,400	112,739	1,368,039
4411	Automobile dealers	87,117	85,259	120,463	117,514	116,807	111,154	109,169	104,362	100,594	101,704	98,587	105,140	1,257,870
44111	New car dealers	77,391	74,874	104,050	101,980	102,538	96,934	95,559	90,256	86,553	87,437	85,574	92,521	1,095,667
44112	Used car dealers	9,726	10,385	16,413	15,534	14,269	14,220	13,610	14,106	14,041	14,267	13,013	12,619	162,203
4413	Automotive parts, acc., and tire stores	7,686	7,489	10,168	9,838	9,420	9,673	9,704	9,829	9,432	9,844	9,437	9,565	112,085
442,443	Furniture, home furn, electronics, and appliance stores	17,275	16,037	20,276	19,297	19,426	19,621	19,947	19,945	19,522	19,936	21,735	23,124	236,141
442	Furniture and home furnishings stores	10,432	9,916	12,401	11,951	11,925	11,730	12,027	12,091	11,974	12,040	12,795	12,678	141,960
4421	Furniture stores	6,009	5,657	7,074	6,770	6,742	6,406	6,589	6,542	6,614	6,629	6,656	6,455	78,143
4422	Home furnishings stores	(S)	(S)	(S)	(S)	(S)	(S)	(S)	(S)	(S)	(S)	(S)	(S)	
44221	Floor covering stores	(S)	(S)	(S)	(S)	(S)	(S)	(S)	(S)	(S)	(S)	(S)	(S)	
442299	All other home furnishings stores	(S)	(S)	(S)	(S)	(S)	(S)	(S)	(S)	(S)	(S)	(S)	(S)	
443	Electronics and appliance stores	6,843	6,121	7,875	7,346	7,501	7,891	7,920	7,854	7,548	7,896	8,940	10,446	94,181
443141	Household appliance stores	1,606	1,470	1,930	1,829	1,754	1,889	1,831	1,797	1,785	1,769	1,834	1,747	21,241
443142	Electronics stores	5,237	4,651	5,945	5,517	5,747	6,002	6,089	6,057	5,763	6,127	7,106	8,699	72,940
444	Building mat. and garden equip. and supplies dealers	30,890	29,284	43,010	46,533	46,315	44,931	41,162	39,586	38,859	39,435	39,491	38,294	477,790
4441	Building mat. and supplies dealers	26,897	25,401	36,990	39,531	39,644	39,143	36,401	35,049	34,340	34,618	34,925	33,323	416,262
44412	Paint and wallpaper stores	983	952	1,358	1,358	1,352	1,422	1,322	1,362	1,330	1,302	1,180	1,079	15,000
44413	Hardware stores	2,576	2,410	3,188	3,443	3,575	3,535	3,254	3,148	3,082	3,127	3,158	3,269	37,765
445	Food and beverage stores	70,026	64,261	70,946	69,944	74,598	73,120	75,644	74,501	72,978	75,780	75,733	82,729	880,260
4451	Grocery stores	63,171	57,543	63,134	62,163	66,336	64,865	67,187	66,583	65,263	67,795	67,280	71,845	783,165
44511	Supermarkets and other grocery (except convenience) stores	60,599	55,126	60,297	59,212	63,246	61,800	63,985	63,468	62,268	64,744	64,320	68,773	747,838
4453	Beer, wine, and liquor stores	5,031	4,910	5,658	5,645	6,016	5,986	6,162	5,701	5,572	5,761	6,021	7,701	70,164
446	Health and personal care stores	29,377	27,599	33,452	31,960	31,436	32,617	31,992	32,537	32,089	32,541	32,432	37,356	385,388

Monthly Retail Trade

Advance Monthly Retail Trade Report

Notice of Revision: This report no longer contains the most up ... 21 based on the results of the 20
Retail Trade Survey and Service Annual Survey and the results

Statement Regarding COVID-19 Impact: The Census Bureau ... mates in this release meet publica
For more information, see COVID-19 FAQs.

The **March 2021** Advance Monthly Sales for Retail Trade and F ... le as:

- Full Publication in Excel [86KB] | PDF [320KB]
- Time Series (Adjusted Sales Data/Seasonal Factors—19

Time Series/Trend Charts: Create your own customizable

Opening mrtsinv92-present.xls

You have chosen to open:

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Monthly Retail Trade Report

Notice of Revision: Monthly retail sales, inventories, and inven ... he results of the 2019 Annual Ret
Survey and Service Annual Survey and the results of the 2017 E

Statement Regarding COVID-19 Impact: The Census Bureau continues to monitor response and data quality and has determined that estimates in this release meet publica
For more information, see COVID-19 FAQs.

- Retail and Food Services Sales: Excel (1992-present) [756KB]
- Retail Inventories and Inventories/Sales Ratios: Excel (1992-present) [472KB]
- Adjustment Factors for Seasonal and Other Variations of Monthly Estimates: Sales [8KB] | Inventories [3KB]
- Reliability of Monthly Estimates: Sales [13KB] | Inventories [3KB]
- Annual Revision of Monthly Retail and Food Services: Sales and Inventories--January 1992 through March 2021

Time Series/Trend Charts: Create your own customizable time series.

NOW AVAILABLE! New monthly state retail sales data were published as an experimental data product for the first time on September 30, 2020. Please visit here for the data
visualization, and documentation.

Latest Quarterly E-Commerce Report

mrtsinv92-present [Compatibility Mode] - Excel

Estimates of End-of-Month Retail Inventories and Inventories/Sales Ratios by Kind of Business: 2022

[Estimates are shown in millions of dollars and are based on data from the Monthly Retail Trade Survey, Annual Retail Trade Survey, and administrative records]

NAICS Code	Kind of Business	Jan. 2022	Feb. 2022	Mar. 2022(p)
	NOT ADJUSTED			
	Retail Inventories, total	654,489	667,973	689,733
44,45 excl. 441	Total excluding motor vehicle and parts dealers	486,327	497,276	515,525
441	Motor vehicle and parts dealers	168,162	170,697	174,208
442,443	Furniture, home furn, electronics, and appliance stores	28,578	29,365	30,812
444	Building materials, garden equip. and supplies dealers	74,308	78,008	82,868
445	Food and beverage stores	55,236	56,654	58,553
448	Clothing and clothing access. stores	48,061	50,727	53,332
452	General merchandise stores	93,158	96,131	98,990
4521	Department stores	21,018	22,081	23,385
	ADJUSTED(1)			
	Retail Inventories, total	660,783	671,252	686,364
44,45 excl. 441	Total excluding motor vehicle and parts dealers	495,042	503,157	515,560
441	Motor vehicle and parts dealers	165,741	168,095	170,804
442,443	Furniture, home furn, electronics, and appliance stores	29,371	30,813	32,434
444	Building materials, garden equip. and supplies dealers	76,292	76,780	78,325
445	Food and beverage stores	55,488	57,727	58,887
448	Clothing and clothing access. stores	50,273	51,291	53,385
452	General merchandise stores	97,009	98,963	101,340
4521	Department stores	22,407	23,170	24,034
	INVENTORIES/SALES, RATIOS NOT ADJUSTED			
	Retail Trade, total	1.26	1.32	1.16
44,45 excl. 441	Total excluding motor vehicle and parts dealers	1.20	1.28	1.13
441	Motor vehicle and parts dealers	1.48	1.46	1.24
442,443	Furniture, home furn, electronics, and appliance stores	1.67	1.72	1.52
444	Building materials, garden equip. and supplies dealers	2.20	2.33	1.86
445	Food and beverage stores	0.74	0.82	0.77
448	Clothing and clothing access. stores	2.65	2.47	2.09

2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 mrtsinv92-present [Compatibility Mode] - Excel

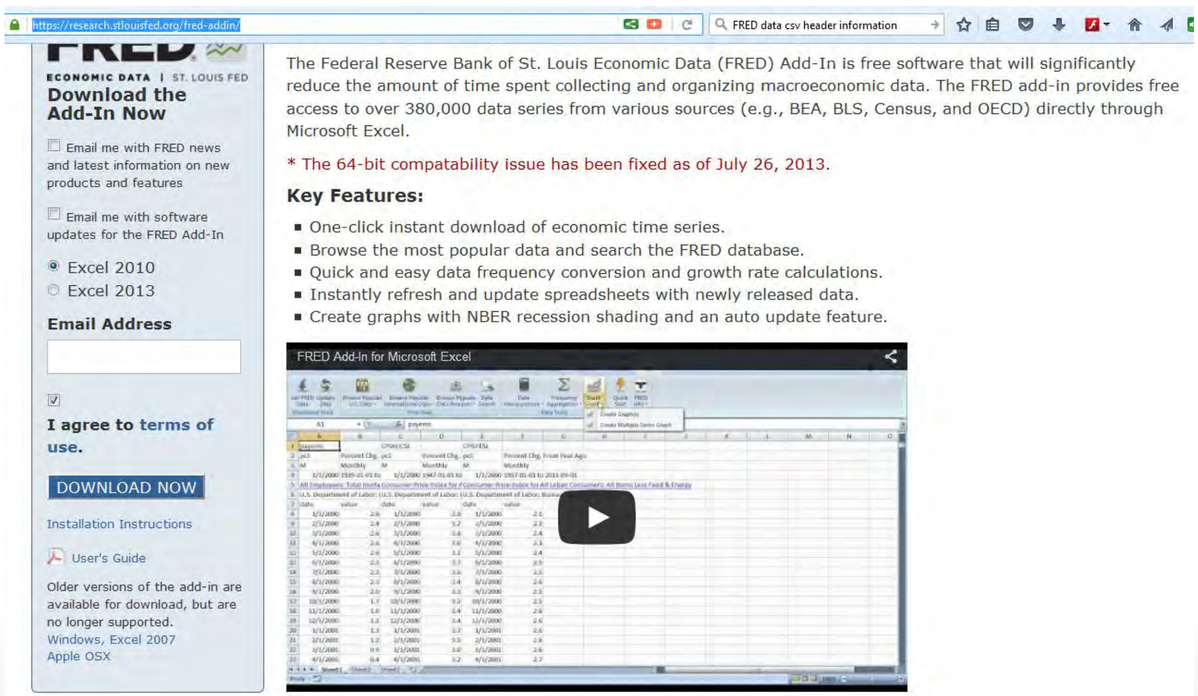
Estimates of End-of-Month Retail Inventories and Inventories/Sales Ratios by Kind of Business: 2021

