PacificCPE

COURSE
21852A

AR-C Section 70: Preparing Financial Statements

Focused entirely on AR-C Section 70, this course walks through the requirements for preparing financial statements under SSARSs. If you prepare financial statements for clients without providing assurance, understanding when and how this standard applies is essential. You'll explore the scope, documentation considerations, and key distinctions that separate preparation engagements from compilations—helping you stay compliant and clearly communicate your role to clients.

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

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LEARNING ASSIGNMENTS AND OBJECTIVES

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.

Course Objectives

- Recall whether the preparation of financial statements engagement is an attest or nonattest service.
- Identify some of the preparation engagements that are subject to the AR-C 70 standards found in SSARS No. 21.
- Recognize the term that is assigned to engagements performed on the cash, tax and regulatory bases of accounting.
- Recall whether a preparation engagement under AR-C 70 is subject to peer review.
- Identify whether a report is required in a preparation of financial statements engagement under AR-C 70.
- Recognize what the reporting requirements are, if any, when a "no assurance" legend is omitted from prepared financial statements under the AR-C 70 standards.
- Recognize an acceptable location to place the description of a special purpose framework in a preparation of financial statements engagement.
- Identify where to disclose GAAP departures in a preparation of financial statements engagement.
- Recognize whether an accountant and his or her client must sign an engagement letter for a preparation of financial statements engagement under AR-C 70.

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Section 3.1

SECTION III: AR-C SECTION 70- PREPARATION OF FINANCIAL STATEMENTS

Chapter Objective

After completing this section, you should be able to:

- Recall whether the preparation of financial statements engagement is an attest or nonattest service.
- Identify some of the preparation engagements that are subject to the AR-C 70 standards found in SSARS No. 21.
- Recognize the term that is assigned to engagements performed on the cash, tax and regulatory bases of accounting.
- Recall whether a preparation engagement under AR-C 70 is subject to peer review.
- Identify whether a report is required in a preparation of financial statements engagement under AR-C 70.
- Recognize what the reporting requirements are, if any, when a "no assurance" legend is omitted from prepared financial statements under the AR-C 70 standards.
- Recognize an acceptable location to place the description of a special purpose framework in a preparation of financial statements engagement.
- Identify where to disclose GAAP departures in a preparation of financial statements engagement.
- Recognize whether an accountant and his or her client must sign an engagement letter for a preparation of financial statements engagement under AR-C 70.

I. AR-C SECTION 70- PREPARATION OF FINANCIAL STATEMENTS

A. EFFECTIVE DATE

AR-C 70 is effective for the preparation of financial statements for periods *ending on or after December 15, 2015*. Early implementation is permitted.

B. INTRODUCTION

Although SSARS No. 21 rewrites existing compilation and review standards, clearly the most significant change made by this SSARS is the introduction of a preparation of financial statements engagement within newly issued AR-C 70.

Even though the preparation of financial statements is nothing new, per se, codifying a preparation of financial statements engagement separate from a compilation, review, or audit engagement, is novel.

AR-C 70 is a new section within the SSARSs and does the following:

- Introduces a preparation of financial statements engagement as a new engagement that may be performed *separate from* a compilation, review or audit engagement
- Codifies the preparation of financial statements as a *nonattest service*, and
- Provides guidance for the preparation of financial engagements that permits an accountant to issue prepared financial statements to a client or third party *without a report*.

In addition, although not part of AR-C 70, the AICPA's peer review committee has voted to exempt the preparation of financial statements engagement from being subject to peer review in cases in which a firm only performs preparation of financial statement engagements.

C. SCOPE OF AR-C 70

AR-C 70 inserts the preparation of financial statements as a separate engagement within the hierarchy of engagements that may be performed under the SSARSs as follows:

- Review Engagement
- Compilation Engagement
- Preparation of Financial Statements

AR-C 70 applies:

> *When an accountant in public practice is engaged to prepare financial statements or prospective information and is not engaged to perform an audit, review or compilation engagement on those financial statements or prospective information.*

AR-C 70 may also be applied or adapted as appropriate in the circumstances to the preparation of *other historical financial information*, such as the following:

- Specified elements, accounts, or items of a financial statement, such as schedules of rentals, royalties, profit participation, or provision for income taxes
- Supplementary information
- Required supplementary information, and
- Pro forma financial information.

That means that a preparation engagement under AR-C 70 may be applied on:

a. Historical financial statements and financial information, and

b. Prospective financial information, such as forecast or projection.

