PacificCPE

COURSE

21853A

Compilation Engagements Under AR-C Section 80

AR-C Section 80 governs compilation engagements, and this course breaks down what that means in practice. From understanding the accountant's responsibilities to recognizing what a proper compilation report looks like, you'll gain a clear picture of the standards that apply when you're associated with a client's financial statements but not providing assurance. Ideal for practitioners who perform or supervise compilation engagements and want to ensure their work meets current professional standards.

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 the objective of a compilation engagement under AR-C 80 of SSARS No. 21.
- Identify some of the safeguards that must be in place in order for an accountant to perform a nonattest service for an attest client.
- Identify some procedures that must be performed in a compilation engagement under AR-C 80 of SSARS No. 21.
- Recognize some of the changes made to the compilation report under SSARS No. 21 including those related to special purpose frameworks and GAAP departures, among others.
- Identify how an accountant should report on a disclaimer of supplementary information in a compilation engagement.

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Section 4.1

SECTION IV: AR-C SECTION 80-COMPILATION ENGAGEMENTS

Chapter Objective

After completing this section, you should be able to:

- Recall the objective of a compilation engagement under AR-C 80 of SSARS No. 21.
- Identify some of the safeguards that must be in place in order for an accountant to perform a nonattest service for an attest client.
- Identify some procedures that must be performed in a compilation engagement under AR-C 80 of SSARS No. 21.
- Recognize some of the changes made to the compilation report under SSARS No. 21 including those related to special purpose frameworks and GAAP departures, among others.
- Identify how an accountant should report on a disclaimer of supplementary information in a compilation engagement.

I. AR-C SECTION 80- COMPILATION ENGAGEMENTS

A. INTRODUCTION

AR-C 80, *Compilation Engagements*, is part of SSARS No. 21 and encompasses the new compilation standards that replace the previous compilation rules found in AR 80 of SSARS No. 19.

AR-C 80 states the objective of a compilation engagement is:

> To apply *accounting and financial reporting expertise* to *assist management in the presentation of financial statements and report* without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements in order for them to be in accordance with the applicable financial reporting framework.

In general, a compilation engagement is one in which an accountant uses his or her expertise to *"read and report"* on financial statements.

A compilation engagement is *not a preparation* of financial statements engagement.

Following is a summary of the key changes that new AR-C 80 makes to the existing AR 80 compilation standards:

Element	Previous AR 80 (SSARS No. 19)	New AR-C 80 (SSARS No. 21)
Definition of a compilation engagement	Assist management in presenting financial information in the form of financial statements	Apply accounting and financial reporting expertise to assist management in the presentation of financial statements and compilation report
Triggers for performing a compilation engagement	Accountant performs a compilation engagement if: • Accountant is engaged (hired) to perform a compilation engagement, or • Accountant submits financial statements to a client or third party[1]	Accountant performs a compilation engagement only if: • Accountant is engaged (hired) to perform compilation engagement Existing submission trigger is eliminated
Preparation of financial statements	Preparation is *implicitly* part of a compilation engagement	Preparation is *explicitly separated* from a compilation engagement
Management-use financial statements	Management-use only financial statements *without a report* may be issued to management only Accountant may restrict who receives financial statements	Management-use only financial statements are eliminated Compilation engagement always requires a report Financial statements belong to management. Accountant may restrict who the financial statements are issued to by agreement[2]
Engagement letter	Engagement letter or written contract does not have to be signed	Engagement letter or written contract must be signed by both the accountant and management

Element	Previous AR 80 (SSARS No. 19)	New AR-C 80 (SSARS No. 21)
Independence	Lack of independence is disclaimed in report Accountant may disclose reason(s) for lack of independence as long as all reasons are disclosed	Lack of independence is disclaimed in report Accountant may disclose reason(s) for lack of independence as long as all reasons are disclosed
Report	Standard three paragraphs Has title Has salutation (addressee) Management may elect to omit substantially all disclosures and statement of cash flows Accountant's city and state are not required	Abbreviated one paragraph No title No salutation (addressee) Management may elect to omit substantially all disclosures and statement of cash flows Accountant's city and state must be identified in the report[3]
Legend on financial statement pages	Legend *required*: either *"See Accountant's Compilation Report" or* *"See Independent Compilation Report"*	Legend *not required* (optional): *"See Accountant's Compilation Report"* *"See Independent Compilation Report" or* *"See Accountant's Report"*
Income tax basis financial statements	OCBOA includes "income tax basis" financial statements	Special purpose framework includes "tax basis" financial statements
Emphasis-of-matter paragraph	Emphasis-of-matter paragraph permitted in certain cases	Carries over existing emphasis-of-matter paragraph and introduces new "other-matter" paragraph from auditing standards

B. EFFECTIVE DATE

AR-C 80 is effective for compilations of financial statements for *periods ending on or after December 15, 2015*. Early implementation is permitted.