[Estimates are shown in millions of dollars and are based on data from the Monthly Retail Trade Survey, Annual Retail Trade Survey, and administrative records]

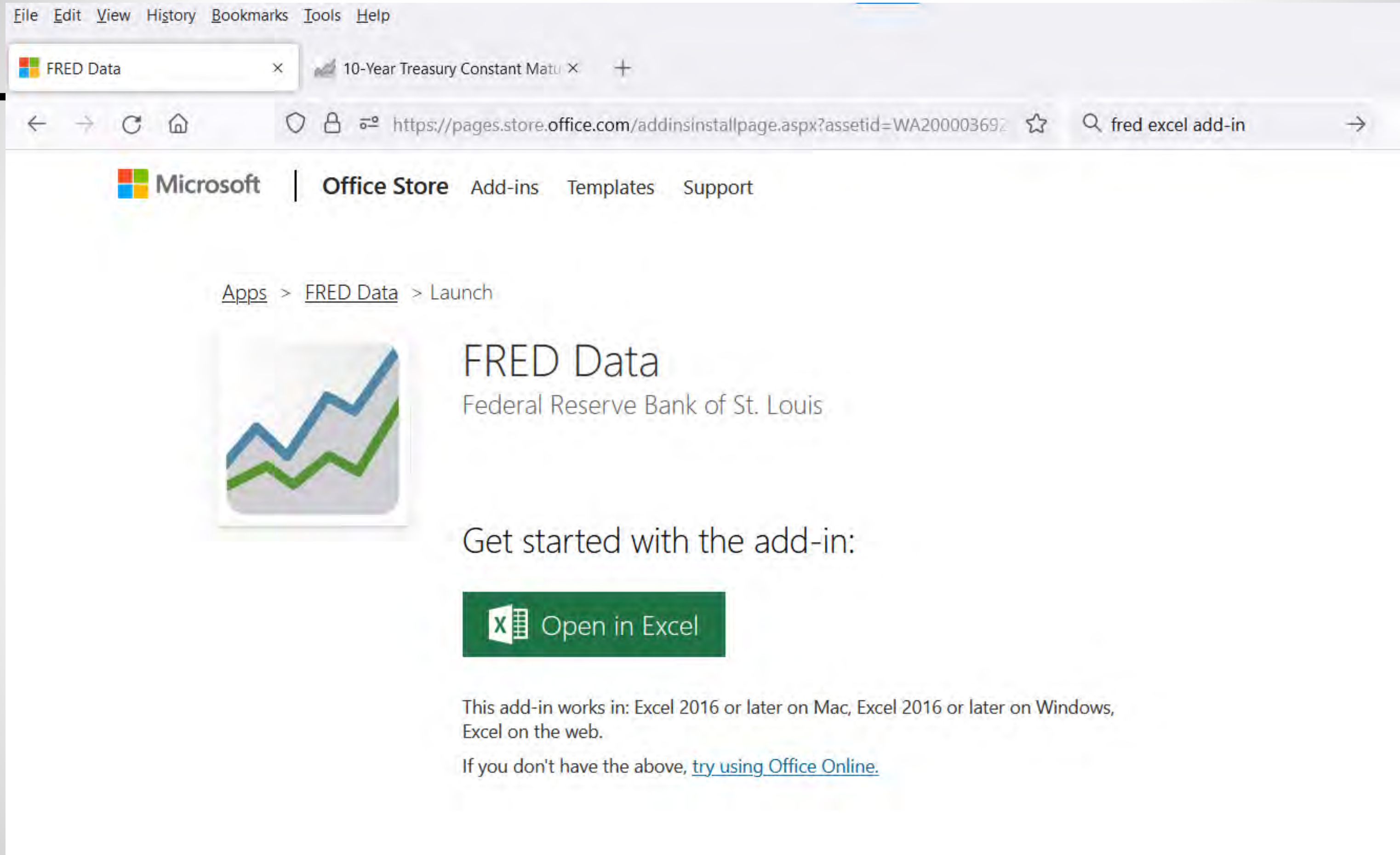
NAICS Code	Kind of Business	Jan. 2021	Feb. 2021	Mar. 2021	Apr. 2021	May 2021	Jun. 2021	Jul. 2021	Aug. 2021	Sep. 2021	Oct. 2021	Nov. 2021	Dec. 2021
	NOT ADJUSTED												
	Retail Inventories, total	617,888	623,023	618,551	608,572	594,373	596,602	592,591	596,874	612,261	633,152	650,382	645,073
44,45 excl. 441	Total excluding motor vehicle and parts dealers	422,881	432,947	439,013	440,804	439,973	442,307	441,987	449,331	467,318	487,715	496,799	480,730
441	Motor vehicle and parts dealers	195,007	190,076	179,538	167,768	154,400	154,295	150,604	147,543	144,943	145,437	153,583	164,343
442,443	Furniture, home furn, electronics, and appliance stores	23,510	23,953	24,098	24,707	24,953	25,318	26,125	26,708	28,148	29,850	30,452	28,646
444	Building materials, garden equip. and supplies dealers	61,617	66,052	68,867	69,785	69,944	69,076	68,409	67,780	68,507	69,576	69,424	70,653
445	Food and beverage stores	52,881	52,555	54,127	53,988	54,065	53,938	53,825	53,634	55,133	56,368	57,612	56,517
448	Clothing and clothing access. stores	43,329	44,626	44,800	45,204	44,725	44,315	44,326	45,118	47,460	50,031	50,564	45,701
452	General merchandise stores	76,522	78,698	78,698	79,690	79,109	79,506	81,051	83,253	90,692	97,404	98,151	89,822
4521	Department stores	17,172	17,746	17,833	18,065	17,876	17,840	18,438	18,960	22,004	24,675	24,203	19,769
	ADJUSTED(1)												
	Retail Inventories, total	623,659	624,830	616,202	606,706	601,974	604,947	607,510	610,025	609,602	610,365	622,331	649,163
44,45 excl. 441	Total excluding motor vehicle and parts dealers	430,983	437,577	439,907	443,312	447,464	450,630	452,597	456,877	460,837	463,549	470,189	487,186
441	Motor vehicle and parts dealers	192,676	187,253	176,295	163,394	154,510	154,317	154,913	153,148	148,765	146,816	152,142	161,977
442,443	Furniture, home furn, electronics, and appliance stores	24,138	25,082	25,313	25,630	25,858	26,101	26,604	26,869	27,435	27,211	27,068	28,675
444	Building materials, garden equip. and supplies dealers	63,327	64,757	65,215	65,959	67,189	68,324	69,100	69,305	69,977	70,924	72,317	74,215
445	Food and beverage stores	53,115	53,474	54,488	54,534	54,484	54,373	54,779	54,696	55,175	54,905	55,177	55,349
448	Clothing and clothing access. stores	45,323	45,122	44,845	45,892	45,825	45,358	44,910	45,163	45,679	46,454	47,212	48,412
452	General merchandise stores	79,854	81,117	80,671	81,373	82,370	83,136	84,495	85,122	86,300	86,889	87,972	92,392
4521	Department stores	18,288	18,602	18,309	18,490	18,718	19,101	19,678	19,916	20,507	20,409	20,563	21,488
	INVENTORIES/SALES, RATIOS NOT ADJUSTED												
	Retail Trade, total	1.34	1.42	1.09	1.09	1.05	1.06	1.07	1.08	1.15	1.14	1.12	1.02
44,45 excl. 441	Total excluding motor vehicle and parts dealers	1.17	1.27	1.04	1.05	1.02	1.03	1.04	1.04	1.13	1.11	1.07	0.94
441	Motor vehicle and parts dealers	1.94	1.91	1.27	1.21	1.12	1.17	1.17	1.19	1.22	1.21	1.33	1.34
442,443	Furniture, home furn, electronics, and appliance stores	1.36	1.49	1.19	1.28	1.28	1.29	1.31	1.34	1.44	1.50	1.40	1.24
444	Building materials, garden equip. and supplies dealers	1.99	2.26	1.60	1.50	1.51	1.54	1.66	1.71	1.76	1.76	1.76	1.85
445	Food and beverage stores	0.76	0.82	0.76	0.77	0.72	0.74	0.71	0.72	0.76	0.74	0.76	0.68
448	Clothing and clothing access. stores	2.82	2.77	1.90	1.96	1.73	1.80	1.76	1.80	2.10	2.05	1.76	1.16

2022 | **2021** | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 ...