Observation

Prior to the issuance of SSARS No. 21, the guidance for reporting on prospective financial information (a forecast or projection) was found in SSAE No. 10 (AT section 301), *Financial Forecasts and Projections*. SSAE No. 10 permitted an accountant to perform a compilation, examination, or agreed-upon procedures engagement on prospective financial information. In April 2016, SSAE No. 10 was superseded by SSAE No. 18, *Attestation Standards: Clarification and Recodification*. With the issuance of SSAE No. 18, a compilation of prospective financial information engagement is officially removed from the SSAEs and now resides only in the SSARSs.

With the issuance of SSARS No. 21, as amended by SSARS No. 23, the authority for an accountant to perform a compilation of prospective financial information (forecast or projection) engagement rests in SSARS No. 21 and not in the SSAE No. 18. Moreover, in the AR-C 70 of SSARS No. 21, a preparation of prospective information engagement is permitted.

The following table summarizes the authority for each type of engagement on prospective financial information:

Authority to Perform Engagement on Prospective Financial Information (1)

Type of engagement	Authority
Preparation of prospective financial information	SSARS No. 21 (2)
Compilation of prospective financial information	SSARS No. 21 (2)
Examination of prospective financial information	SSAE No. 18 (AT-C section 205)$_1$
Agreed-upon procedures engagement on prospective financial information	SSAE No. 19$_2$

(1): Prospective financial information is either a forecast or a projection

(2): As amended by SSARS No. 23

The result is that an accountant who wishes to either prepare or compile prospective financial information follows the guidance found in SSARS No. 21, not SSAE No. 18. Details and guidance as to how to perform a preparation and compilation engagement on prospective financial information is found in the AICPA Guide, *Prospective Financial Information*.

In order for a preparation of financial statements engagement to be subject to AR-C 70, the following elements must exist:

a. The accountant must be *in public practice*[3]

b. The accountant *must be engaged* (hired) by the client to perform a preparation of financial statements or prospective financial information engagement, and

c. There must *not be a corresponding compilation, review or audit engagement* on the prepared financial statements for the same period.

Preparation of financial statements under AR-C 70 versus assisting in preparation of financial statements as a bookkeeping function

The determination of whether an accountant has been engaged to prepare financial statements (covered by AR-C 70) or merely to assist in preparing financial statements (which is a bookkeeping service that is not subject to AR-C 70), is determined based on services the client requests the accountant to perform, and requires the accountant to apply professional judgment.

The Appendix to AR-C 70, *Preparation of Financial Statements Versus Assistance in Preparing Financial Statements*, provides examples of services that an accountant may be engaged to perform and whether AR-C section 70 would apply.

Engagements to Which a Preparation Engagement under AR-C 70 Applies

- Preparation of financial statements when the accountant is not engaged to perform an audit, review, or compilation of such financial statements[4]
- Preparation of financial statements prior to an audit or review (or compilation) by another accountant[5]
- Preparation of financial statements for an entity to be presented alongside the entity's tax return
- Preparation of personal financial statements for presentation alongside a financial plan
- Preparation of a single financial statement, such as a balance sheet or income statement, or financial statements with substantially all disclosures omitted
- Using the information in a general ledger to prepare financial statements outside of an accounting software system

Engagements to Which a Preparation Engagement under AR-C 70 Does Not Apply

- Preparation of financial statements when the accountant *is engaged to perform an audit, review or compilation* of such financial statements
- Bookkeeping services such as:
  - Maintaining depreciation schedules

- Preparing or proposing certain adjustments, such as those applicable to deferred income taxes, depreciation, or leases
- Entering general ledger transactions or processing payments (general bookkeeping) in an accounting software system

• Drafting financial statement notes

Engagements to Which a preparation engagement under AR-C 70 is not required to be applied, but application is not precluded, in whole or part: NEW SSARS No. 27

• Preparation of financial statements or prospective financial information that is part of a consulting services engagement performed in accordance with CS 100, *Consulting Services: Definitions and Standards* in which the preparation of financial statements is not the primary objective of the engagement

• Preparation of financial statements or prospective financial information that is part of a personal financial plan performed in accordance with PFP 100, *Statement on Standards for Personal Financial Planning Services*

• Preparation of financial statements or prospective financial information that is part of an engagement to estimate the value of a business, business ownership interest, security, or intangible asset in accordance with VS 100, *Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset*

• Preparation of financial statements with a tax return solely for submission to taxing authorities

• Preparation of financial statements or prospective financial information in conjunction with litigation services that involve pending or potential legal or regulatory proceedings