6 key areas of change for accountants and auditors

Professionals face challenges as they implement numerous new rules.

By Ken Tysiac
he pace of change in the accounting profession has become so fast that even some standard setters recognize it’s time to slow down.

“Over the past few years, the FASB has thrown a lot of change your way,” FASB Chairman Russell Golden, CPA, said in December. “We know that. We are working to ease the transition.”

Nonetheless, the transition is daunting. Financial statement preparers are going through the challenging exercise of extracting data from all their leases to comply with FASB’s new lease accounting standard. Although public companies have adopted FASB’s new revenue recognition standard, many private companies are still working through that implementation effort as well. Other challenges include:

■ FASB’s new credit loss standard, which is one of the most demanding implementation efforts that financial institutions have ever faced.
■ New GASB rules related to accounting for other post-employment benefits (OPEB), which primarily consist of employee health care.
■ The PCAOB’s new auditor’s reporting model requirements.
■ A new standard on going concern for nonpublic audits, issued by the AICPA Auditing Standards Board (ASB).

As accountants and auditors tackle all this change, they also will be getting to know a substantial number of new people at regulatory and standard-setting bodies, including new SEC Chairman Jay Clayton and a completely new board at the PCAOB. And rapidly emerging technology is continuing to challenge accountants and auditors to find ways to innovate their processes and procedures, improve the quality of their work, and outpace their competitors.

“New tools, new competitors, new challenges, and new opportunities have created a transition for all of us,” SEC Chief Accountant Wes Bricker, CPA, said at the AICPA Conference on Current SEC and PCAOB Developments in December. “… Even as we work to ensure the public remains confident in financial reporting, we must also position ourselves and future generations of accountants, auditors, standard setters, and regulators to innovatively identify and solve the challenging and complex issues facing the evolving public interest.”

That’s a lot for anyone to handle. But it’s possible to stay on top of all these issues by keeping focused on what’s important and remaining dedicated to doing the right thing and producing high-quality work. Here are considerations for accountants and auditors to ponder in six key areas as they strive to succeed in this highly complex environment.

REVENUE RECOGNITION

Public companies were due to adopt FASB’s new revenue recognition standard at the beginning of the year, but private companies have until the beginning of next year to implement it. Given that the standard was issued in May 2014, even private company preparers should be entering the closing stages of implementation.

Taking a lesson from their public company brethren, private company preparers should approach these final stages with a wary eye on the issue of disclosures (see the sidebar, “Early Adopter Microsoft: Disclosures Are ‘a Ton of Work’”). In the case of this standard, disclosures are complicated because they require the collection of data that companies might not otherwise compile. The standard includes new requirements for presenting revenue, but it’s also designed to provide financial statement users with more complete information about a company’s revenue. Implementation teams that are solely focused on collecting data for presentation in compliance with the standard might fail to gather the additional data needed to properly present the disclosures.

“There are a lot of disclosures,” said Scott Taub, CPA,
managing director at Financial Reporting Advisors LLC, a provider of accounting advisory services. “Many of them are quantitative, not just qualitative and narrative. And it may necessitate you gathering data that you have not previously gathered. So look at the disclosures now if you haven’t yet. Look at them more in depth if you’ve only looked at them at a high level.”

**LEASE ACCOUNTING**

FASB provided some relief to financial statement preparers in November with practical expedients and proposals for further changes to the lease accounting standard that are designed to make the accounting less difficult.

One hoped-for result of these changes is a decrease in the number of preparers who will need to put new accounting systems in place to accommodate the new lease accounting standard. When the standard was issued, FASB hoped that many preparers would be able to implement it using their existing systems. But an EY survey of 300 finance and IT leaders of U.S. public companies with more than $1 billion in annual revenue showed that 68% of respondents planned systems changes as part of their lease accounting implementation effort. Golden said the need for new systems may be decreased by an option that FASB proposed in January that would enable an organization not to provide comparative period financial statements.

So FASB’s changes may address this difficult aspect of the standard. But the area that’s causing many preparers the most trouble is locating all of their leases and extracting the data needed to comply with this standard. In the case of large, global companies, fulfilling this requirement may mean identifying tens of thousands of leases at locations throughout the world, and then figuring out which data are needed to comply. Some companies have been able to use artificial intelligence to “read” the leases and find the proper data, but others are finding that it can take a couple hours per lease to gather the

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**Early adopter Microsoft: Disclosures are ‘a ton of work’**

Companies that are looking for guidance on their revenue recognition disclosures can take heed of lessons learned by Microsoft, an early adopter of FASB’s accounting standards for revenue recognition and leases.

The first takeaway is that no matter how well-prepared you are for your disclosures, you still may find this difficult once you start drafting your disclosures. Stacy Harrington, CPA, Microsoft’s senior director for corporate revenue assurance, said the biggest challenges in drafting included quantitative disclosures, specifically, ensuring systems are updated to pull the appropriate information, identifying any adjustments that may be needed, and ensuring that internal controls related to those disclosures are in place. She said it is also important to communicate appropriately to the investor relations team so they can anticipate the types of questions that analysts might ask.

“There really was a ton of work to do at the very end,” she said. “That was surprising to me because I had been looking at it [for a long time] and felt very prepared.”

The specific disclosure that caused Harrington the most trouble was the transaction price allocated to the remaining performance obligations. She said this disclosure may be different from currently disclosed backlog numbers.

“There are just some nuances around how you think about returns, rebates, and credits, and that would be factored into a transaction price that might not be factored into backlog,” she said.

In terms of the nature and volume of disclosures, Harrington said even companies that had robust disclosures in the past will find that their disclosures under the new standard will be different going forward.

“We may not have had a big change in the amount of information we disclosed, but it was still a really thorough process around what is the relevant information,” she said. “… We really went into detail around why we thought certain information was relevant or not.”
numbers. If leases number in the tens of thousands, this can become a very difficult task.

The solution to this problem isn’t easy, which is why experts are encouraging preparers not to delay their work on this standard, which takes effect for public companies at the beginning of 2019. There’s no way to implement the standard without finding all the lease documents and extracting the necessary data. And as for systems implications, at least some of the companies that have traditionally used Excel to perform their lease accounting may find that they need a different solution to comply with the new standard.

CREDIT LOSSES
FASB’s new standard on accounting for credit losses takes effect for SEC filers after Dec. 15, 2019; other organizations have at least an additional year to prepare. The standard was issued to promote a forward-looking approach that will communicate expected credit losses to investors in hopes of preventing conditions at financial institutions such as those that led to the most recent financial crisis.

The implementation challenges related to this standard primarily affect financial institutions and insurance companies, which are required to report expected losses based on historical experience, current conditions, and reasonable and supportable forecasts. Best practices for implementation include forming a current expected credit losses (CECL) committee and crafting a project plan, gathering data while leveraging existing models for current regulatory processes, and using technological improvements to automate a potentially cumbersome process. Obtaining the data necessary for credit modeling and loss estimation will be the biggest challenge for many financial institutions.

It may also be helpful to follow the work of FASB’s transition resource group (TRG) as well as the AICPA Depository and Lending Institutions Expert Panel during this implementation, as the expert panel and the TRG continue to meet to discuss issues that surface while considering stakeholders’ concerns about the impact of the standard on capital reserve requirements.

GOVERNMENTS AND OPEB
After persevering through the implementation of GASB’s pension standards, state and local government finance staffs may be facing an even more difficult challenge with the implementation of new OPEB standards.

The standardization associated with statewide pension plans often doesn’t exist with OPEB plans, so individual preparers may have to spend more time talking with human resources to make sure their OPEB plan is sufficiently documented. Obtaining high-quality actuarial estimates is a must, and stakeholders will need to be educated about the potential addition to the balance sheet of liabilities that may be substantial.