Economic Data: Excel Add-in Instructions for Federal Reserve Bank of St. Louis



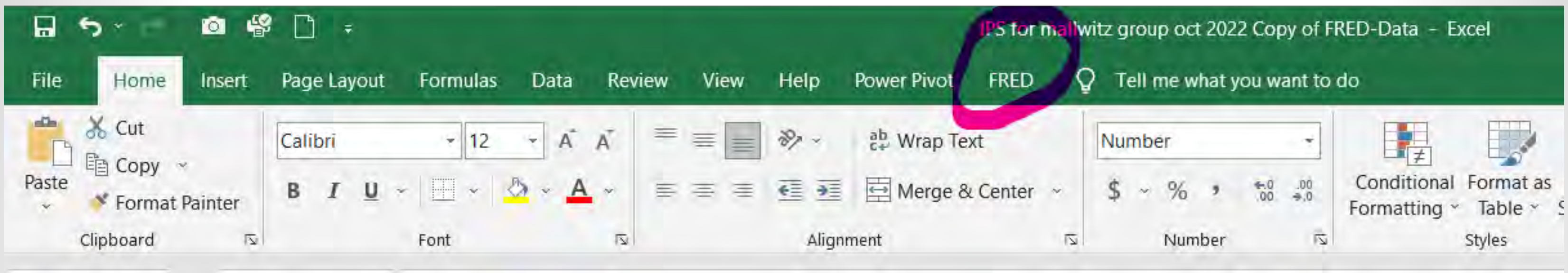
"IPS.B50001"	1980	52.0677	52.0899	51.8687	50.8454	49.5947	48.9621	48.6090	48.7646	49.5764	50.2058	51.0418	51.3906
"IPS.B50001"	1981	51.0656	50.8554	51.1107	50.8864	51.1788	51.4496	51.7764	51.7129	51.4605	51.0625	50.4730	49.9364
"IPS.B50001"	1982	48.9114	49.9102	49.5691	49.1146	48.7805	48.6606	48.4863	48.0569	47.9303	47.4738	47.3200	46.9813
"IPS.B50001"	1983	47.8523	47.5667	47.9599	48.5564	48.8647	49.1558	49.8873	50.4843	51.2160	51.6139	51.8420	52.0948
"IPS.B50001"	1984	53.1348	53.3763	53.6314	53.9491	54.2396	54.4288	54.5865	54.6530	54.4949	54.4772	54.6594	54.6892
"IPS.B50001"	1985	54.6505	54.8169	54.8978	54.7833	54.8704	54.8401	54.5582	54.7381	54.9416	54.7538	54.9390	55.4945
"IPS.B50001"	1986	55.7802	55.3994	55.0001	55.0641	55.1705	54.9588	55.2944	55.2029	55.3511	55.5857	55.8030	56.3441
"IPS.B50001"	1987	56.1259	56.8779	56.9516	57.3177	57.6774	57.9875	58.3790	58.8171	59.0391	59.8340	60.1367	60.4739
"IPS.B50001"	1988	60.4594	60.7643	60.8948	61.2475	61.1353	61.2995	61.3110	61.6234	61.4255	61.6940	61.8494	62.1171
"IPS.B50001"	1989	62.3103	62.0353	62.1950	62.1753	61.8321	61.8246	61.2285	61.8334	61.6221	61.5537	61.7575	62.1111
"IPS.B50001"	1990	61.7781	62.3426	62.6446	62.5104	62.6898	62.8923	62.7933	63.0241	63.0328	62.6466	61.8681	61.4345
"IPS.B50001"	1991	61.2241	60.7790	60.4377	60.5982	61.2041	61.6923	61.8569	61.8681	62.3855	62.3229	62.2427	61.9705
"IPS.B50001"	1992	61.6471	62.0794	62.5955	63.0726	63.2761	63.3102	63.8769	63.5221	63.7217	64.1556	64.4144	64.5161
"IPS.B50001"	1993	64.7738	65.0805	65.0176	65.2041	64.9433	65.0984	65.2554	65.1946	65.5282	66.0152	66.3292	66.7038
"IPS.B50001"	1994	66.9164	66.9642	67.6335	68.0334	68.3531	68.8002	68.8863	69.3412	69.5574	70.1190	70.5942	71.2814
"IPS.B50001"	1995	71.4303	71.3343	71.4451	71.3289	71.6600	71.8967	71.5924	72.5339	72.8247	72.7130	72.8884	73.1429
"IPS.B50001"	1996	72.7471	73.7871	73.6749	74.4153	74.9718	75.5317	75.5323	75.9129	76.4032	76.3931	77.0672	77.5543
"IPS.B50001"	1997	77.6945	78.6120	79.1021	79.1683	79.6084	79.9802	80.6492	81.4548	82.2120	82.9309	83.5919	83.9696
"IPS.B50001"	1998	84.3467	84.4865	84.5212	84.8275	85.3596	84.8466	84.5061	86.2464	86.1707	86.7671	86.6929	87.0633
"IPS.B50001"	1999	87.4252	87.9260	88.1101	88.3106	88.8487	88.7978	89.3119	89.7109	89.3331	90.4924	90.9650	91.6804
"IPS.B50001"	2000	91.6261	91.9626	92.3118	92.8872	93.1620	93.2168	93.0400	92.7900	93.1547	92.8361	92.8395	92.5334
"IPS.B50001"	2001	92.0304	91.4079	91.1751	90.8767	90.3750	89.8626	89.3288	89.2201	88.7478	88.4755	87.9631	87.9329
"IPS.B50001"	2002	88.5452	88.5362	89.2097	89.6389	90.0271	90.7645	90.7437	90.6268	90.7241	90.4879	90.9823	90.4919
"IPS.B50001"	2003	91.2395	91.3384	91.0690	90.4913	90.4697	90.5899	91.0614	90.8452	91.4453	91.5595	92.1763	92.2532
"IPS.B50001"	2004	92.4067	92.9687	92.6000	92.9761	93.6446	92.9303	93.6109	93.6958	93.7958	94.6226	94.8491	95.5841
"IPS.B50001"	2005	95.9285	96.6287	96.4907	96.6809	96.7925	97.1900	96.8981	97.2223	95.3463	96.4981	97.5646	98.0222
"IPS.B50001"	2006	98.2044	98.2404	98.4742	98.7765	98.7884	99.1069	99.0357	99.4583	99.2544	99.1514	99.0974	100.1117
"IPS.B50001"	2007	99.7226	100.6919	100.8857	101.5777	101.6481	101.6741	101.5627	101.7751	102.0279	101.7289	102.3185	102.3074
"IPS.B50001"	2008	102.1686	101.7673	101.3986	100.7238	100.1399	99.9141	99.4943	97.9367	93.6585	94.5845	93.3455	90.7183
"IPS.B50001"	2009	88.4683	87.9360	86.5503	85.8598	84.9991	84.7277	85.7091	86.6333	87.3615	87.5488	87.9144	88.2318
"IPS.B50001"	2010	89.1936	89.5089	90.1449	90.4740	91.7131	91.9287	92.2737	92.6150	92.8668	92.6138	92.6772	93.5741
"IPS.B50001"	2011	93.3793	93.0051	93.9780	93.6525	93.7878	94.0378	94.5146	95.1263	95.0732	95.7291	95.7455	96.2147
"IPS.B50001"	2012	96.8051	97.1033	96.5973	97.3006	97.5046	97.4903	97.7234	97.3130	97.2405	97.5610	97.9589	98.2061
"IPS.B50001"	2013	98.1990	98.6835	99.0994	98.9898	99.0782	99.2141	98.9132	99.4891	100.0172	99.9038	100.1479	100.3576
"IPS.B50001"	2014	99.9828	100.7485	101.7391	101.8023	102.2116	102.5637	102.8425	102.6499	102.9647	102.9704	103.6017	103.5920
"IPS.B50001"	2015	102.7980	102.1554	101.8077	101.2285	100.7536	100.4529	101.1100	100.8802	100.6080	100.1510	99.3817	98.8572
"IPS.B50001"	2016	99.4086	98.8946	98.1385	98.4364	98.2096	98.6766	98.8371	98.7302	98.6287	98.7126	98.3004	98.9063
"IPS.B50001"	2017	98.7349	98.4178	99.0726	100.0545	100.1390	100.3148	100.1418	99.6878	99.7829	101.0401	101.2260	101.3878
"IPS.B50001"	2018	101.3450	101.7068	102.2785	103.4340	102.4735	103.2508	103.4588	104.1802	104.1665	104.0476	103.9603	103.8690
"IPS.B50001"	2019	103.2684	102.8157	102.9000	102.3826	102.5756	102.5928	102.2012	102.9086	102.5790	101.7775	102.0979	101.7632
"IPS.B50001"	2020	101.3030	101.7038	97.8746	84.9590	86.3345	91.7523	95.2439	96.1173	96.0711	96.8250	97.1183	98.1380
"IPS.B50001"	2021	99.2645	96.2231	98.8621	99.0246	99.7785	100.1923	100.8724	100.8370	99.8498	101.3602	101.9610	101.7587
"IPS.B50001"	2022	102.1460	102.8987	103.5717	104.2577	104.1868	104.1778	104.7189	104.5464				

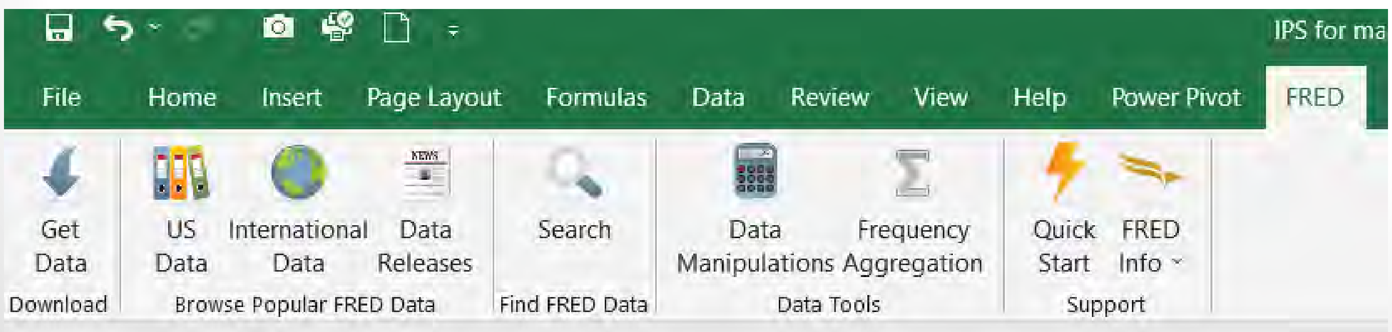


Improving People's Lives and Their Businesses

Accessing Data: Federal Reserve Bank of St. Louis

Ch. 7





Accessing Data—Industrial Production Federal Reserve Bank of St. Louis

FRED DATA - https://s3.amazonaws.com/files.fred.stlouisfed.org/fred-addin/dist/dialogs/browse/index.htm...

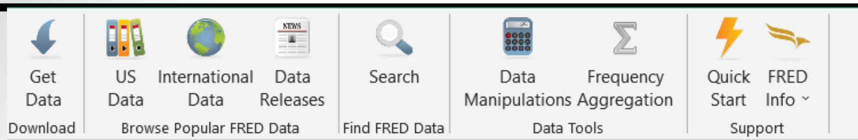
< Back

Production and Business Activity

- Industrial Production
- Capacity Utilization
- Inventories
- Real Retail and Food Services Sales
- Vehicle Sales: Auto's and Light Trucks
- Manufacturers' New Orders: Durable Goods
  - New Orders: Nondefense Ex. Aircraft
- Commercial and Industrial Loans

Improving People's Lives and Their Businesses

Data—Industrial Production Index
Federal Reserve Bank of St. Louis



J11

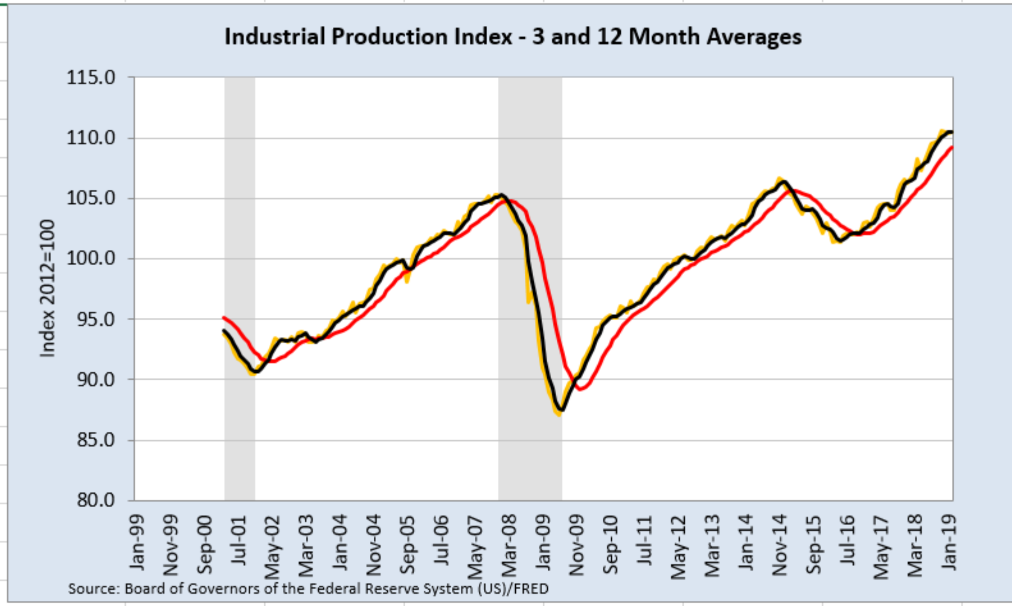
	A	B	C	D	E	F	G	H
1	INDPRO		INDPRO					
2	lin	Index 2017=100, Seasonally Adjusted						
3	m	Monthly						
4	1/1/1999	1999-01-01 to 2022-08-01						
5	Industrial Production: Total Index							
6	Board of Governors of the Federal Reserve System (US)							
7	date	value	3avg	12avg	3ttm	12ttm	recessions	
8	1/1/1999	87.4252					0	
9	2/1/1999	87.926					0	
10	3/1/1999	88.1101	87.82043				0	
11	4/1/1999	88.3106	88.11557				0	
12	5/1/1999	88.8487	88.42313				0	
13	6/1/1999	88.7978	88.65237				0	
14	7/1/1999	89.3119	88.98613				0	
15	8/1/1999	89.7109	89.27353				0	
16	9/1/1999	89.3331	89.45197				0	
17	10/1/1999	90.4924	89.84547				0	
18	11/1/1999	90.965	90.2635				0	
19	12/1/1999	91.6804	91.04593	89.24268			0	
20	1/1/2000	91.6261	91.42383	89.59275			0	
21	2/1/2000	91.9626	91.75637	89.92913			0	
22	3/1/2000	92.3118	91.96683	90.27928	1.047215		0	
23	4/1/2000	92.8872	92.3872	90.66066	1.048478		0	
24	5/1/2000	93.162	92.787	91.0201	1.049352		0	
25	6/1/2000	93.2168	93.08867	91.38835	1.050042		0	
26	7/1/2000	93.04	93.1396	91.69903	1.046675		0	

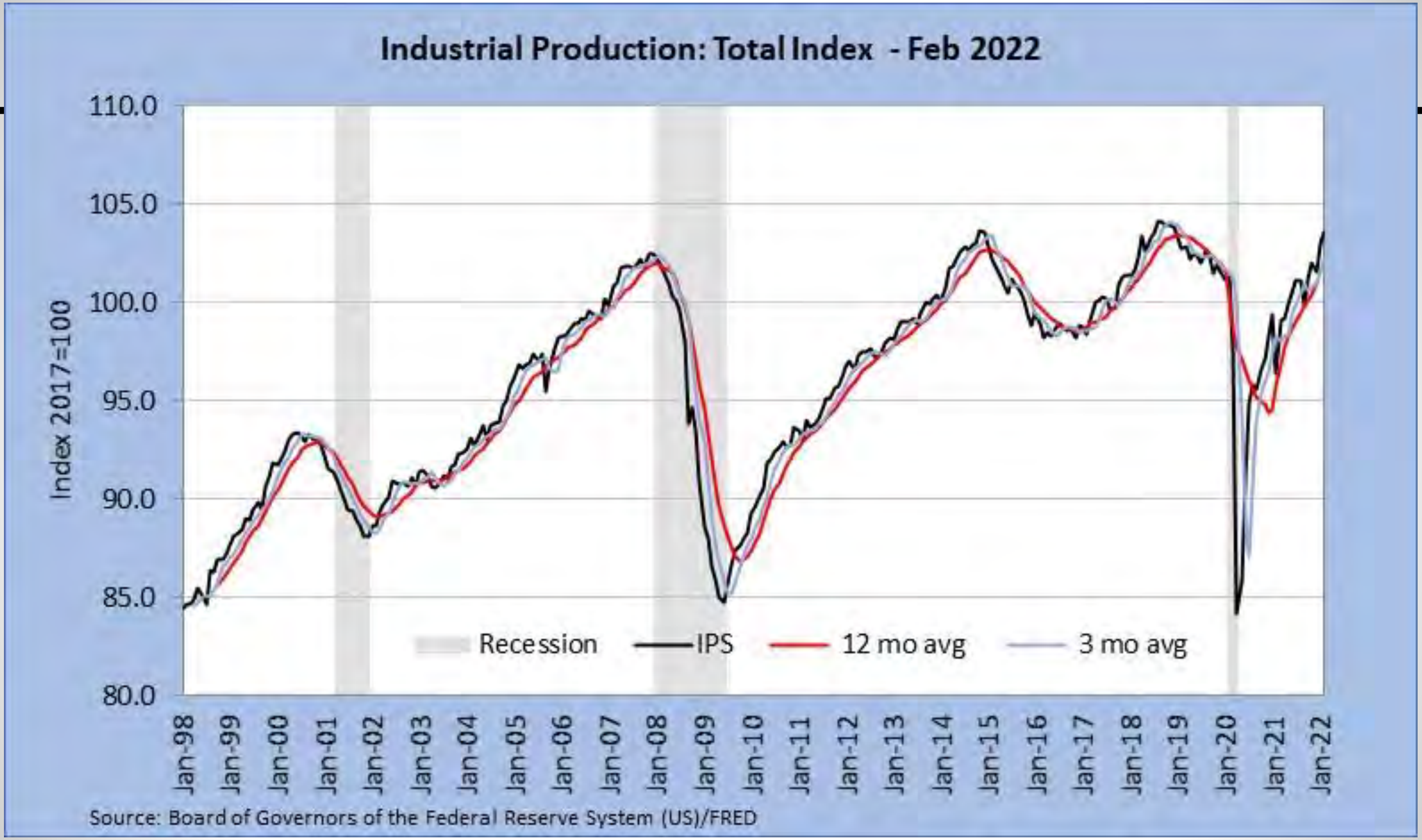
	A	B	C	D	E	F	G
267	8/1/2020	96.1173	94.37117	96.95883	0.920088	0.940064	0
268	9/1/2020	96.0711	95.81077	96.41651	0.934166	0.936006	0
269	10/1/2020	96.825	96.3378	96.0038	0.9406	0.933714	0
270	11/1/2020	97.1183	96.67147	95.58883	0.946354	0.931084	0
271	12/1/2020	98.138	97.36043	95.28673	0.955643	0.929731	0
272	1/1/2021	99.2645	98.1736	95.11686	0.965123	0.929559	0
273	2/1/2021	96.2231	97.8752	94.66013	0.963433	0.925934	0
274	3/1/2021	98.8621	98.11657	94.74243	0.978291	0.93055	0
275	4/1/2021	99.0246	98.0366	95.91456	1.033642	0.955692	0
276	5/1/2021	99.7785	99.22173	97.03489	1.105871	0.980072	0
277	6/1/2021	100.1923	99.66513	97.73823	1.136667	0.996266	0
278	7/1/2021	100.8724	100.2811	98.20727	1.100656	1.006998	0
279	8/1/2021	100.837	100.6339	98.60058	1.066363	1.016932	0
280	9/1/2021	99.8498	100.5197	98.91547	1.049149	1.025918	0
281	10/1/2021	101.3602	100.6823	99.2934	1.045097	1.034265	0
282	11/1/2021	101.961	101.057	99.69696	1.045365	1.042977	0
283	12/1/2021	101.7587	101.6933	99.99868	1.044503	1.04945	0
284	1/1/2022	102.146	101.9552	100.2388	1.03852	1.053849	0
285	2/1/2022	102.8987	102.2678	100.7951	1.04488	1.064811	0
286	3/1/2022	103.5717	102.8721	101.1876	1.048469	1.068028	0
287	4/1/2022	104.2577	103.576	101.6237	1.056504	1.059523	0
288	5/1/2022	104.1868	104.0054	101.991	1.048212	1.051076	0
289	6/1/2022	104.1778	104.2074	102.3232	1.045576	1.04691	0
290	7/1/2022	104.7189	104.3612	102.6437	1.040687	1.045174	0
291	8/1/2022	104.5464	104.481	102.9528	1.038229	1.04414	0
292							

Improving People's Lives and Their Businesses

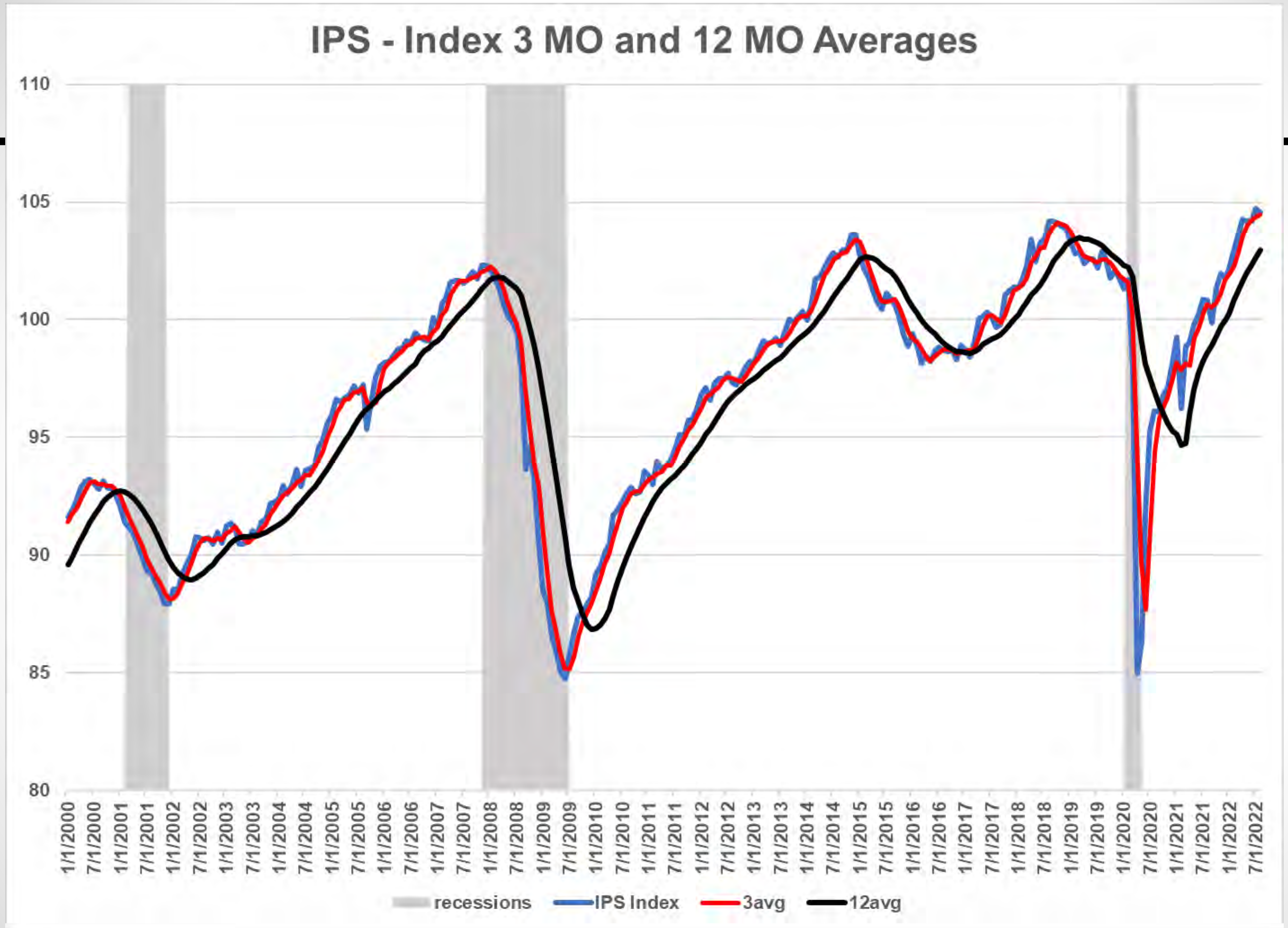
Build Graph Industrial Production Index Federal Reserve Bank of St. Louis (continued)

	A	B	C	D	E	F
1	INDPRO					
2	lin	Index 2012=100				
3	M	Monthly				
4	01/01/1999	1919-01-01 to 2019-02-01				
5	Industrial Production Index					
6	Board of Governors of the Federal Reserve System (US)					
7	date	value	3 mo avg	12 mo avg	3 TTM	12 TTM
34	03/01/2001	93.7	94.07	95.14	0.9957	1.0257
35	04/01/2001	93.4	93.70	94.97	0.9873	1.0195
36	05/01/2001	92.9	93.35	94.74	0.9794	1.0132
37	06/01/2001	92.3	92.88	94.45	0.9714	1.0060
38	07/01/2001	91.8	92.33	94.13	0.9652	0.9993
39	08/01/2001	91.7	91.93	93.83	0.9622	0.9933
40	09/01/2001	91.3	91.60	93.47	0.9589	0.9861
41	10/01/2001	90.9	91.31	93.10	0.9565	0.9801
42	11/01/2001	90.5	90.92	92.69	0.9520	0.9741
43	12/01/2001	90.5	90.64	92.30	0.9509	0.9691
44	01/01/2002	91.1	90.69	92.01	0.9542	0.9658
45	02/01/2002	91.1	90.88	91.77	0.9612	0.9637
46	03/01/2002	91.8	91.31	91.61	0.9707	0.9629
47	04/01/2002	92.2	91.68	91.50	0.9784	0.9635
48	05/01/2002	92.6	92.18	91.48	0.9875	0.9656
49	06/01/2002	93.4	92.73	91.57	0.9984	0.9695





Industrial Production: Total Index - Feb 2022
110.0
105.0
100.0
95.0
90.0
85.0
80.0
Index 2017=100
Recession
IPS
12 mo avg
3 mo avg
Jan-98
Jan-99
Jan-00
Jan-01
Jan-02
Jan-03
Jan-04
Jan-05
Jan-06
Jan-07
Jan-08
Jan-09
Jan-10
Jan-11
Jan-12
Jan-13
Jan-14
Jan-15
Jan-16
Jan-17
Jan-18
Jan-19
Jan-20
Jan-21
Jan-22
Source: Board of Governors of the Federal Reserve System (US)/FRED



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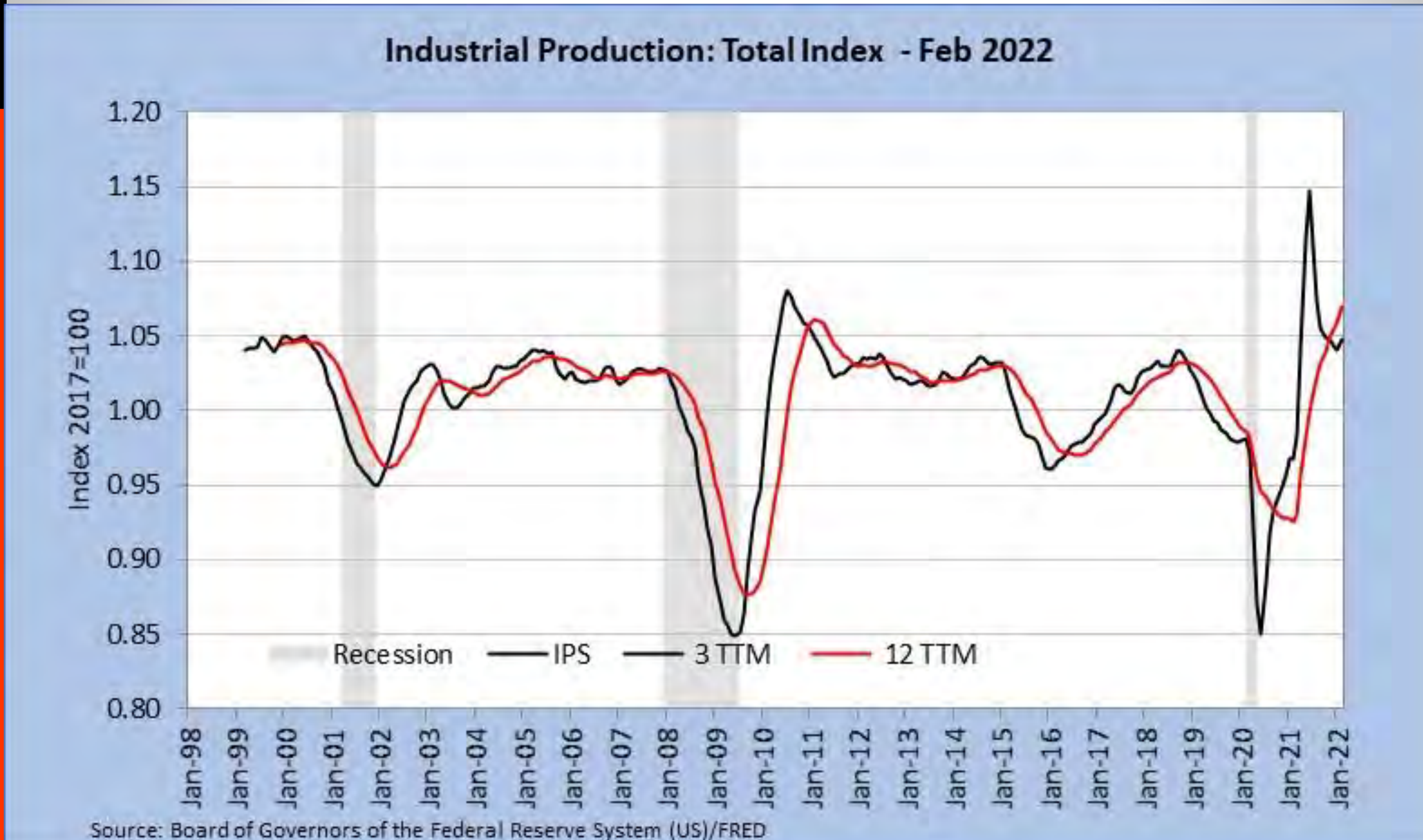
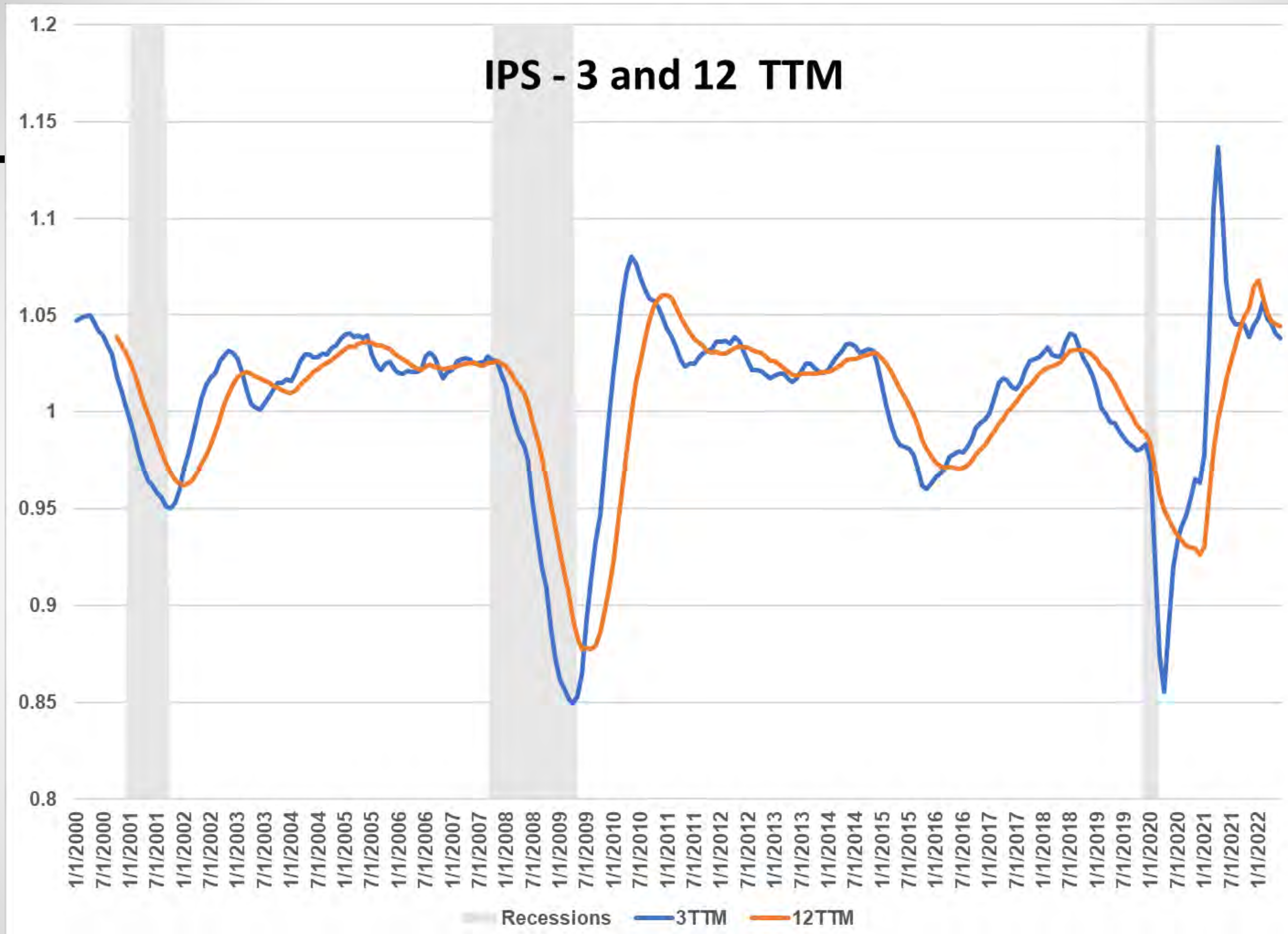
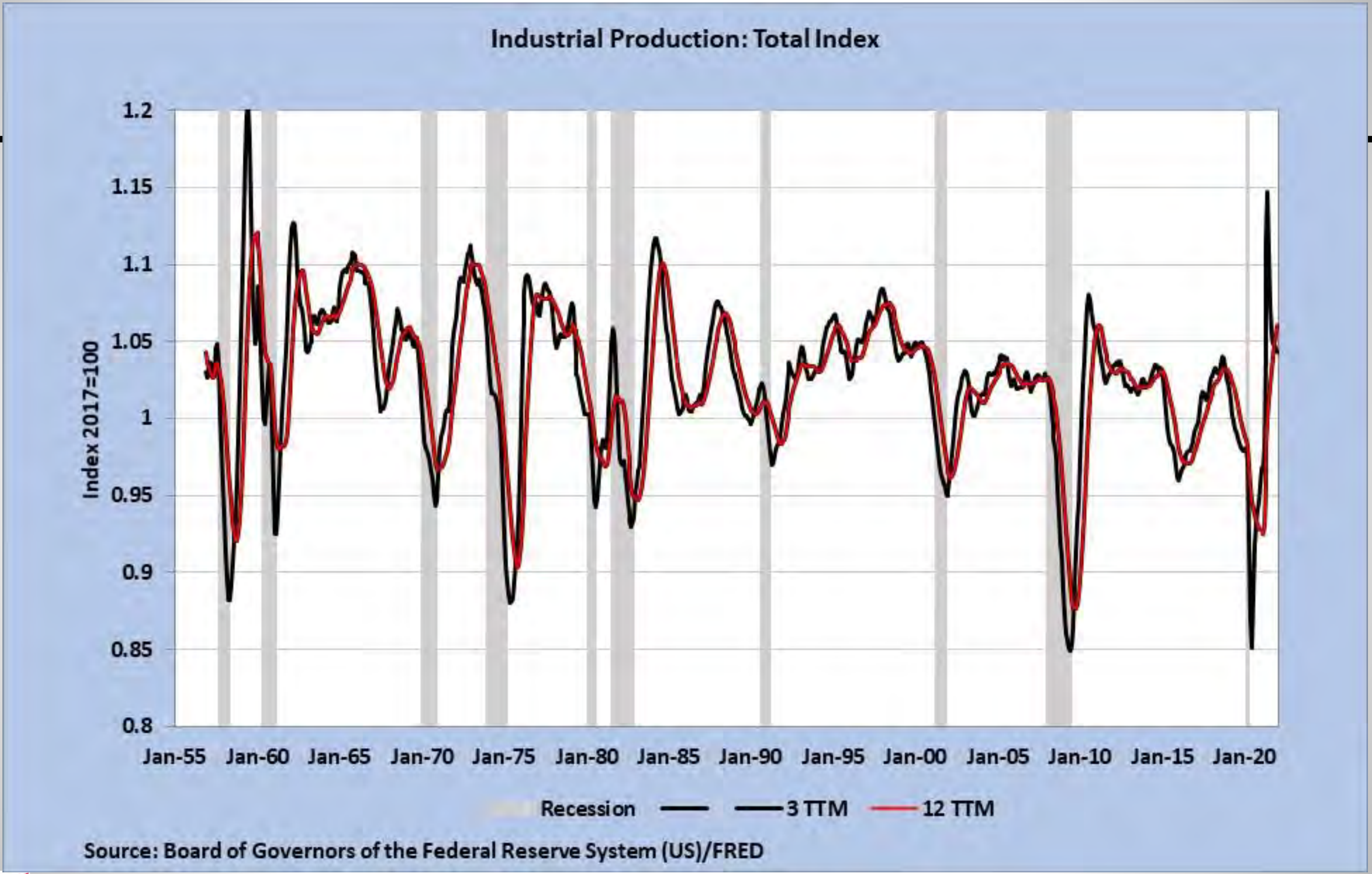