C. SCOPE OF AR-C 80- COMPILATION ENGAGEMENTS

AR-C 80 provides the following scope for engagements that are covered under the compilation rules.

1. An engagement is subject to the compilation rules found in AR-C 80 *only when* the accountant is *engaged (hired)* to perform a compilation of:
   - Financial statements
   - Prospective financial information, including forecasts and projections
   - Pro forma financial information, and
   - Other historical financial information.
2. In addition to the list of engagement types found in Paragraph 1 above, a compilation engagement may be performed on the following historical financial information:
   - Specified elements, accounts, or items of a financial statement, such as schedules of rentals, royalties, profit participation, or provision for income taxes
   - Supplementary information, and
   - Required supplementary information.
3. The existing rules that a compilation engagement is required if an accountant submits financial statements is eliminated.

Observation

Previously, AR 80 (SSARS No. 19) required an accountant to perform a compilation engagement if he or she was either hired to perform a compilation engagement, or if he or she *submitted* financial statements. Under AR 80, an accountant submitted financial statements if he or she prepared and presented financial statements to a client or third party. The original definition of "submission" was issued in 1978 as part of SSARS No. 1. Since that time, technology has affected how one determines whether financial statements have been "prepared" and whether they have been "presented." For example, if an accountant makes adjusting entries to a "QuickBooks®" file that automatically updates the financial statements, has the accountant prepared those financial statements? If the accountant prints out financial statements, has he or she prepared them? The challenge with the "submission" definition found in SSARS No. 19 was that it had not kept up with technological changes. It also did not necessarily reflect the needs of the client and end user. For example, an accountant was forced to perform a compilation engagement solely because he or she had submitted financial statements, even though the client had not engaged that accountant to do so. The new definition of a compilation engagement in AR-C 80 states that the only way an accountant performs a compilation engagement is if he or she is actually engaged (hired) to do so. Thus, an accountant is never forced to perform a certain type of engagement.

Compiling Prospective Financial Information

AR-C 80 authorizes an accountant to perform a compilation engagement on prospective financial information.

SSARS No. 23 amends SSARS No. 21 to provide the following general requirements when an accountant performs a compilation engagement on prospective financial information:

a) An accountant should not issue a compilation report on prospective financial information that excludes disclosure of the summary of significant assumptions.

b) An accountant should not issue a compilation report on a financial projection that excludes either:

- an identification of the hypothetical assumptions, or
- a description of the limitations on the usefulness of the presentation.

In addition, an accountant's compilation report on prospective financial information should include statements that:

a) The forecasted or projected results may not be achieved, and

b) The accountant assumes no responsibility to update the report for events and circumstances occurring after the date of the report.

Note

SSARS No. 23 states that if an accountant is engaged to perform a compilation on prospective financial information or pro forma financial information, any references in SSARS No. 21 to the *term financial statements are to be taken as a reference to the term prospective financial information.*

The recent edition of the AICPA Guide, *Prospective Financial Information*, provides comprehensive guidance regarding prospective financial information and establishes the preparation and presentation guidance for financial forecasts and financial projections.

Information on prospective financial information is found in:

Chapter 1 of course 21855A, *Preparation Guidelines*

Chapter 1 of course 21856A, *Reasonably Objective Basis*

Chapter 2 of course 21856A, *Presentation Guidelines*, and

Chapter 3 of course 21856A, *Illustrative Prospective Financial Statements*.

The AICPA Guide also includes information about the types and uses of prospective financial information and suitable criteria for the preparation and presentation of prospective financial information.

The accountant is not prohibited from performing a compilation on prospective financial information prepared and presented in accordance with other suitable criteria.

In addition to the requirements of AR-C 80, in a compilation of pro forma financial information, the accountant is also required to adhere to the requirements of AR-C 120, *Compilation of Pro Forma Financial Information*.

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.

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 new 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: