PacificCPE

COURSE
20456A

Detailed Guidance on Engagement Documentation Notes

A focused look at the finer points of documentation in compilation and review engagements, this course continues examination of note-related considerations that arise in practice. Though concise, the content addresses details that can have a real impact on engagement quality and compliance. Practitioners who want to ensure their documentation practices are thorough and aligned with current standards will find this course a useful addition to their professional development.

CREDIT HOURS 2 | FIELD OF STUDY ACCOUNTING | EXAM QUESTIONS 10

Start Course ↓ | Final Exam Copy ↓

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Copyright Notice

© 2026 Pacific CPE, LP. All rights reserved.

The materials in this course — including the text, illustrations, exhibits, examples, exam questions, and review questions — are the copyrighted property of Pacific CPE, LP. No portion of this course may be reproduced, stored in a retrieval system, distributed, or transmitted in any form or by any means (electronic, mechanical, photocopying, recording, or otherwise) without the prior written permission of Pacific CPE, LP, except for the personal, non-commercial use of the registered learner.

Pacific CPE, LP grants the registered learner a single-seat, non-transferable license to access this course for the purpose of completing the associated continuing professional education credit. Account credentials may not be shared. Group access requires a separate enterprise license.

This course is provided "as is" for educational purposes. While Pacific CPE, LP makes a reasonable effort to ensure the content is current and accurate, the materials should not be relied upon as a substitute for professional advice. Pacific CPE, LP disclaims all liability for any error, omission, or loss arising from the use of, or reliance on, the course content.

Questions about reproduction, licensing, or use of these materials should be directed to support@pacificcpe.com.

Publication Date: April 2026

TABLE OF CONTENTS

CHAPTER
01

Section 1 4

1.01 K. An Accountant'S Name In A Written Document Or Communication Containing Unaudited Financial Statements 4

1.02 L. Reporting Responsibility Related To The Statement Of Retained Earnings 5

1.03 N. Dates On Reports 18

1.04 O. Supplementary Information Reporting 20

1.05 Q. Selected Information- Substantially All Disclosures Required By Gaap Are Not Included 61

1.06 R. Gathering Review Evidence Under Ssars No. 21 66

Test Your Knowledge 72

Final Exam Copy 84

Glossary 79

Index .....

Section 1

K. AN ACCOUNTANT'S NAME IN A WRITTEN DOCUMENT OR COMMUNICATION CONTAINING UNAUDITED FINANCIAL STATEMENTS

There may be instances in which an accountant's name may be included in a document or written communication that also contains client-prepared financial statements of a nonpublic entity.

Example: A client prepared a financial package to be submitted to a bank or other third party. The package included various legal and financial documents including tax returns, client-prepared cash flows, and client-prepared financial statements that have not been audited, review, compiled, or prepared by the accountant. The client also includes the accountant's name and address in the package as a contact person.

What is the accountant's responsibility for reporting on such information under SSARS No. 21?

Response: Prior to the issuance of SSARS No. 21, the SSARSs had guidance to address this situation. In fact, SSARS No. 19 had carried over previous guidance that stated that an accountant should not consent to the use of his or her name in a document or written communication containing unaudited financial statements unless the accountant had either compiled or reviewed the financial statements, or the financial statements were accompanied by an indication that the accountant had not compiled or reviewed the financial statements and assumed no responsibility for them.

Things changed with the issuance of SSARS No. 21 in that the new SSARS eliminated all previously issued SSARSs and related interpretations, thereby leaving no guidance as to how to handle the example.

Moreover, SSARS No. 21 profoundly differs from SSARS No. 19 in that it requires the performance of a preparation of financial statements, compilation, or review engagement only if the accountant is engaged (hired) to perform such a service. Thus, an accountant cannot be forced to perform a SSARS engagement regardless of the circumstances.

In the example noted above, the accountant has not been engaged (hired) to perform a preparation, compilation, or review engagement on the financial statements found in the financial package. Consequently, the reporting requirements of SSARS No. 21 do not apply and no report is required. That means the accountant has no requirement to do anything with respect to his or her name being included in the package that includes the client-prepared financial statements.