Industrial Production: Total Index - Feb 2022
Index 2017=100
1.20
1.15
1.10
1.05
1.00
0.95
0.90
0.85
0.80
Recession
IPS
3 TTM
12 TTM
Jan-98
Jan-99
Jan-00
Jan-01
Jan-02
Jan-03
Jan-04
Jan-05
Jan-06
Jan-07
Jan-08
Jan-09
Jan-10
Jan-11
Jan-12
Jan-13
Jan-14
Jan-15
Jan-16
Jan-17
Jan-18
Jan-19
Jan-20
Jan-21
Jan-22
Source: Board of Governors of the Federal Reserve System (US)/FRED



Improving People's Lives and Their Businesses


Industrial Production: Total Index
1.2
1.15
1.1
1.05
1
0.95
0.9
0.85
0.8
Index 2017=100
Jan-55 Jan-60 Jan-65 Jan-70 Jan-75 Jan-80 Jan-85 Jan-90 Jan-95 Jan-00 Jan-05 Jan-10 Jan-15 Jan-20
Recession
3 TTM
12 TTM
Source: Board of Governors of the Federal Reserve System (US)/FRED


Improving People's Lives and Their Businesses


Industrial Production: Total Index (INDPRO)
DOWNLOAD
Observation:
Mar 2022: 5.4235 (+ more)
Updated: Apr 15, 2022
Units:
Change from Year Ago, Index 2017=100,
Seasonally Adjusted
Frequency:
Monthly
1Y | 5Y | 10Y | Max
1989-01-01
to
2022-03-01
EDIT GRAPH
FRED
Industrial Production: Total Index
Change from Year Ago, Index 2017=100
20
15
10
5
0
-5
-10
-15
-20
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
2010
2012
2014
2016
2018
2020
2022
Shaded areas indicate U.S. recessions.
Source: Board of Governors of the Federal Reserve System (US)
fred.stlouisfed.org

FRED Graph
DOWNLOAD
1Y | 5Y | 10Y | Max
1980-01-01
to
2022-09-30
EDIT GRAPH
FRED
— 10-Year Treasury Constant Maturity Minus 2-Year Treasury Constant Maturity (right)
— 10-Year Treasury Constant Maturity Minus 3-Month Treasury Constant Maturity (right)
— Unemployment Rate (left)
Percent
15.0
12.5
10.0
7.5
5.0
2.5
6
4
2
0
-2
-4
Percent
1985
1990
1995
2000
2005
2010
2015
2020
1950
1960
1970
Shaded areas indicate U.S. recessions.
Sources: St. Louis Fed; BLS
fred.stlouisfed.org
Share Links
Account Tools