AUDITOR’S REPORTING MODEL
In addition to understanding numerous accounting standards changes, auditors also need to prepare to operate under auditing standards that are changing. Auditors who perform PCAOB audits will be implementing the most substantial overhaul of the auditor’s report in more than 70 years.

The first phase of implementation includes disclosing the audit firm’s tenure as the auditor and changes in the form of the audit report. But auditors also will need to be thinking about the second phase of implementation, which requires communication of critical audit matters. These are matters that are communicated or required...
to be communicated to the audit committee; are material to the financial statements; and involve especially challenging, subjective, or complex auditor judgment.

This is the place in the auditor’s report that provides the most opportunity for practitioners to share useful information about the audit with investors. Clayton, the SEC chairman, said the new standard has the potential to help auditors deliver meaningful insight to investors, and he will be disappointed if it results in defensive, lawyer-driven auditor communications.

“If it results in quality, I’ll be really happy,” Clayton said. “And if it results in boilerplate, I’ll be really bummed out.”

Because this is such an important evolution, the Center for Audit Quality recommends that audit committees ask audit firms about their plans to develop a firm methodology for identifying and communicating critical audit matters. Audit committees may want to ask if the firm plans to test its methodology and, if so, what that testing will entail.

The critical audit matters reporting requirement takes effect for audits of fiscal years ending on or after June 30, 2019, for large, accelerated filers, and for audits of all other applicable companies for audits of fiscal years ending on or after Dec. 15, 2020. Those disclosure dates provide time that audit firms can use to develop a thorough approach to what’s certain to be a highly scrutinized disclosure.

**GOING CONCERN**

In recent years, FASB and GASB have issued standards addressing management’s responsibilities for assessing going concern, and the International Auditing and Assurance Standards Board has revised its going concern standard as part of its revised auditor reporting standards.

Now, under a new standard issued by the ASB, auditors of nonpublic companies are implementing new rules for audits of financial statements for periods ending on or after Dec. 15, 2017, and reviews of financial information for interim periods beginning after fiscal years ending on or after Dec. 15, 2017.

The standard includes the requirement for the auditor to conclude whether there is substantial doubt about an entity’s ability to continue as a going concern. Other significant changes to the standard are worthy of an auditor’s attention.

The auditor’s objectives are clarified in the standard. The standard makes it clearer that the issues of the going concern basis of accounting and whether substantial doubt exists are separate. The standard requires the auditor to evaluate management’s evaluation whether there are conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern. The standard also requires the auditor to ask management about conditions or events beyond the period of management’s evaluation that may have an effect on the entity’s ability to continue as a going concern. It also adds a new requirement with respect to financial support by third parties or the entities’ owner-manager.

**TIME OF OPPORTUNITY**

While implementing all these standards may stretch the resources and budgets of finance staffs and audit firms, this is nonetheless a time of tremendous opportunity for accountants and auditors. Emerging technologies are providing members of the accounting profession with the ability to provide unprecedented levels of insight and assurance. Those who can keep a handle on the compliance duties and still find time to pursue innovation will have an opportunity to provide additional value to their companies and clients.

“New technology may change the services we provide and how we deliver them, but it will not change the need for our services,” said Kimberly Ellison-Taylor, CPA, CGMA, the AICPA board chair for 2016–2017. “… While change may be daunting and the new brave world of technology is no exception, we must stand ready to embrace it.”

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**RESOURCES**

**Webpages**

AICPA Accounting for Credit Losses webpage, aicpa.org/creditlosses

AICPA Accounting for Leases webpage, aicpa.org/leases

AICPA Governmental Audit Quality Center, aicpa.org/gaqc

AICPA Revenue Recognition webpage, aicpa.org/revenuerecognition

Center for Audit Quality webpage, “The Auditor’s Report: Considerations for Audit Committees,” thecaq.org/auditors-report-considerations-audit-committees

FASB Transition Resource Group for Credit Losses webpage, tinyurl.com/ydxmldzg