Because the accountant is not subject to the rules of SSARS No. 21, the accountant can essentially take whatever action he or she deems necessary in the circumstances, which might include:

1. Do nothing and allow the financial package to be issued with the accountant's contact information included in it.
2. Include an indication statement before the financial statements that might be worded as follows:

   > The accompanying balance sheet of X Company as of December 31, 20X1, the related statements of income, and cash flows for the year then ended were not audited, reviewed, compiled, or prepared by us and, accordingly, we do not express an opinion or any other form of assurance on them.

3. Ask the client to remove the accountant's name from the financial package.

Note

The language found in item (2) above was previously found in SSARS No. 19, as modified by the author. The author believes that inclusion of such language may be prudent to avoid any misconception as to the accountant's degree of responsibility with respect to the financial statements included in the financial package. If the indication statement is included in the package, the author suggests it be placed immediately before the financial statements similar to the placement of other reports.

Item (3) above offers the accountant another option. If the accountant becomes aware that his or her name is being used improperly in a client-prepared document containing unaudited financial statements, the accountant may wish to advise the client that the use of his or her name is inappropriate and should consider taking other actions, including consulting with his or her attorney.

L. REPORTING RESPONSIBILITY RELATED TO THE STATEMENT OF RETAINED EARNINGS

There is confusion in practice as to whether the change in retained earnings must be presented in the financial statements or related notes; moreover, if presented, whether the report must reference the statement.

A statement of retained earnings is not required by GAAP. However, GAAP requires that all changes in capital must be disclosed. The change can be presented in one of three ways:

1. Separate statement of retained earnings
2. Combination statement of income and retained earnings
3. Disclosure of the change in the notes to financial statements

In terms of dealing with a statement of retained earnings, the following rules should be applied in a compilation or review engagement:

1. A statement of retained earnings is not a required statement.
2. If a statement of retained earnings is not presented, reference to the statement is not required in the compilation and review report.
3. If the change is presented in statement form, either as a separate statement or as the statement of income and retained earnings, the statement should be referenced in the compilation or review report.
4. If the change in retained earnings is not presented in statement form, GAAP still requires that the change be disclosed in the notes, in which case, there is still no need to reference the statement of retained earnings in the compilation or review report.

Observation

Although disclosing the change in retained earnings (either in statement or footnote format) is useful to the reader, there are instances in practice where not presenting the change may be useful. Assume, for example, that a compilation report is issued whereby substantially all disclosures are omitted. The accountant may wish to merely issue a compilation report, balance sheet, and statement of income, all of which are generated from a standard format such as QuickBooks®. The program may not present the change in retained earnings on the statement of income, thus requiring the accountant to export the data and customize it. In such a case, the accountant may wish to not present the change in retained earnings on the statement of income. If so, no reference to retained earnings needs to be made in the compilation report. Note, however, that in a review engagement, disclosure of the change in retained earnings (in financial statement or footnote format) is required, and not to do so results in a GAAP departure.

What if the accountant issues a compilation report in which management omits substantially all disclosures required by GAAP? Is the accountant required to present the change in retained earnings in the financial statements?

No. ASC 505, Equity, requires the "disclosure of changes in the separate accounts comprising shareholder's equity (in addition to retained earnings)." If management elects to omit substantially all disclosures, presumably one of those disclosures is the change in capital (retained earnings). Absent the footnotes, the accountant is not required to present the change in financial statement form, such as a separate statement of retained earnings or a statement of income and retained earnings.

Should the change in retained earnings be disclosed if tax-basis financial statements are presented?

Yes. SSARS No. 21 states that if tax-basis financial statements are presented, all "informative disclosures similar to those required by GAAP" are required. Therefore, with tax-basis financial

statements, the change in capital (retained earnings) must be either disclosed in the notes or presented in financial statement format. However, if in using tax-basis financial statements, management elects to omit substantially all disclosures ordinarily included in tax-basis financial statements, one of the *disclosures omitted* would be the change in retained earnings. Thus, presenting the change in retained earnings either in the notes or in the financial statements would not be required.

Following are sample reports that illustrate the application of the requirements with respect to the change in retained earnings.

Example 1: XYZ Corporation discloses the change in retained earnings in the form of a statement of income and retained earnings.

Conclusion: Because the change in retained earnings is presented in a statement form, it should be presented in the compilation report.

Sample Compilation Report- SSARS No. 21

Change in Retained Earnings Presented in a Statement Form

Management is responsible for the accompanying financial statements of XYZ Corporation, which comprise the balance sheets as of December 31, 20X2 and 20X1, and the related **statements of income and retained earnings**, and cash flows for the years then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. I (We) have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I (We) did not audit or review the financial statements nor was (were) I (we) required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I (we) do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

James J. Fox & Company

Burlington, Massachusetts

March 31, 20X3

Example 2: XYZ Corporation discloses the change in retained earnings in the form of a footnote.

Conclusion: Because the change in retained earnings is presented in a footnote and not in a statement form, there is no requirement to mention it in the report.

Sample Compilation Report- SSARS No. 21

Change in Retained Earnings Presented in the Notes to Financial Statements

Management is responsible for the accompanying financial statements of XYZ Corporation, which comprise the balance sheets as of December 31, 20X2 and 20X1, and the related **statements of income**, and cash flows for the years then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. I (We) have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I (We) did not audit or review the financial statements nor was (were) I (we) required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I (we) do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

James J. Fox & Company

Burlington, Massachusetts

March 31, 20X3

Example 3: The accountant for XYZ Corporation issues a compilation report in which management elects to omit substantially all disclosures and the statement of cash flows, and does not disclose the change in retained earnings in a footnote or financial statement format.

Conclusion: ASC 505 requires that the change in equity (retained earnings) be disclosed either in statement form or in the notes to financial statements. But, because management has elected to omit substantially all disclosures, one of those missing disclosures can be the change in retained earnings. Thus, there is no disclosure of the change in retained earnings either in statement or footnote form, and no reference to the change anywhere in the compilation report.

Sample Compilation Report- Change in Retained Earnings Is Not Presented in a Report or in the Notes to Financial Statements

Management is responsible for the accompanying financial statements of XYZ Corporation, which comprise the balance sheets as of December 31, 20X2 and 20X1 and the related **statements of income** for the years then ended in accordance with accounting principles generally accepted in the United States of America. I (We) have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I (We) did not audit or review the financial statements nor was (were) I (we) required to perform any procedures to verify the

accuracy or completeness of the information provided by management. Accordingly, I (we) do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Management has elected to omit substantially all the disclosures and the statement of cash flows required by accounting principles generally accepted in the United States of America. If the omitted disclosures (and the statement of cash flows, if applicable) were included in the financial statements, they might influence the user's conclusions about the company's financial position, results of operations, and cash flows. Accordingly, the financial statements are not designed for those who are not informed about such matters.

James J. Fox & Company

Burlington, Massachusetts

March 31, 20X3

Example 4: XYZ Corporation discloses the change in retained earnings in the form of a footnote. A review report is issued.

Conclusion: Because the change in retained earnings is presented in a footnote and not in a statement form, there is no requirement to mention it in the report.

Sample Review Report- Change in Retained Earnings Presented in the Notes to Financial Statements

Independent Accountant's Review Report

Board of Directors

XYZ Corporation

Nowhere, Massachusetts

I (We) have reviewed the accompanying financial statements of XYZ Corporation, which comprise the balance sheets as of December 31, 20X2 and 20X1, and the related statements of income, and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's (owners') financial data and making inquiries of company management (owners). A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, I (we) do not express such an opinion.

Management's Responsibility for the Financial Statements

Management (Owners) is (are) responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Accountant's Responsibility

My (Our) responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require me (us) to perform procedures to obtain limited assurance as a basis for reporting whether I am (we are) aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. I (We) believe that the results of my (our) procedures provide a reasonable basis for our conclusion.

We are required to be independent of XYZ Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our reviews. (NEW per SSARS 25)

Accountant's Conclusion

Based on my (our) reviews, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

James J. Fox & Company

Burlington, Massachusetts

March 31, 20X3

Example 5: XYZ Corporation does not disclose the change in retained earnings in the form of a footnote or in a statement form. A review report is issued.

Conclusion: Because the change in retained earnings is not presented in a footnote or statement form, and a review report is being issued, there is a GAAP departure per ASC 505. Thus, a report modification should be presented as noted in bold below.

Sample Review Report- Change in Retained Earnings Is Not Presented in the Report or in the Notes to Financial Statements- GAAP Departure

Independent Accountant's Review Report