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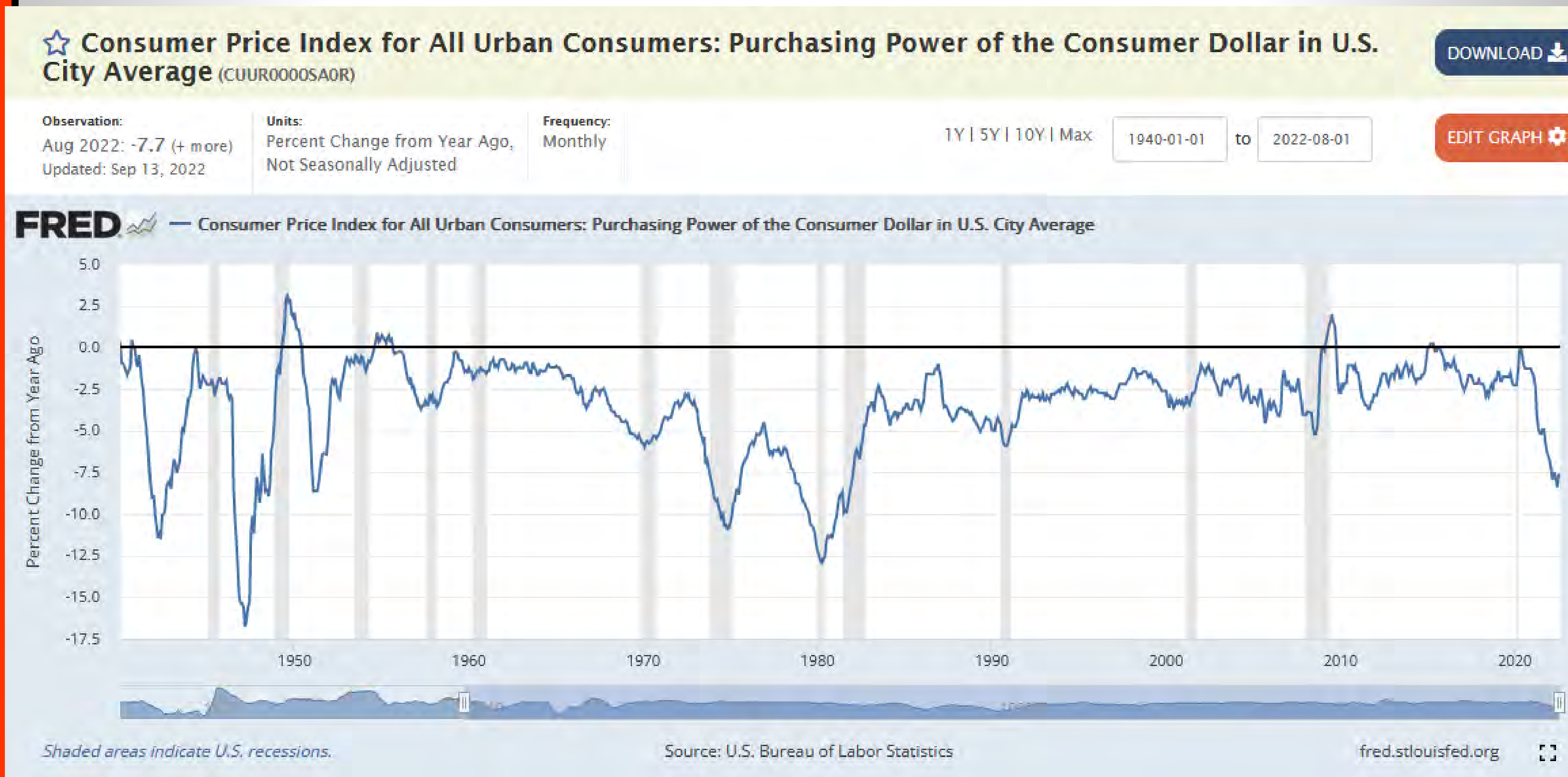
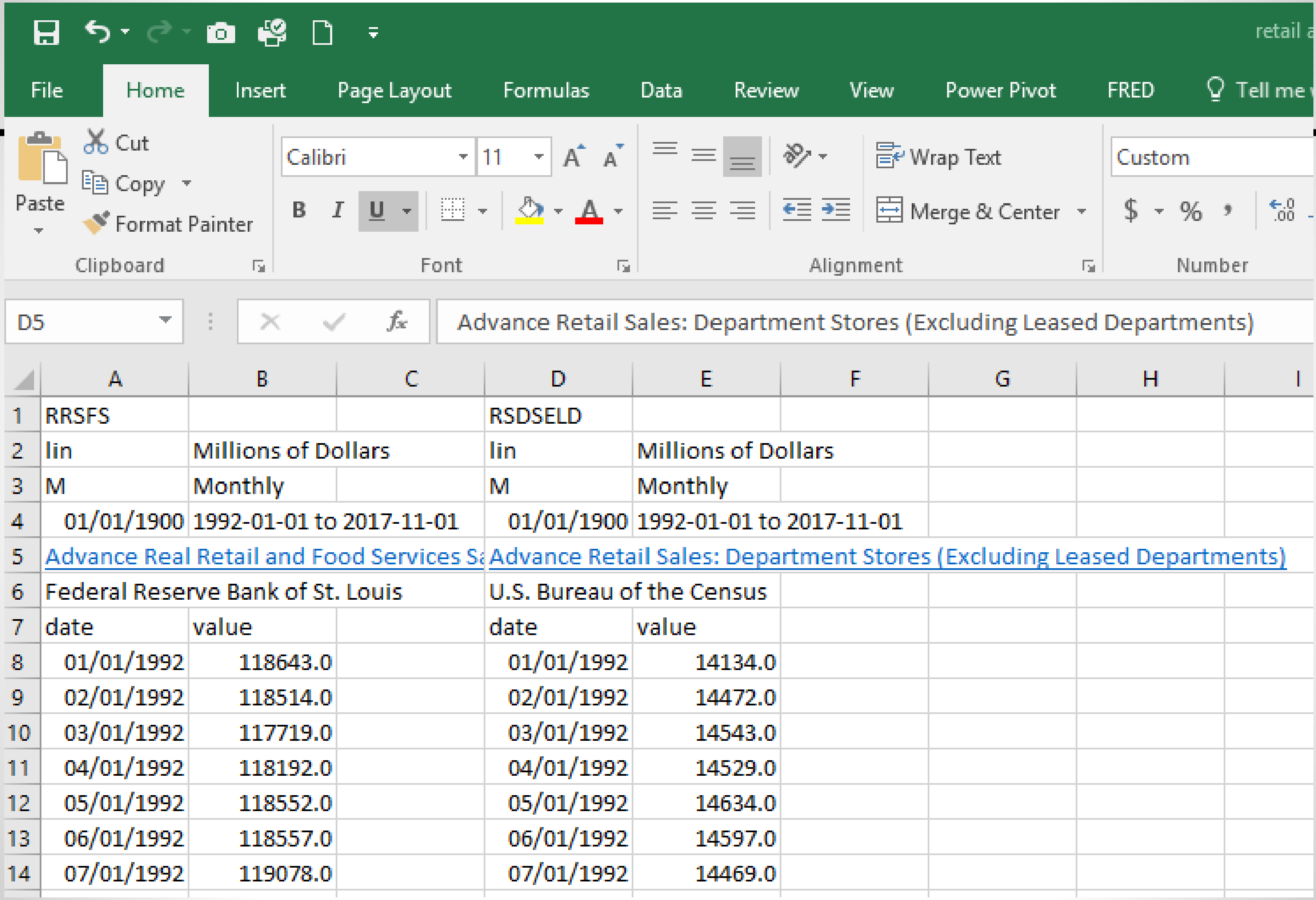

Consumer Price Index for All Urban Consumers: Purchasing Power of the Consumer Dollar in U.S. City Average (CUUR0000SA0R)
DOWNLOAD
Observation:
Aug 2022: -7.7 (+ more)
Updated: Sep 13, 2022
Units:
Percent Change from Year Ago, Not Seasonally Adjusted
Frequency:
Monthly
1Y | 5Y | 10Y | Max
1940-01-01
to
2022-08-01
EDIT GRAPH
FRED
Consumer Price Index for All Urban Consumers: Purchasing Power of the Consumer Dollar in U.S. City Average
Percent Change from Year Ago
5.0
2.5
0.0
-2.5
-5.0
-7.5
-10.0
-12.5
-15.0
-17.5
1950
1960
1970
1980
1990
2000
2010
2020
Shaded areas indicate U.S. recessions.
Source: U.S. Bureau of Labor Statistics
fred.stlouisfed.org

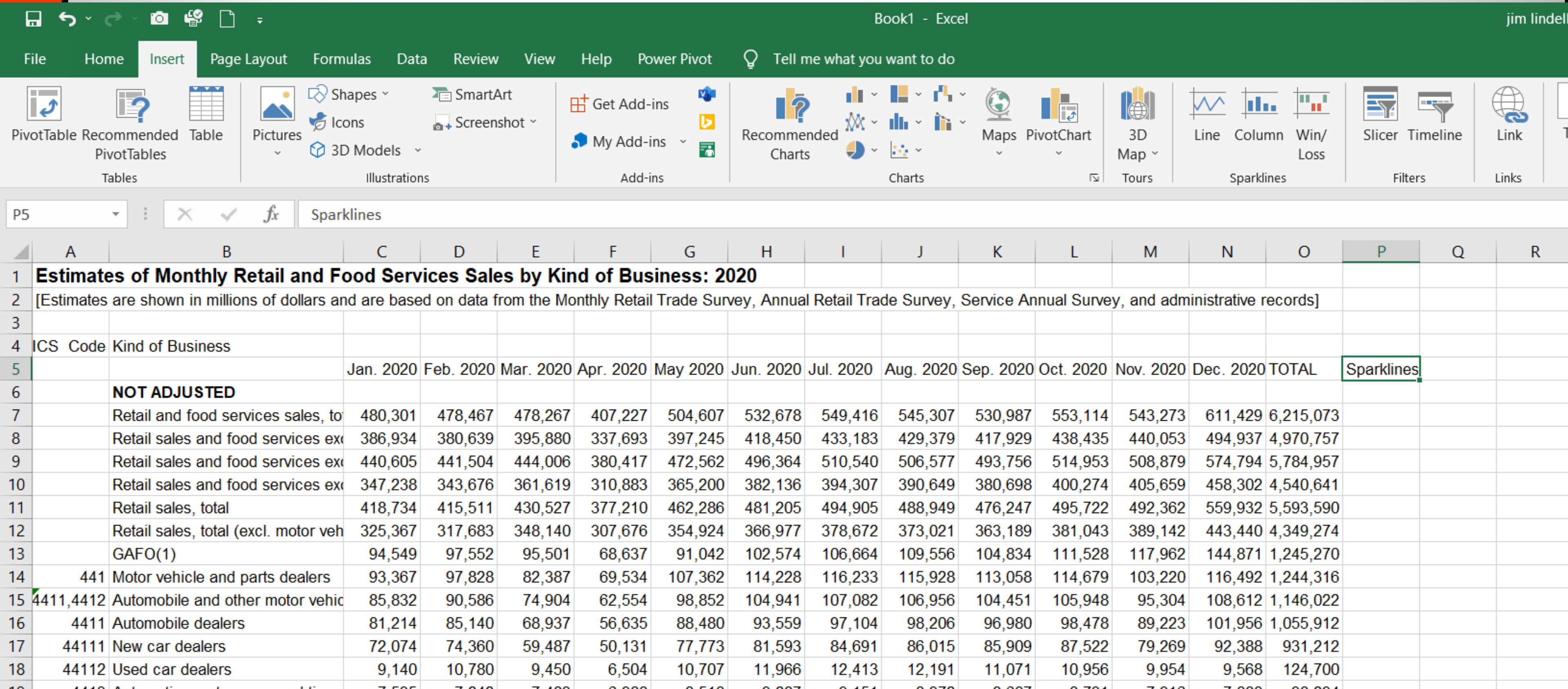


	A	B	C	D	E	F	G	H	I
1	RRSFS			RSDSELD					
2	lin	Millions of Dollars		lin	Millions of Dollars				
3	M	Monthly		M	Monthly				
4	01/01/1900	1992-01-01 to 2017-11-01		01/01/1900	1992-01-01 to 2017-11-01				
5	Advance Real Retail and Food Services S			Advance Retail Sales: Department Stores (Excluding Leased Departments)					
6	Federal Reserve Bank of St. Louis			U.S. Bureau of the Census					
7	date	value		date	value				
8	01/01/1992	118643.0		01/01/1992	14134.0				
9	02/01/1992	118514.0		02/01/1992	14472.0				
10	03/01/1992	117719.0		03/01/1992	14543.0				
11	04/01/1992	118192.0		04/01/1992	14529.0				
12	05/01/1992	118552.0		05/01/1992	14634.0				
13	06/01/1992	118557.0		06/01/1992	14597.0				
14	07/01/1992	119078.0		07/01/1992	14469.0				

Tools

- Sparklines
- Excel add-in FRED
- Power BI Desktop

Sparklines



	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
1	**Estimates of Monthly Retail and Food Services Sales by Kind of Business: 2020**															
2	[Estimates are shown in millions of dollars and are based on data from the Monthly Retail Trade Survey, Annual Retail Trade Survey, Service Annual Survey, and administrative records]															
3																
4	ICS Code	Kind of Business														
5			Jan. 2020	Feb. 2020	Mar. 2020	Apr. 2020	May 2020	Jun. 2020	Jul. 2020	Aug. 2020	Sep. 2020	Oct. 2020	Nov. 2020	Dec. 2020	TOTAL	Sparklines
6		**NOT ADJUSTED**														
7		Retail and food services sales, to	480,301	478,467	478,267	407,227	504,607	532,678	549,416	545,307	530,987	553,114	543,273	611,429	6,215,073	
8		Retail sales and food services ex	386,934	380,639	395,880	337,693	397,245	418,450	433,183	429,379	417,929	438,435	440,053	494,937	4,970,757	
9		Retail sales and food services ex	440,605	441,504	444,006	380,417	472,562	496,364	510,540	506,577	493,756	514,953	508,879	574,794	5,784,957	
10		Retail sales and food services ex	347,238	343,676	361,619	310,883	365,200	382,136	394,307	390,649	380,698	400,274	405,659	458,302	4,540,641	
11		Retail sales, total	418,734	415,511	430,527	377,210	462,286	481,205	494,905	488,949	476,247	495,722	492,362	559,932	5,593,590	
12		Retail sales, total (excl. motor veh	325,367	317,683	348,140	307,676	354,924	366,977	378,672	373,021	363,189	381,043	389,142	443,440	4,349,274	
13		GAFO(1)	94,549	97,552	95,501	68,637	91,042	102,574	106,664	109,556	104,834	111,528	117,962	144,871	1,245,270	
14	441	Motor vehicle and parts dealers	93,367	97,828	82,387	69,534	107,362	114,228	116,233	115,928	113,058	114,679	103,220	116,492	1,244,316	
15	4411,4412	Automobile and other motor vehic	85,832	90,586	74,904	62,554	98,852	104,941	107,082	106,956	104,451	105,948	95,304	108,612	1,146,022	
16	4411	Automobile dealers	81,214	85,140	68,937	56,635	88,480	93,559	97,104	98,206	96,980	98,478	89,223	101,956	1,055,912	
17	44111	New car dealers	72,074	74,360	59,487	50,131	77,773	81,593	84,691	86,015	85,909	87,522	79,269	92,388	931,212	
18	44112	Used car dealers	9,140	10,780	9,450	6,504	10,707	11,966	12,413	12,191	11,071	10,956	9,954	9,568	124,700	
19	4413	Automotive parts, acc., and tire s	7,535	7,242	7,483	6,980	8,510	9,287	9,151	8,972	8,607	8,731	7,916	7,880	98,294	

Improving People's Lives and Their Businesses

Sparklines (cont.)

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
1	**Estimates of Monthly Retail and Food Services Sales by Kind of Business: 2020**															
2	[Estimates are shown in millions of dollars and are based on data from the Monthly Retail Trade Survey, Annual Retail Trade Survey, Service Annual Survey, and administrative records]															
3																
4	ICS Code	Kind of Business														
5			Jan. 2020	Feb. 2020	Mar. 2020	Apr. 2020	May 2020	Jun. 2020	Jul. 2020	Aug. 2020	Sep. 2020	Oct. 2020	Nov. 2020	Dec. 2020	TOTAL	Sparklines
6		**NOT ADJUSTED**														
7		Retail and food services sales, to	480,301	478,467	478,267	407,227	504,607	532,678	549,416	545,307	530,987	553,114	543,273	611,429	6,215,073	
8		Retail sales and food services ex	386,934	380,639	395,880	337,693	397,245	418,450	433,183	429,379	417,929	438,435	440,053	494,937	4,970,757	
9		Retail sales and food services ex	440,605	441,504	444,006	380,417	472,562	496,364	510,540	506,577						
10		Retail sales and food services ex	347,238	343,676	361,619	310,883	365,200	382,136	394,307	390,649						
11		Retail sales, total	418,734	415,511	430,527	377,210	462,286	481,205	494,905	488,949						
12		Retail sales, total (excl. motor veh	325,367	317,683	348,140	307,676	354,924	366,977	378,672	373,021						
13		GAFO(1)	94,549	97,552	95,501	68,637	91,042	102,574	106,664	109,556						
14	441	Motor vehicle and parts dealers	93,367	97,828	82,387	69,534	107,362	114,228	116,233	115,928						
15	4411,4412	Automobile and other motor vehic	85,832	90,586	74,904	62,554	98,852	104,941	107,082	106,956						
16	4411	Automobile dealers	81,214	85,140	68,937	56,635	88,480	93,559	97,104	98,206						
17	44111	New car dealers	72,074	74,360	59,487	50,131	77,773	81,593	84,691	86,015						
18	44112	Used car dealers	9,140	10,780	9,450	6,504	10,707	11,966	12,413	12,191						
19	4413	Automotive parts, acc., and tire s	7,535	7,242	7,483	6,980	8,510	9,287	9,151	8,972	8,607	8,731	7,916	7,880	98,294	
20	442,443	Furniture, home furn, electronics	16,569	16,139	13,975	7,017	11,301	15,601	17,180	17,856	17,530	17,979	19,483	21,613	192,243	

Create Sparklines ? ×

Choose the data that you want

Data Range: C7:N7

Choose where you want the sparklines to be placed

Location Range: P7

OK Cancel

Sparklines (cont.)

	C	D	E	F	G	H	I	J	K	L	M	N	O	P
5	Jan. 2020	Feb. 2020	Mar. 2020	Apr. 2020	May 2020	Jun. 2020	Jul. 2020	Aug. 2020	Sep. 2020	Oct. 2020	Nov. 2020	Dec. 2020	TOTAL	Sparklines
6														
7	480,301	478,467	478,267	407,227	504,607	532,678	549,416	545,307	530,987	553,114	543,273	611,429	6,215,073	
8	386,934	380,639	395,880	337,693	397,245	418,450	433,183	429,379	417,929	438,435	440,053	494,937	4,970,757	
9	440,605	441,504	444,006	380,417	472,562	496,364	510,540	506,577	493,756	514,953	508,879	574,794	5,784,957	
10	347,238	343,676	361,619	310,883	365,200	382,136	394,307	390,649	380,698	400,274	405,659	458,302	4,540,641	
11	418,734	415,511	430,527	377,210	462,286	481,205	494,905	488,949	476,247	495,722	492,362	559,932	5,593,590	
12	325,367	317,683	348,140	307,676	354,924	366,977	378,672	373,021	363,189	381,043	389,142	443,440	4,349,274	
13	94,549	97,552	95,501	68,637	91,042	102,574	106,664	109,556	104,834	111,528	117,962	144,871	1,245,270	
14	93,367	97,828	82,387	69,534	107,362	114,228	116,233	115,928	113,058	114,679	103,220	116,492	1,244,316	
15	85,832	90,586	74,904	62,554	98,852	104,941	107,082	106,956	104,451	105,948	95,304	108,612	1,146,022	
16	81,214	85,140	68,937	56,635	88,480	93,559	97,104	98,206	96,980	98,478	89,223	101,956	1,055,912	
17	72,074	74,360	59,487	50,131	77,773	81,593	84,691	86,015	85,909	87,522	79,269	92,388	931,212	
18	9,140	10,780	9,450	6,504	10,707	11,966	12,413	12,191	11,071	10,956	9,954	9,568	124,700	
19	7,535	7,242	7,483	6,980	8,510	9,287	9,151	8,972	8,607	8,731	7,916	7,880	98,294	
20	16,569	16,139	13,975	7,017	11,301	15,601	17,180	17,856	17,530	17,979	19,483	21,613	192,243	
21	9,490	9,452	8,159	3,977	7,349	9,993	10,625	11,017	11,071	11,114	11,187	12,129	115,563	
22	5,148	5,287	4,499	2,004	4,259	5,730	5,957	5,847	6,112	6,053	5,894	6,153	62,943	

Improving People's Lives and Their Businesses

Reorienting accounting to a future-looking role

- Increase forecasting role
- Seek out industry trends on a regular basis
- Use historical data in novel ways
- Become an invaluable asset to the decision-making process
- Harness predictive analytics

Questions?
More Information?

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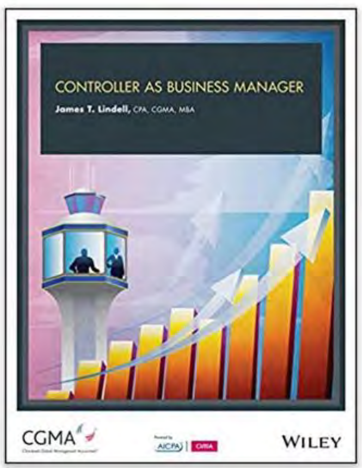

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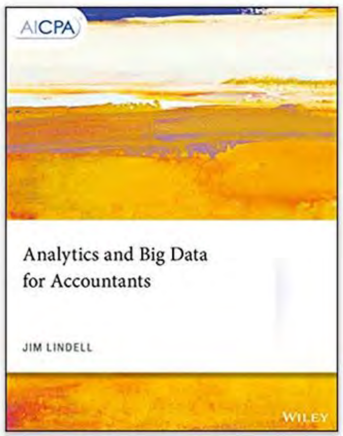

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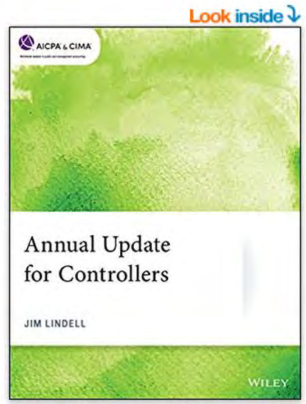

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